Morgan Crucible
Annual Report 2011

ADVANCED MATERIALS
RECORD RESULTS
CONTINUING AMBITION

Morgan Crucible
The Advanced Materials Group

MORGAN CRUCIBLE IS A WORLD-LEADER IN ADVANCED MATERIALS

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

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

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

In short, we supply innovative, differentiated products made from highly technical advanced materials which enable our customers' products and processes to perform more efficiently, more reliably and for longer.

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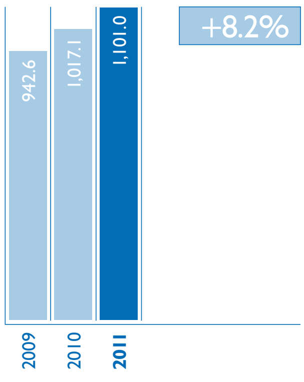
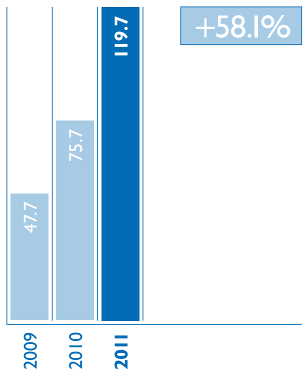
OPERATIONAL AND FINANCIAL HIGHLIGHTS

- A year of strong performance with record revenue and operating profit for the Group
- Revenue for the year increased by 8.2% to £1,101.0 million
- Underlying profit before taxation* increased by 58.1% to £119.7 million
- Underlying earnings per share*** increased by 59.9% to 29.9 pence per share
- Proposed final dividend increased by 20.0% to 6.0 pence, giving a full-year dividend of 9.25 pence

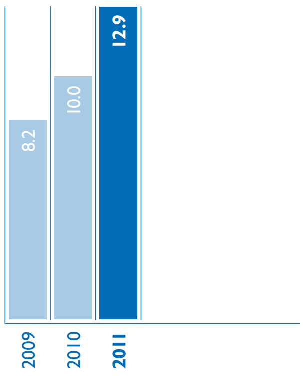
Revenue
Continuing businesses £m



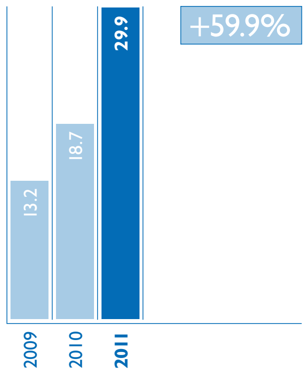
Underlying profit before taxation*
Continuing businesses £m



Underlying operating profit margin**
Continuing businesses %



Underlying earnings per share***
Pence

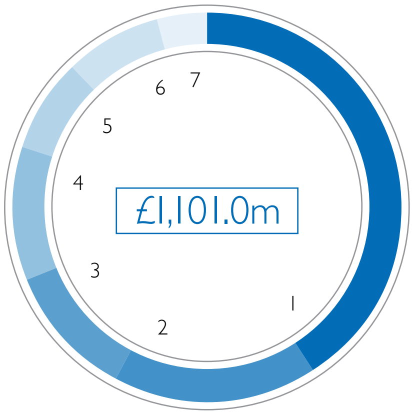


* Defined as operating profit before amortisation of intangible assets less net financing costs.
** Defined as operating profit before amortisation of intangible assets.
*** Defined as basic earnings per share adjusted to exclude amortisation of intangible assets.

MORGAN CRUCIBLE AT A GLANCE

Morgan Crucible's markets

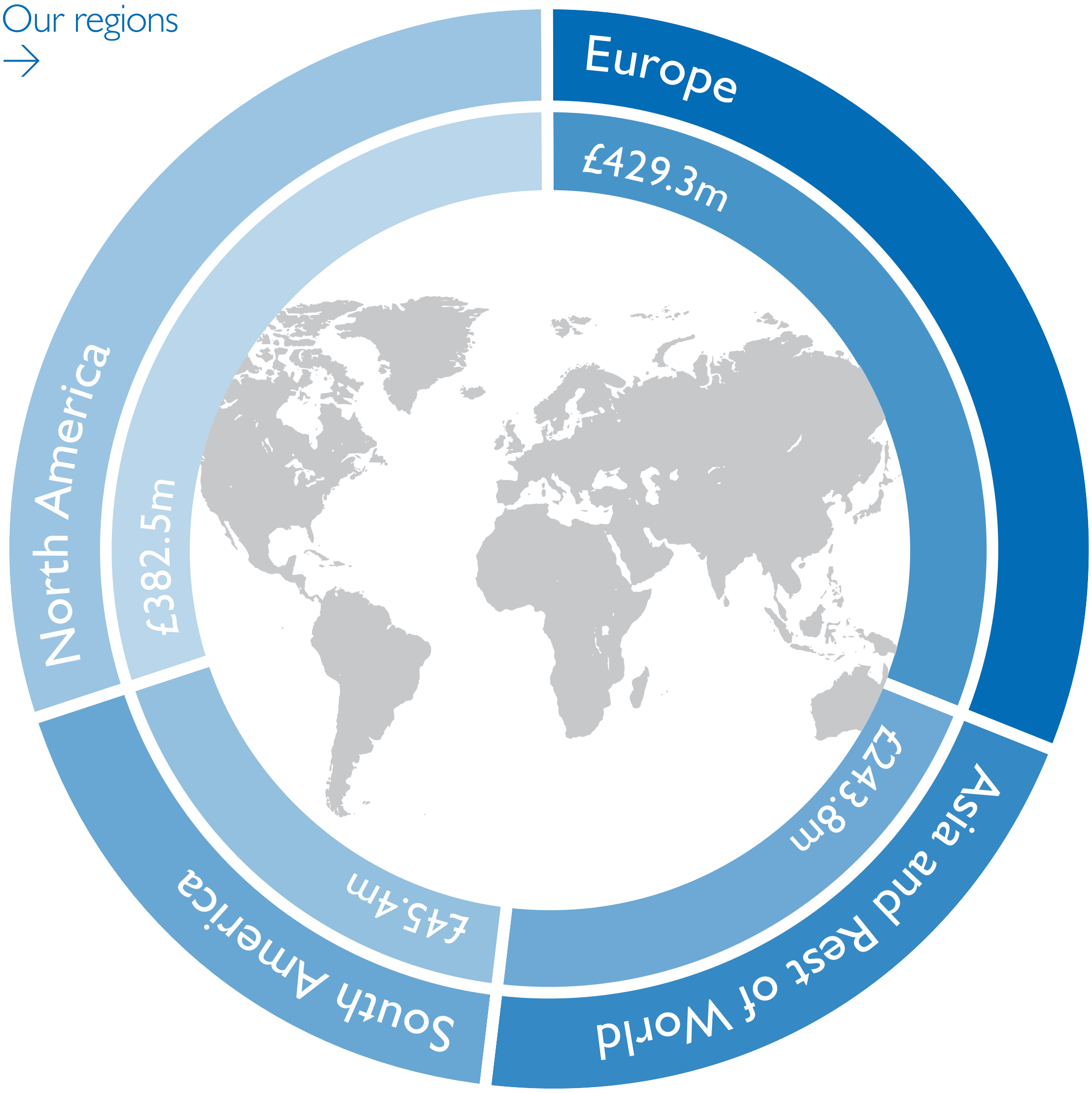
2011 total revenue



1 Industrial 41%
2 Transportation 17%
3 Security & Defence 11%
4 Electronics 11%
5 Petrochemical 8%
6 Energy 8%
7 Healthcare 4%

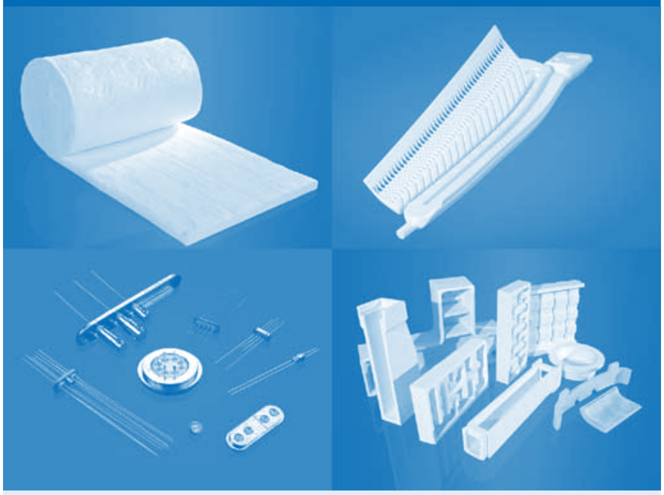
A truly global operation with significant and growing levels of business in the dynamic growth economies of Asia and South America.

Our regions



Our Divisions

MORGAN CERAMICS



Morgan Ceramics uses its expertise in material science and applications engineering to manufacture custom products for demanding environments.
Through its Technical Ceramics Business it supplies customer-specific, applications-engineered industrial products manufactured from advanced materials including structural ceramic, electro-ceramic and precious metals. The Thermal Ceramics Business provides thermal management solutions for high-temperature applications which benefit technically, financially and environmentally from optimised energy and emissions control.

Core products
- Insulating fibre, insulating bricks and monolithics
- Ceramic cores for complex turbine blades
- Components for electron tubes
- Feedthroughs for medical implants
- Piezoelectric ceramic actuators

Core markets
- Industrial
- Transportation
- Electronics
- Petrochemical
- Energy
- Healthcare

Revenue £m
685.2m

Divisional EBITA* £m
Continuing business
92.7m

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

MORGAN ENGINEERED MATERIALS

Morgan Engineered Materials delivers materials technology through its global businesses.
Morgan Engineered Materials delivers highly engineered solutions across the world from a portfolio of advanced material technologies that include carbon, silicon carbide, oxide-based ceramics and advanced polymeric composites. The Division's core applications are industrial and rail transportation, fluid handling, power generation (gas turbine, solar and wind), molten metal handling and advanced lightweight ceramic/composite armour systems for personnel and vehicle protection.

Core products
- Electrical brushes
- Seals and bearings
- Protective ballistic armour
- Ultra-high-temperature insulation
- Crucibles
- Lithium ion battery anode materials

Core markets
- Industrial
- Security & Defence
- Transportation
- Energy
- Electronics
- Petrochemical

Revenue £m
415.8m

Divisional EBITA* £m
Continuing business
55.7m

CHIEF EXECUTIVE OFFICER'S STRATEGIC REVIEW

Mark Robertshaw Chief Executive Officer

Ambitious goals to 2013 with very substantial progress made against them in 2011.

OUR GOAL

- Our goal is to continue to be one of the world's very best advanced materials companies

STRATEGIC PRIORITIES

- Focus on higher growth, higher margin, non-economically cyclical markets
- Be innovative, differentiated and high value-added to our customers
- Have a culture of operational excellence and cost efficiency
- Be number one or number two in our chosen market segments
- Find, keep and develop the right people

OUR AIM

- Our aim is to create long-term sustainable shareholder value

3-YEAR GOALS

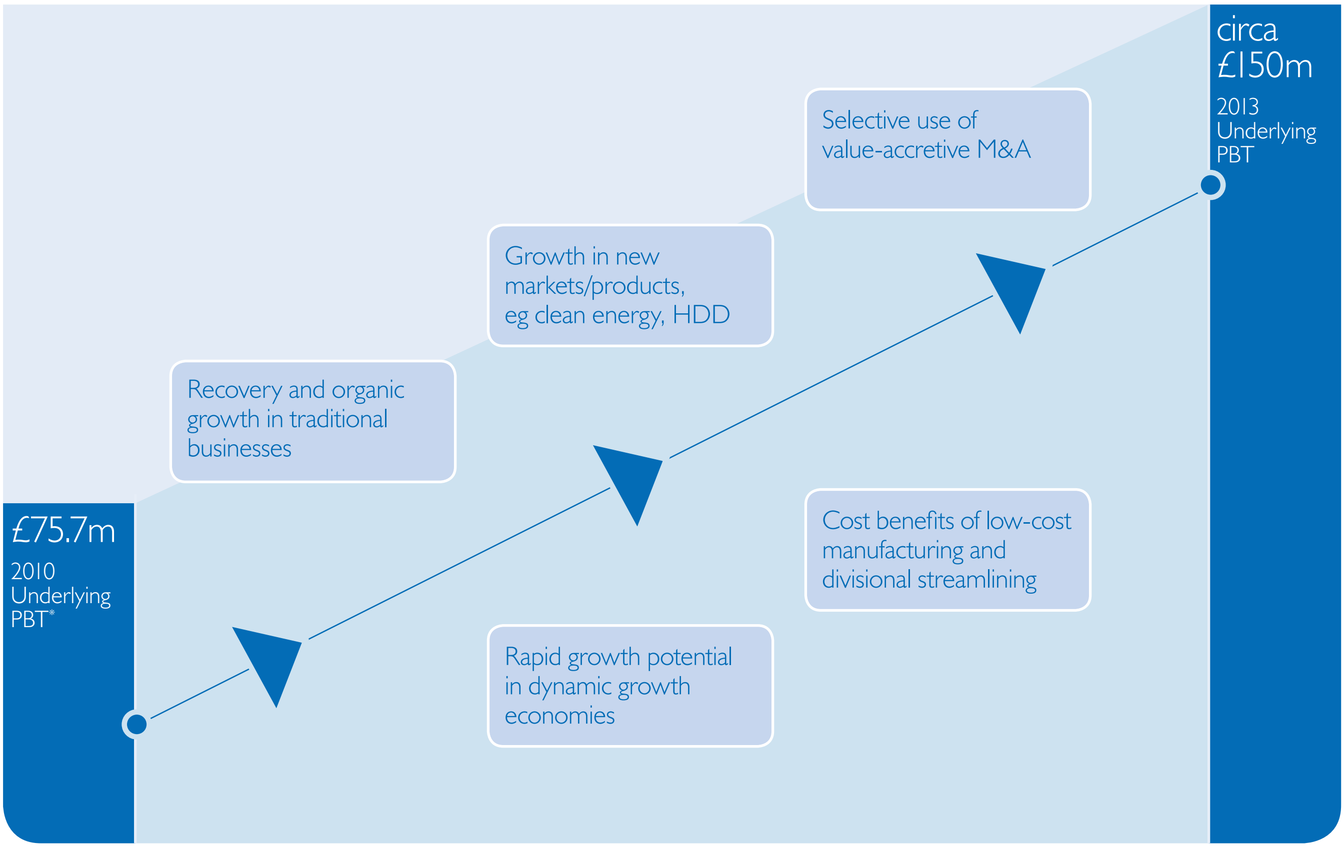
In the early part of 2011 we announced three financial goals which we aim to deliver by the end of 2013. These are to:

1. Double Group underlying PBT* from £75.7 million to circa £150 million
2. Achieve mid-teen underlying operating profit** margin
3. Improve Return on Operating Capital Employed*** from circa 25% in 2010 to circa 35% by 2013

HOW WE ARE DOING

The Group's strong financial performance in 2011 means that we have made significant progress on all three of these goals over the past year.

1. Group underlying PBT increased by 58.1% from £75.7 million to £119.7 million
2. Underlying operating profit margin increased by 290 basis points from 10.0% to 12.9%
3. Return on Operating Capital Employed improved from 25.4% to 33.7%



* Group underlying PBT is defined as operating profit before amortisation.
** Underlying operating profit is defined as operating profit before amortisation of intangible assets.
*** Return on Operating Capital Employed is defined as Group underlying operating profit divided by the sum of Working Capital (which excludes pension liability and provisions) and the net book value of tangible assets. Goodwill and other intangible assets are excluded.

IMPROVING PERFORMANCE IN HIGH-TECH INDUSTRIAL PROCESSES

Morgan Ceramics makes high-performance ceramic materials that are resistant to chemical and physical wear, corrosion and extreme heat. They are ideal for equipment destined for harsh processing environments.

The Division is developing new ceramic membranes for efficient industrial water filtration and purification. It makes a range of high-temperature components that are used in heating pumps, thermocouples and other specialist thermal processing equipment for applications from industrial annealing to the manufacture of medical devices.

Its ceramic rollers are deployed in kilns used to manufacture metals, glass and ceramic-ware and its Nilcra® MgPSZ (magnesia partially stabilised zirconia) is widely used in severe-service valves and pumps.

Insulating products from Morgan Ceramics, such as monolithic linings and firebricks, help manufacturers control a variety of thermal processing operations, thereby optimising throughput and yields. Its fire protection products are used in all types of building and infrastructure projects. Its piezoelectric materials are used in high-power ultrasonic systems and it also designs and manufactures sensors and transducers.

Morgan Engineered Materials is a leading global supplier of carbon brushes, linear collectors and rotary current transfer products to equipment manufacturers in a large range of industrial markets. From the processing industries of steel, chemicals and pharmaceuticals to food, paper and cement, the Division has developed advanced brush materials to maximise performance, system life and energy efficiency, thereby lowering total maintenance and operating costs. In addition to these electrical applications, Morgan AM&T manufactures a range of carbon and graphite felt and rigid board materials and machined graphite that are used in high temperature furnaces, where the structural and purity characteristics of Morgan's products are critical.

The Molten Metal Systems Business is the recognised world-leader in crucibles for foundries, die-casters and metal melting facilities working with for zinc, precious metals, aluminium, copper, brass, bronze and other non-ferrous materials.

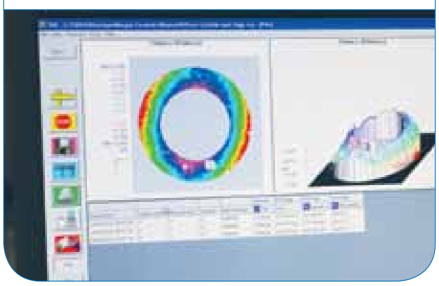
LONG-LIFE PUMPS

Morgan Technical Ceramics has developed a new silicon carbide material for hardwearing seals used in 'long-life' pumps for demanding processing applications.

It offers better reliability for reduced downtime and maintenance costs.

2x

better wear rate than other materials



Morgan Crucible's products are used in a broad range of challenging process and manufacturing environments. From foundry equipment to seals and bearings for industrial fluids, handling and insulation products for thermal processing, its advanced materials improve process efficiency and productivity, minimise waste and reduce environmental impact.

SEA DEFENCE

One of the world's largest sea defence projects, the Modulo Sperimentale Elettromeccanico (MOSE) in Venice, Italy, is using 40km of FireMaster® FastWrap XL™ fire protection blanket from Morgan Thermal Ceramics.

The installation will provide essential protection for the historic city for the next hundred years.

100 years
of protection

SUBMERSIBLE PUMP APPLICATIONS

Morgan AM&T's patented silicon carbide composite has increased reliability in down-hole submersible pump applications, enabling the extraction of water in the South-western United States plagued by drought conditions.

2x
the seal life of previous designs

METAL RECYCLING

Morgan MMS is supporting China's efforts to recycle more aluminium and other non-ferrous materials.

Traditionally a leader in the production and consumption of non-ferrous metals, China is increasingly turning to recycled materials for its manufacturing industries, creating new demand for crucibles.

>25%
increase in demand for recycled aluminium in China

IMPROVING EFFICIENCY AND RELIABILITY IN GLOBAL TRANSPORTATION

Morgan Ceramics makes ceramic and brazed alloy parts that help its customers improve the efficiency and reliability of their products. The ceramic materials offer a combination of mechanical, electrical, thermal and chemical properties that makes them an attractive, cost-effective option for designers of transportation systems, whilst the thermal management products are widely used for fire protection.

In the aerospace industry the Division supplies specialist braze alloy parts for use in aero-engine build and repair and ceramic components for engine monitoring and control, instrumentation and guidance systems. Ceramic cores and insulation materials are used in the casting of turbine blades.

In the automotive sector it supplies ceramic components for a new hybrid vehicle and piezoceramic materials that are used widely in fuel level sensors, parking aids, alarm sensors, wheel balancing, engine knock sensors and ignition systems.

Morgan Engineered Materials is a leading supplier of advanced material solutions to the railroad and transit industry, providing carbon brushes, commutation system components, earthing brushes, third rail and pantograph collectors through its global network. Application engineers work with customers to deliver customised solutions and research and development facilities enhance the solutions provided to customers with analytical and machine testing.

The Division plays a vital role in the world's aerospace industry from commercial airlines and military aircraft to helicopters. Carbon and graphite components are manufactured for a range of demanding applications, including jet engine main shaft bearing seals, electrical brushes for alternators and generators, bearings for fuel pumps and high temperature carbon fabrics for insulating systems.

In the automotive sector the Division supplies graphite anode materials for lithium ion batteries used in electric vehicles and is engaged in developing next generation materials with a number of partners in this exciting new growth market.

VEHICLE WATER-COOLING

Morgan Technical Ceramics is supplying ceramic components for water-cooling pumps used in electric vehicles. Ceramic is resistant to chemical attack from the glycol coolant and provides long life. Its reduced weight contributes to low noise running and increased energy efficiency of the vehicle.

60%
lighter than steel

Morgan Crucible plays a significant role in the world's transport industries. The Group makes precision-engineered materials for commercial and military aircraft and vehicles, as well as vital components for the rail and marine sectors.

AEROSPACE FIRE BARRIERS

Morgan Thermal Ceramics' Min-K® F382 and Min-K® F351 materials are used for fire barriers in challenging high-temperature aerospace applications. They offer 20-25% lower thermal conductivity than the industry standard F182 and F150 microporous materials.

20%
lower thermal conductivity

OFF-ROAD WATER PUMPS

Morgan AM&T provides high-duty water pump seal-face components using patented silicon carbide composite that have reduced warranty claims and significantly increased reliability in off-road vehicles.

50%
reduction in warranty claims

HIGH-SPEED RAIL SYSTEMS

Modern rail systems have huge potential to make major savings in global demand for oil. Morgan AM&T is capitalising on significant global growth in this sector, supplying carbon pantographs for high-speed rail and city metro systems.

$1 trillion (+)
global rail investment

ENHANCING PROTECTIVE QUALITIES FOR SECURITY & DEFENCE APPLICATIONS

Morgan Ceramics' superior materials technology and impressive manufacturing capability deliver real performance benefits in the field for applications from military hardware to surveillance equipment and armour for personnel and vehicle protection.

It makes lightweight, heavy-duty fire protection systems for naval vessels, working to far higher specifications than is required for commercial shipping. Its FireMaster® system is certified to meet most national and international military standards.

It manufactures lightweight pre-stressed piezoceramic tubes that provide high-acoustic output for the most demanding military sonar systems and is a major supplier to manufacturers of power tubes for use in image intensifiers, electronic counter-measure equipment and communications.

The unique properties of its metallised alumina ceramics have enabled the manufacture of significantly smaller, higher resolution X-ray tubes for luggage and cargo scanners, and its Diamonex™ diamond-like carbon coatings are used in fingerprint swipe sensors.

Morgan Engineered Materials is a global leader in lightweight armour systems. Its NP Aerospace business has an unparalleled record in rapid fielding of new equipment in support of defence programmes around the world. It is a critical resource supplier to the UK's Ministry of Defence and has supplied tactical wheeled vehicles and other equipment for use in Iraq and Afghanistan.

NP Aerospace develops and manufactures advanced lightweight armour solutions for tactical wheeled vehicles. These unique solutions combine NP Aerospace's expertise in ceramics, composites and ballistics and are typically less than 40% of the weight of an equivalent armoured steel solution.

Morgan AM&T is a major tier 2 supplier of body armour systems used by the US military. In the UK NP Aerospace is the prime supplier for integrated body armour systems to the UK Ministry of Defence.

SECURITY SCANNERS

Metallised aluminas from Morgan Technical Ceramics enable security scanners to operate with higher accelerating voltages. As a result equipment manufacturers can build smaller X-ray tubes with a much better resolution and faster throughput speed for luggage, cargo and parcel inspection.

2x

increase in focal spot power

Morgan Crucible's lightweight body and vehicle armour technology and its fire insulation products help to protect civilian, military and naval personnel around the world. The Group also makes ceramic components for surveillance equipment and sonar systems.

COASTAL PROTECTION

Coastal protection and naval ships worldwide use lightweight high-performance FireMaster® fire protection products from Morgan Thermal Ceramics.

The products are chosen because they are able to meet higher specifications than those required for commercial shipping.

13.5%
higher temperatures than commercial ships

MILITARY PROTECTION

A new ceramic protection system developed by the Defence Science and Technology Laboratory and NP Aerospace, is being used to protect troops and military vehicles from the threat of improvised explosive devices and machine-gun fire.

50%
lighter than equivalent steel armour

ARMOUR SOLUTIONS

NP Aerospace has developed and manufactured armour solutions which are typically more than 40% lighter than an equivalent performance armoured steel solution by integrating high-technology ceramic and composite materials.

40%
lighter than equivalent systems

ENGINEERING HIGH-PERFORMANCE, PRECISION PRODUCTS FOR THE ELECTRONICS SECTOR

Morgan Ceramics makes piezoceramic components that are versatile, durable, and stable, with excellent thermal and electrical properties. Its broad range of dielectric materials offers high-quality capacitance for applications from laser instrumentation to microwave and high-voltage systems.

The Division engineers many different ceramic components and ceramic-metal sub-assemblies to high specifications to meet the demanding precision, reliability and cost requirements of semiconductor fabricators and manufacturers of consumer electronics.

Examples include piezoceramic actuators for high-capacity hard drive disk (HDD) data storage which enable the head to be positioned with extraordinary accuracy and vibration control, and wire-wound ceramic RF inductors for mobile phones, laptops, HD-TVs, lighting controls, sensors and wireless devices. The Division is a major supplier of components for electron tubes used in communications, signalling and control equipment.

Its high-purity alumina ceramic is used extensively for waveguides in CO_2 lasers and insulators in excimer lasers creating robust assemblies that resist the combination of voltages, temperatures and harsh environments.

Morgan Engineered Materials is helping the electronics industry to achieve smaller, faster, lower-cost devices. Its products are found at the heart of many electronics innovations and in semiconductor fabrication processes including ion implantation, epitaxy and compound crystal growth.

The Division supplies products used in the manufacture of components such as optical fibres and silicon wafers and is securing a growing presence in the high-growth LED market.

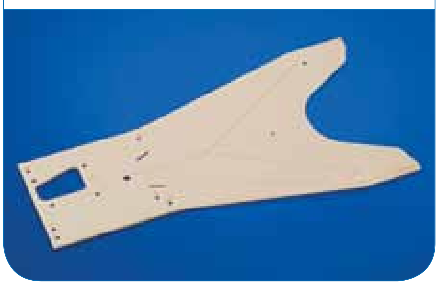
The market has come to value the Division's engineered solutions, innovation and global reach and its ability to deliver advanced materials that are able to work at higher temperature and have the higher purity levels needed to achieve the required performance.

SEMICONDUCTOR STORAGE

Ceramic handling equipment from Morgan Technical Ceramics is a critical component in next-generation 450mm semiconductor wafer fabrication facilities.

Alumina's combination of strength and stiffness allows for thinner wafer handlers, which enables closer stacking and better productivity.

15%
increase in stacking density



Morgan Crucible engineers precision parts for an increasing number of niche applications in consumer, telecoms and specialist electronics. The Group helps manufacturers continue to drive towards higher performance and reliability in smaller, lighter, more robust products.

DATA STORAGE FACILITIES

Morgan Technical Ceramics makes piezoceramic actuator plates for disk drive storage in devices from HD-TVs to PCs. Ceramic enables the head to be positioned with greater accuracy allowing for higher capacity without increasing disk size.

20%

more capacity

LED SAPPHIRE PRODUCTION

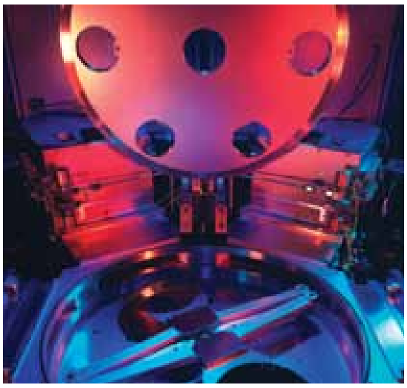
Graphite felt from Morgan AM&T is used to provide a uniform thermal environment for crystal growth in LED sapphire production.

Its stable insulation enables long process cycles and improves insulation life and its chemical inertness reduces contamination of the sapphire ingot.

99.99%

purity

SEMICONDUCTOR COMPONENTS



Morgan AM&T's material expertise and custom process solutions is helping semiconductor device manufacturers to reduce the line width by 50% (45nm to 22nm in 2016) with ultra-pure, precision-machined graphite components used in the manufacturing processes.

50%

reduction in line width

DEVELOPING HARDER-WEARING AND LONGER-LASTING PRODUCTS FOR THE PETROCHEMICAL INDUSTRY

Morgan Ceramics supplies a wide range of products for projects in the global petrochemical market. The Division's high-performance ceramic materials provide a level of precision and reliability equally suited to the harsh environments of drilling and refining.

It also supplies entire heat management solutions for fired heaters, sulphur recovery units, fluid catalytic cracking units and boilers. FireMaster® fire protection systems are comprehensively certified and extensively tested to meet national and international standards, offering proven fire protection performance.

Morgan Ceramics recently launched a range of very hardwearing components made of Deranox® 975 alumina designed for use in hydrocyclones where sand and other solids are separated from the liquid hydrocarbon stream. It is a very harsh environment for mechanical equipment and the reliability of the specialist materials helps to protect sensitive instrumentation such as export pumps and heat exchangers downstream.

Morgan Engineered Materials uses its wide range of carbon and silicon carbide materials to manufacture critical seals and bearings for pumps and compressors used in fluid handling applications in the petrochemical industry. The Division's products are able to reduce and sometimes eliminate fugitive gas and product vapour emissions from valves, pumps, compressors and other pressurised equipment which is imperative across this sector. With leading edge materials offering excellent wear characteristics for extreme applications, a broad product offering and worldwide manufacturing and customer support, it is recognised as the leading global provider of seal faces, bearings, rotors and vanes in this market.

OIL RIG SAFETY

Morgan Thermal Ceramics provided 10,000m² of FireMaster® Marine Plus blanket for living quarters of the fixed processing platform on GUDRUN oil field.

Superior thermal conductivity allowed a very lightweight installation with a high standard of protection.

20%
lighter than conventional products

Morgan Crucible supplies products to the global petrochemical industry including heat management insulation and fire protection systems for offshore exploration and downstream processing. Its high-performance components are ideal for severe-duty service valves, pumps and tooling.

HYDROCARBON PROCESSING

Hardwearing Deranox® 975 alumina from Morgan Technical Ceramics is ideal for making long-lasting components for use in the harsh processing environment of the hydrocyclone where sand and other solids are separated from the liquid hydrocarbon stream.

98%

of 50μm particles screened

PETROLEUM INDUSTRY EQUIPMENT

Morgan AM&T produces PGS-100 graphite-loaded sintered silicon carbide, which is the material of choice for a wide range of petroleum industry equipment, including use with highly corrosive sour crude at 700°F.

No other material can perform in these conditions.

100%

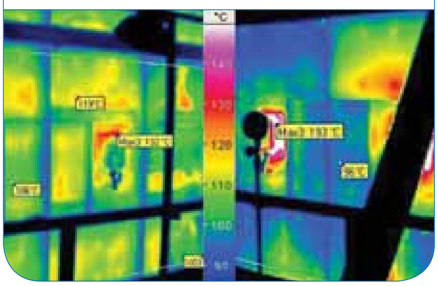
better than any other material

HIGH-PERFORMANCE INSULATION

Using high-performance insulating materials from Morgan Thermal Ceramics, the heat loss from high temperature furnaces, like those used in ethylene crackers, can be reduced by around 20%. This ensures significant energy savings and reduces external casing temperatures.

20%

reduction in heat loss



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INCREASING POWER AND SUSTAINABILITY IN THE ENERGY SECTOR

Morgan Ceramics makes high-performance insulating products that enable users to reduce energy costs and improve environmental performance. The Division's ceramic live line indicators are used in high-voltage DC power distribution applications all over the world. The Division's high-temperature insulating fibre, bricks and monolithics are used to optimise thermal efficiency in industrial applications from 500°C to 1,600°C.

Latest-generation low bio-persistent Superwool® Plus™ Fibre is used in duct and chimney insulation, process heater linings, pipe wrap and automotive exhaust heat shields where its exceptionally low thermal conductivity allows engineers to specify a significantly thinner blanket to achieve the same level of insulation.

The Division makes products used in the manufacture of thin-film photovoltaic cells for the solar industry, and it manufactures cores used in the production of blades for industrial gas turbines.

A new ultrasonic sensor launched this year helps reduce energy usage by providing precise and reliable measurement of heat and water flow even in harsh environments.

Morgan Engineered Materials makes components that are critical to traditional power generation, the nuclear industry and renewable energy.

The Division is a world leader in advanced high-temperature solutions which provide major producers of poly-silicon and silicon ingots the means to enhance solar cell performance.

Its crucibles are widely used in the manufacture of metal components for electricity distribution and transmission systems. Its carbon brushes and rotary transfer systems, designed to perform in the harshest environment, are used widely in wind power applications and its 634 grade is the gold standard for turbo generator brush applications the world over.

The acquisition of Morgan AM&T Hairong complemented on-going product development and broadened Morgan Engineered Materials' presence in renewable energy to now include graphite materials for anodes used in lithium-ion batteries for portable electronic devices and electric vehicles.

HIGH-TEMPERATURE PROCESSING

Morgan Thermal Ceramics' lining materials are used in insulating systems for high-temperature processing equipment in chemical plants and hydrocarbon refineries.

This can have a significant effect in reducing energy usage, costs and greenhouse gas emissions.

20%

lower thermal conductivity

Morgan Crucible continues to develop high-performance products for the evolving energy sector. The Group makes components for power distribution and generation from renewable and traditional sources and is a world-leader in heat management insulation products.

SMART GAS METERING

Piezoceramic from Morgan Technical Ceramics is used in new smart gas meter technology being rolled out across the UK.

Accurate, real-time energy consumption data helps consumers save energy.

£14 billion
predicted UK savings through use of smart meters

ENERGY COST REDUCTION

Morgan AM&T has helped to reduce energy and maintenance costs for production of electronic grade poly-silicon by up to 50%. Customers benefit from a 20% reduction in the cost of capital due to optimised throughput using Morgan AM&T's materials and applications know-how.

50%
reduction in costs

ELECTRICITY SUPPLY

Morgan AM&T provide low-friction high-strength seal face components that significantly improves the energy efficiency of water pumps allowing drinking water to be delivered more extensively in developing countries.

30%
reduction in energy consumption

INNOVATING IN MEDICAL DEVICES AND HEALTHCARE INSTRUMENTATION

Morgan Ceramics' materials are used in precision tools including dental descalers and specialist ultrasonic surgery scalpels. Its ceramic capacitors and reflectors can be found in lasers for eye surgery. It supplies critical components used in implantable devices such as pacemakers, cochlear implants, defibrillators and implants for neuro-stimulation.

In a recent breakthrough in cancer treatment, an efficient and minimally invasive new procedure to ablate tumours has been made possible because of a very small, precision ceramic tip engineered for the treatment needle by Morgan Ceramics. Additionally, for throat cancer patients, a new long-lasting speech valve has been developed using zirconia ceramic components.

The Division recently launched a tube contact sensor for accurate detection of occlusions in medical infusion lines. The sensor gives non-invasive detection of pressure changes, providing instrument manufacturers with a simple and reliable method of recognising when the tube is blocked.

The Division also makes key components for instrumentation and diagnostic equipment such as ultrasonic imaging, X-ray, CAT and MRI scanners. The superior piezoelectric ceramic components are used extensively in medical ultrasound to enable increased image resolution, while its multilayer chip capacitors are used in MRI systems to tune the magnetic field accurately.

Piezoelectric components are popular in applications such as blood flow measurement and foetal heart monitors for their reliability and accurate detection. Additionally, they can be found in ultrasonic air-in-line sensors in medical devices and infusion pumps.

Morgan Engineered Materials makes advanced composites used in place of metal components in an X-ray treatment couch. The components help to ensure that patients are positioned correctly for optimum treatment, higher image quality and lower X-ray doses.

In endoscopes and scanners, rotary distributors are employed wherever rotary transmission of electric currents, data and signals is called for. Small-diameter slip rings are installed in operating theatre lamps.

TUMOUR TREATMENT

A precision-engineered ceramic tip made by Morgan Technical Ceramics is used in a new treatment to ablate tumours.

The minimally invasive procedure means that patient trauma following surgery is reduced and post-operation recovery times are significantly shorter.

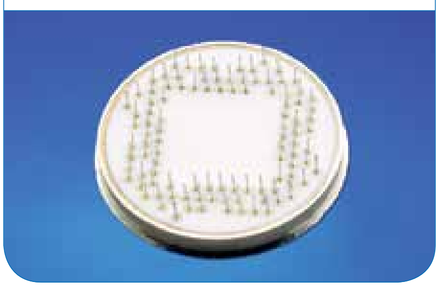
70%
reduction in hospital recuperation time

Morgan Crucible makes ceramic components used in medical instrumentation for monitoring and diagnostics, and tools for treatment and surgery. Its medical engineering expertise includes orthopaedic replacement ceramic joints and specialised ceramic assemblies for implantable devices.

EYE IMPLANTS

Morgan Technical Ceramics has created a medical ceramic-to-metal feed-through array for an implantable device, which, it is hoped, will be able to restore sight to patients suffering from blindness caused by Retinitis Pigmentosa (RP).

>75,000
people suffer from RP in the USA

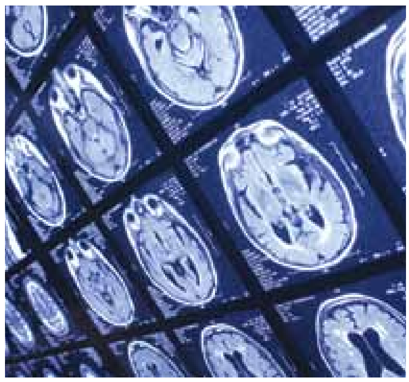


X-RAY AND CAT SCANNERS

Morgan Technical Ceramics components are increasingly used in X-ray and CAT scanning machines in preference to traditional glass. The high-purity, engineered components help equipment manufacturers produce machines that offer longer life, higher power and better performance.

2x
the speed of conventional scanners

BRAIN THERAPY



Morgan Technical Ceramics is working with medical equipment suppliers on highly engineered multi-pin feed-throughs for use in implantable devices to treat currently incurable brain diseases including Parkinson's, dystonia and epilepsy.

Precision engineering enables accurate application of deep brain stimulation therapy.

16x
more leads per unit area

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CHAIRMAN'S STATEMENT

Tim Stevenson Chairman

A record year for Morgan Crucible: the strongest performance in 155 years of history – tribute to a sound and well-implemented strategy and a skilled and dedicated team of employees. A result which puts us well on track to achieving our three published goals for 2013: doubling of underlying PBT to circa £150 million; mid-teen operating profit margins and an Operating ROCE of 35%.

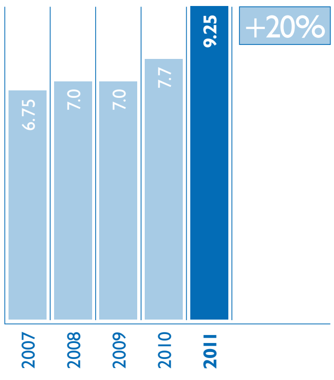
Overview

A stronger global economy and a disciplined approach to making reality of our strategy delivered sales growth of over 8% at £1,101.0 million compared to £1,017.1 million in 2010. Underlying operating profit was £141.5 million compared to £101.6 million in 2010, and underlying diluted earnings per share was 28.6 pence (2010: 17.8 pence). Net debt was reduced from £236.2 million to £215.4 million, meaning that the net debt to EBITDA ratio improved to 1.2 times, compared to 1.7 times at December 2010.

A particular success in the year has been the positive results achieved from the integration of the Thermal Ceramics and Technical Ceramics businesses in 2010. The anticipated benefits have been successfully delivered; more important, it is clear that the relative strengths of each Business complement each other in a way that can be used to improve the performance of both.

Dividend per share

Pence



Dividend

Against this background the Board is recommending a 20% increase in the final dividend to 6.0 pence per Ordinary share, bringing the total dividend for the year to 9.25 pence.

Board and Governance

We pay close attention to the need for our Board to add substantial value to the work of the Executive by ensuring that non-executives have a real understanding of the business; that they know its senior people and that the culture of the Board is conducive to straightforward debate and challenge on the right issues at the right level of discussion. The setting of agendas is carefully managed through the year to ensure that all key areas of strategy are covered and that the Board has the maximum possible exposure to senior employees from across the Group. This is achieved also by ensuring regular visits to Group locations and attendance at Group Executive meetings.

With seven members the Board is small enough to enable full discussion and the characteristics of the non-executive cadre provide a valuable variety of approach in discussion of major issues. The current effectiveness of the Board was confirmed by a thorough external review conducted during the year by Dr Tracy Long. Dr Long's review made suggestions for ways in which the Board's performance could be further improved: these are dealt with in more detail later in the Governance section of this Report. Most important is the need to ensure that as existing non-executive directors retire there is an appropriate, managed process of renewal. An important part of this will be to ensure that so far as possible there is useful diversity of skill and experience. By diversity we imply by no means just the gender issue – although that is important – but the requirement to have non-executives with a variety of different backgrounds to enable the most appropriate stretch and challenge for the Executive.

Outlook

It is impossible in current circumstances to be other than cautious about the outlook for business in 2012. Yet after a record year of revenue and operating profit in 2011 and with healthy order books as we go into the new year, we are confident that absent a serious exogenous shock – most obviously a Euro-led crisis – we can successfully continue with implementation of what is now a well-proven strategy for growth in our businesses. Even if there is a major economic problem, we are well-placed to manage through it, both because of the underlying strength of all our businesses and because management, having amply demonstrated appropriate agility through the last recession, will be well-prepared for taking the right steps, early, to see our way through another.

Morgan Crucible is a well-managed Group with a sound culture which elicits strong loyalty and commitment from all of its employees. The success that we have had in 2011 – and our firm foundations for the future – is very much their success. As always, the Board thanks them for their effort, enthusiasm and commitment.

Tim Stevenson
Chairman

CHIEF EXECUTIVE OFFICER'S REVIEW

Mark Robertshaw Chief Executive Officer

I am pleased to report that 2011 was a record breaking year of revenue and operating profit for the Group.

Group results

The Group's continuing strategy of focusing on the right growth markets and the right growth geographies with innovative, differentiated, added-value products drove revenue and operating profit to record levels in 2011. As one of the world's leading advanced materials companies, innovation and differentiation in our product offerings are the bedrock of our long-term profitable growth aspirations. I am therefore very encouraged by the success we achieved in 2011 in commercialising an increasing number of new products and technologies, such as our growing range of offerings to renewable energy markets, our environmentally friendly range of low bio-persistent Superwool® high-temperature insulating fibres, and our piezoceramic components being sold into the hard disk drive (HDD) end-market. Each of these new products and technologies, along with the many others which are highlighted in case studies throughout this Annual Report, reflect the benefits of the investment in research and development, innovation, and differentiation that Morgan Crucible has been making over recent years. The strong levels of revenue growth in 2011 are the commercial results of seeds planted in previous years now beginning to blossom and bear fruit.

Our continued expansion into the dynamic-growth economies of the world such as China, India and Latin America also made significant strides in 2011 with our revenue to non-Western world markets growing substantially year-on-year, up by nearly 20% versus 2010. At the same time, our Western world businesses also delivered good growth with revenue to North America and Europe (excluding NP Aerospace) up by 7.5% and 9.8% respectively. Whilst we strongly believe that the true test of a long-term, sustainable, high-quality business is one which is able to deliver profitable long-term organic top-line growth, we are equally committed to a mindset of continuous improvement to drive year-on-year operational efficiencies. As a result, during 2011 we continued to increase our production in low-cost locations to improve our unit costs of manufacturing. In particular, our three factories in Mexico are playing a growing role in the supply of products to our markets in the United States and increasingly other parts of the world. There have also been some significant improvements to our operating efficiencies in Western world plants, most notably in the new high-temperature products from our Morgan AM&T Business as we ramp-up into larger commercial volumes and, in doing so, find additional ways to improve our manufacturing processes.

Overall therefore, the healthy levels of top-line growth achieved in 2011 allied to continuous improvement initiatives on our cost base meant that our profit increased substantially, with Group underlying PBT up by 58.1% compared to 2010.

Divisional highlights

The Morgan Ceramics Division had a very strong year in 2011 with reported revenue up 12.5% versus 2010 (13.7% on a constant currency basis). Both the Technical and Thermal Ceramics Businesses registered double-digit top-line growth rates with excellent performance in the dynamic growth economies and healthy growth also in the Western world. Technical Ceramics revenue grew by 14.0% (16.1% on a constant currency basis) compared to 2010 with Thermal Ceramics delivering 11.4% growth (12.2% on a constant currency basis).

I am also pleased to report very good progress during 2011 in realising the benefits of the merger of the Technical Ceramics and Thermal Ceramics Businesses that was announced in the summer of 2010. This was undertaken with the aim of increasing the potential top-line growth rate of each business through leveraging their respective strengths: that of Thermal Ceramics' deep and well-established presence in the dynamic growth economies and that of Technical Ceramics in identifying distinctive advanced material competencies in secular growth, higher margin end-markets.

Revenue growth initiatives are by their nature focused on a medium- to longer-term timeframe but the early signs are encouraging from both Businesses. For example, we have now put in place dedicated Technical Ceramics sales and application engineering expertise into Thermal Ceramics locations around the world to open up new potential geographic markets in both Asia and Latin America, with a resultant increase in the flow of new business prospects coming into our pipeline. On the Thermal Ceramics side, significant progress has been made in our strategy and plans for global high-temperature insulating fibre products. Fibre products represent some 20% of total Group revenue and I am delighted to say that our efforts in research and development now mean that we are have a full range of low bio-persistent fibres (Superwool® products) to offer to the market. We believe that the environmentally friendly credentials of the new Superwool® range combined with their technical performance leave us well-placed to deliver profitable growth in this important business area over the coming years.

The cost synergies of the Divisional merger – which relate primarily to shared management and administration costs – have been delivered as planned during the year with circa £6 million of benefits in 2011 which we anticipate will rise to a full-year benefit of £8 million pa from 2012 onwards.

Another highlight of the year in the Morgan Ceramics Division has been the successful commercial ramp-up of our hard disk drive (HDD) business. The operational demands of such a significant step-up in volumes have been handled admirably by the Technical Ceramics team with excellent global co-ordination of production activities both in North America and Asia. Revenue from this product increased from circa £6 million in 2010 to over £15 million in 2011 and we are optimistic about further revenue growth potential in this business during 2012.

The combination of strong top-line growth allied to the benefits of cost reduction initiatives mean that Divisional EBITA for the Morgan Ceramics Division increased by 34.7% from £68.8 million to £92.7 million, with Divisional EBITA margin improving from 11.3% to 13.5%. Divisional EBITA for the Technical Ceramics Business was up 26.8% from £34.0 million to £43.1 million with the Divisional EBITA margin improving from 13.6% to 15.1%. Thermal Ceramics' Divisional EBITA was up by 42.5% from £34.8 million to £49.6 million with operating profit margin improving from 9.7% to 12.4%.

The Morgan Engineered Materials Division also delivered good Divisional EBITA margin progression during the year from 11.2% in 2010 to 13.4% in 2011. In this Division, the top-line growth was 1.9% (2.8% on a constant currency basis) as the anticipated reduction in Ministry of Defence spending on personal and vehicle ballistic protection following the surge of troops and equipment into Afghanistan during 2007 to 2009 was continued from 2010 into 2011. As a result, NP Aerospace, which provides ballistic protections solutions into this market, saw revenue decline from £120.9 million in 2010 to £93.0 million in 2011. Encouragingly our initiatives to take NP Aerospace's differentiated, light-weight vehicle armour solutions to international markets made progress during the year. Having established an NP Aerospace office in the USA in the summer of 2010 NP Aerospace won a first prototype order for vehicle armour in the early part of 2011 which was then successfully converted into a full production order later in the year for delivery in the first half of 2012. Whilst only small scale at this point, this first production order reinforces our view that NP Aerospace has an attractive range of technologies and solutions with commercial potential well beyond the traditional UK market.

The rest of the Morgan AM&T Business delivered healthy revenue growth in 2011, up 11.9% versus 2010 at reported rates (13.1% on a constant currency basis). The most notable driver of this was strong performance from our growing range of carbon-graphite insulating materials for high-temperature applications such as photovoltaic and LED processing markets. Sales into these markets have benefited from significant research and development initiatives to develop innovative, differentiated products that set industry-leading levels of performance in terms of their energy efficiency and purity characteristics. As a result, sales of high-temperature products increased from circa £12 million in 2010 to circa £27 million in 2011. As production levels have ramped up in the high-temperature business we have been able to drive operational improvements in our manufacturing processes to improve yields and reduce our unit costs of production. Elsewhere the Morgan AM&T Business has continued to increase the use of low-cost manufacturing locations which has also had a beneficial impact on our operating costs.

The combination of robust revenue growth allied to the cost efficiencies has driven strong Divisional EBITA margin progression from 9.0% in 2010 to 12.7% in 2011 for Morgan AM&T excluding NP Aerospace with EBITA increasing 58.4% over the period from £22.1 million to £35.0 million.

Similarly strong performance has also been delivered in the Molten Metal Systems (MMS) Business, where revenue increased 15.9% year-on-year (17.6% at constant currency) with good growth across all regions with the Asian businesses performing particularly well. MMS Divisional EBITA improved 22.2% from £6.3 million to £7.7 million with Divisional EBITA margins rising from 15.6% in 2010 to 16.5% in 2011.

Looking forward

The macroeconomic outlook as we enter 2012 remains uncertain, particularly with the on-going risks to the Eurozone and indeed the global economy due to sovereign debt issues in several countries. However we believe that, unless there is a major and pronounced global downturn, Morgan Crucible remains well-placed in 2012 to make further progress against the three-year financial goals that we announced in early 2011. We have an exciting pipeline of innovative, differentiated new products and technologies. We have a strong and growing presence in the dynamic growth economies of the world. Above all we have a talented and committed workforce around the world who have shown themselves to be nimble, imaginative and tenacious in driving the Group's business forward once more in 2011. I would like to take this opportunity to thank them all for their efforts in making 2011 a record-breaking year of revenue and operating profit and know they will be equal to the challenge of trying to make our 2012 performance even better once again.

Mark Robertshaw
Chief Executive Officer

GROUP BUSINESS REVIEW

Group activities
Morgan Crucible is a world-leader in advanced materials, focused on specialist ceramics, carbon and composites. Working at the forefront of advanced materials technology, the Group develops solutions that help to make the world more efficient, better protected and healthier.

The Group has two global Divisions: Morgan Engineered Materials and Morgan Ceramics.

Morgan Engineered Materials 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. The Division consists of two global reportable operating segments: Morgan AM&T, which includes NP Aerospace, with core applications including current transfer systems for industrial and rail transportation, seals and bearings for fluid handling, high-temperature insulation for solar silicon wafer production and advanced lightweight ceramic/composite armour systems for personal and vehicle protection; and Molten Metal Systems, with core products of crucibles and foundry consumables.

Morgan Ceramics consists of two global reportable operating segments. Technical Ceramics is a leading supplier of customer-specific, applications-engineered industrial products with core products manufactured from advanced materials including structural ceramic, electro-ceramic and precious metals. Thermal Ceramics provides thermal management solutions for high-temperature applications which benefit technically, financially and environmentally from optimised thermal and energy efficiency management. Core products are high-temperature insulating fibre, bricks and monolithics.

Group strategy
Morgan Crucible's goal is to continue to be one of the world's very best advanced materials companies.

The Group's aim is to create long-term sustainable shareholder value.

The Group's five strategic priorities are:
- To focus on higher growth, higher margin, non-economically cyclical markets.
- To be high value-added to its customers.
- To be number one or number two in its chosen market segments.
- To have a culture of operational excellence and cost efficiency.
- To find, keep and develop the right people.

The Group uses its strategic priorities to test new investment opportunities, to screen its businesses for fit with the existing Group and to identify areas requiring strategic attention and action.

Business model
Morgan Crucible's business model is aligned with and driven by the Group's strategy as set out above. In each Division and across all businesses and sites Morgan Crucible utilises advanced materials technology and manufacturing expertise to design, develop, manufacture and integrate technically differentiated solutions that help enhance the performance and efficiency of its customers' products or operations. This is supported with a focus on service excellence and the development of genuine partnerships such that the Group works alongside its customers and suppliers in the ongoing refinement of products and solutions. Further details of the Group's key resources and contractual relationships are set out on page 50 of this Business review.

This outward-facing part of Morgan Crucible's business model is combined with an internal focus on operational excellence and effective cost management. The 2010 combination of businesses to create the two Divisions through which Morgan Crucible now operates and the ongoing work to take full advantage of the Group's low-cost manufacturing footprint are tangible examples of this.

The Group's focus on high-quality customer solutions and efficient operations combine to satisfy Morgan Crucible's stated aim of creating long-term sustainable shareholder value.

Additional information on the markets served by the Group and on its products are included in the Review of operations on pages 26 to 33 and in the Overview section on pages 1 to 21.

Revenue and profits
Group revenue increased by 8.2% to £1,101.0 million (2010: £1,017.1 million). Group EBITA before restructuring charges and one-off items was £143.4 million (2010: £109.5 million), representing a margin of 13.0% (2010: 10.8%). The main factors for these movements are as follows:

Morgan Engineered Materials
- Morgan AM&T: Revenue including NP Aerospace was £369.1 million (2010: £367.7 million). Divisional EBITA was £48.0 million, an 22.4% increase at reported rates, reflecting the strong performance in the core Morgan AM&T business. NP Aerospace trading has been in line with expectations with revenue of £93.0 million (2010: £120.9 million) and Divisional EBITA of £13.0 million, maintaining a mid-teen margin of 14.0% despite the reduced revenue.
- Molten Metal Systems: Revenue was up by 15.9% compared to 2010 at £46.7 million (2010: £40.3 million). Divisional EBITA was £7.7 million, compared to £6.3 million for 2010, with growth continuing to come in particular from China and India where low-cost manufacturing bases continue to enhance margin performance.

Morgan Ceramics
- Technical Ceramics: Revenue for 2011 was £285.1 million (2010: £250.1 million), an increase of 14.0%, with all regions showing strong improvement. Divisional EBITA was £43.1 million (2010: £34.0 million), reflecting a year-on-year increase of 26.8% at reported rates.
- Thermal Ceramics: Revenue increased by 11.4% to £400.1 million in 2011 (2010: £359.0 million). Divisional EBITA also increased in the year to £49.6 million (2010: £34.8 million), an increase of 42.5% at reported rates.

Cash generation
Free cash flow before acquisitions and dividends was £57.8 million (2010: £76.5 million). There was an outflow from working capital of £29.1 million (2010: inflow of £10.5 million). The Group excluding NP Aerospace improved its working capital to sales ratio from 20.0% at the end of 2010 to 19.2% at the end of 2011. NP Aerospace had a higher level of trade receivables and inventory than expected at the year end, which is expected to reduce significantly during 2012.

KEY PERFORMANCE INDICATORS

To support the Group's strategy and to monitor performance, the Board of Directors and the Executive Committee use a number of financial and non-financial key performance indicators (KPIs). These KPIs are selected as being important to the success of the Group in delivering its strategic objectives. Progress is assessed by comparison with the Group's strategy, its budget for the year and against historic performance. At a business level, a range of further benchmarks and other KPIs are also used as part of the Divisional planning and performance review processes. In order to measure the underlying performance of the business, management further analyse the headline KPIs to exclude the impact of acquisitions and foreign exchange.

As Morgan Crucible's businesses grow and evolve we will review and update the list of KPIs selected to ensure they remain important to the success of the Group.

Financial and non-financial performance is reviewed in more detail in the Divisional, financial and corporate responsibility sections of this Business review.

KPI	Performance 2011	2010	Relevant strategic objective
Financial KPIs			
Revenue growth	**8.2%**	7.9%	→ Creating consistent long-term value for shareholders → Focus on higher growth markets
Underlying operating profit* growth	**39.3%**	31.9%	→ Creating consistent long-term value for shareholders → Focus on higher growth markets → To be high value-added to our customers → To have a culture of operational excellence and cost-efficiency
Underlying operating profit* margin	**12.9%**	10.0%	→ Creating consistent long-term value for shareholders → Focus on higher growth markets → To have a culture of operational excellence and cost-efficiency
Underlying profit before taxation**	**£119.7m**	£75.7m	→ Creating consistent long-term value for shareholders → Focus on higher growth markets → To have a culture of operational excellence and cost-efficiency
Free cash flow before acquisitions and dividends	**£57.8m**	£76.5m	→ Creating consistent long-term value for shareholders
Return on Operating Capital Employed***	**33.7%**	25.4%	→ Creating consistent long-term value for shareholders
Underlying earnings per share****	**29.9p**	18.7p	→ Creating consistent long-term value for shareholders
Dividend per share	**9.25p**	7.7p	→ Creating consistent long-term value for shareholders
Non-financial KPIs♦			
Year-on-year pricing change	**2.3%**	1.1%	→ To be high value-added to our customers
Total employment costs as % of sales	**29.2%**	29.5%	→ To have a culture of operational excellence and cost-efficiency
Employee turnover	**13.7%**	13.7%	→ To find, keep and develop the right people
Training hours per employee	**13.3**	12.9	→ To find, keep and develop the right people
Lost time accident frequency (per 100,000 hours worked)	**0.57**	0.57	→ To have a culture of operational excellence and cost-efficiency → To find, keep and develop the right people
Tonnes CO_2 per £m revenue	**394**	416	→ To have a culture of operational excellence and cost-efficiency
Tonnes waste per £m revenue	**41**	44	→ To have a culture of operational excellence and cost-efficiency

* Underlying operating profit is defined as operating profit before amortisation of intangible assets.
** Underlying profit before taxation is defined as operating profit before amortisation of intangible assets less net financing costs.
*** Return on Operating Capital Employed is defined as Group underlying operating profit* divided by the sum of Working Capital (which excludes pension liability and provisions) and the net book value of tangible assets. Goodwill and other intangible assets are excluded.
**** Underlying earnings per share is defined as basic earnings per share adjusted to exclude amortisation of intangible assets. See note 9 on page 98 for definition of basic earnings per share.
♦ Non-financial KPIs are at constant currency and updated to reflect changes in reporting methodology.

Overview

Business review

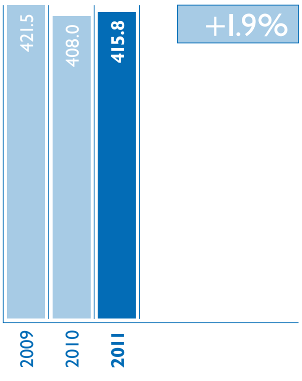
Governance

Financial statements

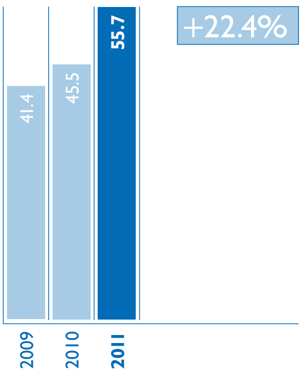
REVIEW OF OPERATIONS

MORGAN ENGINEERED MATERIALS DIVISION

Revenue
£m



Divisional EBITA
£m



Business description

The businesses within Engineered Materials are global suppliers of highly engineered solutions built from a portfolio of material technologies that includes carbon, silicon carbide, oxide-based ceramics and advanced polymeric composites. The Division's footprint provides a global reach that enables the delivery of market-leading solutions to a variety of chosen end-markets. These chosen end-markets are served through three global businesses: Morgan Advanced Materials & Technology (Morgan AM&T), NP Aerospace and Molten Metal Systems (MMS). For reporting purposes the Division consists of two global reporting segments: Morgan AM&T (including NP Aerospace) and Molten Metal Systems (MMS).

The Division's capabilities are rooted in the understanding, application and processing of its broad range of advanced materials. The acquisition of a majority equity stake in NP Aerospace in 2009 extended the Division's materials and ballistic technologies to include lightweight ceramics/composites, and the acquisition of Changsha Hairong New Materials Co., Ltd. (Hairong) in China at the end of 2010 complemented on-going product development to broaden the Division's presence in renewable energy to now include anode materials for lithium ion batteries. Today the Engineered Materials Division has strong positions in carbon brushes for industrial and rail traction applications, seals and bearings for fluid handling, crucibles for the processing of non-ferrous metals, high-temperature insulation for silicon solar wafer production and advanced lightweight protective ceramic/composite armour systems.

As at 1 January 2012 the Division employs some 4,000 people, serving customers in around 100 countries worldwide. Its global presence includes 40 operating facilities in 25 countries, with major materials processing plants in the USA, Europe, South America and Asia feeding an integrated network of finishing plants. The Division benefits from a strategically located low-cost manufacturing base, with sites in Mexico, China, Hungary and India that allow the Division to serve customers across the globe.

The Division's strategy aligns with the Group's strategic priorities and has fostered success in the ballistic protection market, entry to the silicon solar cell market, and entry into the lithium ion anode market. Specifically, the Division's strategy is to:

- Add value to advanced materials and technology to deliver engineered solutions to chosen markets.
- Engender a culture of operational excellence with a focus on continually improving the value the Division delivers to its customers.
- Establish and fully embed a mindset for growth through focused business development, specifically in high-growth and high-margin markets.
- Invest in our future through its technology centres of excellence and through acquisitions, alliances and partnerships.
- Fully engage its entire workforce and instil a culture of continuous reinvention.
- Continuously seek and develop the right people.

The Division's three global businesses go to market through an effective array of channels that include both direct sales and distributor networks. Morgan AM&T primarily uses direct sales channels complemented by strategic distribution partners, who serve both the original equipment market and the aftermarket and are supported by a global network of applications engineers. NP Aerospace uses direct channels to serve major militaries and vehicle OEMs around the world, while MMS leverages an effective global network of independent distributors to serve the global non-ferrous metals industry. The Division is strategically positioned to ensure that the best possible resource is deployed to provide advanced materials and technologies in the form of engineered solutions to the following key global markets:

Transportation
Morgan AM&T plays a vital role in the world's aerospace industry as well as in the railroad and transit industry. Electric current transfer is critical in many transportation systems such as rail, trams, the underground and helicopters. As well as supplying carbon brushes, collectors and rotary current transfer products, Morgan AM&T has developed an innovative carbon material which transfers current between stationary wires and moving parts in the low-humidity environments found at high-altitude and in space. Used in starter motors for fixed and rotary wing aircraft, it provides high-performance with increased life, reducing maintenance and operating costs.

Security & Defence
Already a major Tier 2 supplier of ceramic body armour plates to the US Department of Defense, Morgan Crucible's acquisition of a majority equity stake in NP Aerospace in 2009 broadened the company's materials portfolio and competency in ballistics, positioning Morgan Crucible as a global leader in lightweight armour systems. Founded in 1926, NP Aerospace is headquartered in Coventry, UK and has offices in Kingston, Ontario, Canada. In 2010, NP Aerospace opened a new location in Sterling Heights, Michigan, USA. With a clear focus on delivery to the front-line soldier and leading-edge technical innovation at the core of its business, NP Aerospace has an unparalleled record in the rapid fielding of new survivability systems and equipment in support of defence programmes around the globe. The business remains a critical resource to the UK's Ministry of Defence for major integration contracts for the fielding of next-generation tactical wheeled vehicles and the highly advanced systems have seen service in both Iraq and Afghanistan.

Industrial
The Morgan AM&T Business has a strong position in the global market, providing engineered solutions that add value and improved reliability to a diversified customer base. The Business utilises a proven advanced materials portfolio combined with a customer-focused global footprint to supply carbon brushes, linear collectors and rotary current transfer products to a diverse OEM and end-user base operating within steel, mining and a variety of other key industrial markets.

With more than 150 years experience, the MMS Business is the recognised leader worldwide in the supply of crucibles to non-ferrous metals industries. MMS crucibles and foundry products provide melting solutions to foundries, die-casters and metal melting facilities covering melting applications that include zinc, precious metals, aluminium, copper, brass, bronze and other non-ferrous metals.

Petrochemical
Morgan Engineered Materials uses its wide range of carbon and silicon carbide materials to manufacture critical seals and bearings for pumps and compressors used in fluid handling applications in the petrochemical, oil and gas industries. With a broad product offering and worldwide manufacturing and customer support, it is recognised as the leading global provider of seal faces, bearings, rotors and vanes in this market.

Energy
Over the past few years the global energy sector has become an increasingly important target market for the Division. The Business's technology and product portfolio includes components which are critical to traditional power generation companies, the nuclear industry and the renewables sector. In solar power, Morgan AM&T is a world-leader in advanced high-temperature solutions providing major producers of polysilicon and silicon ingots with the means to enhance solar cell performance. In wind power generation, the Business supplies carbon brushes and rotary transfer systems which perform in the harshest environments around the globe. With the acquisition of Changsha Hairong New Materials Co., Ltd. (Hairong) Morgan AM&T added a recognised technical leader in the production of graphite materials for anodes used in lithium ion batteries for portable electronic devices and electric vehicles.

Electronics
Morgan AM&T products are at the heart of many electronic innovations, and are used in semiconductor manufacturing processes such as ion implantation, epitaxy and compound crystal growth. With the drive to faster, smaller and lower cost devices, semiconductor processing equipment companies are dependent on advanced materials being able to work at higher temperatures and having higher purity levels to achieve the required performance. The Business also supplies products used in the manufacture of components such as optical fibres and laser diodes, and is securing a growing presence in the high-growth market for LEDs. Growing significantly in 2011, the market has come to value the Business's engineered solutions, innovation and global reach.

REVIEW OF OPERATIONS continued

MORGAN ENGINEERED MATERIALS DIVISION continued

Research and development

The Businesses within the Engineered Materials Division are leaders in carbon-based materials, oxide and non-oxide ceramics, lightweight composites, and in ballistics and blast technology. Hairong has added the sciences of electro-chemistry and rechargeable batteries to the Division's expanding technology portfolio. The Division's research activities include material and process capabilities as well as product and systems development. These activities are located within the major material processing facilities in the USA, the UK and China. The Division's businesses deploy application development engineers worldwide to work with customers in applying advanced materials and technologies to develop leading-edge engineered solutions according to customer need, with a focus to position each Business as leaders in dynamic growth markets.

Business performance

Revenue in the Engineered Materials Division was £415.8 million (2010: £408.0 million), representing an increase at reported rates of 1.9%. At constant currency this increase in revenue was 2.8%. The revenue for Morgan AM&T excluding NP Aerospace was £276.1 million (2010: £246.8 million) representing an increase of 11.9% at reported rates and 13.1% on a constant currency basis. NP Aerospace revenue was £93.0 million (2010: £120.9 million), in line with the Group's expectations. MMS achieved revenue of £46.7 million (2010: £40.3 million), representing growth of 15.9% (17.6% on a constant currency basis).

Divisional EBITA for the Engineered Materials Division was £55.7 million (2010: £45.5 million), a margin of 13.4% (2010: 11.2%). Morgan AM&T EBITA margin was 13.0% (2010: 10.7%), and MMS Divisional EBITA margin was 16.5% (2010: 15.7%).

The improvement in the Morgan AM&T results reflects sustained recovery from its core markets, continued expansion in dynamic growth markets and the successful introduction of new products, particularly the high-temperature product range. A continued focus on improving cost efficiencies through the Operational Excellence Programme also realised further significant benefits in 2011.

MMS revenue grew across all regions with a particularly strong performance in China and India. The Business has continued to improve profitability through to high-teen margins by driving through cost improvements and focusing on high-growth markets.

Business developments

The Morgan AM&T Business saw strong demand throughout the year with nearly all sectors and regions performing above pre-recession levels. Revenue from high-temperature products more than doubled. The China and Asia regions continued strong growth in the wind market for electrical and rotary products, while continuing to advance penetration into the solar market for high-temperature products.

The Business increased its efforts to rebalance resources and focus to growth sectors such as renewable energy, while continuing to expand capacity in low-cost countries.

Morgan AM&T's focus on pursuing opportunities in renewable energy extends to the lithium ion anode market.

During the year the recently acquired Chinese lithium ion battery material supplier, Morgan AM&T Hairong, was successfully integrated into the Division and has made significant progress in advancing relationships with a number of lithium ion battery manufacturers for portable electronic devices and electric vehicles.

The Division continues to invest heavily in the development of ballistic solutions to counter ever-increasing threats and to meet demand for lighter weight solutions. As expected, NP Aerospace is trading below 2010 levels due to reduced Urgent Operational Requirement demand for tactical wheeled vehicles by the UK Ministry of Defence. NP Aerospace continues to pursue a number of additional domestic and international opportunities with existing and new customers, leveraging its strong portfolio of advanced materials, ballistic expertise, and long history of delivering advanced armour solutions to the UK's Ministry of Defence. Following the opening of a dedicated NP Aerospace office in Detroit the business has developed working relationships with major OEMs on current and future projects, resulting in an order in late 2011 with a well-established USA vehicle OEM, to be delivered in 2012.

MMS continued to see strong growth across all regions, in particular from China, India and the Far East. The Business maintained and improved its margins, with the Chinese and India low-cost manufacturing bases enhancing margin performance.

Outlook

Entering 2012 Morgan AM&T's order book is at a healthy level and the outlook remains positive for continued growth in Asia and sustained performance in core markets in Europe and the Americas. Demand for LED high-temperature products is expected to remain strong while demand from the solar sector has softened. Improvements to the cost base and to global operational capability, along with increased focus and resource on higher growth markets, mean that the Business is well-positioned to take advantage of opportunities throughout the global economy.

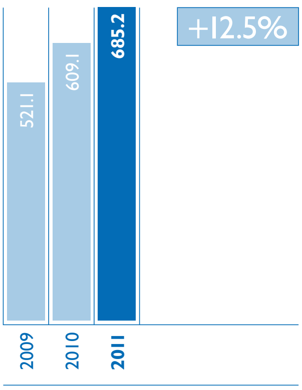
NP Aerospace revenue is expected to continue to decline in 2012 as demand for tactical wheeled vehicles by the UK Ministry of Defence ramps down. However, there are new opportunities being actively pursued to commercialise NP Aerospace's technologies overseas, particularly in the North American market.

The outlook for MMS remains positive with continued sales growth in all regions, focused commitment to Operational Excellence and strengthening positions in China, India and Brazil. MMS continues to be well-placed to take advantage of its market-leading position in dynamic-growth economies.

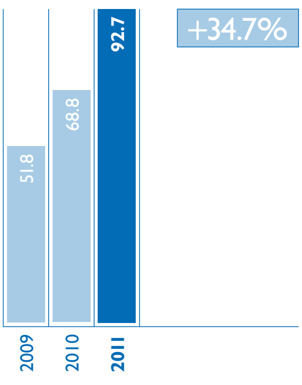
REVIEW OF OPERATIONS
continued

MORGAN CERAMICS DIVISION

Revenue
£m



Divisional EBITA
£m



Business description

Morgan Ceramics comprises two operating Businesses. Technical Ceramics is a leader in customer-specific components and assemblies manufactured from advanced materials, while Thermal Ceramics is a world-leader in thermal management solutions for high-temperature applications in industrial markets.

As at 1 January 2012 Morgan Ceramics employs some 5,900 people worldwide. The Division is a truly global business, with 57 manufacturing sites across six continents. It is structured with regional teams supported by global engineering, marketing, technology, research and development, strategy and finance functions. The Division's major sites are located in Argentina, Australia, Brazil, China, France, Germany, India, Italy, Japan, Korea, Mexico, Russia, the UK and the USA. The Division has 50 sales offices working directly with end-users and also sells some products through distribution networks.

The Division's engineering and design capabilities are the key to its success. Full technical support and advice is offered to customers throughout their product development cycle, working closely with them to understand their needs and provide engineered solutions that add value and help differentiate their end-products.

The Morgan Ceramics business strategy is aligned with that of the Group, with the objective of being a world-leader in engineered solutions based on advanced ceramic and related materials. The Division's strategy is:

- To focus on market niches where the Division's distinctive competences and innovation skills differentiate it.
- To structure the Division's businesses for simplicity and high levels of accountability.
- To drive operational excellence in all of the Division's facilities.
- To actively manage the Division's portfolio to achieve optimum shareholder returns.
- To develop the Division's leaders, teams and technical talent to deliver its strategy.

The Technical Ceramics Business is a leading supplier of bespoke, application-engineered industrial products manufactured from materials including structural ceramics, electro-ceramics and precious metals. Key markets for these products include electronics, aerospace, industrial equipment, healthcare and energy.

Technical Ceramics' components and assemblies are used in hundreds of high-technology application niches, including:

- Ceramic cores used in the casting of turbine blades for aero-engine and industrial gas turbines.
- Braze alloys, ceramics and sub-assemblies used in the manufacture, monitoring and control of aero engines.
- Components and sub-assemblies for a broad range of medical applications, including implantable devices, prosthetics, surgical and diagnostic equipment.
- Ceramics and assemblies for electron tubes used in a range of medical, security, industrial and research applications such as airport security scanners, TV and radio broadcasting and X-ray equipment.
- Engineered ceramics for fluid handling equipment.
- Piezoelectric ceramic actuators for electronic data storage.
- Components and assemblies for lasers used in product marking, medical and industrial applications.

The Thermal Ceramics Business is a world-leader in heat management solutions, serving a broad spectrum of industrial markets with insulation requirements ranging from 500°C to 1,600°C. Its high-temperature insulating fibre, insulating bricks and monolithics enable users to optimise thermal efficiency, reduce energy costs and improve environmental performance through reduced CO_2 emissions. The Business also provides passive fire protection for the industrial and construction sectors.

Products are manufactured from advanced insulating materials marketed under a number of leading brands, including Superwool®, JM™, Pyro-Bloc™, FireMaster® and Tri-Mor™. They are used worldwide in demanding applications, which are increasingly influenced by legislative and environmental requirements. Major markets include petrochemical, iron and steel and industrial equipment.

Market sectors

Industrial

Morgan Ceramics makes high-performance ceramic materials that are resistant to chemical and physical wear, corrosion and extreme heat. They are ideal for equipment destined for harsh processing environments.

The Division is developing new ceramic membranes for efficient industrial water filtration and purification, helping businesses to reduce maintenance and save energy.

It makes a range of high-temperature components that are used in heating pumps, thermocouples and other specialist thermal processing equipment for applications from industrial annealing to the manufacture of medical devices.

Its ceramic rollers are deployed in kilns used to manufacture metals, glass, ceramic-ware and fuel cells and its Nilcra® MgPSZ (magnesia partially stabilised zirconia) is widely used in severe-service valves and pumps.

Insulating products from Morgan Ceramics help manufacturers control a variety of thermal processing operations, thereby optimising throughput and yields. The Division supplies monolithic linings for blast furnaces and fibre modules and firebricks for heat treatment furnaces. Its fire protection products are used in all types of building and infrastructure projects.

Its piezoelectric materials are used in high-power ultrasonic systems and it also designs and manufactures sensors and transducers.

Transportation

Morgan Ceramics makes ceramic and brazed alloy parts that help its customers improve the efficiency and reliability of their products. The ceramic materials offer a combination of mechanical, electrical, thermal and chemical properties that makes them an attractive, cost-effective option for designers of transportation systems including road, rail and aircraft, whilst the thermal management products are widely used for fire protection.

In the aerospace industry the Division supplies specialist braze alloy parts for use in aero-engine build and repair and ceramic components for engine monitoring and control, instrumentation and guidance systems. Ceramic cores and insulation materials are used in the casting of turbine blades.

In the automotive sector it supplies ceramic components for a new hybrid vehicle and piezoceramic materials that are used widely in fuel level sensors, parking aids, alarm sensors, wheel balancing, engine knock sensors and ignition systems. Alumina and zirconia are ideal as materials for injector units, pump bearing and valve plates.

Electronics

Morgan Ceramics makes piezoceramic components that are versatile, durable, and stable, with excellent thermal and electrical properties. Its broad range of dielectric materials offers high-quality capacitance for applications from laser instrumentation to microwave and high-voltage systems.

The Division engineers many different ceramic components and ceramic-metal sub-assemblies to high specifications to meet demanding precision, reliability and cost requirements of semiconductor fabricators and manufacturers of consumer electronics.

Examples include piezoceramic actuators for high-capacity hard drive disk (HDD) data storage which enable the head to be positioned with extraordinary accuracy and vibration control, and wire-wound ceramic RF inductors for mobile phones, laptops, HD-TVs, lighting controls, sensors and wireless devices. The Division is a major supplier of components for electron tubes used in communications, signalling and control equipment.

Its high-purity alumina ceramic is used extensively for waveguides in CO_2 lasers and insulators in excimer lasers, creating robust assemblies that resist the combination of voltages, temperatures and harsh environments.

Petrochemical

Morgan Ceramics supplies a wide range of products for projects in the global petrochemical market. The Division makes components used in machinery and equipment for hydrocarbon processing. It also supplies entire heat management solutions for fired heaters, sulphur recovery units, fluid catalytic cracking units and boilers. FireMaster® fire protection systems are comprehensively certified and extensively tested to meet national and international standards, offering proven fire protection performance. The Division works with fire protection specialists in the sector and supplies the market through both direct sales and distributors.

REVIEW OF OPERATIONS
continued

MORGAN CERAMICS DIVISION continued

A range of parts and sub-assemblies are manufactured for use in equipment for the petrochemical sector, including specialist valves, pumps, seals and bearings. The high-performance ceramic materials provide a level of precision and reliability equally suited to the harsh environments of drilling and refining.

Morgan Ceramics recently launched a range of very hardwearing components made of Deranox® 975 alumina designed for use in hydrocyclones where sand and other solids are separated from the liquid hydrocarbon stream. It is a very harsh environment for mechanical equipment and the reliability of the specialist materials helps to protect sensitive instrumentation such as export pumps and heat exchangers downstream.

Energy

Morgan Ceramics makes high-performance insulating products that enable users to reduce energy costs and improve environmental performance. The Division's ceramic live line indicators are used in high-voltage DC power distribution applications all over the world. The Division's high-temperature insulating fibre, bricks and monolithics are used to optimise thermal efficiency in industrial applications from 500°C to 1,600°C.

Latest-generation low bio-persistent Superwool® Plus™ fibre is used in duct and chimney insulation, process heater linings, pipe wrap and automotive exhaust heat shields where its exceptionally low thermal conductivity allows engineers to specify a significantly thinner blanket to achieve the same level of insulation.

The Division makes products used in the manufacture of thin-film photovoltaic cells for the solar industry and it manufactures cores used in the production of blades for industrial gas turbines.

A new ultrasonic sensor launched this year helps reduce energy usage by providing precise and reliable measurement of heat and water flow even in harsh environments.

Healthcare

Morgan Ceramics' materials are used in precision tools including dental descalers and specialist ultrasonic surgery scalpels. Its ceramic capacitors and reflectors can be found in lasers for eye surgery. It supplies critical components used in implantable devices such as pacemakers, cochlear implants, defibrillators and implants for neuro-stimulation.

In a recent breakthrough in cancer treatment, an efficient and minimally invasive new procedure to ablate tumours has been made possible because of a very small, precision ceramic tip engineered for the treatment needle by Morgan Ceramics. Additionally, for throat cancer patients, a new long-lasting speech valve has been developed using zirconia ceramic components.

The Division recently launched a tube contact sensor for accurate detection of occlusions in medical infusion lines. The sensor gives non-invasive detection of pressure changes, providing instrument manufacturers with a simple and reliable method of recognising when the tube is blocked.

The Division also makes key components for instrumentation and diagnostic equipment such as ultrasonic imaging, X-ray, CAT and MRI scanners. The superior piezoelectric ceramic components are used extensively in medical ultrasound to enable increased image resolution, while its multilayer chip capacitors are used in MRI systems to tune the magnetic field accurately.

Piezoelectric components are popular in applications such as blood flow measurement and foetal heart monitors for their reliability and accurate detection. Additionally, they can be found in ultrasonic air-in-line sensors in medical devices and infusion pumps.

Security & Defence

Morgan Ceramics' superior materials technology and impressive manufacturing capability deliver real performance benefits in the field for applications from military hardware to surveillance equipment and armour for personnel and vehicle protection.

It makes lightweight, heavy-duty fire protection systems for naval vessels, working to far higher specifications than is required for commercial shipping. Its FireMaster® system is certified to meet most national and international military standards.

It manufactures lightweight pre-stressed piezoceramic tubes that provide high-acoustic output for the most demanding military sonar systems and is a major supplier to manufacturers of power tubes for use in image intensifiers, electronic counter-measure equipment and communications.

The unique properties of its metallised alumina ceramics have enabled the manufacture of significantly smaller, higher resolution X-ray tubes for luggage and cargo scanners, and its Diamonex™ diamond-like carbon coatings are used in fingerprint swipe sensors.

Research and development

Research and development capabilities are led by two Technical Directors with a network of materials scientists and applications and process engineers across the Division's global sites. They work with customers to engineer solutions that address their needs. The Division also undertakes research in collaboration with leading universities in Europe and North America.

Recent developments have focused on products for the medical, transportation and energy markets. Product innovation is driven by the customer's end-application; the Division's newest products are being used in hybrid vehicles, water filtration and the nuclear industry.

The majority of the Division's research and development into thermal management solutions is carried out at the Division's Bromborough, UK site in a purpose-built world-class facility. With 25 dedicated scientists, the team has led the market in the development of low bio-persistent fibres, low-energy furnace operation and product development. The role of low bio-persistent fibres is seen as being of increasing importance in the future of the high-temperature insulation market and so research and development activities have been directed towards extending the Division's product range in this area.

A major focus for the Division is on recruitment of high-calibre material scientists and engineers to provide the talent and resources that the Division requires to fuel the growth from these exciting expanding markets.

Business performance

Revenue in the Morgan Ceramics Division was £685.2 million (2010: £609.1 million), representing an increase at reported rates of 12.5%. At constant currency the increase in revenue was 13.7%.

Revenue for the Technical Ceramics Business in 2011 was £285.1 million (2010: £250.1 million), an increase of 14.0% at reported rates. Revenue was up by 16.1% on a like-for-like constant currency basis with all regions showing strong improvement. Thermal Ceramics' revenue increased by 11.1% to £400.1 million in 2011 (2010: £359.0 million). On a constant currency basis, the year-on-year increase was 12.2%.

Divisional EBITA for the Morgan Ceramics Division was £92.7 million (2010: £68.8 million), a margin of 13.5% (2010: 11.3%). For Technical Ceramics, Divisional EBITA was £43.1 million (2010: £34.0 million), reflecting a year-on-year increase of 26.8 % at reported rates. Technical Ceramics raised its Divisional EBITA margin by 1.5 percentage points, reaching 15.1% for the year (2010: 13.6%). Thermal Ceramics' Divisional EBITA also increased in the year to £49.6 million (2010: £34.8 million), an increase of 42.5% at reported rates. The Divisional EBITA margin also showed good improvement to 12.4% (2010: 9.7%).

Business developments

In 2011 major investments and decisions concentrated on opportunities to develop the Division's footprint in the dynamic Asian and South American markets. Capital was invested in Moti Bhoyan, India, for a line to produce high-performance thin-fibre-based laminates for thermal insulation. The Division approved the expansion of its fibre capacity in Brazil and in its facility in Yixing, China for fused silica production. It also established a Superwool® fibre line in Kailong, China. In North America and Malaysia the Division continued to invest in additional capacity for next-generation hard disc drive components.

The merger of the former Technical and Thermal Ceramics Divisions was completed to time and the expected benefits were delivered, helping to improve profit and Operating ROCE. The new Division now has greater resources to establish a significant Technical Ceramics business in Asia and South America. These were strengthened by the addition of management and sales personnel who will be able to define and develop the opportunities that exist in these regions.

During the year, the Technical Ceramics Business continued to make progress towards its declared target of positive mix shift, increasing the number of new business projects in higher margin, higher value-added end-markets such as medical and aerospace, whilst continuing to reduce exposure to more commoditised and economically cyclical product areas. Continuous operational improvement programmes, cost reduction initiatives and emphasis on positive price pass-through are all helping to support margin growth.

The Thermal Ceramics Business continued its growth from the low of 2009, with the majority of end-markets returning to pre-recessionary levels. This growth was most notable in North America. It has also been a period of continued cost control and consolidation in the face of challenging global economic conditions. During 2011 the Division completed the process of reducing costs in mainland Europe, principally by reducing overheads.

New product development in the Thermal Ceramics Business remains concentrated in the field of low bio-persistent fibre with the continued roll-out of Superwool® Plus™ and the higher temperature Superwool® HT™. These products offer significantly improved insulation performance and position the Business as the global technology leader in the production of low bio-persistence products.

The 'Operational Excellence' programme, first established in 2010 with targets based on a benchmarking programme that have accountability and responsibility at plant level, delivered the improvements that were expected. These locally based and managed initiatives continue to be co-ordinated and supported by engineering and R&D personnel to optimise manufacturing processes. These now constitute a normal business activity.

Outlook

Overall, market demand strengthened in 2011, as shown by the Division's order books and improved new business pipeline. The North American business traded strongly throughout the year, as did Asia. Europe showed positive signs of improvement in most markets, with the possible exception of construction, which remains weak. This principally affects sales of Haldenwanger™ products, manufactured in Germany, for industrial applications involving thermal processing. The South American business is looking particularly strong, driven by the significant investments that are being seen in the petrochemical sector. Despite these encouraging signals the Division continues to watch recessionary indicators and for any signs of inflation.

Weakness in the industrial gas turbine sector and medical device markets continued in 2011 but these are being offset by improvements in demand from sectors within the electronics market. The production ramp-up to meet demand for the next generation of HDD products remains on plan. Towards the end of the year some weakness was noted for products supplied to the solar market.

The medium-term outlook for the Thermal Ceramics Business remains encouraging, driven by the growth in global population and the continuing industrialisation of dynamic growth economies. These factors, combined with the need to reduce energy expenditure and the increasingly stringent environmental legislation that favours low bio-persistent fibres such as Superwool®, will continue to drive demand for heat management solutions. Methodology transferred from the Technical Ceramics Business is encouraging further differentiation of the Division's fibre products and will allow it to leverage the strength of its worldwide management team. This will be helped by a new management focus being applied to the global business streams – Fibre, Insulating Fire Bricks and Engineering projects.

The Business continues to look carefully at potential bolt-on acquisition opportunities that would enhance the offering in key markets, which together with a strong new business pipeline leaves the Division well-placed for the future.

CORPORATE RESPONSIBILITY

Corporate responsibility is integral to Morgan Crucible's business and the Group's activities and programmes in this area support each of the Group's five strategic priorities and address key risks and opportunities. This report summarises the Group's key corporate responsibility policies and procedures, their implementation and their effectiveness which is, where appropriate, monitored using key performance indicators.

The following section reports on Morgan Crucible's Responsible Business Programme, including the Group's policies, procedures and performance in respect of business ethics, community relations and suppliers and customers. Subsequent pages cover Environment, health and safety (EHS) and People. In addition, Morgan Crucible's 2011 EHS Report, planned for publication on the website in May 2012, will provide a more comprehensive review of the Group's EHS performance in 2011.

Morgan Crucible's approach to corporate responsibility is encapsulated in the Group's Core Values Statement, which was first published in 2004 and is regularly reviewed. As the Group works to implement its strategic priorities, the Core Values Statement provides the framework for the Group's policies, programmes and procedures. The Statement is available on the website and applies to all Morgan Crucible businesses and employees worldwide.

The governance structure for corporate responsibility is aligned with the management structure of the Group. The Board is accountable for corporate responsibility policies and procedures. The Chief Executive Officer, Mark Robertshaw, is the executive in charge of all corporate responsibility matters including internal and external stakeholders. He is supported by the Executive team with functional heads having specific responsibility for environment, health and safety, human resources and other areas. Operational implementation is delegated to the Chief Executive of each of the Group's Divisions.

Corporate responsibility policies and procedures

The Group continues to develop its Responsible Business Programme as a training and education platform for Morgan Crucible's corporate responsibility-related policies and procedures. During 2011 the Programme was extended to include the refreshed and updated Anti-Trust Compliance Programme. This was relaunched in 2011 with implementation continuing into 2012.

The Group provides employees with access to the Group's policies and related procedures and guidance notes. Key policies and other relevant material are also published on the Group website and are required to be displayed on site noticeboards.

Business ethics

The Audit Committee is responsible for overseeing the Group's Ethics Policy, and reports to the Board on its effectiveness.

The Group's Core Values Statement and Ethics Policy oblige all employees to operate in accordance with applicable laws and regulations and specifically prohibit the giving or receiving of bribes. These policies apply, so far as is appropriate, to Morgan Crucible's business partners, including contractors, agents, joint ventures and representatives. The Company also requires that no employee shall suffer discrimination as a result of refusing to pay or receive a bribe.

The Morgan Crucible Responsible Business Programme covers ethics and anti-bribery, human rights, legal and contract risk management and, as noted above, now incorporates the Group's Anti-Trust Compliance Programme. During 2012 the Group plans to further develop and implement the Responsible Business Programme and to make further use of scenarios and dilemmas to reinforce the existing training materials.

During the year the Group also updated its whistleblowing procedures and a new third-party operated Ethics Hotline was launched globally. The Morgan Crucible Ethics Hotline enables employees and other stakeholders who are aware of, or suspect, misconduct, illegal activities, fraud, abuse of Company assets or violations of Morgan Crucible's Ethics Policy to report these confidentially without fear of retribution should they feel they cannot use a local channel.

Customers and suppliers

Morgan Crucible's customer service strategy is to respond quickly to changing customer demand, to identify emerging needs and to ensure product availability, quality and value. The Group stays close to its current and potential customers, building long-term relationships. Each Division and Business implements appropriate sales and customer account management structures with customer contacts and monitoring at senior level to help ensure that customer feedback, concerns and opportunities are addressed.

Over 90% of the Group's manufacturing output is accredited to ISO 9001 and the Group's quality management systems help ensure that Morgan Crucible's products meet or exceed customer requirements. Management of the supply chain is a key part of ISO 9001 and ISO 14001 accreditation and includes supplier audits and screening as appropriate.

The Group engages with its customers, suppliers and other partners in mutually beneficial ways and works with business partners who the Group believes will act in accordance with Morgan Crucible's policies and values. Morgan Crucible's support for the Universal Declaration of Human Rights, referred to in the People section on page 42, commits the Group in respect of all those who work for it and those who have dealings with it, including suppliers.

Community

The Group's practice is to engage with local communities in relation to matters of mutual interest and concern. At a local level, where Morgan Crucible often has long-established roots and is frequently a major employer, this helps to foster mutual understanding and credibility. In addition, Morgan Crucible engages with local and national governments and agencies, both directly and through professional bodies. Donations to political parties or causes are prohibited.

Corporate responsibility policy implementation

The implementation of Morgan Crucible's corporate responsibility-related policies and procedures is aligned with the overall governance structure of the Group. The implementation of the Group's EHS and people-related policies is covered in more detail on pages 37 to 43.

Described below are some of the processes for implementing and monitoring the Group's key corporate responsibility policies and procedures and those in respect of the verification of Morgan Crucible's environmental, social and governance (ESG) disclosures.

Business ethics

The Board of Morgan Crucible is committed to ensuring that the Company's policies relating to business integrity are upheld. The Group's Ethics Policy is translated into appropriate languages for the Company's sites worldwide. The Core Values Statement and Ethics Policy are promoted to employees globally, in particular through coverage in '360', the Group's global employee e-magazine, which is available in 13 languages. Appropriate induction training is provided for new employees in addition to training under the Responsible Business Programme.

The Morgan Crucible Responsible Business Programme is implemented via 'train-the-trainer' sessions for general managers and compliance officers who then deliver face-to-face training to relevant local and site staff. The face-to-face training is complemented by e-learning modules available in up to 13 different languages.

The first phase of the Programme was completed during 2011. This covered human rights, contract risk management, ethics and anti-bribery with training delivered to over 1,900 relevant employees worldwide.

During 2011 the Group's Anti-Trust Compliance Programme, which helps ensure that the Group complies with anti-trust and competition laws around the world, was updated and fully incorporated into the second phase of the Responsible Business Programme. In addition to covering anti-trust, the second phase of the Programme reinforces and refreshes the training provided in phase one.

Anti-Trust Compliance Officers within each business report to the Company Secretary, as Global Compliance Director, on the continuing effectiveness of the programme. The Anti-Trust Compliance Programme includes independent audits. The results of the audits are considered by the Company Secretary as Global Compliance Director who reports to the Executive Committee and the Board on the effectiveness of the programme and on any issues arising.

During the year the new third-party-operated Morgan Crucible Ethics Hotline was launched globally. The Ethics Hotline is promoted on the Group's intranet, through site posters and other promotional materials in 17 languages. The implementation of the Hotline is complemented by training as part of the Responsible Business Programme. The Ethics Hotline includes local free-phone numbers in each of the countries in which the Group operates with real-time translators available as necessary. The remit of internal audit includes ensuring the availability of the Ethics Hotline is suitably promoted at site level.

Customers and suppliers

The Chief Executives of each of the Group's Divisions have specific responsibility for customers and suppliers and related policies and procedures within their respective Divisions.

In additional to quality and capability assessments, Divisional supplier audits and screening cover matters such as the UN Global Compact, health and safety, labour standards (including with regard to minimum age, maximum hours, minimum wages, equal opportunities, grievance procedures and human rights), anti-corruption procedures and environmental management.

Community

The implementation of Morgan Crucible's community-related policies and procedures is aligned with the management of the Group's overall business and is focused at site level on engagement and initiatives which are relevant to the local community and to the Group's business. Divisional and Group support is made available where appropriate. All charitable and other donations are fully accounted for.

Verification of ESG disclosures

The Company Secretary and the Director of EHS work with independent external consultants to review and where appropriate verify the Group's ESG disclosures. This process covers the environmental and health and safety-related non-financial key performance indicators included in this Report.

CORPORATE RESPONSIBILITY
continued

As described on page 37, the Group has engaged PricewaterhouseCoopers LLP to provide independent external assurance on selected environmental data for 2011. Their independent assurance report is set out on page 41.

In addition, all Morgan Crucible businesses are regularly reviewed under the Group's EHS Compliance Audit Programme and those sites and businesses certified to ISO 9001, ISO 14001, OHSAS 18001 and other standards have regular external audits. The Group also uses external professional advisers in relation to specific EHS matters as required.

The Board considers that these procedures provide a reasonable level of assurance that the Group's ESG disclosures are free from material misstatement, whether caused by fraud or other irregularity or error.

Corporate responsibility policy effectiveness

Business ethics

Participation in the Responsible Business Programme and implementation of the site-by-site training are monitored at a Group level. Participants are required to achieve a 100% score in each e-learning module in order to pass.

The Anti-Trust Compliance Programme is also subject to independent audit to confirm the continued effectiveness of the programme which, as noted above, is monitored by the Company Secretary with a direct reporting line to the Executive Committee and the Board.

Issues raised through the Ethics Hotline or via other channels are followed up by the Director of Risk Assurance in consultation with the Company Secretary. Further investigations may be conducted through the Audit Committee as required. Where appropriate, disciplinary action up to and including dismissal is taken and/or additional guidance and training provided. During the year 14 reports were received via the Hotline from nine different countries, indicating that the whistleblowing facility is being used worldwide and in different cultures. The Audit Committee monitors and reviews the effectiveness of the Ethics Hotline and of the follow-up and investigation processes.

Customers and suppliers

Morgan Crucible continues to benefit from long-term relationships with many customers and suppliers, reflecting the effectiveness of the Group's customer service and supplier-related strategies. Some examples of the products and markets served are included on pages 6 to 19 of this Annual Report.

Community

During the year the Group's charitable donations were £194,744 (2010: £250,229). This is in addition to the time given and donations made by Morgan Crucible employees around the world.

During 2011, Morgan Crucible supported a number of initiatives at Group, Divisional and site level. The main emphasis of this support is to help disadvantaged young people and sponsor local community projects which can also engage and involve employees. Example initiatives include:

- The Group continued its three-year, £60,000 programme to support the Army Cadet Force Association (ACFA) Outreach Project.
- Morgan Crucible continues to support the joint Barnardo's/Outward Bound initiative which provides opportunities for young people to develop life skills at a centre in Ullswater, UK.
- NP Aerospace in Coventry, UK, is a major sponsor of the local Godiva Harriers athletics club and other local community and charitable initiatives and also supports the Army Winter Sports Association which creates the opportunity for many hundreds of soldiers to take part in winter challenges.
- The Group also supported the British Heart Foundation and a number of other sports and health-related charities and appeals.

The Group's staff also support a variety of local and national initiatives and projects, helping to raise funds and giving their time. Examples of employee activities include:

- Employees from the Morgan Ceramics Asia office took part in the Singapore marathon in the 10km, half and full marathon categories. Funds were raised for a number of different charities including the Autism Association and Everyman, the prostate and testicular cancer campaign.
- Employees at the Morgan Ceramics site in New Bedford, MA, USA, continued their tradition of community and charitable initiatives. In 2011 they held a raffle to raise money for the American Cancer Society, participated in the Salvation Army's Angel Tag fund raiser and collaborated to donate Thanksgiving turkeys to the United Way's Hunger Commission for the benefit of needy members of the local community.
- A team from the Morgan Ceramics site in Ruabon, UK, organised a local fun run to raise funds to support a colleague who suffered brain damage. Friends, family and colleagues all wore outrageous costumes as they took to the track.

ENVIRONMENT, HEALTH AND SAFETY

Morgan Crucible is committed to conducting all its activities in a manner which achieves the highest practicable standards of health and safety for employees and others affected by its operations. The Group is also committed to minimising the impact of its business on the environment and to maximising the positive environmental benefits of its products. Examples of Morgan Crucible's products which help enhance the environment-related performance and efficiency of the products and operations of the Group's customers are included in pages 6 to 19 of this Report.

Morgan Crucible's Environment, Health and Safety (EHS) Policy and implementation programmes support the Group's five strategic priorities and Core Values Statement. EHS performance has a direct and significant effect on operating performance and is therefore a key focus for operational management across the Group. The regular collection and reporting of EHS key performance indicators (KPIs) and the setting of EHS-related targets assists in the development and monitoring of programmes to enhance the operational performance and to reduce the impact of the Group's operations on the environment.

This Report includes a summary of the Group's EHS Policy and its effectiveness as demonstrated through its EHS KPIs and programmes. Further detail will be included in the 2011 EHS Report to be published on the Group's website in May 2012. The EHS Report will also include case studies to help demonstrate the Group's approach to EHS performance improvement.

EHS Policy

Morgan Crucible's EHS Policy applies Group-wide; it forms the basis for the Executive and management focus and has been communicated across all sites within the Group. The Policy is published on the Group's website and in the annual EHS Report.

EHS Policy implementation

Morgan Crucible's EHS Policy forms the basis of the Group's EHS management systems and processes. It requires high standards of EHS management at all sites. This is implemented through risk assessment and the management and mitigation of identified risks to help provide continuous improvement in EHS performance in support of the Group's strategic priorities.

EHS performance is reported regularly to the Board by the Chief Financial Officer. The governance structure for EHS places responsibility for EHS performance on the Chief Executive of each of the Group's Divisions, with each site having a point of accountability. The Chief Financial Officer is responsible for EHS Policy and performance monitoring and the Group's Director, Environment, Health and Safety provides Group direction, oversight and has responsibility for implementation of the Group EHS programmes including: standards and procedures, review of the adequacy of EHS resources across the Group as well as training, performance reporting and all assurance processes. During 2011, the Group has been active in the recruitment of Divisional EHS leaders in India and China, which has helped improve the progress and standards of implementation of EHS management in these countries.

The Group recognises the need for high, consistent and demonstrable standards in EHS governance and control. As a result of this, EHS governance arrangements have been reviewed during 2011 and proposals for further enhancement and formalisation have been presented to the Board for adoption during 2012. In addition, as described below, the Group commissioned an external assurance process from PricewaterhouseCoopers LLP (PwC).

Morgan Crucible's Group-level EHS management processes include:

- The EHS Compliance Audit Programme, which is carried out by external EHS consultants in Europe and Asia and in-house resources in the Americas. This programme reviews the EHS management at each site and helps ensure compliance with local regulations and good management practice. During 2011 the EHS Compliance Audit Programme was extended to cover the EHS management systems and the EHS KPIs reported by each site. All of the Group's manufacturing facilities are reviewed on a three-year rolling cycle. During 2011 25 sites were audited and the target for 2012 is to audit 32 sites. The audit reports are reviewed by the Director, Environment, Health and Safety and by the Divisional Chief Executives. Action items are tracked through a formal follow-up process.
- Formal training as an integral part of the implementation of the Group's EHS Policy. This is undertaken at a Divisional level according to business-specific risks and opportunities with Group-level support and oversight. For example, during 2011 the Group's ongoing training programme in China focused on reinforcing the effectiveness of the EHS management systems at each site. In India substantial progress was made in the implementation of EHS management systems-related training and specific training in job safety analysis was carried out at the sites.
- Monthly performance reporting against the Group KPIs by all Group sites. The data is subject to bi-annual review and challenge at Group level with reporting of performance to the Executive Committee and the Board by the Chief Financial Officer.

CORPORATE RESPONSIBILITY
continued

ENVIRONMENT, HEALTH AND SAFETY continued

In 2011 environmental management systems were in place at 93 sites worldwide, including 38 major sites certified to ISO 14001 (2010: 34 sites). Four additional sites in India, China and Japan achieved certification in 2011. These new certifications are in addition to the ongoing programme of recertifications. All major production sites worldwide have health and safety management systems in place, with 15 sites certified to or working towards OHSAS 18001 (2011: 11).

EHS Policy effectiveness

The Group monitors the effectiveness of its EHS Policy through the EHS Compliance Audit Programme and the review of performance against a series of relevant KPIs as is referred to above.

The summary charts on pages 39 and 40 represent the Group's EHS performance, covering 100% of production sites during the year.

Environmental intensity KPIs are reported at constant currency, and, where necessary, historic EHS data is updated to reflect changes in reporting methodology and to ensure year-on-year consistency.

As noted above, in 2011 the Group engaged PwC to provide independent external assurance on the Group's CO_2 intensity, energy intensity and water intensity using international assurance standards. The report from PwC is set out on page 41. In addition, a work-programme is underway with a view to gain assurance for the Group's waste and lost time accident frequency data in future.

The overall verification of Morgan Crucible's environmental, social and governance disclosures is further discussed on page 35.

The Group participates in a number of external initiatives which help to benchmark policy effectiveness and progress, including:

- During the year Morgan Crucible's UK sites were accredited to the Carbon Trust Standard. This certified that the UK businesses have measured, managed and reduced their carbon footprint.
- Morgan Crucible has made filings in respect of the Group's UK facilities under the UK government's Carbon Reduction Commitment (Energy Efficiency) scheme.
- The Group also participates in the Carbon Disclosure Project (CDP). The CDP is a charity that assesses and ranks companies in the major industrial countries according to their carbon-related reporting, strategies, management and performance. In 2011 the CDP FTSE 350 Report positioned the Group's performance as among the best of its peer group of participating UK industrial companies.

Environmental performance

Wherever possible the Group works to minimise the impact of its business on the environment and to maximise the positive environmental benefit of its products.

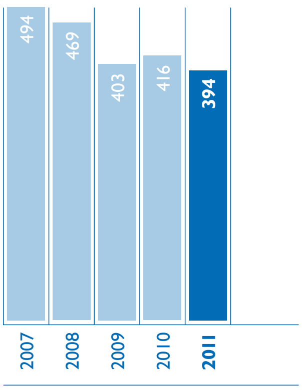
Morgan Crucible sets two-year targets for the reduction of the impact of its operations on the environment, as measured by CO_2 emissions, energy, waste and water intensity. The Group's 2011 performance is an interim report against the current targets for the two-year period 2010-12. Further details of the Group's EHS targets and objectives will be included in the Group 2011 EHS Report which is due for publication on the Group's website in May 2012.

In 2011 the Group's CO_2 intensity was reduced by 5% compared to 2010 with performance on track to achieve the target to reduce the CO_2 emissions intensity due to energy use by 5% over the two years 2010-12. Energy intensity was down by 6% compared to 2010. This was achieved through increased efficiency at many of the Group's energy-intensive businesses driven by a combination of sales growth and energy reduction programmes. This 6% reduction follows on from the 11% reduction achieved over the two-year period 2008-10. In absolute terms total CO_2 emissions due to energy use in 2011 were some 432,900 tonnes against 417,200 tonnes in 2010. Total energy use was some 1,434 GWh in 2011 against 1,390 GWh in 2010. The Group will be seeking further reductions in energy intensity in 2012.

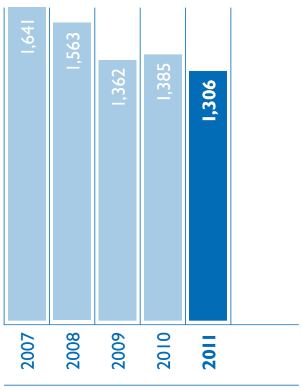
Waste intensity was down by 6% in 2011, ahead of the target to reduce waste intensity by 5% over the two years 2010-12. This was achieved through increased emphasis on waste management and reduction with an increase in sales volume. The proportion of total waste which was recycled was increased from 20% in 2010 to 21% in 2011 which is not on track to achieve the target to increase recycling to 25% of total waste over the two years 2010-12. The Group will increase its focus on this area over the coming year with a view to increasing recycling rates, however, performance in this area is highly dependent on the markets for recycled materials. Total waste in 2011 was some 45,100 tonnes in 2011 against 43,900 tonnes in 2010.

Water intensity was down by 12% in 2011, ahead of the target to reduce water intensity by 5% over the two years 2010-12. This improvement was achieved through a focus on reducing water use at the Group's more water-intensive businesses, combined with further reductions achieved through re-use and recycling of water at a number of sites and an increase in sales. Total water use in 2011 was 2.80 million m^3, down from 2.91 million m^3 in 2010.

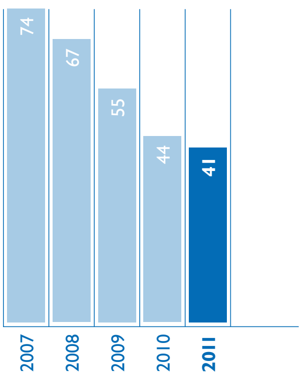
CO_2 intensity*
Tonnes/£m revenue**



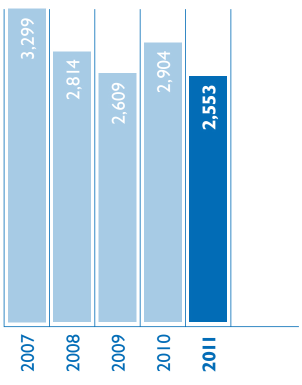
Energy intensity+
MWh/£m revenue**



Waste intensity~
Tonnes/£m revenue**



Water intensity#
m^3/£m revenue**



The 2011 CO_2 intensity, energy intensity and water intensity information has been subject to assurance by PwC.

* CO_2 equivalent from all fossil fuels, including country-specific electricity.
** Constant currency basis and updated to reflect changes in reporting methodology.
\+ Energy from all sources.
~ Hazardous and non-hazardous waste, including recycled material.
\# Water from all sources, including process, irrigation and sanitary use.

Overview

Business review

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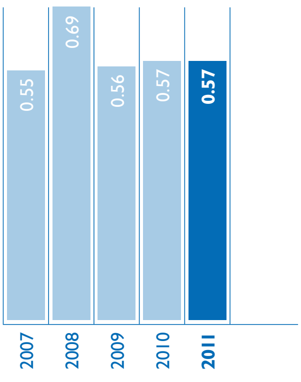
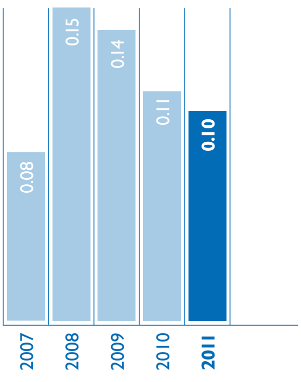
CORPORATE RESPONSIBILITY
continued

ENVIRONMENT, HEALTH AND SAFETY continued

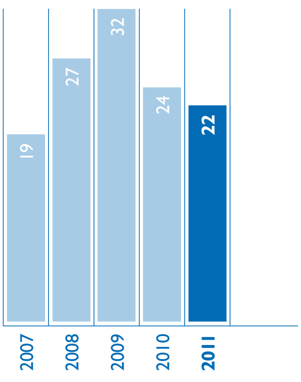
Lost time accident frequency*
LTAs/100,000 hours*



Health and safety-related lost time
% of total working time



Lost time per LTA*
Days per LTA*



* Lost time accident (LTA): accident which results in one or more days' lost time.

Health and safety performance
Morgan Crucible's long-term health and safety objective is to have no accidents or injuries. In 2011 the Group continued to extend its accident prevention and training programmes with the objective of reducing accident numbers and the time lost per lost time accident. Particular focus is placed on those sites with below-average performance.

The Group's health and safety KPIs include accident frequencies and causes and related lost working time. These are used to monitor the effectiveness of the Group's Health and Safety Policies and related systems on a monthly basis.

In 2011 lost time due to accidents and work-related illnesses as a proportion of working time was down 9% to 0.10% of working time. The number of days lost was down 4%. The average time lost per lost time accident decreased to 22 days from 24 days in 2010.

The frequency of lost time accidents across the Group was 0.57 per 100,000 hours worked (2010: 0.57). The number of lost time accidents was 129 (2010: 123) with the number of hours worked up 6%. Manual handling, cuts and abrasions remain the most common causes of accidents and the Group continues to address this, specifically targeting businesses with below-average performance.

INDEPENDENT ASSURANCE REPORT

To the Directors of The Morgan Crucible Company plc.

What we found

Based on the work described below, nothing has come to our attention that causes us to believe that the Selected Data for the year ended 1 January 2012 has not been prepared, in all material respects, in accordance with the Reporting Criteria.

What we did

The Morgan Crucible Company plc (Morgan Crucible) engaged us to perform a limited assurance engagement on selected performance data within the Environment, Health and Safety (EHS) section of the Morgan Crucible 2011 Annual Report for the year ended 1 January 2012 (the Annual Report).

Selected Data[1]

The 2011 performance data set out in the charts and related narrative on pages 38 and 39 of the Annual Report in respect of:

- CO_2 intensity
- Energy intensity
- Water intensity

Reporting criteria

The basis of preparation of the Selected Data is available under the heading 'Reporting Criteria' on the EHS performance reporting page of Morgan Crucible's website www.morgancrucible.com/governance/responsible-business/environment-health-safety/ as at 15 February 2012.

Responsibilities

Morgan Crucible

Morgan Crucible is responsible for the contents of the Annual Report, including preparation and presentation of the Selected Data in accordance with the Reporting Criteria, and implementation and maintenance of systems that support production and reporting of the Selected Data.

PricewaterhouseCoopers LLP

Our responsibility is to express an independent limited assurance[2] conclusion based on the procedures described below.

This report, including our conclusions, has been prepared solely for the Directors of Morgan Crucible to assist them in reporting EHS performance. We consent to the inclusion of this report in the Annual Report to assist the Directors to demonstrate how they have discharged their responsibilities by commissioning an independent assurance report in connection with the Selected Data. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Directors as a body and Morgan Crucible for our work or this report save where terms are expressly agreed and with our prior consent in writing.

What our work involved

We conducted our work in accordance with the International Standard on Assurance Engagements 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*. This Standard requires that we comply with independence and ethical requirements and plan the engagement so that it will be performed effectively.

Main procedures performed

- Making enquiries of relevant Morgan Crucible management.
- Evaluating the design of the key processes and controls for managing and reporting the Selected Data.
- Testing the Selected Data, on a sample basis, substantively at both an operational and corporate level.
- Undertaking analytical procedures over the Selected Data.
- Reviewing a sample of relevant management information and documentation supporting assertions made in the Selected Data.

We believe that the information we have obtained is sufficient and appropriate to provide a basis for our conclusion.

PricewaterhouseCoopers LLP
Chartered Accountants
London
15 February 2012

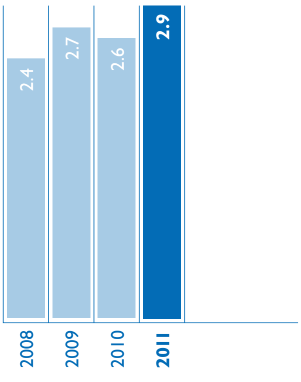
1 Inherent limitations
Non-financial data may be subject to more inherent limitations than financial data given both its nature and the methods used for determining, calculating and estimating such data. The range of different, but acceptable, techniques used can result in materially different reporting outcomes which may affect comparability with other organisations.

2 Limited assurance
We have sought to obtain sufficient, appropriate evidence to support our assurance conclusions. A limited assurance engagement is restricted primarily to enquiries and analytical procedures. The work is substantially less in scope than that undertaken for a reasonable assurance engagement, accordingly the level of assurance is lower than would be obtained in a reasonable assurance engagement.

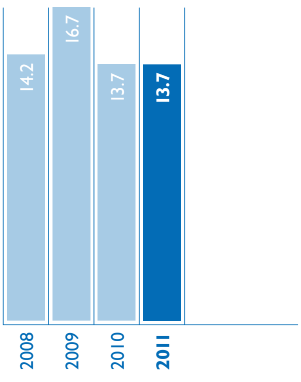
CORPORATE RESPONSIBILITY
continued

PEOPLE

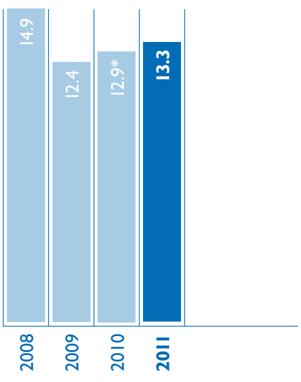
Total lost time
% of working time



Employee turnover
% per year



Training
hours per employee



* 2010 data rebased

Morgan Crucible has continued to make good progress through improvements in the financial performance of the business and realising the benefits of streamlining the Company's organisational structure. The creation of the two Divisions, Morgan Ceramics and Morgan Engineered Materials, has been supported by strategic recruitment of new talent, as well as internal development of existing leadership capability. This has been particularly important to support enhanced growth opportunities. These changes in the business have enabled the Group to further enhance the positive working environment for employees and create new and exciting challenges all over the world. During this period the Group has continuously worked to develop the skills of individuals and the capabilities of the organisation as a whole to meet these challenges, as the performance of the Group's people is critical to its success.

The Group's people resource management performance is evaluated monthly, quarterly and annually through the collation of key performance indicators, which are summarised in the sections below.

People Policies

The Group supports the Universal Declaration of Human Rights and the Group's Human Rights Policy commits the Group to protect the rights of everyone who works for it and all those who have dealings with it. The principles of the policy cover child labour, forced labour, health and safety, freedom of association, discrimination, discipline, working hours and compensation and the Policy is published on the Group's website. The Director of Human Resources reports to the Chief Executive Officer and is responsible for the development of the Human Rights Policy and related matters, with the Chief Executives of each Division having responsibility for policy implementation within their respective Divisions. The Divisional Chief Executives report annually on their implementation of the Human Rights Policy. The Morgan Crucible Ethics Hotline enables employees who are aware of or suspect issues under the Group's Human Rights Policy to report these confidentially.

The Group's global Human Resources Policy provides an infrastructure of human resource activities that enables the business to attract, retain and engage people with the skills and capabilities to deliver its business plans and outperform the competition.

Key to building and maintaining the trust and respect of the Group's people and growing their understanding and motivation levels is open, timely and factual communication. The Divisions communicate regularly through employee forums, team briefs and Divisional magazines. The Group regularly requests feedback from employees on many different aspects of its business.

Demands on the business as a whole are continuously changing, and the Group's individual businesses are exploring different business development opportunities as they evolve into new markets and industries. The Group's approach is therefore to develop existing employee talent and recruit new people into jobs that fit those business requirements, at the time they are needed. The Group reviews short- and long-term business needs on a regular basis and carries out succession planning and talent reviews to identify any skill gaps. Whether recruiting internally or externally for a vacant position, selection is based on many factors including a candidate's relevant education, work experience, competencies and performance record. The Group does not unfairly discriminate and it respects human rights. Should existing employees become disabled, the Group's policy is to provide continuing employment and training wherever practicable.

For the business to achieve superior performance there is an expectation that its people need to perform at their very best. The Group aims to support them through a formalised performance management system cascaded through the businesses that focuses on setting clear results-based objectives, directly linked to the strategic goals and annual objectives of the business. Providing people with the skills to perform at a superior level is also critical, and the Group sees continuous learning and professional development as a major investment in its future.

The Group recognises and celebrates the accomplishments of its people individually or as teams, and makes recognition awards to acknowledge achievement, loyalty, and innovation. The Group's compensation systems reward people who apply their knowledge, skills and talents to support the achievement of business goals. The Group pays for performance in all its compensation practices. The total reward package includes a mix of base pay, variable pay and benefits. The Group establishes compensation levels that are both competitive and affordable to Morgan Crucible. The Group has the flexibility to respond to changing market conditions and competition for high-demand skills, while maintaining equity in salary ranges and pay levels.

Implementation of the Group's People-related Policies

In 2010 the Group launched its Responsible Business Programme, a blended learning programme focused on human rights, anti-bribery and corruption, and contract risk awareness. In 2011, the Group updated and refreshed its existing Anti-Trust Compliance Programme and fully incorporated this training within the wider programme. The programme covers direct training of general managers and compliance officers, utilising the Group's online training programmes in these areas and providing them with the skills to cascade this training through their respective parts of the business. This programme will evolve with the changing demands of the business and regulatory frameworks around the world. All of the Group's businesses must complete an annual certification process confirming their compliance with the Morgan Crucible Policies.

During the year 'MorgaNet', the Group's intranet site, has grown to provide faster and more efficient access to information from diverse sources across the globe. In addition, the two Divisions have developed their own sites to facilitate more effective communication.

The Group keeps employees informed about what is happening in other parts of the Group through its global '360' e-magazine, which is translated into 13 languages, including Chinese. The Divisions continue to issue regular Divisional newsletters both electronically and in hard-copy formats. In Europe, the Group has an established consultative arrangement that provides an arena for the exchange of relevant and appropriate information across the European region. The Group also held its 15th annual European Employee Forum in May 2011 where site representatives attended from France, Germany, Hungary, Italy, the Netherlands and the United Kingdom.

Local business units have conducted employee surveys during the year according to the needs of local employee relations and team agendas. These have measured a range of issues relevant to the business units, including employee satisfaction and awareness of business objectives. Surveys of leadership style and culture have also been conducted at regional and Divisional levels.

In 2011, the Group continued to make progress with its online 'Developing for Performance' system. The system focuses on developing the skills of the Group's employees through performance management, goal-setting, competency assessment and development planning.

In addition, the Group's businesses continue to deliver local learning initiatives, to meet operational and local leadership needs.

The Group has further developed its existing approaches to the assessment of management capability and development. There has been increased investment in management training and leadership development in both Divisions, and across all regions. A new approach to the assessment of capability and potential of senior management has been introduced.

In pursuit of growing capability in the labour market, Morgan Crucible continues to sponsor annually the Science, Engineering & Technology Student of the Year awards. Morgan Crucible is proud to sponsor this event as it allows high-calibre students to showcase their outstanding research work, and demonstrate the depth of ability of graduates in the UK. In 2011 the winner of the Best Materials Student Award was Edward Pickering from Cambridge University. The Group has also laid plans this year to increase the number of graduate recruits in 2012, and has established a global approach to graduate recruitment and development.

People Policy effectiveness

At the end of the year, Morgan Crucible employed circa 10,000 people. Additionally, the Group employs circa 1,000 people on short-term contractual arrangements to provide the numerical flexibility for the Group's businesses to react quickly to changes in market conditions.

The Group's geographic spread of people is as follows: 35% of employees in Europe, Middle East and Africa, 33% in North America, 4% in South America and 28% in the Rest of the World. Of these employees 75% are male.

Lost time as a proportion of total working time was 2.9% (2.6% in 2010), with lost time due to accidents in the workplace of 0.1% of total working time. Training hours per employee were 13.3 (12.9 hours in 2010.) The Group's employee turnover was 13.7% in 2011 (13.7% in 2010). 1% of the workforce was made redundant during the year with higher levels of natural turnover coming from China and Mexico where the labour markets are exceptionally fluid.

During the year, 10 employees around the world celebrated 40 years of loyal service with Morgan Crucible, with 221 employees celebrating anniversaries of 20, 25 or 30 years' service. The Group is pleased by the number of employees who remain with the Morgan Crucible for significant periods of their careers, and whose experience we have retained. The average length of service of the Group's employees is 13.7 years.

FINANCIAL REVIEW

Kevin Dangerfield Chief Financial Officer

The Group has delivered significantly improved results in 2011 across all financial metrics and, importantly, a substantial achievement in delivering a significant part of our three-year financial goals.

Introduction

These results are produced under International Financial Reporting Standards as adopted by the EU (adopted IFRSs). All the figures referred to below are extracted from the financial statements on pages 78 to 139 and comply with adopted IFRSs.

Reference is made to 'Underlying operating profit'[3] and 'Underlying earnings per share (EPS)'. EPS is defined in note 9 on page 98. These measures of earnings are shown because the Directors consider that they give a better indication of underlying performance.

Group revenue and operating profit

Group revenue was £1,101.0 million (2010: £1,017.1 million), an increase of 8.2% compared to 2010. On a constant currency basis, revenue increased by 9.3%.

Group EBITA[2] was £143.4 million (2010: £109.5 million) representing a margin of 13.0% (2010: 10.8%).

Group underlying operating profit[3] was £141.5 million (2010: £101.6 million). Underlying operating profit margin was 12.9%, compared to 10.0% for 2010.

Group operating profit was £133.2 million (2010: £93.6 million). Operating profit margins were 12.1%, compared to 9.2% for 2010.

	Morgan Engineered Materials				Morgan Ceramics					
	Morgan AM&T		Molten Metal Systems		Technical Ceramics		Thermal Ceramics		Consolidated	
	2011 £m	2010 £m	**2011 £m**	2010 £m	**2011 £m**	2010 £m	**2011 £m**	2010 £m	**2011 £m**	2010 £m
Revenue from external customers	**369.1**	367.7	**46.7**	40.3	**285.1**	250.1	**400.1**	359.0	**1,101.0**	1,017.1
Divisional EBITA[1]	**48.0**	39.2	**7.7**	6.3	**43.1**	34.0	**49.6**	34.8	**148.4**	114.3
Unallocated costs									**(5.0)**	(4.8)
Group EBITA[2]									**143.4**	109.5
Restructuring costs and other one-off items	**–**	(1.6)	**–**	0.1	**1.1**	(1.7)	**(3.0)**	(4.7)	**(1.9)**	(7.9)
Underlying operating profit[3]									**141.5**	101.6
Amortisation of intangible assets	**(4.5)**	(4.2)	**(0.1)**	(0.1)	**(2.5)**	(2.5)	**(1.2)**	(1.2)	**(8.3)**	(8.0)
Operating profit									**133.2**	93.6
Finance income									**27.7**	29.0
Finance expense									**(49.5)**	(54.9)
Profit before taxation									**111.4**	67.7

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

The restructuring costs and other one-off items of £1.9 million charge (2010: £7.9 million) included restructuring costs of £5.6 million (2010: £8.5 million), a gain on sale of properties of £2.4 million (2010: £0.6 million) and a net pension credit of £1.3 million (2010: nil).

Foreign currency impact

The principal exchange rates used in the translation of the results of overseas subsidiaries were as follows:

	Average rate		Year-end rate	
	2011	2010	**2011**	2010
USD	**1.6043**	1.5447	1.5541	1.5657
€	**1.1529**	1.1659	1.1972	1.1671

The potential impact of changes in foreign exchange rates is given in note 19 on pages 108 to 116.

Amortisation of intangible assets

The Group amortisation charge was £8.3 million (2010: £8.0 million).

Finance costs

The net finance charge was £21.8 million (2010: £25.9 million). This charge was primarily net bank interest and similar charges of £20.4 million (2010: £24.7 million), a decrease of £4.3 million. The decrease in the net interest charge is due to the continuing reduction in debt levels and improvement in overall bank facility costs as a result of the refinancing in April 2011, in part offset by the write-off of the previous facility fees. The balance of the finance charge under IFRS is the net interest charge on pension scheme net liabilities, which was £0.9 million (2010: £2.0 million) and interest expense of £0.5 million (2010: £1.2 million) on the unwinding of the discount on the deferred consideration relating to the NP Aerospace acquisition. The impact of potential changes in interest rates on profit or loss is stated in note 19 on pages 108 to 116.

Taxation

Group taxation for the year was £32.6 million (2010: £19.7 million). The effective tax rate was 29.3% (2010: 29.1%). The medium-term view is that the effective tax rate will remain at approximately 29%.

Earnings per share

Underlying earnings per share was 29.9 pence (2010: 18.7 pence), basic earnings per share was 26.9 pence (2010: 15.8 pence). Details of these calculations can be found in note 9 on page 98.

Dividend

The Directors recommend the payment of a final dividend at the rate of 6.0 pence per share on the Ordinary share capital of the Company, payable on 6 July 2012 to Ordinary shareholders on the register at the close of business on 25 May 2012. Together with the interim dividend of 3.25 pence per share paid on 12 January 2012, this final dividend, if approved by shareholders, brings the total distribution for the year to 9.25 pence per share (2010: 7.7 pence).

A scrip alternative to the cash dividend will again be offered.

A five-year summary of the Group's financial results is set out on page 139 of this Report.

Cash flow

Free cash flow before acquisitions and dividends was £57.8 million (2010: £76.5 million). There was an outflow from working capital of £29.1 million (2010: inflow of £10.5 million). The Group excluding NP Aerospace improved its working capital to sales ratio from 20.0% at the end of 2010 to 19.2% at the end of 2011. NP Aerospace had a higher level of trade receivables and inventory than expected at the year end, which is expected to reduce significantly during 2012.

Net debt at the year end was £215.4 million (2010: £236.2 million). As a result of the significant improvement in operating performance the net debt* to EBITDA ratio at the year end was improved to just below 1.2 times (2010: 1.7 times).

	2011 £	2010 £
Net cash inflow from operating activities	**137.4**	148.1
Net capital expenditure	**(25.5)**	(17.0)
Restructuring costs and other one-off items	**(8.1)**	(7.8)
Net interest paid	**(20.4)**	(22.7)
Tax paid	**(25.6)**	(24.1)
Free cash flow before acquisitions and dividends	**57.8**	76.5
Cash flows in respect of acquisitions	**(10.4)**	(32.9)
Dividends paid	**(18.4)**	(15.4)
Exchange movement and other items	**(8.2)**	(11.7)
Movement in net debt* in period	**20.8**	16.5
Opening net debt	**(236.2)**	(252.7)
Closing net debt	**(215.4)**	(236.2)

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

Commitments for property, plant and equipment and computer software for which no provision has been made are set out in note 24 on page 127.

FINANCIAL REVIEW
continued

Capital structure

At the year end total equity was £270.2 million (2010: £252.1 million) with closing net debt of £215.4 million (2010: £236.2 million).

Non-current assets were £594.5 million (2010: £601.8 million) and total assets were £1,041.4 million (2010: £1,033.2 million).

Details of undiscounted contracted maturities of financial liabilities and capital management are set out in note 19 on page 111.

There have been no significant post-balance sheet events.

Capital structure is further discussed in note 19 on page 115 under the heading Capital management.

Pensions

The Group operates a number of pension schemes throughout the world, the majority of which are of a funded defined benefit type. The largest of these are located in the UK and the USA with the majority of others in Continental Europe. The Group pension deficit increased by £31.2 million since last year end to £135.1 million on an IAS 19 basis. The main movements were in the USA and UK defined benefit pension schemes. The UK schemes' deficit increased by £20.8 million to £47.4 million (2010: £26.6 million) and the USA schemes by £8.2 million to £58.5 million (2010: £50.3 million), both mainly due to the impact of lower discount rates. The UK defined benefit pension schemes' deficit also includes a reset of the future indexation of current employees' accrued benefits to the Consumer Prices Index, rather than the Retail Price Index. This has resulted in a pension credit of £3.1 million being recognised in the income statement.

Treasury Policies

The following policies were implemented and in place across the Group throughout the year. The manager of each business unit is required to confirm compliance as part of the year end process.

Financial Risk Management and Treasury Policy

Group Treasury works within a framework of policies and procedures approved by the Audit Committee. It acts as a service to Morgan Crucible's businesses, not as a profit centre, and manages and controls risk in the treasury environment through the establishment of such procedures. Group Treasury seeks to align treasury goals, objectives and philosophy to those of the Group. It is responsible for all of the Group's funding, liquidity, cash management, interest rate risk, foreign exchange risk and other treasury business. As part of the policies and procedures, there is strict control over the use of financial instruments to hedge foreign currencies and interest rates. Speculative trading in derivatives and other financial instruments is not permitted.

Foreign exchange risks

Due to the international reach of the Group, currency transaction exposures exist. The Group has a policy in place to hedge all material firm commitments and highly probable forecast foreign currency exposures, and achieves this through the use of the forward foreign exchange markets. The Group continues its practice of not hedging income statement translation exposure.

There are exchange control restrictions which affect the ability of a small number of the Group's subsidiaries to transfer funds to the Group. The Group does not believe such restrictions have had or will have any material adverse impact on the Group as a whole or the ability of the Group to meet its cash flow requirements.

Currency translation risks are controlled centrally. To defend against the impact of a permanent reduction in the value of its overseas net assets through currency depreciation, the Group seeks to match the currency of financial liabilities with the currency in which the net assets are denominated. This is achieved by raising funds in different currencies and through the use of hedging instruments such as swaps, and is implemented only to the extent that the Group's gearing covenant under the terms of its loan documents, as well as its facility headroom, are likely to remain comfortably within limits. In this way, the structure of the Group's borrowings becomes more aligned to the trading cash flows that service them.

Interest rate risk

The Group seeks to reduce the volatility in its interest charge caused by rate fluctuations. The Group seeks to ensure that between 30% and 80% of its exposure to changes in interest rates on borrowings is on a fixed rate basis. This is achieved through a combination of fixed rate debt and interest rate swaps. Group Treasury may not actively seek to fix or cap more than 80% of the Group's current overall debt. However, the fixed or capped proportion is permitted to rise above that level with Audit Committee approval.

Credit risk

Credit risk arises when a counterparty fails to perform its obligations. The Group is exposed to credit risk on financial instruments such as liquid assets, derivative assets and trade receivables. Credit risk is managed by investing liquid assets and acquiring derivatives in a diversified way from high-credit-quality financial institutions. Counterparties are reviewed through the use of rating agencies, systemic risk considerations, and through regular review of the financial press. The Group has a Credit Policy in place in relation to trade receivables and exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The nature of the Group's operations is such that the Group has a significant number of low-value trade receivables. The risk is therefore considered minimal. Credit risk is further discussed in note 19 on pages 108 to 116.

Capital investment

The Group has well-established formal procedures for the approval of investment in new businesses and of capital expenditure to ensure appropriate senior management review and sign-off.

Tax planning risk

The Group's reported after-tax income is calculated based on the relevant tax legislation in each of the jurisdictions that it operates in. Changes in tax legislation (including tax rates) could materially affect the Group's after-tax income. The Group undertakes tax planning initiatives where appropriate. The outcome of such planning cannot be assured and could materially influence the effective tax rate.

Accounting Policies

We adopted International Financial Reporting Standards as adopted by the EU (adopted IFRSs) in 2005. All Accounting Policies shown on pages 83 to 90 are compliant with adopted IFRSs.

Borrowing facilities and liquidity

All of the Group's borrowing facilities are arranged by Group Treasury and the funds raised are then lent to operating subsidiaries on an arm's-length basis. In a few cases operating subsidiaries have external borrowings but these are supervised and controlled centrally. Group Treasury seeks to obtain certainty of access to funding in the amounts, diversity of maturities and diversity of counterparties as required to support the Group's medium-term financing requirements and to minimise the impact of poor credit market conditions.

In April 2011 the Group completed the refinancing of its bank facility with a £150 million unsecured five-year multicurrency revolving credit facility on improved terms. The Group has retained the same lending group of eight banks. Further information on the Group's debt and maturity profile is provided in note 18 on page 107.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business review on pages 22 to 51. The financial position of the Group, its cash flows, liquidity position and borrowing facilities, are described earlier in this Financial review. In addition, note 19 includes the Group's policies and processes for managing financial risk; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The Group meets its day-to-day working capital requirements through local banking arrangements that are supported by the flexibility provided by the facility. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance and exchange rates, show the Group operating comfortably within its debt financial covenants for the next 12 months.

The current economic climate continues to have an impact on the Group, its customers and suppliers. The Board fully recognises the challenges that lie ahead but, after making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

RISK MANAGEMENT

The Group has an established risk management methodology together with a comprehensive internal control framework and appropriate assurance processes. The risk management processes are forward-looking in the identification, management and mitigation of business risks that could impact the Group's immediate and long-term performance and value. Whilst they will not fully eliminate risks, they will facilitate mitigation to an acceptable level within the context of the business environment in which the Group operates.

Management of business risk is an integral part of delivering performance and is the responsibility of all managers. Some specific areas of risk (for example supply chain) are assessed and managed through steering groups. The risk management decision-making and reporting procedures are integrated into formal business reporting up to the Board.

Assurance of the effectiveness of risk management processes, procedures and internal control continues to be monitored by the Audit Committee. Divisional management attend the Audit Committee at least annually to report on internal control and compliance with Group policies. Key risks and issues are reported to the Board via the Risk Management Committee and the Executive Committee.

The following key risk areas are those that the Group feels could have the most serious adverse effect on its performance and reputation. The relative importance of some of these risks has changed during 2011 as business conditions change. Where necessary, monitoring and controls to manage risk have been adjusted to ensure that the risks continue to be managed within acceptable limits.

RISK	MITIGATION
Strategy and strategic planning risks	
Obstacles to delivery of strategy Ability to exploit new business opportunities. Ability to deliver anticipated benefits from investments. Delivering the benefits of acquisitions and disposals. Balancing cyclical business sectors to smooth results. Overdependence on key customers.	The Board approves and monitors strategy, consulting external advisers and experts when necessary. Within its delegated authority, the Executive Committee and Divisional management implement strategic plans and regularly report performance. Businesses are spread geographically, with reduced reliance on cyclical markets. Where the Group chooses to continue to operate in cyclical markets, it selects industries with different cycles to reduce the impact on Group results. Processes are in place to ensure a structured approach to strategy, three-year plans, budgets, investment approval as well as monitoring and reporting performance. Acquisitions and disposals are managed through an established process with appropriate monitoring and reporting.
External risks	
Changing political, economical and social environment	Risk mitigation and contingency planning minimised the negative impact of the 2011 events on the Group.
This includes the types of risks that have manifested themselves in 2011, for example Arab Spring, Japanese earthquake and tsunami and China slowdown. Many of these events impacted local markets and some had a worldwide impact on supply chains and markets.	Key risks and events are regularly tracked at a Business, Divisional and Group level with contingency plans adjusted to manage the changing situation.
Current Eurozone issues	Mitigation plans are in place to manage the financial and business impact of the Eurozone crisis and any large currency swings. These include not only cash and banking but also operational issues in the businesses.
Changing global financial environment The Group, like its peers, is exposed to the risks presented by the ongoing state of the financial markets, the banking sector and the challenge to the euro.	Financial and treasury controls limit exposure to foreign currency, interest rate, credit and liquidity risk. Our pension funds are managed using independent, competent Trustee Boards and external advisers. The Group maintains a carefully managed debt facility to ensure that its debt ratio is within acceptable market tolerances.

RISK	MITIGATION
Market dynamics and competition	
Maintaining technology and innovation lead Dealing with increasing competition. As some of our business opportunities are in substitute materials, we are frequently in competition with existing technology producers or other innovators.	The Divisions monitor technology, business developments and future regulation to ensure that they are in a strong position to optimise future events. R&D investment is maintained in new/improving technologies through the Group's research and development facilities. As many of the Group's products are designed for a specific customer, they are developed in tandem with them to maintain leading-edge solutions.
Operational risks	
Treasury risks The uncertainty in the financial markets and the banking sector impact foreign exchange, interest rate, credit and liquidity risks as well as the risk of bank failure impacting the Group's cash.	Through the Treasury function there are strict controls on the selection of banks and cash management. Additional actions have been taken to respond to the Eurozone crisis.
Supply chain exposures including raw materials Supply chain risks include internal risks within the Group, especially where some sites supply and contribute to the profitability of several businesses.	Dual sourcing of materials or strategic stocks. Key risk areas identified, managed and monitored. Supply Chain Steering Group monitors risks throughout the Group. Key processes and equipment assessed. Risks mitigated to an acceptable risk level using improved procedures, protection and controls.
Natural or man-made catastrophes impacting operations and business continuity The Group's facilities and processes are exposed to a number of potential catastrophes including fire and explosion that are inherent to the industry. In addition, some sites are exposed to natural hazards such as windstorm, flooding and earthquake, that are inherent to their geographical location. A major incident could impact the continuity of the business.	There is an ongoing risk management process together with external experts to identify and assess key risk areas. Risk is mitigated through improved processes and protection is installed where needed (fire protection, equipment controls, natural hazard protection, etc). Crisis management and business continuity plans are in place and tested.
Recruiting, maintaining and motivating high-quality staff As many of the Group's processes require a high degree of skill, loss of these employees to other markets or competitors would impact the businesses. Similarly, loss of key persons in commercial or management areas could also impact profitability.	The Group maintains human resource policies and processes to manage the risks relating to its people. These cover areas including reward and recognition, health and safety, talent management, including succession planning, skills assessment and development, performance management and employee consultation.
Product safety and liability Products used in applications for which they were not intended. Materials that require special handling. Potential liability from product quality, performance, service, safety.	Many products designed to customers specifications. Where necessary products are tested and certified to meet national/international standards. Quality control processes on materials and finished products. Monitoring of legislation and regulation to manage future risk issues.
Compliance and ethics risks	
Changes to or non-compliance with laws and regulation Unethical behaviour including bribery, corruption, anti-trust, human rights, etc. The Group operates in countries where bribery, corruption, and anti-trust are known risks. The increasing volume and scope of legislation and regulation complicate the business environment and increase non-compliance risk and the associated penalties.	The Group monitors changes in legislation and regulation, pro-actively modifying existing controls and compliance frameworks and providing training where needed. The Group has a Responsible Business Programme dealing with most areas of ethics, compliance and regulation. The Group's ethical standards are defined and driven by the Group Ethics Policy and an external hotline is maintained in countries in which we operate. In 2011 controls and training were reviewed and upgraded to support worldwide compliance with the UK Bribery Act. Where the Group is occasionally subject to legal action, we maintain adequate provisions (see notes 21 and 25 on pages 126 and 127).
Environment, health and safety risks	Further detail of the programmes in place to manage these risks are included on pages 37 to 40.

KEY RESOURCES AND CONTRACTUAL RELATIONSHIPS

Morgan Crucible has built up significant resources and benefits from contractual and other relationships with multiple stakeholders, including customers and suppliers, employees and joint venture partners. These relationships have been built up over many years to support Morgan Crucible's competitive positioning in the key markets which the Group serves.

As is described below, no one contractual or other relationship is considered essential to the business of the Group as a whole. Further information on the Group's stakeholder relationships is included elsewhere in this Business review, including in the Corporate responsibility section on pages 34 to 43. As referred to in the Directors' report on page 57, a number of commercial and contractual agreements include change of control provisions which come into effect in the event of a change in ownership of the Company following a takeover.

In accordance with its goal, aim and strategic priorities, the Group continues to invest in the areas discussed below to maintain its leading market positions.

Commercial relationships, market position and reputation

Morgan Crucible is generally ranked number one or two in its chosen market segments. The Group is a world-leader in advanced ceramic and composite materials. The Company was founded in 1856 and has a worldwide reputation.

Morgan Crucible's Businesses provide products and services to other companies and the Group has developed close working relationships with many of its customers and suppliers and collaborates with them to develop new products.

The Group has a wide range of customers and suppliers and, while the loss of or disruption to certain of these arrangements could temporarily affect the operations of a particular Business, none is considered essential to the Group as a whole. Notwithstanding this, the Group devotes significant resources to ensuring these relationships continue to operate satisfactorily.

Employees

Morgan Crucible's most important resource is its people and the Group employs a highly skilled and qualified workforce. One of the Group's strategic priorities is 'finding, keeping and developing the right people'. Many employees stay with the Group for their whole careers, as is highlighted on page 43. Morgan Crucible places great emphasis on recruitment and training and the Group's policies and performance in these areas are set out on pages 42 and 43.

Succession plans are in place covering key management and technical roles and as such no individual employee is considered essential to the business of the Group as a whole.

The executive Directors' contracts and the terms and conditions of appointment of the non-executive Directors are referred to on page 71 and are available for inspection prior to the Annual General Meeting and at the Company's registered office.

Research and development, patents and intellectual property

Morgan Crucible's goal is to continue to be one of the world's very best advanced materials companies, supported by the strategic priority of 'offering high added-value to our customers'. The Group's Divisions use their extensive knowledge base, particularly in the areas of advanced ceramic and composite materials, to develop new products and services to meet customer needs and to differentiate themselves in the markets they serve.

Morgan Crucible benefits from technological know-how and other forms of intellectual property, some of which are covered by patents. Collectively this intellectual property supports the development and manufacture of new products and services to meet customer needs, but no one single patent is considered essential to the business of the Group as a whole.

Both of Morgan Crucible's Divisions have a Technical Director, and have research and development capabilities variously located at Divisional centres of excellence and diffused through the business in the form of applications engineering. Further details are included in the Review of operations for both Divisions on pages 26 to 33.

Manufacturing capabilities

Over many years Morgan Crucible has invested heavily in manufacturing capacity and technology to develop its capability to serve its chosen markets worldwide. In recent years the Group has developed and extended its manufacturing presence and capabilities in China, India and Latin America to meet customer needs in both local and global markets. This investment supports the Group's strategic priority of 'having a culture of operational excellence and cost efficiency'.

Joint venture partners

In a number of territories around the world, the Group has established joint ventures with local partners. Many of these joint ventures have been in operation for many years; however, no individual joint venture agreement is considered to be essential to the business of Morgan Crucible as a whole.

Banking and other financial relationships

Details of significant banking and other financial relationships are referred to on page 57 in the Directors' report. However, no one banking or financial relationship is considered to be essential to the performance and value of the Company.

CAUTIONARY STATEMENT

This document has been prepared for and only for the members of the Company as a body and no other persons. Its purpose is to assist members to assess how the Directors have performed their duties, the Company's strategies and the potential for those strategies to succeed and for no other purpose. Save as would otherwise arise under English law, the Company, its Directors, employees, agents or advisers do not accept or assume responsibility or liability to any third parties to whom this document is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed.

This document contains forward-looking statements that are subject to risk factors associated with, amongst other things, the economic and business circumstances occurring from time to time in the countries, sectors and markets in which the Group operates. These and other factors could adversely affect the outcome and financial effects of the plans and events described. Forward-looking statements by their nature involve a number of risks, uncertainties and assumptions because they relate to events and/or depend on circumstances that may or may not occur in the future and could cause actual results and outcomes to differ materially from those expressed in or implied by the forward-looking statements.

It is believed that the expectations reflected in these statements are reasonable but they may be affected by a wide range of such variables. No assurances can be given that the forward-looking statements in this document will be realised. The forward-looking statements reflect the knowledge and information available at the date this document was prepared and will not be updated during the year but will be considered in the Annual Report for next year. Nothing in this document should be construed as a profit forecast.

Overview

Business review

Governance

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BOARD OF DIRECTORS

Tim Stevenson OBE†§
Chairman

Mark Robertshaw§
Chief Executive Officer

Kevin Dangerfield
Chief Financial Officer

Andrew Hosty
CEO Morgan Ceramics

Martin Flower*†§
Senior Independent Director

Tim Stevenson OBE†§

Non-executive Chairman

Tim was appointed as Chairman of Morgan Crucible in December 2006. He is also Chairman of Johnson Matthey plc. Tim was Chairman of Travis Perkins plc from 2001 to 2010, a non-executive Director of Tribal Group plc from 2004 to 2008 and was latterly their Senior Independent Director. From 2001 to 2005 Tim was Senior Independent Director and Chair of the Audit Committee of National Express plc and from 2000 to 2004 he was a non-executive Director of Partnerships UK plc. From 1975 to 2000, Tim held a variety of senior management positions at Burmah Castrol PLC, including Chief Executive from 1998 to 2000. He is a qualified barrister and is Lord Lieutenant of Oxfordshire.

Mark Robertshaw§

Chief Executive Officer

Mark was appointed as Chief Executive Officer in August 2006. Prior to this he was Chief Operating Officer from February 2006 and Chief Financial Officer from October 2004. Before joining Morgan Crucible he was Chief Financial Officer of Gartmore Investment Management plc from 2000 to 2004. Mark is a non-executive Director of SEGRO plc and was a non-executive Director of Rathbones Brothers plc from 2006 to 2010.

Andrew Hosty

CEO Morgan Ceramics

Andrew was appointed as Chief Executive Officer of Morgan Ceramics and joined the Morgan Crucible Board in July 2010. Before this appointment he held a number of senior positions within the Morgan Crucible Group. Andrew was Chief Executive Officer of Technical Ceramics from 2004 to July 2010, whereupon the Technical Ceramics and Thermal Ceramics Businesses were brought together as the Morgan Ceramics Division. He is a non-executive Director of British Ceramic Research Limited and was President of the British Ceramics Confederation from 2003 to 2005.

Kevin Dangerfield

Chief Financial Officer

Kevin was appointed as Chief Financial Officer in August 2006, having joined Morgan Crucible in July 2000 as Deputy Group Financial Controller before being promoted to Group Financial Controller. He is a non-executive Director of e2v technologies plc. Before joining Morgan Crucible Kevin worked for London International Group plc and Virgin Retail Europe Limited. He qualified as a chartered accountant with PricewaterhouseCoopers.

Martin Flower*†§

Senior Independent Director

Martin was appointed as a non-executive Director in December 2004 and Senior Independent Director in April 2008. He is Chairman of Croda International plc and Low & Bonar PLC. He was previously Chairman of Autogrill Holdings UK plc, a non-executive Director of Autogrill Group Inc. and Deputy Chairman and Senior Independent Director of Severn Trent Plc. Martin held a variety of senior management positions with Coats plc from 1968 to 2004, and was Group Chief Executive of that Group and Chairman of the Board from 2001 to 2004.

EXECUTIVE COMMITTEE


Andrew Given*†§
Non-executive Director


Paul Boulton
Company Secretary


Don Klas
CEO Morgan Engineered Materials


Simon Heale*†§
Non-executive Director


Peter Blausten
Director of Human Resources

Andrew Given*†§
Non-executive Director

Andrew was appointed as a non-executive Director in December 2007 and is the Chairman of the Audit Committee. He was previously the senior non-executive Director and Chair of the Audit Committee of VT Group plc, the Senior Independent Director and Chair of the Audit Committee of Spectris plc and a non-executive Director and Chair of the Audit Committee of Spirent Communications plc. Andrew was formerly Deputy Chief Executive of Logica plc and held senior management positions in Plessey and Nortel Networks.

Simon Heale*†§
Non-executive Director

Simon was appointed as a non-executive Director in February 2005 and is the Chairman of the Remuneration Committee. He is a non-executive Director and Chairman of the Remuneration Committee of Coats plc, a non-executive Director and Chair of the Audit Committee of Kazakhmys plc, a non-executive Director and Chair of the CSR Committee of PZ Cussons Plc, a non-executive Director and Chair of the Audit and Compliance Committee of Marex Spectron Group Limited and Trustee and Treasurer of Macmillan Cancer Support chairing their Finance and Legal Committee and sitting on their Audit Committee. He was Chief Executive of China Now from 2007 to 2008 and was Chief Executive of the London Metal Exchange from 2001 to 2006. Simon qualified as an accountant with Price Waterhouse and has had extensive experience in the Far East, having held senior positions with the Swire Group in Japan and Hong Kong and with Jardine Fleming in Hong Kong.

Mark Robertshaw
Chief Executive Officer

Kevin Dangerfield
Chief Financial Officer

Andrew Hosty
CEO Morgan Ceramics

Don Klas
CEO Morgan Engineered Materials

Paul Boulton
Company Secretary

Peter Blausten
Director of Human Resources

* Member of the Audit Committee
† Member of the Remuneration Committee
§ Member of the Nomination Committee

DIRECTORS' REPORT

The Directors present their report together with the financial statements and independent auditor's report for the year ended 1 January 2012. This Directors' report was approved by the Board on 15 February 2012.

Principal activities

The Morgan Crucible Company plc (the Company) and its subsidiary undertakings comprise two Divisions covering four operating segments (as outlined on page 24) that design, manufacture and market primarily carbon and ceramic components for applications in a wide range of markets. A review of developments affecting the Group during the year and of its prospects for the future appears on pages 22 to 50, to be read in conjunction with the cautionary statement on page 51.

Business review

The Business review sets out a comprehensive review of the development and performance of the business of the Company for the year ended 1 January 2012 and future developments. The Business review is set out on pages 22 to 51 (inclusive) of this Annual Report. All information detailed in those pages is incorporated by reference into this Directors' report and is deemed to form part of this Directors' report.

Corporate governance statement

The Corporate governance statement as required by Rule 7.2.1 of the FSA's Disclosure and Transparency Rules is set out on pages 58 to 64 of this Annual Report. All information detailed in the Corporate governance statement is incorporated by reference into this Directors' report and is deemed to form part of this Directors' report.

Financial results

The total profit for the year ended 1 January 2012 was £78.8 million (2010: £48.0 million). Profit before taxation for the same period was £111.4 million (2010: £67.7 million). Revenue was £1,101.0 million (2010: £1,017.1 million) and operating profit was £133.2 million (2010: £93.6 million). Basic earnings per share was 26.9 pence (2010: 15.8 pence). Capital and reserves at the end of the year were £270.2 million (2010: £252.1 million). The total profit of £78.8 million will be transferred to equity. The Group's accounting policies can be found on pages 83 to 90.

Dividends

The Directors recommend the payment of a final dividend at the rate of 6.0 pence per share on the Ordinary share capital of the Company, payable on 6 July 2012 to shareholders on the register at the close of business on 25 May 2012. Together with the interim dividend of 3.25 pence per share paid on 12 January 2012, this final dividend, if approved by shareholders, brings the total distribution for the year to 9.25 pence per share (2010: 7.7 pence).

Acquisitions and disposals

On 8 April 2011 the Company increased its equity stake in NP Aerospace from 70% to 80% by acquiring an additional 10% of the equity for £9.1 million which represents full consideration for the 10% of share capital acquired.

Post-balance sheet events

There have been no material events since the year end.

Share capital

The Company's share capital is set out in note 17 on pages 104 to 106. The Company's Ordinary shares represent 99.84% of the total issued share capital, with the 5.5% Cumulative First Preference shares representing 0.05% and the 5.0% Cumulative Second Preference shares representing 0.11%. The rights and obligations attaching to the Company's Ordinary shares, and restrictions on the transfer of shares in the Company, are set out in the Company's Articles of Association (Articles), copies of which can be obtained from Companies House in the UK or from the Company Secretary. The holders of Ordinary shares are entitled to receive dividends, when declared; to receive the Company's reports and accounts; to attend and speak at general meetings of the Company; to appoint proxies; and to exercise voting rights. Details of the structure of the Company's Preference share capital and the rights attached to the Company's Preference shares are set out on page 106. No person holds securities in the Company carrying special rights with regard to control of the Company. The Company is not aware of any agreements between holders of securities that may result in restrictions on the transfer of securities or on voting rights. The Articles may be amended by a special resolution of the Company's shareholders.

Policy on the payment of creditors

The Company's policy in relation to its suppliers is, where possible, to settle terms of payment when agreeing the terms of the transaction, to ensure suppliers are made aware of the terms of payment and to abide by those terms, provided that it is satisfied that the supplier provided the goods and services in accordance with the agreed terms and conditions. The Company and its subsidiaries do not follow any one code or standard on payment practice due to the diverse nature of the global markets in which the Group operates.

The number of days purchases outstanding for payment by the Company at the end of the year was 45 days (2010: 30 days) and for the Group was 58 days (2010: 69 days).

Research and development

Innovative use of existing and emerging technologies will continue to be crucial to the successful development of new products and solutions to satisfy customer demands. The Company has research and development facilities at its key manufacturing sites. The spend on research and development, which excludes the amounts spent working with customers and others by way of product enhancement and application engineering, was £14.3 million during the year (2010: £15.9 million). The Group did not capitalise any development costs in 2011 (2010: £nil).

Financial instruments

Details of the Group's use of financial instruments, together with information on policies and exposure to price, liquidity, cash flow, credit, interest rate and currency risks, can be found in note 19 on pages 108 to 116. All information detailed in this note is incorporated into this Directors' report by reference and is deemed to form part of this Directors' report.

Human resources

Details of the Group's Human Resources Policy and employee involvement are set out on pages 42 and 43.

There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) that occurs because of a takeover bid.

Employee share and share option schemes

The Company continues to encourage employee ownership of its shares through the provision of a number of employee share and share option schemes. 156 employees hold awards under the Morgan Crucible Long Term Incentive Plan, 36 employees hold awards under the Morgan Crucible Bonus Deferral Share Matching Plan, 34 employees have options under the Company's Executive Share Option Schemes and 652 employees participate in the Company's UK Sharesave Plan. There are 12 participants in the Company's German Employee Share Purchase Plan. There are currently no participants in the Company's US Employee Share Purchase Plan. Details of outstanding options are given in note 20 on pages 117 to 125.

NP Aerospace operates an employee share option scheme pursuant to which NP Aerospace employees who were in employment as at 31 July 2007 have been granted options over shares in Clearpower Limited, the NP Aerospace holding company. 135 employees hold awards under this scheme. The NP Aerospace employee benefit trust holds 16,665 shares in Clearpower Limited in respect of the scheme.

All of the Company's share schemes contain provisions relating to a change of control. Outstanding options and awards would normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions at that time.

The Morgan General Employee Benefit Trust (the Trust) held 2,044,458 shares on 1 January 2012 in connection with awards granted under the Company's employee share schemes. The trustees of the Trust (Trustees) have agreed to waive their entitlement to the payment of dividends on the shares held by the Trust. The Directors are not aware that any other shareholders waived or agreed to waive any dividends or future dividends during the period under review.

The Trustees have absolute and unfettered discretion in relation to voting any shares held in the Trust at any general meeting. Their policy is not to vote the shares. If any offer is made to shareholders to acquire their shares, the Trustees will have absolute and unfettered discretion on whether to accept or reject the offer in respect of any shares held by them.

DIRECTORS' REPORT
continued

Directors
All those who served as Directors at any time during the year under review are listed on pages 52 to 53.

Details of Directors' interests in the share capital of the Company are listed on page 72. In the period from 1 January 2012 to 15 February 2012 the executive Directors acquired further Ordinary shares in the Company pursuant to the Company's Scrip Dividend Scheme. The Directors' shareholdings are shown on page 72.

All information detailed on pages 72 to 76 in respect of Directors' interests is incorporated into this Directors' report by reference and is deemed to form part of this Directors' report.

All of the Directors will be offering themselves for re-election at the forthcoming Annual General Meeting (AGM) on 8 May 2012. Details of their background and experience can be found on pages 52 and 53 and details of the Board Committees on which they serve can be found on pages 62 to 64.

Appointment and replacement of Directors and amendments to the Articles
The Articles give the Directors power to appoint and replace Directors. Under the terms of reference of the Nomination Committee, any appointment must be recommended by the Nomination Committee for approval by the Board of Directors. The Articles also require Directors to retire and submit themselves for election at the first AGM following appointment and all Directors are required to submit themselves for re-election at the third AGM following their appointment or re-election. Notwithstanding the provisions of the Articles, the Board has once again determined that the full Board of Directors will stand for re-election at the forthcoming AGM in compliance with the provisions of the UK Corporate Governance Code.

Subject to the Articles, UK legislation and any directions given by special resolution, the business of the Company is managed by the Board, which may exercise all the powers of the Company.

Share allotment and repurchase authorities
The Directors were granted authority at the 2011 AGM to allot shares in the Company and to grant rights to subscribe for or convert any securities into shares in the Company up to (a) a nominal amount of £22,742,584 and (b) a nominal amount of £45,485,168 in connection with a rights issue (such amount to be reduced by any shares allotted under (a)). This authority is due to lapse at the 2012 AGM. At the AGM, shareholders will be asked to grant a similar allotment authority.

A special resolution will also be proposed to renew the Directors' powers to make non pre-emptive issues for cash up to an aggregate nominal amount representing approximately 5% of the issued share capital as at the last practicable date before the publication of the notice of AGM 2012.

The Directors did not seek an authority at the 2011 AGM to repurchase shares in the capital of the Company. As at 1 January 2012, there was no such authority in place. The Directors do not intend to seek an authority to repurchase shares at the 2012 AGM.

Full details of the resolutions to be proposed at the 2012 AGM are set out in the Circular to Shareholders which will be circulated in March 2012.

Directors' indemnities
The Company has entered into separate indemnity deeds with each Director containing qualifying indemnity provisions, as defined at section 236 of the Companies Act 2006, under which the Company has agreed to indemnify him in respect of certain liabilities which may attach to him as a Director or as a former Director of the Company or any of its subsidiaries. The indemnity deeds were in force during the financial year to which this Directors' report relates and are in force as at the date of approval of the Directors' report.

Donations
During the year, Morgan Crucible companies made charitable donations of £194,744 (2010: £250,229).

Further details of charitable donations and activities of the Group are given on page 36. No political donations have been made.

Significant agreements

The Group has a number of borrowing facilities provided by various financial institutions. These facility agreements generally include change of control provisions which, in the event of a change in ownership of the Company, could result in renegotiation or withdrawal of these facilities.

The most significant of such agreements are the UK £150 million Multicurrency Revolving Facility Agreement which was signed on 5 April 2011 and the privately placed Note Purchase and Guarantee Agreements signed on 6 March 2003, 15 December 2007 and 30 June 2010, for which the outstanding loan amounts are USD18 million, USD350 million and €60 million respectively.

There are a number of other agreements that take effect, alter or terminate upon a change of control of the Company following a takeover bid, such as commercial contracts and joint venture agreements. No such individual contract is considered to be significant in terms of its potential impact on the business of the Group as a whole.

Substantial shareholdings

As at 1 January 2012, the Company had been notified of the following interests representing 3% or more of the issued Ordinary share capital of the Company*:

	Number of Ordinary shares	%**
AXA Investment Managers SA	**23,560,970**	8.630
Prudential Plc group of companies (M&G)	**21,128,681**	7.730
Standard Life Investments Ltd	**18,828,160**	6.893
HSBC	**13,736,314**	5.030
Ameriprise Financial Inc	**13,170,196**	4.822
Schroders plc	**12,494,272**	4.522
JPMorgan Chase & Co.	**11,935,619**	4.420
Lloyds TSB Group plc	**10,907,770**	4.037
Legal & General Group plc	**10,738,156**	3.970
Norges Bank	**8,203,282**	3.003

* As at 28 February 2012, there was no change in the details shown in the above table.
** Percentages are shown as a percentage of the Company's issued share capital as at 1 January 2012.

Disclosures of information to auditors

Each Director holding office at the date of approval of this Directors' report confirms that, so far as he is aware, there is no relevant audit information of which the Company's auditors are unaware, and that he has taken all steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

KPMG Audit plc has expressed its willingness to continue in office. Resolutions for its reappointment as auditors and authority for the Directors to determine the auditors' remuneration will be proposed at the forthcoming AGM.

Annual General Meeting

The AGM of the Company will be held on 8 May 2012 at The Lincoln Centre, 18 Lincoln's Inn Fields, London WC2A 3ED. A Circular will be sent with this Report to shareholders in March 2012 incorporating the Notice of AGM.

FSA's Disclosure and Transparency Rules

For the purposes of DTR 4.1.5R(2) and DTR 4.1.8, this Directors' report is the management report.

Directors' responsibility statement in respect of the Disclosure and Transparency Rules

Each of the Directors, the names and roles of whom are set out on pages 52 and 53, confirms to the best of his knowledge:

- The Group financial statements in this Report, which have been prepared in accordance with International Financial Reporting Standards as adopted by the EU (adopted IFRSs), including interpretations issued by the International Accounting Standards Board (IASB) and those sections of the Companies Act 2006 applicable to companies reporting under IFRSs as adopted in the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group taken as a whole.
- The parent Company financial statements in this Report, which have been prepared in accordance with UK Accounting Standards (UK Generally Accepted Accounting Practice) and applicable law, give a true and fair view of the assets, liabilities, financial position and profit of the Company.
- The Business review contained in this Report includes a fair review of the development and performance of the business and the position of the Company and the Group taken as a whole, together with a description of the principal risks and uncertainties that they face.

For and on behalf of the Board

Paul Boulton
Company Secretary
15 February 2012

The Morgan Crucible Company plc
Quadrant, 55-57 High Street, Windsor, Berkshire SL4 1LP
Registered in England, No. 286773

CORPORATE GOVERNANCE

Statement of compliance with the UK Corporate Governance Code

Throughout the year ended 1 January 2012 the Company has been in full compliance with the provisions set out in Section 1 of the UK Corporate Governance Code (the 'Code') published by the Financial Reporting Council and available on its website www.frc.org.uk.

This statement describes how the Company has applied the main principles of the Code. It should be read in conjunction with the Business review and Remuneration report on pages 22 to 51 and 66 to 76 respectively.

Directors

The Board

The Board is collectively responsible to the Company's shareholders for the success of the Company. The Board is satisfied it has met the Code's requirements for its effective operation. It has set the Company's strategic aims, which were reviewed by the Board at its strategy meeting during the year, and has ensured that there is a framework of prudent and effective controls which enable risk to be assessed and managed. The Board sets the Company's values and standards, which are contained in the Core Values Statement and Ethics Policy, both of which are referred to on page 34 in the Business review.

The Board met formally eight times during the year to review current performance against agreed objectives and to make and review major business decisions. There is a schedule of matters specifically reserved for the Board including significant contractual commitments (including the acquisition or disposal of companies/businesses, treasury and intellectual property transactions), the review of the effectiveness of risk management processes, major capital expenditure and corporate responsibility. One meeting each year is specifically focused on strategy and the longer term development of the Group. Various matters are delegated to duly authorised sub-committees of the Board, as is further described below.

During the year there were no changes of membership of the Board and there were no changes of role.

As at 15 February 2012 the Board comprises Tim Stevenson, Chairman; Mark Robertshaw, Chief Executive Officer; Kevin Dangerfield, Chief Financial Officer; Andrew Hosty, Chief Executive Officer of the Morgan Ceramics Division and three non-executive Directors deemed by the Board to be independent, Martin Flower, Andrew Given and Simon Heale. Martin Flower is the Senior Independent Director. Biographies of the Directors, including details of their other main commitments, are set out on pages 52 and 53.

All Directors submit themselves for election by the shareholders at the first Annual General Meeting following their appointment. All Directors who are willing to continue in office stand for re-election by the shareholders each year. Non-executive Directors are appointed for a term of three years, subject to annual re-election. The independence, commitment and effectiveness of any non-executive Director who has served for two terms is subject to rigorous review prior to reappointment for a further three-year term.

The attendance of each Director at Board and Audit, Remuneration and Nomination Committee meetings is set out in the table below.

The Chairman and the non-executive Directors met without the executive Directors present on a number of occasions during the year. In addition, the Senior Independent Director and the other non-executive Directors met without the Chairman present.

Should a Director have concerns about the running of the Company or a proposed action which are not resolved, their concerns would be recorded in the Board minutes.

An appropriate Directors' and Officers' liability insurance policy is in place.

Chairman and Chief Executive Officer

The roles of Chairman and Chief Executive Officer are separate, clearly established, set out in writing and agreed by the Board.

The Chairman is responsible for the leadership and effectiveness of the Board including setting the Board's agenda and ensuring sufficient time is available for all agenda items, particularly regarding strategic issues, for promoting a culture of open debate and constructive challenge, facilitating effective contributions by the non-executive Directors and ensuring constructive relationships between the executive and non-executive Directors. The Chief Executive Officer is responsible for the management of the Company, including the delivery of the Group's business plan, the formulation and implementation of strategy, chairing the Executive Committee and for ensuring the implementation of the Group's policies and strategies. The management of the Group's operating Divisions reports to the Chief Executive Officer.

	Board		Audit		Remuneration		Nomination	
Director	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
Tim Stevenson*	8	8	–	–	5	5	2	2
Mark Robertshaw	8	8	–	–	–	–	2	2
Kevin Dangerfield	8	8	–	–	–	–	–	–
Andrew Hosty	8	8	–	–	–	–	–	–
Martin Flower*	8	8	5	5	5	5	2	2
Andrew Given*	8	8	5	5	5	5	2	2
Simon Heale*	8	8	5	5	5	5	2	2

Excludes meetings attended by invitation for all or part of a meeting.
* Indicates a Director deemed by the Board to be independent or, in the case of the Chairman, independent on appointment.

Board balance and independence
The size, structure and composition of the Board was reviewed during the year, taking into account succession planning and the need to progressively refresh the membership of the Board.

At the year end, in addition to the Chairman, whom the Company deemed to be independent on appointment, the Board comprised three executive Directors and three non-executive Directors deemed by the Board to be independent. Thus there is a balance of executive and non-executive Directors which helps ensure that no individual or small group can dominate the Board's decision-making. Throughout the year the Company complied with the requirement of the Code that at least half the Board, excluding the Chairman, should comprise non-executive Directors determined by the Board to be independent. In addition to the factors set out in the Code, the Board's assessment of a non-executive Director's independence and effectiveness covers their total number of commitments and any relationships with major suppliers and with charities receiving material support from the Company.

Appointments to the Board
As is further detailed in the report of the Nomination Committee, set out on page 64, there is a formal, rigorous and transparent procedure for appointments to the Board. Appointments are made on merit and against objective criteria, having due regard for diversity, including gender. The Board has also considered the recommendations made by the Davies Report on Women on Boards and has concluded that ensuring the Board has the right balance and an appropriately diverse mix of skills and experience is of paramount importance but that quotas are not appropriate for the Group.

The Board is satisfied that there are succession plans in place for appointments to the Board and for senior management.

Information and professional development
The Company Secretary, with the Chairman, is responsible for ensuring the Board has full and timely access to all appropriate information to enable it to discharge its duties. Board papers are generally sent out five working days before each meeting. Non-executive Directors also receive updates and information between formal Board meetings.

New Directors receive a full, formal and tailored induction on joining the Board. A new Director's experience and background is taken into account in developing a tailored programme.

The Chairman considers the individual training and development needs of each Director, taking into account environmental, social and governance matters. The Company Secretary keeps the suitability of external courses under review and facilitates the induction of new Directors and the ongoing training and development of all Directors as necessary.

Non-executive Directors have access to management and staff at all levels and are encouraged to visit operating sites. In addition to visits by individual Directors and the Chairman, each year at least one Board meeting is held at an operating facility. During 2011 formal Board meetings were held at the Technical Ceramics site in Corby, UK and at the Thermal Ceramics site in Saint Marcellin, France. In addition, the non-executive Directors attended the Group's leadership conference held in Singapore.

The Directors have access to the advice and services of the Company Secretary who, with the Chairman, is responsible for ensuring that Board procedures are followed and that applicable rules and regulations are observed. A procedure is in place to enable the Directors to seek independent professional advice at the Company's expense in connection with their duties as Directors.

Performance evaluation
The Board undertook a formal evaluation of its performance, its committees and of the individual Directors during the year. The Code requires that the Company conducts an externally facilitated evaluation every three years and the 2011 Board performance evaluation was facilitated by Dr Tracy Long of Boardroom Review. Dr Long and Boardroom Review have no other connection with the Company. The evaluation process consisted of a structured interview with the Chairman, each Director, the Divisional Chief Executives and the Company Secretary with an outline of the topics to be covered in the interview sent to each Director in advance. The evaluation also included the review of relevant papers and the observation of Board Committee meetings. The output from the evaluation was summarised as a discussion document which was presented to the December Board meeting with collective and individual feedback provided as appropriate.

The evaluation concluded that the Board performed effectively, with the Chairman facilitating a culture of openness and transparency which encourages constructive challenge. The meetings of the Board follow a structured pattern with flexible agendas focused on debate rather than presentation. Strategy discussions are part of a continuing cycle through the year with the Chief Executive providing leadership in setting strategic priorities in conjunction with the Board. The non-executive Directors have strong familiarity with the Group and its businesses and contribute to strategic thinking and judgment, providing multiple and relevant perspectives. The relationship between the Board and management is open and transparent. The Audit Committee has a positive and appropriately challenging relationship with the external auditor and provides good quality oversight through the detailed reporting, identification and mitigation of key control risks. The Remuneration Committee is constructive and there is alignment between the Group strategy, performance expectations and rewards.

CORPORATE GOVERNANCE
continued

The recommendations which will be implemented following the 2011 Board performance evaluation include a review of the style, presentation and length of Board papers in the context of the planned transition from paper-based to electronic Board papers in 2012 and ongoing emphasis on succession planning to ensure the composition of the Board and the balance of skills and experience of the Directors continues to be appropriate.

The recommendations made following the 2010 Board performance review were implemented during the year. Further emphasis was placed on succession planning and the composition of the Board, allowance was made in the Board timetable for informal meetings and the Board used an external facilitator to support the 2011 Board performance evaluation process, as described above.

The non-executive Directors, led by the Senior Independent Director, met without the Chairman present to evaluate the Chairman's performance during the year, taking into account the views of the executive Directors.

During the year the Chairman took up an additional role as non-executive Chairman of Johnson Matthey plc, a FTSE 100 company. Prior to undertaking an additional external role or appointment, the Chairman and the non-executive Directors are asked to confirm that they will continue to have sufficient time to fulfil their commitments to the Company.

Conflicts of interest

The Board has procedures in place to address the requirements of the Companies Act 2006 concerning the duty of the Directors to avoid conflicts of interest. Accordingly the Directors are required to (1) disclose proposed outside interests before they are taken in order to enable a prior assessment of any actual or potential conflict; and (2) disclose without delay any situation which arises which gives rise to an actual or potential conflict.

The Board reviews the outside interests of the Directors and any conflicts disclosed and authorisations given at least annually. Should an actual or potential conflict be identified, the Board considers whether to authorise the situation in accordance with the Company's Articles of Association and, if so, the terms of any authorisation. In the event of an actual conflict arising, the Director concerned is to notify the Chairman (the Chairman would notify the Senior Independent Director) and the Director would be excluded from the relevant information, debate and decision.

Remuneration

Remuneration policy and practice is discussed in the Remuneration report on pages 66 to 76.

Accountability and audit

Financial reporting

In its reporting to shareholders, the Board is satisfied that it has met its obligations to present a balanced and understandable assessment of the Company's position and prospects as required by the Code and in accordance with the Accounting Standards Board's Reporting Statement 1, The Operating and Financial Review (RS1). This is included in the Business review on pages 22 to 51. The Board also presents updated information in its half year and other public reports.

A summary of the statement of Directors' responsibilities in respect of the Annual Report and the financial statements is set out on page 65 and the 'going concern' statement is set out in the Business review on page 47.

Internal control

The Board has overall responsibility for establishing and maintaining a sound system of internal control to safeguard shareholders' investment and the Company's assets and for reviewing the effectiveness of such system. The Company's system of internal control has been in place for the year under review and up to the date of approval of the Annual Report. Through the Audit Committee, the Board reviews the effectiveness of the internal control system annually and did so during the year. The system of internal control accords with the Financial Reporting Council's guidance on the internal control requirements of the Code (Turnbull). This review covered all material controls, including financial, operational and compliance controls, and risk management systems. The Audit Committee receives regular risk management reports covering the full range of risks faced by Morgan Crucible as a Group and ensures there are adequate systems in place and evaluates their effectiveness.

The Directors believe that the Group's system of internal financial controls provides reasonable, but not absolute, assurance that: the assets of the Group are safeguarded; that transactions are authorised and recorded in a correct and timely manner; and that such controls would prevent and detect, within a timely period, material errors or irregularities. The system is designed to manage, rather than eliminate, risk and to address key business and financial risks, including social, environmental and ethical risks. The internal control framework complements the Group's management structure. The main features of the Group's systems for internal control and for assessing the potential risks to which the Group is exposed are summarised as follows:

- **Control environment** The Group's management processes include delegated authorities and the segregation of duties with documented policies and manuals. These cover financial procedures, environmental, health and safety practice and other areas. In addition, there is a schedule of matters reserved for the Board. The Group's Core Values Statement, Ethics Policy and other supporting policies and procedures set out the Group's commitment to the highest standards of corporate and individual behaviour and provide guidance for employees. The Group's Responsible Business Programme includes relevant training and reporting and is part of the control framework. The Ethics Hotline is available to employees and others in this regard. The Chief Executive of each Division makes an annual statement of compliance to the Board confirming that for each of the businesses for which he is responsible, the financial statements are fairly presented in all material respects, appropriate systems of internal controls have been developed and maintained and the businesses comply with Group policies and procedures.
- **Financial reporting** Risk management systems and internal controls are in place in relation to the Group's financial reporting processes and the process for preparing consolidated accounts. These include policies and procedures which require the maintenance of records which accurately and fairly reflect transactions and dispositions of assets, provide reasonable assurance that transactions are recorded as necessary to allow the preparation of financial statements in accordance with International Financial Reporting Standards (IFRS) and the review and reconciliation of reported data. As noted above, representatives of the business are required to certify that their reported information gives a true and fair view of the state of affairs of the business and its results for the period. The Audit Committee is responsible for monitoring these risk management systems and internal controls.
- **Performance monitoring** There are regular meetings of the Board and of the Executive Committee. A comparison of forecast and actual results is considered, including cash flows and comparisons against budget and the prior year. Divisional management teams also meet regularly to review performance. Presentations of actual and forecast performance are made to the Executive Committee and the Board by the Group's Divisional Chief Executives. In addition, regular site visits are made by members of the Executive Committee.
- **Risk management** The identification of major business risks is an ongoing process carried out in conjunction with operating management. Steps are taken to mitigate or manage any material risks identified. The Board, either directly or through the Audit Committee, receives reports on financial, taxation, insurance, treasury, pension, legal and social, environmental and ethical risks from management. The Divisional Chief Executives cover risk issues at their management meetings and the Director of Risk Assurance helps to ensure that internal control and risk management is embedded into the Group's operations through the Risk Management Committee, which is chaired by the Chief Financial Officer and is attended by the Chief Financial Officer of each Division.
- **Risk factors** Morgan Crucible's businesses are affected by a number of factors, many of which are influenced by macro-economic trends and are therefore outside the Company's immediate control, although, as described above and in the Business review, the identification and management of such risks is carried out systematically. These are further discussed in the Risk management section on pages 48 and 49.
- **Internal audit** The Group's internal audit function reviews internal control and risk management processes. The Audit Committee approves the plans for internal audit reviews and receives reports accordingly. Actions resulting from internal audit reviews are agreed with management. The Internal Auditor has direct access to the Chairman of the Audit Committee.

Audit Committee and auditors

The Board has formal and transparent arrangements for considering how the Directors apply the Company's financial reporting and internal control principles, and for maintaining an appropriate relationship with the Company's auditors. This requirement is met by the work of the Audit Committee, as described below, and by the audit work carried out by the Company's external auditors, KPMG Audit plc.

The Audit Committee has received confirmation from KPMG Audit plc that its general procedures support the auditors' independence and objectivity in relation to non-audit services. After considering such procedures the opinion of the Audit Committee was that the auditors' objectivity and independence was safeguarded despite the provision of non-audit services by KPMG Audit plc.

CORPORATE GOVERNANCE
continued

Relations with shareholders

Dialogue with shareholders

The importance of dialogue with major shareholders is recognised and meetings are held in order to help achieve a mutual understanding of objectives. In this respect, the Chief Executive Officer and Chief Financial Officer make themselves available to major shareholders as appropriate throughout the year, in particular at the time of the half year and final results announcements.

The Chairman also discusses governance and other matters directly with shareholders. The Chairman and the non-executive Directors avail themselves of opportunities to meet major shareholders and attend investor briefings to help ensure they have an understanding of the views of major shareholders. They would also attend meetings with major shareholders if requested. The Senior Independent Director is available to attend separate meetings with major shareholders on request.

During 2011, the Chairman and other non-executive Directors attended the annual and half year results presentations, the Group's Capital Markets Day and other investor events. This provided the opportunity to meet institutional shareholders and other attendees and to further develop an understanding of their views.

Following the announcement of the Group's results and after other significant statements and presentations, investor opinion is canvassed and any feedback is made available to the Board. In addition, the Board is provided with brokers' reports and feedback from shareholder meetings on a regular basis.

To help facilitate dialogue with shareholders, the Investors section of the Company's website includes details of Stock Exchange announcements, press releases, presentations, webcasts and other relevant information.

Constructive use of the Annual General Meeting

The Annual General Meeting is normally attended by all members of the Board and by a representative of the auditors. At the AGM held in May 2011, the Chief Executive Officer made a short business presentation. Shareholders are also invited to ask questions during the meeting and have the opportunity to meet the Directors and other members of senior management before and after the formal meeting. The results of the proxy voting on all resolutions are provided for all attendees and are released to the London Stock Exchange and published on the Group's website as soon as practicable after the meeting.

Board committees

The full terms of reference of the following Board committees are available upon request and are also available on the Group's website.

Audit

The Audit Committee assists the Board in effectively discharging its responsibilities for financial reporting and corporate control. Martin Flower, Andrew Given and Simon Heale were members of the Committee throughout the year. All members of the Committee are independent Directors and Andrew Given, the Chairman of the Committee, has the requisite financial experience.

The Audit Committee met five times during the year and has the power to, and does, request the attendance at meetings of any Director, auditor or member of management as may be considered appropriate by the Committee. At the end of each meeting the non-executive Directors who are members of the Committee also meet the auditors without the executive Directors or other members of management present. Between meetings the members of the Audit Committee keep in contact with the Chairman of the Board, the Chief Executive Officer, the Chief Financial Officer, the external auditors and the Internal Auditor as necessary.

The Committee identifies and confirms that it receives the information it needs to enable it to fulfil its responsibilities. This is complemented by an annual presentation made by the Divisional Chief Executives and Chief Financial Officers on the internal control environment within their respective Divisions. Training and development information is made available to the members of the Audit Committee when appropriate.

The Audit Committee's terms of reference were reviewed and updated during the year. They are available on the Group's website and include:

- Monitoring and making appropriate recommendations to the Board with regard to the financial reporting process, the integrity of the financial statements of the Group, preliminary announcements, half year reports and any formal announcements relating to the Group's financial performance, and reviewing significant financial reporting judgments contained in them.
- Reviewing accounting policies used by the Group and their consistent application across the Group.
- Reviewing whether the Group has followed appropriate accounting standards and made appropriate estimates and judgments, taking into account the views of the external auditor.
- Reviewing and monitoring the effectiveness of the Group's internal financial controls and internal control, internal audit and risk management systems.
- Reviewing and monitoring the Group's whistleblowing arrangements and systems and controls for the prevention of bribery.
- Making recommendations to the Board, for it to put to the shareholders for their approval at the AGM, in relation to the appointment, reappointment and removal of the external auditors and to approve the remuneration and terms of engagement of the external auditors.
- Reviewing and monitoring the external auditors' independence and objectivity.
- Reviewing the effectiveness of the process for the statutory audit of the annual consolidated accounts, taking into consideration relevant UK professional and regulatory requirements.
- Developing and implementing policy on the engagement of the external auditors to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external auditors.
- Reporting to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken.

The Committee has the authority to investigate any matters according to its terms of reference and may obtain external advice at the cost of the Company, but did not do so during the year. The Director of Risk Assurance and the Internal Auditor both have access to the Chairman of the Committee and regularly meet with the Committee without other executives present.

The work of the Committee in discharging those responsibilities in respect of 2011 included:

- Reviewing the Group's 2010 financial statements and 2011 half year statements prior to Board approval.
- Reviewing the scope of the external audit, and confirmation of the external auditors' terms of engagement and fee structures.
- Assessing the effectiveness of the external audit process and all aspects of the service provided by the external auditors.
- The review of the work of the Risk Management Committee and of the process by which the Group's main business risks are assessed and managed, with the principal risks being considered by the Board as a whole.
- Reviewing the effectiveness of and receiving reports from management on the Group's internal audit and risk management systems and updates to the Group's governance, risk and compliance plans.
- Approval of the work and plans for the internal audit function and the monitoring of progress against the plan.
- Appraisal of the Group's whistleblowing provision and related procedures and policies and of any breaches of the Group's ethics-related and other policies.
- Reviews of material litigation, crisis management plans and controls in relation to joint ventures.
- Monitoring the level of non-audit work of the auditors, which in 2011 included services amounting to £0.3 million, mainly in connection with tax services.

To help ensure the objectivity and independence of the external auditors, the policy implemented by the Committee for the provision of non-audit services by the external auditors is in summary as follows:

- Certain non-audit services may not be provided by the external auditors, including the review of their own work; they may not make management decisions; their work must not create a mutuality of interest; and they may not put themselves in the position of advocate.
- Any non-audit work proposed to be placed with the external auditors with a fee between £50,000 and £200,000 must be approved in advance by the Chairman of the Audit Committee. Projects in excess of £200,000 must be approved in advance by the Audit Committee. Work which includes multiple phases is treated as a single project for approval purposes.
- The prior approval of the Audit Committee is required for any non-audit work which, when added to the fees paid for other non-audit work, would total more than 80% of the audit fee.

During the year the proportion of the auditors' fees for non-audit work relative to the audit fee was 14% (2010: 6%).

The Committee's policy is to undertake an annual review of the effectiveness of the audit process and of all aspects of the external auditor's performance and independence before determining whether to undertake a formal review of the auditors including a re-tender presentation or whether to put the Group's audit work out to full third-party tender.

The external auditors have processes in place to safeguard their independence and have written to the Committee confirming that, in their opinion, they are independent. The Group last changed its auditors in late 2001 and undertook a formal review of the external auditors, which included a re-tender presentation, during 2007. The external auditors rotated the partner responsible for the Group's audit work in 2008 and the next rotation of audit partner will take place in 2013. Having reviewed the effectiveness of the audit process, all aspects of the service provided by the auditors and taking account of the assurance given by the auditors as to their independence, the Committee recommended to the Board that the Group's audit work should not be put out to third-party tender during 2011 and will further review the situation during 2012.

CORPORATE GOVERNANCE
continued

Remuneration

As is further described in the Remuneration report on pages 66 to 76, the Remuneration Committee has responsibility for setting remuneration for all executive Directors and the Chairman, including benefits such as share options and awards under the Company's incentive plans, pension rights and any compensation payments. The Committee also monitors the level and structure of remuneration for senior management. The Committee's terms of reference were reviewed and updated during the year and are available on the Group's website.

Tim Stevenson, Martin Flower, Andrew Given and Simon Heale, who is the Committee Chairman, were members of the Committee throughout the year. The Committee is assisted in its duties by the Chief Executive Officer, the Company Secretary and the Director of Human Resources. No member of the Committee or attendee is present when their own remuneration is under consideration, nor do they participate in any relevant voting. The Committee also has the power to request, for all or part of any meeting, the attendance of any Director or member of management as may be considered appropriate by the Committee. The Committee met five times during the year.

It is the Company's policy to disclose the fees of any executive Director who serves as a non-executive Director of another company. During the year Mark Robertshaw served as a non-executive Director of SEGRO plc, Kevin Dangerfield was appointed as a non-executive Director of e2v technologies plc on 28 January 2011 and Andrew Hosty served as a non-executive Director of British Ceramic Research Limited. The fees received by Mark Robertshaw, Kevin Dangerfield and Andrew Hosty in this regard are shown on page 72.

The report of the Remuneration Committee, which includes details of the Committee's responsibilities and terms of reference and of the Directors' remuneration and Directors' interests in options and shares, is set out on pages 66 to 76.

Nomination

The Nomination Committee leads the process for Board appointments and makes recommendations to the Board on the appointment of new Directors. A majority of members of the Nomination Committee are independent non-executive Directors. Tim Stevenson, as Chairman of the Committee, Martin Flower, Andrew Given, Simon Heale and Mark Robertshaw were members of the Committee throughout the year. The Committee's terms of reference were reviewed and updated during the year and are available on the Group's website.

The Committee has the power to request the attendance of any other Director or member of management, for all or part of any meeting, as may be considered appropriate by the Committee. The Committee met twice during 2011.

The Nomination Committee reviews the balance of skills, knowledge and experience on the Board, succession planning and the leadership needs of the Group. In the light of this review, the Committee prepares a description of the role and capabilities required for a particular appointment.

Candidates for appointment as Director are considered by the Committee, taking advice from external consultants where appropriate.

The terms and conditions of appointment of non-executive Directors are available for inspection. Non-executive Directors, including the Chairman, are asked to undertake that they will have sufficient time to meet their commitments to the Company and their other significant commitments are disclosed to the Board before appointment, with an indication of the time involved. The Board is informed of any subsequent changes with additional commitments disclosed before they are taken. The terms of appointment for non-executive Directors do not include a notice period.

There were no nominations to the Board or changes in role during the year.

Disclosure and Transparency Rules

This statement complies with sub-sections 2.1; 2.2(1); 2.3(1); 2.5; 2.7 and 2.10 of Rule 7 of the UK Listing Authority Disclosure and Transparency Rules. The information required to be disclosed by sub-section 2.6 of Rule 7 is shown in the Directors' report on pages 54 to 57 and is incorporated in this statement by reference.

Information on share capital and other matters

The information about share capital required to be included in this statement can be found on pages 54 to 57 of the Directors' report.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the Annual Report and the Group and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent Company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of their profit or loss for that period.

In preparing each of the Group and parent Company financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently.
- Make judgments and estimates that are reasonable and prudent.
- For the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU.
- For the parent Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent Company financial statements.
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' report, Directors' Remuneration report and Corporate governance statement that comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board

Paul Boulton
Company Secretary
15 February 2012

REMUNERATION REPORT

Introduction by the Chairman of the Remuneration Committee
I am pleased to introduce this year's Remuneration report, following another year of strong performance by the Group.

The Remuneration Committee considers that its approach to aligning management incentives with shareholders' interests is helping to produce strong returns that are in the longer term interests of the Group. We think the changes to some of the performance measures we made last year – in particular, the introduction of long-term EBITA and ROCE measurement at Divisional level – have enhanced management focus on value creation and provide clearer line-of-sight in relation to the Group's strategy. In addition, for 2012, we have also included ROCE as an LTIP measure at Group level.

The Committee believes that the Directors are fairly and appropriately remunerated with a significant element of their package being linked to the long-term success of Morgan Crucible.

Shareholders will be aware of the considerable achievement by management of key performance measures over the last three years, not least the upper-quartile growth in shareholder return, including a more than threefold increase in the share price.

This performance has resulted in a maximum vesting of the 2009 LTIP and a 1.8 times match vesting of the 2009 BDSMP, which is subject to very demanding earnings per share (EPS) growth targets. Those shares will be released during 2012 at the end of their three-year vesting period (and will be detailed in the 2012 Annual Report).

The 2008 LTIP awards were tested for the three-year performance to the end of 2010 and lapsed in full, and hence no long-term shares were released to executive Directors during 2011.

EPS targets continue to be set considering internal and external reference points. Awards made this year will be on the back of a strong set of financial results. The Committee believes that the existing 8%-15% pa range for the 2012 LTIP and the 8%-20% pa for the bonus deferral plan represent demanding yet appropriate performance targets over the next three years and remain appropriate for the 2012 award cycle.

ROCE targets have been set using a similar approach with external references and reflecting the returns required to meet and exceed the Group's internal strategic plan. The target range for Group ROCE has been set at 33%-37% which the Committee believes provides a significant degree of demanding performance.

The Committee feels that, although challenging, the targets it sets are fair, and incentivise both strong earnings growth (EPS) and high returns on capital (ROCE) simultaneously, whilst taking proper account of risk.

As with 2011, the Committee's approach to setting bonus targets for 2012 is that bonuses are only paid "at threshold" if Morgan Crucible's profit increases versus the prior year's achievement.

The Committee welcomes and carefully considers feedback from shareholders, and particularly the encouragement that overall remuneration should both be in the longer term interests of shareholders and meaningful for management. I hope you will find this balance appropriately reflected in the report that follows.

Simon Heale
Chairman
Remuneration Committee

Remuneration report
The Directors' Remuneration report has been prepared by the Remuneration Committee (the Committee) and has been approved by the Board. Shareholders will be given the opportunity to approve the report at the Annual General Meeting on 8 May 2012.

The report has been drawn up in accordance with the UK Corporate Governance Code, Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and the UK Listing Authority Listing Rules.

The Remuneration report is divided into two parts. The first part contains commentary on remuneration policy, which is not required to be audited. The second part contains the remuneration tables that have been audited in accordance with the relevant statutory requirements.

The Remuneration Committee
The Remuneration Committee is responsible for developing Group policy on executive remuneration and for determining, on behalf of the Board, specific remuneration packages for the executive Directors and the Chairman. The Committee's terms of reference are available on our website.

During the year the members of the Committee were: Simon Heale, who is the Chairman of the Committee, Martin Flower, Tim Stevenson and Andrew Given. Each of the non-executive Directors is regarded by the Board as independent. Tim Stevenson was independent at the time of his appointment as Chairman of the Board.

The Committee met on five occasions during the year. Each Committee member's attendance at these meetings is set out in the Corporate governance report on page 58.

The Company Secretary acts as secretary to the Committee. The Chief Executive Officer and the Director of Human Resources attend meetings of the Committee by invitation. The Committee also had access to advice from the Chief Financial Officer. No executive Director or other attendee is present when his or her own remuneration is under consideration.

Kepler Associates was appointed by the Committee in 2010 as its independent executive remuneration advisers and during 2011 provided advice on performance measurement, setting of annual bonus and long-term incentive targets, total shareholder return (TSR) analysis and provided market data in respect of senior executive remuneration and non-executive Director fees. Kepler reports directly to the Chairman of the Remuneration Committee and provided no other services to the Group during the year.

Remuneration policy

The Remuneration Committee aims to ensure that all the remuneration packages offered are competitive and designed to attract, retain and motivate executive Directors and senior executives of the right calibre in order to run the Group successfully, and to create value for shareholders. The Committee takes a longer-term perspective on retention and motivation, and although the short-term is important, the Committee's view is that this has to be put in the context of the Group's long-term interests.

The policy of the Committee is to ensure that a significant proportion of the total remuneration opportunity is performance-related, with particular emphasis on long-term performance, and based on the achievement of measurable targets that are relevant to and support the business strategy. This is in order to create a strong link between performance and reward which should be beneficial to shareholders, employees and the Group.

In assessing all aspects of pay and benefits, the Committee also takes into account the packages offered by similar companies to ensure the remuneration of executive Directors is competitive against the market in which the Company competes for talent. For the purposes of such analysis, comparator companies are chosen having regard to: business sector; the size of the company (eg in terms of market capitalisation, turnover and number of people employed); the diversity and complexity of its businesses; and the geographical spread of its businesses. The Committee also considers the level of pay and employment conditions throughout the Group when determining executive Directors' remuneration.

The Committee believes that the current remuneration structures are appropriate and support the business strategy.

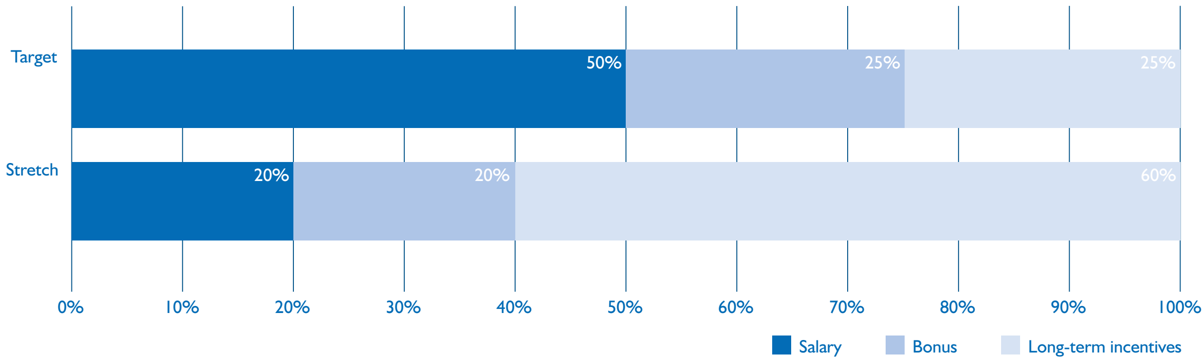
Main components of remuneration

The table below summarises the Company's policies in respect of each of the key elements of executive Directors' remuneration as they applied during the year.

Element	Policy	Details
Base salary	→ Provides the fixed element of the remuneration package → Set at competitive levels against the market	→ Reviewed against companies of a similar sector, size and complexity in the FTSE 350 → Annual review date of 1 January
Annual bonus	→ Incentivises the achievement of specific goals over the short-term that are also aligned to the long-term business strategy	→ Maximum bonus award of 100% of salary → Targets based on profit before tax and amortisation and, for the CEO Morgan Ceramics, include key measures of Divisional performance
Bonus Deferral Share Matching Plan	→ Designed to encourage long-term Company growth and to retain key individuals over this time period → Provides an opportunity for individuals to invest in Company shares and receive matching shares based on Group performance	→ Designed to work alongside the Long Term Incentive Plan → Up to 75% of the annual bonus may be voluntarily deferred into shares for three years → A matching award of up to three shares for each deferred share may be earned based on the Company's performance against stretching EPS targets
Long Term Incentive Plan	→ Aligns the interests of executives and shareholders by delivering executive Directors and other senior executives shares as a reward for outstanding long-term performance	→ Award of shares based on performance over a three-year period → Awards made in 2011 were based on TSR and EPS performance. → 2012 awards will be based on ROCE, TSR and EPS performance
Pension	→ Provides post-retirement benefits for participants in a cost-efficient manner	→ Defined benefit scheme subject to a notional earnings cap with an above-the-cap allowance for current executive Directors
Shareholding guidelines	→ Encourages executives to build an interest in the Company's shares and supports alignment with shareholder interests	→ Policy of 100% of basic salary for executive Directors → Supported by the Bonus Deferral Share Matching Plan, which encourages investment in Company shares

REMUNERATION REPORT
continued

The relative proportion of fixed and variable remuneration for the executive Directors at 'target' and 'stretch' performance is illustrated below. This is based on the Group's remuneration policy.



Calculated on a projected value basis assuming 10% pa share price growth at 'target' performance and 15% pa share price growth at 'stretch'.

Base salary
The base salary for each executive Director is determined by the Remuneration Committee, taking into account the performance of the individual and having regard to practice in FTSE 350 companies of comparable sector, size and complexity. Salaries are normally reviewed on an annual basis.

In line with the approach being taken across the organisation, executive Directors' salaries will be increased in 2012. In considering the level of increase, the Committee has been mindful of the general level of increase across the Group of 3%, as well as the positioning of roles against the market. The table below shows the salaries in 2011 and with effect from 1 January 2012.

	2011	Salary 2012
Mark Robertshaw	**£465,000**	£480,000
Kevin Dangerfield	**£275,000**	£285,000
Andrew Hosty	**£305,000**	£312,500

Base salary is the only element of the remuneration package that is pensionable.

Annual bonus
The targets for the annual bonus are set by the Remuneration Committee, taking into account the short- and long-term requirements of the Group. Challenging goals are set, which must be met before any bonus is paid. This approach is intended to align executive reward with shareholder return by rewarding the achievement of 'stretch' targets.

The bonus scheme provides the opportunity for executive Directors to earn a bonus of up to 100% of basic salary if stretching performance targets are achieved.

For 2011, the bonus for the CEO and CFO was based on Group profit before taxation and amortisation. The targets were set to incentivise the executive Directors to manage much more of the income statement to improve the earnings per share of the Group. For 2011, the bonus for the CEO Morgan Ceramics was balanced between the performance of the Morgan Ceramics Division and the Group as a whole, comprising Group profit before tax and amortisation (30%), Morgan Ceramics EBITA (50%) and Morgan Ceramics third-party working capital to sales % (20%).

In addition to the achievement of the targets set, in considering any awards to be made, the Committee also takes into account the quality of the overall performance of the Company.

The bonuses awarded to executive Directors in respect of 2011 were as follows:

→ Mark Robertshaw – 100% of salary (2010: 100%).
→ Kevin Dangerfield – 100% of salary (2010: 100%).
→ Andrew Hosty – 97.5% of salary (2010: 100%).

The awards for the CEO and CFO were made on the basis that in 2011 the maximum Group profit before tax and amortisation target was achieved resulting in a bonus payment of 100% of salary. The award for the CEO Morgan Ceramics also reflected performance against the Group profit before tax and amortisation target together with a Morgan Ceramics Division EBITA target (achieved at the maximum performance level) and a Morgan Ceramics Division third-party working capital to sales % target (achieved at 87.5% of the target), resulting in a bonus payment of 97.5% of salary.

No changes will be made to the annual bonus opportunity or performance measures for executive Directors in 2012.

Long-term incentive arrangements
The Committee believes that share ownership by the executive Directors and senior executives helps align their interests with those of shareholders. Accordingly the Company operates a number of share schemes for the executive Directors and other senior employees, details of which are set out below.

Bonus Deferral Share Matching Plan (BDSMP)
The BDSMP was introduced following shareholder approval in 2008.

This plan operates alongside the other long-term incentive arrangements. Under the plan rules, participants may be offered the opportunity to defer up to 75% of their annual bonus on a pre- or post-tax basis into Company shares. Participants must hold the deferred shares for three years to be eligible for a matching award based on the pre-tax value of their deferred shares. Matching shares may be earned at the end of three years in the event that stretching EPS targets have been met.

For the bonus earned for the 2010 performance year (ie payable in early 2011), participants were given the opportunity to defer up to 50% of their bonus under the Plan. This was a lower deferral level compared with the 75% deferral opportunity in respect of the bonus earned for the 2009 performance year (ie payable in early 2010), as explained in the 2010 Report. The performance criteria attaching to awards under this plan are disclosed in notes 4, 5 and 6 to the 'Awards to Directors under the Bonus Deferral Share Matching Plan' table on page 75.

For the bonus earned in respect of the 2011 performance year (payable in early 2012), participants will be given the opportunity to defer up to 50% of their bonus under the BDSMP.

Targets for the 2011 matching awards were as follows:

EPS performance	Matching shares
20% pa	3x match
16% pa	2x match
12% pa	1x match
< 8% pa	0x match

There is straight-line vesting between each of the points above.

EPS growth is considered the best measure of performance for the BDSMP, as it provides alignment with Group strategy and good line-of-sight for management. The reference to RPI was removed for 2011 awards, following consultation with the Group's 10 largest shareholders, as UK Retail Price Inflation is not considered by the Committee to be a relevant benchmark for Morgan Crucible's profit growth, given 84% of sales are generated outside the UK. The Committee believes that the above targets are appropriately stretching and will continue to review the targets at the start of each award cycle.

During the year under review, 2008 BDSMP awards lapsed in full. The Committee expects a 1.8 times match vesting under the 2009 BDSMP (shares which would, subject to achievement of performance conditions, be released in 2012), in line with the Group's strong EPS performance over the three-year period to 1 January 2012. Details of the outcome of this award will be disclosed in next year's Report.

No changes will be made to the BDSMP opportunity, performance measures or targets in 2012.

Long Term Incentive Plan (LTIP)
The LTIP was introduced following shareholder approval in 2004. It offers executive Directors and other senior executives the opportunity to receive shares as a reward for outstanding performance. The scheme allows awards of up to 150% of basic salary, although in exceptional circumstances the Committee is able to make awards of up to 200% of basic salary. The vesting of the awards is subject to the achievement of performance targets measured over the three-year period from the start of the year in which the award is made.

During 2011, an award over 171,068 shares (equivalent to 111% of 2010 salary) was made to Mark Robertshaw, 97,147 shares (equivalent to 100% of 2010 salary) were awarded to Kevin Dangerfield, and 102,641 shares (equivalent to 100% of 2010 salary) were awarded to Andrew Hosty.

For the CEO and CFO, performance for these awards will be based 50% on EPS growth and 50% on TSR relative to the constituents of the FTSE All-Share Industrials Index, as follows:

TSR performance against FTSE All-Share Industrials Index	% of the award that vests	EPS growth	% of the award that vests
Upper-quartile-ranked performance	50%	15% pa	50%
Median-ranked performance	15%	8% pa	15%
Below-median-ranked performance	0%	< 8% pa	0%

Straight-line vesting applies between each point for both vesting schedules.

REMUNERATION REPORT
continued

Long Term Incentive Plan continued

The Committee must also be satisfied that the Group's underlying financial performance justifies the level of vesting.

To support the Group's Divisional structure, the Committee approved long-term incentive plans for senior Divisional executives tailored to the value creation of each Division. The LTIP within each Division is therefore based on performance against stretching EBITA growth and ROCE targets. For the Divisional CEOs, Andrew Hosty and Don Klas, half of their 2011 incentive is linked to Group TSR (as for the CEO and CFO) and half is based on the relevant Divisional EBITA and ROCE measures. This combination of measures is considered most appropriate for the Divisional CEOs, reflecting their roles as senior executives within the Group, as well as their roles as heads of Divisions. The stretching targets reflect the strategic plans within each of these Divisions.

For Andrew Hosty, CEO Morgan Ceramics, the Divisional portion of the 2011 LTIP will only vest if stretching performance is achieved, with no vesting occurring unless EBITA growth in Morgan Ceramics is at least 12% pa and ROCE is 35.7% in 2013; full vesting will occur for EBITA growth of 18% pa and ROCE of 40.7%.

During the year under review, the 2008 LTIP awards lapsed in full. The Committee expects full vesting of shares under the 2009 LTIP (shares which would be released in 2012), in line with the Group's strong EPS and TSR performance over the three-year period to 1 January 2012. Details of the outcome of this award will be disclosed in next year's Report.

For the awards to be granted in 2012, the Committee considered its desire to have the most relevant balance of measures that reflected feedback from shareholders and directly related to the stretching objectives in the Group's business plan. The Committee therefore decided on the introduction of a ROCE measure for the 2012-14 performance period. For the CEO and CFO, TSR, EPS and ROCE performance will be rewarded on an equal (one-third) basis as follows:

TSR performance against FTSE All-Share Industrials Index	% of the award that vests	EPS growth	% of the award that vests	ROCE	% of the award that vests
Upper-quartile-ranked performance	33%	15% pa	33%	37%	33%
Median-ranked performance	10%	8% pa	10%	33%	10%
Below-median-ranked performance	0%	< 8% pa	0%	< 33%	0%

For the Divisional CEOs, Andrew Hosty and Don Klas, a third of their 2012-14 LTIP will continue to be linked to Group TSR and two thirds will be based on the relevant Divisional EBITA and ROCE performance.

For Andrew Hosty, the Divisional portion of the LTIP will only vest if stretching performance is achieved, with no vesting occurring unless EBITA growth in Morgan Ceramics is at least 6% pa and the average ROCE for the three years ended 2012, 2013 and 2014 (Average ROCE) is 41%; full vesting will occur for EBITA growth of 15% per annum and Average ROCE of 43.5%.

The details of outstanding awards held by all Directors are shown on page 74.

Executive Share Option Scheme (ESOS)

The ESOS was approved by shareholders in 2004 and offers executive Directors and other senior executives the opportunity to receive options granted at the market price of the Company's shares at the time of the grant. The scheme allows awards of up to 150% of basic salary, although in exceptional circumstances the Committee is able to make awards of up to 200% of basic salary.

No awards were made under the ESOS in 2011. There is one outstanding award to Mark Robertshaw, who has a vested option from 2004 that he has not exercised (see Directors' share options table on page 73). There is currently no intention to make awards under the ESOS in 2012.

Savings-related Share Option Scheme (SAYE)

As UK employees, the executive Directors may also participate in the Savings-related Share Option Scheme on the same basis as other eligible employees and subject to UK legislation. Scheme members save a fixed amount per month over three years and options have been granted with an exercise price at 80% of the market price at the date of grant. Those Directors who received options under this scheme are shown in the table on page 76. No performance conditions apply to these options as they are a tax-efficient mechanism for all employees to acquire shares in the Company at their own cost.

Other benefits

Executive Directors are eligible to receive certain benefits including either a company car or a car allowance, health insurance and, where appropriate, relocation and other expenses.

Shareholding guidelines

In order to encourage alignment with shareholders, individual shareholding guidelines are operated for executive Directors and senior executives. Under such guidelines, executive Directors are encouraged to build and maintain over time a shareholding in the Company equivalent to at least 100% of basic salary. This policy is supported by the BDSMP under which participants are encouraged to invest their bonus in Company shares.

At the market price on 15 February 2012, Mark Robertshaw, Kevin Dangerfield and Andrew Hosty respectively held shares worth 372%, 246% and 165% of their basic salaries. More detail on Directors' interest in shares are shown on page 72.

Chairman and non-executive Directors

Annual fees paid to the Chairman are reviewed on a biennial basis. Tim Stevenson was appointed as Chairman on 1 December 2006 and the fee was first reviewed in December 2008. However, in view of the economic conditions at the time, the recommended increase was deferred for 12 months to 1 January 2010 when his fee was increased from £125,000 to £140,000. The Chairman's fee was next reviewed in December 2011. A fee increase to £150,000 was recommended with effect from 1 January 2012.

Non-executive Director fees are also reviewed biennially.

Following the biennial review in 2010, the annual fee for non-executive Directors was set at £42,000 pa. Additional payments of £8,000 are made to the Senior Independent Director, the Chairman of the Audit Committee and to the Chairman of the Remuneration Committee. No changes were made to non-executive fees during the year.

The Chairman and non-executive Directors are also entitled to reimbursement of expenses incurred in attending Board, strategy and other meetings.

None of the non-executive Directors has a service contract with the Company although they do have letters of appointment which contain no obligations relating to any notice period. There are no obligations on the Company to make any payments in lieu of notice to any non-executive Director. The non-executive Directors do not participate in any of the incentive, share or share option plans.

Service contracts

Executive Directors are employed on contracts subject to 12 months' notice at any time. Contracts may be terminated on 12 months' notice given by the Company or on six months' notice given by the Director concerned. Contracts end on each Director's anticipated normal retirement date. The following table shows the date of the contract for each executive Director who served during the year.

Executive Director	Date of appointment	Date of service agreement
Kevin Dangerfield	3 August 2006	15 August 2008
Mark Robertshaw	4 August 2006	15 August 2008
Andrew Hosty	28 July 2010	17 August 2010

The service agreements for Mark Robertshaw, Kevin Dangerfield and Andrew Hosty do not contain specific termination provisions.

In the event of early termination, the Company may be liable to pay an amount in damages having regard to salary, bonus and other benefits that would have been received had they served out their notice period. The value of any termination payment made will be at the judgment of the Committee having regard to all relevant factors including ensuring that the full benefit of mitigation is obtained. There is no automatic entitlement to bonus as part of the termination arrangements.

Company pensions policy

The three executive Directors participate in The Morgan Group Senior Staff Pension and Life Assurance Scheme which is a contributory, HMRC-registered, defined benefit, funded occupational pension scheme. With effect from 6 April 2006 the basis of the scheme changed from final salary to career average and the normal pension age increased by five years. Its main features are now:

- A normal pension age of 65.
- Pension at normal pension age based on two-thirds career average pensionable salary, subject to completion of at least 20 years' employment (26 years and eight months for joiners since 2006).
- Life assurance of four times basic salary.
- Dependants' pension on death.

Pensionable salary is the member's basic salary restricted to a scheme earnings cap of £129,600 for the 2011-12 tax year.

In addition, executive Directors received a pension allowance derived from employer contributions based notionally on the registered scheme pensionable salary in excess of the earnings cap. The value of the pension allowance for each executive Director is set out in the Directors' emoluments table on page 73.

The Committee has also reviewed the impact of the Government's new Annual Allowance limits on pension contributions. A small number of senior managers are impacted by these changes and Mark Robertshaw is the only Executive Director similarly affected at this time. The Company is currently involved in a consultation process over consequent changes to the scheme as a result of the new measures. The Committee decided it wished to provide allowances for those involved, though needs to wait for the outcome of the consultation process with Scheme members before its proposals can be confirmed. Overall, these allowances will be cost-neutral, and consistent with market practice. The allowance, if the proposals are confirmed, would be paid from April 2012 and will be reported in next year's Remuneration report.

REMUNERATION REPORT
continued

External directorships
With the approval of the Board in each case, and subject to the overriding requirements of the Group, executive Directors may accept external appointments as non-executive Directors of other companies and retain any fees received.

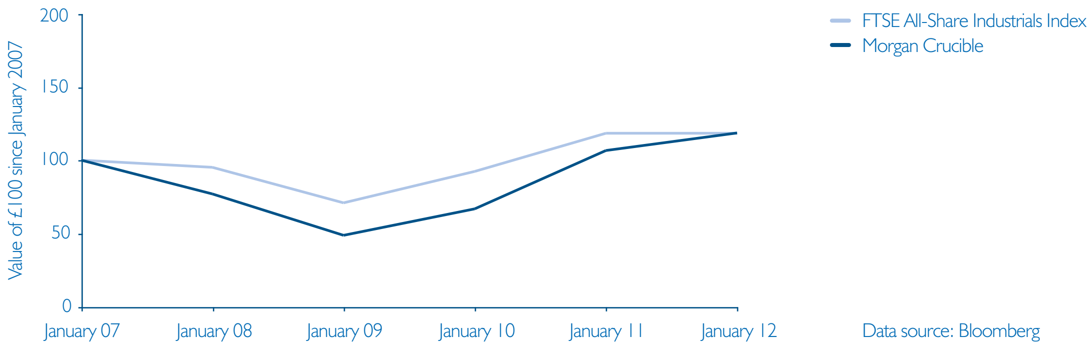
The total amount of fees received by Mark Robertshaw in respect of his non-executive Directorship was £53,000.

The total amount of fees received by Kevin Dangerfield in respect of his non-executive Directorship was £32,300.

The total amount of fees received by Andrew Hosty in respect of his non-executive Directorship was £6,750.

Performance graph
The following graph shows the cumulative total shareholder return (TSR) for the Company for the five-year period to 1 January 2012 against the FTSE All-Share Industrials Index. Both are rebased to 100 as at 5 January 2006. The FTSE All-Share Industrials Index is considered to be appropriate for comparison as it is a broad market index and the Company forms part of that index.

Total shareholder return for the five-year period January 2007 to January 2012



Data source: Bloomberg

The auditors are required to report on the following information:

Directors' interests in shares
Directors' interests in the Ordinary share capital of the Company are as follows:

	As at 2 January 2011	As at 1 January 2012	As at 15 February 2012*
Executive Directors			
Mark Robertshaw	348,525	502,057	504,614
Kevin Dangerfield	138,914	197,589	197,790
Andrew Hosty	98,213	144,778	145,727
Non-executive Directors			
Tim Stevenson	29,000	29,000	29,000
Martin Flower	15,000	15,000	15,000
Simon Heale	18,000	18,000	18,000
Andrew Given	10,000	10,000	10,000

* The date of report. As at 28 February 2012, there was no change to the details listed in the above table.

Directors' emoluments

	Fees/salary £000		Annual bonus £000[1]		Other benefits £000[2]		Total emoluments £000		Pension allowance £000		Other payments £000		Total remuneration £000	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
Executive Directors														
Mark Robertshaw	**465**	450	**465**	450	**14**	13	**944**	913	**114**	114	**–**	–	**1,058**	1027
Kevin Dangerfield	**275**	265	**275**	265	**14**	13	**564**	543	**66**	66	**–**	–	**630**	609
Andrew Hosty[3]	**305**	270	**297**	300	**12**	11	**614**	581	**72**	63	**–**	–	**686**	644
Non-executive Directors														
Tim Stevenson (Chairman)	**140**	140	**–**	–	**–**	–	**140**	140	**–**	–	**–**	–	**140**	140
Martin Flower	**50**	45	**–**	–	**–**	–	**50**	45	**–**	–	**–**	–	**50**	45
Andrew Given	**50**	48	**–**	–	**–**	–	**50**	48	**–**	–	**–**	–	**50**	48
Simon Heale	**50**	45	**–**	–	**–**	–	**50**	45	**–**	–	**–**	–	**50**	45

1. Annual bonus shows the total bonus payable in respect of the relevant year. Mark Robertshaw voluntarily deferred 50% of his 2010 bonus award into the Bonus Deferral Share Matching Plan as set out in the table on page 75. Kevin Dangerfield deferred 25% and Andrew Hosty deferred 40% of their 2010 bonuses, also shown in the same table.
2. Other benefits include private medical insurance and a company car/car allowance.
3. Andrew Hosty's salary received reflects an increase in his annual salary from £240,000 to £300,000 on his appointment to the Board on 28 July 2010.

Directors' share options

	At 2 January 2011	Granted during the year	Exercised during the year	Lapsed during the year	At 1 January 2012	Exercise price	Earliest date of exercise	Expiry date
Mark Robertshaw	200,000	–	–	–	200,000	145.275p	01.11.07	01.11.14
Kevin Dangerfield	10,520	–	–	10,520	–	180.08p	23.11.04	23.11.11

The performance measure for the Executive Share Option Scheme awards above was based on the Company's TSR performance against the FTSE 350. 30% of the awards vest for achieved median-ranked performance with full vesting for upper-quartile-ranked performance. For performance between median and upper quartile, awards vest on a straight-line pro-rata basis.

The share price at the year end was 263.0 pence and the high and low during the year were 357.1 pence and 224.0 pence respectively.

REMUNERATION REPORT
continued

Awards to Directors under the Long Term Incentive Plan

	As at 2 January 2011	Allocations during the year	Shares released during the year	Shares lapsed during the year	As at 1 January 2012	Market price at date of allocation	Market price at date of release	Performance periods
Mark Robertshaw								
2008 LTIP	220,000	–	–	220,000	–	203p	–	05.01.08 – 04.01.11
2009 LTIP	489,705	–	–	–	489,705	89.85p	–	05.01.09 – 04.01.12
2010 LTIP	214,529	–	–	–	214,529	205.10p	–	04.01.10 – 31.12.12
2011 LTIP	–	171,068	–	–	171,068	292.28p	–	03.01.11 – 29.12.13
Kevin Dangerfield								
2008 LTIP	120,000	–	–	120,000	–	203p	–	05.01.08 – 04.01.11
2009 LTIP	283,806	–	–	–	283,806	89.85p	–	05.01.09 – 04.01.12
2010 LTIP	118,939	–	–	–	118,939	205.10p	–	04.01.10 – 31.12.12
2010 LTIP – CSOP	5,390	–	–	–	5,390	205.10p	–	04.01.10 – 31.12.12
2010 LTIP – Funding	5,390	–	–	–	5,390	205.10p	–	04.01.10 – 31.12.12
2011 LTIP	–	84,185	–	–	84,185	292.28p	–	03.01.11 – 29.12.13
2011 LTIP – CSOP	–	6,481	–	–	6,481	292.28p	–	03.01.11 – 29.12.13
2011 LTIP – Funding	–	6,481	–	–	6,481	292.28p	–	03.01.11 – 29.12.13
Andrew Hosty								
2008 LTIP	120,000	–	–	120,000	–	203p	–	05.01.08 – 04.01.11
2009 LTIP	267,111	–	–	–	267,111	89.85p	–	05.01.09 – 04.01.12
2010 LTIP	102,389	–	–	–	102,389	205.10p	–	04.01.10 – 31.12.12
2010 LTIP – CSOP	14,627	–	–	–	14,627	205.10p	–	04.01.10 – 31.12.12
2010 LTIP – Funding	14,627	–	–	–	14,627	205.10p	–	04.01.10 – 31.12.12
2011 LTIP	–	102,641	–	–	102,641	292.28p	–	03.01.11 – 29.12.13

Notes:
1. Awards granted to executive Directors in 2008 were subject to relative TSR and EPS. The EPS target (applying to 50% of each award) requires three-year EPS growth of RPI+4% pa for 30% of that element to vest rising to full vesting for EPS growth of RPI+10% pa or higher. The TSR target (applying to the other 50% of each award) requires Morgan Crucible's three-year TSR performance to rank at median against 17 industrial and engineering comparators for 30% of that element to vest, rising to full vesting if Morgan Crucible's TSR ranks at or above the upper quartile against these peers. The performance conditions attached to the 2008 LTIP awards were not met and therefore awards lapsed in full.
2. Awards granted to executive Directors in 2009 were subject to relative TSR. The TSR target required Morgan Crucible's three-year TSR performance to rank at median against 17 industrial and engineering comparators for 30% of that element to vest, rising to full vesting if Morgan Crucible's TSR ranks at or above the upper quartile against these peers. At the end of the performance period, Morgan Crucible's TSR performance resulted in 100% vesting. Vested awards will not be released until the third anniversary of grant (27 February 2012).
3. Awards granted to executive Directors in 2010 are subject to relative TSR and EPS. The EPS target (applying to 50% of each award) requires three-year EPS growth of RPI+4% pa for 30% of that element to vest rising to full vesting for EPS growth of RPI+10% pa or higher. The TSR target (applying to the other 50% of each award) requires Morgan Crucible's three-year TSR performance to rank at median against 23 industrial and engineering comparators for 30% of that element to vest, rising to full vesting if Morgan Crucible's TSR ranks at or above the upper quartile against these peers.
4. Awards granted to executive Directors in 2011 are subject to relative TSR and EPS. The EPS target (applying to 50% of each award) requires three-year EPS growth year EPS growth above a threshold of 8% pa of that element to vest, commencing at 30% vesting for that element, rising to full vesting for EPS growth of 15% pa or higher. The TSR target (applying to the other 50% of each award) requires Morgan Crucible's three-year TSR performance to rank at median against the FTSE All-Share Industrials Index for 30% of that element to vest, rising to full vesting if Morgan Crucible's TSR ranks at or above the upper quartile against the companies in this index.
5. LTIP awards made in 2010 to Kevin Dangerfield and Andrew Hosty are structured as an Approved Performance Share Plan (APSP) and comprise three elements: (i) HM Revenue & Customs (HMRC) approved options (CSOP) over shares to the value of up to £30,000 with an exercise price of 205.1 pence per share; (ii) an LTIP award in the form of a conditional award of free shares to the value of the remainder of the award above this limit; and (iii) a funding award, also in the form of a conditional award of free shares, over such numbers of shares whose value at exercise at the approved option equals £30,000. The provisions of these CSOP options, funding awards and LTIP awards are linked so that the maximum aggregate number of shares that can be acquired on exercise of LTIP and CSOP awards (the funding award being used to pay the exercise price arising on exercise of the CSOP) is limited to that number of shares that had a market value on the date of the awards equal to 100% of Kevin Dangerfield's 2009 base salary and £240,000 for Andrew Hosty ('the limit'). Vested funding awards are not transferred to the participant.

Awards to Directors under the Bonus Deferral Share Matching Plan

	As at 2 January 2011	Allocations during the year	Shares released during the year	Shares lapsed during the year	As at 1 January 2012	Market price at date of allocation	Market price at date of release	Performance periods
Mark Robertshaw								
2008 Award								
Matching shares[2]	314,229	–	–	314,229	–	197.625p	–	05.01.08 – 04.01.11
2009 Award								
Investment shares[1]	48,222	–	–	–	48,222	80.75p	–	–
Matching shares[2]	245,201	–	–	–	245,201	80.75p	–	05.01.09 – 04.01.12
2010 Award								
Investment shares[1]	20,635	–	–	–	20,635	188.70p	–	–
Matching shares[2]	104,928	–	–	–	104,928	188.70p	–	04.01.10 – 30.12.12
2011 Award								
Investment shares[1]	–	74,875	–	–	74,875	300.50p	–	–
Matching shares[2]	–	224,625	–	–	224,625	300.50p	–	03.01.11 – 29.12.13
2008 Replacement Deferred Award	68,675	–	68,675	–	–	188p	–	–
Kevin Dangerfield								
2008 Award								
Matching shares[2]	174,798	–	–	174,798	–	197.625p	–	05.01.08 – 04.01.11
2009 Award								
Investment shares[1]	13,973	–	–	–	13,973	80.75p	–	–
Matching shares[2]	71,052	–	–	–	71,052	80.75p	–	05.01.09 – 04.01.12
2011 Award								
Investment shares[1]	–	22,046	–	–	22,046	300.50p	–	–
Matching shares[2]	–	66,138	–	–	66,138	300.50p	–	03.01.11 – 29.12.13
2008 Replacement Deferred Award	38,202	–	38,202	–	–	188p	–	–
Andrew Hosty								
2008 Award								
Matching shares[2]	160,956	–	–	160,956	–	197.625p	–	05.01.08 – 04.01.11
2009 Award								
Investment shares[1]	71,042	–	–	–	71,042	80.75p	–	–
Matching shares	361,233	–	–	–	361,233	80.75p	–	05.01.09 – 04.01.12
2011 Award								
Investment shares[1]	–	39,933	–	–	39,933	300.50p	–	–
Matching shares[2]	–	119,799	–	–	119,799	300.50p	–	03.01.11 – 29.12.13
2008 Replacement Deferred Award	35,175	–	35,175	–	–	188p	–	–

1. Investment shares represent those shares acquired with a portion of the bonus set out in the emoluments table on page 73 voluntarily deferred into the Bonus Deferral Share Matching Plan.
2. This is the maximum number of shares based on the pre-tax value of the deferred shares that could be earned at the end of the performance period if the performance condition set out on page 69 is met in full.
3. In 2008 the executive Directors deferred their bonus payment on a gross basis and in 2009 and 2010 deferral was on a net basis. In 2011 deferral was on a gross basis, as it will be for 2012. The flexibility to defer on either basis is within the Plan rules.
4. Matching awards granted to executive Directors in 2008 and 2010 are subject to three-year EPS growth. The EPS target requires three-year EPS growth of RPI+4% pa for a 0.25x match, RPI+5% pa for a 0.5x match, RPI+7.5% pa for a 1x match, RPI+10% pa for a 1.75x match and RPI+15% pa or higher for a 3x match. There is straight-line vesting between these points. The performance conditions attached to the 2008 BDSMP awards were not met and therefore matching awards lapsed in full.
5. Matching awards granted to executive Directors in 2009 are subject to three-year EPS growth. The EPS target requires three-year EPS growth of 4% pa for a 0.25x match, 5% pa for a 0.5x match, 7.5% pa for a 1x match, 10% pa for a 1.75x match and 15% pa or higher for a 3x match. There is straight-line vesting between these points. The performance targets for awards made in 2009 did not reference growth above RPI. Given the difficult economic climate at that time the Committee considered the targets to be stretching.
6. Matching awards granted to executive Directors in 2011 are subject to three-year EPS growth. The EPS target requires three-year EPS growth above a threshold of 8% pa before any matching, 12% pa for a 1x match, 16% pa for a 2x match, and 20% pa or higher for a 3x match. There is straight-line vesting between these points.

Note: Prior to 6 April 2010, the Committee amended the terms of the 2008 Investment shares, in line with the plan rules, to allow individuals to crystallise the tax due on their earned deferred bonus awards. This decision has not resulted in any additional costs to the Company. The net value of these awards will continue to be held until the normal vesting date. No amendment has been made to the terms of the matching shares.

REMUNERATION REPORT
continued

Options under the Sharesave scheme

	As at 2 January 2011	Granted during the year	Exercised during the year	Lapsed during the year	As at 1 January 2012	Exercise price	Exercise periods
Mark Robertshaw							
2010 scheme	5,454	–	–	–	5,454	165p	01.12.13 – 31.05.14
Kevin Dangerfield							
2008 scheme	5,680	–	5,680	–	–	169p	01.12.11 – 31.05.12
2011 scheme	–	4,225	–	–	4,225	213p	01.12.14 – 31.05.15
Andrew Hosty							
2008 scheme	4,544	–	4,544	–	–	169p	01.12.11 – 31.05.12
2009 scheme	1,417	–	–	–	1,417	128p	01.12.12 – 31.05.13
2011 scheme	–	3,380	–	–	3,380	213p	01.12.14 – 31.05.15

Pension benefits earned by the Directors

The three executive Directors participate in The Morgan Group Senior Staff Pension and Life Assurance Scheme. This is a contributory, HMRC-registered, defined benefit, UK occupational pension scheme. As noted above, the scheme was amended on 6 April 2006.

Executive Directors	Accrued benefits at 1 January 2012 £000	Increase in accrued benefits excluding inflation (A) £000	Increase in accrued benefits including inflation £000	Transfer value of (A) less Director's contributions £000	Transfer value of accrued benefits at 2 January 2011 £000	Transfer value of accrued benefits at 1 January 2012 £000	Increase/ (decrease) in transfer value less Director's contributions £000
Mark Robertshaw	25	3	4	24	210	340	111
Kevin Dangerfield	34	2	4	21	366	532	155
Andrew Hosty	46	2	4	19	578	803	214

Notes re pension benefits:
1. The accrued benefit entitlement for Mark Robertshaw, Kevin Dangerfield and Andrew Hosty is the pension that would be paid annually on retirement based on service at the end of the year.
2. The transfer values for the pension benefits have been calculated on the basis set by the Trustee of the pension scheme. The Trustee of the pension scheme is an independent body that is separate from the Company and they must calculate transfer values in accordance with legislation, having taken actuarial advice from an independent adviser. The assumptions used in the calculation of transfer values depend on market conditions. Over the year, Government bond yields fell. This movement increases the assessed transfer values and was much more significant than the increase in accrued benefits over the year.
3. Members of the pension scheme had the option to pay Additional Voluntary Contributions. Neither the contributions nor the resulting benefits are included in the above table.

Mark Robertshaw, Kevin Dangerfield and Andrew Hosty also received a pension allowance, details of which are set out in the Directors' emoluments table on page 73.

The Directors' Remuneration report has been approved by the Board and is signed on its behalf by:

Simon Heale
Chairman
Remuneration Committee
15 February 2012

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE MORGAN CRUCIBLE COMPANY PLC

We have audited the financial statements of The Morgan Crucible Company plc for the year ended 1 January 2012 set out on pages 78 to 139. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent Company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor
As explained more fully in the Directors' responsibilities statement set out on page 65, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements
In our opinion:

- The financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 1 January 2012 and of the Group's profit for the year then ended;
- The Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- The parent Company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice;
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion:

- The part of the Directors' Remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- The information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.
- Information given in the Corporate governance statement set out on pages 58 to 64 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- Adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- The parent Company financial statements and the part of the Directors' Remuneration report to be audited are not in agreement with the accounting records and returns; or
- We have not received all the information and explanations we require for our audit; or
- Certain disclosures of the Directors' remuneration specified by law are not made; or
- A Corporate governance statement has not been prepared by the Company.

Under the Listing Rules we are required to review:

- The Directors' statement, set out on page 47, in relation to going concern;
- The part of the Corporate governance statement on pages 58 to 64 relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- Certain elements of the report to shareholders by the Board on Directors' remuneration.

Stephen Cooper (Senior Statutory Auditor) for and on behalf of KPMG Audit plc, Statutory Auditor
Chartered Accountants
15 Canada Square, London E14 5GL
15 February 2012

CONSOLIDATED INCOME STATEMENT

for the year ended 1 January 2012

	Note	2011 £m	2010 £m
Revenue	2	**1,101.0**	1,017.1
Operating costs before restructuring costs, other one-off items and amortisation of intangible assets	4	**(957.6)**	(907.6)
Profit from operations before restructuring costs, other one-off items and amortisation of intangible assets		**143.4**	109.5
Restructuring costs and other one-off items:	8		
Restructuring costs		**(5.6)**	(8.5)
Gain on disposal of properties		**2.4**	0.6
Net pension credit		**1.3**	–
Profit from operations before amortisation of intangible assets	2	**141.5**	101.6
Amortisation of intangible assets	4	**(8.3)**	(8.0)
Operating profit	2	**133.2**	93.6
Finance income		**27.7**	29.0
Finance expense		**(49.5)**	(54.9)
Net financing costs	6	**(21.8)**	(25.9)
Profit before taxation		**111.4**	67.7
Income tax expense	7	**(32.6)**	(19.7)
Profit for the period		**78.8**	48.0
Profit for period attributable to:			
Owners of the parent		**73.0**	42.5
Non-controlling interests		**5.8**	5.5
		78.8	48.0
Earnings per share	9		
Basic		**26.9p**	15.8p
Diluted		**25.7p**	15.0p
Dividends			
Proposed interim dividend – pence		**3.25p**	2.70p
– £m		**8.9**	7.3
Proposed final dividend – pence		**6.00p**	5.00p
– £m		**16.4**	13.6

The proposed interim and final dividends (2010: actual) are based upon the number of shares outstanding at the balance sheet date.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 1 January 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
2010							
Profit for the year	–	–	–	42.5	42.5	5.5	48.0
Foreign exchange translation differences	3.5	–	–	–	3.5	2.7	6.2
Actuarial loss on defined benefit plans	–	–	–	(6.1)	(6.1)	–	(6.1)
Net loss on hedge of net investment in foreign subsidiary	(0.6)	–	–	–	(0.6)	–	(0.6)
Cash flow hedges:							
Effective portion of changes in fair value	–	0.6	–	–	0.6	–	0.6
Transferred to profit or loss	–	(0.5)	–	–	(0.5)	–	(0.5)
Change in fair value of equity securities available-for-sale	–	–	0.2	–	0.2	–	0.2
Tax effect on components of other comprehensive income	–	–	–	2.6	2.6	–	2.6
Total comprehensive income, net of tax	2.9	0.1	0.2	39.0	42.2	8.2	50.4
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**

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CONSOLIDATED BALANCE SHEET

as at 1 January 2012

	Note	2011 £m	2010 £m
Assets			
Property, plant and equipment	10	**259.8**	269.2
Intangible assets	11	**283.3**	285.0
Investments	12	**6.1**	7.1
Other receivables		**4.2**	2.0
Deferred tax assets	13	**41.1**	38.5
Total non-current assets		**594.5**	601.8
Inventories	14	**166.6**	161.0
Derivative financial assets	19	**1.6**	0.7
Trade and other receivables	15	**195.3**	184.7
Cash and cash equivalents	16	**83.4**	85.0
Total current assets		**446.9**	431.4
Total assets		**1,041.4**	1,033.2
Liabilities			
Interest-bearing loans and borrowings	18	**287.3**	310.4
Employee benefits	20	**135.1**	103.9
Provisions	21	**7.0**	7.6
Non-trade payables	22	**10.5**	13.6
Deferred tax liabilities	13	**44.5**	45.2
Total non-current liabilities		**484.4**	480.7
Interest-bearing loans and borrowings and bank overdrafts	18	**11.5**	10.8
Trade and other payables	22	**251.3**	265.4
Current tax payable		**10.8**	5.8
Provisions	21	**12.0**	12.8
Derivative financial liabilities	19	**1.2**	5.6
Total current liabilities		**286.8**	300.4
Total liabilities		**771.2**	781.1
Total net assets		**270.2**	252.1
Equity			
Share capital	17	**68.7**	68.5
Share premium		**90.6**	88.3
Reserves		**60.4**	64.6
Retained earnings		**9.7**	(6.4)
Total equity attributable to equity owners of parent Company		**229.4**	215.0
Non-controlling interests		**40.8**	37.1
Total equity		**270.2**	252.1

The financial statements were approved by the Board of Directors on 15 February 2012 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 1 January 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 4 January 2010	67.9	85.3	10.1	0.2	(1.7)	6.0	35.7	11.1	(30.0)	184.6	30.0	214.6
Profit for the year	–	–	–	–	–	–	–	–	42.5	42.5	5.5	48.0
Other comprehensive income	–	–	2.9	0.1	0.2	–	–	–	(3.5)	(0.3)	2.7	2.4
Transactions with owners:												
Dividends	0.5	2.9	–	–	–	–	–	–	(18.9)	(15.5)	(1.1)	(16.6)
Equity-settled share-based payment transactions	–	–	–	–	–	–	–	–	3.5	3.5	–	3.5
Issue of shares	0.1	0.1	–	–	–	–	–	–	–	0.2	–	0.2
Balance at 2 January 2011	68.5	88.3	13.0	0.3	(1.5)	6.0	35.7	11.1	(6.4)	215.0	37.1	252.1
Balance at 3 January 2011	**68.5**	**88.3**	**13.0**	**0.3**	**(1.5)**	**6.0**	**35.7**	**11.1**	**(6.4)**	**215.0**	**37.1**	**252.1**
Profit for the 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**

Details of the reserves are provided in note 17.

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 1 January 2012

	Note	2011 £m	2010 £m
Operating activities			
Profit for the period		**78.8**	48.0
Adjustments for:			
Depreciation	4	**31.1**	32.3
Amortisation	4	**8.3**	8.0
Net financing costs		**21.8**	25.9
Profit on sale of property, plant and equipment		**(2.6)**	(0.5)
Income tax expense	7	**32.6**	19.7
Equity-settled share-based payment expenses		**5.9**	3.1
Cash generated from operations before changes in working capital and provisions		**175.9**	136.5
Increase in trade and other receivables		**(12.9)**	(13.7)
Increase in inventories		**(7.7)**	(11.6)
(Decrease)/increase in trade and other payables		**(8.5)**	35.8
Decrease in provisions and employee benefits		**(17.5)**	(6.7)
Cash generated from operations		**129.3**	140.3
Interest paid		**(22.0)**	(25.7)
Income tax paid		**(25.6)**	(24.1)
Net cash from operating activities		**81.7**	90.5
Investing activities			
Purchase of property, plant and equipment		**(28.7)**	(19.1)
Proceeds from sale of property, plant and equipment		**3.2**	2.1
Sale of investments		**0.7**	0.3
Interest received		**1.6**	3.0
Acquisition of subsidiaries, net of cash acquired		**(10.4)**	(32.9)
Forward contracts used in net investment hedging		**(4.8)**	(6.0)
Net cash from investing activities		**(38.4)**	(52.6)
Financing activities			
Purchase of own shares for share incentive schemes		**(3.2)**	–
Increase in borrowings	16	**–**	54.3
Repayment of borrowings	16	**(24.4)**	(102.1)
Payment of finance lease liabilities	16	**(0.4)**	(0.5)
Dividends paid		**(18.4)**	(15.4)
Net cash from financing activities		**(46.4)**	(63.7)
Net decrease in cash and cash equivalents		**(3.1)**	(25.8)
Cash and cash equivalents at start of period		**85.0**	107.6
Effect of exchange rate fluctuations on cash held		**1.5**	3.2
Cash and cash equivalents at period end	16	**83.4**	85.0

A reconciliation of cash and cash equivalents to net borrowings is shown in note 16.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Accounting policies, estimates and judgments

Accounting policies

The Morgan Crucible Company plc (the 'Company') is a company incorporated in the UK.

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the 'Group'), and include the Group's interest in associates. The parent Company financial statements present information about the Company as a separate entity and not about its Group. These consolidated financial statements have been drawn up to Sunday 1 January 2012. The Group maintains a 52- or 53-week fiscal year ending on the Sunday nearest to the Accounting Reference Date of the Company, 1 January.

The Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU (adopted IFRSs). The Company has elected to prepare its parent Company financial statements in accordance with UK Generally Accepted Accounting Practice; these are presented on pages 129 to 138.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Group financial statements.

During the period, the Group has applied amendments to the following adopted IFRSs: IFRS 3 (Revised 2008) *Business Combinations – Unreplaced and Voluntarily Replaced Share-Based Payment Awards*, IFRS 3 (Revised 2008) *Business Combinations – Transitional Requirements for Contingent Consideration From a Business Combination That Occurred Before the Effective Date of the Revised IFRS*, IAS 24 *Related Party Disclosures*, IAS 32 *Classification of Rights Issues*, IFRIC 14 *Prepayments of a Minimum Funding Requirement* and IFRIC 19 *Extinguishing Financial Liabilities*. The above amendments have not had any significant impact on the reported results or financial position of the Group.

(a) Measurement convention

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments and financial instruments available-for-sale.

(b) Functional and presentation currency

The Group financial statements are presented in pounds sterling, which is the Company's functional currency.

(c) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity. Associates are accounted for using the equity method and are initially recognised at cost.

(iii) Transactions eliminated on consolidation

Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated against the investment to the extent of the Group's interest in the associate. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(d) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to pounds sterling at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to pounds sterling at foreign exchange rates ruling at the dates the fair value was determined.

(ii) Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to pounds sterling at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to pounds sterling at an average rate for the period where this approximates to the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation since the adoption of IFRS are recognised directly in Other Comprehensive Income (OCI).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
continued

1. Accounting policies, estimates and judgments continued

(e) Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for at fair value through profit or loss.

Derivative financial instruments are recognised initially at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

The fair value of forward exchange contracts is the present value of their quoted forward price on the balance sheet date.

(f) Hedging

(i) Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a highly probable forecasted transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in OCI. The associated gain or loss is removed from equity and recognised in the income statement in the period in which the transaction to which it relates occurs.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in the hedging reserve and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in the hedging reserve is recognised immediately in the income statement.

(ii) Hedge of monetary assets and liabilities

Where a derivative financial instrument is used to hedge economically the foreign exchange exposure of a recognised monetary asset or liability, no hedge accounting is applied and any gain or loss on the hedging instrument is recognised in the income statement.

(iii) Hedge of net investment in foreign operations

The portion of the gain or loss on an instrument used to hedge a net investment in a foreign operation that is determined to be an effective hedge is recognised directly in the translation reserve. The ineffective portion is recognised immediately in profit or loss. When the hedged net investment is disposed of the relevant amount in the translation reserve is transferred to profit or loss on disposal.

(iv) Fair value hedges

Where a derivative financial instrument is designated as a hedge of the variability in fair value of a recognised asset or liability or an unrecognised firm commitment, all changes in the fair value of the derivative are recognised immediately in the income statement. The carrying value of the hedged item is adjusted by the change in fair value that is attributable to the risk being hedged (even if it is normally carried at cost or amortised cost) and any gains or losses on remeasurement are recognised immediately in the income statement.

(g) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are stated at cost, or at deemed cost, less accumulated depreciation (see below) and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour, and an appropriate proportion of production overheads.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Gains and losses on the disposal of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of the asset. Gains and losses on the disposal of property are recognised in 'Other one-off items' in the income statement. Gains and losses on the disposal of plant and equipment are recognised in 'Operating costs' in the income statement.

(ii) Leased assets

Leases under the terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Leased assets acquired by way of a finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

(iii) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. Depreciation methods, useful lives and residual values are reviewed at each balance sheet date. The estimated useful lives are as follows:

– Buildings	50 years
– Plant and equipment and fixtures	3-20 years

1. Accounting policies, estimates and judgments continued

(h) Intangible assets

(i) Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill represents the difference between the cost of the acquisition and the fair value of assets, liabilities and contingent liabilities acquired.

Goodwill is allocated to cash-generating units and is tested annually for impairment.

(ii) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development, use and sale of products or processes. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Capitalised development expenditure is stated at cost less accumulated amortisation (see below) and impairment losses. Other development expenditure is recognised in the income statement as an expense as incurred.

(iii) Other intangible assets

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (see below) and impairment losses.

(iv) Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Goodwill and intangible assets with an indefinite useful life are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

– Capitalised development costs	3 years
– Computer software	3-6 years
– Customer relationships	15-20 years
– Technology	15-20 years
– Order book	Amortised over the period in which the associated orders are fulfilled

(i) Trade and other receivables

Trade and other receivables are initially stated at their fair value and subsequently measured at amortised cost less impairment losses (see accounting policy 'l').

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

(k) Cash and cash equivalents

Cash and cash equivalents comprises cash balances and call deposits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
continued

1. Accounting policies, estimates and judgments continued

(l) Impairment

The carrying amounts of the Group's assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated (see (i) below).

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro-rata basis.

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in OCI and there is objective evidence that the asset is permanently impaired, the cumulative loss that had been recognised directly in OCI is recognised in profit or loss. A significant or prolonged decline in an available-for-sale financial asset's fair value below its cost is objective evidence of impairment. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

(i) Calculation of recoverable amount

The recoverable amount of the Group's investments in receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (ie the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted. The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

An impairment loss in respect of a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed through profit or loss. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognised in profit or loss.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and when there is an indication that the impairment loss may no longer exist.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(m) Share capital

(i) Ordinary share capital

Ordinary shares are classified as equity.

(ii) Preference share capital

Preference share capital is classified as equity if it is non-redeemable and any dividends are discretionary, or is redeemable but only at the Company's option. Dividends on Preference share capital classified as equity are recognised as distributions within equity.

(iii) Repurchase of share capital and own shares (treasury shares) held by The Morgan General Employee Benefit Trust (the Trust)

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, is net of any tax effects, and is recognised as a deduction from equity. Repurchased shares and the purchase of own shares by the Trust are presented as a deduction from total equity.

1. Accounting policies, estimates and judgments continued

(n) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

(ii) Defined benefit plans

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The discount rate is the yield at the balance sheet date on AA credit-rated bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the total of any unrecognised past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities. Actuarial gains and losses, differences between the expected and actual returns, and the effect of changes in actuarial assumptions, are recognised in full in OCI in the year in which they arise.

(iii) Long-term service benefits

The Group's net obligation in respect of long-term service benefits, other than pension plans, is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method, or similar approximation, and is discounted to its present value and the fair value of any related assets is deducted. The discount rate is the yield at the balance sheet date on AA-credit-rated bonds that have maturity dates approximating the terms of the Group's obligations.

(iv) Share-based payment transactions

The grant date fair value of share-based payment awards granted to employees is recognised as an expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market performance conditions are met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

(o) Provisions

A provision is recognised in the balance sheet when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the obligation. The best estimate of the expenditure required to settled the present obligation is the amount that an entity would rationally pay to settle the obligation at the end of the reporting period or to transfer it to a third party at that time. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(i) Restructuring

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly. Future operating costs are not provided for.

(ii) Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

(iii) Environmental

In accordance with the Group's Environmental Policy a provision is recognised for known environmental issues which the Group will rectify over the next few years. In a number of jurisdictions companies have a constructive obligation to remedy any known environmental problems.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
continued

1. Accounting policies, estimates and judgments continued

(p) Trade and other payables
Trade and other payables are initially stated at their fair value and subsequently measured at amortised cost.

(q) Revenue
Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

(r) Expenses
(i) Operating lease payments
Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

(ii) Finance lease payments
Leases where the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases as if the asset had been purchased outright. Assets acquired under finance leases are recognised as assets of the Group and the capital elements of the leasing commitments are shown as obligations in creditors. Depreciation is charged on a basis consistent with similar owned assets or over the lease term if shorter. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(iii) Net financing costs
Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, interest receivable on funds invested, gains and losses on hedging instruments that are recognised in the income statement, expected return on IAS 19 pension assets and interest on IAS 19 obligations. Interest income is recognised in the income statement as it accrues, using the effective interest method.

Borrowing costs (interest and other costs) are capitalised when they are incurred on raising specific funds to finance a major capital project which will be a significant productive asset, or to the extent that funds borrowed generally are used for the purposes of obtaining a qualifying asset.

(s) Income tax
Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in OCI, in which case it is recognised in OCI.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

1. Accounting policies, estimates and judgments continued

(t) Segment reporting

The Group has identified four reportable operating segments. These have been identified on the basis of internal management reporting information that is regularly reviewed by the Group's Chief Operating Decision Maker in order to allocate resources and assess performance.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly investments and related income, loans and borrowings and related expenses, corporate assets (primarily the Company's headquarters) and head office expenses, and income tax assets and liabilities.

(u) Classification of financial instruments issued by the Group

Financial instruments issued by the Group are treated as equity (ie forming part of shareholders' funds) only to the extent that they meet the following two conditions:

(i) they include no contractual obligations upon the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and

(ii) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called-up share capital and share premium account exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with as part of finance expenses. Finance payments associated with financial instruments that are classified in equity are dividends and are recorded directly in equity.

(v) Investments in debt and equity securities

Investments in debt and equity securities held by the Group are classified as being available-for-sale and are stated at fair value, with any resultant gain or loss being recognised directly in OCI (in the fair value reserve), except for impairment losses and, in the case of monetary items such as debt securities, foreign exchange gains and losses. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss.

(w) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

(x) Dividends

Dividends payable are recognised as a liability in the period in which they are declared and approved.

(y) Step acquisitions

Step acquisitions arise when the Group acquires control of an entity through successive share purchases. The identifiable assets, liabilities and contingent liabilities acquired are recorded at fair value on the date that control is acquired. For step acquisitions occurring before 3 January 2010 the amount recognised as goodwill or negative goodwill is determined separately for each tranche acquired, calculated as the difference between the fair value of the consideration paid and the fair value of the identifiable assets, liabilities and contingent liabilities acquired, in accordance with IFRS 3 *Business Combinations (2004)*. Any changes in the fair value of the identifiable assets and liabilities acquired between the acquisition date and the date that control is obtained are recorded in other reserves in equity to the extent that they have not previously been recognised in the income statement. Any future step acquisitions would be accounted for in accordance with IFRS 3 *Business Combinations (2008)*.

(z) New Standards and Interpretations not yet adopted

There were no new standards or amendments to standards and interpretations not yet effective but available for early application that would have had any significant impact on the financial statements for the year ended 1 January 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
continued

1. Accounting policies, estimates and judgments continued

Accounting estimates and judgments

Judgments made by the Directors in the application of these accounting policies that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed below.

Management discussed with the Audit Committee the development, selection and disclosure of the Group's critical accounting policies and estimates and the application of these policies and estimates. The following accounting estimates are subject to significant uncertainty:

Provisions

Note 21 contains information about provisions. Provisions for closure and restructuring costs, environmental issues and settlement of litigation are judgmental by their nature. Amounts provided are the Group's best estimate of exposure based on currently available information.

Recognition of identifiable intangible assets and goodwill

Note 3 contains information about intangible assets recognised on acquisition. These primarily relate to existing contracts, order books and customer relationships, which are supported by long-term relationships with key customers. The Group has estimated that the customer relationships have an economic life of 15-20 years.

Remeasurement of deferred contingent consideration

Note 3 contains information on deferred contingent consideration, arising as an element of the fair value of consideration on acquisition. Deferred contingent consideration is remeasured based upon the Group's best estimate of its future liability, calculated in accordance with the acquisition agreement.

Impairment of goodwill

Note 11 contains information about the assumptions relating to goodwill impairment tests, including a sensitivity analysis.

Credit risk

Note 19 contains information about the Group's exposure to credit risk, including a sensitivity analysis. The Group establishes both specific and general allowances for impairment losses against receivables. The general loss allowance is estimated based on historical data of payment statistics for similar financial assets.

Foreign currency exposure

Note 19 contains information about the foreign currency exposure of the Group and risks in relation to foreign exchange movements, including a sensitivity analysis.

Pension assumptions

The principal actuarial assumptions applied to pensions are shown in note 20, including a sensitivity analysis. The actuarial evaluation of pension assets and liabilities is based on assumptions in respect of inflation, future salary increases, discount rates, returns on investments and mortality rates. Relatively small changes in the assumptions underlying the actuarial valuations of pension schemes can have a significant impact on the net pension liability included in the balance sheet.

Taxation

The level of current tax and deferred tax recognised is dependent on the tax rates in effect at the balance sheet date, and on subjective judgements as to the outcome of decisions to be made by the tax authorities in the various tax jurisdictions around the world in which the Group operates. Deferred tax assets are recognised based on management's assessment of the extent to which they are recoverable.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business review on pages 22 to 51. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Business Review. In addition, note 19 includes the Group's policies and processes for managing financial risk; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

In April 2011 the Group completed the refinancing of its bank facility with a £150 million unsecured five-year multicurrency revolving credit facility. The bank facility headroom at 1 January 2012 was £150 million. The Group meets its day-to-day working capital requirements through local banking arrangements that are supported by the flexibility provided by the facility.

The Group's forecasts and projections, taking account of reasonably possible changes in trading performance and exchange rates, show the Group operating comfortably within its debt financial covenants for the next 12 months. The current economic climate continues to have an impact on the Group, its customers and suppliers. The Board fully recognises the challenges that lie ahead but, after making enquiries, 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 Annual Report and Accounts.

2. Segment reporting

The Group comprises the following four reportable operating segments:

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

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

	Morgan Engineered Materials				Morgan Ceramics					
	Morgan AM&T		Molten Metal Systems		Technical Ceramics		Thermal Ceramics		Consolidated	
	2011 £m	2010 £m	**2011 £m**	2010 £m	**2011 £m**	2010 £m	**2011 £m**	2010 £m	**2011 £m**	2010 £m
Revenue from external customers	**369.1**	367.7	**46.7**	40.3	**285.1**	250.1	**400.1**	359.0	**1,101.0**	1,017.1
Divisional EBITA[1]	**48.0**	39.2	**7.7**	6.3	**43.1**	34.0	**49.6**	34.8	**148.4**	114.3
Unallocated costs									**(5.0)**	(4.8)
Group EBITA[2]									**143.4**	109.5
Restructuring costs and other one-off items	**–**	(1.6)	**–**	0.1	**1.1**	(1.7)	**(3.0)**	(4.7)	**(1.9)**	(7.9)
Underlying operating profit[3]									**141.5**	101.6
Amortisation of intangible assets	**(4.5)**	(4.2)	**(0.1)**	(0.1)	**(2.5)**	(2.5)	**(1.2)**	(1.2)	**(8.3)**	(8.0)
Operating profit									**133.2**	93.6
Finance income									**27.7**	29.0
Finance expense									**(49.5)**	(54.9)
Profit before taxation									**111.4**	67.7

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

The above measures of profit are shown because the Directors use them to measure the underlying performance of the business, as referred to in the Business review section of the Annual Report.

The Group did not have any significant inter-segment revenue between reportable operating segments in 2011 and 2010.

	Morgan Engineered Materials				Morgan Ceramics					
	Morgan AM&T		Molten Metal Systems		Technical Ceramics		Thermal Ceramics		Consolidated	
	2011 £m	2010 £m	**2011 £m**	2010 £m	**2011 £m**	2010 £m	**2011 £m**	2010 £m	**2011 £m**	2010 £m
Segment assets	**372.0**	378.9	**31.4**	31.3	**225.7**	224.8	**277.7**	273.1	**906.8**	908.1
Unallocated assets									**134.6**	125.1
Total assets									**1,041.4**	1,033.2
Segment liabilities	**77.4**	81.6	**8.5**	7.6	**50.8**	43.2	**81.6**	85.4	**218.3**	217.8
Unallocated liabilities									**552.9**	563.3
Total liabilities									**771.2**	781.1
Segment capital expenditure	**11.5**	6.8	**1.8**	1.0	**6.2**	4.9	**8.2**	6.3	**27.7**	19.0
Unallocated capital expenditure									**1.0**	0.1
Total capital expenditure									**28.7**	19.1

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2. Segment reporting continued

	Morgan Engineered Materials				Morgan Ceramics					
	Morgan AM&T		Molten Metal Systems		Technical Ceramics		Thermal Ceramics		Consolidated	
	2011 £m	2010 £m	**2011 £m**	2010 £m	**2011 £m**	2010 £m	**2011 £m**	2010 £m	**2011 £m**	2010 £m
Segment depreciation	**10.1**	10.1	**1.3**	1.4	**8.6**	9.0	**11.1**	11.8	**31.1**	32.3

	Europe		North America		South America		Asia and Rest of the World		Consolidated	
	2011 £m	2010 £m	**2011 £m**	2010 £m	**2011 £m**	2010 £m	**2011 £m**	2010 £m	**2011 £m**	2010 £m
Revenue from external customers (based on geographical location of selling company)	**429.3**	422.7	**382.5**	346.6	**45.4**	41.9	**243.8**	205.9	**1,101.0**	1,017.1
Non-current assets (excluding deferred tax and financial instruments)	**254.4**	260.0	**196.0**	201.6	**10.6**	11.3	**92.4**	90.4	**553.4**	563.3

Segment assets are based on the geographical location of the assets.

Revenue from external customers attributed to the UK (the Group's country of domicile) was £178.7 million (2010: £197.6 million) and non-current assets (excluding deferred tax and financial instruments) attributed to the UK was £176.4 million (2010: £175.0 million).

Major customer
Revenue from a range of different products to one customer of the Group's Morgan AM&T Business represents £81.0 million of the Group's total revenue (2010: £106.5 million).

3. Acquisitions
Acquisitions in 2011
Clearpower Limited
In 2007 the Group acquired 49% of the Ordinary share capital of Clearpower Limited, a company that, via two intermediary holding companies, owns 100% of NP Aerospace Limited. On 5 January 2009 the Group acquired the remaining 51% of the Ordinary share capital of Clearpower Limited for a total of £56.8 million, an amount contingent on the future performance of Clearpower Limited. This comprised £12.2 million in cash for 11% of the Ordinary share capital and £44.6 million in discounted deferred contingent consideration for 40% of the Ordinary share capital. The discounted deferred contingent consideration takes the form of four synthetic forwards each to acquire 10% of the Ordinary share capital of Clearpower Limited at future dates from 2010 onwards, the amount of which are based on a fixed EBITDA multiple of Clearpower Limited.

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

On 31 March 2011 the Group agreed to pay £9.1 million. This amount relates to the second of the four synthetic forwards noted above. In addition to this payment the Group paid £0.8 million to the Employee Benefit Trust in accordance with the terms of the original acquisition agreement.

In accordance with IAS 32 *Financial Instruments: Presentation*, the Group has also recognised a liability, representing the estimated present value of the redemption amount in respect of its obligation to acquire the remaining 20% of the Ordinary share capital of Clearpower Limited. It has treated these shares as if they were acquired by the Group on 5 January 2009. Since this consideration is contingent on the future performance of Clearpower Limited this liability is remeasured at each reporting date with any adjustments recorded through goodwill, in accordance with IFRS 3 *Business Combinations (2004)*. It is possible that the carrying amount of this liability will increase or decrease if the future performance of Clearpower Limited varies from current expectations.

At 1 January 2012 the Group carries a total liability of £11.3 million in respect of deferred consideration. This is included within current and non-current non-trade payables. The unwinding of the discount on this liability of £0.5 million is recorded as a finance expense (see note 6). The adjustment through goodwill since the date of acquisition as a result of the remeasurement is £4.1 million.

3. Acquisitions continued

Other acquisitions in 2011

There were no other business combinations in 2011.

Acquisitions in 2010

Clearpower Limited

As disclosed above, in 2007 the Group acquired 49% of the Ordinary share capital of Clearpower Limited, a company that, via two intermediary holding companies, owns 100% of NP Aerospace Limited. On 5 January 2009 the Group acquired the remaining 51% of the Ordinary share capital of Clearpower Limited for a total of £56.8 million, an amount contingent on the future performance of Clearpower Limited. This comprised £12.2 million in cash for 11% of the Ordinary share capital and £44.6 million in discounted deferred contingent consideration for 40% of the Ordinary share capital.

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

At 2 January 2011 this liability was remeasured and reduced to £17.3 million and represents the total liability held in respect of deferred consideration in relation to the acquisition of Clearpower Limited. This was included within current and non-current non-trade payables. The unwinding of the discount on this liability of £1.2 million was recorded as a finance expense. The adjustment through goodwill since the date of acquisition as a result of the remeasurement was £6.8 million.

Changsha Hairong New Materials Co., Ltd

On 3 December 2010 Shanghai Morgan Carbon Co., Ltd, a 70% owned subsidiary of the Group, acquired 100% of the Ordinary share capital of Changsha Hairong New Materials Co., Ltd. This comprised of £5.4 million in cash for 86.3% of the Ordinary share capital and £0.8 million in deferred consideration for the remaining 13.7% of the Ordinary share capital. The deferred consideration took the form of a synthetic forward to acquire 13.7% of the Ordinary share capital of Changsha Hairong New Materials Co., Ltd in January 2011 for a fixed amount of £0.8 million consideration. Of the £0.8 million consideration £0.6 million was paid in advance in 2010, leaving £0.2 million of cash paid in January 2011.

At 2 January 2011, a £0.2 million liability was included within current non-trade payables, representing the present value of the remaining redemption amount in respect of the Group's obligation to acquire the remaining 13.7% of the Ordinary share capital of Changsha New Materials Co., Ltd.

The principal activity of Changsha Hairong New Materials Co., Ltd is the production of graphite materials for anodes used in lithium ion batteries for portable electronics and electric vehicles.

The carrying value of assets and liabilities acquired was £2.0 million. Fair value adjustments were made to reflect the fair value of the assets and liabilities acquired, comprising: £3.3 million of assets in respect of technology (£2.9 million) and customer relationships (£0.4 million); working capital assets of £0.2 million; goodwill of £1.2 million; and a deferred tax liability of £0.5 million on the temporary difference created by the fair value adjustments.

Goodwill represents future economic benefits arising from assets that are not capable of being identified individually or recognised as separate assets. This includes acquirer-specific synergies such as cross-selling opportunities and the enhancement of technologies and processes between existing and acquired sites.

In the period since acquisition Changsha Hairong New Materials Co., Ltd contributed revenue of £0.6 million and profit after taxation of £nil million to the consolidated net profit for the period. The Group revenue and profit after taxation, had the acquisition taken place at the beginning of the period, would be £1,019.8 million and £48.3 million respectively.

Other acquisitions in 2010

There were no other business combinations in 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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4. Operating costs

	2011 £m	2010 £m
Change in stocks of finished goods and work in progress	**(2.3)**	1.6
Raw materials and consumables	**320.2**	301.8
Other external charges	**176.1**	168.6
Total	**494.0**	472.0
Employee costs:		
– wages and salaries	**254.1**	239.5
– equity-settled share-based payments	**5.6**	3.1
– social security costs	**48.5**	45.0
– other pension costs	**10.1**	10.6
Total	**318.3**	298.2
Depreciation:		
– owned assets	**30.9**	32.1
– assets held under finance leases	**0.2**	0.2
Total	**31.1**	32.3
Rentals under operating leases:		
– hire of plant and machinery	**3.1**	3.1
– other operating leases	**5.3**	5.1
Total	**8.4**	8.2
Other operating charges and income:		
– Net foreign exchange gains	**(1.3)**	(2.3)
– other operating income and charges	**107.1**	99.2
Total	**105.8**	96.9
Total operating costs before restructuring costs, other one-off items and amortisation of intangible assets	**957.6**	907.6
Restructuring costs and other one-off items:		
– Employment termination costs	**5.1**	5.9
– Other site rationalisation and closure costs	**0.5**	2.6
– Profit on disposal of properties	**(2.4)**	(0.6)
– Net pension credit	**(1.3)**	–
Total	**1.9**	7.9
Amortisation of intangible assets	**8.3**	8.0
Total operating costs	**967.8**	923.5

4. Operating costs continued

The Group recognised £14.3 million in expense in respect of research and development (2010: £15.9 million).

A summary of the audit and non-audit fees in respect of services provided by KPMG Audit plc charged to operating profit in the year ended 1 January 2012 is set out below:

	2011 £m	2010 £m
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**0.4**	0.4
Fees payable to the Company's auditor and its associates for other services:		
– The audit of the Company's subsidiaries pursuant to legislation and other services	**1.7**	1.5
– Other non-audit services	**0.3**	0.1
	2.4	2.0

5. Staff numbers

The average number of persons employed by the Group (including Directors) during the year, analysed by geographical area and reporting segment, was as follows:

	Number of employees 2011	2010
United Kingdom	**1,552**	1,459
Rest of Europe	**1,668**	1,637
North America	**3,356**	3,246
South America	**417**	385
Asia and Rest of the World	**3,035**	2,884
	10,028	9,611
Morgan AM&T	**3,625**	3,463
Molten Metal Systems	**480**	432
Technical Ceramics	**2,724**	2,590
Thermal Ceramics	**3,189**	3,117
Corporate	**10**	9
	10,028	9,611

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
continued

6. Net finance income and expense

	2011 £m	2010 £m
Recognised in profit or loss		
Interest income on bank deposits measured at amortised cost	**1.3**	1.0
Expected return on IAS 19 scheme assets	**26.4**	26.0
Gain on foreign exchange derivatives in respect of financial indebtedness	**–**	2.0
Finance income	**27.7**	29.0
Interest expense on financial liabilities measured at amortised cost	**(21.7)**	(25.7)
Interest on IAS 19 obligations	**(27.3)**	(28.0)
Interest expense on unwinding of discount on deferred consideration	**(0.5)**	(1.2)
Finance expense	**(49.5)**	(54.9)
Net financing costs recognised in profit or loss	**(21.8)**	(25.9)
Recognised directly in equity		
Net change in fair value of available-for-sale financial assets	**0.1**	0.2
Cash flow hedges:		
– effective portion of changes in fair value of cash flow hedges	**0.3**	0.6
– transferred to profit or loss	**(0.2)**	(0.5)
Effective portion of change in fair value of net investment hedge	**1.0**	(0.6)
Foreign currency translation differences for foreign operations	**(5.4)**	3.5
	(4.2)	3.2

7. Taxation – income tax expense

Recognised in the income statement

	2011 £m	2010 £m
Current tax expense		
Current year	**30.4**	23.3
Adjustments for prior years	**(0.5)**	(2.5)
	29.9	20.8
Deferred tax expense		
Origination and reversal of temporary differences	**2.7**	(1.1)
Total income tax expense in income statement	**32.6**	19.7

7. Taxation – income tax expense continued

Reconciliation of effective tax rate

	2011 £m	**2011 %**	2010 £m	2010 %
Profit before tax	**111.4**		67.7	
Income tax using the domestic corporation tax rate	**29.5**	**26.5**	18.9	28.0
Non-deductible expenses	**3.3**	**3.0**	0.6	0.8
Temporary differences not equalised in deferred tax	**(2.8)**	**(2.5)**	2.8	4.1
Over-provided in prior years	**(0.4)**	**(0.4)**	(2.5)	(3.7)
Other (including the impact of overseas tax rates)	**3.0**	**2.7**	(0.1)	(0.1)
	32.6	**29.3**	19.7	29.1

	2011 £m	2010 £m
Income tax recognised directly in equity		
Tax effect on components of other comprehensive income:		
– Deferred tax associated with defined benefit schemes	**5.9**	2.6
– Other	**0.1**	–
Total income tax recognised directly in equity	**6.0**	2.6

8. Restructuring costs and other one-off items

Costs of restructuring were £5.6 million (2010: £8.5 million).

Included within restructuring costs and other one-off items is a net pension credit of £1.3 million (2010: nil) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
continued

9. Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 1 January 2012 was based on the following:

	2011 £m	2010 £m
Profit attributable to equity holders of the Company	**73.0**	42.5
Weighted average number of Ordinary shares		
Issued Ordinary shares at the beginning of the period	**272,166,025**	270,206,256
Effect of shares issued in period and treasury shares held by the Company	**(479,322)**	(378,040)
Weighted average number of Ordinary shares during the period	**271,686,703**	269,828,216
Basic earnings per share (pence)	**26.9p**	15.8p

Diluted earnings per share

The calculation of diluted earnings per share at 1 January 2012 was based on the following:

	2011 £m	2010 £m
Profit attributable to equity holders of the Company	**73.0**	42.5
Diluted weighted average number of Ordinary shares		
Weighted average number of Ordinary shares during the period	**271,686,703**	269,828,216
Effect of share options/incentive schemes	**12,724,153**	13,993,035
Diluted weighted average number of Ordinary shares during the period	**284,410,856**	283,821,251
Diluted earnings per share (pence)	**25.7p**	15.0p

Underlying earnings per share

The calculation of underlying earnings per share at 1 January 2012 was based on the following:

	2011 £m	2010 £m
Operating profit before amortisation, less net financing costs, income tax expense and non-controlling interests	**81.3**	50.5
Weighted average number of Ordinary shares during the period (calculated as above)	**271,686,703**	269,828,216
Earnings per share before amortisation of intangible assets (pence)	**29.9p**	18.7p

Diluted underlying earnings per share

The calculation of diluted underlying earnings per share at 1 January 2012 was based on the following:

	2011 £m	2010 £m
Operating profit before amortisation, less net financing costs, income tax expense and non-controlling interests	**81.3**	50.5
Diluted weighted average number of Ordinary shares during the period (calculated as above)	**284,410,856**	283,821,251
Diluted earnings per share before amortisation of intangible assets (pence)	**28.6p**	17.8p

10. Property, plant and equipment

	Land and buildings £m	Plant and equipment and fixtures £m	Total £m
Cost			
Balance at 4 January 2010	162.7	495.6	658.3
Additions and acquisitions through business combinations	2.7	17.8	20.5
Disposals	(0.2)	(4.0)	(4.2)
Effect of movement in foreign exchange	2.0	12.2	14.2
Balance at 2 January 2011	167.2	521.6	688.8
Balance at 3 January 2011	**167.2**	**521.6**	**688.8**
Additions	**1.3**	**25.5**	**26.8**
Disposals	**(12.5)**	**(8.1)**	**(20.6)**
Effect of movement in foreign exchange	**(1.4)**	**(4.8)**	**(6.2)**
Balance at 1 January 2012	**154.6**	**534.2**	**688.8**
Depreciation and impairment losses			
Balance at 4 January 2010	53.0	329.1	382.1
Depreciation charge for the year	4.8	27.5	32.3
Disposals	–	(3.1)	(3.1)
Effect of movement in foreign exchange	0.6	7.7	8.3
Balance at 2 January 2011	58.4	361.2	419.6
Balance at 3 January 2011	**58.4**	**361.2**	**419.6**
Depreciation charge for the year	**4.8**	**26.3**	**31.1**
Impairment loss	**–**	**0.3**	**0.3**
Disposals	**(11.0)**	**(7.7)**	**(18.7)**
Effect of movement in foreign exchange	**–**	**(3.3)**	**(3.3)**
Balance at 1 January 2012	**52.2**	**376.8**	**429.0**
Carrying amounts			
At 3 January 2010	109.7	166.5	276.2
At 2 January 2011	108.8	160.4	269.2
At 1 January 2012	**102.4**	**157.4**	**259.8**

Assets pledged as security for liabilities

At 1 January 2012 assets with a carrying amount of £3.3 million (2 January 2011: £5.7 million) are subject to registered debentures to secure bank loans and other liabilities (see note 18).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
continued

11. Intangible assets

	Goodwill £m	Order book £m	Customer relationships £m	Technology and trademarks £m	Capitalised development £m	Computer software £m	Total £m
Cost							
Balance at 4 January 2010	206.8	9.3	75.0	19.5	2.2	11.7	324.5
Additions (externally purchased) and acquisitions through business combinations	1.2	–	0.4	2.9	–	0.6	5.1
Disposals	–	–	–	–	–	(0.1)	(0.1)
Remeasurement of goodwill	(13.8)	–	–	–	–	–	(13.8)
Effect of movement in foreign exchange	3.1	–	1.9	0.1	–	0.1	5.2
Balance at 2 January 2011	197.3	9.3	77.3	22.5	2.2	12.3	320.9
Balance at 3 January 2011	**197.3**	**9.3**	**77.3**	**22.5**	**2.2**	**12.3**	**320.9**
Additions (externally purchased)	**0.3**	**–**	**–**	**–**	**–**	**3.5**	**3.8**
Disposals	**–**	**–**	**–**	**–**	**–**	**(2.7)**	**(2.7)**
Remeasurement of goodwill	**2.7**	**–**	**–**	**–**	**–**	**–**	**2.7**
Effect of movement in foreign exchange	**(0.5)**	**–**	**0.1**	**0.2**	**–**	**0.7**	**0.5**
Balance at 1 January 2012	**199.8**	**9.3**	**77.4**	**22.7**	**2.2**	**13.8**	**325.2**
Amortisation and impairment losses							
Balance as at 4 January 2010	–	9.2	7.8	1.9	0.4	8.3	27.6
Amortisation charge for the year	–	0.1	4.3	1.5	0.7	1.4	8.0
Disposals	–	–	–	–	–	(0.1)	(0.1)
Effect of movement in foreign exchange	–	–	0.3	–	–	0.1	0.4
Balance at 2 January 2011	–	9.3	12.4	3.4	1.1	9.7	35.9
Balance at 3 January 2011	**–**	**9.3**	**12.4**	**3.4**	**1.1**	**9.7**	**35.9**
Amortisation charge for the year	**–**	**–**	**4.4**	**1.8**	**0.7**	**1.4**	**8.3**
Disposals	**–**	**–**	**–**	**–**	**–**	**(2.7)**	**(2.7)**
Effects of movement in foreign exchange	**–**	**–**	**–**	**0.1**	**–**	**0.3**	**0.4**
Balance at 1 January 2012	**–**	**9.3**	**16.8**	**5.3**	**1.8**	**8.7**	**41.9**
Carrying amounts							
At 3 January 2010	206.8	0.1	67.2	17.6	1.8	3.4	296.9
At 2 January 2011	197.3	–	64.9	19.1	1.1	2.6	285.0
At 1 January 2012	**199.8**	**–**	**60.6**	**17.4**	**0.4**	**5.1**	**283.3**

11. Intangible assets continued

Impairment test for cash-generating units containing goodwill

In accordance with the requirements of IAS 36 *Impairment of Assets*, goodwill is allocated to the Group's cash-generating units that are expected to benefit from the synergies of the business combination that gave rise to the goodwill.

Goodwill is attributed to each cash-generating unit as follows:

	2011 £m	2010 £m
Morgan AM&T	**107.5**	104.8
Molten Metal Systems	**1.9**	2.2
Technical Ceramics	**69.4**	69.3
Thermal Ceramics	**21.0**	21.0
	199.8	197.3

Each cash-generating unit is assessed for impairment annually and whenever there is an indication of impairment.

As part of the annual impairment test review the carrying value of goodwill has been assessed with reference to its value in use reflecting the projected discounted cash flows of each cash-generating unit to which goodwill has been allocated.

The key assumptions used in determining value in use relate to growth rates and discount rates.

The cash flow projections in year one are based on budgeted operating results for the forthcoming year.

Growth rates for the period not covered by budgets are specific to each operating segment, ranging from 2.0% to 5.0% (2010: 4.0% to 6.0%). These growth rates reflect the products, industries and countries in which the operating segments operate. These medium- to long-term growth rates have been reviewed by management during 2011 and are considered to be appropriate.

Given the similar risk profiles of each of the operating segments, together with common funding from the central Group Treasury function, a standard pre-tax discount rate of 13.9% (2010: 12.2%), based on the Group's weighted average cost of capital, has been used in discounting the projected cash flows and calculating the terminal value at the end of year five. This discount rate has been used as the Group believes it suitably approximates the rate used by end-market participants.

The Directors have considered the following individual sensitivities and are confident that no impairment would arise in any of the following three circumstances:

- if the pre-tax discount rate was increased by 550bps to 19.4% (2010: 650bps to 18.7%);
- if no growth was assumed for years two to five and in the calculation of terminal value; and
- if the cash flow projections of all businesses were reduced by 35% (2010: 40%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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12. Investments

	2011 £m	2010 £m
Non-current investments		
Investment in associate	**1.5**	1.5
Equity securities available-for-sale	**4.6**	5.6
	6.1	7.1

Investment in associates

Integrated Survivability Technologies Limited

During 2009 the Group acquired a 50% stake in Integrated Survivability Technologies Limited. The principal activity of Integrated Survivability Technologies Limited is acting as prime contractor for delivery of military vehicles and provision of related support services. Total consideration paid including fees was £1.5 million.

The Group's share of profit after tax in Integrated Survivability Technologies Limited was £nil (2010: £nil).

Summary financial information for the Group's investment in Integrated Survivability Technologies Limited, not adjusted for the 50% ownership held by the Group:

	2011 £m	2010 £m
Current assets	**13.9**	10.5
Non-current assets	**–**	0.1
Total assets	**13.9**	10.6
Current liabilities	**11.1**	7.5
Total liabilities	**11.1**	7.5
Revenue	**44.0**	73.2
Profit	**–**	–

Equity securities available-for-sale

The equity securities available-for-sale represent an investment in a mutual fund. A 10% increase in the unit price would increase the fair value of the investments by £0.3 million.

13. Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets 2011 £m	Assets 2010 £m	**Liabilities 2011 £m**	Liabilities 2010 £m	**Net 2011 £m**	Net 2010 £m
Property, plant and equipment	**–**	–	**23.1**	22.3	**23.1**	22.3
Intangible assets	**–**	–	**21.4**	22.9	**21.4**	22.9
Employee benefits	**(28.4)**	(22.8)	**–**	–	**(28.4)**	(22.8)
Provisions	**(7.0)**	(7.1)	**–**	–	**(7.0)**	(7.1)
Tax value of loss carried forward recognised	**(5.5)**	(6.4)	**–**	–	**(5.5)**	(6.4)
Other items	**(0.2)**	(2.2)	**–**	–	**(0.2)**	(2.2)
	(41.1)	(38.5)	**44.5**	45.2	**3.4**	6.7

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	2011 £m	2010 £m
Deductible temporary differences	**(47.4)**	(46.2)
Tax losses	**(71.0)**	(62.0)
	(118.4)	(108.2)

Movements in temporary differences during the year

	Balance 3 January 2010 £m	Recognised in income £m	Recognised directly in equity £m	Balance 2 January 2011 £m	**Recognised in income £m**	**Recognised directly in equity £m**	**Balance 1 January 2012 £m**
Property, plant and equipment	23.3	(1.0)	–	22.3	**0.8**	**–**	**23.1**
Intangible assets	24.2	(1.3)	–	22.9	**(1.5)**	**–**	**21.4**
Employee benefits	(19.8)	(0.4)	(2.6)	(22.8)	**0.3**	**(5.9)**	**(28.4)**
Provisions	(5.4)	(1.7)	–	(7.1)	**0.1**	**–**	**(7.0)**
Tax value of loss carried forward recognised	(7.5)	1.1	–	(6.4)	**0.9**	**–**	**(5.5)**
Others	(4.5)	2.3	–	(2.2)	**2.1**	**(0.1)**	**(0.2)**
	10.3	(1.0)	(2.6)	6.7	**2.7**	**(6.0)**	**3.4**

Deferred income tax of £2.0 million is provided on the potential unremitted earnings of overseas subsidiary undertakings.

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14. Inventories

	2011 £m	2010 £m
Raw materials and consumables	**61.1**	65.6
Work in progress	**41.5**	35.8
Finished goods	**64.0**	59.6
	166.6	161.0

The Group holds consignment inventory amounting to £20.6 million (2010: £17.9 million) which is not reflected in the balance sheet. The majority of this balance is for precious metals which are held on consignment by a subsidiary and for which it is invoiced only when the material is required.

During the year provisions of £1.8 million were made against inventories and recognised in operating expenses (2010: £4.4 million).

15. Trade and other receivables

	2011 £m	2010 £m
Current		
Trade receivables due from associate	**10.4**	4.8
Other trade receivables	**159.4**	155.9
Loans and receivables	**169.8**	160.7
Other non-trade receivables and prepayments	**25.5**	24.0
	195.3	184.7

The Group's exposure to credit and currency risks related to trade and other receivables is disclosed in note 19.

16. Cash and cash equivalents

	2011 £m	2010 £m
Bank balances	**71.7**	68.0
Cash deposits	**11.7**	17.0
Cash and cash equivalents	**83.4**	85.0

Reconciliation of cash and cash equivalents to net debt*

	2011 £m	2010 £m
Opening borrowings	**(321.2)**	(360.3)
Net decrease in borrowings	**24.4**	47.8
Payment of finance lease liabilities	**0.4**	0.5
Effect of movements in foreign exchange on borrowings	**(2.4)**	(9.2)
Closing borrowings	**(298.8)**	(321.2)
Cash and cash equivalents	**83.4**	85.0
Closing net debt	**(215.4)**	(236.2)

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

17. Capital and reserves

Translation reserve
The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations, as well as from the translation of liabilities that hedge the Company's net investment in a foreign subsidiary and forward contracts used for net investment hedging.

Hedging reserve
The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

17. Capital and reserves continued

Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of available-for-sale investments until the investment is derecognised.

Special reserve

A Special Resolution to cancel the Share Premium Account was passed at the Annual General Meeting of the Company held on 11 June 1993. This cancellation was confirmed by an Order of the High Court of Justice, Chancery Division, on 14 July 1993. The amount of £88.9 million standing to the credit of the Share Premium Account on 14 July 1993 was transferred to the special reserve against which goodwill on consolidation could be written off. This reserve, together with the amounts standing to the credit of the Share Premium Account on 12 October 1990 of £71.5 million, on 19 June 1987 of £38.9 million and on 27 July 1989 of £12.3 million which were transferred following previous Orders of the High Court, becomes distributable to the extent of subsequent increases in issued share capital and share premium account.

Capital redemption reserve

The capital redemption reserve arose when the Company redeemed Preference shares wholly out of distributable profits.

Other reserves

The other reserves includes the £10.8 million increase in the year ended 3 January 2010 in the fair value of the Group's original 49% interest in Clearpower Limited from the date of its original acquisition to 5 January 2009 excluding goodwill and to the extent not previously recognised as the Group's share of the results of Clearpower Limited.

Retained earnings

The Company has acquired own shares to satisfy the requirements of the various share option incentive schemes. The number of treasury shares held at the year end was 2,044,458 (2010: 1,007,003); 2,044,458 shares were held by The Morgan General Employee Benefit Trust (2010: 1,007,003) and nil shares were held by the Company (2010: nil). All rights conferred by those shares are suspended until they are reissued.

Dividends

The following Ordinary dividends were declared and paid by the Company:

	Per share		Total	
	2011 Pence	2010 Pence	**2011 £m**	2010 £m
2009 interim	**–**	2.50	**–**	6.8
2009 final	**–**	4.50	**–**	12.1
2010 interim	**2.70**	–	**7.3**	–
2010 final	**5.00**	–	**13.6**	–
Total	**7.70**	7.00	**20.9**	18.9

The Company also declared the following Ordinary dividend:

	Per share 2011 Pence	**Total 2011 £m**
2011 interim	**3.25**	8.9
	3.25	8.9

This Ordinary dividend had not been paid by the Company as at 1 January 2012 and has not been provided for at the year end.

In addition to the above, the Company also declared and paid dividends on the 5.5% Cumulative First Preference shares and 5.0% Cumulative Second Preference shares.

After 1 January 2012 the following dividends were proposed by the Directors for 2011. These dividends have not been provided for and there are no income tax consequences.

	£m
6.00 pence per qualifying Ordinary share	**16.4**
5.5% Cumulative First Preference shares (see note 30)	**–**
5.0% Cumulative Second Preference shares (see note 30)	**–**
	16.4

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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17. Capital and reserves continued

Called-up share capital	Authorised 2011 £m	Authorised 2010 £m	Issued 2011 £m	Issued 2010 £m
Equity share capital				
434,650,876 (2010: 434,650,876) Ordinary shares of 25 pence each	**108.7**	108.7		
Fully paid: 273,139,791 (2010: 272,166,025) Ordinary shares of 25 pence each			**68.3**	68.1
	108.7	108.7	**68.3**	68.1
Preference share capital				
125,327 authorised and issued 5.5% Cumulative First Preference shares of £1 each, fully paid	**0.1**	0.1	**0.1**	0.1
311,954 authorised and issued 5.0% Cumulative Second Preference shares of £1 each, fully paid	**0.3**	0.3	**0.3**	0.3
Total Preference share capital	**0.4**	0.4	**0.4**	0.4
Total share capital	**109.1**	109.1	**68.7**	68.5

Number of shares in issue	Ordinary shares 2011	Ordinary shares 2010	Preference shares 2011	Preference shares 2010
In issue at beginning of period	**272,166,025**	270,206,256	**437,281**	437,281
Partial consideration relating to deferred consideration on purchase of Clearpower Limited	**–**	47,175	**–**	–
Scrip dividend	**973,766**	1,912,594	**–**	–
In issue at end of period	**273,139,791**	272,166,025	**437,281**	437,281

As at the date of this report 274,802,078 Ordinary shares have been issued (2010: 272,911,009).

The holders of Ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Details of options outstanding in respect of Ordinary shares are given in note 20.

The 5.5% Cumulative First Preference shares of £1 each and the 5.0% Cumulative Second Preference shares of £1 each confer on the holders thereof the right to receive a cumulative preferential dividend at the rate of 5.5% and 5.0% respectively, calculated up to 30 June and 31 December respectively in every year. The First and Second Cumulative Preference shares shall not entitle the holders thereof to attend or vote at any general meeting unless either:

(i) the meeting is convened to consider any resolutions for reducing the capital, or authorising any issue of debentures or debenture stock, or increasing the borrowing powers of the Board under the Articles of Association of the Company, or winding up, or sanctioning a sale of the undertaking, or altering the Articles in any manner affecting their respective interests, or any other resolutions directly altering their respective rights and privileges; or

(ii) at the date of the notice convening the general meeting the Preference dividend is upwards of one month in arrears from the payment date of any half-yearly instalment.

On a return of capital on a winding-up the assets of the Company available for distribution shall be applied:

First, in payment to the holders of the First Preference shares of the amounts paid up on such shares, together with interest at the rate of 5.5% pa.

Second, in payment to the holders of the Second Preference shares of the amounts paid up on such shares, together with interest at the rate of 5.0% pa.

Third, in repaying the capital paid up or credited as paid up on the Ordinary shares.

Fourth, any surplus shall be distributed rateably amongst the holders of the Ordinary shares in proportion to the nominal amount paid up on their respective holdings of shares in the Company.

18. Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings which are measured at amortised cost. For more information about the Group's exposure to interest rate and foreign currency risk, see note 19.

	2011 £m	2010 £m
Non-current liabilities		
Senior Notes	**281.7**	287.0
Multicurrency revolving facility	**–**	15.9
Bank and other loans	**5.3**	6.9
Obligations under finance leases	**0.3**	0.6
	287.3	310.4
Current liabilities		
Senior Notes	**5.9**	5.8
Bank and other loans	**5.3**	4.5
Obligations under finance leases	**0.3**	0.5
	11.5	10.8

Terms and debt repayment schedule

The terms and conditions of outstanding loans were as follows:

	Nominal interest rate	Year of maturity	Carrying amount **2011 £m**	Carrying amount 2010 £m
6.84% US Dollar Senior Notes 2013	6.84%	2013	**12.0**	17.8
5.70% US Dollar Senior Notes 2014	5.70%	2014	**64.3**	63.8
3.65% Euro Senior Notes 2015	3.65%	2015	**33.7**	34.5
4.32% Euro Senior Notes 2017	4.32%	2017	**16.9**	17.3
6.12% US Dollar Senior Notes 2017	6.12%	2017	**112.5**	111.6
6.26% US Dollar Senior Notes 2019	6.26%	2019	**48.2**	47.8
Bank and other loans	1.70%-8.00%	up to 2012	**10.6**	27.3
Obligations under finance leases	6.00%	up to 2014	**0.6**	1.1
Total interest-bearing loans and borrowings			**298.8**	321.2

Finance lease liabilities

Finance lease liabilities are payable as follows:

	Minimum lease payments 2011 £m	**Interest 2011 £m**	**Principal 2011 £m**	Minimum lease payments 2010 £m	Interest 2010 £m	Principal 2010 £m
Less than one year	**0.3**	**–**	**0.3**	0.6	–	0.6
Between one and five years	**0.3**	**–**	**0.3**	0.6	0.1	0.5
More than five years	**–**	**–**	**–**	–	–	–
	0.6	**–**	**0.6**	1.2	0.1	1.1

Bank and other loans include £0.7 million (2010: £0.4 million) of loans secured on the assets of the Group.

As at 1 January 2012 the Group had available headroom under the bank syndication of £150.0 million (2010: £162.9 million).

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19. Financial risk management
Overview
Net liabilities
The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk.

This note presents information about the Group's exposure to each of the above risks, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board delegates the establishment and implementation of the systems for internal control and risk management to the operating Divisions which are responsible for the identification and evaluation of significant risks applicable to their area of business together with the design and operation of suitable internal controls. The Board delegates the monitoring and review of the internal control and risk management systems to the Audit Committee assisted by the Risk Management Committee. The Risk Management Committee, which is chaired by the Chief Financial Officer, reviews the full range of risks faced by Morgan Crucible as a Group, ensures there are adequate systems in place and evaluates their effectiveness. Where necessary, the Risk Management Committee will initiate action to improve the systems and ensure compliance.

→ Credit risk
Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

The Group has set up notional cash pooling agreements with a number of banks. Under the notional cash pooling agreement the Group has the legal right to offset liabilities on undrawn bank accounts against surplus balances.

Trade and other receivables
The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, has less of an influence on credit risk.

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The Group does not require collateral in respect of financial assets.

The Group serves thousands of customers. Many of these have purchased the same product for several years and in some cases decades. Others have modified and enhanced designs or adopted the same components into new products, extending the lifecycle of the components that the Group supplies. The Group's level of customer retention is very high, particularly with its major accounts, and, although the top 20 ranking will alter from year to year, many of the names remain consistent over time.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a general loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The general loss allowance is determined based on historical data of payment statistics for similar financial assets.

19. Financial risk management continued

Investments

The Group limits its exposure to credit risk by only investing in liquid securities and only with counterparties that have a sound credit rating. Given these high credit ratings, management does not expect any counterparty to fail to meet its obligations.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Carrying amount	
	2011 £m	2010 £m
Available-for-sale financial assets	**4.6**	5.6
Loans and receivables	**169.8**	160.7
Cash and cash equivalents	**83.4**	85.0
	257.8	251.3

The maximum exposure to credit risk for trade receivables at the reporting date by Business was:

	Carrying amount	
	2011 £m	2010 £m
Morgan AM&T	**58.1**	54.5
Molten Metal Systems	**6.2**	5.9
Technical Ceramics	**33.4**	31.1
Thermal Ceramics	**72.1**	69.2
	169.8	160.7

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

	Carrying amount	
	2011 £m	2010 £m
Europe	**63.4**	66.0
North America	**49.7**	42.8
South America	**6.5**	8.0
Asia and Rest of the World	**50.2**	43.9
	169.8	160.7

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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19. Financial risk management continued

Impairment losses

The ageing of trade receivables at the reporting date was:

	Gross 2011 £m	**Impairment 2011 £m**	Gross 2010 £m	Impairment 2010 £m
Not past due	**136.3**	**(1.6)**	123.5	(1.5)
Past due 0-30 days	**21.9**	**(0.5)**	24.3	(0.6)
Past due 31-60 days	**5.4**	**(0.2)**	5.7	(0.2)
Past due 61-90 days	**6.3**	**(0.4)**	7.6	(0.5)
Past due more than 90 days	**9.3**	**(4.6)**	8.8	(3.9)
	179.2	**(7.3)**	169.9	(6.7)
General impairment allowance		**(2.1)**		(2.5)
		(9.4)		(9.2)

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2011 £m	2010 £m
Balance at beginning of period	**9.2**	10.2
Increase/(decrease) in allowance for impairment	**0.2**	(1.0)
Balance at end of period	**9.4**	9.2

A specific impairment allowance may be created in respect of an individual trade receivable for which full recovery is doubtful. As at 1 January 2012 and 2 January 2011 there were no specific impairment allowances that were significant to the Group. In addition, local management may create an impairment allowance to reflect their experience of the historical recoverability of trade receivables past due in the respective markets in which their businesses operate.

The allowances in the accounts in respect of trade receivables are used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at the point the amount is considered irrecoverable it is written off against the financial asset directly.

Concentrations of credit risk

Trade receivables from one customer of the Group's Morgan AM&T operating segment represent £12.2 million of the Group's total trade receivables (2010: £8.8 million).

→ Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by cash. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions.

The Group seeks a balance between certainty of funding and a flexible, cost-effective borrowing structure. The policy is to ensure that the Group has sufficient liquidity available to meet all foreseeable needs.

19. Financial risk management continued

The following are the undiscounted contracted maturities of financial liabilities, including interest payments:

2011	Effective interest rate	Carrying amount £m	Contractual cash flows £m	Less than 1 year £m	1-2 years £m	2-5 years £m	More than 5 years £m
Non-derivative financial liabilities							
6.84% US Dollar Senior Notes 2013	**6.84%**	**12.0**	**12.6**	**6.5**	**6.1**	**–**	**–**
5.70% US Dollar Senior Notes 2014	**5.70%**	**64.3**	**75.4**	**3.7**	**3.7**	**68.0**	**–**
3.65% Euro Senior Notes 2015	**3.65%**	**33.7**	**37.9**	**1.2**	**1.2**	**35.5**	**–**
4.32% Euro Senior Notes 2017	**4.32%**	**16.9**	**20.8**	**0.7**	**0.7**	**2.2**	**17.2**
6.12% US Dollar Senior Notes 2017	**6.12%**	**112.5**	**154.0**	**6.9**	**6.9**	**20.7**	**119.5**
6.26% US Dollar Senior Notes 2019	**6.26%**	**48.2**	**72.4**	**3.0**	**3.0**	**9.1**	**57.3**
Bank and other loans	**1.70%-8.00%**	**10.6**	**10.6**	**5.3**	**5.3**	**–**	**–**
Obligations under finance leases	**6.00%**	**0.6**	**0.6**	**0.3**	**0.1**	**0.2**	**–**
Trade and other payables		**121.3**	**121.3**	**116.0**	**5.3**	**–**	**–**
Derivative financial liabilities							
Forward exchange contracts as cash flow hedges		**0.8**	**0.8**	**0.8**	**–**	**–**	**–**
Forward exchange contracts as fair value hedges		**0.4**	**0.4**	**0.4**	**–**	**–**	**–**
		421.3	**506.8**	**144.8**	**32.3**	**135.7**	**194.0**

2010	Effective interest rate	Carrying amount £m	Contractual cash flows £m	Less than 1 year £m	1-2 years £m	2-5 years £m	More than 5 years £m
Non-derivative financial liabilities							
6.84% US Dollar Senior Notes 2013	6.84%	17.8	19.2	6.8	6.4	6.0	–
5.70% US Dollar Senior Notes 2014	5.70%	63.8	78.4	3.6	3.6	71.2	–
3.65% Euro Senior Notes 2015	3.65%	34.5	40.3	1.3	1.3	37.7	–
4.32% Euro Senior Notes 2017	4.32%	17.3	22.0	0.7	0.7	2.2	18.4
6.12% US Dollar Senior Notes 2017	6.12%	111.6	159.6	6.8	6.8	20.5	125.5
6.26% US Dollar Senior Notes 2019	6.26%	47.8	74.9	3.0	3.0	9.0	59.9
Multicurrency revolving facility	3.69%	15.9	17.3	0.2	17.1	–	–
Bank and other loans	3.50%-8.00%	11.4	11.4	4.5	6.9	–	–
Obligations under finance leases	6.00%	1.1	1.2	0.6	0.2	0.4	–
Trade and other payables		139.4	139.4	130.0	9.4	–	–
Derivative financial liabilities							
Forward exchange contracts as cash flow hedges		0.1	0.1	0.1	–	–	–
Forward exchange contracts as fair value hedges		0.1	0.1	0.1	–	–	–
Forward exchange contracts as net investment hedges		5.4	5.4	5.4	–	–	–
Interest rate swaps not designated		–	–	–	–	–	–
		466.2	569.3	163.1	55.4	147.0	203.8

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19. Financial risk management continued

Included in Bank and other loans are loans drawn under the £150 million (2010: £180 million) multicurrency revolving facility of £nil (2010: £17.1 million). Such loans are repayable within 12 months, but are classified as maturing one month prior to the facility termination date. The present facility is available until 5 April 2016.

The following table indicates the periods in which cash flows associated with cash flow hedges are expected to occur. This is matched with the periods in which cash flows associated with cash flow hedges are expected to impact profit or loss.

2011	Carrying amount £m	Contractual cash flows £m	Less than 1 year £m	1-2 years £m	2-5 years £m	More than 5 years £m
Cash flows associated with derivatives that are cash flow hedges:						
Forward exchange contracts – Assets	**1.1**	**54.9**	**44.7**	**10.2**	**–**	**–**
Forward exchange contracts – Liabilities	**(0.8)**	**(54.2)**	**(44.3)**	**(9.9)**	**–**	**–**
	0.3	**0.7**	**0.4**	**0.3**	**–**	**–**

2010	Carrying amount £m	Contractual cash flows £m	Less than 1 year £m	1-2 years £m	2-5 years £m	More than 5 years £m
Cash flows associated with derivatives that are cash flow hedges:						
Forward exchange contracts – Assets	0.4	34.8	24.1	10.7	–	–
Forward exchange contracts – Liabilities	(0.1)	(34.4)	(23.7)	(10.7)	–	–
	0.3	0.4	0.4	–	–	–

→ Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The Group buys and sells derivatives in the ordinary course of business for hedging purposes, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out in accordance with the Treasury Policy, which has been approved by the Audit Committee. Generally the Group seeks to apply hedge accounting in order to manage volatility in profit or loss.

Interest rate risk

Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	Carrying amount 2011 £m	Carrying amount 2010 £m
Fixed rate instruments		
Financial assets	**11.6**	–
Financial liabilities	**(292.7)**	(298.5)
	(281.1)	(298.5)
Variable rate instruments		
Financial assets	**83.4**	85.0
Financial liabilities	**(19.1)**	(22.7)
	64.3	62.3

The average cost of the Group's fixed rate debt is 5.7% (2010: 5.7%).

19. Financial risk management continued

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates on the Group's net debt at the reporting date would have increased/(decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2010.

		Profit or loss
	100 bp increase £m	100 bp decrease £m
1 January 2012		
Variable rate instruments	**0.7**	**(0.5)**
Cash flow sensitivity (net)	**0.7**	**(0.5)**
2 January 2011		
Variable rate instruments	0.6	(0.3)
Cash flow sensitivity (net)	0.6	(0.3)

Foreign currency risk

The table below shows the Group's currency exposures, being exposures on currency transactions that give rise to net currency gains and losses recognised in the income statement. Such exposures comprise the monetary assets and liabilities of the Group that are not denominated in the functional currency of the operating company involved, other than certain non-sterling borrowings treated as hedges of net investments in overseas entities.

			2011			2010
Functional currency of Group operations	**GBP £m**	**USD £m**	**€ £m**	GBP £m	USD £m	€ £m
Trade receivables	**6.4**	**0.1**	**1.9**	5.4	0.7	2.3
Cash and cash equivalents	**5.3**	**0.2**	**1.6**	0.9	0.2	3.0
Trade payables	**(15.6)**	**(0.2)**	**(1.1)**	(2.2)	(1.0)	(2.8)
Net balance sheet exposure	**(3.9)**	**0.1**	**2.4**	4.1	(0.1)	2.5

The amounts shown in the table take into account the effect of the forward contracts entered into to manage these currency exposures.

		Average rate		Year end rate
	2011 £m	2010 £m	**2011 £m**	2010 £m
USD	**1.6043**	1.5447	**1.5541**	1.5657
€	**1.1529**	1.1659	**1.1972**	1.1671

The Group aims to hedge all material trade receivables and trade payables denominated in a foreign currency. At any point in time the Group also hedges up to 75% of its estimated foreign currency exposure in respect of forecasted sales and purchases over the following twelve months. The Group uses forward exchange contracts to hedge its foreign currency risk. Most of the forward exchange contracts have maturities of less than one year after the balance sheet date.

In respect of other monetary assets and liabilities held in currencies other than the currency of the reporting unit, the Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

Forecasted transactions

The Group classifies its forward exchange contracts hedging forecasted transactions as cash flow hedges and states them at fair value. The fair value of forward exchange contracts used as hedges of forecasted transactions at 1 January 2012 was an asset of £0.3 million (2010: asset of £0.3 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
continued

19. Financial risk management continued

Cash flow hedges

The contractual cash flows associated with the forward exchange contracts that are designated as cash flow hedges are shown in the section on liquidity risk. The impact on profit or loss is expected to occur at the same time as the associated cash flows.

Hedge of net investment in foreign subsidiaries

The Group maintains in-country local currency borrowings, and has designated certain forward foreign exchange contracts and other borrowings as hedges of the foreign exchange risk associated with investments in foreign operations. In this way, the Group seeks to manage the translation exposure of overseas net assets, but only to the extent that its gearing covenant under the terms of its loan documents, as well as its facility headroom, are likely to remain comfortably within limits, and provided the associated costs are not prohibitive.

The Group's currency split of Total Borrowings after the impact of net investment hedges was as follows:

	2011 £m	2010 £m
Sterling	**(8.9)**	(18.8)
USD	**221.0**	241.0
€	**70.6**	72.8
Japanese Yen	**11.8**	5.4
Other	**0.6**	19.9
	295.1	320.3

Sensitivity analysis

The Group's sensitivity to changes in foreign exchange rates on financial assets and liabilities as at 1 January 2012 is set out in the table below. The impact of a weakening in sterling on the Group's financial assets and liabilities would be more than offset in equity and income by its impact on the Group's overseas net assets and earnings respectively.

The amounts generated from the sensitivity analysis are forward-looking estimates of market risk assuming certain adverse market conditions occur. Actual results in the future may differ materially from those projected results due to developments.

The estimated changes for foreign exchange rates are based on an instantaneous 10% weakening or strengthening in sterling against all other currencies from the levels applicable at 1 January 2012, with all other variables remaining constant. Such analysis is for illustrative purposes only – in practice market rates rarely change in isolation.

	10% weakening in sterling	
1 January 2012	**Equity £m**	**Profit before tax £m**
USD	**(25.1)**	**(1.3)**
€	**(4.7)**	**(0.3)**
Other	**6.6**	**0.2**

	10% weakening in sterling	
2 January 2011	Equity £m	Profit before tax £m
USD	(19.7)	(1.4)
€	(6.5)	(0.3)
Other	4.4	0.2

The impact of a one-cent movement in the USD exchange rate on results that are reported in USD would be a movement of circa £2.1 million in revenue and £0.2 million in profit.

Other market price risk

Equity price risk arises from available-for-sale equity securities held for meeting partially the unfunded portion of the Group's defined benefit pension obligations. The primary goal of the Group's investment strategy is to maximise returns in order to meet partially the Group's unfunded defined benefit obligations.

19. Financial risk management continued

Capital management

The Board's policy is to maintain a strong capital base (total equity) so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board uses a number of measures, identified as key performance indicators (KPIs), to ensure the continued success of the Group. The main KPI for the Group is the underlying operating profit margin. The aim is to achieve mid-teen margins in good times and double-digit margins when the environment is more challenging.

The Board encourages employees of the Group to hold the Company's Ordinary shares. The Group operates a number of employee share and share option schemes. From time to time the Company purchases its own shares on the market; the timing of these purchases depends on market prices. Primarily the shares are intended to be used for issuing shares under the Group's various share option incentive schemes. The Company may also acquire its own shares under a share buy-back programme.

The Board seeks to maintain a balance between the advantages and security afforded by a sound capital position, and the higher returns that might be possible with higher levels of borrowings.

The Group's debt to adjusted capital ratio at the end of the reporting period was as follows:

	2011 £m	2010 £m
Total interest-bearing loans and borrowings	**295.1**	320.2
Less: cash and cash equivalents and overdrafts	**(79.7)**	(84.0)
Net debt	**215.4**	236.2
Total equity	**270.2**	252.1
Less: amounts accumulated in equity relating to cash flow hedges	**(0.4)**	(0.3)
Adjusted capital	**269.8**	251.8
Debt to adjusted capital ratio	**0.8**	0.9

There were no changes in the Group's approach to capital management during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

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 2011 £m	**Fair value 2011 £m**	Carrying amount 2010 £m	Fair value 2010 £m
Financial assets and liabilities at amortised cost				
6.84% US Dollar Senior Notes 2013	**(12.0)**	**(12.1)**	(17.8)	(18.7)
5.70% US Dollar Senior Notes 2014	**(64.3)**	**(70.3)**	(63.8)	(68.0)
3.65% Euro Senior Notes 2015	**(33.7)**	**(35.1)**	(34.5)	(34.4)
4.32% Euro Senior Notes 2017	**(16.9)**	**(18.0)**	(17.3)	(17.2)
6.12% US Dollar Senior Notes 2017	**(112.5)**	**(130.5)**	(111.6)	(121.4)
6.26% US Dollar Senior Notes 2019	**(48.2)**	**(55.7)**	(47.8)	(51.1)
Bank and other loans	**(10.6)**	**(10.6)**	(27.3)	(27.3)
Obligations under finance leases	**(0.6)**	**(0.6)**	(1.1)	(1.1)
Trade and other payables	**(121.3)**	**(121.3)**	(139.4)	(139.4)
Loans and receivables	**169.8**	**169.8**	160.7	160.7
Cash and cash equivalents	**83.4**	**83.4**	85.0	85.0
	(166.9)	**(201.0)**	(214.9)	(232.9)
Available-for-sale financial instruments				
Available-for-sale financial assets	**4.6**	**4.6**	5.6	5.6
Derivatives and other items at fair value				
Forward exchange contracts used for hedging:	**0.4**	**0.4**	(4.9)	(4.9)
	(161.9)	**(196.0)**	(214.2)	(232.2)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
continued

19. Financial risk management continued

Estimation of fair values
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.

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.

Interest rates used for determining fair value
The interest rates used to determine the fair value of loans and borrowings and finance leases are as follows:

	2011 £m	2010 £m
Loans and borrowings	**2.4-5.2%**	2.5-5.3%
Finance leases	**6.0%**	6.0%

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).

1 January 2012	**Level 1 £m**	**Level 2 £m**	**Total £m**
Available-for-sale financial assets	**4.6**	**–**	**4.6**
Derivative financial assets	**–**	**1.6**	**1.6**
	4.6	**1.6**	**6.2**
Derivative financial liabilities	**–**	**(1.2)**	**(1.2)**
	4.6	**0.4**	**5.0**

2 January 2011	Level 1 £m	Level 2 £m	Total £m
Available-for-sale financial assets	5.6	–	5.6
Derivative financial assets	–	0.7	0.7
	5.6	0.7	6.3
Derivative financial liabilities	–	(5.6)	(5.6)
	5.6	(4.9)	0.7

There have been no transfers between level 1 and level 2 during 2011 and 2010 and there were no level 3 financial instruments in either 2011 and 2010.

20. Employee benefits

Morgan Crucible operates a number of defined benefit arrangements as well as defined contribution plans. The defined benefit plans are primarily in the UK, USA and Europe and predominately provide pensions based on service and career-average pay. In addition post-retirement medical plans are operated in the USA.

	2011 UK £m	2011 USA £m	2011 Europe £m	2011 Rest of the World £m	2011 Total £m
Pension plans and employee benefits					
Present value of unfunded defined benefit obligations	–	(8.9)	(23.7)	(2.7)	(35.3)
Present value of funded defined benefit obligations	(378.1)	(138.9)	(1.5)	(13.6)	(532.1)
Fair value of plan assets	330.7	89.3	0.6	11.5	432.1
Deficit	(47.4)	(58.5)	(24.6)	(4.8)	(135.3)
Unrecognised past service costs	–	–	0.2	–	0.2
Net obligations	(47.4)	(58.5)	(24.4)	(4.8)	(135.1)
Movements in present value of defined benefit obligation					
At 3 January 2011	(347.2)	(135.7)	(23.4)	(15.5)	(521.8)
Current service cost	(2.5)	(0.1)	(0.5)	(1.7)	(4.8)
Interest cost	(18.7)	(7.0)	(1.1)	(0.5)	(27.3)
Actuarial losses	(26.2)	(10.8)	(2.5)	(0.5)	(40.0)
Benefits paid	14.7	7.2	1.5	2.0	25.4
Contributions by members	(1.4)	–	–	–	(1.4)
Past service credits	3.2	–	–	–	3.2
Curtailments and settlements	–	–	–	(0.2)	(0.2)
Exchange adjustments	–	(1.4)	0.8	0.1	(0.5)
At 1 January 2012	(378.1)	(147.8)	(25.2)	(16.3)	(567.4)
Movements in fair value of plan assets					
At 3 January 2011	320.6	85.4	0.5	11.2	417.7
Expected return on plan assets	20.0	5.8	–	0.6	26.4
Actuarial (losses)/gains	(3.5)	(1.8)	0.1	(0.3)	(5.5)
Contributions by employer	6.9	6.4	1.5	2.2	17.0
Contributions by members	1.4	–	–	–	1.4
Benefits paid	(14.7)	(7.2)	(1.5)	(2.0)	(25.4)
Exchange adjustments	–	0.7	–	(0.2)	0.5
At 1 January 2012	330.7	89.3	0.6	11.5	432.1
Actual return on assets	16.5	4.0	0.1	0.3	20.9

	2011 UK £m	2011 USA £m	2011 Europe £m	2011 Rest of the World £m	2011 Total £m
Pension plans and employee benefits					
Expense recognised in the consolidated income statement					
Current service cost and past service cost	0.7	(0.1)	(0.5)	(1.7)	(1.6)
Interest on defined benefit pension plan obligation	(18.7)	(7.0)	(1.1)	(0.5)	(27.3)
Expected return on defined benefit pension plan assets	20.0	5.8	–	0.6	26.4
Gain on curtailment and settlements	–	–	–	(0.2)	(0.2)
Total expense	2.0	(1.3)	(1.6)	(1.8)	(2.7)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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20. Employee benefits continued

The IAS 19 expense in relation to the Group's defined benefit arrangements is recognised in the following line items in the consolidated income statement:

	2011 £m	2010 £m
Operating costs	**(4.8)**	(5.1)
Finance income	**26.4**	26.0
Finance expense	**(27.3)**	(28.0)
Restructuring and other one-off items	**3.0**	0.1
	(2.7)	(7.0)

In the UK, there has been a change in the future increases to be provided to active members of the two Schemes before retirement from being linked to the Retail Prices Index (RPI) to the Consumer Prices Index (CPI). This has resulted in a past service credit of £3.2 million.

In the USA benefit accrual has been frozen in the Morgan US Employees Pension Plan which has caused a reduction in the charge to the income statement of £0.2 million in 2011 and £0.1 million in 2010. In Europe the £0.2 million unrecognised past service cost has been recognised as a result of a change in future benefit accrual in France and is being amortised over 13 years. In Canada a £0.2 million curtailment and settlement loss has been recognised in respect of the closure of three defined benefit schemes.

The Group has adopted the policy of recognising actuarial gains and losses immediately in the balance sheet through other comprehensive income. Cumulative actuarial gains/losses reported in other comprehensive income since 5 January 2004, the date of transition to Adopted IFRSs, are £147.3 million.

Statement of financial position reconciliation

	2011 £m	2010 £m
At 3 January 2011	**(103.9)**	(105.9)
Pension expense	**(2.7)**	(7.0)
Contributions	**17.0**	16.1
Other comprehensive income	**(45.5)**	(6.1)
Currency adjustments	**–**	(1.0)
At 1 January 2012	**(135.1)**	(103.9)

The Group expects to contribute £18.0 million to these arrangements in 2012.

The fair values of the plan assets were as follows:

	2011 UK £m	2011 USA £m	2011 Europe £m	2011 Rest of the World £m	2011 Total £m
Equities	**125.9**	**44.9**	**–**	**–**	**170.8**
Bonds	**27.0**	**44.4**	**–**	**–**	**71.4**
Matching insurance policies	**176.4**	**–**	**0.5**	**2.2**	**179.1**
Other	**1.4**	**–**	**0.1**	**9.3**	**10.8**
Total	**330.7**	**89.3**	**0.6**	**11.5**	**432.1**

20. Employee benefits continued

Principal actuarial assumptions were:

	2011 UK %	2011 USA %	2011 Europe %
Discount rate	**4.90**	**5.00**	**4.30**
Expected rate of return on plan assets – Equities	**7.50**	**7.40**	**n/a**
– Bonds	**4.60**	**4.60**	**n/a**
– Matching insurance	**4.90**	**n/a**	**4.30**
Salary increase	**n/a**	**2.70**	**2.50**
Inflation (RPI & CPI)	**3.00/1.80**	**2.20**	**2.00**
Pensions increase	**2.90/3.20**	**n/a**	**2.00**
Mortality – post-retirement:			
Life expectancy of a male retiring at age 60 in 2011	**25.9 years**	**23.3 years**	**23.0 years**
Life expectancy of a male retiring at age 60 in 2031	**27.2 years**	**24.1 years**	**25.9 years**

Expected rates of return on plan assets are determined by reference to relevant indices. The overall expected rate of return is calculated by weighting the individual rates in accordance with the anticipated balance in the plan's investment portfolio.

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Balance sheet					
Present value of defined benefit obligation	**(567.4)**	(521.8)	(489.1)	(446.3)	(450.7)
Fair value of plan assets	**432.1**	417.7	383.0	344.5	403.0
Deficit	**(135.3)**	(104.1)	(106.1)	(101.8)	(47.7)
Unrecognised past service costs	**0.2**	0.2	0.2	–	–
Net obligations	**(135.1)**	(103.9)	(105.9)	(101.8)	(47.7)

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Experience (losses)/gains					
Experience (losses)/gains on defined benefit obligation	**(14.2)**	0.8	(2.2)	1.7	(0.2)
Experience (losses)/gains on plan assets	**(5.5)**	15.0	34.3	(104.7)	(17.5)

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are:

	Change in assumption	2011 Increase effect £m	2010 Increase effect £m
Discount rate	Decrease by 0.1%	**6.1**	6.1
Rate of increase in salaries	Increase by 0.1%	**–**	0.1
Inflation	Increase by 0.1%	**3.7**	3.5
Mortality – post-retirement	Pensioners live 1 year longer	**11.2**	9.9

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continued

20. Employee benefits continued

	2010 UK £m	2010 USA £m	2010 Europe £m	2010 Rest of the World £m	2010 Total £m
Present value of unfunded defined benefit obligations	–	(9.0)	(22.5)	(2.7)	(34.2)
Present value of funded defined benefit obligations	(347.2)	(126.7)	(0.9)	(12.8)	(487.6)
Fair value of plan assets	320.6	85.4	0.5	11.2	417.7
Deficit	(26.6)	(50.3)	(22.9)	(4.3)	(104.1)
Unrecognised past service costs	–	–	0.2	–	0.2
Net obligations	(26.6)	(50.3)	(22.7)	(4.3)	(103.9)
Movements in present value of defined benefit obligation					
At 3 January 2010	(333.4)	(120.1)	(23.5)	(12.1)	(489.1)
Current service cost	(2.2)	(0.8)	(0.5)	(1.6)	(5.1)
Interest cost	(19.0)	(7.4)	(1.1)	(0.5)	(28.0)
Actuarial losses	(6.7)	(11.4)	(0.5)	(2.5)	(21.1)
Benefits paid	15.4	7.5	1.5	1.7	26.1
Contributions by members	(1.3)	–	–	–	(1.3)
Curtailments and settlements	–	0.1	–	–	0.1
Exchange adjustments	–	(3.6)	0.7	(0.5)	(3.4)
At 2 January 2011	(347.2)	(135.7)	(23.4)	(15.5)	(521.8)
Movements in fair value of plan assets					
At 3 January 2010	298.9	73.9	0.5	9.7	383.0
Expected return on plan assets	19.8	5.8	–	0.4	26.0
Actuarial gains	9.7	4.2	–	1.1	15.0
Contributions by employer	6.3	6.8	1.5	1.5	16.1
Contributions by members	1.3	–	–	–	1.3
Benefits paid	(15.4)	(7.5)	(1.5)	(1.7)	(26.1)
Exchange adjustments	–	2.2	–	0.2	2.4
At 2 January 2011	320.6	85.4	0.5	11.2	417.7
Actual return on assets	29.5	10.0	–	1.5	41.0

	2010 UK £m	2010 USA £m	2010 Europe £m	2010 Rest of the World £m	2010 Total £m
Expense recognised in the consolidated income statement					
Current service cost and past service cost	(2.2)	(0.8)	(0.5)	(1.6)	(5.1)
Interest on defined benefit pension plan obligation	(19.0)	(7.4)	(1.1)	(0.5)	(28.0)
Expected return on defined benefit pension plan assets	19.8	5.8	–	0.4	26.0
Gain on curtailment of US and French employee benefit schemes	–	0.1	–	–	0.1
Total expense	(1.4)	(2.3)	(1.6)	(1.7)	(7.0)

20. Employee benefits continued

The fair values of the plan assets were as follows:

	2010 UK £m	2010 USA £m	2010 Europe £m	2010 Rest of the World £m	2010 Total £m
Equities	131.7	48.4	–	–	180.1
Bonds	17.7	36.5	–	–	54.2
Matching insurance policies	169.9	–	0.5	1.9	172.3
Other	1.3	0.5	–	9.3	11.1
Total	320.6	85.4	0.5	11.2	417.7

Principal actuarial assumptions were:

	2010 UK %	2010 USA %	2010 Europe %
Discount rate	5.50	5.50	5.00
Expected rate of return on plan assets – Equities	7.80	8.40	n/a
– Bonds	5.20	5.30	n/a
– Matching insurance	5.50	n/a	5.00
Salary increase	n/a	2.70	2.50
Inflation (RPI & CPI)	3.40/2.70	2.20	2.00
Pensions increase	3.30/3.40	n/a	2.00
Mortality – post-retirement:			
Life expectancy of a male retiring at age 60 in 2010	25.9 years	22.1 years	22.5 years
Life expectancy of a male retiring at age 60 in 2030	27.2 years	22.1 years	25.4 years

The actual liability in respect of global employee benefits will not be known until the last payments have been made. In placing a current estimate on the Group's past service benefit obligations, a number of assumptions about the future are required. For defined benefit schemes, the Directors make annual estimates and assumptions in respect of discount rates, future changes in salaries, employee turnover, inflation rates and life expectancy. In making these estimates and assumptions, the Directors consider advice provided by external advisers, such as actuaries.

Defined contribution plans

The Group operates a number of defined contribution pension plans. The total expense relating to these plans in the current year was £7.0 million (2010: £6.0 million). The Group expects to contribute £7.3 million to these arrangements in 2012.

Share-based payments

The Group operates various share option programmes that allow Group employees to acquire shares in the Company. Under the Long Term Incentive Plan (LTIP) and The Morgan Crucible Bonus Deferral Share Matching Plan (BDSMP) awards of shares are made to various key executives and under the Executive Share Option Scheme 2004 (2004 ESOS) and the Executive Share Option Scheme 1995 (1995 ESOS) share options are granted by the Company. The Company also maintains an all-employee sharesave scheme available to employees in the UK and Germany. The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options for which the related service and non-market vesting conditions are met.

The fair value of the options and awards under each scheme have been measured using the following models:

LTIP 2004, BDSMP, 2004 ESOS	Monte Carlo model
1995 ESOS	Binominal Lattice option pricing model
Employee Sharesave Scheme 2004 and Employee Sharesave Scheme 2004 (Germany)	Black-Scholes Merton mode

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20. Employee benefits continued

The terms and conditions of all awards and grants made that were outstanding on or after 4 January 2010:

Grant date/Employees entitled	Number of instruments granted	Vesting conditions	Contractual life of option
Awards granted to senior employees in 2011 under the BDSMP	1,484,633	Three years of service plus satisfaction of performance criteria	3 years
Options granted to UK employees in 2011 under the Employee Sharesave Scheme 2004	471,732	Three years of service	3 years
Awards granted to senior employees in 2011 under the LTIP 2004	1,500,775	Three years of service plus satisfaction of performance criteria	3 years
Awards granted to senior employees in 2010 under the BDSMP	827,311	Three years of service plus satisfaction of performance criteria	3 years
Options granted to UK employees in 2010 under the Employee Sharesave Scheme 2004	484,069	Three years of service	3 years
Awards granted to senior employees in 2010 under the LTIP 2004	2,331,758	Three years of service plus of performance criteria	3 years
Awards granted to senior employees in 2009 under the BDSMP	3,426,473	Three years of service plus satisfaction of performance criteria	3 years
Options granted to UK employees in 2009 under the Employee Sharesave Scheme 2004	1,937,568	Three years of service	3 years
Awards granted to senior employees in 2009 under the LTIP 2004	5,085,721	Three years of service plus satisfaction of performance criteria	3 years
Awards granted to senior employees in 2008 under the BDSMP	2,888,005	Three years of service plus satisfaction of performance criteria	3 years
Options granted to UK employees in 2008 under the Employee Sharesave Scheme 2004	1,089,783	Three years of service	3 years
Options granted to German employees in 2008 under the Employee Sharesave Scheme 2004 (Germany)	278,451	Three years of service	3 years
Awards granted to senior employees in 2008 under the LTIP 2004	2,691,123	Three years of service plus satisfaction of performance criteria	3 years
Options granted to UK employees in 2007 under the Employee Sharesave Scheme 2004	856,885	Three years of service	3 years
Awards granted to senior employees in 2007 under the LTIP 2004	1,540,000	Three years of service plus satisfaction of performance criteria	3 years
Options granted to senior employees in 2005 under the ESOS 2004	2,097,000	Three years of service plus satisfaction of performance criteria	10 years
Options granted to senior employees in 2004 under the ESOS 2004	3,157,500	Three years of service plus satisfaction of performance criteria	10 years
Options granted to senior employees in 2004 under the ESOS 1995	263,000	Three years of service plus satisfaction of performance criteria	10 years

The following options were outstanding at 1 January 2012 in respect of Ordinary shares:

	Exercise price(s)	Number of shares outstanding	Normal exercise dates ranging from	to
Employee Sharesave Scheme 2004	128.00p-213.00p	2,698,147	1 December 2011	31 May 2014
Employee Sharesave Scheme 2004 (Germany)	€1.64	41,592	1 December 2011	31 May 2012
2004 ESOS	129.05p-171.90p	1,006,807	22 June 2007	23 May 2015
BDSMP	0.00p-300.50p	5,642,423	6 March 2012	23 March 2014
LTIP 2004	0.00p	8,610,634	27 February 2012	23 March 2014

20. Employee benefits continued

Performance criteria for LTIP 2004, Directors' Share Option Plan 2006 and 2004 ESOS

For awards under the LTIP 2004 the extent to which 50% of the awards vested depended on the Company's Total Shareholder Return (TSR) ranking against TSR of the other companies in the FTSE 350 measured over the performance period. The extent to which the other 50% of these awards vested depended on the Company's earnings per share (EPS) compared with the Retail Price Index (RPI). The full 50% vested if, over the three-year performance period, the Company's EPS increased by at least the sum of the annual RPI increase and 10% per annum. If the Company's EPS increased by the sum of the annual RPI increase and between 4% and 10% per annum then the proportion of awards vesting would be interpolated between 15% and 50%. If the Company's EPS increased by the sum of the annual RPI increase and 4% per annum then 15% of the awards would vest. If the Company's EPS increased by less than the sum of the RPI increase and 4% per annum then 0% of the awards would vest.

In 2008 changes were made to the performance criteria attached to the LTIP 2004 for awards made in 2008 and onwards. For all participants excluding executive Directors the TSR performance criteria referred to above now only related to 33.3% of awards made. The extent to which the other 66.7% of these awards vested now depended on the Company's EPS compared with the RPI. The full 66.7% would vest if, over the three-year performance period, the Company's EPS increased by at least the sum of the annual RPI increase and 10% per annum. If the Company's EPS increased by the sum of the annual RPI increase and between 4% and 10% per annum then the proportion of awards vesting would be interpolated between 15% and 50%. If the Company's EPS increased by the sum of the annual RPI increase and 4% per annum then 15% of the awards will vest. If the Company's EPS increased by less than the sum of the RPI increase and 4% per annum then 0% of the awards would vest. For executive Director participants the conditions remained unchanged from 2007.

In 2009 further changes were made to the performance criteria attached to the LTIP 2004. For all participants the TSR performance criteria referred to above now relate to 100% of awards made.

In 2010 the performance criteria attached to the awards granted pursuant to the LTIP 2004 reverted to a TSR/EPS split. The TSR performance criteria relate to 50% of awards made. The extent to which the other 50% of these awards vest will depend on the Company's EPS compared with the RPI. The full 50% will vest if, over the three-year performance period, the Company's EPS increases by at least the sum of the annual RPI increase and 10% per annum. If the Company's EPS increases by the sum of the annual RPI increase and between 4% and 10% per annum then the proportion of awards vesting will be interpolated between 15% and 50%. If the Company's EPS increases by the sum of the annual RPI increase and 4% per annum then 15% of the awards will vest. If the Company's EPS increases by less than the sum of the RPI increase and 4% per annum then 0% of the awards will vest. In addition, the 2010 LTIP awards were restructured to include an HMRC approved element as part of the overall LTIP award.

In 2011 the performance criteria attached to the awards granted pursuant to the LTIP 2004 for the Chief Executive Officer and the Chief Financial Officer continued to be based on EPS growth and on relative TSR performance. The TSR performance criteria relates to 50% of awards made. The extent to which the other 50% of these awards vest will depend on the Company's EPS. The full 50% will vest if, over the three-year performance period, the Company's EPS increases by at least 15% per annum. If the Company's EPS increases by between 8% and 15% per annum then the proportion of awards vesting will be interpolated between 15% and 50%. If the Company's EPS increases by 8% per annum then 15% of the awards will vest. If the Company's EPS increases by less than 8% per annum then 0% of the awards will vest. To support the new two-Divisional structure in 2011 long-term incentive plans for senior Divisional executives were tailored to the value creation of each Division. For the Chief Executive Officer of Morgan Ceramics 50% of the award is based on TSR and 50% on Divisional performance. There must be an improvement in the underlying financial performance of Morgan Ceramics and the Company over the performance period. The Divisional portion of the LTIP will only vest if stretching performance is achieved, with no vesting occurring unless Morgan Ceramics Divisional EBITA growth is at least 12% per annum and return on capital employed (ROCE) is 35.7% in 2013; full vesting will occur for Morgan Ceramics Divisional EBITA growth of 18% per annum and ROCE of 40.7%. For other Morgan Ceramics executives 100% of awards are based on Morgan Ceramics Divisional performance, ROCE and Divisional EBITA. There must be an improvement in the underlying financial performance of Morgan Ceramics over the performance period. The LTIP will only vest if stretching performance is achieved, with no vesting occurring unless Morgan Ceramics Divisional EBITA growth is at least 12% per annum and ROCE is 35.7% in 2013; full vesting will occur for Morgan Ceramics Divisional EBITA growth of 18% per annum and ROCE of 40.7%. For the Chief Executive Officer of Morgan Engineered Materials 50% of the award is based on TSR and 50% on Divisional performance. There must be an improvement in the underlying financial performance of Morgan Engineered Materials and the Company over the performance period. The Divisional portion of the LTIP will only vest if stretching performance is achieved, with no vesting occurring unless Morgan Engineered Materials Divisional EBITA growth is at least 10% per annum and ROCE is 33.7% in 2013; full vesting will occur for EBITA growth of 15% per annum and ROCE of 36.1%. For other Morgan Engineered Materials executives 100% of awards are based on Morgan Engineered Materials Divisional performance, ROCE and Divisional EBITA. There must be an improvement in the underlying financial performance of Morgan Engineered Materials over the performance period. The LTIP will only vest if stretching performance is achieved, with no vesting occurring unless EBITA growth in Morgan Engineered Materials is at least 10% per annum and ROCE is 33.7% in 2013; full vesting will occur for EBITA growth of 15% per annum and ROCE of 36.1%.

In addition, an improvement must be shown in the Group's underlying financial performance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
continued

20. Employee benefits continued

Performance criteria for the BDSMP

Participants are able to defer up to 75% of their annual bonus into Company shares, subject to approval by the Remuneration Committee. Participants must hold the deferred shares for three years to be eligible for a matching award. Matching shares may be earned at the end of three years in the event that a stretching EPS target has been met.

Under the 2008 grant the Remuneration Committee allowed participants to defer up to 50% of their annual bonus into Company shares. If the Company's EPS increases by RPI+4% pa there is a 0.25x match, by RPI+5% pa there is a 0.5x match, by RPI+7.5% pa there is a 1x match, by RPI+10% pa there is a 1.75x match and by RPI+15% pa or higher there is a 3x match. There is straight-line vesting between these points. If the Company's RPI increases by less than RPI+4% pa, 0% of the matching award will vest.

Under the 2009 grant the Remuneration Committee allowed participants to defer up to 50% of their annual bonus into Company shares. If the Company's EPS increases by 4% pa there is a 0.25x match, by 5% pa there is a 0.5x match, by 7.5% pa there is a 1x match, by 10% pa there is a 1.75x match and by 15% pa or higher there is a 3x match. There is straight-line vesting between these points. If the Company's EPS increases by less than 4% pa, 0% of the matching award will vest.

Under the 2010 grant the Remuneration Committee allowed participants to defer up to 75% of their annual bonus into Company shares. If the Company's EPS increases by RPI+4% pa there is a 0.25x match, by RPI+5% pa there is a 0.5x match, by RPI+7.5% pa there is a 1x match, by RPI+10% pa there is a 1.75x match and RPI+15% pa or higher there is a 3x match. There is straight-line vesting between these points. If the Company's RPI increases by less than RPI+4% pa, 0% of the matching award will vest.

Under the 2011 grant the Remuneration Committee allowed participants to defer up to 50% of their annual bonus into Company shares. The EPS target requires three-year EPS growth above a threshold of 8% pa before any matching; if the Company's EPS increases by 12% pa there is a 1x match, by 16% pa there is a 2x match and by 20% pa or higher there is a 3x match. There is straight-line vesting between these points. If the Company's EPS increases by less than 8% pa, 0% of the matching award will vest.

Performance criteria for the ESOS 1995

The diluted earnings per share for the Company must grow by at least 2% per annum in excess of RPI over the period of date of grant to date of vesting.

The fair values of services received are in return for awards made and share options granted. The estimate of the fair value of the services received is measured based on an appropriate model. In the case of the Binomial Lattice model and Monte Carlo model the contractual life of the options and awards are used as an input. Expectations of early exercise are incorporated into both of these models.

LTIP 2004	2011 awards
Fair value at measurement date	**228.33p-278.14p**
Share price	**300.50p**
Exercise price	**n/a**
Expected volatility (expressed as weighted average volatility used in the model)	**45%**
Option life (expressed as weighted average life used in the model)	**3 years**
Expected dividends	**2.6%**
Risk-free interest rate	**1.8%**

BDSMP	2011 awards
Fair value at measurement date	**300.50p**
Share price	**300.50p**
Exercise price	**n/a**
Expected volatility (expressed as weighted average volatility used in the model)	**n/a**
Option life (expressed as weighted average life used in the model)	**3 years**
Expected dividends	**n/a**
Risk-free interest rate	**n/a**

ESOS 2004

There were no awards during 2011.

20. Employee benefits continued

Employee Sharesave Schemes 2004	2011 awards
Fair value at measurement date	**62.82p**
Share price	**224.00p**
Exercise price	**213.00p**
Expected volatility (expressed as weighted average volatility used in the model)	**45%**
Option life (expressed as weighted average life used in the model)	**3 years**
Expected dividends	**2.5%**
Risk-free interest rate	**0.9%**

Employee Sharesave Scheme 2004 (Germany)

There were no awards during 2011.

ESOS 1995

There were no awards during 2011.

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options) adjusted for any expected changes to future volatility due to publicly available information.

The number and weighted average exercise prices of share options are as follows:

	Weighted average exercise price 1 January 2012	**Number of options 1 January 2012**	Weighted average exercise price 2 January 2011	Number of options 2 January 2011
Outstanding at the beginning of the period	**37.86p**	**20,795,850**	45.53p	20,119,192
Granted during the period	**59.88p**	**3,457,140**	40.41p	4,005,075
Forfeited during the period	**114.49p**	**(364,934)**	79.43p	(716,976)
Exercised during the period	**172.06p**	**(1,265,605)**	165.26p	(200,440)
Lapsed during the period	**0.82p**	**(4,622,848)**	83.13p	(2,411,001)
Outstanding at the end of the period	**40.61p**	**17,999,603**	37.86p	20,795,850
Exercisable at the end of the period	**154.42p**	**1,123,641**	162.69p	1,373,554

The weighted average share price at the date of share options exercised during the period was 283.42 pence (2010: 233.20 pence).

The options outstanding at the year end have an exercise price in the range nil to 300.50 pence and a weighted average contractual life of 0.5 years.

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted.

The weighted average fair value of options issued in the period was 124.55 pence (2010: 145.92 pence).

The IFRS 2 fair value charge expensed to the income statement was £5.9 million (2010: £3.0 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
continued

21. Provisions

	Closure and restructuring provisions £m	Other provisions £m	Environmental provisions £m	Total £m
Balance at 2 January 2011	**7.7**	**5.9**	**6.8**	**20.4**
Provisions made during the year	**4.8**	**5.2**	**0.5**	**10.5**
Provisions used during the year	**(6.5)**	**(3.2)**	**(0.8)**	**(10.5)**
Provisions reversed during the year	**(0.1)**	**(0.8)**	**(0.4)**	**(1.3)**
Effect of movements in foreign exchange	**(0.1)**	**–**	**–**	**(0.1)**
Balance at 1 January 2012	**5.8**	**7.1**	**6.1**	**19.0**
Current	**3.1**	**6.0**	**2.9**	**12.0**
Non-current	**2.7**	**1.1**	**3.2**	**7.0**
	5.8	**7.1**	**6.1**	**19.0**

Closure and restructuring provisions are based on the Group's restructuring programmes and represent committed expenditure at the balance sheet date. The amounts provided are based on the costs of terminating relevant contracts, under the contract terms, and management's best estimate of other associated restructuring costs including professional fees, most of which are expected to be incurred over the next year. The amounts provided also include the obligation for discounted future payments under a non-cancellable lease for the Company's former headquarters, net of expected rental income under sub-leases. The lease expires in 2016.

Other provisions include the settlement of European class actions, together with the associated legal costs. The estimated costs are based on the Group's assessment of the probable future costs of these activities. The Group expects to incur most of the liability in more than one year.

Environmental provisions are for known environmental issues which the Group will rectify over the next few years. In a number of jurisdictions companies have a constructive obligation to remedy any known environmental problems. The estimated costs are based on management's best estimate of the costs required to remedy these problems. The Group expects to incur most of the liability over the next five years.

22. Trade and other payables

	2011 £m	2010 £m
Non-current		
Trade payables	**0.2**	0.4
Non-trade payables	**10.3**	13.2
	10.5	13.6
Current		
Trade payables	**109.8**	121.7
Non-trade payables and accrued expenses	**141.5**	143.7
	251.3	265.4

Included in current non-trade payables and accrued expenses and non-current non-trade payables is £6.2 million (2010: £8.3 million) and £5.1 million (2010: £9.0 million) respectively of deferred contingent consideration on purchase of 51% of the Ordinary share capital of Clearpower Limited. For further details see note 3.

23. Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	2011 £m	2010 £m
Less than one year	**6.6**	8.0
Between one and five years	**20.4**	19.7
More than five years	**34.9**	29.2
	61.9	56.9

The Group leases a number of properties under operating leases of varying duration. In some cases, during the life of the lease, the rental payable is reviewed after a fixed period to reflect market rentals.

Leases as lessor

The total of future minimum sub-lease income under non-cancellable sub-leases is £2.8 million (2010: £3.4 million).

24. Capital commitments

Commitments for property, plant and equipment and computer software expenditure for which no provision has been made in these accounts amount to £2.4 million (2010: £1.3 million) for the Group.

25. Contingencies

Subsidiary undertakings within the Group have given unsecured guarantees of £9.5 million (2010: £11.0 million) in the ordinary course of business.

In an international group of companies a variety of claims arise from time to time. Provision has been made in these accounts against those claims which the Directors consider meet the requirements of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and are likely to result in significant liabilities.

The Group has been subject to legal claims in the USA, Canada and Europe. Settlements for the majority of these have been agreed. There remain provisions in respect of these claims of £1.4 million (2010: £1.4 million). In some cases it will not be possible to form a view, either because the facts are unclear or because further time is needed to properly assess the merits of the case and no provisions are held against such cases. The Board, having taken legal advice, is of the opinion that the remainder of these actions will not have a material impact on the Group's financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
continued

26. Related parties

Identification of related parties

The Group has related party relationships with its subsidiaries (a list of principal subsidiary undertakings is shown in note 42), with its associates (see note 12) and with its Directors and executive officers.

Transactions with key management personnel

The Company has written service contracts or letters of appointment with each of its Directors, under which the Directors receive a salary or a fee and other emoluments.

The key management of the Group and parent Company consists of the Board of Directors (including non-executive Directors) and members of the Executive Committee.

Their compensation charged in the year was:

	2011 £m	2010 £m
Short-term employee benefits	**3.2**	3.4
Employer National Insurance Contributions	**0.5**	0.4
Pension and other post-employment costs	**0.3**	0.4
Share-based payments	**1.0**	0.7
Termination payments	**0.2**	0.4
Non-executive Directors' fees and benefits	**0.3**	0.3
Total compensation of key management personnel	**5.5**	5.6

Information on executive Directors' remuneration is given in the Remuneration Report on pages 66 to 76.

Other related party transactions

	2011 £m	2010 £m
Sales to associate	**28.3**	54.5

The balances with the Group's associate are shown in note 15.

27. Subsequent events

There have been no material events since the year end.

COMPANY BALANCE SHEET
as at 1 January 2012

	Note	**2011 £m**	2010 £m
Fixed assets			
Tangible assets	31	**3.1**	1.2
Investment in subsidiary undertakings	32	**692.5**	740.2
		695.6	741.4
Current assets			
Debtors – due within one year	33	**36.7**	30.4
Cash at bank and in hand		**24.6**	27.5
		61.3	57.9
Creditors – amounts falling due within one year	34	**82.1**	128.9
Net current liabilities		**(20.8)**	(71.0)
Total assets less current liabilities		**674.8**	670.4
Creditors – amounts falling due after more than one year			
Amounts payable to subsidiary undertakings		**111.5**	108.4
Other creditors, including deferred consideration	34	**5.1**	9.0
Borrowings	35	**49.3**	67.7
		165.9	185.1
Provisions for liabilities and charges	36	**3.8**	3.6
		169.7	188.7
Net assets		**505.1**	481.7
Capital and reserves			
Equity shareholders' funds			
Called-up share capital	17	**68.3**	68.1
Share premium account	37	**90.6**	88.3
Merger reserve	37	**17.0**	17.0
Capital redemption reserve	37	**35.7**	35.7
Profit and loss account	37	**293.1**	272.2
		504.7	481.3
Non-equity shareholders' funds			
Called-up share capital		**0.4**	0.4
Shareholders' funds		**505.1**	481.7

The financial statements were approved by the Board of Directors on 15 February 2012 and were signed on its behalf by:

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

NOTES TO THE COMPANY BALANCE SHEET
continued

28. Accounting policies
The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

Basis of preparation
The financial statements have been prepared in accordance with applicable accounting standards, and under the historical cost accounting rules.

Under Section 408(4) of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account.

Under FRS 1 *Cash Flow Statements* the Company is exempt from the requirement to prepare a cash flow statement on the grounds that the cash flows of the Company are included within the published consolidated financial statement.

The Company has taken advantage of the exemption contained in FRS 8 *Related Parties* and has therefore not disclosed transactions or balances with wholly owned subsidiaries.

Fixed assets and depreciation
Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Plant, equipment and fixtures – 3-20 years

Investments
Investments in subsidiary undertakings, associates and joint ventures are stated at cost less amounts written off unless they are designated as a hedged item in a fair value hedge of foreign currency risk under FRS 26 *Financial Instruments: Recognition and Measurement*. In this case they are accounted for at historical cost plus a hedging adjustment recognised in profit or loss for the changes in their fair value attributable to the foreign currency exposure from the date the hedge is designated.

Interest-bearing borrowings
Immediately after issue debt is stated at the fair value of the consideration received on the issue of the capital instrument after deduction of issue costs. The finance cost of the debt is allocated to periods over the term of the debt at a constant rate on the carrying amount.

Foreign currency
Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward contract. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Leases
Rentals payable under operating leases are charged in the profit and loss account on a straight-line basis over the lease term.

Post-retirement benefits
The Company participates in a Group-wide pension scheme providing benefits based on career-average pensionable pay. The assets of the scheme are held separately from those of the Company. The Company is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 *Retirement Benefits*, accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period. Refer to note 39 for the additional disclosures required by FRS 17.

Taxation
The charge for taxation is based on the result for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19 *Deferred Tax*.

28. Accounting policies continued

Classification of financial instruments issued by the Company

Following the adoption of FRS 25 *Financial Instruments: Disclosure and Presentation*, financial instruments issued by the Company are treated as equity (ie forming part of shareholders' funds) only to the extent that they meet the following two conditions:

a) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and
b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called-up share capital and share premium account exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholders' funds (see dividend policy) are dealt with as appropriations in the reconciliation of movements in shareholders' funds.

Hedging instruments and hedged items are accounted for separately in the balance sheet. In fair value hedges, gains and losses from remeasuring the hedging instrument at fair value (for a derivative instrument) or the foreign currency component (for a non-derivative financial liability in a foreign currency hedge) are included in profit for the year when they arise. In cash flow hedges, gains and losses from remeasuring the hedging derivative instrument at fair value are initially recognised in other comprehensive income to the extent effective, and are later reclassified to profit or loss when the hedged transaction occurs or is no longer expected to occur.

Certain financial assets and liabilities have been designated as fair value through profit or loss and are recognised in the balance sheet at fair value.

Own shares held by The Morgan General Employee Benefit Trust

Transactions of the Group-sponsored Morgan General Employee Benefit Trust are treated as being those of the Company and are therefore reflected in the Company's financial statements. In particular, the Trust's purchases and sales of shares in the Company are debited and credited to equity.

Share-based payments

The share option programme allows employees to acquire shares of the Company. The fair value of options granted after 7 November 2002 and those not yet vested as at 4 January 2005 is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employee becomes unconditionally entitled to the options. The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting. For details of share-based payments made and the assumptions used in measuring the fair value see note 20.

Share-based payments recharged to subsidiary undertakings are recorded via the inter-company loan account.

Dividends on shares presented within shareholders' funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the Notes to the financial statements.

Financial guarantee contracts

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

NOTES TO THE COMPANY BALANCE SHEET
continued

29. Staff numbers and costs
The average number of persons employed by the Company (including Directors) during the year, analysed by category, was as follows:

	Number of employees 2011	2010
Directors and head office staff	**28**	26
Divisional staff	**15**	16
	43	42

The majority of the Directors and head office staff devote a proportion of their time to Divisional duties. Of the 28 Directors and head office staff, the average number who spent all or a proportion of their time on corporate duties was ten (2010: nine) as shown in note 5.

The aggregate payroll costs of these persons were as follows:

	2011 £m	2010 £m
Wages and salaries	**8.3**	8.9
Equity-settled share-based payments (see note 20)	**5.6**	3.0
Social security costs	**0.9**	0.9
Other pension costs	**0.7**	0.4
	15.5	13.2

30. Dividends
Dividends payable for the First and Second Preference shares were £22,491 (2010: £22,491) of which £11,245 (2010: £11,245) was outstanding at the balance sheet date.

The 5.5% Cumulative First Preference shares of £1 each and the 5.0% Cumulative Second Preference shares of £1 each confer on the holders thereof the right to receive a cumulative preferential dividend at the rate of 5.5% and 5.0% respectively, calculated up to 30 June and 31 December respectively in every year.

For proposed Ordinary dividends see the consolidated income statement on page 78.

31. Tangible assets

	Plant, equipment and fixtures £m
Cost	
At 3 January 2011	**4.4**
Additions	**3.0**
Disposals	**(2.7)**
At 1 January 2012	**4.7**
Accumulated depreciation	
At 3 January 2011	**3.2**
Amount provided for in the year	**1.1**
Disposals	**(2.7)**
At 1 January 2012	**1.6**
Net book amounts at 1 January 2012	**3.1**
Net book amounts at 2 January 2011	**1.2**

32. Investment in subsidiary undertakings

	Shares £m	Loans £m	Total £m
Cost			
At 3 January 2011	**646.0**	**146.8**	**792.8**
Additions	**2.6**	**11.7**	**14.3**
Fair value hedge of investments' exposure to foreign currency risk	**(0.6)**	**–**	**(0.6)**
Less: disposals/loan repayments/liquidations	**(30.6)**	**(29.3)**	**(59.9)**
At 1 January 2012	**617.4**	**129.2**	**746.6**
Amounts provided			
At 3 January 2011	**48.9**	**3.7**	**52.6**
Provided in the year	**1.5**	**–**	**1.5**
At 1 January 2012	**50.4**	**3.7**	**54.1**
Net book amounts at 1 January 2012	**567.0**	**125.5**	**692.5**
Net book amounts at 2 January 2011	**597.1**	**143.1**	**740.2**

A list of principal subsidiary undertakings is shown in note 42.

33. Debtors

	2011 £m	2010 £m
Due within one year:		
Other debtors	**3.1**	2.9
Derivative financial assets	**2.3**	0.1
Prepayments and accrued income	**0.3**	0.4
Amounts receivable from subsidiary undertakings	**31.0**	27.0
	36.7	30.4

34. Creditors

	2011 £m	2010 £m
Due within one year:		
Bank overdrafts	**51.9**	83.9
Trade creditors	**1.9**	1.8
Amounts payable to subsidiary undertakings	**8.0**	18.2
Other creditors, including deferred consideration	**9.9**	10.2
Accruals and deferred income	**8.1**	9.6
Derivative financial liabilities	**2.3**	5.2
	82.1	128.9
Due after one year:		
Other creditors, including deferred consideration	**5.1**	9.0
	5.1	9.0

NOTES TO THE COMPANY BALANCE SHEET
continued

35. Borrowings

	2011 £m	2010 £m
Bank and other loans	**49.3**	67.7
Bank overdrafts	**51.9**	83.9
	101.2	151.6
Less: amount repayable within one year included within current liabilities	**(51.9)**	(83.9)
Total repayable after more than one year	**49.3**	67.7

36. Provisions for liabilities and charges

	Closure and restructuring provisions £m	Other provisions £m	Total £m
At 3 January 2011	**1.8**	**1.8**	**3.6**
Provided in the year	**0.9**	**–**	**0.9**
Utilised in the year	**(0.3)**	**(0.4)**	**(0.7)**
At 1 January 2012	**2.4**	**1.4**	**3.8**

Closure and restructuring provisions relate mainly to an onerous lease provision for Morgan House, the Company's previous registered address.

Other provisions include the settlement of European class actions, together with the associated legal costs.

37. Share premium and reserves

	Share premium £m	Merger reserve £m	Capital redemption reserve £m	Profit and loss account £m
At 3 January 2011	**88.3**	**17.0**	**35.7**	**272.2**
Charges and transfers in relation to share-based payments for the year	**–**	**–**	**–**	**6.6**
Dividends	**2.3**	**–**	**–**	**(20.9)**
Own shares acquired for share incentive schemes	**–**	**–**	**–**	**(3.2)**
Retained profit for the year	**–**	**–**	**–**	**38.4**
At 1 January 2012	**90.6**	**17.0**	**35.7**	**293.1**

Capita Trustees Limited administer a Trust in which shares are held to satisfy awards granted under the Company's share plans. The shares are distributed via discretionary settlement governed by the rules of the Trust deed dated 1 March 1996 (as amended).

The total number of own shares held by the Trust at 1 January 2012 is 2,044,458 (2010: 1,007,003) and at that date had a market value of £5.4 million (2010: £2.5 million).

The amount of reserves of The Morgan Crucible Company plc that may not be distributed under Section 831(4) of the Companies Act 2006 is £145.1 million (2010: £142.7 million).

38. Leasing commitments

Operating lease commitments falling due during the next year, for which no provision has been made in these accounts, are:

	Land and buildings 2011 £m	Land and buildings 2010 £m
Less than one year	**–**	–
Between one and five years	**0.2**	0.4
More than five years	**–**	0.3
	0.2	0.7

39. Pension costs

The Morgan Pension Scheme and The Morgan Senior Staff Pension and Life Assurance Scheme

The Company participates in two defined benefit schemes in the UK. The assets of these schemes are held in separate trustee-administered funds, The Morgan Pension Scheme (MPS) and The Morgan Group Senior Staff Pension and Life Assurance Scheme (SSS). Given that the Company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis, as permitted by FRS 17 *Retirement Benefits*, the schemes have been accounted for in these financial statements as if they were defined contribution schemes.

The latest actuarial valuations of the MPS and the SSS were carried out as at 6 April 2009 and 1 April 2009 respectively, and updated for FRS 17 purposes to 1 January 2012 by a qualified independent actuary. The results for these schemes in respect of the Group are shown below:

	2011 %	2010 %
Assumptions:		
Inflation (RPI & CPI)	**3.00/1.80**	3.40/2.70
Discount rate	**4.90**	5.50
Pension increases in payment	**2.90/3.20**	3.30/3.40
General salary increases	**n/a**	n/a

The assets in the scheme and the expected rates of return were:

	2011 Expected return %	**2011 £m**	2010 Expected return %	2010 £m
Asset distribution and balance sheet reconciliation:				
Equities	**7.5**	**125.9**	7.8	131.7
Bonds	**4.6**	**27.0**	5.2	17.7
Property	**5.0**	**–**	6.2	–
Other	**4.9**	**177.8**	5.5	171.2
Total market value of assets		**330.7**		320.6
Present value of liability		**(378.1)**		(347.2)
Deficit in the scheme		**(47.4)**		(26.6)
Employer contributions due within one year		**(0.2)**		(0.2)

Other assets include an insurance policy as described in note 20.

The contribution for the year was £6.9 million (2010: £6.3 million).

40. Contingent liabilities

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its Group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

There are no other contingent liabilities in the Company as at 1 January 2012.

The Group has been subject to legal claims in the USA, Canada and Europe. Settlements for the majority of these have been agreed. There remain provisions in respect of these claims of £1.4 million (2010: £1.4 million). In some cases it will not be possible to form a view, either because the facts are unclear or because further time is needed to properly assess the merits of the case and no provisions are held against such cases. The Board, having taken legal advice, is of the opinion that the remainder of these actions will not have a material impact on the Group's financial position.

NOTES TO THE COMPANY BALANCE SHEET
continued

41. Related parties

The Company's transactions with non-wholly owned subsidiaries are as follows:

	2011 £m	2010 £m
Amounts invoiced to non-wholly owned subsidiaries	**1.4**	0.5
Amounts receivable from non-wholly owned subsidiaries	**0.8**	0.7
Amounts payable to non-wholly owned subsidiaries	**6.6**	7.0

The Directors have reviewed transactions with related parties (as defined in FRS 8 *Related Party Disclosures*) and have concluded that there are no other material transactions which require disclosure which have not been acknowledged elsewhere in the Annual Report and Accounts.

42. Principal subsidiary undertakings

		Business	Country of incorporation and principal place of business
Morgan Ceramics companies			
*	Carbo San Luis S.A.	Thermal Ceramics	Argentina
*	Morgan Technical Ceramics Australia Pty. Ltd.	Technical Ceramics	Australia
	Dalian Morgan Refractories Limited	Thermal Ceramics	China
	Morgan Kailong (Jingmen) Thermal Ceramics Co. Ltd.	Thermal Ceramics	China
	Morgan Thermal Ceramics International Trading (Shanghai) Co. Ltd.	Thermal Ceramics	China
	Morgan Thermal Ceramics Shanghai Ltd.	Thermal Ceramics	China
*	Yixing Haldenwanger Fine Ceramic Co. Ltd.	Technical Ceramics	China
	Yixing Morgan Thermal Ceramics Co. Ltd.	Thermal Ceramics	China
	Certech International Limited	Technical Ceramics	England
	Morgan Technical Ceramics Limited	Technical Ceramics	England
	Morgan Electro Ceramics Limited	Technical Ceramics	England
	Thermal Ceramics UK Limited	Thermal Ceramics	England
*	Thermal Ceramics de France S.A.S.	Thermal Ceramics	France
*	Thermal Ceramics Deutschland GmbH & Co. K.G.	Thermal Ceramics	Germany
*	W. Haldenwanger Technische Keramik GmbH & Co. K.G.	Technical Ceramics	Germany
	Wesgo Ceramics GmbH	Technical Ceramics	Germany
*	Ciria India Ltd.	Thermal Ceramics	India
	Murugappa Morgan Thermal Ceramics Limited	Thermal Ceramics	India
*	Thermal Ceramics Italiana s.r.l.	Thermal Ceramics	Italy
	Shin-Nippon Thermal Ceramics Corporation	Thermal Ceramics	Japan
*	Morgan Technical Ceramics S.A. de C.V.	Technical Ceramics	Mexico
*	Thermal Ceramics Benelux B.V.	Thermal Ceramics	Netherlands
*	Limited Liability Company Morgan Thermal Ceramics Sukhoy Log	Thermal Ceramics	Russia
	Thermal Ceramics Asia Pte. Ltd.	Thermal Ceramics	Singapore
*	Thermal Ceramics South Africa Pty. Limited	Thermal Ceramics	South Africa
*	Thermal Ceramics Espana S.L.	Thermal Ceramics	Spain
*	Certech Inc.	Technical Ceramics	USA
*	Morgan Advanced Ceramics Inc.	Technical Ceramics	USA
*	Morgan Technical Ceramics Auburn Inc.	Technical Ceramics	USA
*	Thermal Ceramics Inc.	Thermal Ceramics	USA

42. Principal subsidiary undertakings continued

		Business	Country of incorporation and principal place of business
Morgan Engineered Materials companies			
*	Morgan Molten Metal Systems (Suzhou) Co. Ltd.	Molten Metal Systems	China
	Morgan AM&T (Shanghai) Co., Ltd.	Advanced Materials & Technology	China
	Shanghai Morgan Advanced Material & Technology Co. Ltd.	Advanced Materials & Technology	China
	Shanghai Morganite Electrical Carbon Co. Ltd.	Advanced Materials & Technology	China
	Morganite Electrical Carbon Limited	Advanced Materials & Technology	England
*	NP Aerospace Limited	Advanced Materials & Technology	England
*	Morgan Molten Metal Systems GmbH	Molten Metal Systems	Germany
*	Morgan Rekofa GmbH	Advanced Materials & Technology	Germany
*	Morgan Materials Hungary Kft.	Advanced Materials & Technology	Hungary
*	Assam Carbon Products Ltd.	Advanced Materials & Technology	India
*	Morganite Crucible (India) Limited	Molten Metal Systems	India
*	Morgan Carbon Italia s.r.l.	Advanced Materials & Technology	Italy
*	Morganite Carbon Kabushiki Kaisha	Advanced Materials & Technology	Japan
*	Morganite Luxembourg S.A.	Advanced Materials & Technology	Luxembourg
*	National Electrical Carbon B.V.	Advanced Materials & Technology	Netherlands
*	Morganite South Africa Pty. Limited	Advanced Materials & Technology	South Africa
*	Morganite Taiwan Limited	Advanced Materials & Technology	Taiwan
*	Morgan Karbon Grafit Sanayi A.S.	Advanced Materials & Technology	Turkey
*	Morgan Advanced Materials and Technology Inc.	Advanced Materials & Technology	USA
*	National Electrical Carbon Products Inc.	Advanced Materials & Technology	USA
*	Graphite Die Mold Inc.	Advanced Materials & Technology	USA
*	Morganite Crucible Inc.	Molten Metal Systems	USA
Other subsidiary undertakings			
*	Morganite Australia Pty Limited	Group	Australia
*	Morganite Brasil Limitada	Group	Brazil
*	Morganite Canada Corporation	Group	Canada
	Grupo Industrial Morgan S.A. de C.V.	Group	Mexico
	Morgan Korea Company Limited	Group	South Korea
	Morganite Industries Inc.	Group	USA

*Denotes companies some or all of whose shares are owned by a subsidiary.

In 2011 and 2010 the following German subsidiaries, which are included in the Group consolidated accounts, utilised article 264b of the German Commercial Code to be liberated from preparing and disclosing audited statutory accounts:

- W Haldenwanger Technische Keramik GmbH & Co K.G.
- Technische Keramik & Co K.G.
- Thermal Ceramics Deutschland GmbH & Co K.G.

NOTES TO THE COMPANY BALANCE SHEET
continued

43. Company reconciliation of movements in shareholders' funds
for the year ended 1 January 2012

	2011 £m	2010 £m
Retained profit for the financial year	**38.4**	37.9
Dividends	**(18.4)**	(15.5)
Issue of shares	**–**	0.2
Own shares acquired for share incentive schemes	**(3.2)**	–
Charges and transfers in relation to share-based payments for the year	**6.6**	3.3
Net increase in shareholders' funds	**23.4**	25.9
Opening shareholders' funds	**481.7**	455.8
Closing shareholders' funds	**505.1**	481.7

GROUP STATISTICAL INFORMATION

Under adopted IFRSs

	2007 £m	2008 £m	2009 £m	2010 £m	**2011 £m**
Revenue	693.2	835.0	942.6	1,017.1	**1,101.0**
Profit from operations before restructuring costs, other one-off items and amortisation of intangible assets	88.1	108.8	89.0	109.5	**143.4**
Restructuring costs and other one-off items:					
Restructuring costs and costs associated with settlement of prior period anti-trust litigation	(9.0)	(11.4)	(14.0)	(8.5)	**(5.6)**
(Loss)/profit on disposal of properties	(0.2)	0.8	2.0	0.6	**2.4**
Net pension credit	–	–	–	–	**1.3**
Profit from operations before amortisation of intangible assets	78.9	98.2	77.0	101.6	**141.5**
Amortisation of intangible assets	(1.6)	(3.2)	(16.3)	(8.0)	**(8.3)**
Operating profit	77.3	95.0	60.7	93.6	**133.2**
Net financing costs	(5.5)	(12.7)	(29.3)	(25.9)	**(21.8)**
Loss on disposal of businesses	(0.3)	(0.7)	–	–	**–**
Share of profit of associate (net of income tax)	0.2	1.2	–	–	**–**
Profit before taxation	71.7	82.8	31.4	67.7	**111.4**
Income tax expense	(15.2)	(20.1)	(8.7)	(19.7)	**(32.6)**
Profit for the period	56.5	62.7	22.7	48.0	**78.8**
Assets employed					
Property, plant and equipment	246.6	319.6	276.2	269.2	**259.8**
Intangible assets	69.8	177.0	296.9	285.0	**283.3**
Investments and other receivables	49.5	50.6	9.3	9.1	**10.3**
Deferred tax assets	25.8	36.6	37.2	38.5	**41.1**
Net current assets	74.4	189.9	136.5	131.0	**160.1**
Total assets less current liabilities	466.1	773.7	756.1	732.8	**754.6**
Employee benefits	47.7	101.8	105.9	103.9	**135.1**
Provisions and other items	202.9	423.1	388.1	331.6	**304.8**
Deferred tax liabilities	19.2	40.8	47.5	45.2	**44.5**
	196.3	208.0	214.6	252.1	**270.2**
Equity					
Total equity attributable to equity holders of the parent Company	176.2	177.8	184.6	215.0	**229.4**
Non-controlling interests	20.1	30.2	30.0	37.1	**40.8**
Total equity	196.3	208.0	214.6	252.1	**270.2**
Ordinary dividends per share (paid)	6.75p	7.0p	4.5p	7.0p	**7.7p**
Earnings per share					
Basic	19.1p	22.2p	7.1p	15.8p	**26.9p**
Diluted	18.5p	21.6p	6.8p	15.0p	**25.7p**
Basic before amortisation of intangible assets	19.7p	23.4p	13.2p	18.7p	**29.9p**
Diluted before amortisation of intangible assets	19.1p	22.8p	12.6p	17.8p	**28.6p**

SHAREHOLDER INFORMATION

Analysis of shareholdings as at 1 January 2012

		Number of holdings	% of total holdings	Number of shares	% of share capital
Size of holding	1 – 2,000	6,075	75.0927	3,251,940	1.1906
	2,001 – 5,000	1,117	13.8072	3,543,580	1.2974
	5,001 – 10,000	338	4.1780	2,394,280	0.8766
	10,001 – 50,000	297	3.6712	6,353,764	2.3262
	50,001 – 100,000	75	0.9271	5,543,561	2.0296
	100,001 and above	188	2.3239	252,052,666	92.2797
		8,090	**100.00**	**273,139,791**	**100.00**
Holding classification	Individuals	7,070	87.39	15,407,605	5.64
	Nominee companies	913	11.29	251,582,425	92.11
	Trusts (pension funds etc)	9	0.11	104,734	0.04
	Others	98	1.21	6,045,027	2.21
		8,090	**100.00**	**273,139,791**	**100.00**

Key dates

Dividends	Subject to members' approval at the Annual General Meeting and to any Scrip alternative, a final cash dividend of 6 pence per Ordinary share of 25 pence shall be paid in respect of the financial year ended 1 January 2012. The dividend shall be paid on 6 July 2012 to holders of Ordinary shares on the register of members at the close of business on 25 May 2012.	6 July 2012
Preference dividends	Subject to the relevant detailed terms and approvals of the Board of Directors where applicable 5.5% Cumulative First Preference shares of £1 each and 5.0% Cumulative Second Preference shares of £1 each	30 March 2012 and 1 October 2012
Annual General Meeting	The 2012 Annual General Meeting will take place on	8 May 2012
Financial results	The half year results are announced in July with the Report and Accounts for the year normally posted in March	

Other information

Capital gains tax	The market values of quoted shares and stocks at 31 March 1982 were:	
	Ordinary shares of 25 pence each	122.5 pence
	5.5% Cumulative First Preference shares of £1 each	30.5 pence
	5.0% Cumulative Second Preference shares of £1 each	28.5 pence
	For capital gains tax purposes, the cost of Ordinary shares is adjusted to take account of rights issues. Any capital gains arising on disposal will also be adjusted to take account of indexation allowances. Since the adjustments will depend on individual circumstances, shareholders are recommended to consult their professional advisers.	
Share price	The price can be obtained on the Company's website: www.morgancrucible.com	

Company details

Registered office — Quadrant, 55-57 High Street, Windsor, Berkshire SL4 1LP Registered in England No. 286773
Telephone: 01753 837000 Fax: 01753 850872
Website: www.morgancrucible.com

Company registrars — Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU
Telephone (in UK): 0871 664 0300 (calls cost 10p per minute plus network extras, lines are open Monday-Friday, 8.30am-5.30pm)
Telephone (from overseas): +44 (0) 20 8639 3399
Email: ssd@capitaregistrars.com
Website: www.capitaregistrars.com

Share portal — The Capita share portal (www.capitashareportal.com) is an online service enabling you to quickly and easily access and maintain your shareholding online, reducing the need for paperwork and providing 24-hour access for your convenience. Through the share portal you may, for example, view your holding balance, view the dividend payments you have received and register and change bank mandate instructions so that dividends can be paid directly to your bank account.

Scrip Dividend Scheme — The Company's Scrip Dividend Scheme enables shareholders to receive new, fully paid, Ordinary shares in the Company instead of cash dividends whenever a Scrip alternative is offered. Scrip elections can be made or revoked either online at www.capitashareportal.com or by contacting the Company's registrars to request a paper copy of the mandate form and the Scrip Dividend Scheme terms and conditions.

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The Morgan Crucible Company plc Annual Report 2011

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