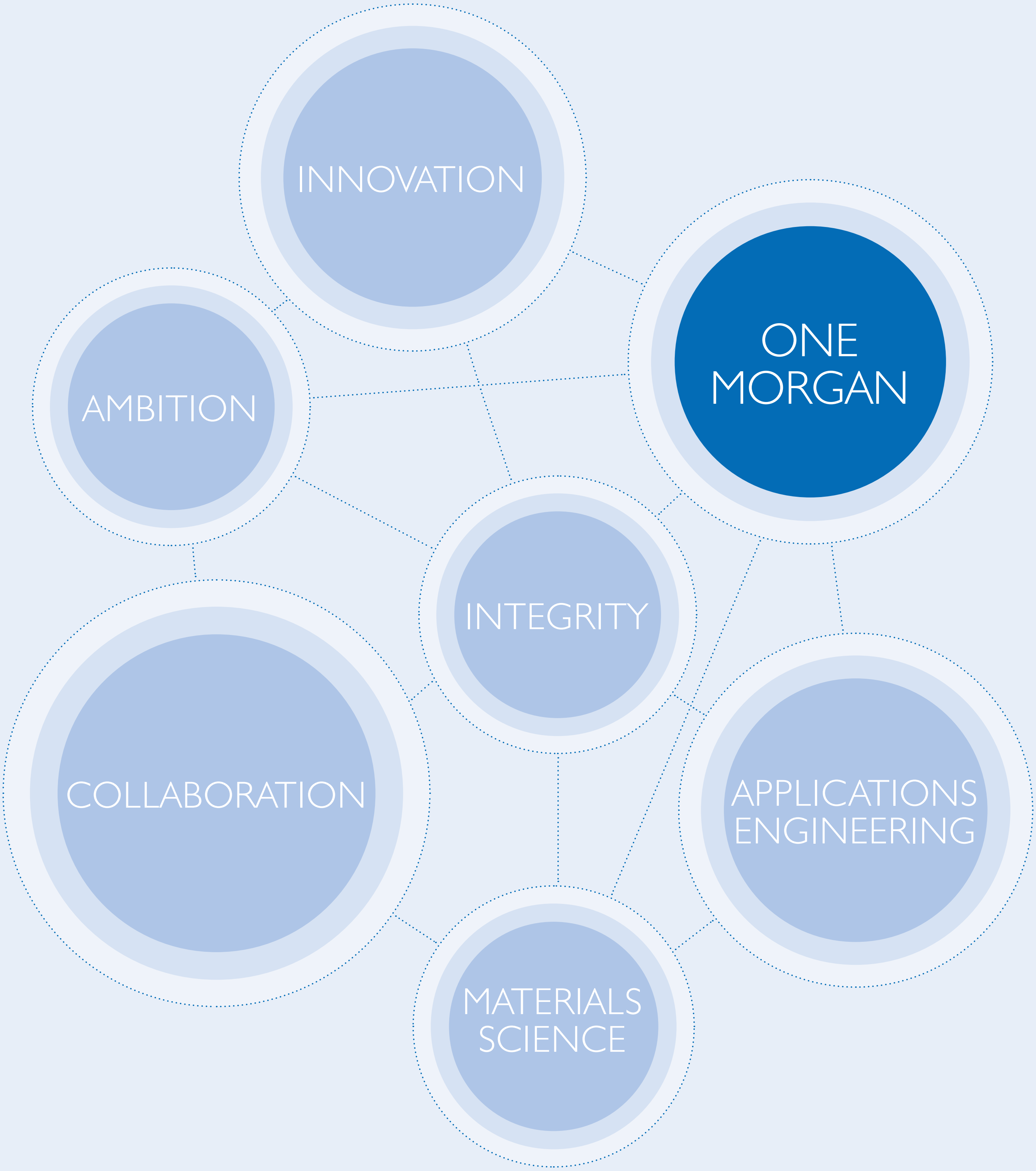
MORGAN ADVANCED MATERIALS PLC
ANNUAL REPORT 2013



Morgan
Advanced Materials

ONE MORGAN

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

The Group produces a wide range of specialist, high-specification materials that have extraordinary attributes and properties.

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

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

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

OVERVIEW

STRATEGIC REPORT

DIRECTORS' REPORT

FINANCIAL STATEMENTS

AT A GLANCE

WHAT DIFFERENTIATES US?

- Advanced material science and processing capabilities
- Our applications engineering experience
- A strong history of innovation and reinvention
- Consistent and reliable performance
- A truly global footprint
- We find and invest in the best people

OUR MARKETS

HEALTHCARE

Morgan Advanced Materials produces components used in medical monitoring and diagnostic instrumentation and tools for treatment and surgery.

PETROCHEMICAL

Morgan Advanced Materials makes critical components for tough assignments in the global petrochemical industry.

TRANSPORTATION

Morgan Advanced Materials makes high-performance products to exacting standards for aerospace, automotive, marine and rail applications.

ELECTRONICS

Morgan Advanced Materials makes components that help the electronics industry in its drive towards higher performance and reliability in smaller, lighter, more robust products.

ENERGY

Morgan Advanced Materials develops products for power distribution and generation from renewable and traditional sources and insulation materials for heat management.

SECURITY AND DEFENCE

Morgan Advanced Materials supplies precision-engineered materials, components and assemblies to meet the exacting standards of the international defence and security markets.

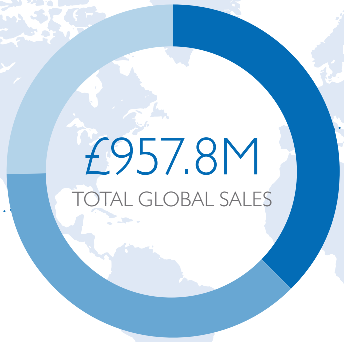
INDUSTRIAL

Morgan Advanced Materials designs and manufactures products for use in a broad range of challenging process and manufacturing environments.

OUR GLOBAL FOOTPRINT

SELLING INTO
>100
COUNTRIES

MANUFACTURING IN
>30
COUNTRIES



>9,000
EMPLOYEES

SALES BY REGION (M)

North America	£359.9
Europe	£357.3
Asia/Rest of World	£240.6

PRINCIPAL PRODUCTS

1 INSULATING FIBRE, BRICK AND MONOLITHICS

Extensive range of high-temperature insulation products used to reduce energy consumption in industrial processes

2 ELECTRICAL CARBON, LINEAR AND ROTARY TRANSFER SYSTEMS

Used to transfer current and data between stationary and rotating or linear moving parts, in motor, generator, current collector and rotary signal applications within mining, power, transportation and industrial markets

3 SEALS & BEARINGS

Providing improved performance, reliability and extended life to pumps and similar equipment used in petrochemical, aerospace and water applications

4 CERAMIC CORES FOR INVESTMENT CASTING

Consumable products used to create intricate internal cooling cavities in aero engine and industrial gas turbine blades

5 PIEZOELECTRIC SENSORS AND TRANSDUCERS

Products for measurement duties including level, flow, vibration and pressure in aerospace, medical, industrial and defence applications

6 CRUCIBLES FOR METALS PROCESSING

Comprehensive range for optimum performance in non-ferrous metal and alloy melting in foundries, die-casters and metal processing facilities

7 PERSONNEL BALLISTIC PROTECTION

Lightweight armour systems combining advanced ceramics with high-technology composites to create high-performance products

OPERATIONAL AND FINANCIAL HIGHLIGHTS

FINANCIAL HIGHLIGHTS

- As expected, revenue at constant currency in the second half of 2013 was similar to the first half. On a full-year basis, revenue was down 4.9% on both a reported and constant currency basis compared with 2012.
- Group EBITA margin for the second half of 2013 increased to 12.9%, a 90 basis points improvement compared with the 12.0% achieved in the first half; for the full-year the margin was 12.4% (2012: 12.0%).
- Across the regions, North America, Europe and Asia/Rest of World, trading conditions in the second half of 2013 have remained similar to those experienced in the first half of the year, with revenue stable at constant currency. EBITA margins improved across all three regions during the second half of the year.
- Good progress on the portfolio reshaping announced in the November 2013 Interim Management Statement (IMS), with circa £20 million of revenue being exited for which the Group incurred £12.9 million of non-cash write-offs, which are shown in the income statement as 'specific adjusting items' in a separate column.
- Operating cash flow was good at £127.0 million (2012: £126.8 million) and net debt was reduced to £186.5 million (2012: £192.8 million), resulting in a year end net debt to EBITDA ratio of 1.3 times (2012: 1.3 times).
- Proposed final dividend increased to 6.7 pence per share (2012: Final 6.4 pence per share), giving a full-year dividend of 10.5 pence (2012: 10.0 pence), a 5.0% increase.
- Trading results from overseas operations are converted at the average exchange rates for the year. In the second half of 2013, sterling strengthened against many of the Group's key currencies (including the US dollar, Euro and Yuan). If the year end closing exchange rates were applied to these reported results, then the reported 2013 revenue and EBITA would have been £44.2 million and £6.8 million lower respectively.

12.9%
GROUP EBITA MARGIN IN H2 2013

£127M
OPERATING CASH FLOW

+5%
FULL-YEAR DIVIDEND COMPARED TO 2012

+23%

YEAR-ON-YEAR INCREASE IN CAPITAL EXPENDITURE IN 2013

OPERATIONAL HIGHLIGHTS AND OTHER DEVELOPMENTS

- The key driver of the One Morgan organisational structure announced last year is to accelerate profitable growth by investing in core advanced materials technologies where the Group has differentiation, global market leadership positions and sustainable competitive advantage. Some key highlights of this in the past year include:
  - Increasing the Group's research and development ('R&D') spend both in absolute terms and as a percentage of revenue, meaning the Group's R&D spend is circa two and a half times greater than in 2006.
  - The announcement of a new Global Materials Centre of Excellence for Structural Ceramics in Stourport, UK. This will seek to emulate for the Group's technical ceramics applications the world-leading breakthroughs already made in its Superwool® fibre range from the now well-established Global Centre of Excellence in Bromborough, UK.
  - A 23% year-on-year increase in capital expenditure in 2013 to circa 1.25 times depreciation, as the Group invests for profitable growth in new greenfield facilities such as Dalian, China and in converting the Group's high-temperature fibre lines to be Superwool® enabled. In 2014, the Group will be making further investments in growth capex including a new greenfield Superwool® plant in the Middle East. This will enable the Group to leverage the strong local demand in petrochemical and aluminium markets and, at the same time, access low-cost energy, which will make the facility one of the Group's lowest cost plants in the world. Total gross capital expenditure in 2014 is expected to be circa £40 million.
  - A significant increase in graduate recruitment to 26, providing a pipeline of engineers and commercial leaders of the future. The Group's target for 2014 is to increase its intake to over 30 graduates.
- The One Morgan model has also delivered benefits to the cost base through its simpler, leaner structure. This combined with other operational initiatives undertaken in the latter part of 2012 has delivered the stated cost base improvements of £10 million in 2013 with a further £3-4 million to come through in 2014 as the full-year benefits of actions taken during the course of 2013 are realised.
- The Group has made significant progress reshaping its portfolio:
  - Since the November 2013 IMS announcement, the Group has made good progress in exiting circa £20 million of revenue from businesses with low/breakeven margins and limited differentiation. Other low-margin businesses accounting for an additional £30 million of annual revenue being targeted for divestment in 2014.
  - The Group has also substantially enhanced the returns of businesses that are currently below the Group's target of mid-teen operating margins. In particular the margin of the largest of these business areas, electrical carbon, has been improved significantly in 2013 from mid-single digits into double digits with further progress expected in 2014.
  - The Group's mid-teen margin businesses have also shown progress in 2013. Of particular note is the improvement in high-temperature insulating fibre margins which meant that in the second half of 2013 the Thermal Ceramics business delivered, for the first time, margins in excess of 15%.

Definitions of the financial measures used throughout this Annual Report and Accounts can be found in the Glossary on page 150.

CHAIRMAN'S STATEMENT

ANDREW SHILSTON
CHAIRMAN

2013 WAS A YEAR OF SIGNIFICANT CHANGE FOR THE GROUP AS THE ONE MORGAN MODEL WAS IMPLEMENTED. THIS PROVIDED THE PLATFORM FOR FUTURE GROWTH IN OUR CHOSEN MARKETS, INVESTMENT IN TECHNOLOGY AND BETTER DELIVERY MECHANISMS TO OUR CUSTOMERS. IMPROVING MARGIN PERFORMANCE WAS ACHIEVED IN A CHALLENGING GLOBAL ECONOMY AND WE LOOK FORWARD TO CONTINUING THIS PROGRESS IN 2014.

SUCCESSFUL IMPLEMENTATION OF

ONE MORGAN

Morgan Advanced Materials is a business with diverse products selling into a wide range of global markets. It is this diversity which contributes resilience, by avoiding over-exposure to end-markets and over-reliance on individual products. This also creates challenges, as to be successful we need to focus on key customers and technologies where we bring distinctive products and levels of service. It is in response to these challenges that the One Morgan model was implemented across the Group, enabling us to adapt our approach to respond to local needs as well as recognising that some businesses require addressing globally. We are also improving our recognition and capture of new technologies through Global Materials Centres of Excellence and investment in R&D.

The combination of the One Morgan model and focus on our portfolio, in ensuring that we only keep and invest in high-margin businesses, will be the foundation for sustainable profitable growth and margin enhancement.

The changes being implemented are significant for our employees and it is gratifying to see that the response has been enthusiastic, improving co-operation across the Group, sharing ideas and bringing all our expertise to our customers. The Board is grateful to all of our staff for the hard work in driving through these changes.

Our end-markets have been challenging in 2013, but we have achieved an improving level of profits and margins as the year progressed, with 12.9% EBITA margin in the second half of the year. Cash generation was good and net debt was reduced to £186.5 million. It is proposed that the final dividend for the year will be increased to 6.7 pence (2012: 6.4 pence) making the full-year dividend 10.5 pence, a 5% increase year-on-year.

We are delighted to welcome Douglas Caster and Rob Rowley to the Board. Douglas is a highly experienced engineer with a strong track record in managing and driving growth in electronics businesses. Rob has an impressive record of board-level experience and he will be bringing that to bear at Morgan.

The Board would like to thank Martin Flower and Simon Heale for their very considerable contributions to the Group as they both retire from the Board in the first half of 2014. In their nine years on the Board they have provided invaluable counsel and guidance to the management team in reshaping Morgan and leave the Group well positioned to achieve enhanced profitable growth.

Andrew Shilston
Chairman

CHIEF EXECUTIVE OFFICER'S REVIEW

MARK ROBERTSHAW
CHIEF EXECUTIVE OFFICER

WE REMAIN FOCUSED ON BUILDING SUSTAINABLE COMPETITIVE ADVANTAGE IN ATTRACTIVE MARKETS, THROUGH A PORTFOLIO OF BUSINESSES WITH TRULY DIFFERENTIATED PRODUCTS AND SERVICES, UNDERPINNED BY WORLD-LEADING TECHNOLOGY.

2013 has been a year of significant change for Morgan, implementing a new organisation structure, striving for profit and margin improvements in markets that predominantly have afforded little or no growth and accelerating our portfolio transformation. I am pleased to report that, relative to our direct competitors, we have demonstrated significantly greater resilience in the difficult market conditions. Nevertheless, we are very clear that regardless of market conditions, as an organisation our aspiration remains to drive absolute improvement in our results. In 2013, against the backdrop of the difficult environment, whilst we made year-on-year progress in our Group EBITA margin, increasing it to 12.4% (2012: 12.0%), our revenue and EBITA in absolute terms were below 2012 levels. However, I believe that the structural and portfolio changes that we are well advanced in making leave us well positioned to take advantage of profitable growth opportunities in 2014 and to continue to improve further the quality and returns of the Group, both in relative and absolute terms.

One Morgan

In February 2013 we announced and began the implementation of our One Morgan model – streamlining the former Divisional organisation and moving to a single management structure organised on a regional basis: North America, Europe and Asia/Rest of World. In this new model, each region is able to offer our customers the full range and depth of our products and technologies and I am delighted with how well this major organisational change has been implemented. The simplification of the management structure has improved our global communication and accelerated the pace of change, leaving the group increasingly well positioned for future profitable growth and margin enhancement. We successfully implemented this new organisational model without losing focus on our day-to-day operations and whilst continuing to provide excellent service to our customers.

The focus of the move to the One Morgan organisation remains on capturing greater profitable growth opportunities by fully leveraging the breadth of our geographic and market access. Whilst it is still early days, there have already been some initial successes in this area with additional sales opportunities being identified and pursued through our extensive range of customers and channels.

Whilst I will comment on the Group and regional results in more detail later on, it is worth noting that the general industry background has been difficult through 2013 and in most markets we have seen limited pickup in demand as many countries around the world continue to find achieving meaningful economic recovery to be a challenge. However, I am pleased to report that the operational and cost benefits targeted under One Morgan have been realised, enabling us to improve operating margins despite the difficult competitive environment, whilst at the same time positioning us better for future profitable growth.

One of the key operational benefits of the new structure is that we have significantly shortened our reporting lines, enabling closer contact with the operating units and an increased level of agility to respond even more effectively to any change in market conditions. It has also given us the opportunity to re-evaluate the businesses and technologies in our portfolio, to heighten further our focus on building sustainable competitive advantage underpinned by world-leading technology.

Our goal is for all our businesses and technologies to have the potential to deliver mid-teen operating profit margins and we have already exited in 2013 from certain businesses that fall short of our requirements of technology-rich, mid-teen margins. In 2013 our Composites and Defence Systems business (formerly NP Aerospace) exited a spares and logistics contract with the UK Ministry of Defence ('MoD'); whilst supporting the Composites and Defence Systems-built Mastiff fleet in theatre was important and a source of revenue, it was not an 'advanced materials' business and generated very low margins. Towards the end of 2013 we also sold the majority of our shares in the loss-making Assam Carbon Products Limited, India. This process of portfolio reshaping will continue through 2014.

Group results

With challenging market conditions, our revenue of £957.8 million was 4.9% below 2012 at both reported exchange rates and on a constant currency basis. This year-on-year reduction was a reflection of revenue being lower in the first half of 2013 compared to the first half of 2012; with revenue in the second half of 2013 increasing marginally compared to the equivalent period in the prior year on a constant currency basis.

Despite the lower revenue, Group underlying operating profit of £108.5 million was marginally ahead of 2012, £107.7 million.

All three regions saw a large decline in major petrochemical projects, into which we provide our high-temperature insulating fibre and insulating firebrick management solutions. The low level of global industrial demand and reduced credit availability to fund such large projects has led to delays in their commissioning. Encouragingly, enquiry levels for these projects remained high in 2013 and in recent weeks we have seen some initial project orders being placed, providing some grounds for optimism in this market for 2014.

Revenue in North America declined 5.6% relative to 2012 at constant currency. The decline in large petrochemical project demand impacted our high-temperature insulating fibre and insulating firebrick sales, with some degree of offset by increased sales of our fibre products to the automotive industry and to the general industrial market. We have increased our Superwool® low bio-persistent fibre capacity and market penetration and this has provided benefits to both sales and margin. North America was also adversely impacted by a decline in our sales to the electronics market. Whilst the consumer electronics market as a whole weakened during 2013, we were specifically impacted by reduced hard disc drive sales as we chose not to engage in heavy price discounting and saw our market share of this business reduce as a consequence. Encouragingly our sales of electrical brush and related products did increase during 2013, largely due to new business wins in the wind energy after-market where we have successfully developed differentiated high-performing products that are taking a growing share in those applications.

Revenue for the European region was 3.7% below 2012 at constant currency, though, as with Group revenue, this year-on-year decline was all relative to the first half of 2012. One encouraging exception was an increase in our electrical brush and rotary business during the course of the year, driven by successfully winning market share from our competitors. Despite the continued reduction in UK defence spending, our UK-based Composites and Defence Systems business delivered sales very similar to 2012 at improved margin levels. Whilst, as noted above, we exited the low-margin vehicles spares contract towards the end of 2013, we have been successful in some important new contract wins for 2014 and beyond, particularly in armoured vehicle programmes for the UK MoD.

CHIEF EXECUTIVE OFFICER'S REVIEW
continued

Revenue in Asia/Rest of World was 5.7% lower than 2012 at constant currency. In addition to the weak petrochemical market, the general industrial market was also subdued, most notably in China and India. In 2013 we celebrated 25 years of having an operational presence in China, and, whilst our sales in China and most of the rest of the region were lower year-on-year, we remain confident in the long-term demand prospects of the region. As a result, we continue to invest significant amounts of resource, both in terms of our people and also in new capital investment. We are close to completion of our greenfield site in Dalian, China for high-temperature castable products and expect to commission this new plant in the second quarter of 2014. We also expect to commence work in 2014 on a new plant for Superwool® high-temperature insulating fibre in Khalifa Industrial Zone Abu Dhabi, the United Arab Emirates which will give us close proximity to key customer opportunities in petrochemical markets in the region and access to low-cost energy, which is a key element of the operating costs of this business. We also recognise the increasing demand in the former 'emerging markets' for technically differentiated products and processes in areas such as medical devices, advanced electronics and aerospace. We have world-leading technology and products in all of these areas and already serve these applications in the West. Under the One Morgan structure we are leveraging this technological capability in these growing, higher margin markets through our well-established local presence. We have enjoyed some early successes and see even greater opportunity for the future in these higher-tech areas.

During 2013 we have continued to focus hard on making improvements to our operating cost base. Whilst not the primary reason for the One Morgan initiative, we have successfully realised significant cost benefits as a result of the organisational streamlining. Further cost benefits have come in 2013 from the full-year impact of initiatives undertaken in the second half of 2012. We continue to increase the use of our low-cost manufacturing footprint, for example, completing the relocation of electrical brush manufacturing from the Netherlands to Hungary and the cessation of high-temperature ceramic fibre manufacturing in high-cost Australia, Japan and South Africa, supplying these markets instead from our lower cost facilities elsewhere in the world.

As a result of the cost actions taken, combined with the positive changes we have made to our product mix, we have progressively delivered increases in our Group EBITA; 11.0% in the second half of 2012, increasing to 12.0% in the first half of 2013 and 12.9% in the second half of 2013. The 2013 full-year EBITA margin of 12.4% is an improvement against the 12.0% in 2012.

The Group also continued to generate good levels of cash and to further reduce the net debt position to £186.5 million (2012: £192.8 million), leaving the Group with the capability to easily finance any appropriate bolt-on acquisitions that satisfy our investment criteria. The financial performance and the progress made underpins our progressive dividend policy and the increase in the final dividend to 6.7 pence (2012: 6.4 pence), giving a full-year dividend of 10.5 pence (2012: 10.0 pence).

Technology and innovation

We are an advanced materials Group and world-leading technology and constant innovation is at the core of what we do. We have continued to increase our investment in R&D in 2013 in both £ and % terms. Spend in 2013 was £20.2 million, or 2.1% of sales, compared with £19.6 million in 2012 (1.9% of sales). The move to One Morgan has provided additional impetus to our R&D efforts. We appointed in 2013 a Group Chief Technology Officer, whereas in the past this function was conducted at the divisional level. His remit is to co-ordinate and deploy Group-wide R&D resource on those initiatives that are considered to be the highest potential growth opportunities for Morgan. Examples of this include the development of next-generation low bio-persistent fibres, extending the temperature coverage of our Superwool® Fibre products, and the introduction of additional Global Materials Centres of Excellence – these are single locations where we consolidate development resource and efforts for our major product lines, providing critical mass that links effectively with our global manufacturing and sales network.

Our people

I have been delighted with the way in which the Group workforce has embraced the new organisational structure. Many have been affected by the change in the organisation, assuming new responsibilities and working in new reporting structures. Such change brings with it the challenge of maintaining good business continuity and I am delighted with the way our employees have risen successfully to these challenges. Regrettably, this re-organisation, along with a number of the cost reduction initiatives implemented across the Group, has led to some redundancies. I see this as an unfortunate but necessary consequence of looking to do the best for the Group as a whole. In such redundancy situations we ensure that, in addition to complying with local legislation, we seek to treat our people with honesty and respect throughout the process. As a Group we recognise the importance of developing our people. One Morgan has further helped in this regard, allowing us to take a single, global view of the talent in our organisation and how we manage their careers across geographies and functions to ensure we are developing our future leaders. To support this we have increased the scale of our award-winning graduate recruitment programme with 26 new graduates hired in 2013, compared to 20 in 2012, and a target to bring in more than 30 in 2014. These graduates are sourced from top universities around the world and a significant proportion of them are women, providing real diversity. I am pleased to report that securing the brightest young minds from the best universities across the world is providing us with an exciting and growing pipeline of real talent for the future.

Looking forward

Our goal is to deliver sustained profitable growth, effectively exploiting our world-leading technology and global reach not only to take advantage of end-market recovery but most importantly to create our own opportunities.

We have already actioned a number of our portfolio reshaping initiatives to increase further our focus on accelerated profitable growth underpinned by differentiation and technological leadership, and we expect more of these portfolio reshaping initiatives to come through in 2014.

The creation of One Morgan, our increased investment in innovation and technology and the quality of our people leave us increasingly well positioned to deliver such growth and margin enhancement.

Mark Robertshaw
Chief Executive Officer

WHAT MORGAN DOES

GROUP ACTIVITIES

Morgan Advanced Materials is a world-leader in advanced materials, focused on specialist ceramics, carbon and composites. Working at the forefront of materials science, the Group supplies differentiated products to a range of attractive growth markets, satisfying technically demanding applications and enabling customers' products to perform more efficiently, reliably and for longer in a wide range of markets.

BUSINESS STRUCTURE

Operating from approximately 100 manufacturing sites, supported by a network of sales offices, and employing approximately 9,100 people, Morgan Advanced Materials has a significant operational presence in all the world's major regions, serving customers in over 100 countries.

Following the implementation of One Morgan in early 2013, the Group now reports through three geographical regions, North America, Europe and Asia/Rest of World, and each of those regions offers the full range of Morgan's product and services. The move away from the previous structure, defined by product lines, has enabled better collaboration and efficiency within the Morgan Group and has resulted in more cross-Regional selling and improvements in how the Group interacts with its key clients. The One Morgan model integrates the Group under a cohesive brand identity which better reflects the business as a whole.

PRODUCTS

Morgan manufactures a large range of products, satisfying a variety of applications and for a number of end-markets.

The principal product ranges are:

- Insulating fibre, brick and monolithics – 35% of Group revenue in 2013 – an extensive range of high-temperature insulation products used to reduce energy consumption in industrial processes. A Morgan design team will often work with the customer to ensure an optimum solution.
- Electrical carbon, linear and rotary transfer systems – 15% of Group revenue in 2013 – primarily used for transferring electrical energy in motor and generator applications within mining, transportation and power generation markets.
- Seals and bearings – 7% of Group revenue in 2013 – carbon/graphite and silicon carbide components that provide improved performance, reliability and extended life to pumps and similar equipment used in petrochemical, aerospace and water applications.
- Ceramic cores for investment casting – 5% of Group revenue in 2013 – consumable products used to create intricate internal cooling cavities in aero engine and industrial gas turbine blades.
- Piezoelectric sensors and transducers – 4% of Group revenue in 2013 – products for measurement duties including level, flow, vibration and pressure in aerospace, medical, industrial and defence applications.
- Crucibles for metals processing – 5% of Group revenue in 2013 – comprehensive range for optimum performance in non-ferrous metal and alloy melting in foundries, die-casters and metal processing facilities.
- High-technology composites – 3% of Group revenue in 2013 – which are combined with the Group's advanced ceramics for lightweight armour systems, providing ballistic protection in the form of personnel body armour or vehicle armour.

In addition to these principal product ranges, there are also a high number of application-specific products made to customer requirements using a wide range of structural ceramics, electro-ceramics and precious metals that are sold into the seven markets.

44%
OF 2013
REVENUE

19%
OF 2013
REVENUE

MARKETS

THE GROUP OPERATES IN A NUMBER OF SELECTED MARKET SECTORS; THE PERCENTAGE OF GROUP REVENUE FROM EACH OF THESE, TOGETHER WITH EXAMPLES OF THE PRODUCTS MORGAN SUPPLIES, IS PROVIDED BELOW.

INDUSTRIAL

Morgan Advanced Materials designs and manufactures products for use in a broad range of challenging processes and manufacturing environments.

The Group's advanced materials offer a wide range of performance characteristics, including superior insulating properties, dimensional stability, strength and stiffness.

With these materials the Group engineers components that are highly resistant to chemical and physical wear, corrosion and extreme heat, for use in industrial processing and demanding manufacturing environments.

Many of the industrial projects the Group is involved in exploit the properties of its advanced materials to contribute to improved process efficiency, productivity and reduced waste and environmental impact.

For example, in the mining industry the Group's electrical brush material technology has facilitated reliable equipment operation in harsh environments, even in the very deepest mines in the world. The Group's crucible technology is helping to improve the efficiency of energy-intensive melting processes used in metal casting, through increased strength and longer life.

Syncarb Z2 crucibles for aluminium processing are made with isostatically pressed hybrid ceramic, with a high silicon carbide and graphite content. This gives them a high breaking strength so they last longer in the harsh environments in which they operate, lowering the costs of operation for the Group's customers.

The Group's insulating products allow manufacturers to control their thermal processing operations for optimum throughput. For example, the high fibre content of the Group's Superwool Plus® low bio-persistent insulating fibre used for high-temperature kiln linings means it is 17% more energy-efficient than traditional refractory ceramic fibre.

TRANSPORTATION

Morgan Advanced Materials makes high-performance products to exacting standards for aerospace, automotive, marine and rail applications.

The Group has longstanding experience in the transport sector making components and sub-assemblies for many and varied applications. The Group combines its materials science and manufacturing capabilities to offer consistent and reliable products in flexible production quantities, from small, even one-off runs to high-volume.

Over the years the Group has applied its materials know-how to solve engineering challenges and enhance performance for air, sea and land transport systems. For example, the Group has helped to improve reliability in high-speed rail and on long-haul freight trains that must operate consistently in widely varying climatic conditions. The Group has developed precision parts used in the manufacture of aero engine turbine blades and critical components for in-flight refuelling and satellite positioning systems.

In the automotive sector the Group supplies high-temperature fibre products used in catalytic converters and has developed new materials that improve performance and address regional regulatory issues in the vehicle emission controls market. The Group has also contributed to the development of more fuel-efficient vehicles with lightweight components and intelligent fuel sensors and is working on projects to help improve the efficiency of battery technology for electric cars.

WHAT MORGAN DOES
continued

10% OF 2013 REVENUE

SECURITY AND DEFENCE

Morgan Advanced Materials supplies precision-engineered materials, components and assemblies to meet the exacting standards of the international defence and security markets.

Materials technology and manufacturing capability is combined to produce solutions that deliver real performance benefits in security and defence applications, from military hardware to surveillance equipment.

The Group is a global leader in lightweight armour systems for the protection of people, vehicles and equipment. The Group's vehicle armour combines advanced ceramics with high-technology composites to create systems that are much lighter than the equivalent in armoured steel. They are easier, faster and more cost-effective to deploy and they demonstrate higher ballistic performance.

The Group's ceramic components for naval sonar systems are made from hardwearing PZT400 and PZT800 series piezoelectric formulations to ensure low dielectric and mechanical losses in the transducer for optimum acoustic output and efficiency.

Reliability of products, materials and supply is a fundamental requirement in this market. The Group is a critical resource supplier for the UK Ministry of Defence, providing tactical wheeled vehicles, equipment and armour, and a Tier 2 supplier of ceramic body armour plates to the US Department of Defense.

8% OF 2013 REVENUE

ELECTRONICS

Morgan Advanced Materials makes components for use in semiconductor fabrication and electronic products.

The Group exploits the unique properties of its advanced materials to help electronics manufacturers achieve competing demands on size, functionality and cost.

The Group works closely with its customers to design and manufacture small or intricate components, achieving explicit electrical and thermal properties within restricted size and shape constraints. The Group is able to offer durable piezo-ceramics, high-quality dielectric materials and specialised metallisation techniques. The Group's products are found in mobile phones, laptops, high-definition televisions, lighting controls, laser instrumentation, microwave and high-voltage systems. For example the Group's single capacitor assemblies are constructed from ceramic dielectric materials that exhibit a high AC breakdown strength, allowing them to operate continuously in the capacitor divider circuits for which they are designed, saving significant space.

In semiconductor and LED substrate fabrication, the Group's high-purity materials and controlled microstructures have brought significant yield improvements in specialist processes for ion implantation, epitaxy and compound crystal growth.

Examples include the use of very high-purity silicon carbide to coat graphite wafer carriers used in chemical vapour deposition tools. The material is resistant to the harsh high-temperature ammonia environment, so the possibility of contamination is much reduced.

8% OF 2013 REVENUE

PETROCHEMICAL

Morgan Advanced Materials makes critical components for demanding applications in the global petrochemical industry.

The oil and gas industry presents some of the world's harshest operational environments for equipment and people. The Group's products and materials are routinely chosen to fulfil critical applications on- and offshore in exploration, drilling and downstream processing.

It is the resistance of the Group's materials to chemical and physical wear, corrosion and extreme heat that makes them ideally suited for use in these severe duty applications. For example, due to a unique microstructure, the Group's zirconia materials exhibit a property known as 'transformational toughening' that makes them exceptionally strong and resistant to corrosion and abrasion. The Group uses them to engineer hardwearing parts for pumps, drilling machinery and specialist fluids handling equipment.

The integrity of the components the Group manufactures are often fundamental to the safety and efficiency of high-value hydrocarbon extraction and processing operations. For example, the Group's precision machining of silicon carbide composite mechanical seals dramatically reduces interface leakage in demanding conditions, allowing operators to work at elevated contact pressures. The Group's tribology work on pumps and bearings is producing low-friction composites for longer life and better energy efficiency.

The Group's high-efficiency insulation materials are used to provide complete fire protection systems for low critical temperature operations on- and offshore.

6%
OF 2013
REVENUE

ENERGY

Morgan Advanced Materials develops products for power distribution and generation from renewable and traditional sources and insulation materials for heat management.

The Group's materials and products have a strong reputation for performance and reliability in the energy sector, built on years of experience supplying products across the electricity supply chain.

The Group continues to work on diverse energy-related projects from piezo-ceramics for energy harvesting technologies to high-quality capacitance for high-voltage systems and specialist fire protection systems for offshore wind farms.

Increasingly, the Group's materials technology is employed to allow more efficient use of energy by reducing friction, providing better insulation and enabling new technologies. For example, the Group makes metallised ceramic components for critical service uninterruptable power supplies using our Sintox™ FA, which is chemically resistant to the corrosive environment within the cell structure and provides high strength and joint integrity for the lifetime of the battery.

5%
OF 2013
REVENUE

HEALTHCARE

Morgan Advanced Materials makes components used in medical monitoring instrumentation and tools for treatment and surgery.

Medical engineering demands the highest standards of precision, accuracy, reliability and performance. Equipment manufacturers and medical professionals choose the Group's materials for their exceptional physical characteristics.

The Group's teams collaborate with medical scientists and device manufacturers to source, refine and engineer materials that facilitate specific advances in diagnostics, surgery, therapy and treatment. For example, the Group's piezo-ceramic air in-line and occlusion sensors allow non-invasive air bubble detection and accurate measurement of pressure changes in tubes leading in to the body, providing a highly precise means of monitoring safety-critical events in infusion pumps, feeding pumps, dialysis equipment and other medical fluid-handling equipment.

The Group also makes high-quality ceramic implants, including ceramic replacement hip and knee joints, favoured by surgeons because they have better resistance to wear than polyethylene, and complex ceramic-to-metal assemblies used in implantable pacemakers, defibrillators, neurostimulators and housings for cochlear implants.

Experience over many years has given the Group a good understanding of the uniquely demanding environment in which equipment for the global medical market is developed. The Group's capability in materials innovation and quality manufacturing allows it to produce parts that are optimised to meet precise complex physical and chemical specifications.

GROUP BUSINESS MODEL

MORGAN PROVIDES ADVANCED MATERIAL SOLUTIONS TO A VARIETY OF END-MARKETS, WORKING COLLABORATIVELY WITH CUSTOMERS WORLDWIDE TO PROVIDE ENGINEERED PRODUCTS THAT SATISFY TECHNICALLY CHALLENGING REQUIREMENTS IN DEMANDING ENVIRONMENTS.

Morgan Advanced Materials' business model is based on taking the full depth and breadth of its advanced materials capabilities to selected markets across the globe. The implementation of the One Morgan structure in early 2013 allows the Group to fully leverage geographic infrastructure and end-market positions to most effectively achieve this. The Group reports as three geographical regions, North America, Europe and Asia/Rest of World. Each serves its local markets with the full range of Morgan's material capabilities. Where appropriate, cross-regional collaboration takes place to support, for example, key global customer accounts, operational benchmarking or new product development.

The Group's core values are based on a commitment to act with integrity when dealing with customers, employees, shareholders, suppliers and the wider community, so that it continues to maintain the trust and confidence of those with whom it deals with. The Group aims to be vigilant and proactive in respect of environmental, health and safety matters. This common culture is critical to the continued growth and development of Morgan Advanced Materials.

The Group is organised and managed to ensure absolute clarity as to responsibility and accountability with a focus on pushing as much decision-making down to regions and local businesses as possible, within a well-understood strategic framework and schedule of authorities.

Customers and markets

At the core of what Morgan does is the development of long-term relationships with customers, working collaboratively with them over time and on multiple initiatives to develop materials, components and sub-assemblies to address very specific customer needs. The parts that the Group makes often play a critical role in its customers' products, helping them to perform more efficiently, more reliably or for longer, sometimes in the most demanding environments. Relationships are built at multiple levels between Morgan Advanced Materials and its customers, to ensure its materials science and its manufacturing know-how is utilised both at the start of its customers' product life-cycle and through the ongoing refinement of products and solutions, positioning Morgan as the supplier of choice for current and next-generation products.

The Group focuses on higher growth, higher margin, non-economically cyclical markets, where customers demand product and service excellence. These markets include energy generation, aerospace and healthcare.

The Group enjoys a good spread of customers in terms of markets and geographies and while the loss of certain of these could affect the operations of a particular local business, none are considered financially essential to the Group as a whole. Notwithstanding this, the Group devotes significant resources to ensuring these relationships continue to operate satisfactorily.

Additional information on the markets served by the Group and on its products are included in What Morgan Does on pages 12 to 15.

Operations

As noted above, the Group has a truly global footprint that allows it to effectively serve its customer base. Utilising that footprint in terms of providing the highest level of service excellence to its customers and maximising operational excellence and cost-efficiency is a critical element of the business model.

The Group continues to increase the effective use of its low-cost manufacturing footprint, through sites in Hungary, Mexico, India and China. These sites act as points of supply to their immediate geographic regions and also as global points of supply where appropriate. Operational benchmarking across sites with similar products/processes is also utilised alongside a suite of operational efficiency initiatives.

The quality and reliability of certain raw material inputs is critical, and just as the Group has developed excellent relationships with customers, it has also long-term and effective relationships with its critical raw material suppliers. Wherever possible raw materials are dual-sourced, or there are actionable plans in place for alternative sources should the supply chain be disrupted.

Research and development

Research and development is at the heart of what Morgan does. The Group's research and development ('R&D') capabilities are led by a Chief Technology Officer, supported by technical directors in each geography and in its principal product areas. In turn these technical directors oversee a network of materials scientists and applications and process engineers across the Group's sites. The focus is on constantly refreshing the innovation pipeline and the effective commercialisation of these efforts. The Group works closely with its customers to engineer solutions that address their needs and also undertakes research in collaboration with world-leading universities and other organisations. Where appropriate the Group's intellectual property is protected with patents.

One of the key elements to the Group's R&D strategy is the establishment of Global Materials Centres of Excellence. These provide critical mass in terms of resource and capability and focused expertise in Morgan's core technologies. The high-temperature fibre Centre of Excellence in Bromborough, UK, has been critical to the successful development and rollout of the market-leading Superwool® range of low bio-persistent fibres.

Role of centre

The Group's head office is based in Windsor, UK and is the location of the Group's central functions comprising approximately 35 people. The centre is responsible for external investor relations, funding and treasury management and other areas where it is appropriate for specialist expertise to be brought together in one place for the benefit of the Group, such as pensions, insurance, tax, legal and environmental, health and safety. The centre also provides the strategic framework for the Group, clarity on core values and 'responsible business' and the processes for appropriate business monitoring through the business planning and budget cycles. The corporate centre is small and the lines of communication with the businesses are short and responsive.

GROUP STRATEGY

THE GROUP'S STRATEGY IS BASED ON BUILDING A SUSTAINABLE BUSINESS FOR THE LONG-TERM, BY FOCUSING ON ITS FIVE STRATEGIC PRIORITIES AND REMAINING COMMITTED TO DELIVERING STRONG FINANCIAL RETURNS.

STRATEGIC PRIORITIES	IMPLEMENTATION
Be innovative, differentiated and high value-added to our customers	By helping to solve technically demanding challenges for our discerning customers, the Group is able to secure the value that these skills and efforts justify, allowing it to build long-term relationships with customers who regard Morgan as a solutions provider rather than just another supplier.
To focus on higher growth, higher margin, non-economically cyclical markets	Over time Morgan actively manages its portfolio and makes capital and people investments to maximise exposure to its chosen geographies and markets.
Be number one of number two in our chosen market segments	A significant majority of revenue comes from markets where the Group has successfully established a leading position. Through detailed 'share of wallet' assessments Morgan understands its position and actively targets where this can be improved. The Group nurtures and maintains relationships with key customers at multiple levels in the organisation. From these strong positions the Group is able to invest in long-term relationships with customers, providing technology leadership and delivering good, sustainable returns.
Have a culture of operational excellence and cost efficiency	Providing the Group's customers with product and service excellence secures Morgan's revenue stream, and a focus on all elements of its cost base maximises the profits generated from that revenue. The Group is focused on managing its operational footprint, using its low-cost operations as much as possible, sourcing decisions, manufacturing and back office efficiency and on minimising scrap and any other inefficiencies throughout its processes.
Find, keep and develop the right people	The 'people process' begins with a robust recruitment process, considering internal and external candidates, utilising a suite of assessment tools and interviews. There is a growing graduate recruitment programme, targeting the world's best universities and providing a pipeline of talent. Training and development is targeted to develop job-specific and wider management skills and a flexible remuneration package considers the external market and individual contribution. Site, regional and global communication is regular and environmental, health and safety is a key focus at all levels of the business.

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.

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. Regional and business management use a range of further benchmarks and other KPIs as part of their 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.

The list of KPIs selected is reviewed and updated to ensure they remain important to the success of the Group. Financial and non-financial performance is reviewed in more detail in the Corporate Responsibility, Review of Operations and Financial Review sections of this report.

KPI	2013	2012	WHY A KPI?	PERFORMANCE COMMENTARY
Financial KPIs				
Revenue growth	**(4.9)%**	(8.5)%	→ Creating consistent long-term value for shareholders. → Focus on higher growth markets.	→ Revenue declined in the first half of 2012 and, at constant currency, there have since been three half-years with no growth of note.
Group underlying operating profit* margin	**11.3%**	10.7%	→ Creating consistent long-term value for shareholders. → Focus on higher growth markets. → To have a culture of operational excellence and cost-efficiency.	→ Improvements in sales mix, operational improvements and overhead reductions from One Morgan and other initiatives have more than offset the impact of reduced revenue.
Free cash flow before acquisitions and dividends	**£37.4m**	£48.9m	→ Creating consistent long-term value for shareholders.	→ A reduction on prior year due primarily to the increased capital expenditure investment and spend on the restructuring programmes in the year, both of which are expected to improve the long-term position of the Group.
Return on Operating Capital Employed*	**27.5%**	26.3%	→ Creating consistent long-term value for shareholders.	→ Limited improvement made in ROCE in the year – small increase in profit and small decrease in capital employed. A key area of focus for the future, as reflected by the fact that this is a key element of LTIP plans.
Underlying earnings per share*	**21.5p**	21.7p	→ Creating consistent long-term value for shareholders.	→ The underlying earnings have increased marginally but there has been a larger increase in the weighted average number of shares, thereby reducing this ratio.
Dividend per share	**10.5p**	10.0p	→ Creating consistent long-term value for shareholders.	→ A 5% increase in the dividend is driven by the improved results and reflects management's confidence in the business.
Non-financial KPIs♦				
Year-on-year pricing change	**1.4%**	2.0%	→ To be high value-added to the Group's customers.	→ The Group has continued to secure price increases across most of its businesses, though the challenging market dynamics, particularly in Asia, means that this is lower than 2012. Critically, the Group continues to achieve positive price pass through – the sales price increase more than covers direct and indirect cost increases.
Employee turnover	**13.8%**	13.4%	→ To find, keep and develop the right people.	→ This increase reflects the actions taken as part of One Morgan as well as other cost-cutting/headcount reduction actions that the Group has taken over the year.
Lost time accident frequency (per 100,000 hours worked)^	**0.44**	0.52	→ To have a culture of operational excellence and cost-efficiency. → To find, keep and develop the right people.	→ A good 15% reduction, with significant progress in the Asia/Rest of World region where there have been sustained efforts to increase safety awareness and good practice.
Tonnes CO_2e per £m revenue^	**404**	392	→ To have a culture of operational excellence and cost-efficiency.	→ Whilst absolute emissions reduced by 2% this was on revenue that was nearly 5% lower as a number of our energy-intensive processes cannot be fully flexed to sales volumes.

* Definitions of the measures can be found in the glossary.
♦ Non-financial KPIs are at constant currency and updated to reflect changes in reporting methodology.
^ 2013 Lost Time Accident Frequency and the 2013 and 2012 CO_2e information has been subject to assurance by PwC, see page 31 for further details.

RISK MANAGEMENT

The Group has an established risk management methodology in place which seeks to identify, quantify, manage and mitigate both existing and emerging risks, together with a comprehensive internal control framework and appropriate assurance processes. The Board considers that this is fundamental to achieving the Group aim of creating long-term sustainable shareholder value.

Risks are identified 'top down' by the Board and 'site up' though the Group's businesses and are quantified by assessing their inherent impact and mitigated probability to ensure that the true potential impact of any risk and its likelihood of materialising is appreciated throughout the Group. The day-to-day management of risk sits within the Group's internal control framework at the level of the Group where the impact would materialise, with the effectiveness of the controls and mitigating actions being monitored and assessed through a Group-wide review process. Senior members of the management team are responsible for the strategic management of the respective key risks, including related policy, guidelines and process.

During 2013, the Board/Audit Committee reviewed all risks with an inherent potential EBITA impact of above £5 million and the controls and assurance processes that are in place to mitigate those risks. As a result of this review, a number of actions were identified to improve controls and the mitigation of risk. For example, the review of both the 'top down' and 'site up' single point exposures identified the need to qualify alternate suppliers of key materials both internally and externally at certain of our businesses. The Board/Audit Committee annual review of key risks will continue into 2014 and beyond.

The following risks feature in the Group's key risk register and are those that the Board feels could have the most serious effect on achieving our strategy of building a sustainable business for the long term and delivering strong returns to our stakeholders.

RISK	MITIGATION
Strategy and strategic planning risks	
Technology obsolescence One of the Group's strategic priorities is that it aims to 'be innovative, differentiated and high value-added'. This is fundamental to achieving the goal of continuing to be one of the world's very best advanced materials companies. Unforeseen/unmitigated technology obsolescence, the loss of control of proprietary technology or the loss of intellectual property/know-how would impact the Group's business and its ability to deliver on its strategic goal.	The Group has a Chief Technical Officer and a dedicated technology team which monitors technology and business developments. Specifically, the team has developed technology roadmaps for its major technology families to ensure it is at the leading edge of technology development, but also to understand emerging and competing technologies. The technology team proactively manages the Group's technology pipeline and R&D investment in new/improving technologies. This technology pipeline is regularly reviewed by the Group Executive and the Board. Where Group products are designed for a specific customer, they are developed in tandem with the customer to maintain leading-edge differentiated solutions of value. The Group seeks to secure IP protection, where appropriate, for its existing and emerging portfolio of products; external advisers manage this protection globally.
Recruiting, maintaining and motivating high-quality staff Another of the Group's strategic priorities is to 'find, keep and develop the right people'. The advanced technological nature of the Group requires people with highly differentiated skillsets. Any inability to recruit, retain and develop the right people would impact the Group achieving its strategic priority.	Making Morgan a safe, fulfilling and rewarding Group to work for is the primary means of control and the Group has an HR Director and a network of HR professionals within the business along with policies and processes to manage the risks relating to its people. These cover areas including reward and recognition, health and safety, talent management, skills assessment and development, performance management and employee consultation. A global employee survey was carried out in 2013, the results of which will inform further actions going forward. In 2012 the Group launched a Graduate Leadership Programme and this ran for a successive year in 2013, with enhanced numbers of graduates and with a greater global focus. Further detail on People is available on pages 32 to 34.

OVERVIEW

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RISK MANAGEMENT
continued

RISK	MITIGATION
Operational risks	
Treasury risks The Group's global nature means that it is exposed to uncertainties in the financial markets and the banking sector which heighten the Group's foreign exchange, interest rate, credit and liquidity risks as well as the risk of bank failure impacting the Group's cash.	The Group's Treasury function, Treasury Policy and guidelines provide strict controls on the selection of banks and cash management. The Treasury team proactively manages and is ultimately responsible for all of the Group's funding, liquidity, cash management, interest rate risk, foreign exchange risk and other treasury business.
Quality of contracts As a global advanced materials business supplying into critical applications, our quality of contracts must match our quality of products. Ineffective contract risk management could result in significant liabilities for the Group and damage customer relationships.	The Group has an in-house legal function supplemented by external lawyers. The Group legal policy requires in-house legal review of high-value or high-risk contracts to ensure that the contracts contain the appropriate protection for the Group. CEO approval is required before any part of the business can enter into an unlimited liability contract or one where the liabilities could exceed £5 million. In 2013, the CEO approved entry into only two contracts with this liability profile, where the underlying risks were considered to be within the Group's risk appetite. To the extent that risk has not been managed out of the contractual process, the Group has insurance cover approved by the Board, including product liability insurance.
IT risks and cyber risks In order to meet the Group's strategic objectives the viability of its underlying IT infrastructure is essential. If a critical business system was to fail or the Group lost critical data or information through inadequate data management or security of IT systems, the business would be impacted.	The Group has an IT policy and guidelines in place as well as Group and business IT teams to manage the Group's infrastructure technology roadmap and IT risks. During the course of 2013 there has been focus on testing the global infrastructure, including elements of IT auditing into the internal audit process, reviewing data management and reviewing/developing the Group's business continuity plans in relation to IT risk. In relation to cyber risk a number of steps have been taken in 2013, security guidance documents have been introduced, access privileges have been improved, and network monitoring enhanced. Further improvements are planned in 2014.
Product quality, safety and liability Products used in applications for which they were not intended or inadequate quality control systems/overcommitting on specifications could result in products not meeting specifications, which could lead to significant liabilities and reputational damage.	Many of the Group's products are designed to customer specifications. Over 90% of the Group's manufacturing output is accredited to ISO 9001 and the Group's quality management systems and training help ensure that Morgan's products meet or exceed customer requirements and national/international standards. Contracts relating to products used in potential high-risk applications are subject to mandatory legal review. There were no material product quality issues in 2013. The Group insurance programme includes product liability insurance, this Group-level insurance is reviewed annually by the Board.

RISK	MITIGATION
Operational risks continued	
Single point exposures The Group has a number of potential single point exposure risks, these include: → Single point supplier – a significant interruption of a key internal or external supply could impact business continuity. → Single point customer – the unmitigated loss of a major customer could have an impact on Group profit. → Single point profit – a key site exposed to a strike, a natural catastrophe or serious incident such as fire could impact business continuity.	The Group Executive is responsible for monitoring and managing these single point exposures. Local and Regional management of these risks involves monitoring and reviewing supply chains (internal and external), dual/multiple sourcing of materials or strategic stock, fire protection systems, creating and testing disaster recovery plans, and maintaining product quality and customer relationships. The Group insurance programme includes business interruption cover, this Group-level insurance is reviewed annually by the Board.
Environment, health and safety (EHS) risks The Group operates a number of manufacturing facilities around the globe. A failure in the Group's EHS procedures could lead to environmental damage or lead to injury or death of individuals, with a consequential impact on operations and raising the risk of regulatory action being taken against the Group. Any such action could result in litigation, resultant damages and damage to reputation.	The Group has a well-developed EHS programme managed by the EHS Director, with site-based EHS officers to implement and monitor EHS adherence at site level. During 2013 the Group has implemented a number of safety performance improvement programmes and launched a process to analyse and understand the root causes and consequences of all lost time accidents. In 2014 a global behavioural safety programme will be introduced Group-wide. Further detail of the EHS programme in place to manage these risks is available on pages 26 to 31.
Compliance and ethics risks	
Changes to or non-compliance with laws and regulation The Group's global operations must comply with a range of national and international laws and regulations including those related to bribery and corruption, human rights, exports and competition/anti-trust. A failure to comply with any applicable laws/regulations could result in civil or criminal liabilities, individual or corporate fines and could also result in debarment from government related contracts and reputational damage.	The Group is committed to the highest standards of corporate and individual behaviour and this commitment is set out in the Group's Core Values Statement and Ethics Policy. Due to the potential magnitude of corporate fines, compliance risks are identified as some of the most significant risks for a number of reasons: → Morgan's historic breach of anti-trust laws creates a greater sensitivity to anti-trust risk and means that the Group could be subject to the greater potential liabilities which attach to repeat offenders. → The location of a number of Morgan businesses and customers means they are exposed to greater bribery risk. → Morgan exports from the US and is therefore subject to the stringent US export laws. The Group's Responsible Business Programme, and the US Export Director, address these areas of risk through policies, training/education and reporting/assurance processes. Full information is available on pages 23 to 25.

RISK MANAGEMENT
continued

RISK	MITIGATION

External risks

Changing political, economic and social environment

Risk	Mitigation
The Group operates in a range of markets and geographies around the world and can be affected by political, economic, social or regulatory developments or instability such as the Euro crisis and US government debt/'fiscal cliff'. Some of those risks related to Morgan in 2013 include Venezuelan regime change, Argentinian economic policies, tensions between China, Taiwan and Japan, and US fiscal cliff.	The Group's broad market/geographic spread helps to mitigate the effects of political and economic crises. Key risks and events are regularly tracked at a business and Group level, with contingency plans in place to manage the changing situations. Financial and treasury controls limit exposure to foreign currency, interest rate, credit and liquidity risk. Also, the Group maintains a carefully managed debt facility to ensure that its debt ratio is within acceptable market tolerances.

Pension funding

Risk	Mitigation
The Group participates in defined pension arrangements which are exposed to fluctuating interest rates, investment values and inflation. This coupled with the increased longevity of members could result in funding burdens on the Group in the future.	Active management of the pension scheme assets is the primary means of mitigation. This comprises management both internally within the Group but also externally through corporate actuaries and professional advisers.

This is not an exhaustive list and there are many factors that could change. For this reason, the fundamental concept underpinning the Group's approach to risk is that beyond the regular review and assessment of controls and mitigation of risk, each business is required to have an up-to-date and tested business continuity plan and to foster a culture of 'risk-readiness'. The case study below demonstrates the effectiveness of instilling a culture of risk-readiness and was used as a practical way of demonstrating this in the 2013 training sessions on risk.

In October 2012, Hurricane Sandy hit the US and affected a number of our US businesses, particularly Certech Inc. in New Jersey. The hurricane itself was of a greater magnitude and with a more severe effect than had been anticipated and the business found itself without power and with severely affected employees. Having an up-to-date business continuity plan in place to follow and to use as guidance was important but what took the business 'beyond' this was the culture of 'risk-readiness':

- As the hurricane was expected, preparations had been made including the securing of accesses, signage and anything that could cause damage externally. The evening shift was cancelled and employees told to stay at home; this being communicated via an existing telephone 'chain' system. The General Manager and the maintenance engineer remained on site, the engineer staying on site throughout the night.
- The following day, emails were sent to all employees advising that those who 'could' get to work would be welcome. There were variable attendance rates in the following days but management played their part in allowing for flexible working to fit around childcare, logistical and safety issues. The employees also played their part, many walking/cycling or finding a car share in order to get into work.
- Hourly staff who were concerned about lost wages were offered additional overtime to the extent possible.
- With basic supplies becoming an issue for many employees, other Morgan plants shipped in dried goods, soups, toilet paper, nappies and petrol.
- A Wal-Mart gift card of US$150 was issued by the North American management for everyone in the Certech business.

The plan provided the structure for the immediate reaction but the risk-readiness culture of the management and local teams across the affected business resulted in limited 'down-time' in production, no lost contracts/damage to customer relationships and a developed sense of 'team'.

CORPORATE RESPONSIBILITY

CORPORATE RESPONSIBILITY IS INTEGRAL TO THE MORGAN GROUP; IT MEANS A COMMITMENT TO BEHAVING WITH INTEGRITY AND HAVING A POSITIVE IMPACT ON ITS EMPLOYEES, ITS STAKEHOLDERS AND THE COMMUNITIES IN WHICH THE GROUP WORKS.

VALUES, STRATEGY AND TONE FROM THE TOP

Morgan values

The Core Values Statement is the guiding principle for the Group's global approach to corporate responsibility. This underpins the Group's commitment to doing business the right way; limiting the impact of its operations on the environment; protecting and developing its people; and supporting the communities in which the Group works.

Morgan strategy

This firm commitment to doing business the right way is integral to the Group in continuing to be one of the world's very best advanced materials companies, where corporate responsibility is a differentiator. The Group's Responsible Business Programme ('RBP'), Environment, Health and Safety ('EHS') programme and the approach to Morgan's 'People', support the aim of creating long-term sustainable shareholder value.

Tone from the top

The Board is ultimately accountable for corporate responsibility and receives regular reports on EHS, the RBP and global talent management.

The senior management team recognise the need to lead by example. The Chief Executive Officer, Mark Robertshaw, takes the lead on doing business the 'right' way, whilst, the Chief Financial Officer, Kevin Dangerfield, is responsible for the Group's approach to EHS. They are supported by the Group Executive team and functional heads with specific responsibility for environment, health and safety, legal compliance and human resources.

The Group and Business Executive teams 'lead from the front' and set the tone from the top. 2013 examples include:

- Each of the Chief Executive Officer, Chief Operating Officer and Regional Presidents participating in 2013 face-to-face training sessions on responsible business and risk; and
- The Chief Operating Officer participating in the Asia Region Health and Safety Week.

"WE TAKE PRIDE IN THE INTEGRITY OF OUR BEHAVIOUR AS WELL AS THE INTEGRITY OF OUR PRODUCTS AND SERVICES AND BELIEVE THAT WORKING IN THIS MANNER ACROSS THE GROUP, WITH EACH OF OUR CUSTOMERS, SUPPLIERS, JOINT VENTURE PARTNERS AND REPRESENTATIVES, IS THE 'RIGHT' WAY TO DO BUSINESS."

Mark Robertshaw
Chief Executive Officer

CORPORATE RESPONSIBILITY
continued

CORPORATE RESPONSIBILITY

Doing business the right way
The RBP is the Group-wide ethics and compliance programme, launched in 2010, providing a policy/compliance framework underpinning the Groups commitment, and ensuring a common approach, to doing business the right way.

The Responsible Business Programme
The three core elements of the RBP are policies/guidance, training/education and compliance risk assessment.

Policies
The RBP policies are the Ethics, Competition/Anti-Trust, Export and Donations and Sponsorships policies.

These and related manuals and guidelines are each available in 13 languages and oblige employees to operate in accordance with applicable laws and regulations, to obtain CEO approval for trading in certain countries, including Iran, Syria and Sudan; and to comply with rules and internal reporting requirements around donations and sponsorship.

These policies also apply, to the extent appropriate, to Morgan's business partners including agents, joint ventures and representatives. In particular, the Responsible Business Guide for representatives summarises the ethical principles the Group requires its representatives to adhere to in order to act on behalf of the Group.

All policies, manuals and guidelines are subject to annual review.

Training
Raising awareness of and educating employees on the Group policies and the applicable laws and regulations is a fundamental part of the RBP. There are a number of challenges in delivering a programme of this nature across more than 50 countries, including language, culture and logistics.

Feedback is sought from all attendees to ensure that the programme develops year-on-year and is built for the Region and the employees rather than being a 'one size fits all' approach.

Since 2010, annual training has included:
- eLearning modules for human rights, anti-bribery and ethics, anti-trust and contract risk management. Each of which requires a 100% score in the test in order to pass;
- face-to-face 'train the facilitator' training of local managers and site based compliance officers and subsequent cascaded site level training; and
- site level training by the Group RBP team, eg UK, France & Russia.

This has been further supplemented by the provision of RBP training in Group induction processes. This will be reinforced in 2014 to ensure that this is standard practice around the Group.

Risk assessment
Regular compliance risk assessments across the Group help to identify those businesses which have a higher risk of a compliance breach, often associated with high-risk territories. These high-risk businesses receive additional focus and support including further training, guidance and site visits. During 2013, certain of the Group's businesses in China, India and Russia received such support.

Implementation
How are the policies cascaded?
Policies and procedures are mandated across the Group and apply to all employees.

The Group intranet, MorgaNet, is the primary means of making each of the policies, manuals and guidelines available to employees. It is acknowledged that not all employees can access MorgaNet, so hard copies are also made available locally.

Education on the RBP policies is also built into each of the RBP eLearning modules and all face-to-face materials.

How is the training given?
In 2013, eight face-to-face 'train the facilitator' sessions were held in a number of locations around the world. These were attended by 184 people including local, Regional and Group Executives. One of the Group's Non-Executive Directors also attended a session in the UK.

In 2013, the focus of the training was on refreshing the anti-bribery and competition training and introducing for the first time, some face-to-face contract risk management and export training. All training materials were provided in 13 different languages to facilitate the annual training cascade. Ultimately, this 2013 training was delivered to more than 2,000 employees.

What have the risk assessments shown?
The Group-wide bribery risk assessments run in 2013 took into account a number of factors including: location of business, location of customers, the market sector and whether third party agents were used. The results of this assessment created an internal bribery risk ranking that was used to focus additional support, monitoring and training to be delivered in 2014 to a number of the Group's businesses including those in Russia and India.

Effectiveness

Annual certification

Regional Presidents and all functional heads are required on an annual basis to certify that the businesses/functions they are responsible for have implemented and complied in full with the policies or, declared any exceptions. The CEO, CFO and COO then certify to the Board on a Group-wide basis.

This certification forms an integral part of the Group's system of internal controls. No material exceptions were declared in respect of 2013.

This is further supplemented by annual site-level certification, where, to the extent applicable, employees certify that they understand and are compliant with the RBP and related policies and manuals.

Internal Audit

Internal Audit has incorporated an RBP element into its process and monitors adherence to key RBP processes including completion of site-level training, induction processes, compliance with key elements of the RBP policies and the filing of reporting forms. Internal Audit also ensures that the availability of the Ethics Hotline is adequately promoted at site level.

During 2013, Internal Audit identified a number of immaterial breaches in gifts and entertainment approval processes, particularly in Asia. Further training on the importance of adhering to approval processes will be carried out in the Asian businesses in 2014.

Ethics Hotline

The Ethics Hotline, operated by Expolink, was in place throughout the year. It enables employees who are aware of, or suspect, misconduct illegal activities, fraud, abuse of Group assets or violations of any Group policy to report these confidentially without fear of retribution should they feel they cannot use a local channel. The Hotline includes local free-phone numbers in each of the countries in which the Group operates with real-time translators available as necessary.

Issues raised through the Ethics Hotline or via other channels are followed up by the Regional President or the Company Secretary as appropriate. Further investigation 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 2013, seven reports were received via the Hotline from Australia, Mexico, the UK and the US. Each of the calls related to local human resource grievances including local management outsourcing practices, overtime disputes and style/behaviour of management. The reports were relayed to the relevant Regional President and were subject to investigation and further actions. No material issues were raised.

The Audit Committee annually monitors and reviews the effectiveness of the Hotline and of the follow-up investigation processes by considering the number of calls, which countries they came from and the results of the investigations; for 2013 it was satisfied that the Hotline and investigation processes were operating effectively.

The Programme going forward

During 2014, the Group plans to further develop the Programme in a number of ways including:

- updating the existing eLearning modules;
- providing training for third-party agents;
- refreshing the ethics, anti-bribery and competition training through webinars and the provision of new face-to-face materials for cascade;
- testing the embedding of the Programme through focused business compliance visits; and
- site-level adherence to the Group's anti-trust compliance programme will also become part of the remit of Internal Audit.

CORPORATE RESPONSIBILITY
continued

ENVIRONMENT, HEALTH AND SAFETY

MORGAN ADVANCED MATERIALS' 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 RISK ASSESSMENT AND OPERATIONAL MANAGEMENT ACROSS THE GROUP.

Morgan Advanced Materials is committed to conducting all its activities in a manner which achieves high standards of health and safety for employees and others affected by its operations. This commitment is continuous and on-going.

During 2013 the Group evaluated a number of behavioural safety performance improvement programmes and work has commenced to implement the selected programme on a Group-wide basis. This will be a top down programme led by the Chief Executive Officer and the Executive team.

As part of the ongoing focus on health and safety, during 2013 a process was put in place to enable the Group to more fully analyse and understand the root causes and consequences in terms of lost time of all lost time accidents and work-related illnesses. This increased understanding of accident causes helps the Group to reduce the occurrence and effects of lost time accidents.

The Group is also committed to minimising the impact of its business on the environment and maximising the positive environmental benefits of its products. Examples of Morgan'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 2 to 3 and 12 to 15 of this Report.

The regular collection, reporting and evaluation of EHS key performance indicators (KPIs) and the setting of EHS-related targets assists in the development and monitoring of programmes to enhance operational and health and safety 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 training and other programmes. Further detail will be included in the 2013 EHS Report to be published on the Group's website in May 2014. The EHS Report will also include case studies to help demonstrate the Group's approach to EHS performance improvement.

Under The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 the Group is required to report its annual greenhouse gas emissions for the year in its Directors report. This information is shown on page 82 and includes the CO_2e[>] due to energy use which is further analysed in this section, as well as other sources of greenhouse gases.

EHS Policy
Morgan's EHS Policy applies to all Group businesses worldwide; it forms the basis for Executive and management oversight and implementation 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's EHS governance procedures are centred on its EHS Policy which forms the basis of the Group's EHS management systems and processes. The Policy requires high standards of EHS management at all sites. This is implemented through performance monitoring, 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.

[>] CO_2e. Carbon Dioxide Equivalent – the amount of carbon dioxide and the amount of non-CO_2 greenhouse gas with the equivalent global warming potential.

The governance structure for EHS places responsibility for EHS performance with the Chief Operating Officer and the operational management team, with each site having a point of accountability. EHS performance is reported regularly to the Board by the Chief Financial Officer who has specific responsibility for EHS policy, strategic direction and performance monitoring. He is supported by the Group Director, Environment, Health and Safety who provides Group direction and oversight with responsibility for implementation of Group EHS programmes, including standards and procedures, the review of the adequacy of EHS resources and training across the Group, for performance reporting and all assurance processes.

During 2013, the Group completed the recruitment of EHS leaders in all the Regions that it operates. This global network of EHS specialists reports to the regional management teams and is responsible for improving the standards of EHS management and performance in the Group's businesses. This has already begun to show benefits in intra and inter-regional co-operation on EHS issues.

As described below, the Group commissioned external assurance on selected EHS data from PricewaterhouseCoopers LLP (PwC).

Morgan'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. The EHS Compliance Audit Programme also covers 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. Accordingly, 30 sites were audited during 2013 and 31 sites are planned for audit in 2014. The audit reports are reviewed by the Director, Environment, Health and Safety and by the Regional Presidents. 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 regional level according to business-specific risks and opportunities, with Group-level support and oversight.
- 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.

In 2013 environmental management systems were in place at 98 sites worldwide, including 41 sites certified to ISO 14001. Additional certifications were achieved at sites in Argentina, Japan and China in 2013. These new certifications are in addition to the on-going programme of re-certifications. Worldwide, 103 sites have health and safety management systems in place, with 18 sites certified to or working towards OHSAS 18001.

EHS Policy effectiveness

Morgan Advanced Materials monitors the effectiveness of its EHS Policy through the EHS Compliance Audit Programme, the review of performance against a series of Group-wide KPIs, its external assurance programme and by participating in a number of external initiatives as further described below.

The summary charts on pages 28, 29 and 30 represent the Group's EHS performance, covering all 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.

In 2013 the Group expanded the independent external assurance performed by PwC to cover the Group's lost time accident frequency rate in addition to the information on CO_2e intensity, energy intensity, waste intensity, water intensity and the waste recycling rate that were also assured in 2012. The assurance report from PwC is set out on page 31.

The Group participates in a number of external initiatives which help to benchmark policy effectiveness and progress. These include the CDP which is a not-for-profit organisation that assesses and ranks companies in the major industrial countries according to their world-wide carbon-related reporting, strategies, management and performance. In the 2013 CDP FTSE 350 Report the Group was one of 11 companies featured in both the Carbon Disclosure Leadership Index and the Carbon Performance Leadership Index. This performance reflects the continuing progress being made throughout the Group to reduce energy usage and resulting CO_2e emissions.

Morgan Advanced Materials has made filings in respect of the Group's UK facilities under the UK government's Carbon Reduction Commitment (Energy Efficiency) scheme.

CORPORATE RESPONSIBILITY
continued

CO_2e> DUE TO ENERGY USE^*
Tonnes**

2013	387,100
2012	395,200
2011	433,700
2010	424,200
2009	387,500

CO_2e> INTENSITY DUE TO ENERGY USE^*
Tonnes CO_2e/£m revenue**

2013	404
2012	392
2011	401
2010	430
2009	419

ENERGY USE^+
GWh**

2013	1,287
2012	1,312
2011	1,430
2010	1,388
2009	1,286

ENERGY INTENSITY^+
MWh/£m revenue**

2013	1,343
2012	1,302
2011	1,323
2010	1,407
2009	1,389

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 Advanced Materials monitors the impact of its operations on the environment, as measured by its Scope 1 CO_2e and Scope 2 CO_2 emissions, energy, waste and water intensity per £million of revenue.

The Group sets two-year targets for the improvement in these environmental metrics and the Group's 2013 performance is an interim report against the current targets for the two-year period 2012-14. Further details of the Group's EHS targets and objectives, will be included in the Group's 2013 EHS Report, which will be published on the Group's website in May 2014.

The decline in revenue in 2013 and corresponding reduction in production volumes had an impact on the absolute CO_2e emissions, energy use and water use, with all these being lower than in 2012. However, the Group's intensity targets and KPIs relate environmental measures to revenue. The reduced revenue and corresponding reduction in production volumes led to lower efficiency in some of the Group's energy-intensive operations, resulting in a deterioration in the Group's energy and CO_2e-related metrics. Despite this the Group was still able to improve the waste generation and water usage metrics – further details are provided below.

In absolute terms total CO_2e emissions due to energy use in 2013 were some 387,100 tonnes, down by 2% from 395,200 tonnes in 2012 and 11% lower than the 433,700 tonnes reported for 2011. Total energy use was some 1,287 GWh, down by 2% from 1,312 GWh in 2012 and 10% down against the 1,430 GWh reported for 2011.

Taking into account the decline in the Group's sales, CO_2e intensity^ increased by 3% in 2013. This was behind the running rate required to achieve the Group's target to reduce the CO_2e emissions intensity due to energy use by 5% over the two-year period 2012-14. 2013 energy intensity^ was up by 3% compared to 2012. The Group has a number of energy reduction programmes designed to reduce energy intensity in 2014 and beyond.

^ The 2013, 2012 and 2011 CO_2e intensity, energy intensity, water intensity and the 2013 and 2012 waste intensity information has been subject to assurance by PwC. For further details of the assurance provided see the Independent Assurance Report on page 31. Further details of the 2012 and 2011 assurance provided are included in the Independent Assurance Reports on page 25 of the 2012 Annual Report and page 41 of the 2011 Annual Report.

* Scope 1 CO_2e emissions from fossil fuel usage and Scope 2 CO_2 using country-specific electricity factors as CO_2e factors are not consistently available for electricity use in all countries.

** Constant currency basis and updated to reflect changes in reporting methodology.

\+ Energy from all sources.

> CO_2e. Carbon Dioxide Equivalent, the amount of carbon dioxide and the amount of non-CO_2 greenhouse gas with the equivalent global warming potential.

WASTE^~
Tonnes**

2013	44,400
2012	48,500
2011	48,300
2010	46,000
2009	53,800

WASTE INTENSITY^~
Tonnes waste/£m revenue**

2013	46
2012	48
2011	45
2010	47
2009	58

WATER USE^#
million m^3 **

2013	2.26
2012	2.51
2011	2.77
2010	2.92
2009	2.47

WATER INTENSITY^#
m^3/£m revenue**

2013	2,356
2012	2,495
2011	2,567
2010	2,962
2009	2,664

Total waste reported in 2013 was some 44,400 tonnes, down by 8% from 48,500 tonnes in 2012 and 8% lower than the 48,300 tonnes reported for 2011. Waste intensity^ was reduced by 4% in 2013. This was ahead of the rate required to achieve the target to reduce waste intensity by 5% over the two-year period 2012-14. The reduction in 2013 waste intensity follows programmes to identify and dispose of accumulated waste and surplus materials and equipment across a number of sites worldwide in 2012, much of which was recycled. However, the proportion of total waste which was recycled^ was 25% in 2013, down by three percentage points from 28% in 2012 but up by one percentage point from the 24% reported for 2011. The recycling rate achieved in 2012 was enhanced by a number of one-off disposals of recyclable material. The Group's target continues to be to increase the proportion of total waste which is recycled over the two years 2012-14.

Total water use in 2013 was 2.26 million m^3, down 10% from 2.51 million m^3 in 2012 and down 19% from 2.77 million m^3 in 2011. Water use intensity^ was reduced by 6% in 2013. This was ahead of the target to reduce water intensity by 5% over the two years 2012-14. This improvement was achieved through a widening 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. The Group will seek to achieve further improvements in 2014.

^ The 2013, 2012 and 2011 CO_2e intensity, energy intensity, water intensity and the 2013 and 2012 waste intensity information has been subject to assurance by PwC. For further details of the assurance provided see the Independent Assurance Report on page 31. Further details of the 2012 and 2011 assurance provided are included in the Independent Assurance Reports on page 25 of the 2012 Annual Report and page 41 of the 2011 Annual Report.
** Constant currency basis and updated to reflect changes in reporting methodology.
~ Hazardous and non-hazardous waste, including recycled material.
# Water from all sources, including process, irrigation and sanitary use.w

CORPORATE RESPONSIBILITY
continued

LOST TIME ACCIDENTS^
Number of LTAs*

2013	94
2012	114
2011	132
2010	124
2009	104

LOST TIME ACCIDENT FREQUENCY*^
LTAs/100k hours worked*

2013	0.44
2012	0.52
2011	0.58
2010	0.58
2009	0.53

HEALTH AND SAFETY-RELATED LOST TIME
% of total working time

2013	0.09
2012	0.12
2011	0.10
2010	0.11
2009	0.14

LOST TIME PER LTA*#
Days per LTA*

2013	26
2012	28
2011	21
2010	24
2009	32

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

^ The 2013 Lost Time Accident Frequency information has been subject to assurance by PwC. For further details of the assurance provided see the Independent Assurance Report on page 31.

\# Total time lost due to health and safety in the year divided by the number of lost time accidents reported in the year.

Health and safety performance

As reported above, Morgan Advanced Materials is committed to conducting all its activities in a manner which achieves high standards of health and safety for all its employees. In 2013 the independent external assurance performed by PwC was extended to cover the Group's Lost Time Accident ('LTA') frequency rate.

The Group's health and safety policy statements are clear and communicated throughout the Group and health and safety metrics receive a high degree of focus at all levels of the business. The policy statements are supported by site-level assessment and monitoring of risks.

The investigation by the UK Health and Safety Executive following the employee fatality which occurred in December 2012 at the Group's site in Ruabon, UK is ongoing. In addition, in 2013 Morganite Electrical Carbon Limited was prosecuted by the UK Health and Safety Executive following a fatal accident involving a third-party delivery driver at the site in Swansea, UK. A fine of £120,000 plus costs was imposed in January 2014.

Morgan's health and safety aim is to have no accidents or injuries. In 2013 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, as measured by their EHS KPIs and through the EHS Compliance Audit Programme.

The Group's health and safety KPIs include accident frequencies, 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.

During 2013 the Group introduced an enhanced process to track and manage LTAs and the associated lost time.

In 2013 the Group's LTA frequency^ was down 15% at 0.44 per 100,000 hours worked (2012: 0.52). The number of lost time accidents reported was 94 (2012: 114).

The reduction in the number of LTAs in 2013 was concentrated in the Asia/Rest of World Region. This improved performance follows a sustained effort over the past few years to increase safety awareness. During the year the Region hosted a number of safety initiatives which included a 'Safety Week' carried out simultaneously at all facilities in the Region.

The Group has worked to identify and develop a behaviour-based safety programme to be applied on a Group-wide basis. The programme, 'Morgan thinkSafe', is designed to promote safe behaviours and to establish a 'total safety culture' throughout the Group. It has an initial programme of intensive training at all levels of the Group combined with the analysis of incidents and sharing of experience with regular reinforcement of the safety message using 'Safety Corners' in all facilities. Morgan thinkSafe will be formally launched in the first half of 2014.

Reported lost time due to accidents and work-related illnesses as a percentage of working time decreased from 0.12% in 2012 to 0.09% in 2013. The number of days lost during 2013 was down by 23% and the number of hours worked was decreased by 3%. The decrease in the number of days lost in 2013 was in part due to a reduction in the time lost in the year due to accidents which occurred in 2012 as well as a focus on return-to-work programmes.

The reported average number of days lost per LTA reported in the year decreased to 26 from 28 in 2012. This reflected an increased focus on the management of LTAs and lost time.

INDEPENDENT ASSURANCE REPORT

Independent Limited Assurance Report to the Directors of Morgan Advanced Materials plc.

The Directors of Morgan Advanced Materials plc ('Morgan') engaged us to provide limited assurance on the information described below and set out in Morgan's Annual Report for the year ended 31 December 2013.

What we are assuring ('Selected Information')

The selected environment, health and safety ('EHS') data for the year ended 31 December 2013 (marked with the symbol ^ presented in the Annual Report 2013) consists of:

- CO_2e and CO_2e intensity (scope 1 and scope 2 emissions due to energy use);
- Energy use and energy intensity;
- Water use and water intensity;
- Waste and waste intensity;
- Recycling rate; and
- Number of lost time accidents and lost time accident frequency rate.

The scope of our work was restricted to the Selected Information for the year ended 31 December 2013 and does not extend to information in respect of earlier periods or to any other information in the Annual Report 2013.

How the information is assessed ('Reporting Criteria')

We assessed the Selected Information using Morgan's Reporting Criteria as set out at: http://www.morganadvancedmaterials.com/governance/responsible-business/environment-health-safety/[1].

Professional standards applied[2] and level of assurance[3]

We have performed a limited assurance engagement in accordance with ISAE 3000 and, in respect of greenhouse gas emissions information, ISAE 3410. We have complied with the ICAEW Code of Ethics, as also stated in footnote 2.

Understanding reporting and measurement methodologies

There is no single globally recognised and established method for evaluating and measuring the Selected Information. The range of different, but acceptable, techniques can result in materially different reporting outcomes that may affect comparability with other organisations. The Reporting Criteria used as the basis of Morgan's reporting should therefore be read in conjunction with the Selected Information and associated statements reported on Morgan's website.

Work done

Considering the risk of material misstatement of the Selected Information, we:

- Made enquiries of Morgan's management, including those with responsibility for EHS management and Group EHS reporting;
- Evaluated the design of the key structures, systems, processes and controls for managing, recording and reporting the Selected Information. This included visiting 6 sites and analysing a further 10 sites, selected on the basis of their inherent risk and materiality to the Group, to understand the key processes and controls for reporting site performance data to the Group EHS team;
- Performed limited substantive testing on a selective basis of the Selected Information at corporate Head Office and in relation to the same 16 sites noted above to assure that data had been appropriately measured, recorded, collated and reported; and
- Assessed the disclosure and presentation of the Selected Information.

Morgan responsibilities

The Directors of Morgan are responsible for:

- The identification and reporting of Morgan's material environmental and health and safety impacts which are included in the Selected Information;
- Designing, implementing and maintaining internal controls over information relevant to the preparation of the Selected Information that is free from material misstatement, whether due to fraud or error;
- Establishing objective Reporting Criteria for preparing the Selected Information;
- Measuring Morgan's performance based on the Reporting Criteria; and
- The content of the Annual Report 2013.

Our responsibilities

We are responsible for:

- Planning and performing the engagement to obtain limited assurance about whether the Selected Information is free from material misstatement, whether due to fraud or error;
- Forming an independent conclusion, based on the procedures we have performed and the evidence we have obtained; and
- Reporting our conclusion to the Directors of Morgan.

Our conclusions

As a result of our procedures nothing has come to our attention that indicates the Selected Information for the year ended 31 December 2013 has not been prepared in all material respects with the Reporting Criteria.

This report, including our conclusions, has been prepared solely for the Directors of Morgan as a body in accordance with the agreement between us, to assist the Directors in reporting Morgan's EHS performance and activities. We permit this report to be disclosed in the Annual Report for the year ended 31 December 2013, to enable the Directors to show they have addressed their governance responsibilities by obtaining an independent assurance report in connection with the Selected Information. 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 for our work or this report except where terms are expressly agreed between us in writing.

pwc

PricewaterhouseCoopers LLP
Chartered Accountants
London
13 February 2014

1 The maintenance and integrity of Morgan's website is the responsibility of the Directors; the work carried out by us does not involve consideration of these matters and, accordingly, we accept no responsibility for any changes that may have occurred to the reported Selected Information or Reporting Criteria when presented on Morgan's website.

2 We have complied with International Standard on Assurance Engagements 3000 – 'Assurance Engagements other than Audits and Reviews of Historical Financial Information' and in respect of greenhouse gas emissions information the International Standard on Assurance Engagements 3410 'Assurance Engagements on greenhouse gas statements', both issued by the IAASB. We have complied with the applicable independence and competency requirements of the Institute of Chartered Accountants in England and Wales (ICAEW) Code of Ethics and the International Standard on Quality Control (UK&I). To comply with those standards, our work was carried out by an independent and multi-disciplinary team of sustainability and assurance specialists.

3 Assurance, defined by the International Auditing and Assurance Standards Board (IAASB), gives the user confidence about the subject matter assessed against the reporting criteria. Reasonable assurance gives more confidence than limited assurance, as a limited assurance engagement is substantially less in scope in relation to both the assessment of risks of material misstatement, including an understanding of internal control, and the procedures performed in response to the assessed risks.

CORPORATE RESPONSIBILITY
continued

PEOPLE

TOTAL LOST TIME
% of working time

2013	3.1
2012	2.7
2011	2.9
2010	2.6
2009	2.7

EMPLOYEE TURNOVER
% per year

2013	13.8
2012	13.4
2011	13.7
2010	13.7
2009	16.7

TRAINING
hours per employee

2013	13.9
2012	15.1
2011	13.3
2010	12.9
2009	12.4

At 31 December 2013, Morgan Advanced Materials had circa 9,100 employees, working across the globe. The Group recognises that its people are critical to its success, employing a workforce with highly unique skills and abilities. Set out below are the Group's People Policies and how they have been implemented, together with a review of their effectiveness. As a business Morgan works hard to ensure it has the right people in the right jobs, building capability to meet the needs of our stakeholders.

People Policies and their implementation

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. Morgan does not unfairly discriminate and respects human rights. The Group's employee policies are set locally to comply with local law within the overall Group framework. The Morgan Advanced Materials Ethics Hotline enables employees who are aware of or suspect issues under the Group's Human Rights Policy to report these confidentially.

Talent

The Group has reassessed its talent strategy against business strategy following the implementation of the One Morgan structure and objectives. New business leadership teams were quickly up and running following the restructure and management development priorities have now been refined as a consequence.

The new structure has enabled more efficient talent interventions through internal promotions, development opportunities, sometimes involving global redeployment, and targeted recruitment. This includes the continued prioritisation of the Group's global graduate programme.

Morgan has a bi-annual succession and talent review process, designed to ensure that succession for key roles is planned, and that future strategic and individual needs are assessed. Improvements are being made to the succession planning process, whilst recognising that the right mix of internal promotion and external appointments is in the long-term interest of the Group.

Talent development and acquisition is positioned to emphasise capability in business development, sales, technology innovation and commercial leadership.

A new internal development programme for mid-level managers – the Step Up programme – is being developed for launch in 2014.

Recruitment

Morgan recognises the benefits of external recruitment as well as building its own internal pipeline of talented people, and of bringing in new people who have the potential and ability to drive the business forward. This year, Morgan has continued to use assessments and strengthen the quality of recruitment processes. Whether recruiting internally or externally, selection is based on many factors including relevant education, work experience, competencies potential 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. The Group has operated its revised graduate programme for a second successive year with more graduates and an increased global focus. Graduates initially join the businesses in Asia, Europe and North America, and take part in a common development programme. Graduate recruits in all major markets have access to learning that has enabled previous graduates to move locations and take on more responsibility. The Chief Executive Officer and other members of the Group Executive personally take part in the development programmes.

Morgan continues to sponsor the annual Science, Engineering & Technology Student of the Year awards. In 2013 the winner of the Morgan Advanced Materials Best Materials Student Award was Thomas Casselden from Loughborough University. Additionally, the Group continues to strengthen existing relationships with leading universities working in materials science, providing information, materials, and opportunities for undergraduate as well as postgraduate students.

Training and development

Overall training hours per employee have reduced from 15.1 hours to 13.9 hours. This is due to reasons including fewer new starters resulting in less time spent on induction training and initiatives, such as ISO accreditations, taken in 2012 being complete. The Group has maintained training in critical skills such as management, commercial, technical, and health and safety training. The Group will be continuing to develop this programme on a global basis. Focus on training and development in commercial skills will continue to be a priority in 2014.

Within the local businesses, momentum continues regarding the Group's Responsible Business Programme, details of which are provided in the Corporate Responsibility section on pages 23 to 25.

Reward, recognition and awards

The Group recognises the accomplishments of its people individually and as teams, and makes awards to acknowledge achievement, loyalty, and innovation. In 2013, recognition awards continued to be made across local businesses.

The principle of pay for performance is applied to the Group's compensation approach and the Group sets compensation levels using external benchmarking and relevant commercial considerations that are both competitive in the countries in which it operates and affordable. Morgan offers short-term performance incentives globally to managers, technical and functional experts. Group Executives and Senior Management also have long-term incentives tied to personal and commercial performance. At plant level, most sites offer incentives to their workforce that result in payments based on meeting locally-set performance targets.

Morgan regularly reviews bonus arrangements and benefits to ensure they encourage and reward commercial and personal performance.

Communication

The One Morgan restructure in February 2013 has simplified how businesses can work together and has improved communication. This has been supported by workshops to explore greater collaboration and consequent business development opportunities.
In addition, in the context of One Morgan, employee and customer events have been held globally to improve understanding of the Group's technologies and capabilities. For example, Composites and Defence Systems held a 'One Morgan Day' for staff and customers, and in North America a One Morgan sales conference was hosted to enable sales opportunity awareness and encourage cross-selling of the whole Morgan Advanced Materials portfolio across the region.

Morgan continues to have formal and informal consultative arrangements globally, according to local requirements and regulations. The 17th annual European Employee Forum was held in May 2013, which was attended by site employee representatives from France, Germany, Hungary, Italy and the United Kingdom.

In August 2013, the Group implemented a global employee survey. The primary objective of the survey was to provide local and regional management with feedback from employees about their businesses. Overall 83% of employees responded to the survey. Reviews of the results took place during October, followed by local action-planning. Overall, employees agreed most strongly that they know what is expected of them at work. They also strongly agree that they and their colleagues all take responsibility for safety. The survey has also highlighted the need to ensure supervisors more frequently recognise good work and ensure employees receive appropriate support to learn new skills. These will be areas of focus in 2014.

People Policy effectiveness

At the end of the year, Morgan employed circa 9,100 people, a reduction of approximately 700 from the circa 9,800 at the end of 2012. Almost half of the change was due to the de-consolidation of the Assam business in India, following the sale of shares in the company. The Group additionally contracts with circa 1,000 people on short-term arrangements to provide the flexibility for the Group's businesses to react quickly to changes in market conditions. The Group's employee turnover was 13.8% in 2013 (13.4% in 2012). 2.1% of the workforce was made redundant during the year.

CORPORATE RESPONSIBILITY
continued

PEOPLE continued

The Group's geographic spread of people is as follows:

	2013	2012
USA	28%	27%
UK	16%	15%
China	16%	16%
Other Europe	17%	17%
Other North America	7%	6%
South America	4%	4%
Rest of World	12%	15%

Breakdown of staff by gender

Total workforce 9,070		
Male	6,605	73%
Female	2,465	27%
Senior managers 22		
Male	21	95%
Female	1	5%
Directors 9		
Male	8	89%
Female	1	11%

Senior managers in Morgan are defined as the Group Executive, excluding Directors, the Regional heads and their most senior management.

Lost time as a proportion of total working time increased to 3.1% (2.7% in 2012), with lost time due to work-related accidents and illnesses of 0.1% of total working time.

During the year, 58 employees around the world celebrated 40 years of loyal service with Morgan Advanced Materials, with 277 employees celebrating anniversaries of 20, 25 or 30 years' service. The Group is pleased with the number of employees who remain with the Group for significant periods of their careers, and whose experience the Group has retained.

REVIEW OF OPERATIONS

NORTH AMERICA

HIGHLIGHTS

- Full-year margins increased to 15.4%, with margins in the second half of 16.0%.
- Significant savings from the successful implementation of One Morgan.

REVENUE
£m

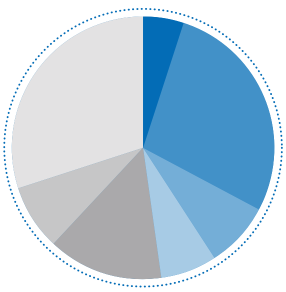
2013	£359.9m
2012	£376.3m

REGIONAL EBITA*
£m

2013	£55.5m
2012	£55.7m

(restated for impact of IAS 19 revised)

NORTH AMERICA 2013
%



- Energy 5%
- Transportation 28%
- Security and Defence 8%
- Healthcare 7%
- Electronics 14%
- Petrochemical 8%
- Industrial 30%

Business description

For Morgan, the North America Region comprises United States of America, Canada and Mexico. The financials of the North American Region comprise those of all the businesses that are located within those countries, including the sales made directly to and profits from third party customers outside of the Region. Sales made to Morgan companies outside of the Region are not included in North America's reported revenue but the profit made on these inter-Regional sales are included in North America's results.

The North America Region offers the full Morgan product range and the vast majority of revenue is from products made within the Region. North America has a number of important primary processing sites that provide Morgan businesses across the world with base materials, semi-finished and sometimes finished products, particularly in the electrical brush and seals and bearings businesses.

As shown in the chart to the left, North America serves all of the Group's chosen end markets. Of the three Regions, it currently has the greatest proportion of revenue from the higher margin end-markets such as aerospace, included in transportation, and healthcare.

Footprint

As at 31 December 2013 the North America Region comprises 25 operating sites employing 3,150 people. The principal manufacturing sites are in USA, Canada and Mexico. The Mexican operations are used to satisfy both the local market, but more importantly and increasingly, as an effective low-cost point of supply to the USA and to other Morgan businesses across the world. The Region also has a comprehensive network of sales offices allowing immediate access to and facilitating direct working with end-users. Some sales, particularly for the insulating fibre and crucibles product ranges, are made through a well-established distributor network.

Performance

Revenue for the North America Region for the year was £359.9 million, representing a decrease of 4.4% compared with £376.3 million in 2012. At constant currency the year-on-year decrease was 5.6%. Revenue in the second half of 2013 was 1.5% lower than in the first half at constant currency.

EBITA for the region was £55.5 million (2012: £55.7 million), representing a margin of 15.4% (2012 reported 14.8%). The EBITA margin in the second half of 2013 was 16.0% compared with 14.8% in the first half. The continued margin improvement has been delivered despite the lower revenue and is due to positive mix shift, operational improvements in a number of facilities and cost benefits, primarily from the implementation of One Morgan.

Business review

Trading conditions in the second half of 2013 continued to be mixed, as they were in the first half of the year.

The Thermal Ceramics business continued to perform well in some niche automotive applications. Good progress was made in supplying high-temperature insulating fibre for catalytic converters to the growing vehicle emission controls market, successfully introducing new materials that improve customers' product performance and address regional regulatory legislation. Importantly, Morgan is partnered with global market-leaders and is providing them with next-generation fibre materials to support their growth.

The Region continued to increase the manufacturing capacity and market penetration of Superwool® low bio-persistent fibre, providing a major impetus to sales into the general industrial market.

* Definitions of the measures can be found in the glossary.

REVIEW OF OPERATIONS
continued

NORTH AMERICA continued

The most notable drag on revenue in the Thermal Ceramics business was the lack of large petrochemical projects that use the Region's fibre and insulating fire bricks. The general global slowdown and a tightening of credit markets has meant that very few large projects were actually commissioned in 2013. Enquiry and quoting levels are high and Morgan is hopeful that these project orders do get placed in 2014.

A focus on attractive niche markets, the gross margin benefits of Superwool® compared to refractory ceramic fibre and operational benefits contributed to improved operating performance in the Thermal Ceramics business.

The Technical Ceramics business in 2013 was impacted by weaker hard disc drive and semiconductor business, though there have been some signs of general market recovery in the fourth quarter of 2013 and there is a solid order book for the start of 2014. Sales in the second half of the year to the aerospace market were impacted by inventory adjustments, specifically cores used in the manufacture of turbine blades, as well as reduced demand from the industrial gas turbine market. The business has started to benefit from the strong oil and gas market and particularly from the increase in fracking.

The electrical brush business has delivered broadly flat revenue through 2013 relative to the second half of 2012. Progress has been made in sales to the wind energy market where the Region has won share in the after-market based on product offering and service levels. The major impact on the performance of the electrical business came from the restructuring actions taken as a result of One Morgan. Demand for high-temperature insulation carbon graphite products in the renewables sector and for US body armour remained at the low levels experienced in the first half of the year. There have been some successful synergy sales, where customers who use ceramic fibre products have been introduced to higher temperature range carbon insulation products. This is one early example of the real benefits of being organised to offer the full Morgan product and technology range to each and every customer and will be an area of continued focus in 2014.

The Region has progressively seen the benefits of the One Morgan model and organisational change to one business unit in 2013. The Region is already a mid-teen margin business operating in mixed trading conditions during the year. The focus as one unified business is delivering performance improvement and creating new opportunities for growth in 2014.

Research and development

The North American facilities have played an important role in Superwool® development, working effectively with the Bromborough, UK technology facility to take products through to volume production.

In addition to this, in the fibre product range, there has been significant development of product and process capability in respect of engineered fibre that is used in the vehicle emission control market.

The North American Region has also invested significant resource and made good progress in the development of new, lightweight ceramic plates for ballistic protection.

Significant local investment has also been made to support initiatives in a number of key markets: braze alloy development to produce cutters for deep hole drilling for oil and gas exploration; material and process development to improve the performance and extend the range of ceramic cores for more demanding turbine blade applications for the aerospace market.

Priorities and outlook

The priorities of the North American Region are to continue to drive positive mix shift towards higher tech, secular growth markets such as aerospace, healthcare, energy and emission control, supported by the rollout of market leading, differentiated technology, for example, the Superwool® range of high-temperature insulating fibre products. Alongside this there will be a continued focus on operational improvements, including expanding the use of low-cost Mexican operations.

Some early 'synergy selling' successes have been achieved, but this is seen as an, as yet, unrealised opportunity from the One Morgan reorganisation and one that will receive more focus in 2014.

The market for the North American Region was mixed during 2013 and the outlook for 2014 suggests that this will continue. Order books going in to 2014 are stable but the investments made in 2013 and the product pipeline should position the Region for further profitable growth as markets improve.

EUROPE

HIGHLIGHTS

- EBITA margins increased by 140 basis points to 11.8%.
- Portfolio reshaping commenced with the exit of the Composites and Defence Systems spares and logistics business.

REVENUE
£m

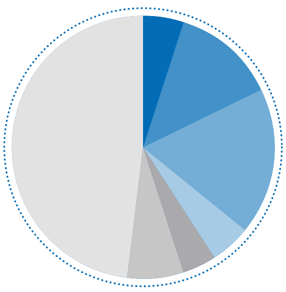
2013	£357.3m
2012	£361.7m

REGIONAL EBITA*
£m

2013	£42.0m
2012	£37.5m

(restated for impact of IAS 19 revised)

EUROPE 2013
%



- Energy 5%
- Transportation 13%
- Security and Defence 18%
- Healthcare 5%
- Electronics 4%
- Petrochemical 7%
- Industrial 48%

Business description

For Morgan, the European Region is defined as the UK, Continental Europe and Russia, but excludes Turkey, which is reported in Asia/Rest of World. The financials of Europe comprise all of the Morgan Advanced Materials' businesses that are located within the European region. It includes the sales made directly to and profits from third-party customers outside of the region. Sales made to Morgan companies outside of the Region are not included in Europe's reported revenue but the profit made on these inter-regional sales are included in Europe's results.

The European Region offers the full Morgan product range and the vast majority of revenue is from products made within the Region. Certain specific grades of material and some finished products are sourced from the North America and Asia/Rest of World Regions.

As shown in the chart to the left, Europe serves all of the Group's chosen end-markets. The Region has a broad spread of end-market exposure. The security and defence revenue is primarily from the Composites and Defence Systems ('C&DS') business.

Footprint

As at 31 December 2013 the European Region comprises 25 operating sites and employed a total of approximately 2,950 people. The principal manufacturing sites are in the UK, France, Germany, Luxembourg, Italy, Hungary and Russia.

The Region also has a number of sales offices providing regional coverage and customer proximity, allowing the Region's people to work directly with end-users. Some use is also made of well-established distribution networks.

Performance

Revenue for the European Region for the year was £357.3 million, representing a decrease of 1.2% compared with the £361.7 million in 2012. At constant currency the year-on-year decrease was 3.7%. Revenue in the second half of 2013 was 1.5% lower than in the first half at constant currency.

EBITA for the Region continued to improve to £42.0 million (2012: £37.5 million), a margin of 11.8% (2012: 10.4%). The EBITA margin in the second half of 2013 was 12.3% compared with 11.2% in the first half. The margin progress has been achieved on lower sales and is due to a combination of positive revenue mix shift and cost benefits from a range of operational initiatives, including those from the implementation of One Morgan.

Business review

Trading conditions in most of the markets served by the European Region have remained relatively stable through 2013.

In the Thermal Ceramics business, comprising principally high-temperature insulating fibre and firebrick, revenue from large projects, particularly in the petrochemical industry, continues to be weak as customers have delayed major investment decisions. Enquiry levels are good and the Region remains hopeful of an improvement in this market in 2014. The Region has increased its presence in the Russian/Eastern European market and has secured some small but strategically important sales. Management are conscious of the reputation of trading practices in these markets and has been rigorous in terms of the training given to staff through the Responsible Business Programme and subsequent monitoring.

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

REVIEW OF OPERATIONS
continued

EUROPE continued

In the Technical Ceramics business, sales of cores to both the aerospace and the industrial gas turbines market weakened in the second half of 2013, but there was further growth in sales to the medical market.

The electrical brush and rotary business has delivered good growth in the year despite the macro-environment and the continued migration from DC to AC motors that do not require brushes. This growth has been secured through winning market share and the growth of integrated brush, slip ring and rotary products to the wind industry. As the installed wind turbine base comes to the end of its original warranty period the Region has been successful in securing business from the original supplier with excellent service and product offering. Further progress has also been made in the rationalisation of the electrical brush manufacturing footprint and cost base in the period, with the completion of the relocation of manufacturing from the Netherlands to Hungary.

The seals and bearings business has also delivered further growth, with revenue increasing from both the oil and gas and water markets.

Revenue in the Composites and Defence Systems (C&DS) business improved in the second half of the year, with improving profitability based on a combination of product mix, volume and operational cost reductions. During the second half of 2013 C&DS ended its spares and logistics contract with the UK Ministry of Defence ('MoD') in respect of the Mastiff fleet of vehicles which in 2013 was circa £12 million of revenue. Despite the absence of new vehicle build contracts and the exit from the vehicle spares and sustainment business, C&DS remain a key supplier to the UK MoD in terms of upgrades to those vehicles and for personal protection, specifically body armour and helmets. Major investment has been made in the development of next-generation armour and helmet solutions. The focus going forward will increasingly be on taking world-leading advanced composite technology into non-military commercial applications. C&DS already have a strong presence in the medical market with oncology beds and there is good opportunity to expand on this, both in the UK and in export markets.

Research and development

As noted in the Group Business Model on page 16, under One Morgan the Group's research and development activities are now headed by the Chief Technology Officer, with R&D resource deployed across the globe, increasingly concentrated in 'centres of excellence'.

The Europe Region is the location for the Group's global ceramic fibre research and development facility, based in Bromborough, UK. This state-of-the-art facility employs 25 dedicated scientists focused on the continued development of Morgan's fibre product range. Morgan's market-leading low bio-persistent Superwool® fibre was developed here and the product range in this area continues to be expanded. With Superwool Plus®, HT and XT range of products the Group is extending the temperature range, allowing it to provide customers with superior insulation performance, improved fire protection and weight saving opportunities in more applications. There has been particular success in areas such as off-shore platforms and liquid natural gas terminals. The scientists at the facility work closely with sales and operational staff across the globe to ensure that research effort remains focussed on developing products that customers need and that the Group's facilities are capable of manufacturing in sufficient scale.

Priorities and outlook

Good margin improvement has been delivered progressively through 2013. Some of this has come from a positive mix shift in sales. The larger part of the margin improvement has come from cost reductions, both operational improvements and efficiencies at most of the sites and a reduced headcount.

Whilst there are further opportunities for cost improvement, the focus of the Region will be on driving further margin improvement from targeted revenue growth and portfolio reshaping.

Management are hopeful that macro conditions will be better in 2014 and there have been some signs of improvement in a number of markets. However, the focus will be on creating opportunities for growth based on the markets targeted and the pipeline of new business that have been developed in recent years.

In line with stated Morgan Group strategy, the Region will be looking to expand in those attractive niche markets where the margins earned fully reflect the benefit brought to customers and for those businesses where the Region does not see a way to deliver adequate returns then an appropriate exit will be sought, as with the spares and logistics business of C&DS.

ASIA/REST OF WORLD

HIGHLIGHTS

- End-markets been difficult through the year, especially in China and India.
- Cost reduction actions taken with closure of high-cost manufacturing operations in Japan, Australia and South Africa.
- Portfolio reshaping started with the sale of majority stake in loss-making Indian carbon business.

REVENUE
£m

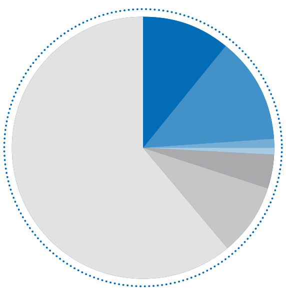
2013	£240.6m
2012	£269.5m

REGIONAL EBITA*
£m

2013	£26.4m
2012	£32.8m

(restated for impact of IAS 19 revised)

ASIA/REST OF WORLD 2013
%



- Energy 11%
- Transportation 13%
- Security and Defence 1%
- Healthcare 1%
- Electronics 4%
- Petrochemical 9%
- Industrial 61%

Business description

For Morgan, the Asia/Rest of World Region comprises Asia, Australasia, India, Africa, Middle East, including Turkey, and South America. The financials of the Region comprise those of all the businesses that are located within those countries, including the sales made directly to and profits from third party customers outside of the Region. Sales made to Morgan companies outside of the Region are not included in Asia/Rest of World's reported revenue but the profit made on these inter-regional sales are included in Asia/Rest of World's results.

The Asia/Rest of World Region offers the full Morgan product range. The Region has significant manufacturing capability and capacity for insulating fibre, including Superwool®, and firebrick and some capacity for electrical brush material, however it does source a large amount of material, semi-finished and finished products from Morgan businesses in North America and Europe, either finishing locally or selling finished products to end customers.

As shown in the chart to the left, the Asia/Rest of World Region serves all of the Group's chosen end-markets. The majority of revenue in the Region is currently from industrial markets, but there is a significant opportunity to drive a positive mix shift through increased sales to markets such as aerospace and healthcare.

Footprint

As at 31 December 2013 the Asia/Rest of World Region comprises 25 operating sites employing 3,000 people. The principal manufacturing sites are located in China, India, South Korea, Australia, Japan, Brazil and Argentina. These manufacturing sites are supported by a network of sales and application engineers to ensure that customers are well supported across this large region with the appropriate Morgan resource. Where appropriate, use is also made of third-party distributors.

Performance

Revenue for the Asia/Rest of World Region for the year was £240.6 million, representing a decline of 10.7% compared with 2012 revenue of £269.5 million. At constant currency the decrease was 5.7%. Revenue in the second half of 2013 was 4.4% higher than that in the first half at constant currency.

EBITA for the Region was £26.4 million (2012: £32.8 million), representing a margin of 11.0% (2012: 12.2%). The EBITA margin in the second half of 2013 was 11.2% compared with 10.8% in the first half. The margin in the Region has been adversely impacted by the large drop in sales volume and the cost reduction actions taken have not been enough to offset this. With some sales recovery in the second half, and with the benefits of the cost reduction actions coming through, there was an improvement in margins in the second half of the year. Management have taken the view that the industrial part of the economies such as China and India, which represents the major part of Morgan's business in those countries, will recover and that the Group is well-placed to take advantage of this recovery and that the resource base that has been installed over recent years, and indeed added to where appropriate in 2013, needs to be largely retained to deliver this.

Business review

Trading across the Region has remained subdued during the second half of 2012, although there has been some improvement towards the end of 2013 in some markets.

A slowing of global growth and domestic industrial output has meant deferral of a number of major projects. Quote activity has remained strong but very few orders of any size have been placed. In the Asia/Rest of World Region, a much larger part of the business is currently in traditional industrial markets such as iron and steel and heavy construction and the general slowdown in these markets, most notably in China and India, has also had an adverse impact on revenue.

* Definitions of the measures can be found in the glossary.

REVIEW OF OPERATIONS
continued

ASIA/REST OF WORLD continued

Molten Metals Systems, which focuses on the non-ferrous industries, such as aluminium, generates circa 50% of its revenue in this Region and has been impacted by a slowdown in the Indian automotive industry.

It is clear that many of the countries in the Region are starting to demand technically differentiated products for markets such as medical, aerospace and electronics. Morgan is ideally placed to take advantage of this through an ability to take a large product range to market, initially using Western-sourced technical support and products, but rapidly moving to in-Region manufacturing. The Region has already been successful in making sales to the medical and aerospace markets and are looking for the most effective way to develop full local capability, through a combination of direct investment and partnerships with locally established players.

One successful example of using Western product and technology base and the Asian network has been C&DS success in securing a major development programme for composite pods for military vehicles. A first order has been won with a major Asian vehicle manufacturer and C&DS are at various stages of discussion with major players in a number of other geographies.

In response to the weak market conditions and accelerated in part by the One Morgan structure, a number of cost reduction initiatives were taken during the year including the cessation of fibre production in Australia and Japan, with product now being imported from other lower-cost Morgan operations in the Region, and the consolidation of administrative functions in Brazil. Towards the end of 2013 the Group also sold the majority of its equity stake in the loss-making Assam Carbon company in India. A review of the lithium ion business in China was also performed, resulting in a write-off of its intangible assets and a review of the long-term future of its place in Morgan. These are part of the Group-wide portfolio reshaping that commenced in the latter part of the year.

Business developments

Despite the disappointing decline in revenue and profits in 2013, Morgan has continued to invest significantly in the Region.

More than £15 million has been invested in China, Korea, India and Brazil, with significant spend on adding new capacity and converting existing fibre equipment to support the continued roll out of the family of Superwool® products. Two major greenfield projects have also been started: a new ceramics plant in Dalian, China and a new Superwool® fibre plant in Khalifa Industrial Zone Abu Dhabi, the United Arab Emirates. Both these major investments are in locations where significant demand is expected in the coming years and where there is the advantage of low input costs, labour in the case of China and energy and raw materials in the case of UAE.

Research and development

The Asia/Rest of World Region takes full advantage of the development efforts that take place in the research and development facilities that are located in the North America and Europe Regions. Importantly, it provides a direct interface to local customers whose requirements are fed back in to the product and process development that takes place globally.

For example, the world's leading special shipbuilders are located in Korea and the local management team have successfully worked with the customer and Morgan's global fibre team to develop and have specified Morgan's FireMaster® Marine Plus™. Further work was then done to develop a water-repellent grade.

Significant development has also taken place in the crucibles business. This is the Group's original and oldest product range, but there has been a major focus on and successful introduction of new, innovative coatings that give the crucibles much improved performance characteristics and expanding their applications to areas such as high-purity alumina processing for the electronics industry and for nuclear waste treatment.

Outlook

Whilst the Region has seen no growth since the start of the second half of 2012, there remains a strong belief in the growth prospects of the Region. With the current capabilities and capacity, Morgan is well placed to take advantage of any general industrial upturn in the Region, and there have been some signs of encouragement recently in terms of enquiry and, more importantly, order levels in certain markets.

The Region is also extremely well placed to satisfy the expected growth in demand in more advanced markets, such as medical, aerospace and defence. Western capacity will initially be utilised but the Region and the Group are ready to make the necessary investments in resource to take full advantage of those opportunities as they arise.

FINANCIAL REVIEW

KEVIN DANGERFIELD
CHIEF FINANCIAL OFFICER

GROUP OPERATING MARGINS HAVE SHOWN PROGRESS THROUGH THE YEAR AND THERE HAS BEEN INCREASED INVESTMENT IN OUR ASSET AND TECHNOLOGY BASE. GOOD CASH GENERATION AND A CONFIDENCE IN THE POSITION OF THE GROUP SUPPORTS PROGRESSIVE DIVIDEND INCREASE.

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 88 to 147 and comply with adopted IFRSs.

The results for 2012 as set out below have been restated to reflect the impact of IAS 19 (revised) *Employee Benefits*. See note 1 of the consolidated financial statements for details of the restatement.

Reference is made to 'Underlying operating profit'* and 'Underlying earnings per share (EPS)'. EPS is defined in note 10 on page 104. These measures of earnings are shown because the Directors consider that they give a better indication of underlying performance.

In the consolidated income statement the Group presents specific adjusting items totalling £12.9 million and the associated tax credit of £1.8 million separately. In the section below results are shown before these specific adjusting items.

Group revenue and operating profit

Group revenue was £957.8 million (2012: £1,007.5 million), a decrease of 4.9% on both a reported and constant currency basis compared with 2012.

The results for 2012 as set out below have been restated to reflect the impact of IAS 19 (revised) *Employee Benefits*.

	Revenue		EBITA		EBITA margin	
Results before specific adjusting items*	**2013 £m**	2012 £m	**2013 £m**	2012 £m	**2013**	2012
North America	**359.9**	376.3	**55.5**	55.7	**15.4%**	14.8%
Europe	**357.3**	361.7	**42.0**	37.5	**11.8%**	10.4%
Asia/Rest of World	**240.6**	269.5	**26.4**	32.8	**11.0%**	12.2%
Regional EBITA*	**957.8**	1,007.5	**123.9**	126.0		
Unallocated central costs*			**(4.9)**	(5.1)		
Group EBITA*			**119.0**	120.9	**12.4%**	12.0%
Restructuring costs*			**(10.5)**	(13.2)		
Underlying operating profit*			**108.5**	107.7	**11.3%**	10.7%

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

FINANCIAL REVIEW
continued

Group EBITA* was £119.0 million (2012: £120.9 million) representing a margin of 12.4% (2012: 12.0%).

Group underlying operating profit* was £108.5 million (2012: £107.7 million). Underlying operating profit margin was 11.3%, compared to 10.7% for 2012.

Group operating profit after specific adjusting items was £89.6 million (2012: £99.4 million). Operating profit margin was 9.4%, compared to 9.9% for 2012.

Restructuring costs
The restructuring costs of £10.5 million (2012: £13.2 million) relate mainly to the actions that the Group has undertaken as a consequence of moving to the One Morgan model and the re-organisation into geographical regions.

Specific adjusting items
In the consolidated income statement the Group presents specific adjusting items totalling £12.9 million and the associated tax credit of £1.8 million separately. In the judgment of the Directors, due to the nature and value of these items they should be disclosed separately from the underlying results of the Group to allow the reader to obtain a proper understanding of the financial information and the best indication of underlying performance of the Group. No specific adjusting items were incurred in 2012. In the financial review below results are shown before these specific adjusting items.

	2013 £m	2012 £m
Specific adjusting items		
Business exit costs	**7.3**	–
Impairment of intangible assets	**3.3**	–
Loss on disposal of business	**2.3**	–
	12.9	
Income tax credit from specific adjusting items	**(1.8)**	–
	11.1	–

Business exit costs
This relates to Composites and Defence Systems and is a result of the exit of the UK MoD vehicles logistics and spares contract and the completion of UK MoD Urgent Operational Requirements (UOR) for new vehicle builds. Specifically the charge comprises a £5.7 million provision against inventory and a £1.6 million provision for building exit costs and impairment of other assets. An income tax credit of £1.6 million has been recognised in respect of these items.

Impairment of intangible assets
The impairment of intangible assets consists of a £3.3 million impairment of goodwill and intangible assets originally recognised on acquisition of Morgan AM&T Hairong Ltd (formerly Changsha Hairong New Materials Co., Ltd) ('Hairong'), based on the current view of the future financial performance of Hairong. An income tax credit of £0.2 million has been recognised in respect of this one-off item.

Loss on disposal of business
On 28 December 2013 the Group disposed of 23.85% of the share capital of Assam Carbon Products Ltd ('Assam') for nil consideration. The Group retains a 28.8% shareholding. As a result of the transaction the Group no longer has control of Assam and has therefore deconsolidated the assets and liabilities of Assam in these consolidated financial statements. The loss recognised on the disposal of this shareholding was £2.3 million. The fair value of the Group's remaining investment has been measured at 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	
	2013	2012	**2013**	2012
USD	**1.5646**	1.5852	**1.6563**	1.6255
€	**1.1780**	1.2336	**1.2020**	1.2330

The potential impact of changes in foreign exchange rates is given in note 20 on page 119.

Amortisation of intangible assets
The Group amortisation charge was £8.3 million (2012: £8.3 million).

Finance costs
The net finance charge was £23.3 million (2012: £22.7 million). This charge was primarily net bank interest and similar charges of £17.0 million (2012: £16.9 million), which is flat year-on-year. The balance of the finance charge under IFRS is the net interest charge on pension scheme net liabilities, which was £6.3 million (2012: £5.6 million). The impact of potential changes in interest rates on profit or loss is stated in note 20 on page 118.

Taxation
Group taxation before specific adjusting items for the year was £21.1 million (2012: £21.6 million). The effective tax rate, excluding specific adjusting items, was 27.4% (2012: 28.2%).

Discontinued operations
The £21.0 million credit shown in 2012 as 'discontinued operations' related to a release of tax liabilities in the period that were set up in prior years relating to business disposals.

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Earnings per share

Underlying earnings per share was 21.5 pence (2012: 21.7 pence), and basic earnings per share from continuing operations was 14.8 pence (2012: 18.7 pence). Details of these calculations can be found in note 10 on page 104.

Dividend

The Directors recommend the payment of a final dividend at the rate of 6.7 pence per share on the Ordinary share capital of the Group, payable on 30 May 2014 to Ordinary shareholders on the register at the close of business on 16 May 2014. Together with the interim dividend of 3.8 pence per share paid on 29 November 2013, this final dividend, if approved by shareholders, brings the total distribution for the year to 10.5 pence per share (2012: 10.0 pence).

A five-year summary of the Group's financial results is set out on page 148 of this Report.

Cash flow

The net cash inflow from operating activities was £127.0 million (2012: £126.8 million). Free cash flow before acquisitions and dividends was £37.4 million (2012: £48.9 million). Dividend payments increased to £24.7 million (2012: £16.1 million) as a consequence of the decision to bring forward the payment of dividends. As a result, in 2013 three dividend payments were made; the 2012 interim, the 2012 final and the 2013 interim dividend.

Net debt* at the year end was £186.5 million (2012: £192.8 million). The net debt* to EBITDA* ratio at the year end was 1.3 times (2012: 1.3 times).

	2013 £m	2012 £m
Net cash inflow from operating activities	**127.0**	126.8
Net capital expenditure	**(33.7)**	(26.7)
Restructuring costs and other one-off items	**(14.0)**	(5.9)
Net interest paid	**(17.0)**	(18.5)
Tax paid	**(24.9)**	(26.8)
Free cash flow before acquisitions and dividends	**37.4**	48.9
Cash flows in respect of disposals/(acquisitions)	**1.7**	(6.6)
Purchase of own shares for share incentive schemes	**(6.6)**	(9.4)
Dividends paid	**(24.7)**	(16.1)
Exchange movement and other items	**(1.5)**	5.8
Movement in net debt* in period	**6.3**	22.6
Opening net debt	**(192.8)**	(215.4)
Closing net debt	**(186.5)**	(192.8)

* Definitions of the measures can be found in the glossary.

Commitments for property, plant and equipment and computer software for which no provision has been made are set out in note 25 on page 136.

Capital structure

At the year end total equity was £274.1 million (2012: £271.6 million) with closing net debt of £186.5 million (2012: £192.8 million).

Non-current assets were £527.1 million (2012: £561.2 million) and total assets were £911.9 million (2012: £968.3 million).

Details of undiscounted contracted maturities of financial liabilities and capital management are set out in note 20 on page 117.

On 11 February 2014, Morgan merged its UK-based thermal fired shapes business with Magma Ceramics & Catalysts, a UK-based fired shapes specialist, in return for a 35% minority stake in the enlarged Magma business. There have been no other significant post-balance sheet events.

Capital structure is further discussed in note 20 on page 120 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.

For the period ended 31 December 2013 the Group is required to adopt IAS 19 (revised) *Employee Benefits* and the results for the year 31 December 2012 have been restated to reflect this.

The impact of the changes on the full year ended 31 December 2012 is a £4.2 million reduction in profit after taxation, consisting of:

- a £1.1 million reduction in Group EBITA, Group underlying operating profit and operating profit as a result of the requirement to reclassify pension scheme administration costs from net finance charge to operating costs;
- a £4.7 million reduction in Underlying PBT and profit before tax due to the new requirement for the expected return on assets to be calculated by applying the corporate bond yield discount rate to the balance sheet pension-related assets;
- a £0.5 million reduction in taxation charge as a result of the above changes.

FINANCIAL REVIEW
continued

The IAS 19 (revised) charges are summarised in the table below.

	FY 2013 £m	FY 2012 Restated £m	FY 2012 Previously reported £m
Operating costs:			
– Service cost	**(4.5)**	(4.4)	(4.4)
– Curtailment charge	**–**	(0.2)	(0.2)
– Administration costs	**(1.4)**	(1.1)	–
Total operating costs	**(5.9)**	(5.7)	(4.6)
Net finance charge:			
– Net interest charge	**(6.3)**	(5.6)	(0.9)
– Administration costs	**–**	–	(1.1)
Net finance charge	**(6.3)**	(5.6)	(2.0)
Total IAS 19 charge	**(12.2)**	(11.3)	(6.6)

The Group pension deficit has decreased by £22.2 million since last year end to £144.6 million on an IAS 19 (revised) basis. The main movement was in the US defined benefit pension schemes. The US deficit decreased by £23.4 million to £39.3 million (2012: £62.7 million). This decrease is mainly due to a higher discount rate – from 4.2% to 5.0% – and the impact of the weakening of the US$ versus £ sterling. The UK deficit increased by £3.7 million to £75.0 million (2012: £71.3 million).

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 Advanced Materials' 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. This is achieved through a combination of fixed rate debt and interest rate swaps. The proportions of fixed and floating rate debt are determined having regard to a number of factors, including prevailing market conditions, interest rate cycle, the Group's interest cover and leverage position and any perceived correlation between business performance and rates.

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 20 on pages 115 to 116.

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

Tax risks
The Group periodically assesses its liabilities and contingencies for all tax years open to audit based upon the latest information available. The Group recorded its best estimate of these tax liabilities, including related interest charges. Inherent uncertainties exist in estimates of tax contingencies due to changes in tax laws. Whilst management believes they have adequately provided for the probable outcome of these matters, future results may include favourable or unfavourable adjustments to these estimated tax liabilities in the period the assessments are made, or resolved, or when the statute of limitation lapses. The final outcome of tax examinations may result in a materially different outcome than assumed in the tax liabilities.

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.

The Group's debt and maturity profile is provided in notes 19 and 20 on pages 114 to 122.

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 Strategic Report on pages 8 to 45. The financial position of the Group, its cash flows, liquidity position and borrowing facilities, are described earlier in this Financial review. In addition, note 20 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 Group bank facility of £150 million unsecured five-year multi-currency revolving credit 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.

Kevin Dangerfield
Chief Financial Officer

The Strategic Report, as set out on pages 8 to 45, has been approved by the Board.

On behalf of the Board

Paul Boulton
Company Secretary & General Counsel
13 February 2014

BOARD OF DIRECTORS

ANDREW SHILSTON
CHAIRMAN

ANDREW HOSTY
CHIEF OPERATING OFFICER

MARTIN FLOWER
SENIOR INDEPENDENT DIRECTOR

MARK ROBERTSHAW
CHIEF EXECUTIVE OFFICER

KEVIN DANGERFIELD
CHIEF FINANCIAL OFFICER

ANDREW GIVEN
NON-EXECUTIVE DIRECTOR

1. ANDREW SHILSTON
NON-EXECUTIVE CHAIRMAN (AGED 58)

Appointed: May 2012 (Chairman Designate; August 2012, Chairman).
Career history: From 2002 until his retirement in 2011, Andrew was Chief Financial Officer of Rolls-Royce Holdings plc and prior to this he was the Finance Director at Enterprise Oil plc. Andrew was previously a non-executive Director of Cairn Energy plc, where he chaired the Audit Committee.
Additional appointments: Senior Independent Director of BP p.l.c.; non-executive Director of Circle Holdings plc.
Committees: Nomination (Chair) and Remuneration.

2. MARK ROBERTSHAW
CHIEF EXECUTIVE OFFICER (AGED 45)

Appointed: August 2006.
Career history: Prior to August 2006 Mark was Chief Operating Officer from February 2006 and Chief Financial Officer from October 2004. Before joining Morgan Advanced Materials, from 2000 to 2004, Mark was Chief Financial Officer of Gartmore Investment Management plc and prior to this he spent nine years with Marakon Associates. Mark was a non-executive Director of Rathbone Brothers plc from 2006 to 2010.
Additional appointments: Non-executive Director of SEGRO plc.
Committees: Nomination.

3. ANDREW HOSTY
CHIEF OPERATING OFFICER (AGED 49)

Appointed: February 2013.
Career history: Prior to his appointment as Chief Operating Officer, Andrew was Chief Executive Officer of Morgan Ceramics and joined the Morgan Advanced Materials Board in July 2010. Before this appointment he held a number of senior positions within Morgan Advanced Materials. Andrew was a non-executive Director of Fiberweb plc from 2012 to 2013 and President of the British Ceramics Confederation from 2003 to 2005.
Additional appointments: Non-executive Director of British Ceramic Research Limited.

4. KEVIN DANGERFIELD
CHIEF FINANCIAL OFFICER (AGED 47)

Appointed: August 2006.
Career history: Kevin joined Morgan Advanced Materials in July 2000 as Deputy Group Financial Controller before being promoted to Group Financial Controller. Before joining Morgan Advanced Materials Kevin worked for London International Group plc and Virgin Retail Europe Limited. He qualified as a chartered accountant with PricewaterhouseCoopers.
Additional appointments: Non-executive Director of e2v technologies plc.

5. MARTIN FLOWER
SENIOR INDEPENDENT DIRECTOR (AGED 67)

Appointed: December 2004 (non-executive Director; April 2008, Senior Independent Director).
Career history: Martin 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.
Additional appointments: Chairman of Croda International plc; Chairman of Low & Bonar PLC.
Committees: Audit, Nomination and Remuneration.

6. ANDREW GIVEN
NON-EXECUTIVE DIRECTOR (AGED 66)

Appointed: December 2007.
Career history: Andrew 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.
Committees: Audit (Chair), Nomination and Remuneration.

EXECUTIVE COMMITTEE

SIMON HEALE
NON-EXECUTIVE DIRECTOR

ANDREW REYNOLDS SMITH
NON-EXECUTIVE DIRECTOR

PAUL BOULTON
COMPANY SECRETARY & GENERAL COUNSEL

VICTOIRE DE MARGERIE
NON-EXECUTIVE DIRECTOR

PETER BLAUSTEN
GROUP HUMAN RESOURCES DIRECTOR

7. SIMON HEALE
NON-EXECUTIVE DIRECTOR (AGED 60)

Appointed: February 2005.
Career history: Simon was Chief Executive of China Now from 2007 to 2008 and was Chief Executive of The London Metal Exchange from 2001 to 2006. He 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.
Additional appointments: Chairman of Kazakhmys PLC; Senior Independent Director of Coats plc; non-executive Director and Chair of the Audit and Compliance Committee of Marex Spectron Group Limited; Trustee and Treasurer of Macmillan Cancer Support, chairing their Audit Committee.
Committees: Audit, Nomination and Remuneration (Chair).

8. VICTOIRE DE MARGERIE
NON-EXECUTIVE DIRECTOR (AGED 50)

Appointed: May 2012.
Career history: Victoire previously held non-executive positions at Ciments Français, Outokumpu and Ipsos, and was a Professor of Strategic Management at Grenoble School of Business. During her executive career she held senior management positions in Germany, France and the USA with Arkema, CarnaudMetalbox and Péchiney. Victoire holds a PhD in Strategic Management from Université Paris 2 Panthéon Assas.
Additional appointments: Chairperson of Rondol Industrie SAS; Chairperson of the Materials Committee, French Waste Recycling Scheme; non-executive Director of Arkema; non-executive Director of Eurazéo; non-executive Director of Norsk Hydro; non-executive Director of Italcementi.
Committees: Audit, Nomination and Remuneration.

9. ANDREW REYNOLDS SMITH
NON-EXECUTIVE DIRECTOR (AGED 47)

Appointed: May 2013.
Career history: Andrew joined GKN in 2002 and has held a number of senior positions across GKN's Driveline, Powder Metallurgy and OffHighway businesses. Prior to GKN, he held various general management and functional positions at Ingersoll Rand, Siebe plc. (now Invensys plc.) and Delphi Automotive Systems. Andrew is a former Chairman of the CBI Manufacturing Council and a former member of the Ministerial Advisory Group for Manufacturing.
Additional appointments: Chief Executive Automotive and Powder Metallurgy and an executive director of GKN plc; Vice President of CLEPA (the European Association of Automotive Suppliers).
Committees: Audit, Nomination and Remuneration.

10. PAUL BOULTON
COMPANY SECRETARY & GENERAL COUNSEL (AGED 46)

Appointed: July 2004 (General Counsel and Deputy Company Secretary; 2007, Company Secretary).
Career history: Before joining Morgan Advanced Materials, Paul spent nine years with IMI plc, his last role being Deputy Company Secretary and Senior Legal Adviser. Paul is a qualified solicitor.

11. PETER BLAUSTEN
GROUP HUMAN RESOURCES DIRECTOR (AGED 54)

Appointed: March 2011.
Career history: Prior to joining Morgan Advanced Materials, Peter advised on private equity acquisitions and international leadership programmes as an independent consultant. He was formerly Group HR Director of BAA plc and held senior roles with Charles Schwab & Co, British Airways, and Ford Motor Co. He served as a member of the CBI Employment Policy Committee and was appointed a Commissioner for the UK Civil Service in 2010.

MARK ROBERTSHAW
CHIEF EXECUTIVE OFFICER

KEVIN DANGERFIELD
CHIEF FINANCIAL OFFICER

ANDREW HOSTY
CHIEF OPERATING OFFICER

OVERVIEW
STRATEGIC REPORT
DIRECTORS' REPORT
FINANCIAL STATEMENTS

CORPORATE GOVERNANCE

CHAIRMAN'S LETTER TO SHAREHOLDERS

Dear Shareholder

It is my pleasure to address you following my first full year as Chairman. I comment on some of the significant governance issues that have arisen during the year below:

- Stewardship of the Group during the transition to the new regional One Morgan structure, ensuring the benefits of the new organisational structure were secured, has been one of the Board's key responsibilities during 2013. To this end, the Board has received reports at each meeting specifically on the progress of the restructuring as well as reports from Andrew Hosty in his new role as Chief Operating Officer.
- The process to recruit new non-executive Directors continued and I am pleased to recommend Andrew Reynolds Smith, appointed at the conclusion of the 2013 Annual General Meeting ('AGM'), as well as Douglas Caster and Rob Rowley, both appointed in February 2014, for election at the 2014 AGM. Inducting the new non-executive Directors and working on the Board dynamic will be one of my priorities for 2014.
- The Board's programme of work in 2013 was in part driven by the conclusions drawn from the 2012 Board evaluation process. The performance evaluation process enables the Board to adapt to changing circumstances and to move forward to ensure it is effective. Two areas where it was agreed that greater focus was needed were the Group's approach to risk management, and getting to know key business leaders. The way the Board implemented these recommendations is explained further below. The recommendations from the 2013 Board performance review are set out later in this report.
- One of the key areas of focus for the Board during 2013 has been to ensure the new approach to risk has been embedded. The Board and the Audit Committee have, between them, reviewed each individual Group principal risk and have received reports at each meeting on the rollout of the new methodology for risk management.
- I would also like to mention the Board's visits to different parts of the business during the year. In June 2013, the Board visited the Haldenwanger Technical Ceramics site at Waldkraiburg, Germany. The meeting in July 2013 was held at the Composites and Defence Systems site in Coventry, UK. These visits were organised around scheduled Board meetings and incorporated a meeting with the local management team as well as a tour of the operations, which afforded the Board a good insight into the business.

ANDREW SHILSTON
CHAIRMAN

Statement of compliance with the UK Corporate Governance Code

Throughout the year ended 31 December 2013 the Company has been in full compliance with the relevant provisions of the September 2012 version of the UK Corporate Governance Code (the 'Code') which applies to the 2013 financial year. The Code is published by the Financial Reporting Council and is available on its website www.frc.org.uk.

The main principles of the Code focus on Leadership, Effectiveness, Accountability, Remuneration and Relations with Shareholders. This statement describes how the Company has applied the main principles of the Code. It should be read in conjunction with the Strategic report and the Directors' report on pages 8 to 45 and 46 to 84 respectively.

Leadership

The role of the Board

The Board is collectively responsible to the Company's shareholders for the long-term 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 dedicated 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 pages 23 to 25 of the Strategic report.

Matters reserved

There is a schedule of matters specifically reserved for the Board including setting the Group's strategic aims and objectives, approving significant contractual commitments (including the acquisition or disposal of companies/businesses, and 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. The Board reviewed and updated the schedule of matters during the year to ensure that it accurately reflected the work of the Board and the current version is available to view on the Group's website. The Board also reviewed the limitations of authority in the Group following the transition to the One Morgan structure.

Delegation of authority

The Board has delegated responsibility for certain matters to three committees, namely the Audit, Nomination and Remuneration Committees. The memberships, roles and activities of these committees are described in separate reports: the Audit Committee report is set out on pages 54 to 56; the Nomination Committee report is set out on pages 57 to 58; and the Remuneration Committee report is set out on pages 59 to 80. The full terms of reference of the Board committees are available upon request and are also available on the Group's website.

The Board delegates the day-to-day management of the Group and operational matters to the Chief Executive Officer and the other executive Directors (the Chief Financial Officer and the Chief Operating Officer) who, together with the Group Human Resources Director and the Company Secretary, form the Executive Committee. The biographies of the members of the Executive Committee are set out on pages 46 to 47.

The Board has delegated authority for certain other matters including routine approvals to a General Purposes Committee which meets as required and at which a non-executive Director must be present.

Board meetings

In 2013, the Board met formally nine times, of which eight meetings were scheduled and one meeting was held by telephone.

The October 2013 meeting included a dedicated session on Group strategy.

Attendance at meetings

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

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.

	Board		Audit		Remuneration		Nomination	
Director	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
Andrew Shilston*	9	9	–	–	5	5	3	3
Mark Robertshaw	9	9	–	–	–	–	3	3
Kevin Dangerfield	9	9	–	–	–	–	–	–
Andrew Hosty	9	9	–	–	–	–	–	–
Victoire de Margerie*	9	9	5	5	5	5	3	3
Martin Flower*	9	9	5	5	5	5	3	3
Andrew Given*	9	9	5	5	5	5	3	3
Simon Heale*	9	9	5	5	5	5	3	3
Andrew Reynolds Smith*~^	6	6	4	3	2	2	1	1

* Indicates a Director deemed by the Board to be independent or, in the case of the Chairman, independent on appointment.
~ Appointed to the Board on 10 May 2013.
^ In relation to the Board and Audit Committee meetings in October 2013, Andrew Reynolds Smith attended the Board session on strategy only due to a prior commitment with GKN plc.

CORPORATE GOVERNANCE
continued

Summary of the Board's work during the year:
- Review of performance against the Group's three-year objectives
- Review and approval of the design and implementation of the Group's new regional organisational model to create a unified and consistent One Morgan business, and monitoring of progress
- Review of growth opportunities within the business against a backdrop of low or no growth in the macro-economic environment
- Review of strategic organic growth strategy and initiatives
- Review of bolt-on merger and acquisition opportunities
- Strategic review of the electrical carbon business
- Review of technology and innovation within the business and resulting business opportunities
- In-depth briefing from the Presidents of the Regions and their key management
- Review and approval of the Group's half-year report, interim management statements and preliminary announcement of the final results
- Approval of 2014 budget
- Approval of capital expenditure and review of capital investment projects including investment in the Group's fibre business
- Review of Group and Regional business plans
- Review of the Group's principal risks
- Review of environmental and health and safety performance and plans including the behaviour-based safety programme to be implemented in 2014
- Consideration of major shareholders' views on the Group's performance and prospects
- Consideration of detailed feedback on the Responsible Business Programme training sessions held in the Regions
- Review of senior management talent pipeline
- Review of the results of the employee survey
- Briefing on cyber security.

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 Group, 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.

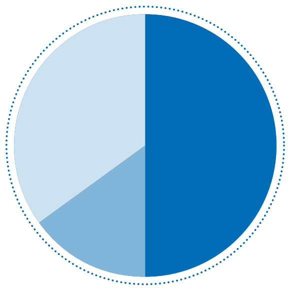
Following the Group's transition to the new regional organisational structure, the management of the Group's operations is now the responsibility of the Group's Chief Operating Officer supported by the heads of each Region.

The Chairman
On appointment as Chairman on 1 August 2012, Andrew Shilston met the independence criteria set out in the Code.

Non-executive Directors
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 three-year terms is subject to rigorous review prior to reappointment for a further three-year term.

By the time of the 2014 AGM, Andrew Given will have served two three-year terms as a non-executive Director since first being elected to the Board by shareholders. The Chairman conducted a rigorous review prior to authorising Andrew Given to seek re-election at the 2014 AGM. This review took into account the need to retain experience on the Board given the departure during 2014 of two long-serving non-executive Directors and the appointment of one new non-executive Director in 2013 and two new non-executive Directors in February 2014.

NON-EXECUTIVE DIRECTOR TENURE
%



- Serving first three-year term
- Serving second three-year term
- Serving third three-year term

Martin Flower is the Senior Independent Director.

Andrew Given will become Senior Independent Director following Martin Flower's departure at the conclusion of the 2014 AGM.

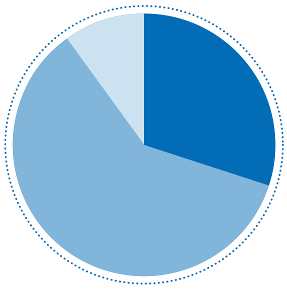
The Chairman and the non-executive Directors met without the executive Directors present on a number of occasions during the year. In addition, the Senior Independent Director and the other non-executive Directors met without the Chairman present.

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

Andrew Reynolds Smith was appointed to the Board at the conclusion of the 2013 AGM, on 10 May 2013. We recently announced the appointments of Douglas Caster and Rob Rowley to the Board as non-executive Directors in February 2014. Further information on the process used to appoint the new non-executive Directors is included in the Nomination Committee report on pages 57 to 58.

As at 13 February 2014, the Board comprises Andrew Shilston, Chairman; Mark Robertshaw, Chief Executive Officer; Kevin Dangerfield, Chief Financial Officer; Andrew Hosty, Chief Operating Officer, and five independent non-executive Directors, Victoire de Margerie, Martin Flower, Andrew Given, Simon Heale and Andrew Reynolds Smith. Biographies of the Directors, including details of their other main commitments, are set out on pages 46 and 47.

BOARD BALANCE
%



Executive Directors
Independent non-executive Directors
Chairman

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.

Commitment
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.

Information and support
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 made available electronically five working days before each meeting. Non-executive Directors also receive updates and information between formal Board meetings.

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.

Induction and professional development
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. Following his appointment to the Board on 10 May 2013, Andrew Reynolds Smith received comprehensive briefings to supplement the information on the Group's business provided during recruitment. The briefing for Andrew Reynolds Smith included further information on the business and its products and markets, brokers' reports on the Group, the Company's corporate governance structure and processes and key Group policies. The induction programme for Andrew Reynolds Smith included meetings with executive management, briefings from functional heads on governance, responsible business, key risks, human resources and environment, health and safety, visits to a number of operational sites and meetings with Regional and operational management.

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 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.

Performance evaluation
With the aim of improving effectiveness, the Board undertakes a formal annual evaluation of its own performance and that of its Committees and individual Directors.

An externally facilitated performance evaluation was conducted in 2011 and an internal evaluation was conducted in 2012. The 2013 process was also conducted internally. The process was led by the Chairman and carried out by the Company Secretary.

The process for the evaluation of the Board as a whole and its Committees was as follows:
- Development of tailored questionnaires, completed by all Directors, which took into account the output from the 2012 performance evaluation process, the current dynamic of the Board, the work of the Board during 2013 and its current areas of focus.
- Formulation of a report summarising the results of the questionnaires which was presented to the Board for discussion.

In consequence, a number of recommendations were agreed by the Board as follows:
- There should be increased focus on executive succession planning and improving the current bench strength in the businesses as well as developing future leaders.
- There should be continuing focus on Board succession planning to ensure that in the medium term there is structured Board refreshment.
- The Board should take account of diversity in planning Board and senior management succession.
- Further consideration should be given to providing information to the Board in the most suitable format.

Alongside the Board and Committee evaluation, each Director completed an individual questionnaire which invited them to reflect on their own performance and contribution to the Board. The questionnaires were reviewed by the Chairman, with any development needs being discussed with individual Directors.

The recommendations made following the 2012 Board performance review were implemented during the year.

CORPORATE GOVERNANCE
continued

RECOMMENDATIONS FROM THE 2012 BOARD PERFORMANCE REVIEW AND ACTIONS IMPLEMENTED DURING 2013

Recommendation from 2012	Action taken/progress made during 2013
There should be continuing focus on both short- and medium-term succession planning, with particular emphasis on matching the skills and experience of the Directors to the Group's strategy.	There has been particular emphasis during the year on short- and medium-term succession planning and, in light of this, Andrew Reynolds Smith was appointed to the Board as a non-executive Director on 10 May 2013, and Douglas Caster and Rob Rowley were appointed to the Board as non-executive Directors in February 2014. Medium-term succession planning will continue to be an area of focus for 2014.
The Board should simplify how the Group and its strategy are presented to external stakeholders.	Within the context of the transition to the One Morgan structure, the Board has simplified how the Group and its strategy are presented to external stakeholders.
Embedding the Group's updated approach to risk should be closely monitored.	The Board has closely monitored the Group's updated approach to risk (as detailed on page 19).
More opportunities should be found for non-executive Directors to get to know key business leaders, particularly where they are based outside the UK.	More opportunities have been found for non-executive Directors to get to know key business leaders, particularly where they are based outside the UK. In addition to site tours and presentations from the managers of the Haldenwanger site in Germany and the Composites and Defence Systems site in Coventry mentioned in the Chairman's introduction above, the Presidents of the North American and Asian Regions have given in-depth presentations to the Board. The Board also received presentations from the Chief Technical Officer and from the head of the fibre business.

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.

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.

Accountability
Financial reporting
In its reporting to shareholders, the Board is satisfied that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy as required by the Code.

A summary of the statement of Directors' responsibilities in respect of the Annual Report and the financial statements is set out on pages 83 to 84 and the 'going concern' statement is set out in the Strategic report on page 45.

Business model and strategy
Details of the Group's business model, how it is working to generate and sustain long-term value and details of the Board's strategy for ensuring the Group meets its objectives are set out in the Strategic Report on pages 8 to 45.

Internal control

The Board has overall responsibility for establishing and maintaining a sound system of internal control to safeguard shareholders' investment and the Group's assets and for reviewing the effectiveness of this system. The Group'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 and Board receive regular risk management reports covering the full range of risks faced by the Group and together they ensure there are adequate systems in place and evaluate 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 Presidents of each Region and other senior operational and functional management make an annual statement of compliance to the Board confirming that, for each of the businesses for which they are 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. Regional management teams also meet regularly to review performance. 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, social, environmental and ethical risks from management. The Regional Presidents cover risk issues at their management meetings. Details of the Group's risk management system are set out in the Risk management section on pages 19 to 22.

→ Risk factors Morgan'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 Strategic report, the identification and management of such risks is carried out systematically. These are further discussed in the Risk management section on pages 19 to 22.

→ 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.

Relations with shareholders

During 2013, the Chairman and other non-executive Directors attended the annual and half-year results presentations and the Group's Capital Markets Day. 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 the London Stock Exchange announcements, press releases, presentations, webcasts and other relevant information.

Constructive use of the AGM

The AGM is normally attended by all members of the Board and by a representative of the external auditor. At the AGM held in May 2013, 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.

Information on share capital and other matters

The information about share capital required to be included in this statement can be found on pages 82 to 83 in the Other disclosures section.

REPORT OF THE AUDIT COMMITTEE

THIS IS THE FIRST DEDICATED REPORT OF THE AUDIT COMMITTEE, GIVING AN OVERVIEW OF ITS RESPONSIBILITIES AND HOW IT DISCHARGED THESE, TOGETHER WITH INFORMATION ON ITS MEMBERSHIP AND GOVERNANCE.

ANDREW GIVEN
COMMITTEE CHAIRMAN

COMMITTEE MEMBERS

Andrew Given (Chairman)
Martin Flower
Simon Heale
Victoire de Margerie
Andrew Reynolds Smith*

* Joined the Committee on his appointment as a Director on 10 May 2013.

All members of the Committee are independent non-executive Directors and Andrew Given, the Chairman of the Committee, has the requisite financial experience.

Chairman's introduction

The main purpose of the Audit Committee is to assist the Board in effectively discharging its responsibilities for financial reporting and corporate control. I would like to highlight a number of key areas of focus for the Committee in 2013, as follows:

- During 2013, we continued to monitor our internal controls closely and received a series of presentations from the Regions on their internal controls. The presentations were delivered by the Finance Director of the business, which gave the Committee the opportunity to ask questions face-to-face and gain a real insight into the internal control environment of each business.
- Following the outcome of the 2012 Internal Audit effectiveness review, in which resource was identified as an area for improvement, the Committee had oversight of the appointment of an additional Internal Auditor during the year. We also approved an extended remit for Internal Audit to include review of certain aspects of the Responsible Business Programme, the risk management process and IT, especially major IT projects.
- Throughout 2013, the Committee monitored how the Group's new approach to risk management was working. We received progress reports in person at each meeting from the Responsible Business Programme & Risk Manager in relation to the embedding of the new risk management processes. Between the Audit Committee and the Board, during the course of the year we reviewed each individual key risk by receiving a report containing information on the risk, controls and the effectiveness of those controls and any recommended actions.
- Following the transition to the One Morgan structure, the Committee has reviewed the Group's reporting format. We received advice from KPMG Audit plc on the application of current accounting standards, as well as on the classification of restructuring costs and other accounting matters arising from the reorganisation.
- The Audit Committee has implemented the new provisions of the Code which applied to the 2013 financial year for the first time. An account of how we addressed our responsibility for advising the Board on whether, taken as a whole, the 2013 Annual Report is fair, balanced and understandable, such that shareholders can assess the Company's performance, business model and strategy, is set out below.

I am pleased to present the Audit Committee report for 2013.

Andrew Given
Committee Chairman

Meetings
The Audit Committee met five times during the year. At the end of each meeting the non-executive Directors who are members of the Committee also meet the external auditor, the Head of Internal Audit and the Responsible Business Programme & Risk Manager 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 auditor and Head of Internal Audit as necessary.

Information and support
The Committee may request the attendance at meetings of any Director, auditor or member of management as may be considered appropriate by the Committee.

The Committee identifies and confirms that it receives the information it needs to enable it to fulfil its responsibilities. This is complemented by regular presentations made by the Regional Presidents and Finance Directors on the internal control environment within their respective Regions. Training and development information is made available to the members of the Audit Committee when appropriate.

Audit Committee terms of reference
The Audit Committee's terms of reference were reviewed during the year and updated to reflect the changes to the UK Corporate Governance Code introduced in September 2012. They are available on the Group's website and are summarised below.

- 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 auditor and to approve the remuneration and terms of engagement of the external auditor.
- Reviewing and monitoring the external auditor's 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 the policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external auditor.
- 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 Head of Internal Audit has access to the Chairman of the Committee and regularly meets with the Committee without other executives present.

Main areas of work in 2013
During 2013, the Committee:

- Reviewed the Group's 2013 half-year and full-year statements prior to Board approval.
- Reviewed the scope of the external audit, and confirmation of the external auditor's terms of engagement and fee structures.
- Assessed the effectiveness of the external audit process and all aspects of the service provided by the external auditor.
- Completed the review of the Group's approach to risk management and an in-depth review of certain material risks including anti-bribery/anti-trust, IT security and financial misstatement/fraud.
- Reviewed the effectiveness of and received reports from management on the Group's internal audit and risk management systems and updates to the Group's governance, risk and compliance plans.
- Reviewed the remit of the Internal Audit function and agreed to extend the scope beyond internal financial controls to other areas including IT and areas of regulatory compliance.
- Approved the work and plans for the Internal Audit function and the monitoring of progress against the plan.
- Reviewed the systems of internal controls of the Regions.
- Appraised the Group's whistleblowing process and related procedures and policies.
- Reviewed material litigation, crisis management plans and controls in relation to joint ventures.
- Monitored the level of non-audit work of the auditor, which in 2013 included services amounting to £0.2 million, mainly in connection with tax services.
- Reviewed the impact of the One Morgan structure on the reporting structure.

REPORT OF THE AUDIT COMMITTEE
continued

Public reporting

As mentioned, the Committee, on behalf of the Board, considered the Code requirement to make a statement on whether the Annual Report and Accounts is fair, balanced and understandable. The Committee approached this as follows:

- considered the questions which need to be answered in order to evaluate whether the Annual Report and Accounts meets the fair, balanced and understandable test.
- reviewed the methodology used to construct the narrative sections of the Annual Report.
- reviewed the disclosure judgments made by the authors of each section and considered the balance of good and bad news in the Annual Report.
- received confirmation from external advisers that all regulatory requirements are satisfied.
- received confirmation of verification of content from the authors of each section.
- asked the Board to confirm that the Business Model and Strategy narrative accord with the agreed Strategy and Business Model.
- received confirmation from the Company Secretary and Chief Financial Officer that the narrative reports and financial statements are consistent.
- reviewed an advance draft of the Annual Report and Accounts prior to the financial year end.

The significant areas of judgement considered by the Committee in relation to the 2013 Financial statements, and how these were addressed, were:

- Goodwill impairment testing The judgments in relation to asset impairment largely relate to the determination of the cash-generating unit (CGU), particularly following the One Morgan reorganisation in early 2013, and the assumptions underlying the calculation of the value in use of each CGU, primarily the basis of the financial projections used and the macro-economic assumptions underlying the valuation process. The Committee has addressed this through receiving and analysing reports from the Chief Financial Officer and the Director of Finance and KPMG Audit plc, explaining the basis of the new CGUs and the basis of the financial assumptions used.
- Provisions and contingent liabilities The level of provisioning for known and contingent liabilities, including those arising from trading, environmental issues and litigation, is an issue where management and third-party judgments are important. These are addressed through the Committee and the main Board discussing with various members of senior management the key judgments made, supported, where appropriate, with relevant external advice. KPMG Audit plc also reports regularly on all material provisions and contingent liabilities.
- Tax provisions Accounting for current and deferred tax involves a range of judgments. The Committee and the main Board address these issues through reporting from the Chief Financial Officer and the Director of Group Tax, supported as necessary with external professional advice, including from KPMG Audit plc.

The Committee reviewed the content of the Annual Report and Accounts and advised the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

Audit Committee and the external auditor

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

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

- Certain non-audit services may not be provided by the external auditor, 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 auditor 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 auditor's fees for non-audit work relative to the audit fee was 13% (2012: 14%).

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 auditor including a re-tender presentation or whether to put the Group's audit work out to full third-party tender.

The external auditor has processes in place to safeguard their independence and has written to the Committee confirming that, in their opinion, they are independent. The Group last changed its auditor in late 2001 and undertook a formal review of the external auditor, which included a re-tender presentation, during 2007. The external auditor rotated the partner responsible for the Group's audit work in 2008 and 2013. Having reviewed the effectiveness of the audit process and all aspects of the service provided by the auditor, and taking account of the assurance given by the auditor 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 2013 and will further review the situation during 2014.

REPORT OF THE NOMINATION COMMITTEE

THE MAIN ROLE OF THE NOMINATION COMMITTEE IS TO LEAD THE PROCESS FOR BOARD APPOINTMENTS AND TO MAKE RECOMMENDATIONS TO THE BOARD ON THE APPOINTMENT OF NEW DIRECTORS.

ANDREW SHILSTON
COMMITTEE CHAIRMAN

COMMITTEE MEMBERS

Andrew Shilston (Chairman)
Martin Flower
Andrew Given
Simon Heale
Victoire de Margerie
Andrew Reynolds Smith*
Mark Robertshaw

* Joined the Committee on his appointment as a Director on 10 May 2013.

A majority of members of the Committee are independent non-executive Directors.

Chairman's introduction

Having the right balance of skills and experience on the Board is fundamental to the long-term success of the Company. Refreshing the Board has been the Committee's key area of focus during the year, leading to the recruitment of three non-executive Directors. Appointments are made on merit and against objective criteria, having due regard for diversity, including gender.

There is a formal, rigorous and transparent procedure for appointments to the Board which is described in more detail below.

Andrew Shilston
Committee Chairman

Meetings

The Committee met three times during 2013.

Information and support

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.

Nomination Committee terms of reference

The Committee's terms of reference were reviewed during the year and updated to reflect the changes introduced by the September 2012 version of the Code. The terms of reference are available to view on the Group's website.

Main areas of work during 2013

The Nomination Committee reviews the balance of skills, knowledge and experience on the Board, succession planning and the leadership needs of the Group. The work of the Committee in discharging those responsibilities in respect of 2013 included:

- Led the search for new non-executive Directors, resulting in the selection and recommended appointment of Andrew Reynolds Smith in May 2013 and Rob Rowley and Douglas Caster in February 2014.
- Reviewed the composition of the Board and its Committees and succession planning.
- Conducted a rigorous review of the continued appointment of Andrew Given, non-executive Director, who, by the time of the 2014 AGM, will have served for six years since first election by shareholders.
- Considered the reappointment of the non-executive Directors at the conclusion of their specified time in office and Directors' annual re-election at the 2014 AGM.
- Reviewed, for recommendation to the Board, a policy on diversity.

REPORT OF THE NOMINATION COMMITTEE
continued

Appointments to the Board

The Board discussed the Group's approach to talent management and succession planning at senior levels within the business during December 2013. Succession planning for appointments to the Board and for senior management will be an area of focus for the Committee in 2014.

The process for appointing Andrew Reynolds Smith, Douglas Caster and Rob Rowley is described below:

→ Following consideration of a number of leading firms, the Committee appointed Egon Zehnder as external search agent. In line with the Code, the Committee established that Egon Zehnder has no other connection with the Company.
→ In the light of its discussions on the balance of skills, knowledge, experience and diversity on the Board, the Committee considered and formulated a candidate specification for the roles.
→ The external search agent produced 'long lists' of candidates for the roles.
→ Interviews were held with the short-listed candidates and all members of the Nomination Committee participated in interviews with the preferred candidates.
→ The Committee selected its preferred candidates and recommended their appointment to the Board.

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.

Board Diversity Policy

The Board firmly believes in the value of diversity of perspective, including background, nationality, experience, and gender, at all levels of the Company as well as on the Board. As is not unusual in engineering or manufacturing businesses, diversity in gender is the hardest to achieve.

It is very gratifying, however, to see that at the graduate recruitment level the Group is now having great success in attracting good candidates of both sexes and many nationalities. 42% of the 2013 graduate intake were female. At the senior level, 5% of senior managers and one of the Board Directors are female.

New appointments to the Board are made on merit, with a focus on international and industrial experience, but diversity of perspective and the mix of skills around the Board table are also taken into account when selecting potential candidates. During the selection process for new non-executive Directors, the Committee has, and will, continue to use a search agent who has signed up to the voluntary code of conduct which ensures that diversity is considered when developing a candidate pool. The brief to the search agent is to put forward a 'long list' of candidates from a wide range of backgrounds to ensure that the best candidate is selected.

When monitoring the development of leadership and considering the succession planning for executive management, the Board will take into account the need for talented leaders who will have the skills needed to lead a global company with a growing presence in the emerging economic giants of the future.

The Board will continue to monitor whether it is taking diversity into account when planning executive succession and appointing new Board members and the Board effectiveness evaluation process addresses diversity.

The Board has discussed whether a quota for female Directors should be introduced by a certain date, but feels this is unrealistic given the current gender composition of senior executives and the competition for female non-executive Directors.

REMUNERATION REPORT

A statement to shareholders from the Chairman of the Remuneration Committee

I am pleased to present the Directors' report on remuneration for the year ended 31 December 2013.

This is my last Report to shareholders, as I will be retiring from the Board during 2014. I have very much enjoyed my involvement with the Group and seeing significant improvements in performance over the years. I have been keen to ensure that the remuneration strategy has been appropriate and relevant throughout the range of market conditions the Group has faced. Shareholder interests have always been foremost in our thinking, and they will certainly remain so for my successor.

As noted earlier in this Report, the Group's markets in 2013 remained challenging. Whilst percentage profit margins were increased, there was insufficient improvement in the reported level of profits for any incentive awards to vest.

No bonus is payable for the CEO, CFO and COO in respect of 2013 performance. This also means they will not be able to participate in the 2014 Bonus Deferral Share Matching Plan (BDSMP).

For the 2011 award of the BDSMP, vesting was based on the compound annual growth rate (CAGR) in EPS from the 2010 base year over the three years to the end of the 2013 financial year. Whilst profits and EPS did increase over that time, the CAGR of just under 6% was below the 8% start point for any matching shares to vest. In demanding trading conditions, the significant stretch required for a threshold payout for the 2011 BDSMP was not achieved.

Long-Term Incentive Plan (LTIP) awards granted in 2011 were also part-dependent on EPS performance. This element therefore also did not vest for the LTIP, and neither did the other two measures used for this award (TSR and ROCE).

The Committee is still of the view that incentive payments must reflect the achievement of stretching performance targets that are aligned with shareholder interests. At the same time, the effective pursuit of strategic objectives must be continued in challenging, less predictable market environments. To emphasise this, strategic personal objectives will be added to executive Directors' bonus plans for 2014 (weighted 20%). The Committee continues to take the approach that a significant part of the executive Directors' packages should be linked to the long-term success of the Group.

For the 2014 share incentive award targets, we again reviewed EPS targets against internal and external reference points, and have once more set what we consider a challenging range – particularly against the uncertain market outlook. On this basis, the existing 8%-15% pa range for the LTIP and the 8%-20% pa range for the BDSMP represent demanding targets over the next three years and remain appropriate for the 2014 award cycle.

ROCE targets for the 2014 LTIP awards have again been reviewed, so that they reflect the returns the Board would expect to ensure that the Group's ROCE levels are maintained and enhanced. At the same time, they put a strong emphasis on profit growth via the challenging EPS metrics. The target range for Group ROCE has again been set at 33% to 37%, which the Committee still believes provides a significant degree of demanding performance.

For the 2014 bonus year, the Committee's view is that the likely macroeconomic environment will continue to make effective cash management more important. The Operating Working Capital/Sales % measure applied to the executive Directors' bonus targets in 2013 will remain for another year. This will accompany the main element of the bonus target of operating profit before one-off costs, as well as the new strategic personal objectives, described in the report.

Over the last 12 months, we have engaged with our shareholders, and we value the views and feedback we have received. We have again written to those with the largest shareholdings about our annual incentive arrangements and proposals to renew the employee Sharesave scheme. We also consulted shareholders about the treatment of unvested incentive plans when the two former operating divisions were restructured as part of the 'One Morgan' strategy.

We do discuss and consider feedback, and reflect on how to ensure overall remuneration should both be in the longer term interests of shareholders and meaningful for management. I hope you will again find this balance appropriately reflected in the report that follows.

During the year, the Committee met five times, and its activities included:
- Consideration of whether the Group's overall remuneration structure supports the Group's business strategy.
- A review of external benchmarking of executive remuneration packages.
- Determination of the remuneration packages for the executive Directors and other Group executives.
- A review of whether the measures for the bonus and share incentive schemes remain appropriate.
- Determination of appropriate performance targets for bonus and share incentive schemes.
- Determination of whether targets for the bonus and share incentive schemes were achieved.

The presentation of this report is intended to be consistent with the new reporting regulations for executive remuneration, and I therefore hope we have been successful in achieving even greater clarity and transparency for our shareholders.

Simon Heale
Chairman of the Remuneration Committee

REMUNERATION REPORT
continued

Compliance statement
This Report covers the period 1 January 2013 to 31 December 2013 and provides details of the Remuneration Committee and remuneration policy of Morgan Advanced Materials.

The Company has complied with the principles and provisions relating to Directors' remuneration in the UK Corporate Governance Code, and this Remuneration Report has been prepared in accordance with Schedule 8 of the Large & Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. In accordance with Section 439A of the Companies Act, a binding resolution to approve the 'Directors' Remuneration Policy' will be proposed at the AGM on 9 May 2014. A second, advisory resolution to approve the 'Annual Report on Remuneration' will also be proposed at the AGM.

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 the Group's website.

The Remuneration Committee consults the Chief Executive Officer and invites him to attend meetings when appropriate. The Director of Human Resources attends meetings of the Committee by invitation. The Committee also had access to advice from the Chief Financial Officer. The Company Secretary acts as secretary to the Committee. No executive Director or other attendee is present when his own remuneration is being discussed.

Membership of the Committee is shown on page 67.

1. POLICY REPORT
Key principles of the executive Directors' 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 Group 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 policy for executive Directors (which is set out over the following pages and is intended to apply for a period of three years, subject to shareholder approval at the 2014 AGM) is appropriate and supports the business strategy. The Remuneration Committee will keep remuneration policy under periodic review to ensure it remains aligned with the Group's strategy, and in line with the principles set out in the UK Corporate Governance Code in relation to Directors' remuneration, as well as the guidance of institutional investors and their representative bodies.

Summary of Morgan Advanced Materials' remuneration policy for executive Directors

This section of our report summarises the key components of remuneration for executive Directors.

PURPOSE AND LINK TO STRATEGY	OPERATION	OPPORTUNITY	PERFORMANCE METRICS
Fixed pay			
Base salary Provides the fixed element of the remuneration package. Set at competitive levels against the market.	Base salaries are generally reviewed each January, with reference to the salary levels at companies of similar sector, size and complexity in the FTSE 350. The Committee also considers individual contribution and the range of salary increases applying across the Group when determining increases.	Base salary increases are applied in line with the outcome of the annual review. Salaries in respect of the year under review (and for the following year) are disclosed in the Annual Report on Remuneration. Salary increases for executive Directors will normally be within the range of increases for the general employee population over the period of this policy. Where increases are awarded in excess of those for the wider employee population, for example in instances of sustained strong individual performance, or if there is a material change in the responsibility, size or complexity of the role, the Committee will provide the rationale in the relevant year's Annual Report on Remuneration.	Not applicable.
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. Defined contribution scheme (and/or a cash allowance in lieu thereof) for future external hires.	Opportunities vary depending on the scheme in which an executive participates. Details for the executive Directors are set out in the Annual Report on Remuneration on pages 69 and 70. Above-the-cap pension allowances will be established in line with our principle to be broadly cost-neutral. For future hires, defined contributions (or cash in lieu thereof) will be up to 20% of salary.	Not applicable.
Benefits Designed to be competitive in the market in which the individual is employed.	Can include company car/car allowance, health insurance and, where appropriate, relocation allowances and other expenses.	Benefits values vary by role and are reviewed periodically relative to market. It is not anticipated that the cost of benefits provided will change materially year-on-year over the period for which this policy will apply. The Committee retains the discretion to approve a higher cost in exceptional circumstances (eg relocation expenses, expatriation allowances, etc) or in circumstances where factors outside the Group's control have changed materially (eg market increases in insurance costs). Benefits in respect of the year under review are disclosed in the Annual Report on Remuneration.	Not applicable.

REMUNERATION REPORT
continued

PURPOSE AND LINK TO STRATEGY	OPERATION	OPPORTUNITY	PERFORMANCE METRICS
Variable pay			
Annual bonus Incentivises the achievement of specific goals over the short-term that are also aligned to the long-term business strategy.	Performance measures are set by the Committee at the start of the year and are weighted to reflect a balance of financial and strategic objectives. At the end of the year, the Remuneration Committee determines the extent to which these have been achieved.	Between 0% and 100% of salary, depending on performance. The payout for threshold performance may vary year-on-year, but will not exceed 25% of the maximum opportunity.	Bonuses for the CEO, CFO and COO may be based own a combination of financial and non-financial measures. The weighting of non-financial performance will be capped at 20% of the maximum opportunity. Further details are set out in the Annual Report on Remuneration on page 68.
Bonus Deferral Share Matching Plan (BDSMP) Designed to encourage long-term profitable 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.	Participants can elect to voluntarily defer a proportion of their annual bonus into shares for three years and receive a matching opportunity based on performance. Award levels and performance conditions on which vesting depends, are reviewed prior to the start of each cycle to ensure they remain appropriate. Dividend shares may accrue on the invested and matching shares during the performance period and are released to participants at the end of the vesting period depending on the level of performance.	Up to 75% of the annual bonus may be voluntarily deferred into shares for three years. Whilst the plan maximum is 75%, the policy is to make awards/allow deferral of 50%, unless exceptional circumstances apply. A matching award of up to three shares for each deferred share may be earned based on Group performance. At threshold levels of performance, no matching shares vest.	The vesting of awards is usually subject to: → continued employment → the Group's performance (currently EPS growth) against stretching targets over a three-year performance period. The Committee has discretion to adjust the measures, their weighting, and performance targets prior to the start of each cycle to ensure they continue to align with the Group's strategy. Further details of the measures attached to the BDSMP in the year under review (and the coming year) are set out in the Annual Report on Remuneration on pages 71 and 72.
Long Term Incentive Plan (LTIP) Aligns the interests of executives and shareholders by delivering shares to executive Directors and other senior executives as a reward for outstanding long-term performance.	The Remuneration Committee has the ability each year to grant an award under the LTIP. The award levels and performance conditions on which vesting depends are reviewed prior to the start of each award cycle to ensure they remain appropriate.	The LTIP provides for a conditional award of shares up to an annual limit of 200% of salary. 30% of an award vests for achievement of the threshold level of performance.	The vesting of awards is usually subject to: → continued employment → the Group's performance over a three-year performance period, currently a combination of Total Shareholder Return (TSR), Earnings Per Share (EPS), and Return on Capital Employed (ROCE). The Committee has discretion to adjust the measures, their weighting, and performance targets prior to the start of each cycle to ensure they continue to align with the Group's strategy. Further details of the measures attached to the LTIP awarded in the year under review (and the coming year) are set out in the Annual Report on Remuneration on pages 71 and 73.
Sharesave A voluntary scheme open to all UK employees which aligns the interests of participants with shareholders through any growth in the value of shares.	An HMRC approved scheme where employees may save up to a monthly savings limit out of their own pay towards options granted at up to a 20% discount. Options may not be exercised for three years.	Up to the savings limit as determined by HMRC from time to time, across all Sharesave schemes in which an individual has enrolled.	None.

Payments under existing awards

The Company will honour any commitment entered into, and Directors will be eligible to receive payment from any award granted, prior to the approval and implementation of the remuneration policy detailed in this report (ie before 9 May 2014), even if these commitments and/or awards fall outside the above policy. The Company will also honour any commitment entered into at a time prior to an individual becoming a Director if, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company. Details of these awards are, and will be, disclosed in the Annual Report on Remuneration.

Difference in policy between executive Directors and other employees

The remuneration policy for other employees is based on broadly consistent principles as those described in this Report for the executive Directors. Annual salary reviews across the Group take into account business performance, local pay and market conditions, and salary levels for similar roles in comparable companies. All executives are eligible to participate in an annual bonus scheme. Opportunities and performance measures vary by organisational level, geographical region and an individual's role. Other members of the Group Executive Committee participate in the BDSMP and LTIP on similar terms to the executive Directors, although award sizes may vary according to each individual, and by organisational level. Below this level, executives are eligible to participate in the LTIP and other share-based incentives, by annual invitation.

Use of discretion

To ensure fairness and align executive Director remuneration with underlying individual and Group performance, the Committee may exercise its discretion to adjust, upwards or downwards, the outcome of any short- or long-term incentive plan payment (within the limits of the relevant Plan Rules) for corporate or exceptional events including, but not limited to: corporate transactions, changes in the Group's accounting policies, minor or administrative matters, internal promotions, external recruitment, terminations, etc. Any adjustments in light of corporate events will be made on a neutral basis, ie to not be to the benefit or detriment of participants.

Any use of discretion by the Committee during the financial year will be detailed in the relevant Annual Report on Remuneration.

Performance measure selection

The Committee considers carefully the selection of performance measures at the start of each performance cycle, taking into consideration the macro-economic environment as well as specific Group strategic objectives.

For the 2014 annual bonus, the Committee has decided to introduce a strategic personal objectives element for executive Directors and Group Executives. This is to ensure the continued focus on strategic priorities during the bonus year that are crucial for the Group's overall strategy. The 2014 objectives are described in the Implementation section of this Report on page 72. These will constitute a maximum of 20% of the total bonus target, alongside 60% for the EBITA target and 20% for the Operating Working Capital/Sales % element.

EBITA is selected to achieve alignment with measures used throughout the Group. Operating Working Capital/Sales % is selected as the most appropriate measure of effective cash management, involving four quarterly calculations, where working capital management in every month matters in the calculation, incentivising year-round performance.

LTIP performance measures are reviewed periodically to ensure they continue to align with the Company's strategy, as well as provide an appropriate balance between growth and returns, internal and external performance, and absolute and relative performance.

The TSR comparator group comprises the circa 110 constituents of the FTSE All-Share Industrials Index. This benchmark is robust to M&A activity and comprises companies that are subject to the same market influences as Morgan Advanced Materials. The vesting performance range is calibrated to be stretching and in line with common market practice for FTSE TSR-based long-term incentives.

EPS targets have been set taking account of multiple relevant reference points, including internal forecasts, external expectations for future EPS performance at both Morgan Advanced Materials and its closest sector peers, and typical EPS performance ranges at other FTSE 350 companies. LTIP EPS performance ranges are set to represent demanding and challenging performance targets over the three-year performance period.

ROCE targets have been set using a similar approach referring to external reference points and reflecting the returns required to meet and exceed the Group's internal strategic plan.

For the BDSMP, the EPS performance range is set at very demanding levels of stretch for full vesting in recognition of the maximum matching opportunity awarded on an executive Director's own investment in the Plan.

REMUNERATION REPORT
continued

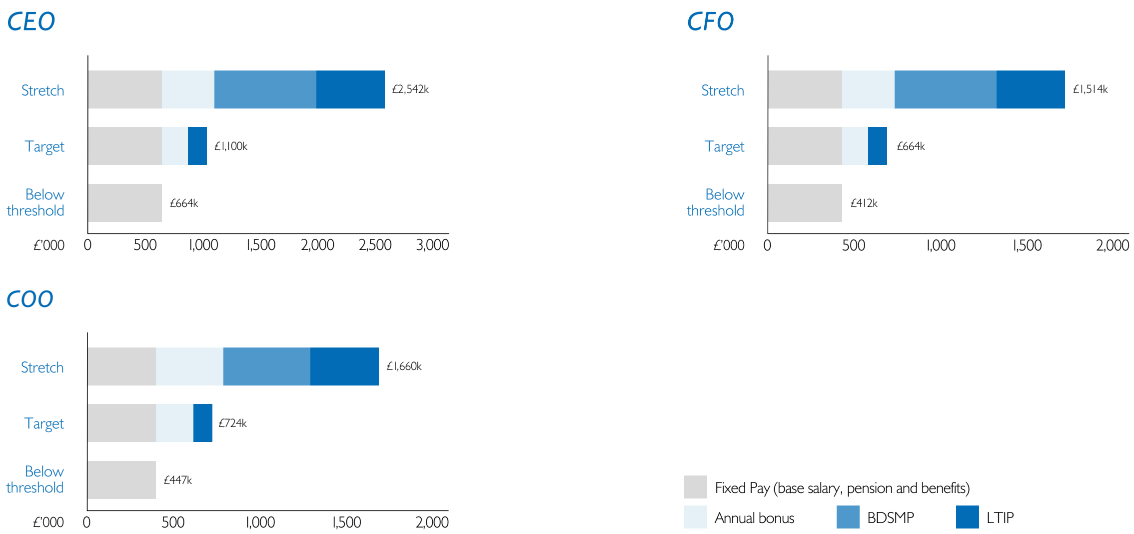
Share ownership guidelines
In order to encourage alignment with shareholders, individual shareholding guidelines are operated for executive Directors. Under such guidelines, executive Directors are encouraged to build and maintain over time a shareholding in the Company equivalent to at least 100% of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

From 2013 the shareholding guideline for the Chief Executive Officer was increased to at least 150% of basic salary, as reported last year.

Current executive Director shareholdings are set out in the Annual Report on Remuneration on page 75.

External appointments
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. Details of external directorships held by executive Directors along with fees retained are provided on page 72.

Pay-for-performance: scenario analysis
The graphs below provide detailed illustrations of the potential future reward opportunity for executive Directors, and the potential mix between the different elements of remuneration under three different performance scenarios; 'Below Threshold', 'Target' and 'Stretch'.



Potential reward opportunities illustrated above are based on the policy which will apply in the forthcoming financial year, applied to the base salary in force at 1 January 2014. For the annual bonus, the amounts illustrated are those potentially receivable in respect of performance for 2014. For the BDSMP, the award opportunities assume full voluntary investment in Morgan Advanced Materials shares. It should be noted that any awards granted under the BDSMP and LTIP in a year do not normally vest until the third anniversary of the date of grant. This illustration is intended to provide further information to shareholders on the relationship between executive pay and performance. The values of the BDSMP and LTIP assume no increase in the underlying value of the shares, and actual pay delivered will further be influenced by changes in factors such as the Company's share price and the value of dividends paid. Further, the BDSMP requires an investment from an individual's annual bonus payment. In years where the bonus is zero, no BDSMP opportunity will be available for the subsequent three-year period. The following assumptions have been made in compiling the above charts:

Scenario	Annual bonus	BDSMP	LTIP	Fixed pay
Stretch	Maximum annual bonus.	Performance warrants full vesting (3x match*).	Performance warrants full vesting (100% of the award).	
Target	On-target annual bonus.	Performance warrants threshold vesting (0%).	Performance warrants threshold vesting (30%).	Latest disclosed base salary, pension and benefits.
Below threshold	No annual bonus payable.	Threshold not achieved (0%).	Threshold not achieved (0%).	

* Normally up to 50% bonus deferral.

Details of executive Directors' service contracts

The executive Directors are employed under contracts of employment with Morgan Advanced Materials plc. Contracts may be terminated on 12 months' notice given by the Company or on six months' notice given by the executive Director concerned. Contracts end on each executive 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	Position	Date of appointment	Date of service agreement	Notice period: From employer	Notice period: From employee
Mark Robertshaw	CEO	4 August 2006	15 August 2008	12 months	6 months
Kevin Dangerfield	CFO	4 August 2006	15 August 2008	12 months	6 months
Andrew Hosty	COO	28 July 2010	17 August 2010	12 months	6 months

Exit payments policy

The Group's policy is to limit severance payments on termination to pre-established contractual arrangements comprising base salary and benefits only. In the event that the employment of an executive Director is terminated, any compensation payable will be determined in accordance with the terms of the service contract between the Company and the employee, as well as the rules of any incentive plans.

The Group may terminate the employment of executive Directors by making a payment in lieu of notice equal to base salary, together with the fair value of any other benefits to which the executive is contractually entitled under his service agreement, for the duration of the notice period.

The Remuneration Committee will exercise discretion in making appropriate payments in the context of settling legal claims or potential legal claims by the departing executive Director, including any other amounts reasonably due to the executive Director, for example to meet the legal fees incurred by the executive Director in connection with the termination of employment, where the Company wishes to enter into a settlement agreement and the individual must seek independent legal advice.

On termination of an executive Director's service contract, the Remuneration Committee will consider the departing Director's duty to mitigate his loss when determining the timing of when any payment in lieu of notice will be made. There is no automatic entitlement to bonus or the vesting of long-term incentives on termination. However, the table below summarises the policy on how awards under the annual bonus and LTIP will normally be treated in specific circumstances, with the final treatment remaining subject to Committee discretion:

Treatment of awards on cessation of employment and a change of control

Reason for cessation	Calculation of vesting/payment	Time of vesting
Annual bonus		
All reasons	The Committee may determine that a bonus is payable on cessation of employment. The amount of bonus payable will be determined in the context of the time served during the performance year, the performance of the Group and of the individual over the relevant period, and the circumstances of the Director's loss of office. If Group or individual performance has been poor, or if the individual's employment has been terminated in circumstances amounting to misconduct, no bonus will be payable.	
LTIP awards & BDSMP matching awards		
Injury, disability, death, redundancy, retirement, or other such event as the Committee determines	Awards will normally be pro-rated for time and will vest based on performance over the original performance period (unless the Committee decides to measure performance to the date of cessation).	At the normal vesting date, unless the Committee decides that awards should vest earlier (eg in the event of death).
Change of control	LTIP awards made after 10 May 2013: will be pro-rated for time and will vest subject to performance over the performance period to the change of control. LTIP awards made before 10 May 2013: the Committee has discretion on the extent to which awards vest, but will normally pro-rate awards for time and performance. LTIP awards may alternatively be exchanged for equivalent replacement awards, where appropriate. BDSMP matching awards will normally vest subject to performance over the performance period to the change of control and will be pro-rated for time.	On change of control.
All other reasons	Awards normally lapse.	n/a

The Remuneration Committee retains discretion, where permitted by the scheme rules, to alter these default provisions on a case-by-case basis, following a review of circumstances and to ensure fairness for both shareholders and participants.

REMUNERATION REPORT
continued

Approach to recruitment remuneration

External appointment

In cases of hiring or appointing a new executive Director from outside the Group, the Committee may make use of all existing components of remuneration, as follows:

Pay element	Policy on recruitment	Maximum
Salary	Based on the size and nature of the responsibilities of the proposed role; current market pay levels for comparable roles; the candidate's experience; implications for total remuneration; internal relativities; and the candidate's current salary.	–
Pension	Option to join the Defined Contribution Scheme, and/or to receive a cash allowance.	–
Benefits	As described in the policy table and may include, but not limited to, car, medical insurance, and relocation expenses and/or allowances.	–
Sharesave	New appointees will be eligible to participate on identical terms to all other UK employees.	In line with HMRC limits.
Annual bonus	As described in the policy table and typically pro-rated for proportion of year served; performance measures may include strategic and operational objectives tailored to the individual in the financial year of joining.	100% of salary.
BDSMP	As described in the policy table.	225% of salary*.
LTIP	New appointees may be granted awards under the LTIP on similar terms to other executives.	200% of salary.
Other	The Remuneration Committee may make an award under a different structure under the relevant Listing Rule to replace incentive arrangements forfeited on leaving a previous employer. Any such award would have a fair value no higher than that of the awards forfeited, taking into account relevant factors including performance conditions, the likelihood of those conditions being met and the proportion of the vesting period remaining. Details of any such award will be disclosed in the first Annual Report on Remuneration following its grant.	–

* Assumes maximum bonus awarded and maximum deferral of 75% of bonus into shares, with a maximum match of 3x deferred shares.

Internal promotion to the Board

In cases of appointing a new executive Director by way of internal promotion, the policy will be consistent with that for external appointees detailed above. Where an individual has contractual commitments made prior to their promotion to executive Director, the Company will continue to honour these arrangements even if there are instances where they would not otherwise be consistent with the prevailing executive Director remuneration policy at the time of promotion.

Chairman and non-executive Directors remuneration policy

Purpose and link to strategy	Operation	Opportunity	Performance metrics
Annual fee To attract and retain high-calibre non-executive Directors	Annual fees paid to the Chairman and non-executive Directors are reviewed periodically. An additional fee is payable for the Senior Independent Director, and also in respect of Committee chairmanship. Currently paid 100% in cash.	Annual fees are applied in line with the outcome of the review.	None.

The Chairman and non-executive Directors are also entitled to reimbursement of expenses incurred in attending Board, strategy and other meetings. Details of Chairman and non-executive Director annual fees are provided on page 73.

None of the non-executive Directors has a service contract with the Company, although they do have letters of appointment. The non-executive Directors do not participate in any of the incentive, share or share option plans. The dates of the Chairman's and non-executive Directors' appointments who served during the reporting period are as follows:

Non-executive Director	Position	Date of appointment	Date of letter of appointment	Date of re-election
Andrew Shilston	Chairman	8 May 2012	30 March 2012	10 May 2013
Martin Flower	Non-executive Director	10 December 2004	16 November 2004	10 May 2013
Andrew Given	Non-executive Director	7 December 2007	20 November 2007	10 May 2013
Simon Heale	Non-executive Director	18 February 2005	1 February 2005	10 May 2013
Victoire de Margerie	Non-executive Director	8 May 2012	1 March 2012	10 May 2013
Andrew Reynolds Smith*	Non-executive Director	10 May 2013	14 February 2013	–

* Appointed as non-executive Director on 10 May 2013.

Consideration of employment conditions

The Group seeks to promote and maintain good relations with employee representative bodies – including trade unions and works councils – as part of its broader employee engagement strategy, and consults on matters affecting employees and business performance as required in each case by law and regulation in the jurisdictions in which the Group operates. In making remuneration decisions, the Remuneration Committee also considers the pay and employment conditions elsewhere in the Group, but the Committee does not currently consult with employees specifically on executive remuneration policy and framework. Prior to the annual salary review, the Remuneration Committee is briefed by the Director of Human Resources about pay increase data that individual business units will consider when deciding local pay awards for their specific businesses and countries. This also forms part of the considerations for determining executive Director remuneration.

Consideration of shareholder views

The Committee considers shareholder views received during the year and at the Annual General Meeting each year, as well as guidance from investor representative bodies more broadly, in shaping remuneration policy. The Committee keeps the remuneration policy under regular review, to ensure it continues to reinforce the Group's long-term strategy, and aligns executive Directors with shareholders' interests. It is the Remuneration Committee's policy to consult with major shareholders prior to any major changes to its executive remuneration policy.

2. ANNUAL REPORT ON REMUNERATION

The following section provides details of how the remuneration policy was implemented during the year.

Remuneration Committee membership in 2013

The Remuneration Committee is composed of five non-executive Directors. Each of the non-executive Directors is regarded by the Board as independent, except the Chairman of the company who was considered independent upon appointment. Andrew Reynolds Smith joined the Committee on his appointment to the Board on 10 May 2013. The Remuneration Committee met five times during the year. Attendance at meetings by individual members is detailed in the Corporate Governance Report on page 49.

Committee members:
Simon Heale (Chairman)
Andrew Shilston
Martin Flower
Andrew Given
Victoire de Margerie
Andrew Reynolds Smith*

* From 10 May 2013.

Summary of shareholder voting at the 2013 AGM

The following table shows the results of the advisory vote on the 2012 Remuneration Report at the 2013 AGM.

For	Against	Withheld
99.28%	0.72%	3,563,249*

* Votes 'withheld' are not votes in law and, therefore, have not been included in the calculation of the proportion of votes 'for' or 'against' the resolution.

REMUNERATION REPORT
continued

Single total figure of remuneration for executive Directors
The auditors are required to report on the information in this table.

The table below sets out a single figure for the total remuneration received by each executive Director for the year ended 31 December 2013 and the prior year.

	CEO		CFO		COO	
	2013	2012	**2013**	2012	**2013**	2012
1. Salary	**£492,500**	£480,000	**£297,500**	£285,000	**£335,567**	£312,500
2. Benefits	**£14,080**	£14,000	**£13,225**	£14,000	**£12,925**	£12,000
3. Bonus	**–**	–	**–**	–	**–**	£42,500
4. BDSMP	**–**	£346,034	**–**	–	**–**	–
5. LTIP	**–**	£303,021	**–**	£175,613	**–**	£165,282
6. Pension	**£142,352**	£142,501	**£83,703**	£85,106	**£86,896**	£86,943
7. Other	**–**	–	**–**	–	**–**	£360
Total	**£648,932**	**£1,285,556**	**£394,428**	**£559,719**	**£435,388**	**£619,585**

The figures have been calculated as follows:
1. Base salary: amount earned for the year.
2. Benefits: the taxable value of benefits received in the year. Includes private medical insurance and a company car (or car allowance).
3. Annual bonus: the total bonus earned on performance during the year. Includes the value of any bonus deferred into shares for three years under the BDSMP. Deferred bonus shares are not forfeitable and are not subject to any further performance measures.
4. BDSMP: the estimated value on 31 December 2013 of 2011 BDSMP matching shares (and dividend equivalents) vesting in 2014 subject to performance over the three-year period ended 31 December 2013. The 2012 value represents the actual value (including dividend equivalents) of 2010 BDSMP matching shares at vesting (on 18 March 2013).
5. LTIP: the estimated value on 31 December 2013 of 2011 LTIP shares vesting in 2014 subject to performance over the three-year period ended 31 December 2013. The 2012 value represents the actual value of 2010 LTIP shares at vesting (on 13 May 2013).
6. Pension: 20x the increase in the value of their accrued benefit (net of inflation) over the year, less Directors' contributions, plus the value of any Company contribution.
7. Other: comprises the value of Sharesave options granted in the year, based on the embedded value at grant (20% discount to the grant-date share price multiplied by the number of options granted). Full details of executive Director Sharesave options are available on page 76 to 78 of the Annual Report on Remuneration.

Incentive outcomes for the year ended 31 December 2013
Annual Bonus in respect of 2013 performance
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.

For 2013, the bonus targets for the CEO, CFO and COO were split between Group EBITA before restructuring (weighted 80%) and Third-Party Operating Working Capital to Sales % (weighted 20%). The targets were set to incentivise the executive Directors to deliver stretching profit and cash performance for the Group.

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 Group.

The table below sets out the total bonus entitlement for each Director for 2013. The specific bonus targets for 2013 are shown below the table:

		Group EBITA			Operating Working Capital/Sales %			
Director	Max bonus (% salary)	% max. bonus	EBITA targets met	% salary earned	% max. bonus	Quarterly target thresholds achieved	% salary earned	Total payable
Mark Robertshaw	100%	80%	0%	0%	20%	0%	0%	£0
Kevin Dangerfield	100%	80%	0%	0%	20%	0%	0%	£0
Andrew Hosty	100%	80%	0%	0%	20%	0%	0%	£0

The target for a maximum payout against the Group profit (EBITA before restructuring) element was £126.1 million, with the threshold for a payment of 25% of that profit element set at £119.1 million, both calculated using 2013 budgeted exchange rates. For the Operating Working Capital/Sales % element, the four quarterly targets were 22.0%, 21.1%, 21.3% and 20.6% respectively, with each quarter being measured independently.

2011 BDSMP award vesting

The performance period for the 2011 BDSMP awards ended on 31 December 2013. Over the period Morgan Advanced Materials' actual EPS growth rate for BDSMP purposes was 6% pa. This is below the threshold performance target and, accordingly, matching shares and matching dividend shares will lapse.

Director	Investment shares	Maximum potential matching shares	Matching dividend shares	Match earned	Matching shares released	Matching dividend shares released	Matching shares lapsed	Matching dividend shares lapsed	Date of vesting
Mark Robertshaw	74,875*	224,625	22,195	0x	0	0	224,625	22,195	23 March 2014
Kevin Dangerfield	22,046*	66,138	6,533	0x	0	0	66,138	6,533	23 March 2014
Andrew Hosty	39,933*	119,799	11,835	0x	0	0	119,799	11,835	23 March 2014

* Calculated using the award price of £3.005 (the market value of one Morgan Advanced Materials Ordinary share on 22 March 2011, the dealing day immediately preceding the grant date). Shares in this table are stated on a pre-tax basis. Shares awarded on a pre-tax basis are subject to tax when sold.

2011 LTIP award vesting

Awards granted to the CEO and CFO in 2011 were subject to relative TSR and EPS performance targets. The EPS target (applying to 50% of each award) required three-year EPS growth of 8% pa for 30% of that element to vest, rising to full vesting for EPS growth of 15% pa or higher. The TSR target (applying to the other 50% of each award) required Morgan Advanced Materials' three-year TSR performance to rank at median against constituents of the FTSE All-share Industrials Index for 30% of that element to vest, rising to full vesting if Morgan Advanced Materials' TSR ranked at or above the upper quartile against this Index. The performance period for the 2011 LTIP awards ended on 31 December 2013. Over the period:

- Morgan Advanced Material's EPS growth for LTIP purposes was 6% pa, which is below the threshold performance target and accordingly none of the award vested under this criterion.
- Morgan Advanced Material's TSR was 39%, which was below median versus the FTSE All-share Industrials Index. Accordingly, none of the award vested under this criterion.

This combined performance resulted in none of the 2011 LTIP awards vesting.

For the award granted to Andrew Hosty in 2011, as CEO of the former Morgan Ceramics Division, half of the incentive was linked to Group TSR (as for the CEO and CFO) and half was based on a Ceramics Division EBITA/ROCE matrix. This Divisional portion of the 2011 LTIP would only vest if stretching performance was achieved, with no vesting occurring unless EBITA growth in the former Morgan Ceramics Division was at least 12% pa and ROCE was 35.7% in 2013; full vesting would have occurred for EBITA growth of 18% pa and ROCE of 40.7%.

The combined performance resulted in none of 2011 LTIP awards vesting.

Director	Maximum Potential LTIP award	Maximum Potential LTIP-CSOP award	LTIP award vested	LTIP-CSOP award vested	LTIP-CSOP award exercised**	Date of vesting
Mark Robertshaw	171,068*	–	0	–	–	23 March 2014
Kevin Dangerfield	84,185*	6,481*	0	0	–	23 March 2014
Andrew Hosty	102,641*	–	0	–	–	23 March 2014

* Calculated using the award price of £2.9228 (the average share price over the five dealing days from 16 March 2011 to 22 March 2011).
** From the vesting date, participants have seven years to exercise LTIP-CSOP awards. For CSOP awards, see the plan details on page 79.

Pensions

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 switched 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, for those with at least 20 years' (26 years and eight months for joiners since 2006) potential service to age 65 on joining.
- Life assurance of four times basic salary.
- Dependants' pension on death.

Pensionable salary is the member's basic salary restricted to an earnings cap of £140,400 for Kevin Dangerfield and Andrew Hosty and £110,437 for Mark Robertshaw for the 2013-14 tax year. It is proposed that these earnings caps will reduce to £117,375 for Kevin Dangerfield, £128,200 for Andrew Hosty and £88,350 for Mark Robertshaw for the 2014-15 tax year in response to the reduction in HMRC's Annual Allowance from £50,000 to £40,000.

REMUNERATION REPORT
continued

The auditors are required to report on the information in this table.

Executive Director	**2013 Value of increase in scheme benefit less Directors' contributions £000**	2012 Value of increase in scheme benefit less Directors' contributions £000	Additional information: **Accrued pension 31 December 2013 £000 pa**	Additional information: Accrued pension 31 December 2012 £000 pa
Mark Robertshaw	**39**	45	**33**	30
Kevin Dangerfield	**41**	44	**42**	38
Andrew Hosty	**36**	39	**55**	51

Note: The accrued benefit entitlement for Mark Robertshaw, Kevin Dangerfield and Andrew Hosty is the pension which would be paid annually on retirement based on service at the end of the year.

The value of the increase in accrued pension in excess of inflation, less each Director's own contributions, is included in the Directors' single figure remuneration table on page 68 of this report.

Mark Robertshaw, Kevin Dangerfield and Andrew Hosty also received a pension allowance derived from the employer contributions based notionally on the registered pension scheme pensionable salary in excess of the earnings cap. For 2013, these pension allowances were calculated as a fixed percentage of basic salary. The percentages were 20.9% for Mark Robertshaw, 14.5% for Kevin Dangerfield and 15.2% for Andrew Hosty. These pension allowances will be reviewed again by the Committee in response to the reduction in HMRC's Annual Allowance for the 2014-15 tax year, and will be detailed in the 2014 Report.

Total pension allowances paid in the year are set out in the Directors' single figure remuneration table on page 68 of this report.

Single total figure of remuneration for non-executive Directors

The auditors are required to report on the information in this table.

The table below sets out a single figure for the total remuneration received by each non-executive Director for the year ended 31 December 2013 and the prior year.

	A Shilston		M Flower		A Given		S Heale		V de Margerie		A Reynolds Smith	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
1. Salary	**175,000**	92,000*	**54,000**	50,000	54,000	50,000	**54,000**	50,000	**46,000**	28,000*	**27,000****	–
2. Benefits	**–**	–	**–**	–	–	–	**–**	–	**–**	–	**–**	–
3. Pension	**–**	–	**–**	–	–	–	**–**	–	**–**	–	**–**	–
4. Bonus	**–**	–	**–**	–	–	–	**–**	–	**–**	–	**–**	–
5. BDSMP	**–**	–	**–**	–	–	–	**–**	–	**–**	–	**–**	–
6. LTIP	**–**	–	**–**	–	–	–	**–**	–	**–**	–	**–**	–
7. Other	**–**	–	**–**	–	–	–	**–**	–	**–**	–	**–**	–
TOTAL	**175,000**	92,000*	**54,000**	50,000	54,000	50,000	**54,000**	54,000	**46,000**	28,000*	**27,000****	–

* Appointed 8 May 2012.
** Appointed 10 May 2013.

Scheme interests awarded in 2013

2013 BDSMP awards granted

In March 2013 the COO deferred 50% of his bonus into shares under the BDSMP, which was equivalent to 6.85% of 2012 salary and was granted a maximum matching award of shares under the BDSMP equivalent to 3x his investment. The three-year performance period over which EPS performance will be measured began on 1 January 2013 and will end on 31 December 2015. This award will normally be eligible to vest on 25 March 2016. The performance conditions attached to awards are set out below.

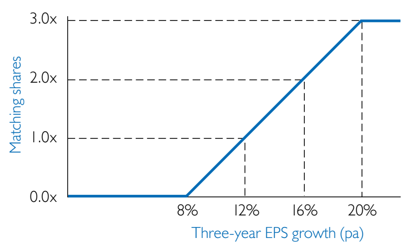
	Investment shares			Matching shares		
	Number	as % of 2012 salary	as % of 2012 bonus		£ face value	Earliest date of vesting
Andrew Hosty	7,474*	6.85%	50%	22,422	£64,217	25 March 2016

* Calculated using the award price of £2.864 (the market value of one Morgan Advanced Materials Ordinary share on 22 March 2013, the dealing day immediately preceding the grant date).

The performance criteria for the BDSMP are set annually; in 2013 they were based on EPS growth targets against the 2012 base year as follows:

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

BDSMP matching shares



No BDSMP award was granted to the CEO or CFO in 2013 as their bonuses (based on Group performance only) were nil.

2013 LTIP awards granted

In May 2013 Mark Robertshaw, Kevin Dangerfield and Andrew Hosty were granted awards of shares under the LTIP equivalent to 100% of 2012 salary respectively. The three-year performance period over which performance will be measured began on 1 January 2013 and will end on 31 December 2015. No award will normally be eligible to vest until 20 May 2016.

Executive Director	Number of LTIP shares granted	Number of LTIP-CSOP shares granted	Value of awards at grant £	as % 2012 salary	Earliest date of vesting
Mark Robertshaw	172,006*	–	480,000	100%	20 May 2016
Kevin Dangerfield	100,147*	1,981*	285,000	100%	20 May 2016
Andrew Hosty	101,233*	10,750*	312,500	100%	20 May 2016

* Calculated using the award price of £2.7906 (the average share price over the five dealing days from 13 May to 17 May 2013).

The Committee discusses and reviews the performance criteria for new three-year LTIP awards before they are granted. For the awards granted in 2013, 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 decided to maintain the equal (one-third) basis of the three performance criteria introduced in 2012, as follows:

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

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Exit payments made in year
The auditors are required to report on this information.

No executive Director left the Company during the year.

Payments to past Directors
The auditors are required to report on this information.

No payments were made to past Directors in the year.

External appointments
Details of external appointments held by executive Directors and the fees retained in 2013 are provided in the table below:

Executive Director	Company	Role	Fees retained
Mark Robertshaw	Segro plc	Non-Executive Director	£53,000
Kevin Dangerfield	e2v Technologies plc	Non-Executive Director	£39,000
Andrew Hosty	Fiberweb plc*	Non-Executive Director	£42,000^
	British Ceramic Research Limited	Non-Executive Director	£8,000

* Resigned as a director on 15 November 2013 following the acquisition of Fiberweb plc by Polymer Group, Inc.
^ Fees retained are for the period from 1 January 2013 to 28 February 2014 (and include a payment in lieu of notice following the acquisition of Fiberweb plc by Polymer Group, Inc.).

Implementation of remuneration policy for 2014
Base salary
In line with remuneration policy and the approach being taken across the organisation, executive Directors' salaries will be increased in 2014. For 2014, executive Directors' increases will be implemented with effect from 1 January. In considering the level of increase, the Committee has been mindful of the range of increases to be awarded across the Group of 3% on average, as well as the positioning of roles against the market. Increases for all employees take into account local business unit commercial and market considerations. The table below shows the salaries in 2013, and those which took effect from 1 January 2014:

		Base salary at:		
Executive Director	Position	1 January 2014	1 March 2013	Increase
Mark Robertshaw	CEO	£507,500	£495,000	2.5%
Kevin Dangerfield	CFO	£315,000	£300,000	5.0%
Andrew Hosty	COO	£346,800	£340,000	2.0%

In agreeing the increase for Kevin Dangerfield, the Committee took into consideration his sustained strong performance, relevant market data, and the range of salary increases awarded to other strong performers in the Group.

Annual bonus
No changes will be made to the total annual bonus opportunity in 2014. For 2014, the financial performance measures for executive Directors' bonuses will be based 60% on EBITA before other one-offs and 20% on third-party working capital to sales. In addition, and new for 2014, the Committee has decided to emphasise the need for continuing focus on strategic objectives during challenging, less predictable market environments. To reflect this, strategic personal objectives will be added to executive Directors' bonus plans for 2014, and will constitute up to 20% of the overall bonus. The three strategic personal objective target areas for the executive Directors will be scored individually, and relate to technology, talent and portfolio reshaping.

The actual performance targets set at the beginning of the performance period are not disclosed as they are considered commercially sensitive at this time given the close link between performance measures and the Group's longer-term strategy. We will disclose these targets at such point that the Committee considers they are no longer commercially sensitive.

BDSMP award
Executive Directors are unable to participate in the BDSMP for 2014 as no bonus was earned during 2013 and, therefore, there is no bonus to defer.

LTIP awards for 2014

In February 2014 Mark Robertshaw, Kevin Dangerfield and Andrew Hosty were granted awards of shares under the 2014 LTIP, as set out below. The three-year performance period over which performance will be measured began on 1 January 2014 and will end on 31 December 2016. The measures, their weightings and performance targets will remain unchanged from those attached to the 2013 LTIP awards (see table on page 71) except for the ROCE element, which will be calculated using the 2016 results alone, as opposed to an average of the three years in the performance period. Awards will normally be eligible to vest on 28 February 2017.

	Value of awards at grant		
	£	as % 2013 salary	Earliest date of vesting
Mark Robertshaw	594,000	120%	28 February 2017
Kevin Dangerfield	300,000	100%	28 February 2017
Andrew Hosty	315,000	93%	28 February 2017

Pension

The only changes to pension for 2014 are in response to the reduction in HMRC's Annual Allowance from £50,000 to £40,000. The earnings caps that apply to executive Director pensions will reduce to £117,375 for Kevin Dangerfield, £128,200 for Andrew Hosty and £88,350 for Mark Robertshaw for the 2014-15 tax year. Pension allowances will also be reviewed by the Committee in light of this change to the Annual Allowance, consistent with the principle that the impact of any changes should be broadly cost-neutral.

Chairman and non-executive Director fees

Non-executive Directors' fees were last reviewed in December 2012. At this time to the base fee was increased to £46,000 pa with effect from 1 January 2013. The following fees (which remain unchanged from 2013) will apply in 2014:

Role	Fee pa
Chairman fee	£175,000
Non-executive Director base fee	£46,000
Committee chairman additional fee	£8,000
Senior Independent Director additional fee	£8,000

Percentage change in CEO remuneration

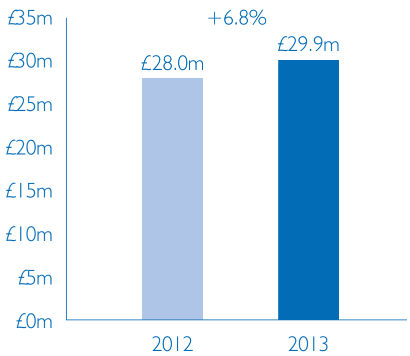
The table below shows the percentage change in CEO remuneration (2013 on 2012) compared to the average percentage change in remuneration for other UK-based Group employees. The UK employee workforce was chosen as a suitable comparator group as the CEO is based in the UK (albeit with a global role and responsibilities) and pay changes across the Group vary widely depending on local market conditions. Although similar remuneration principles apply across the wider Group, pay decisions for this subset are impacted by similar external market forces (eg wage inflation, local practice with respect to the provision of benefits, etc).

	CEO			% change in 2013 (vs 2012) for
Element of remuneration	2013	2012	% change	other employees
Base salary received during the year	£492,500	£480,000	2.6%	2.3%
Taxable benefits (excluding pension)	£14,080	£14,000	0.6%	5.9%
Annual bonus	£nil	£nil	n/a	-74.3%

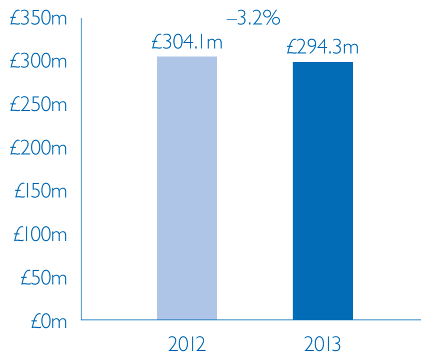
Relative importance of spend on pay

The graphs below show shareholder distributions (ie dividends and share buybacks) and total employee pay expenditure for the financial years ended 31 December 2012 and 31 December 2013, and the percentage change.

SHAREHOLDER DISTRIBUTIONS



TOTAL EMPLOYEE PAY EXPENDITURE



REMUNERATION REPORT
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Advisers

Kepler Associates was appointed by the Committee in 2010 as its executive remuneration adviser and was retained during the most recent financial year. In 2013 Kepler Associates provided independent advice on performance measurement, the setting of incentive targets, TSR analysis, the structure of long-term incentives, and provided market data in respect of senior executive remuneration and non-executive Director fees. Kepler Associates reports directly to the Chairman of the Remuneration Committee and does not provide any other material services to the Group, and is considered to be independent.

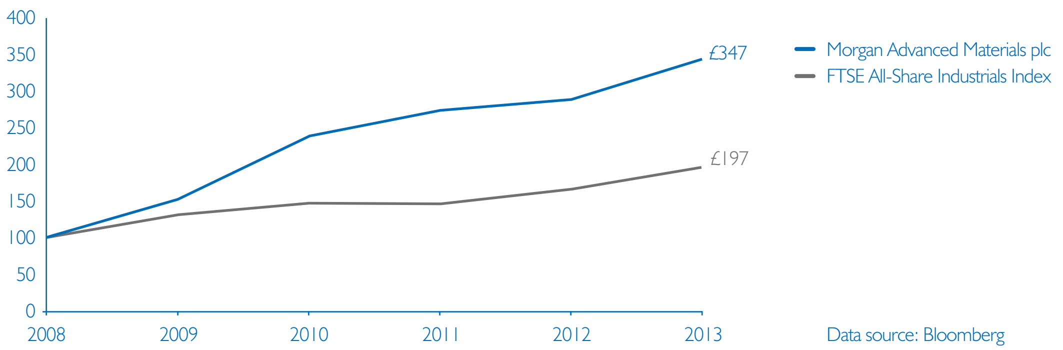
Kepler Associates is a signatory of the Code of Conduct for Remuneration Consultants.

Fees paid during the year to our adviser for advice to the Remuneration Committee, charged on a time and materials basis, were as follows:

Adviser	Nature of advice	Fees (incl. expenses, excl. VAT)
Kepler Associates	Appointed Committee adviser	£40,000

Comparison of Company performance

The graph below shows the value, at 31 December 2013, of £100 invested in Morgan Advanced Materials' shares on 31 December 2008 compared with the current value of the same amount invested in the FTSE All Share Industrials Index. The FTSE All Share Industrials Index is chosen because this is the current comparator group for TSR-based long-term incentives.



The table below details the CEO's 'single figure' of remuneration over the same five-year period.

	2009	2010	2011	2012	2013
CEO single figure (£)	£676,512	£1,045,984	£3,371,302	£1,285,556	£648,932
Annual bonus (% max)	20%	100%	100%	0%	0%
BDSMP vesting (% max)	n/a	0%	60%	100%	0%
LTIP vesting (% max)	n/a	0%	100%	50%	0%

Directors' interests in shares

The auditors are required to report on the information in this table.

Directors' interests (Directors' and their connected persons' beneficial interests) in the Ordinary share capital of the Company are as follows:

£	As at 1 January 2013	As at 31 December 2013	As at 13 February 2014*
Executive Directors			
Mark Robertshaw	623,447**	770,037	770,037
Kevin Dangerfield	221,169	254,366	254,366
Andrew Hosty	122,644	154,488	154,488
Non-executive Directors			
Andrew Shilston	30,000	30,000	30,000
Martin Flower	25,000	25,000	25,000
Andrew Given	10,000	10,000	10,000
Simon Heale	18,000	18,000	18,000
Victoire de Margerie	2,000	2,000	2,000
Andrew Reynolds Smith"	–^	–^	–^

* The date of this report.
** Including shares held as a post-tax deferred award under the BDSMP.
" Appointed to the Board on 10 May 2013.
^ Directors' qualifying shareholding requirement removed when the Company's current Articles of Association were approved by shareholders at the 2013 AGM.

As at 3 March 2014, Mark Robertshaw held 835,707 Ordinary shares and Kevin Dangerfield held 256,286 Ordinary shares.

Executive Directors' shareholding requirements

The table below shows the shareholding of each executive Director against their respective shareholding requirement as at 31 December 2013.

	Shareholding requirement (% 2013 salary)	Shares owned outright	Shares subject to performance[1]	Performance tested but unvested shares[2]	Shares subject to BDSMP deferral[3]	Options vested but unexercised[4]	Current shareholding (% 2013 salary)[5]	Guideline met?
Mark Robertshaw	150%	770,037	517,954	395,693	145,222	200,000	544%	Yes
Kevin Dangerfield	100%	254,366	216,267	156,804	33,392	6,920	288%	Yes
Andrew Hosty	100%	154,488	357,199	222,440	92,395	4,221	190%	Yes

1. 2012 and 2013 LTIP and LTIP-CSOP awards and 2012 and 2013 BDSMP Matching awards.
2. 2011 LTIP and LTIP-CSOP shares and 2011 BDSMP Matching shares for the three-year performance period that ended on 31 December 2013. The 2011 LTIP vests on 23 March 2014 and the 2011 BDSMP vests on 23 March 2014.
3. Estimated net number of shares voluntarily deferred under the BDSMP.
4. Options granted under the Executive Share Option Scheme, 2010 LTIP-CSOP and Sharesave scheme.
5. Based on an executive Director's 2013 salary and the share price at 31 December 2013, comprising shares owned outright and shares subject to deferral (estimated net number of shares voluntarily deferred under the BDSMP).

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Mark Robertshaw

The auditors are required to report on the information in this table.

LTIP

Status	Plan	As at 1 January 2013	Allocations during the year	Released during the year	Lapsed during the year	As at 31 December 2013	Market price at date of allocation	Market price on date of release	Performance period
No further performance conditions, released	2010	214,529	–	107,264	107,265	–	205.10p	281.10p	04.01.10 - 31.12.12
No further performance conditions, not yet released	2011	171,068	–	–	–	171,068	292.28p	–	03.01.11 - 31.12.13
Subject to performance conditions	2012	134,907	–	–	–	134,907	355.80p	–	02.01.12 - 31.12.14
	2013	–	172,006	–	–	172,006	279.06p	–	01.01.13 - 31.12.15

Bonus Deferral Share Matching Plan

Status	Plan	As at 1 January 2013	Allocations during the year	Released during the year	Lapsed during the year	As at 31 December 2013	Market price at date of allocation	Market price on date of release	Performance period
No further performance conditions, released	2010 Investment	20,635	–	20,635	–	–	188.70p	251.22p	04.01.10 - 31.12.12
	2010 Matching	104,928	–	104,928	–	–			
	2010 Dividend	–	10,148	10,148	–	–	Various*		
No further performance conditions, not yet released	2011 Investment	74,875	–	–	–	74,875	300.50p	–	03.01.11 - 31.12.13
	2011 Matching	224,625	–	–	–	224,625			
Subject to performance conditions	2012 Investment	70,347	–	–	–	70,347	330.50p	–	02.01.12 - 31.12.14
	2012 Matching	211,041	–	–	–	211,041			

Share options

Status	Plan	As at 1 January 2013	Allocations during the year	Released during the year	Lapsed during the year	As at 31 December 2013	Market price at date of allocation	Market price on date of release	Performance period
Exercisable	ESOS	200,000	–	–	–	200,000	145.27p	–	01.11.07 - 01.11.14
Subject to continued service only	2010 Sharesave	5,454	–	5,454	–	–	165.00p	293.00p	01.12.13 - 31.05.14

Total interests in share plans

As at 1 January 2013	As at 31 December 2013
1,432,409	1,258,869

* The price used for BDSMP dividend shares is the closing share price of one Morgan Advanced Materials Ordinary share trading on the London Stock Exchange on the dividend payment date.

Kevin Dangerfield

The auditors are required to report on the information in this table.

LTIP

Status	Plan	As at 1 January 2013	Allocations during the year	Released during the year	Lapsed during the year	As at 31 December 2013	Market price at date of allocation	Market price on date of release	Performance period
No further performance conditions, released	2010	118,939	–	59,469	59,470	–	205.10p	281.10p	04.01.10 - 31.12.12
	2010 Funding	5,390	–	–	–	5,390	205.10p	–	04.01.10 - 31.12.12
No further performance conditions, not yet released	2011	84,185	–	–	–	84,185	292.28p	–	03.01.11 - 31.12.13
	2011 Funding	6,481	–	–	–	6,481	292.28p	–	03.01.11 - 31.12.13
Subject to performance conditions	2012	80,101	–	–	–	80,101	355.80p	–	02.01.12 - 31.12.14
	2013	–	100,147	–	–	100,147	279.06p	–	01.01.13 - 31.12.15
	2013 Funding	–	1,981	–	–	1,981	279.06p	–	01.01.13 - 31.12.15

Bonus Deferral Share Matching Plan

Status	Plan	As at 1 January 2013	Allocations during the year	Released during the year	Lapsed during the year	As at 31 December 2013	Market price at date of allocation	Market price on date of release	Performance period
No further performance conditions, not yet released	2011 Investment	22,046	–	–	–	22,046	300.50p	–	03.01.11 - 31.12.13
	2011 Matching	66,138	–	–	–	66,138			
Subject to performance conditions	2012 Investment	11,346	–	–	–	11,346	330.50p	–	02.01.12 - 31.12.14
	2012 Matching	34,038	–	–	–	34,038			

Share options

Status	Plan	As at 1 January 2013	Allocations during the year	Released during the year	Lapsed during the year	As at 31 December 2013	Market price at date of allocation	Market price on date of release	Performance period
Exercisable	2010 LTIP CSOP	5,390	–	–	2,695	2,695	205.10p	–	13.05.13 - 06.05.20
No further performance conditions, not yet released	2011 LTIP CSOP	6,481	–	–	–	6,481	292.28p	–	23.03.14 - 23.03.21
Subject to performance conditions	2013 LTIP CSOP	–	1,981	–	–	1,981	279.06p	–	20.05.16 - 20.05.23
Subject to continued service only	2011 Sharesave	4,225	–	–	–	4,225	213.00p	–	01.12.14 - 31.05.15

Total interests in share plans

As at 1 January 2013	As at 31 December 2013
447,760	427,235^

^ Includes funding awards that are not transferable to Kevin Dangerfield.

REMUNERATION REPORT
continued

Andrew Hosty

The auditors are required to report on the information in this table.

LTIP

Status	Plan	As at 1 January 2013	Allocations during the year	Released during the year	Lapsed during the year	As at 31 December 2013	Market price at date of allocation	Market price on date of release	Performance period
No further performance conditions, released	2010	102,389	–	51,194	51,195	–	205.10p	281.10p	04.01.10 - 31.12.12
	2010 Funding	14,627	–	5,336	9,291	–	205.10p	281.10p	04.01.10 - 31.12.12
No further performance conditions, released	2011	102,641	–	–	–	102,641	292.28p	–	03.01.11 - 31.12.13
Subject to performance conditions	2012	87,830	–	–	–	87,830	355.80p	–	02.01.12 - 31.12.14
	2013	–	101,233	–	–	101,233	279.06p	–	01.01.13 - 31.12.15
	2013 Funding	–	10,750	–	–	10,750	279.06p	–	01.01.13 - 31.12.15

Bonus Deferral Share Matching Plan

Status	Plan	As at 1 January 2013	Allocations during the year	Released during the year	Lapsed during the year	As at 31 December 2013	Market price at date of allocation	Market price on date of release	Performance period
No further performance conditions, not yet released	2011 Investment	39,933	–	–	–	39,933	300.50p	–	03.01.11 - 31.12.13
	2011 Matching	119,799	–	–	–	119,799			
Subject to performance conditions	2012 Investment	44,988	–	–	–	44,988	330.50p	–	02.01.12 - 31.12.14
	2012 Matching	134,964	–	–	–	134,964			
	2013 Investment	–	7,474	–	–	7,474	286.40p	–	01.01.13 - 31.12.15
	2013 Matching	–	22,422	–	–	22,422			

Share options

Status	Plan	As at 1 January 2013	Allocations during the year	Released during the year	Lapsed during the year	As at 31 December 2013	Market price at date of allocation	Market price on date of release	Performance period
Exercisable	2010 LTIP CSOP	14,627	–	7,313	7,314	–	205.10p	281.10p	13.05.13 - 06.05.20
Subject to performance conditions	2013 LTIP CSOP	–	10,750	–	–	10,750	279.06p	–	20.05.16 - 20.05.23
Subject to continued service only	2011 Sharesave	3,380	–	–	–	3,380	213.00p	–	01.12.14 - 31.05.15
	2012 Sharesave	841	–	–	–	841	214.00p	–	01.12.15 - 31.05.16

Total interests in share plans

As at 1 January 2013	As at 31 December 2013
666,019	687,005^

^ Includes funding awards that are not transferable to Andrew Hosty.

Details of plans

LTIP

Plan	Details
2010	For the CFO and COO (who, at the time of the award, was CEO Morgan Ceramics), awards were 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 up to £30,000. For the CEO, the 2010 award was structured as an LTIP award in the form of a conditional award of free shares. The provisions of these CSOP options, funding awards and LTIP awards was linked so that the maximum aggregate number of shares that could 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) was 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. Vested funding awards were not transferable to the participant. Measures and targets are provided in the notes to the single figure table.
2011	Awards granted to the CEO and CFO in 2011 are subject to relative TSR and EPS. The EPS target (applying to 50% of each award) requires three-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 Advanced Materials' 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 Advanced Materials' TSR ranks at or above the upper quartile against the companies in this index. For the COO (who, at the time of the award, was CEO Morgan Ceramics), half of the 2011 incentive is linked to Group TSR (as for the CEO and CFO) and half is based on a Ceramics Division EBITA/ROCE matrix. This 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%. The award for the CFO was structured on the same basis as the 2010 award. The awards for the CEO and COO were structured as an LTIP in the form of a conditional award of free shares.
2012	Awards granted to the CEO and CFO in 2012 are subject to relative TSR, EPS and ROCE. The EPS target (applying to a third of each award) requires three-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 another third of each award) requires Morgan Advanced Materials' 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 Advanced Materials' TSR ranks at or above the upper quartile against the companies in this Index. For the CEO and CFO, the ROCE element has been set for a 33-37% pa range, vesting on a straight line basis, with 30% of the measure vesting at the 33% threshold. ROCE is measured as the average annual ROCE over the three-year performance period. For the COO (who, at the time of the award was CEO Morgan Ceramics), 1/3 of the award was to vest on relative TSR, with the remaining 2/3 to vest on a divisional EBITA/ROCE matrix). For the EBITA/ROCE element, there would have been no vesting unless EBITA growth in Morgan Ceramics was at least 6% pa and ROCE is 41.0% in 2014; full vesting would have occurred for EBITA growth of 15% pa and ROCE of 43.5%. In May 2013, following the announced change in divisional structure, and following consultation with shareholders, it was decided to change these targets for Andrew Hosty to make them relevant to his new role as COO. Prior to the announcement of the reorganisation, just over one year of the three-year 2012 LTIP performance period had elapsed. To reflect the Group-wide remit of his new role as COO, and to help ensure his interests are aligned with those of the CEO, CFO and shareholders, it was agreed that the Ceramics divisional targets attached to his 2012 LTIP be replaced by Group targets aligned with those attached to the 2012 LTIP awards awarded to the CEO and CFO, as detailed above. It was also agreed that for the purpose of alignment across the executive Directors, performance against these revised targets will be assessed over the full, original three year performance period (ie 1 January 2012 to 31 December 2014).
2013	Awards granted to executive Directors in 2013 are subject to relative TSR, EPS and ROCE. The EPS target (applying to a third of each award) requires three-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 another third of each award) requires Morgan Advanced Materials' 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 Advanced Materials' TSR ranks at or above the upper quartile against the companies in this Index. The ROCE element has been set for a 33-37% pa range, vesting on a straight-line basis, with 30% of the measure vesting at the 33% threshold. ROCE is measured as the average annual ROCE over the three-year performance period.

REMUNERATION REPORT
continued

Details of plans continued

Bonus Deferral Matching Plan

Plan	Details
2011 2012 2013	Deferral of bonus on a gross basis. Matching awards granted to executive Directors in 2011, 2012 and 2013 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.

Share options

Plan	Details
ESOS	The performance measure for the Executive Share Option Scheme awards was based on the Company's TSR performance against the FTSE 350. 30% of the awards vested for median-ranked performance with full vesting for upper-quartile-ranked performance. For performance between median and upper quartile, awards vested on a straight-line pro-rata basis.
2011 LTIP – CSOP	See 2011 LTIP above.
2010 Sharesave 2011 Sharesave 2012 Sharesave 2013 Sharesave	HMRC approved all-employee Sharesave scheme. Exercise price set at 20% discount to share price on date of grant. Options vest after three years of continuous service and must be exercised within 6 months' of vesting. Details of options held by directors under Sharesave are outlined in the individual director shareholding tables above.

Other transactions involving Directors are set out in note 27 (Related Parties) to the Financial Statements.

This Report was approved by the Board on 13 February 2014.

Signed on behalf of the Board.

Simon Heale
Chairman of the Remuneration Committee

OTHER DISCLOSURES

The Directors' report is required to be produced by law. The UKLA's Disclosure and Transparency Rules (DTRs) and Listing Rules (LRs) also require us to make certain disclosures.

Pages 46 to 84 inclusive (together with the sections of the Annual Report incorporated by reference) constitute a Directors' report that has been drawn up and presented in accordance with applicable law and the liabilities of the Directors in connection with that report are subject to the limitations and restrictions provided by that law.

The Company

Legal form of the Company

Morgan Advanced Materials plc is a company incorporated in England and Wales with company number 286773.

Name change

The Company changed its name to Morgan Advanced Materials plc (from The Morgan Crucible Company plc) on 27 March 2013.

Annual general meeting

The Company's 2014 AGM will be held on Friday 9 May 2014 at The Lincoln Centre, 18 Lincoln's Inn Fields, London WC2A 3ED. A Circular incorporating the Notice of AGM accompanies this Annual Report.

Amendment of the articles of association

The Company's constitution, known as the Articles of Association (Articles), is essentially a contract between the Company and its shareholders, governing many aspects of the management of the Company. The Articles may be amended by special resolution of the Company's shareholders and are available on the Company's website at www.morganadvancedmaterials.com.

Appointment and replacement of directors

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 submit themselves for election at the first AGM following appointment and all Directors are required to submit themselves for re-election if they have remained a Director without being appointed or elected or re-elected as such at one of the two previous AGMs.

Notwithstanding the provisions of the Articles, all of the Directors will stand for election or re-election on an annual basis in compliance with the provisions of the UK Corporate Governance Code. Details of their career history and the Board Committees on which they serve can be found on pages 46 and 47.

Statutory disclosures

Results and dividends

The total profit for the year ended 31 December 2013 was £44.7 million (2012: £76.1 million). Profit before taxation for the same period was £64.0 million (2012: £76.7 million). Revenue was £957.8 million (2012: £1,007.5 million) and operating profit was £89.6 million (2012: £99.4 million). Basic earnings per share from continuing operations was 14.8 pence (2012: 18.7 pence). Capital and reserves at the end of the year were £274.1 million (2012: £271.6 million). The total profit of £44.7 million will be transferred to equity.

The Directors recommend the payment of a final dividend at the rate of 6.7 pence per share on the Ordinary share capital of the Company, payable on 30 May 2014 to shareholders on the register at the close of business on 16 May 2014. Together with the interim dividend of 3.8 pence per share paid on 29 November 2013, this final dividend, if approved by shareholders, brings the total distribution for the year to 10.5 pence per share (2012: 10.0 pence).

Directors

All those who served as Directors at any time during the year under review are listed on pages 46 to 47.

Powers of the Directors

Subject to the Company's 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.

Directors' interests

Details of Directors' interests (and their connected persons' beneficial interests) in the share capital of the Company are listed on page 75.

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 each Director in respect of certain liabilities which may attach to each of them 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.

Human resources

Details of the Group's Human Resources policies and employee involvement are set out on pages 32 and 33.

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.

Research and development

During the year the Group invested £20.2 million (2012: £19.6 million) in research and development. The Group did not capitalise any development costs in 2013 (2012: £nil).

Details of the Group's research and development during the year are set out on page 16 and in the Review of operations for each Region on page 36 (North America), page 38 (Europe) and page 40 (Asia/Rest of World).

OTHER DISCLOSURES
continued

Greenhouse gas emissions
Under The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 (the 'Regulations') the Group is required to report its annual greenhouse gas emissions in tonnes of carbon dioxide equivalent (CO_2e) in its Directors' report.

Morgan has published information on its emissions due to the combustion of fossil fuels and the electricity purchased by the Company for its own use in its annual EHS report since 2004 and in its Annual Report since 2005. Since 2011 the Group's CO_2e emissions due to energy consumption have been externally assured by PwC (see PwC's 2013 Assurance report on page 31). The Group has also participated in the Carbon Disclosure Project since 2006 and in 2013 was one of 11 FTSE 350 companies to feature in both the Carbon Performance Leadership Index and the Carbon Disclosure Leadership Index.

The Regulations require the Group to disclose its emissions due to the combustion of biomass and due to process and fugitive emissions which are not included in the emissions reported on page 28 in the Corporate Responsibility section of this Annual Report.

	2013 Tonnes CO_2e	2012 Tonnes CO_2e
Emissions from combustion of fuels and operation of facilities#		
Combustion of fossil fuels^	**148,300**	**152,200**
Operation of facilities, including process emissions	**31,600**	**36,300**
Electricity, heat, steam and cooling purchased for own consumption		
Purchased electricity^~	**238,800**	**243,000**
Intensity measurement*		
Tonnes CO_2e due to fossil fuels and purchased electricity per £m revenue^	**404**	**392**
Tonnes GHGs per £m revenue	**437**	**428**

Data is rounded to the nearest 100 tonnes of CO_2e.
\# Excludes emissions from Company-owned and leased vehicles estimated at approx. 2,000 tonnes CO_2e in 2013.
^ The 2013 and 2012 information regarding CO_2e due to energy use has been subject to assurance by PwC. See the Independent Assurance Report on page 31 of this Annual Report and on page 25 of the 2012 Annual Report for further details.
~ Electricity from renewable sources at zero tonnes CO_2 per kWh. Emissions increase by 2,800 tonnes at grid-average rates (2012: 2,900 tonnes).
* Constant currency basis and updated to reflect changes in reporting methodology.

As required under the Regulations, the above report includes the material emission sources from the operations and activities covered by the Group's Financial statements. As noted, the reports exclude emissions from Company-owned and leased vehicles and emissions relating to steam supplied by third parties to two sites in China, which are in total estimated to account for less than 1% of total emissions. The Directors consider that these sources of emissions are not material to the total of the emissions.

The Group uses the Greenhouse Gas Protocol with emission factors for standard grid electricity by country and year from the International Energy Agency together with other factors as published by the UK Department of Environment, Food and Rural Affairs in order to calculate the CO_2e emissions included in this Report.

Donations
During the year, Morgan Advanced Materials companies made charitable donations of £125,370 (2012: £178,060).

No political donations have been made. Morgan Advanced Materials has a policy of not making donations to any political party, representative or candidate in any part of the world.

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 20 on pages 115 to 122. All information detailed in this note is incorporated into the Directors' report by reference and is deemed to form part of the Directors' report.

Share capital and related matters
Share capital
The Company's share capital as at 31 December 2013 is set out in note 18 on pages 111 to 113. The Company's Ordinary shares represent 99.85% of the total issued share capital, with the 5.5% Cumulative First Preference shares representing 0.04% 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 Articles.

Shareholders' rights
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 in note 18 on page 113.

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.

Share allotment and repurchase authorities
The Directors were granted authority at the 2013 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 £23,430,575 and (b) a nominal amount of £46,861,150 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 2014 AGM. At the 2014 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 2014.

The Directors did not seek an authority at the 2013 AGM to repurchase shares in the capital of the Company. As at 31 December 2013, there was no such authority in place. The Directors do not intend to seek an authority to repurchase shares at the 2014 AGM.

Employee share and share option schemes

The Company operates a number of employee share and share option schemes. One hundred and thirty employees hold awards under the Morgan Advanced Materials plc Long-Term Incentive Plan, 26 employees hold awards under the Morgan Advanced Materials Bonus Deferral Share Matching Plan, 13 employees have options under the Company's Executive Share Option Schemes and 677 employees participate in the Company's UK Sharesave scheme. Details of outstanding share awards and share options are given in note 21 on page 129.

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 being pro-rated for time and to the satisfaction of any performance conditions at that time.

The Morgan General Employee Benefit Trust (the Trust) held 305,041 shares on 31 December 2013 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.

Major shareholdings

As at 31 December 2013, the Company had been notified of the following, in accordance with Disclosure and Transparency Rule (DTR) 5, from holders of notifiable interests representing 3% or more of the issued Ordinary share capital of the Company:

	Number of Ordinary shares	%*
Prudential Plc group of companies (M&G)	**39,287,142**	13.970
AXA Investment Managers SA	**23,560,970**	8.630
Schroders plc	**15,119,209**	5.307

* Percentages are shown as a percentage of the Company's issued share capital as at 28 November 2013.

** As at 3 March 2014, Schroders plc held 12,304,156 Ordinary shares, 4.312%; there were no changes to the other substantial shareholdings shown in the above table.

Transactions, contractual arrangements and post-balance sheet events

Significant agreements – change of control

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 15 December 2007 and 30 June 2010, for which the outstanding loan amounts are USD 350 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.

Post-balance sheet events

On 11 February 2014, Morgan Advanced Materials merged its UK-based thermal fired shapes business with Magma Ceramics & Catalysts, a UK-based fired shapes specialist, in return for a 35% minority stake in the enlarged Magma business. There have been no other significant post-balance sheet events.

Reporting, accountability and audit

Statement of Directors' responsibilities

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.

OTHER DISCLOSURES
continued

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 Strategic report, Directors' report, 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.

The Directors as at the date of this report, whose names and functions are set out on pages 46 and 47, confirm that, to the best of their knowledge:

- The Group's Financial statements, which have been prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- The management report (comprising the Directors' report and the Strategic report) includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

Scope of the reporting in this Annual Report

The Board has prepared a Strategic report which provides an overview of the development and performance of the Group's business in the year ended 31 December 2013.

For the purposes of DTR 4.1.5R(2) and DTR 4.1.8, this Directors' report and the Strategic report on pages 8 to 45 comprise the management report, including the sections of the Annual Report and Financial statements incorporated by reference.

External auditor

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 auditor is 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 auditor is aware of that information.

Following their intention to gradually wind down the activity in the registered firm, KPMG Audit Plc have notified the Company that they are not seeking reappointment as auditor. A resolution to appoint KPMG LLP, an intermediate parent of KPMG Audit Plc, will be proposed at the 2014 AGM.

The Strategic report, the Directors' report and the Directors' remuneration report were approved by the Board on 13 February 2014.

For and on behalf of the Board

Paul Boulton
Company Secretary & General Counsel
13 February 2014

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MORGAN ADVANCED MATERIALS PLC ONLY

OPINIONS AND CONCLUSIONS ARISING FROM OUR AUDIT

1. Our opinion on the financial statements is unmodified

We have audited the financial statements of Morgan Advanced Materials plc for the year ended 31 December 2013 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Consolidated Balance Sheet, the Consolidated Statement of Cash Flows, the parent company Balance Sheet and the related notes. 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 31 December 2013 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS's as adopted by the EU);
- the parent company financial statements have been properly prepared in accordance with UK Accounting Standards; and
- 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.

2. Our assessment of risks of material misstatement

In arriving at our audit opinion above on the group financial statements, the risks of material misstatement that had the greatest effect on our group audit were as follows:

→ ***Carrying value of goodwill and other intangible assets***

Refer to page 56 (Audit Committee report), page 106 (accounting policy note) and pages 106 to 108 (financial disclosures)

The risk: The carrying value of goodwill is assessed for impairment at least annually and, together with other intangible assets, whenever there is an indication that the asset may be impaired. The impairment calculations are based on the discounted projected cash flows of the relevant cash-generating units. There is inherent uncertainty involved in forecasting and discounting future cash flows and judgement involved in determining how goodwill should be split between the parts of the business expected to generate those cash flows following the reorganisation of the group. The key assumptions, estimates and judgements on which the impairment calculations are based, which are inherently uncertain, could be inappropriate and the carrying values goodwill and other intangible assets could be overstated as a result.

Our response: Our audit procedures included, among others, testing the principles and mathematical integrity of the group's discounted cash flow model and comparing the group's assumptions to externally derived data as well as our own assessments in relation to the allocation of goodwill to cash-generating units, and key inputs such as projected economic growth, competition, cost inflation and discount rates. We tested the sensitivity of the impairment calculation to changes in the judgements and assumptions used by the directors. We also assessed whether the group's disclosures (see note 12) about the sensitivity of the outcome of the impairment assessment to changes in key assumptions properly reflected the risks inherent in the valuation of goodwill.

→ ***Provisions and contingent liabilities***

Refer to page 56 (Audit Committee report), page 135 (accounting policy note) and pages 135 and 137 (financial disclosures)

The risk: Provisions are held in respect of closure and restructuring costs, environmental issues and other matters including the settlement of European class actions, and amounted to £17.7 million at 31 December 2013. The financial statements also disclose contingent liabilities in respect of legal claims in the USA, Canada and Europe which have not been provided for on the basis that they are not considered to qualify for recognition as provisions. The application of accounting standards to determine whether a provision should be recorded and, if so, the amount, is inherently subjective.

Our response: Our audit procedures included, among others, a critical assessment of the extent to which the Directors' estimates take into account a balanced assessment of the latest available information and the accuracy and reliability of the sources of that information. We corroborated the appropriateness of the assumptions by reference to third party confirmations and legal advice, where available, and considered whether our understanding of the business gained throughout the audit process corroborated the provisions recorded, or indicated that further challenge was warranted. We considered the adequacy of the Group's disclosures in respect of provisions and contingent liabilities. We also assessed whether the group's disclosures about provisions and the treatment of movements on provisions in the income statement for the year were appropriate.

→ ***Tax liabilities***

Refer to page 56 (Audit Committee report), page 103 (accounting policy note) and pages 103, 109 and 136 (financial disclosures)

The risk: The Group is subject to income taxes in a large number of jurisdictions. The level of current tax and deferred tax recognised requires judgments as to the likely outcome of decisions to be made by the tax authorities in the various tax jurisdictions around the world in which the Group operates. There is a risk that the judgements on which the provisions are based do not take into account or do not properly reflect the latest available, reliable information or an appropriate application of relevant tax legislation, and are either under or overstated as a result.

Our response: Our audit procedures included, among others, challenging the appropriateness of the directors' assumptions and estimates in relation to tax assets and liabilities, by critically assessing the range of possible amounts that may be assessed under tax laws, likely settlements based on the latest correspondence with the relevant tax authorities and the complexity of the relevant tax legislation. We involved our tax specialist in analysing and challenging the assumptions used to determine tax provisions because they have relevant experience of the application of the international and local legislation by the relevant authorities and courts. We also assessed whether the Group's tax disclosures (see notes 8 and 14) are appropriate and in accordance with relevant accounting standards.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MORGAN ADVANCED MATERIALS PLC ONLY

3. Our application of materiality and an overview of the scope of our audit

The materiality for the Group financial statements as a whole was set at £3.2 million. This has been determined with reference to a benchmark of Group profit before taxation (of which it represents 5%) which we consider to be one of the principal considerations for members of the company in assessing the financial performance of the group.

We agreed with the audit committee to report to it all corrected and uncorrected misstatements we identified through our audit with a value in excess of £0.21 million, in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

Audits for group reporting purposes were performed by component auditors at the key reporting components in the following countries: UK, USA, China, Germany, France, and Australia and by the group audit team in the UK. In addition, specified audit procedures were performed by component auditors in USA and Brazil. These group procedures covered 90% of total group revenue; 76% of group profit before taxation; and 75% of total group assets. The segment disclosures in note 3 set out the individual significance of a specific country.

The audits undertaken for group reporting purposes at the key reporting components of the group were all performed to materiality levels set by, or agreed with, the group audit team. These materiality levels were set individually for each component and ranged from £0.1 million to £3.2 million.

Detailed audit instructions were sent to all the auditors in these locations. These instructions covered the significant audit areas that should be covered by these audits (which included the relevant risks of material misstatement detailed above) and set out the information required to be reported back to the group audit team. The group audit team visited the following locations: UK, USA and China. Telephone meetings were also held with the auditors at these locations and the majority of the other locations that were not physically visited.

4. Our 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 Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

5. We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's performance, business model and strategy; or
- the Audit Committee Report does not appropriately address matters communicated by us to the audit committee.

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
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 45, in relation to going concern;
- the part of the Corporate Governance Statement on pages 49 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.

We have nothing to report in respect of the above responsibilities.

Scope and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on pages 83 and 84, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of accounts is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the Company's members as a body and subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2013a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Anthony Sykes (Senior Statutory Auditor)
for and on behalf of KPMG Audit plc, Statutory Auditor
Chartered Accountants
15 Canada Square
London, E14 5GL

13 February 2014

FINANCIAL STATEMENTS

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CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	Results before specific adjusting items 2013 £m	Specific adjusting items* 2013 £m	Total 2013 £m	2012 Restated^ £m
Revenue	3	**957.8**	**–**	**957.8**	1,007.5
Operating costs before restructuring costs and amortisation of intangible assets	4	**(838.8)**	**–**	**(838.8)**	(886.6)
Profit from operations before restructuring costs and amortisation of intangible assets		**119.0**	**–**	**119.0**	120.9
Restructuring costs:					
Restructuring costs	4	**(11.3)**	**–**	**(11.3)**	(13.3)
Gain on disposal of properties		**0.8**	**–**	**0.8**	0.1
Business exit costs	6	**–**	**(7.3)**	**(7.3)**	–
Profit from operations before amortisation of intangible assets	3	**108.5**	**(7.3)**	**101.2**	107.7
Amortisation and impairment of intangible assets		**(8.3)**	**(3.3)**	**(11.6)**	(8.3)
Operating profit	3	**100.2**	**(10.6)**	**89.6**	99.4
Finance income		**1.3**	**–**	**1.3**	1.6
Finance expense		**(24.6)**	**–**	**(24.6)**	(24.3)
Net financing costs	7	**(23.3)**	**–**	**(23.3)**	(22.7)
Loss on disposal of business	6	**–**	**(2.3)**	**(2.3)**	–
Profit before taxation		**76.9**	**(12.9)**	**64.0**	76.7
Income tax expense	8	**(21.1)**	**1.8**	**(19.3)**	(21.6)
Profit after taxation before discontinued operations		**55.8**	**(11.1)**	**44.7**	55.1
Discontinued operations	9	**–**	–	**–**	21.0
Profit for the period		**55.8**	**(11.1)**	**44.7**	76.1
Profit for period attributable to:					
Owners of the parent		**52.4**	**(10.6)**	**41.8**	72.8
Non-controlling interests		**3.4**	**(0.5)**	**2.9**	3.3
		55.8	**(11.1)**	**44.7**	76.1
Basic earnings per share	10				
Continuing operations				**14.8p**	18.7p
Discontinued operations				**0.0p**	7.6p
				14.8p	26.3p
Diluted earnings per share					
Continuing operations				**14.7p**	18.4p
Discontinued operations				**0.0p**	7.4p
				14.7p	25.8p
Dividends					
Interim dividend – pence				**3.80p**	3.60p
– £m				**10.8**	10.1
Proposed final dividend – pence				**6.70p**	6.40p
– £m				**19.1**	17.9

The proposed final dividend is based upon the number of shares outstanding at the balance sheet date.

* Details of specific adjusting items are given in note 6 to the financial statements.
^ Details of the restatement are given in note 1 to the financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2013

	Translation reserve £m	Hedging reserve £m	Fair value reserve £m	Retained earnings Restated^ £m	Total parent comprehensive income Restated^ £m	Non-controlling interests £m	Total comprehensive income Restated^ £m
2012							
Profit for the period	–	–	–	72.8	72.8	3.3	76.1
Items that will not be reclassified subsequently to profit or loss:							
Remeasurement loss on defined benefit plans	–	–	–	(43.2)	(43.2)	–	(43.2)
Tax effect of components of other comprehensive income not reclassified	–	–	–	6.2	6.2	–	6.2
	–	–	–	(37.0)	(37.0)	–	(37.0)
Items that may be reclassified subsequently to profit or loss:							
Foreign exchange translation differences	(11.8)	–	–	–	(11.8)	(3.5)	(15.3)
Net gain on hedge of net investment in foreign subsidiaries	2.6	–	–	–	2.6	–	2.6
Cash flow hedges:							
Effective portion of changes in fair value	–	0.9	–	–	0.9	–	0.9
Transferred to profit or loss	–	(0.6)	–	–	(0.6)	–	(0.6)
Change in fair value of equity securities available-for-sale	–	–	0.1	–	0.1	–	0.1
	(9.2)	0.3	0.1	–	(8.8)	(3.5)	(12.3)
Total comprehensive income, net of tax	(9.2)	0.3	0.1	35.8	27.0	(0.2)	26.8
2013							
Profit for the period	**–**	**–**	**–**	**41.8**	**41.8**	**2.9**	**44.7**
Items that will not be reclassified subsequently to profit or loss:							
Remeasurement gain on defined benefit plans	**–**	**–**	**–**	**12.2**	**12.2**	**–**	**12.2**
Tax effect of components of other comprehensive income not reclassified	**–**	**–**	**–**	**(5.5)**	**(5.5)**	**–**	**(5.5)**
	–	**–**	**–**	**6.7**	**6.7**	**–**	**6.7**
Items that may be reclassified subsequently to profit or loss:							
Foreign exchange translation differences	**(14.6)**	**–**	**–**	**–**	**(14.6)**	**(2.8)**	**(17.4)**
Net gain on hedge of net investment in foreign subsidiaries	**0.4**	**–**	**–**	**–**	**0.4**	**–**	**0.4**
Cash flow hedges:							
Effective portion of changes in fair value	**–**	**(0.5)**	**–**	**–**	**(0.5)**	**–**	**(0.5)**
Transferred to profit or loss	**–**	**0.4**	**–**	**–**	**0.4**	**–**	**0.4**
Change in fair value of equity securities available-for-sale	**–**	**–**	**0.3**	**–**	**0.3**	**–**	**0.3**
	(14.2)	**(0.1)**	**0.3**	**–**	**(14.0)**	**(2.8)**	**(16.8)**
Total comprehensive income, net of tax	**(14.2)**	**(0.1)**	**0.3**	**48.5**	**34.5**	**0.1**	**34.6**

^ Details of the restatement are given in note 1 to the financial statements.

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CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2013

	Note	2013 £m	2012 Restated^ £m
Assets			
Property, plant and equipment	11	**241.4**	245.5
Intangible assets	12	**249.5**	265.1
Investments	13	**3.7**	5.4
Other receivables		**4.3**	4.6
Deferred tax assets	14	**28.2**	40.6
Total non-current assets		**527.1**	561.2
Inventories	15	**118.9**	139.9
Derivative financial assets		**1.7**	1.8
Trade and other receivables	16	**188.2**	185.4
Cash and cash equivalents	17	**76.0**	80.0
Total current assets		**384.8**	407.1
Total assets		**911.9**	968.3
Liabilities			
Interest-bearing loans and borrowings	19	**201.5**	265.0
Employee benefits	21	**144.6**	166.8
Provisions	22	**4.8**	6.9
Non-trade payables	23	**1.4**	4.8
Deferred tax liabilities	14	**33.5**	40.5
Total non-current liabilities		**385.8**	484.0
Interest-bearing loans and borrowings and bank overdrafts	19	**61.0**	7.8
Trade and other payables	23	**175.9**	184.0
Current tax payable		**1.3**	6.1
Provisions	22	**12.9**	14.1
Derivative financial liabilities		**0.9**	0.7
Total current liabilities		**252.0**	212.7
Total liabilities		**637.8**	696.7
Total net assets		**274.1**	271.6
Equity			
Share capital	18	**71.8**	70.4
Share premium		**111.7**	99.0
Reserves		**37.9**	51.6
Retained earnings		**16.7**	12.8
Total equity attributable to equity owners of parent Company		**238.1**	233.8
Non-controlling interests		**36.0**	37.8
Total equity		**274.1**	271.6

^ Details of the restatement are given in note 1 to the financial statements.

The financial statements were approved by the Board of Directors on 13 February 2014 and were signed on its behalf by:

Mark Robertshaw
Chief Executive Officer

Kevin Dangerfield
Chief Financial Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2013

	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 Restated^ £m	Total parent equity Restated^ £m	Non-controlling interests £m	Total equity Restated^ £m
Balance at 2 January 2012 as previously reported	68.7	90.6	8.6	0.4	(1.4)	6.0	35.7	11.1	9.7	229.4	40.8	270.2
Effect of restatement	–	–	–	–	–	–	–	–	(0.2)	(0.2)	–	(0.2)
Balance at 2 January 2012 as restated	68.7	90.6	8.6	0.4	(1.4)	6.0	35.7	11.1	9.5	229.2	40.8	270.0
Profit for the year	–	–	–	–	–	–	–	–	72.8	72.8	3.3	76.1
Other comprehensive income	–	–	(9.2)	0.3	0.1	–	–	–	(37.0)	(45.8)	(3.5)	(49.3)
Transactions with owners:												
Dividends	0.9	8.4	–	–	–	–	–	–	(25.4)	(16.1)	(2.8)	(18.9)
Equity-settled share-based payment transactions	–	–	–	–	–	–	–	–	3.1	3.1	–	3.1
Own shares issued/acquired for share incentive schemes	0.8	–	–	–	–	–	–	–	(10.2)	(9.4)	–	(9.4)
Balance at 31 December 2012	70.4	99.0	(0.6)	0.7	(1.3)	6.0	35.7	11.1	12.8	233.8	37.8	271.6
Balance at 1 January 2013	**70.4**	**99.0**	**(0.6)**	**0.7**	**(1.3)**	**6.0**	**35.7**	**11.1**	**12.8**	**233.8**	**37.8**	**271.6**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**41.8**	**41.8**	**2.9**	**44.7**
Other comprehensive income	**–**	**–**	**(14.2)**	**(0.1)**	**0.3**	**–**	**–**	**–**	**6.7**	**(7.3)**	**(2.8)**	**(10.1)**
Transactions with owners:												
Dividends	**1.4**	**12.7**	**–**	**–**	**–**	**–**	**–**	**–**	**(38.8)**	**(24.7)**	**(1.6)**	**(26.3)**
Equity-settled share-based payment transactions	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**0.8**	**0.8**	**–**	**0.8**
Own shares acquired for share incentive schemes	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(6.6)**	**(6.6)**	**–**	**(6.6)**
Adjustment arising from change in non-controlling interest	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**0.3**	**–**	**0.3**	**(0.3)**	**–**
Balance at 31 December 2013	**71.8**	**111.7**	**(14.8)**	**0.6**	**(1.0)**	**6.0**	**35.7**	**11.4**	**16.7**	**238.1**	**36.0**	**274.1**

Details of the reserves are provided in note 18.

^ Details of the restatement are given in note 1 to the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	**2013 £m**	2012 Restated^ £m
Operating activities			
Profit for the period before discontinued operations		**44.7**	55.1
Adjustments for:			
Depreciation	4	**29.3**	30.0
Amortisation	4	**8.3**	8.3
Net financing costs	7	**23.3**	22.7
Profit on sale of property, plant and equipment		**(0.8)**	(0.2)
Income tax expense	8	**19.3**	21.6
Non-cash operating costs relating to restructuring	4	**0.5**	5.0
Specific adjusting items	6	**10.6**	–
Loss on disposal of business	6	**2.3**	–
Equity-settled share-based payment expenses		**0.7**	1.9
Cash generated from operations before changes in working capital and provisions		**138.2**	144.4
(Increase)/decrease in trade and other receivables		**(10.8)**	0.8
Decrease in inventories		**9.5**	18.5
(Decrease) in trade and other payables		**(3.1)**	(31.9)
(Decrease) in provisions and employee benefits		**(20.8)**	(10.8)
Cash generated from operations		**113.0**	121.0
Interest paid		**(18.3)**	(20.1)
Income tax paid		**(24.9)**	(26.8)
Net cash from operating activities		**69.8**	74.1
Investing activities			
Purchase of property, plant and equipment		**(36.3)**	(29.4)
Proceeds from sale of property, plant and equipment		**2.6**	2.7
Sale of investments		**0.1**	0.1
Interest received		**1.3**	1.6
Disposal/(acquisition) of subsidiaries, net of cash acquired		**0.7**	(6.6)
Forward contracts used in net investment hedging		**2.1**	0.7
Deferred consideration received on disposal of subsidiary		**1.0**	–
Net cash from investing activities		**(28.5)**	(30.9)
Financing activities			
Purchase of own shares for share incentive schemes		**(6.6)**	(9.4)
Repayment of borrowings	17	**(8.9)**	(16.2)
Payment of finance lease liabilities	17	**(0.1)**	(0.2)
Dividends paid		**(24.7)**	(16.1)
Net cash from financing activities		**(40.3)**	(41.9)
Net increase in cash and cash equivalents		**1.0**	1.3
Cash and cash equivalents at start of period		**80.0**	83.4
Effect of exchange rate fluctuations on cash held		**(5.0)**	(4.7)
Cash and cash equivalents at period end	17	**76.0**	80.0

A reconciliation of cash and cash equivalents to net borrowings is shown in note 17.

^ Details of the restatement are given in note 1 to the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS

Accounting policies

Morgan Advanced Materials plc (the 'Company') (formerly The Morgan Crucible Company plc) 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 31 December 2013. The Group maintains a 12-month calendar fiscal year ending on 31 December.

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 138 to 147.

Where possible the Group has set out individual accounting policies in the note to the consolidated financial statements most relevant to that accounting policy.

Except for the changes set out in the 'adoption of new and revised standards' section the accounting policies set out below have been applied consistently to all periods presented in these Group financial statements.

(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. 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 Company 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

Accounting policies continued

(e) Impairment

The carrying amounts of the Group's assets, other than 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 and other assets not listed below 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.

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.

(f) 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 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.

(g) Dividends

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

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 22 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.

1. ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS continued

Recognition of identifiable intangible assets and goodwill
Note 12 contains information about intangible assets recognised on acquisition. These primarily relate to technology and trademarks 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.

Impairment of intangible assets and goodwill
Note 12 contains information about the assumptions relating to goodwill impairment tests, including a sensitivity analysis.

Credit risk
Note 20 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 20 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 21, 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 judgments 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 Strategic Report on pages 4 to 45. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Strategic Report. In addition, note 20 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 Group bank facility of £150 million unsecured five-year multi-currency revolving credit facility. The bank facility headroom at 31 December 2013 was £150 million.

The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group is able to operate within the level of its committed facilities. The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

Adoption of new and revised standards

IAS 19 (revised) Employee Benefits
During the period, the Group has applied IAS 19 (revised) *Employee Benefits*. This has led to a restatement of the comparatives for 2012. The impact on the Group of the revised standard is as follows:

- Interest cost and expected return on assets were replaced by a net interest cost which is calculated by applying the discount rate to the net defined benefit obligation.
- Pension scheme administration costs have been reclassified from net finance charge to operating costs. Such costs include the PPF levy and actuary, audit, legal and trustee charges which, under the previous IAS 19, were allowed to be included within the net finance charge.
- Past service costs are recognised immediately instead of being accrued over the vesting period.

The impact of the changes was a £5.1 million reduction in profit for the period (2012: £4.2 million), as follows:
(i) a £1.4 million increase in operating costs before restructuring costs and amortisation of intangible assets (2012: £1.1 million);
(ii) a £4.3 million increase in net financing costs (2012: £3.6 million);
(iii) a £0.6 million reduction in income tax expense (2012: £0.5 million).

The changes resulted in a £5.1 million increase in other comprehensive income excluding profit for the period (2012: £4.2 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

1. ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS continued

Adoption of new and revised standards continued

The above changes reduced basic/diluted earnings per share for 2012 by 1.5 pence, with basic earnings per share reducing from 20.2 pence to 18.7 pence and diluted basic earnings per share reducing from 19.9 pence to 18.4 pence.

The impact of the changes on the balance sheet was a £0.2 million increase in the net employee benefits obligation.

The increase in operating costs resulted in a decrease in Regional EBITA for the Group's new reportable operating segments (see note 3) as follows: North America £0.6 million (2012: £0.5 million) and Europe £0.8 million (2012: £0.6 million).

Other accounting standards:

On 1 January 2013, the Group applied the following accounting standards and amendments issued by the IASB:

- Amendments to IFRS 7 *Financial Instruments: Disclosures*.
- IFRS 13 *Fair Value Measurement*.

The application of these accounting standards has not had any significant impact on the reported results or financial position of the Group.

New standards and interpretations

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2014, and have not been applied in preparing the Group financial statements. Those which may be relevant to the Group are set out below. The Group has not applied these standards early and does not expect the application of these standards to have a material impact on the Group's financial statements.

IFRS 10 *Consolidated Financial Statements* introduces a single control model to determine whether an investee should be consolidated. The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

Under IFRS 11 *Joint Arrangements*, the structure of the joint arrangement, although still an important consideration, is no longer the main factor in determining the type of joint arrangement and therefore the subsequent accounting.

IFRS 12 *Disclosure of Interests in Other Entities (2011)* brings together into a single standard all the disclosure requirements about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 *Disclosure of Interests in Other Entities (2011)* requires the disclosure of information about the nature, risks and financial effects of these interests.

These standards are effective for annual periods beginning on or after 1 January 2014.

2. ACQUISITIONS AND DISPOSALS

Accounting policies

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)*.

2. ACQUISITIONS AND DISPOSALS continued

Acquisitions

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 took 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 related to the first of the four synthetic forwards noted above. The remaining payment of £7.7 million related 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 and 28 March 2012 the Group paid £9.1 million and £6.1 million respectively for the second and third synthetic forwards. In addition to these payments on 31 March 2011 and 28 March 2012 the Group paid £0.8 million and £0.6 million respectively to the Employee Benefit Trust in accordance with the terms of the original acquisition agreement.

At 31 December 2013 the Group anticipates acquiring the remaining 10% of Clearpower Limited for nil consideration and therefore has not recognised a liability for this. The adjustment through goodwill since the date of acquisition as a result of the remeasurement is £9.6 million.

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

During 2013 the Group also made adjustments to goodwill/purchase consideration totalling £3.7 million relating to historic acquisitions, for which IFRS 3 *Business Combinations (2004)* applied.

Disposals

On 28 December 2013 the Group disposed of 23.85% of the share capital of Assam Carbon Products Ltd for nil consideration. Details of this disposal are given in note 6 to the financial statements.

Other acquisitions in 2013 and 2012

There were no other business combinations in 2013 and 2012.

3. SEGMENT REPORTING

Accounting policies

The Group has identified three reportable operating segments. These have been identified on the basis of internal management reporting information that is regularly reviewed by the Group's Board of Directors (the 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 and head office expenses, and income tax assets and liabilities.

The Group comprises the following three reportable operating segments: North America, Europe and Asia/Rest of World.

Segment reporting

The tables below show restated comparative figures for the operating segments and for the Group for the year ended 31 December 2012. The restatements reflect the impact of changes the Group made to its internal organisation changes during the year ended 31 December 2013, which caused the composition of its reportable segments to change. In addition the restatements reflect the impact from the adoption of the change in IAS 19 (revised) *Employee Benefits* that was adopted for the year ended 31 December 2013. Details of the impact of the adoption of IAS 19 (revised) *Employee Benefits* are given in note 1.

Following the internal organisation changes made, the Group is now organised on a geographical basis and comprises the following three reportable operating segments: North America, Europe and Asia/Rest of World.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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3. SEGMENT REPORTING continued

Segment reporting continued

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

	North America		Europe		Asia/Rest of World		Consolidated	
	2013 £m	2012 Restated £m	**2013 £m**	2012 Restated £m	**2013 £m**	2012 Restated £m	**2013 £m**	2012 Restated £m
Revenue from external customers	**359.9**	376.3	**357.3**	361.7	**240.6**	269.5	**957.8**	1,007.5
Regional EBITA before impact of IAS 19 restatement (2012)		56.2		38.1		32.8		127.1
Impact of IAS 19 restatement (2012)		(0.5)		(0.6)		–		(1.1)
Regional EBITA[1]	**55.5**	55.7	**42.0**	37.5	**26.4**	32.8	**123.9**	126.0
Unallocated costs							**(4.9)**	(5.1)
Group EBITA[2]							**119.0**	120.9
Restructuring costs	**(2.5)**	(1.5)	**(2.6)**	(6.2)	**(3.3)**	(5.5)	**(8.4)**	(13.2)
Unallocated restructuring costs							**(2.1)**	–
Underlying operating profit[3]							**108.5**	107.7
Amortisation of intangible assets	**(3.2)**	(2.8)	**(3.6)**	(4.3)	**(1.5)**	(1.2)	**(8.3)**	(8.3)
Operating profit before specific adjusting items							**100.2**	99.4
Specific adjusting items included in operating profit[4]							**(10.6)**	–
Operating profit							**89.6**	99.4
Finance income before impact of IAS 19 restatement (2012)								26.3
Impact of IAS 19 restatement (2012)								(24.7)
Finance income							**1.3**	1.6
Finance expense before impact of IAS 19 restatement (2012)								(45.4)
Impact of IAS 19 restatement (2012)								21.1
Finance expense							**(24.6)**	(24.3)
Loss on disposal of business							**(2.3)**	–
Profit before taxation							**64.0**	76.7
Segment assets	**283.3**	289.0	**303.1**	320.3	**218.6**	231.0	**805.0**	840.3
Unallocated assets							**106.9**	128.0
Total assets							**911.9**	968.3
Segment liabilities	**89.1**	117.6	**166.6**	167.5	**46.4**	51.6	**302.1**	336.7
Unallocated liabilities							**335.7**	360.0
Total liabilities							**637.8**	696.7
Segment capital expenditure	**13.5**	11.0	**7.1**	7.7	**15.7**	10.6	**36.3**	29.3
Unallocated capital expenditure							**–**	0.1
Total capital expenditure							**36.3**	29.4
Segment depreciation	**12.0**	12.3	**9.8**	9.7	**7.4**	7.9	**29.2**	29.9
Unallocated depreciation							**0.1**	0.1
Total depreciation							**29.3**	30.0

1. Segment profit is defined as Regional EBITA, which is segment operating profit before restructuring costs and amortisation of intangible assets.
2. Group EBITA is defined as operating profit before restructuring costs and amortisation of intangible assets.
3. Underlying operating profit is defined as operating profit before amortisation of intangible assets.
4. Details of specific adjusting items are given in note 6 to the financial statements.

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

3. SEGMENT REPORTING continued

	Revenue from external customers		Non-current assets (excluding tax and financial instruments)	
	2013 £m	2012 £m	**2013 £m**	2012 £m
USA	**301.4**	315.5	**165.8**	171.0
UK (the Group's country of domicile)	**108.6**	107.9	**159.4**	165.6
China	**82.6**	83.6	**55.1**	51.9
Germany	**63.5**	70.3	**31.6**	31.1
France	**39.6**	41.1	**19.8**	20.9
Other Asia, Middle East and Africa	**156.1**	187.3	**30.8**	36.2
Other Europe	**131.0**	127.5	**21.5**	22.5
Other North America	**41.3**	30.8	**7.0**	11.6
South America	**33.7**	43.5	**7.9**	9.8
	957.8	1,007.5	**498.9**	520.6

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

Segment revenue by product

	2013 £m	2012 £m
Industrial	**425.4**	453.5
Transportation	**180.4**	187.6
Electronics	**71.9**	87.3
Petrochemical	**76.1**	93.1
Security and Defence	**94.4**	81.4
Energy	**61.7**	62.0
Healthcare	**47.9**	42.6
	957.8	1,007.5

Intercompany sales to other segments

	North America		Europe		Asia/Rest of World	
	2013 £m	2012 £m	**2013 £m**	2012 £m	**2013 £m**	2012 £m
Intercompany sales to other segments	**23.4**	22.2	**18.0**	19.6	**8.0**	9.1

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4. OPERATING COSTS BEFORE SPECIFIC ADJUSTING ITEMS

	2013 £m	2012 Restated £m
Change in stocks of finished goods and work in progress	**4.9**	(0.1)
Raw materials and consumables	**249.7**	278.9
Other external charges	**156.3**	163.6
Total	**410.9**	442.4
Employee costs:		
– wages and salaries	**235.6**	239.2
– equity-settled share-based payments	**0.6**	1.9
– social security costs	**45.4**	51.0
– other pension costs	**12.7**	12.0
Total	**294.3**	304.1
Depreciation	**29.3**	30.0
Rentals under operating leases:		
– hire of plant and machinery	**3.2**	3.0
– other operating leases	**5.6**	5.3
Total	**8.8**	8.3
Other operating charges and income:		
– net foreign exchange (gains)/losses	**(1.3)**	0.4
– other operating income and charges	**96.8**	101.4
Total	**95.5**	101.8
Total operating costs before restructuring costs and amortisation of intangible assets	**838.8**	886.6
Restructuring costs:		
– employment termination costs	**7.2**	6.1
– write-off of assets	**0.5**	5.0
– other reorganisation, rationalisation and closure costs	**3.6**	2.2
– profit on disposal of properties	**(0.8)**	(0.1)
Total	**10.5**	13.2
Amortisation of intangible assets	**8.3**	8.3
Total operating costs before specific adjusting items	**857.6**	908.1

The Group recognised £20.2 million in expense in respect of research and development (2012: £19.6 million).

4. OPERATING COSTS BEFORE SPECIFIC ADJUSTING ITEMS continued

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 31 December 2013 is set out below:

	2013 £m	2012 £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 auditing of accounts of any subsidiaries of the Company	**1.7**	1.7
– audit related services	**0.1**	0.1
– taxation compliance services	**0.1**	0.1
– other non-audit services	**0.1**	0.1
	2.4	2.4

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	
	2013	2012 Restated^
Reportable operating segments		
North America	**3,167**	3,315
Europe	**3,024**	3,196
Asia/Rest of World	**3,370**	3,512
Corporate	**11**	10
	9,572	10,033

^ The table above shows restated comparative figures for the operating segments for the year ended 31 December 2012. The restatements reflect the impact of changes the Group made to its internal organisation changes during the year ended 31 December 2013, which caused the composition of its reportable segments to change. See note 3 for further details.

6. SPECIFIC ADJUSTING ITEMS

In the consolidated income statement the Group presents specific adjusting items separately. In the judgment of the Directors, due to the nature and value of these items they should be disclosed separately from the underlying results of the Group to allow the reader to obtain a proper understanding of the financial information and the best indication of underlying performance of the Group. No specific adjusting items were incurred in 2012.

	2013 £m	2012 £m
Specific adjusting items:		
– Business exit costs	**7.3**	–
– Impairment of intangible assets	**3.3**	–
– Loss on disposal of business	**2.3**	–
Total specific adjusting items before income tax credit	**12.9**	–
– Income tax credit from specific adjusting items	**(1.8)**	–
	11.1	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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6. SPECIFIC ADJUSTING ITEMS continued

Business exit costs

Business exit costs relates to Composites and Defence Systems and is a result of the exit of the UK Ministry of Defence ('MoD') vehicles logistics and spares contract and the completion of UK MoD Urgent Operational Requirements (UOR) for new vehicle builds. Specifically the charge comprises a £5.7 million provision against inventory and a £1.6 million provision for building exit costs and impairment of other assets. An income tax credit of £1.6 million has been recognised in respect of these items.

Impairment of intangible assets

The impairment of intangible assets consists of a £3.3 million impairment of goodwill and intangible assets originally recognised on acquisition of Morgan AM&T Hairong Ltd (formerly Changsha Hairong New Materials Co., Ltd) ('Hairong'), based on the current view of the future financial performance of Hairong. An income tax credit of £0.2 million has been recognised in respect of this item.

Loss on disposal of business

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

7. NET FINANCE INCOME AND EXPENSE

Accounting policies

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, net interest 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.

	2013 £m	2012 Restated £m
Recognised in profit or loss		
Interest income on bank deposits measured at amortised cost	**1.3**	1.6
Finance income	**1.3**	1.6
Interest expense on financial liabilities measured at amortised cost	**(18.3)**	(18.5)
Net interest on IAS 19 obligations	**(6.3)**	(5.6)
Interest expense on unwinding of discount on deferred consideration	**–**	(0.2)
Finance expense	**(24.6)**	(24.3)
Net financing costs recognised in profit or loss	**(23.3)**	(22.7)
Recognised directly in equity		
Net change in fair value of available-for-sale financial assets	**0.3**	0.1
Cash flow hedges:		
– Effective portion of changes in fair value of cash flow hedges	**(0.5)**	0.9
– Transferred to profit or loss	**0.4**	(0.6)
Effective portion of change in fair value of net investment hedge	**0.4**	2.6
Foreign currency translation differences for foreign operations	**(14.6)**	(11.8)
	(14.0)	(8.8)

8. TAXATION – INCOME TAX EXPENSE

Accounting policies

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.

Taxation – income tax expense
Recognised in the income statement

	2013 £m	2012 Restated £m
Current tax expense		
Current year	**23.5**	24.9
Adjustments for prior years	**(3.6)**	(5.0)
	19.9	19.9
Deferred tax expense		
Origination and reversal of temporary differences	**(0.6)**	1.7
Total income tax expense in income statement	**19.3**	21.6

Reconciliation of effective tax rate

	2013 £m	**2013 %**	2012 Restated £m	2012 Restated %
Profit before tax	**64.0**		76.7	
Income tax using the domestic corporation tax rate	**14.9**	**23.2**	18.8	24.5
Non-deductible expenses	**3.6**	**5.6**	2.4	3.1
Temporary differences not equalised in deferred tax	**1.0**	**1.6**	(1.4)	(1.8)
Adjustments in respect of prior years	**(2.2)**	**(3.4)**	(3.6)	(4.7)
Recognition of previously unrecognised temporary differences	**(5.0)**	**(7.8)**	–	–
Other (including the impact of overseas tax rates)	**7.0**	**10.9**	5.4	7.0
	19.3	**30.1**	21.6	28.2
Income tax recognised directly in equity				
Tax effect on components of other comprehensive income:				
– Current tax associated with share schemes	**0.5**		1.3	
– Deferred tax associated with defined benefit schemes and share schemes	**(6.0)**		4.9	
– Other	**–**		–	
Total income tax recognised directly in equity	**(5.5)**		6.2	

The effective rate of tax before specific adjusting items is 27.4%.

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9. DISCONTINUED OPERATIONS
Discontinued operations in the year ended 31 December 2012 is a tax credit arising from the review and release of tax liabilities set up in prior years relating to business disposals.

10. EARNINGS PER SHARE
Earnings per share from continuing operations
The calculation of basic/diluted earnings per share from continuing operations at 31 December 2013 was based on the following:

	2013 Basic £m	**2013** Diluted £m	2012 Basic Restated £m	2012 Diluted Restated £m
Profit attributable to equity holders of the Company from continuing operations	**41.8**	**41.8**	51.8	51.8
Weighted average number of Ordinary shares				
Issued Ordinary shares at the beginning of the period (millions)	**279.7**	**279.7**	273.1	273.1
Effect of shares issued in period and shares held by The Morgan General Employee Benefit Trust (millions)	**3.2**	**3.2**	3.9	3.9
Dilutive effect of share options/incentive schemes (millions)	**n/a**	**1.3**	n/a	5.0
Basic/diluted weighted average number of Ordinary shares during the period (millions)	**282.9**	**284.2**	277.0	282.0
Earnings per share from continuing operations (pence)	**14.8p**	**14.7p**	18.7p	18.4p

Earnings per share from discontinued operations
The calculation of basic/diluted earnings per share from discontinued operations at 31 December 2013 was based on the following:

	2013 Basic £m	**2013** Diluted £m	2012 Basic £m	2012 Diluted £m
Profit attributable to equity holders of the Company from discontinued operations	**–**	**–**	21.0	21.0
Basic/diluted weighted average number of Ordinary shares during the period – calculated as above (millions)	**282.9**	**284.2**	277.0	282.0
Earnings per share from discontinued operations (pence)	**0.0p**	**0.0p**	7.6p	7.4p

Underlying earnings per share
The calculation of basic/diluted underlying earnings per share at 31 December 2013 was based on the following:

	2013 Basic £m	**2013** Diluted £m	2012 Basic Restated £m	2012 Diluted Restated £m
Underlying operating profit before specific adjusting items and amortisation, less net financing costs, income tax expense and non-controlling interests	**60.7**	**60.7**	60.1	60.1
Basic/diluted weighted average number of Ordinary shares during the period – calculated as above (millions)	**282.9**	**284.2**	277.0	282.0
Earnings per share before specific adjusting items and amortisation of intangible assets (pence)	**21.5p**	**21.4p**	21.7p	21.3p

11. PROPERTY, PLANT AND EQUIPMENT

Accounting policies

(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 'Restructuring costs' in the income statement. Gains and losses on the disposal of plant and equipment are recognised in 'Operating costs before restructuring costs and amortisation of intangible assets' 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

Property, plant and equipment

	Land and buildings £m	Plant and equipment and fixtures £m	Total £m
Cost			
Balance at 2 January 2012	154.6	534.2	688.8
Additions	4.5	24.5	29.0
Disposals	(0.3)	(9.5)	(9.8)
Effect of movement in foreign exchange	(5.7)	(19.1)	(24.8)
Balance at 31 December 2012	153.1	530.1	683.2
Balance at 1 January 2013	**153.1**	**530.1**	**683.2**
Additions	**7.4**	**25.7**	**33.1**
Disposals	**(2.4)**	**(18.4)**	**(20.8)**
Effect of movement in foreign exchange	**(2.6)**	**(9.8)**	**(12.4)**
Balance at 31 December 2013	**155.5**	**527.6**	**683.1**

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11. PROPERTY, PLANT AND EQUIPMENT continued

	Land and buildings £m	Plant and equipment and fixtures £m	Total £m
Depreciation and impairment losses			
Balance at 2 January 2012	52.2	376.8	429.0
Depreciation charge for the year	4.5	25.5	30.0
Disposals	(0.1)	(5.3)	(5.4)
Effect of movement in foreign exchange	(2.4)	(13.5)	(15.9)
Balance at 31 December 2012	54.2	383.5	437.7
Balance at 1 January 2013	**54.2**	**383.5**	**437.7**
Depreciation charge for the year	**4.9**	**24.4**	**29.3**
Disposals	**(0.5)**	**(17.2)**	**(17.7)**
Effect of movement in foreign exchange	**(1.0)**	**(6.6)**	**(7.6)**
Balance at 31 December 2013	**57.6**	**384.1**	**441.7**
Carrying amounts			
At 2 January 2012	102.4	157.4	259.8
At 31 December 2012	98.9	146.6	245.5
At 31 December 2013	**97.9**	**143.5**	**241.4**

Assets pledged as security for liabilities
At 31 December 2013 assets with a carrying amount of £3.8 million (31 December 2012: £3.3 million) are subject to registered debentures to secure bank loans and other liabilities (see note 19). There were no borrowings drawn on these debentures (2012: £0.9 million).

12. INTANGIBLE ASSETS
Accounting policies
(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 and trademarks — 15-20 years
- → Order book — Amortised over the period in which the associated orders are fulfilled

12. INTANGIBLE ASSETS continued

	Goodwill £m	Order book £m	Customer relationships £m	Technology and trademarks £m	Capitalised development costs £m	Computer software £m	Total £m
Cost							
Balance at 2 January 2012	199.8	9.3	77.4	22.7	2.2	13.8	325.2
Additions (externally purchased)	–	–	–	–	–	0.6	0.6
Disposals	(0.1)	(9.3)	–	–	(1.6)	–	(11.0)
Remeasurement of goodwill	(5.1)	–	–	–	–	–	(5.1)
Effect of movement in foreign exchange	(3.5)	–	(2.2)	(0.1)	–	(0.4)	(6.2)
Balance at 31 December 2012	191.1	–	75.2	22.6	0.6	14.0	303.5
Balance at 1 January 2013	**191.1**	**–**	**75.2**	**22.6**	**0.6**	**14.0**	**303.5**
Additions (externally purchased)	**–**	**–**	**–**	**–**	**–**	**2.4**	**2.4**
Disposals	**–**	**–**	**–**	**–**	**–**	**(0.2)**	**(0.2)**
Impairment	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Remeasurement of goodwill	**(3.7)**	**–**	**–**	**–**	**–**	**–**	**(3.7)**
Effect of movement in foreign exchange	**(2.2)**	**–**	**(1.3)**	**–**	**–**	**(0.2)**	**(3.7)**
Balance at 31 December 2013	**185.2**	**–**	**73.9**	**22.6**	**0.6**	**16.0**	**298.3**
Amortisation and impairment losses							
Balance at 2 January 2012	–	9.3	16.8	5.3	1.8	8.7	41.9
Amortisation charge for the year	–	–	4.5	1.8	0.4	1.6	8.3
Disposals	–	(9.3)	–	–	(1.6)	–	(10.9)
Effect of movement in foreign exchange	–	–	(0.3)	(0.3)	–	(0.3)	(0.9)
Balance at 31 December 2012	–	–	21.0	6.8	0.6	10.0	38.4
Balance at 1 January 2013	**–**	**–**	**21.0**	**6.8**	**0.6**	**10.0**	**38.4**
Amortisation charge for the year	**–**	**–**	**4.4**	**1.8**	**–**	**2.1**	**8.3**
Impairment losses for the year	**1.6**	**–**	**0.3**	**1.4**	**–**	**–**	**3.3**
Disposals	**–**	**–**	**–**	**–**	**–**	**(0.2)**	**(0.2)**
Effect of movement in foreign exchange	**–**	**–**	**(0.7)**	**(0.2)**	**–**	**(0.1)**	**(1.0)**
Balance at 31 December 2013	**1.6**	**–**	**25.0**	**9.8**	**0.6**	**11.8**	**48.8**
Carrying amounts							
At 2 January 2012	199.8	–	60.6	17.4	0.4	5.1	283.3
At 31 December 2012	191.1	–	54.2	15.8	–	4.0	265.1
At 31 December 2013	**183.6**	**–**	**48.9**	**12.8**	**–**	**4.2**	**249.5**

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12. 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.

The table below shows restated comparative figures for the cash-generating units for the year ended 31 December 2012. The restatements reflect the impact of changes the Group made to its internal organisation changes during the year ended 31 December 2013, which caused the composition of its cash-generating units to change. Assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units, primarily based on geographical basis to reflect this new structure.

Goodwill is attributed to each cash-generating unit as follows:

	2013 £m	2012 Restated £m
North America	**77.5**	80.8
Europe	**45.8**	47.5
Asia/Rest of World	**43.9**	46.4
Composites and Defence Systems	**16.4**	16.4
	183.6	191.1

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 cash-generating unit, ranging from 1.0% to 5.0% (2012: 2.0% to 5.0%). The growth rates are also used to calculate a terminal value. 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 2013 and are considered to be appropriate.

In 2013 the Group has used the following pre-tax discount rates for calculating the terminal value of each of the new cash-generating units: North America 12.2%, Europe: 12.9%, Asia/Rest of World: 15.1%, Composites and Defence Systems: 12.4%. These discount rates have been used as the Group believes it suitably approximates the rates used by end-market participants. In 2012 the Group used a standard pre-tax discount rate of 13.3% for all of the Group's former cash-generating units.

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 1,100bps for each of the North America, Europe and Asia/Rest of World cash-generating units. For Composites and Defence Systems no impairment would arise if the pre-tax discount rate was increased by 340bps;
→ 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 25% (2012: 15%).

During the year ended 31 December 2013 the Group recognised an impairment loss of £1.6 million on goodwill in relation to Morgan AM&T Hairong Ltd, which was identified when undertaking the exercise to review the composition of the cash-generating units following the internal organisation changes. It also recognised an impairment loss of £0.3 million on customer relationships and £1.4 million of technology and trademarks in relation to Morgan AM&T Hairong Ltd. Further details are given in note 6.

13. INVESTMENTS

Accounting policies

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.

	2013 £m	2012 £m
Non-current investments		
Investment in associate	**1.0**	1.5
Equity securities available-for-sale	**2.7**	3.9
	3.7	5.4

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 £0.2 million.

14. RECOGNISED DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable to the following:

	Assets 2013 £m	Assets 2012 £m	**Liabilities 2013 £m**	Liabilities 2012 £m	**Net 2013 £m**	Net 2012 £m
Property, plant and equipment	**–**	–	**(16.3)**	(21.2)	**(16.3)**	(21.2)
Intangible assets	**–**	–	**(16.3)**	(18.3)	**(16.3)**	(18.3)
Employee benefits	**22.5**	33.4	**–**	–	**22.5**	33.4
Provisions	**5.1**	5.7	**–**	–	**5.1**	5.7
Tax value of loss carried forward recognised	**0.6**	1.5	**–**	–	**0.6**	1.5
Other items	**–**	–	**(0.9)**	(1.0)	**(0.9)**	(1.0)
	28.2	40.6	**(33.5)**	(40.5)	**(5.3)**	0.1

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	2013 £m	2012 £m
Deductible temporary differences	**88.4**	90.4
Tax losses	**73.1**	70.3
	161.5	160.7

Movements in temporary differences during the year

	Balance 1 January 2012 £m	Recognised in income Restated £m	Recognised directly in equity Restated £m	Balance 31 December 2012 £m	**Recognised in income £m**	**Recognised directly in equity £m**	**Balance 31 December 2013 £m**
Property, plant and equipment	(23.1)	1.9	–	(21.2)	**4.9**	**–**	**(16.3)**
Intangible assets	(21.4)	3.1	–	(18.3)	**2.0**	**–**	**(16.3)**
Employee benefits	28.4	0.1	4.9	33.4	**(4.9)**	**(6.0)**	**22.5**
Provisions	7.0	(1.3)	–	5.7	**(0.6)**	**–**	**5.1**
Tax value of loss carried forward recognised	5.5	(4.0)	–	1.5	**(0.9)**	**–**	**0.6**
Others	0.2	(1.0)	(0.2)	(1.0)	**0.1**	**–**	**(0.9)**
	(3.4)	(1.2)	4.7	0.1	**0.6**	**(6.0)**	**(5.3)**

Deferred income tax of £2.5 million is provided on the potential unremitted earnings of overseas subsidiary undertakings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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15. INVENTORIES
Accounting policies
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.

Inventories

	2013 £m	2012 £m
Raw materials and consumables	**34.1**	45.8
Work in progress	**35.7**	39.7
Finished goods	**49.1**	54.4
	118.9	139.9

The Group holds consignment inventory amounting to £14.5 million (2012: £17.7 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 £5.3 million were made against inventories and recognised in operating costs (2012: £5.6 million) and £5.7 million (2012: £nil million) has been recognised in business exit costs within specific adjusting items (see note 6).

16. TRADE AND OTHER RECEIVABLES
Accounting policies
Trade and other receivables are initially stated at their fair value and subsequently measured at amortised cost less impairment losses.

Trade and other receivables

	2013 £m	2012 £m
Current		
Trade receivables due from associate	**13.0**	12.5
Other trade receivables	**154.5**	153.0
Trade receivables	**167.5**	165.5
Other non-trade receivables and prepayments	**20.7**	19.9
	188.2	185.4

The Group's exposure to credit and currency risks related to trade and other receivables is disclosed in note 20.

17. CASH AND CASH EQUIVALENTS

Accounting policies

Cash and cash equivalents comprises cash balances and call deposits. Short-term deposits include demand deposits and short-term highly liquid investments with maturities of three months or less that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the Group statement of cash flows.

Cash and cash equivalents

	2013 £m	2012 £m
Bank balances	**60.3**	64.2
Cash deposits	**15.7**	15.8
Cash and cash equivalents	**76.0**	80.0

Reconciliation of cash and cash equivalents to net debt*

	2013 £m	2012 £m
Opening borrowings	**(272.8)**	(298.8)
Net decrease in borrowings	**8.9**	16.2
Payment of finance lease liabilities	**0.1**	0.2
Effect of movements in foreign exchange on borrowings	**1.3**	9.6
Closing borrowings	**(262.5)**	(272.8)
Cash and cash equivalents	**76.0**	80.0
Closing net debt	**(186.5)**	(192.8)

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

18. CAPITAL AND RESERVES

Accounting policies

(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 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.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

18. CAPITAL AND RESERVES continued

Special reserve

A Special Resolution to cancel the Share Premium Account was passed at the AGM 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. At 31 December 2013 305,041 shares were held by The Morgan General Employee Benefit Trust and are treated as a deduction from equity (2012: 201,493). Nil treasury shares were held by the Company (2012: 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	
	2013 Pence	2012 Pence	**2013 £m**	2012 £m
2011 interim	**–**	3.25	**–**	8.8
2011 final	**–**	6.00	**–**	16.6
2012 interim	**3.60**	–	**10.1**	–
2012 final	**6.40**	–	**17.9**	–
2013 interim	**3.80**	–	**10.8**	–
Total	**13.80**	9.25	**38.8**	25.4

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 31 December 2013 the following dividends were proposed by the Directors for 2013. These dividends have not been provided for and there are no income tax consequences.

	£m
6.7 pence per qualifying Ordinary share	**19.1**
5.5% Cumulative First Preference shares (see note 31)	**–**
5.0% Cumulative Second Preference shares (see note 31)	**–**
	19.1

The proposed 2013 final dividend is based upon the number of shares outstanding at the balance sheet date.

18. CAPITAL AND RESERVES continued

Called-up share capital

	2013 £m	2012 £m
Equity share capital		
285,369,988 (2012: 279,741,415) issued Ordinary shares of 25 pence each, fully paid	**71.4**	70.0
	71.4	70.0
Preference share capital		
125,327 issued 5.5% Cumulative First Preference shares of £1 each, fully paid	**0.1**	0.1
311,954 issued 5.0% Cumulative Second Preference shares of £1 each, fully paid	**0.3**	0.3
Total Preference share capital	**0.4**	0.4
Total share capital	**71.8**	70.4

Number of shares in issue

	Ordinary shares		Preference shares	
	2013	2012	**2013**	2012
In issue at beginning of period	**279,741,415**	273,139,791	**437,281**	437,281
Scrip dividend	**5,628,573**	3,601,624	**–**	–
Allotment	**–**	3,000,000	**–**	–
In issue at end of period	**285,369,988**	279,741,415	**437,281**	437,281

As at the date of this report 285,369,988 Ordinary shares have been issued (2012: 281,166,903).

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 21.

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:

- 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
- 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

19. 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 20.

Accounting policies
Interest-bearing loans and borrowings
Interest-bearing loans and borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing loans and 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.

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.

Interest-bearing loans, borrowings and overdrafts

	2013 £m	2012 £m
Non-current liabilities		
Senior Notes	**201.2**	264.3
Bank and other loans	**0.3**	0.5
Obligations under finance leases	**–**	0.2
	201.5	265.0
Current liabilities		
Senior Notes	**60.4**	5.8
Bank and other loans	**0.4**	1.8
Obligations under finance leases	**0.2**	0.2
	61.0	7.8

Terms and debt repayment schedule
The terms and conditions of outstanding loans are given in note 20 in the liquidity risk section.

Finance lease liabilities
Finance lease liabilities are payable as follows:

	Minimum lease payments 2013 £m	**Interest 2013 £m**	**Principal 2013 £m**	Minimum lease payments 2012 £m	Interest 2012 £m	Principal 2012 £m
Less than one year	**0.2**	**–**	**0.2**	0.2	–	0.2
Between one and five years	**–**	**–**	**–**	0.2	–	0.2
More than five years	**–**	**–**	**–**	–	–	–
	0.2	**–**	**0.2**	0.4	–	0.4

Bank and other loans did not include any loans secured on the assets of the Group (2012: £0.9 million).

As at 31 December 2013 the Group had available headroom under the bank syndication of £150.0 million (2012: £150.0 million).

20. FINANCIAL RISK MANAGEMENT

This note presents information about the Group's exposure to a variety of financial risks: credit risk, liquidity risk and market risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

Accounting policies

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:

- 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
- 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.

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 carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Carrying amount	
	2013 £m	2012 £m
Available-for-sale financial assets	**2.7**	3.9
Trade and other receivables	**167.5**	165.5
Cash and cash equivalents	**76.0**	80.0
	246.2	249.4

Available-for-sale financial assets

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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20. FINANCIAL RISK MANAGEMENT continued

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 industries and countries in which customers operate, has less 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 ageing of trade receivables at the reporting date was:

	Gross 2013 £m	**Impairment 2013 £m**	Gross 2012 £m	Impairment 2012 £m
Not past due	**121.7**	**(0.4)**	125.5	(0.5)
Past due 0-30 days	**27.0**	**(0.3)**	21.6	(0.4)
Past due 31-60 days	**9.2**	**(0.4)**	8.9	(0.5)
Past due 61-90 days	**11.5**	**(3.9)**	13.6	(3.9)
Past due more than 90 days	**11.2**	**(8.1)**	8.5	(7.3)
	180.6	**(13.1)**	178.1	(12.6)

The only movement in the allowance for impairment in respect of trade receivables was an increase of £0.5 million (2012: £3.3 million).

A specific impairment allowance may be created in respect of an individual trade receivable for which full recovery is doubtful. As at 31 December 2013 and 31 December 2012 there were no specific impairment allowances that were significant to the Group.

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.

Cash and cash equivalents

Cash balances held by companies representing over 75% of the Group's revenue are managed centrally through a number of pooling arrangements. Cash balances throughout the Group are held with high-credit-quality financial institutions.

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.

20. FINANCIAL RISK MANAGEMENT continued

The following are the undiscounted contracted maturities of financial liabilities, including interest payments:

	Effective interest rate	Year of maturity	Carrying amount £m	Contractual cash flows £m	Less than 1 year £m	2013 1-2 years £m	2-5 years £m	More than 5 years £m
Non-derivative financial liabilities								
5.70% US Dollar Senior Notes 2014	5.70%	2014	60.4	63.8	63.8	–	–	–
3.65% Euro Senior Notes 2015	3.65%	2015	33.6	35.4	1.2	34.2	–	–
4.32% Euro Senior Notes 2017	4.32%	2017	16.8	19.3	0.7	0.7	17.9	–
6.12% US Dollar Senior Notes 2017	6.12%	2017	105.6	131.6	6.5	6.5	118.6	–
6.26% US Dollar Senior Notes 2019	6.26%	2019	45.2	62.2	2.8	2.8	8.5	48.1
Bank and other loans	1.55%-15.01%	up to 2017	0.7	1.5	0.9	0.2	0.4	–
Obligations under finance leases	6.00%	up to 2014	0.2	0.2	0.2	–	–	–
Trade and other payables			90.3	90.3	90.3	–	–	–
Derivative financial liabilities								
Forward exchange contracts as cash flow hedges			0.1	0.1	0.1	–	–	–
Forward exchange contracts as fair value hedges			0.6	0.6	0.6	–	–	–
Forward exchange contracts as net investment hedges			0.2	0.2	0.2	–	–	–
			353.7	405.2	167.3	44.4	145.4	48.1

	Effective interest rate	Year of maturity	Carrying amount £m	Contractual cash flows £m	Less than 1 year £m	2012 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%	2013	5.8	5.8	5.8	–	–	–
5.70% US Dollar Senior Notes 2014	5.70%	2014	61.6	68.5	3.5	65.0	–	–
3.65% Euro Senior Notes 2015	3.65%	2015	32.7	35.7	1.2	1.2	33.3	–
4.32% Euro Senior Notes 2017	4.32%	2017	16.4	19.5	0.7	0.7	18.1	–
6.12% US Dollar Senior Notes 2017	6.12%	2017	107.5	140.6	6.6	6.6	127.4	–
6.26% US Dollar Senior Notes 2019	6.26%	2019	46.1	66.4	2.9	2.9	8.7	51.9
Bank and other loans	1.70%-15.01%	up to 2017	2.3	3.3	1.8	0.2	1.3	–
Obligations under finance leases	6.00%	up to 2014	0.4	0.4	0.2	0.2	–	–
Trade and other payables			95.0	95.0	94.6	0.4	–	–
Derivative financial liabilities								
Forward exchange contracts as cash flow hedges			0.1	0.1	0.1	–	–	–
Forward exchange contracts as fair value hedges			0.5	0.5	0.5	–	–	–
Forward exchange contracts as net investment hedges			0.1	0.1	0.1	–	–	–
			368.5	435.9	118.0	77.2	188.8	51.9

* The 6.84% US Dollar Senior Notes 2013 were repaid as scheduled on 6 March 2013.

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20. FINANCIAL RISK MANAGEMENT continued

Cash flows associated with derivatives that are cash flow hedges

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.

	Carrying amount £m	Contractual cash flows £m	More than 1 year £m	1-2 years £m	2-5 years £m	More than 5 years £m
Forward exchange contracts – Assets	**0.9**	**55.2**	**54.9**	**0.3**	**–**	**–**
Forward exchange contracts – Liabilities	**(0.1)**	**(54.3)**	**(54.0)**	**(0.3)**	**–**	**–**
Total 2013	**0.8**	**0.9**	**0.9**	**–**	**–**	**–**
Forward exchange contracts – Assets	1.1	45.4	45.0	0.4	–	–
Forward exchange contracts – Liabilities	(0.1)	(44.0)	(43.6)	(0.4)	–	–
Total 2012	1.0	1.4	1.4	–	–	–

Market risk

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange 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

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	Fixed rate instruments carrying amount	
	2013 £m	2012 £m
Fixed rate instruments		
Financial assets	**–**	–
Financial liabilities	**(262.3)**	(271.1)
	(262.3)	(271.1)

	Variable rate instruments carrying amount	
	2013 £m	2012 £m
Variable rate instruments		
Financial assets	**76.0**	80.0
Financial liabilities	**(0.9)**	(2.7)
	75.1	77.3

Interest rate risk is regularly monitored and reviewed taking into account the Group's overall borrowing costs, interest cover ratio and the relevant interest rate markets. The fixed rate financial liabilities comprise the currency equivalent of £261.6 million (2012: £270.1 million) of US Private Placement Debt. The average cost of the Group's fixed rate debt is 5.6% (2012: 5.7%).

An increase of 100 basis points in interest rates on the variable element of the Group's net debt at the reporting date would have increased profit by £0.7 million (2012: £0.8 million). A decrease of 100 basis points would have decreased profit by £0.5 million (2012: £0.4 million). This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

20. FINANCIAL RISK MANAGEMENT continued

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-GBP borrowings treated as hedges of net investments in overseas entities.

Functional currency of Group operations

	2013 GBP £m	2013 USD £m	2013 € £m	2012 GBP £m	2012 USD £m	2012 € £m
Trade receivables	**1.0**	**11.4**	**4.7**	2.5	9.9	13.4
Cash and cash equivalents	**0.3**	**4.3**	**8.0**	0.6	9.6	3.4
Trade payables	**(1.1)**	**(9.6)**	**(4.3)**	(4.6)	(6.5)	(4.1)
Net balance sheet exposure	**0.2**	**6.1**	**8.4**	(1.5)	13.0	12.7

The amounts shown in the table take into account the effect of the forward contracts entered into to manage these currency exposures.

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 12 months. The Group uses forward exchange contracts to hedge its foreign currency risk. Almost all 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.

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 31 December 2013 was an asset of £0.8 million (2012: asset of £1.0 million).

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.

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:

	2013 £m	2012 £m
GBP	**6.6**	4.6
USD	**196.2**	205.6
€	**51.4**	49.8
Japanese Yen	**8.0**	10.0
Other	**0.3**	2.8
	262.5	272.8

The Group's sensitivity to changes in foreign exchange rates on financial assets and liabilities as at 31 December 2013 is as follows:

Based upon the currency profile of the Group's net financial assets and liabilities, if GBP had strengthened by 10%, reported equity would have increased by £18.1 million (2012: £18.9 million). Conversely, if GBP had weakened by 10%, reported equity would have reduced by £22.1 million (2012: £22.7 million). Assuming the change occurred on the balance sheet date, there would be no impact on reported profit.

The impact of a weakening in GBP 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.

Based on the 2013 results, if in isolation the USD average exchange rate for 2013 were 10% weaker, reported revenue and profit before tax would be £33.4 million (2012: £34.0 million) and £3.8 million (2012: £3.5 million) lower.

Based on the 2013 results, if in isolation the EUR average exchange rate for 2013 were 10% weaker, reported revenue and profit before tax would be £21.2 million (2012: £21.4 million) and £2.7 million (2012: £2.8 million) lower.

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20. FINANCIAL RISK MANAGEMENT continued

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.

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 (KPI), 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 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 monitors capital using the following indicators:

Debt to adjusted capital

	2013 £m	2012 £m
Total interest-bearing loans and borrowings	**262.5**	272.8
Less: cash and cash equivalents and overdrafts	**(76.0)**	(80.0)
Net debt*	**186.5**	192.8
Total equity	**274.1**	271.8
Less: amounts accumulated in equity relating to cash flow hedges	**(0.6)**	(0.7)
Adjusted capital	**273.5**	271.1
Debt to adjusted capital ratio	**0.7**	0.7

Net debt* to EBITDA

	2013 £m	2012 Restated £m
Net debt* to EBITDA	**186.5**	192.8
Operating profit before specific adjusting items and restructuring costs	**110.7**	113.7
Depreciation and amortisation	**37.6**	38.3
EBITDA	**148.3**	152.0
Net debt* to EBITDA ratio	**1.3x**	1.3x

Interest cover

	2013 £m	2012 Restated £m
EBITDA	**148.3**	152.0
Net finance costs (excluding IAS 19 pension and discount on deferred consideration)	**17.0**	16.9
Interest cover	**8.7x**	9.0x

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

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.

20. FINANCIAL RISK MANAGEMENT continued

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 2013 £m	**Fair value 2013 £m**	Carrying amount 2012 £m	Fair value 2012 £m
Financial assets and liabilities at amortised cost				
6.84% US Dollar Senior Notes 2013	**–**	**–**	(5.8)	(5.8)
5.70% US Dollar Senior Notes 2014	**(60.4)**	**(62.4)**	(61.6)	(65.5)
3.65% Euro Senior Notes 2015	**(33.6)**	**(34.3)**	(32.7)	(34.1)
4.32% Euro Senior Notes 2017	**(16.8)**	**(17.9)**	(16.4)	(17.8)
6.12% US Dollar Senior Notes 2017	**(105.6)**	**(116.9)**	(107.5)	(124.1)
6.26% US Dollar Senior Notes 2019	**(45.2)**	**(50.4)**	(46.1)	(54.7)
Bank and other loans	**(0.7)**	**(0.7)**	(2.3)	(2.3)
Obligations under finance leases	**(0.2)**	**(0.2)**	(0.4)	(0.4)
Trade and other payables	**(88.1)**	**(88.1)**	(95.0)	(95.0)
Loans and receivables	**167.5**	**167.5**	165.5	165.5
Cash and cash equivalents	**76.0**	**76.0**	80.0	80.0
	(107.1)	**(127.4)**	(122.3)	(154.2)
Available-for-sale financial instruments				
Available-for-sale financial assets	**2.7**	**2.7**	3.9	3.9
Derivatives and other items at fair value				
Forward exchange contracts used for hedging	**0.8**	**0.8**	1.1	1.1
	(103.6)	**(123.9)**	(117.3)	(149.2)

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the preceding table.

Equity securities

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

Derivatives

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

Interest-bearing loans and borrowings

Fair value is calculated based on discounted expected future principal and interest cash flows. The interest rates used to determine the fair value of loans and borrowings are 2.1-4.1% (2012: 2.0-5.2%) and finance leases 6.0% (2012: 6.0%).

Finance lease liabilities

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

Trade and other receivables/payables

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

Cash and cash equivalents, trade and other payables and loans and receivables

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

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20. FINANCIAL RISK MANAGEMENT continued

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).

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

	31 December 2012		
	Level 1 £m	Level 2 £m	Total £m
Available-for-sale financial assets	3.9	–	3.9
Derivative financial assets	–	1.8	1.8
	3.9	1.8	5.7
Derivative financial liabilities	–	(0.7)	(0.7)

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

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

	31 December 2012		
	Level 1 £m	Level 2 £m	Total £m
6.84% US Dollar Senior Notes 2013	–	(5.8)	(5.8)
5.70% US Dollar Senior Notes 2014	–	(65.5)	(65.5)
3.65% Euro Senior Notes 2015	–	(34.1)	(34.1)
4.32% Euro Senior Notes 2017	–	(17.8)	(17.8)
6.12% US Dollar Senior Notes 2017	–	(124.1)	(124.1)
6.26% US Dollar Senior Notes 2019	–	(54.7)	(54.7)
Obligations under finance leases	–	(0.4)	(0.4)
	–	(302.4)	(302.4)

There have been no transfers between level 1 and level 2 during 2013 and 2012 and there were no level 3 financial instruments in either 2013 and 2012.

21. EMPLOYEE BENEFITS

Accounting policies

(i) Defined contribution plans

For defined contribution plans, the Group pays contributions to either public or privately administered pension insurance plans, and the Group has no further payment obligations once the contributions have been paid. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

(ii) Defined benefit plans

A defined benefit plan is any retirement plan which is not a defined contribution plan. Typically, defined benefit plans define an amount of retirement benefit that an employee will receive, usually depending on one or more factors such as age, years of service and earnings.

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. Remeasurement 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.

Employee benefits

The Group 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 predominantly provide pensions based on service and career-average pay. In addition post-retirement medical plans are operated in the USA.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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21. EMPLOYEE BENEFITS continued

UK schemes

In the UK, the Group operates two defined benefit pension schemes, the Morgan Pension Scheme, and the Morgan Group Senior Staff Pension and Life Assurance Scheme ('the UK Schemes'). The two UK Schemes provide a benefit based upon an employee's total service, and their career average earnings (including allowance for Consumer Price Inflation), although historically benefits were based upon an employee's final salary. Once in payment, pensions receive increases as set out in the rules, at either a fixed level, or in line with the Retail Price Index. The overall duration of the UK Schemes is around 16 years.

The UK Schemes' assets are held in trustee-administered funds which are governed by UK regulations, as is the nature of the relationship between the Group and the Trustees. Responsibility for the governance of the UK Schemes – including investment decisions and contribution schedules – lies with the Board of Trustees, which must consult with the Company on such matters. The Board of Trustees must be composed of representatives of the Company, plan participants and an independent trustee in accordance with the UK schemes' governing documents.

Funding legislation in the UK requires that schemes are fully funded on a scheme-specific basis as measured, and this must be assessed at least every three years. To the extent that there is a deficit against this measure, a payment schedule must be agreed such that the deficit is removed over a period of time, typically around 10 years.

The most recent full actuarial valuation of the UK Schemes were undertaken as at April 2011 and resulted in combined assessed deficits of £23 million. On the basis of these full valuations, the Trustees of the UK Schemes, having consulted with the Group, agreed past service deficit recovery payments totalling £5.5 million a year in 2013, increasing by 2.75% pa until 2021 and contributions in respect of future service as accrued.

New full valuations are currently in progress with effective dates of April 2013, and the Trustees are currently consulting with the Group regarding the outcome of these valuations. The outcome of those consultations will determine the Group's future contribution requirements, with any new deficit arising needing to be met through the payment of additional contributions.

The UK Schemes were closed to new entrants on 1 August 2011, with any new employees receiving benefits through the Morgan Group Personal Pension Plan, a defined contribution arrangement.

US schemes

In the US, the Group operates a number of defined benefit pension schemes ('the US Schemes'). The majority of these are qualified arrangements for tax purposes, although the Group also operates a Supplemental Executive Retirement Plan ('SERP') which is not tax approved. With the exception of the SERP, the US Schemes are all frozen, with employees accruing benefits within a 401k arrangement.

The US Schemes provide a benefit based upon an employee's service and earnings. The benefits are level both prior to, and whilst in, payment. Overall, the US Schemes' duration is around 12 years.

The qualified US Schemes' assets are held in a trust separately from the Group's assets. For the SERP the Group holds an asset to meet the obligations, however due to its nature this is accounted for as a Group asset, rather than an asset of the SERP. Responsibility for the governance of the US Schemes, including investment decisions and contribution schedules, lies with a management committee, all of whose members are appointed by the Group.

The funding requirements in the US, ERISA, require schemes to be fully funded at all times, and if not to target full funding within a period of seven years.

The most recent full actuarial valuation of the US Schemes were undertaken as at 1 January 2013 and resulted in combined assessed deficits of £26.1 million. On the basis of these valuations, the Group made a £9.2 million payment in 2013 and will make payments of £6.4 million in 2014, £3.2 million in 2015 and a total of £8.6 million over the following five years.

European schemes

In Europe, the Group operates a number of retirement schemes, with the bulk of the obligations relating to arrangements for employees in Germany. In line with local practice these arrangements are not funded for in advance, with benefits met by the Group as they fall due.

21. EMPLOYEE BENEFITS continued
Employee benefits

	2013 UK £m	2013 USA £m	2013 Europe £m	2013 Rest of World £m	2013 Total £m
Pension plans and employee benefits					
Present value of unfunded defined benefit obligations	–	(7.7)	(26.8)	(1.5)	(36.0)
Present value of funded defined benefit obligations	(441.5)	(134.2)	(1.7)	(11.6)	(589.0)
Fair value of plan assets	366.5	102.6	0.5	10.8	480.4
Net obligations	(75.0)	(39.3)	(28.0)	(2.3)	(144.6)
Movements in present value of defined benefit obligation					
At 1 January 2013	(427.0)	(158.6)	(29.6)	(15.5)	(630.7)
Current service cost	(2.5)	(0.1)	(0.7)	(1.2)	(4.5)
Interest cost	(18.4)	(6.7)	(0.9)	(0.3)	(26.3)
Remeasurement losses					
Changes in financial assumptions	(0.6)	13.8	2.3	–	15.5
Changes in demographic assumptions	(2.7)	(0.4)	–	–	(3.1)
Experience adjustments on benefit obligations	(6.2)	0.1	(0.3)	1.2	(5.2)
Benefits paid	17.2	7.8	1.4	1.7	28.1
Contributions by members	(1.3)	–	–	–	(1.3)
Disposals	–	–	–	0.7	0.7
Exchange adjustments	–	2.2	(0.7)	0.3	1.8
At 31 December 2013	(441.5)	(141.9)	(28.5)	(13.1)	(625.0)
Movements in fair value of plan assets					
At 1 January 2013	355.7	95.9	0.5	11.8	463.9
Interest on plan assets	15.5	4.2	–	0.3	20.0
Remeasurement gains	4.1	2.2	–	(1.3)	5.0
Contributions by employer	7.9	10.5	1.4	2.1	21.9
Contributions by members	1.3	–	–	–	1.3
Benefits paid	(17.2)	(7.8)	(1.4)	(1.7)	(28.1)
Administrative expenses	(0.8)	–	–	–	(0.8)
Disposals	–	–	–	(0.4)	(0.4)
Exchange adjustments	–	(2.4)	–	–	(2.4)
At 31 December 2013	366.5	102.6	0.5	10.8	480.4
Actual return on assets	19.6	6.4	–	(1.0)	25.0

	2013 UK £m	2013 USA £m	2013 Europe £m	2013 Rest of World £m	2013 Total £m
Pension plans and employee benefits					
Expense recognised in the consolidated income statement					
Current service cost and past service cost	(2.5)	(0.1)	(0.7)	(1.2)	(4.5)
Administrative expenses	(0.8)	–	–	–	(0.8)
Net interest on net defined benefit liability	(2.9)	(2.5)	(0.9)	–	(6.3)
Total expense	(6.2)	(2.6)	(1.6)	(1.2)	(11.6)

In addition to the above the Group directly incurred £0.6 million of administrative expenses in relation to the US schemes, which have been recognised in overheads outside of the pension liability.

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21. 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:

	2013 £m	2012 Restated £m
Operating costs	**(5.3)**	(5.7)
Net finance expense	**(6.3)**	(5.6)
Total expense	**(11.6)**	(11.3)

In Canada the Group is winding up three of the pension plans for its employees. This resulted, overall, in a curtailment loss of £0.2 million in 2012. One of these plans has settled its benefits in full in 2013.

Statement of financial position reconciliation

	2013 £m	2012 Restated £m
At 1 January 2013	**(166.8)**	(135.3)
Pension expense	**(11.6)**	(11.3)
Contributions	**21.9**	19.2
Other comprehensive income	**12.2**	(43.2)
Disposals	**0.3**	–
Currency adjustments	**(0.6)**	3.8
At 31 December 2013	**(144.6)**	(166.8)

The Group expects to contribute £19.9 million to these arrangements in 2014.

	UK £m	USA £m	Europe £m	Rest of World £m	Total £m
Estimate of employer contributions to be paid into the plans during the 12-month period beginning 1 January 2014	**8.0**	**8.3**	**1.5**	**2.1**	**19.9**

The fair values of the plan assets were as follows:

	2013 UK £m	2013 USA £m	2013 Europe £m	2013 Rest of World £m	2013 Total £m
Equities and growth assets	**146.2**	**44.4**	**–**	**–**	**190.6**
Bonds	**39.7**	**52.9**	**–**	**–**	**92.6**
Matching insurance policies	**179.2**	**–**	**0.4**	**3.3**	**182.9**
Other	**1.4**	**5.3**	**0.1**	**7.5**	**14.3**
Total	**366.5**	**102.6**	**0.5**	**10.8**	**480.4**

The assumptions used are best estimate assumptions chosen from a range of possible actuarial assumptions which may not be borne out in practice. The principal assumptions are the discount rate and inflation assumptions which are long-term and are measured on external factors, based upon each plan's duration. In addition to these, the mortality assumption in the UK and US is material to the cost of the promised benefits. In both the UK and Europe, the assumed increases in salaries and pensions in payment are derived from assumed future inflation.

21. EMPLOYEE BENEFITS continued

Actuarial assumptions were:

	2013 UK %	2013 USA %	2013 Europe %	2013 Rest of World %
Discount rate	**4.50**	**5.00**	**3.50**	**4.60**
Inflation (UK: RPI/CPI)	**3.30/2.10**	**n/a**	**2.00**	**n/a**
Salary increase	**n/a**	**n/a**	**2.50**	**5.00**
Pensions increase	**3.20/3.10/3.80**	**n/a**	**2.00**	**n/a**
Mortality – post-retirement:				
Life expectancy of a male retiring at age 60 in 2013	**26.5**	**23.5**	**23.3**	**n/a**
Life expectancy of a male retiring at age 60 in 2033	**28.0**	**24.3**	**26.1**	**n/a**

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.

The accounting assumptions noted above are used to calculate the year-end net pension liability in accordance with the relevant accounting standard, IAS 19 (revised) *Employee Benefits*. Changes in these assumptions have no impact on the Group's cash payments to their arrangements. The payments due are calculated based on local funding requirements, or in the case of the Group's unfunded arrangements on the incidence of benefit payments falling due.

The sensitivities of the Group's net balance sheet to the principal assumptions are:

	Change in assumption	2013 Increase effect £m	2012 Increase effect £m
Discount rate	Decrease by 0.1%	**7.8**	7.7
Inflation	Increase by 0.1%	**3.8**	3.4
Mortality – post-retirement	Pensioners live 1 year longer	**15.1**	12.5
Exchange rates	GBP weakens against USD by 10%	**4.4**	7.0
	GBP weakens against EUR by 10%	**3.1**	3.2

These sensitivities have been calculated to show the movement in the net balance sheet in isolation, and assuming no other changes in market conditions at the accounting date. This is unlikely in practice – for example, a change in discount rate is unlikely to occur without any movement in the value of the assets held by the Group's schemes.

	2012 Restated UK £m	2012 Restated USA £m	2012 Restated Europe £m	2012 Restated Rest of World £m	2012 Restated Total £m
Present value of unfunded defined benefit obligations	–	(8.8)	(28.0)	(2.2)	(39.0)
Present value of funded defined benefit obligations	(427.0)	(149.8)	(1.6)	(13.3)	(591.7)
Fair value of plan assets	355.7	95.9	0.5	11.8	463.9
Net obligations	(71.3)	(62.7)	(29.1)	(3.7)	(166.8)
Movements in present value of defined benefit obligation					
At 2 January 2012	(378.1)	(147.8)	(25.2)	(16.3)	(567.4)
Current service cost	(2.2)	(0.4)	(0.3)	(1.5)	(4.4)
Interest cost	(21.6)	(8.7)	(0.9)	(0.2)	(31.4)
Remeasurement losses	(39.8)	(16.0)	(5.1)	(1.5)	(62.4)
Benefits paid	16.1	7.4	1.2	2.5	27.2
Contributions by members	(1.4)	–	–	–	(1.4)
Curtailments and settlements	–	–	–	1.4	1.4
Exchange adjustments	–	6.9	0.7	0.1	7.7
At 31 December 2012	(427.0)	(158.6)	(29.6)	(15.5)	(630.7)

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21. EMPLOYEE BENEFITS continued

	2012 Restated UK £m	2012 Restated USA £m	2012 Restated Europe £m	2012 Restated Rest of World £m	2012 Restated Total £m
Movements in fair value of plan assets					
At 2 January 2012	330.7	89.3	0.6	11.5	432.1
Interest on plan assets	19.5	5.8	–	0.5	25.8
Remeasurement gains	13.0	5.2	–	1.0	19.2
Contributions by employer	7.8	7.5	1.1	2.8	19.2
Contributions by members	1.4	–	–	–	1.4
Benefits paid	(16.1)	(7.4)	(1.2)	(2.5)	(27.2)
Administrative expenses	(0.6)	(0.5)	–	–	(1.1)
Curtailments and settlements	–	–	–	(1.6)	(1.6)
Exchange adjustments	–	(4.0)	–	0.1	(3.9)
At 31 December 2012	355.7	95.9	0.5	11.8	463.9
Actual return on assets	32.5	11.0	–	1.5	45.0

	2012 Restated UK £m	2012 Restated USA £m	2012 Restated Europe £m	2012 Restated Rest of World £m	2012 Restated Total £m
Pension plans and employee benefits					
Expense recognised in the consolidated income statement					
Current service cost and past service cost	(2.2)	(0.4)	(0.3)	(1.5)	(4.4)
Administrative expenses	(0.6)	(0.5)	–	–	(1.1)
Net interest on net defined benefit (asset)/liability	(2.1)	(2.9)	(0.9)	0.3	(5.6)
Gain on curtailment and settlements	–	–	–	(0.2)	(0.2)
Total expense	(4.9)	(3.8)	(1.2)	(1.4)	(11.3)

Risks
Through its defined benefit pension plans, the Group is exposed to a number of risks, the most significant of which are detailed below:

The balance sheet net pension liability is a snapshot view which can be significantly influenced by short-term market factors.

The calculation of the surplus or deficit depends, therefore, on factors which are beyond the control of the Group – principally the value at the balance sheet date of equity shares in which the scheme has invested and long-term interest rates which are used to discount future liabilities. The funding of the scheme is based on long-term trends and assumptions relating to market growth, as advised by qualified actuaries and investment advisers.

Investment returns: The Group's net balance sheet, and contribution requirements, are heavily dependent upon the return on the assets invested in by the schemes.

Longevity: The cost to the Group of the pensions promised to members is dependent upon the expected term of these payments. To the extent that members live longer than expected this will increase the cost of these arrangements.

Inflation rate risk: In the UK, the pension promises are, in the main, linked to inflation, and higher inflation will lead to higher liabilities.

The above risks have been mitigated for a large proportion of the UK Schemes' population through the purchase of an insurance policy, the payments from which exactly match the promises made to employees. Remaining investment risks have also been mitigated to some extent by diversification of the return seeking assets and backing uninsured pensioner liabilities by bonds.

In addition, the IAS 19 defined benefit obligation is linked to yields on AA-rated corporate bonds, however the majority of the Group's arrangements invest in a number of other assets which will move in a different manner from these bonds. Therefore, changes in market conditions may lead to volatility in the net pension liability on the Group's balance sheet and in other comprehensive income, and to a lesser extent in the IAS 19 pension expense in the Group's income statement.

21. EMPLOYEE BENEFITS continued

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 £6.8 million (2012: £7.0 million). The Group expects to contribute £6.7 million to these arrangements in 2014.

Share-based payments

The Group operates various share plans that allow Group employees to acquire shares in the Company. Under the Morgan Advanced Materials plc Long-Term Incentive Plan ('LTIP') and The Morgan Advanced Materials Bonus Deferral Share Matching Plan ('BDSMP') awards of shares are made to various key executives. Under the Executive Share Option Scheme 2004 ('ESOS 2004') share options were granted by the Company. The Company also maintains a UK all-employee Sharesave scheme ('Employee Sharesave Scheme 2004'). 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, BDSMP, ESOS 2004	Monte Carlo model
Employee Sharesave Scheme 2004	Black-Scholes Merton model

The following options and awards were outstanding at 31 December 2013 in respect of Ordinary shares:

	Exercise price(s)	Number of shares outstanding	Normal exercise dates ranging from	to
Employee Sharesave Scheme 2004	165.00p-245.00p	1,886,640	1 December 2013	31 May 2017
ESOS 2004	129.05p-171.90p	457,354	22 June 2007	23 May 2015
BDSMP	0.00p-330.50p	3,586,214	23 March 2014	25 September 2016
LTIP	0.00p	3,170,686	6 May 2013	20 May 2023

Performance metrics for LTIP, BDSMP and ESOS 2004

The key performance metrics used in the plans are:

- total Shareholder Return ('TSR') – the return (expressed as a percentage) on a notional investment in one share in the Company expressed as follows:
  (a) the average share price over the last three months of the performance period; plus
  (b) the net dividends per share paid during the performance period reinvested in Company shares at the ex-dividend date; divided by
  (c) the average share price over the three months preceding the performance period.
- Earnings Per Share ('EPS') – (for the LTIP and BDSMP) profit before taxation less the charge for non-controlling interests in any financial year of the Company, adjusted by the Remuneration Committee to exclude the effect of amortisation of intangible assets, charges related to IAS 39 *Financial Instruments: Recognition and Measurement* and the effect of any other special items which the Remuneration Committee does not, in its discretion, consider to reflect underlying operating performance, divided by the weighted average number of shares in issue during the relevant financial years (defined on a pre-taxation basis).
- Group Earnings Before Interest, Tax and Amortisation ('EBITA') – the Group's revenue for any financial year less operating expenses, but measured before the impact of taxation, net financing costs and the effect of amortisation of intangible assets. The Remuneration Committee may also make further adjustments to exclude items which it does not, in its discretion, consider to reflect the underlying operating performance of the Group during the relevant financial years.
- Group average Return on Capital Employed ('ROCE') – EBITA, divided by the average of the capital employed at the end of the relevant financial years.
- Divisional EBITA for the LTIP & BDSMP calculations – Divisional revenue for the relevant financial years less operating costs (including restructuring costs), but measured before the impact of taxation, net financing costs and the effect of amortisation of intangible assets at reported exchange rates. The Remuneration Committee may also make further adjustments to exclude items which it does not, in its discretion, consider to reflect the underlying operating performance of the Division during the relevant financial years.
- Divisional average ROCE – Divisional Earnings before net financing costs, taxation and amortisation of intangible assets (EBITA), divided by the average of the Capital Employed by the Division at the end of the relevant financial years.

For the TSR elements of the plans, for performance between median and upper quartile, awards are made on a straight-line, pro-rata basis. Similarly for EPS, Group EBITA, Group average ROCE, Divisional EBITA and Divisional average ROCE metrics, for performance between the identified trigger points, awards are made on a straight-line, pro-rata basis.

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21. EMPLOYEE BENEFITS continued
Share Plans Terms and Conditions
The terms and conditions of all awards and grants made that were outstanding on or after 2 January 2012:

Grant date/Employees entitled	Number of instruments granted	Vesting conditions	Contractual life of option
Awards granted to senior employees in 2013 under the BDSMP	194,944	Three years of service plus satisfaction of performance metrics	3 years
Awards granted to senior employees in 2013 under the LTIP	1,332,099	Three years of service plus satisfaction of performance metrics	3 years
Awards granted to senior employees in 2012 under the BDSMP	1,740,554	Three years of service plus satisfaction of performance metrics	3 years
Awards granted to senior employees in 2012 under the LTIP	1,251,358	Three years of service plus satisfaction of performance metrics	3 years
Awards granted to senior employees in 2011 under the BDSMP	1,484,633	Three years of service plus satisfaction of performance metrics	3 years
Awards granted to senior employees in 2011 under the LTIP	1,500,775	Three years of service plus satisfaction of performance metrics	3 years
Awards granted to senior employees in 2010 under the BDSMP	827,311	Three years of service plus satisfaction of performance metrics	3 years
Awards granted to senior employees in 2010 under the LTIP	2,331,758	Three years of service plus satisfaction of performance metrics	3 years
Options granted to senior employees in 2005 under the ESOS 2004	2,097,000	Three years of service plus satisfaction of performance metrics	10 years
Options granted to senior employees in 2004 under the ESOS 2004	3,157,500	Three years of service plus satisfaction of performance metrics	10 years

Performance metrics for LTIP
The performance metrics for LTIP awards are set annually. The Company has given an undertaking to shareholders that awards will only vest if there is also an improvement in underlying financial performance. Awards will only vest therefore if the Remuneration Committee is satisfied that the Company's and/or Division's (pre-2012 LTIP awards only) underlying financial performance over the performance period justifies vesting.

2009 LTIP Awards
For LTIP awards granted to all participants in 2009, the extent to which 100% of the awards vested depended on the Company's TSR ranking against an appropriate comparator group from 5 January 2009 to 1 January 2012.

TSR performance against the comparator group companies	% of award that vests
Upper quartile	100%
Median	30%
Below median	Nil

2010 LTIP Awards
For LTIP awards granted to all participants in 2010, the extent to which 50% of the awards vested depended on the Company's TSR ranking against an appropriate comparator group over the period from 4 January 2010 to 31 December 2012. The extent to which the other 50% of these awards vested depended on the growth in the Company's EPS compared with RPI between the 2009 base financial year and the 2012 financial year:

TSR element		EPS element	
TSR performance against the comparator group companies	**% of award that vests**	**EPS growth**	**% of award that vests**
Upper quartile	50%	RPI+10% pa	50%
Median	15%	RPI+4% pa	15%
Below median	Nil	RPI+< 4% pa	Nil

In addition, the LTIP awards granted in 2010 were restructured to include an HMRC approved element as part of the overall LTIP awards.

21. EMPLOYEE BENEFITS continued

2011 LTIP Awards

For LTIP awards granted to the CEO, CFO and non-Divisional employees in 2011, the extent to which 50% of the awards vest depends on the Company's TSR ranking against an appropriate comparator group over the period from 3 January 2011 to 31 December 2013. The extent to which the other 50% of these awards vest depends on the growth in the Company's EPS compared with RPI between the 2010 base financial year and the 2013 financial year:

TSR element		EPS element	
TSR against FTSE All-Share Industrials Index	**% of award that vests**	**EPS growth**	**% of award that vests**
Upper quartile	50%	15% pa	50%
Median	15%	8% pa	15%
Below median	Nil	< 8% pa	Nil

To support the two-Divisional structure introduced in July 2010, the 2011 LTIP awards for senior Divisional executives were tailored to the value creation of each Division. Under these awards, the Divisional element is split into Divisional EBITA growth and Divisional average ROCE. Vesting under the Divisional element only occurs when Divisional performance exceeds the threshold performance metrics under both measures. Once the Divisional performance metrics exceed the threshold, the two elements are then measured independently.

For the LTIP award granted to the COO (who, at the time of the award, was CEO Morgan Ceramics) in 2011, TSR ranking (as for CEO, CFO and non-Divisional employees) and Divisional performance between the 2010 base financial year and the 2013 financial year, were awarded on an equal basis:

TSR element		Divisional element			
TSR against FTSE All-Share Industrials Index	**% of award that vests**	**Divisional EBITA growth**	**% of award that vests**	**Divisional average ROCE**	**% of award that vests**
Upper quartile	50%	18% pa	25%	40.7%	25%
Median	15%	12% pa	7.5%	35.7%	7.5%
Below median	Nil	< 12% pa	Nil	< 35.7%	Nil

For LTIP awards granted to other executives in the former Morgan Ceramics Division in 2011, 100% of awards are based on Morgan Ceramics Divisional performance, between the 2010 base financial year and the 2013 financial year:

Divisional EBITA growth	% of award that vests	Divisional average ROCE	% of award that vests
18% pa	50%	40.7%	50%
12% pa	15%	35.7%	15%
< 12% pa	Nil	< 35.7%	Nil

For the LTIP award granted to the former CEO Morgan Engineered Materials in 2011, TSR ranking (as for CEO, CFO and non-Divisional employees) and Divisional performance between the 2010 base financial year and the 2013 financial year, were awarded on an equal basis:

TSR element		Divisional element			
TSR against FTSE All-Share Industrials Index	**% of award that vests**	**Divisional EBITA growth**	**% of award that vests**	**Divisional average ROCE**	**% of award that vests**
Upper quartile	50%	15% pa	25%	36.1%	25%
Median	15%	10% pa	7.5%	33.7%	7.5%
Below median	Nil	< 10% pa	Nil	< 33.7%	Nil

For LTIP awards granted to other executives in the former Morgan Engineered Materials Division in 2011, 100% of awards are based on Morgan Engineered Materials Divisional performance, between the 2010 base financial year and the 2013 financial year:

Divisional EBITA growth	% of award that vests	Divisional average ROCE	% of award that vests
15% pa	50%	36.1%	50%
10% pa	15%	33.7%	15%
< 10% pa	Nil	< 33.7%	Nil

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21. EMPLOYEE BENEFITS continued

2012 LTIP Awards

To support the One Morgan organisation structure, the performance metrics for the 2012 LTIP awards were reviewed during 2013.

There were no changes to the performance conditions of the LTIP awards granted to the CEO, CFO and non-Divisional employees in 2012. The extent to which 33% of the awards vest depends on the Company's TSR ranking against an appropriate comparator group over the period from 2 January 2012 to 31 December 2014. The extent to which 33% of these awards vest depends on the compound annual growth in the Company's EPS between the 2011 base financial year and the 2014 financial year. The extent to which 33% vest depends on the Group's average ROCE for the financial years ending 31 December 2012, 2013 and 2014:

TSR element		Group element			
TSR against FTSE All-Share Industrials Index	**% of award that vests**	**EPS growth**	**% of award that vests**	**Group average ROCE**	**% of award that vests**
Upper quartile	33.33%	15% pa	33.33%	37%	33.33%
Median	10%	8% pa	10%	33%	10%
Below median	Nil	< 8% pa	Nil	< 33%	Nil

For the 2012 LTIP award made to the COO (who, at the time of the award, was CEO Morgan Ceramics), it was decided that the Morgan Ceramics Divisional performance metrics attached to his 2012 LTIP award would be replaced by Group performance metrics, aligned with those attached to the 2012 LTIP awards awarded to the other executive Directors, as set out above.

For the 2012 LTIP awards granted to other executives in the former Morgan Ceramics and Morgan Engineered Materials Divisions in 2012, it was decided that a single set of Group performance metrics should apply to these participants. The single set of Group performance metrics blends the performance metrics originally set for the two Divisions over the performance period (as set out below). The Group performance metrics are split into compound annual growth EBITA and Group average ROCE. Vesting only occurs when Group performance exceeds the threshold performance metrics under both measures. Once the Group performance metrics exceed the threshold, the two elements are then measured independently:

Compound annual growth EBITA	% of award that vests	Group average ROCE	% of award that vests
15% pa	50%	40.9%	50%
5.6% pa	15%	38.5%	15%
< 5.6% pa	Nil	< 38.5%	Nil

The changes to the performance conditions attaching to the 2012 LTIP awards did not result in a change in the fair value at the measurement date.

Details of the original 2012 LTIP performance metrics for other executives in the former Morgan Ceramics and Morgan Engineered Materials Divisions are set out below:

For the COO (who, at the time of the award, was CEO Morgan Ceramics), 1/3 of the award was to vest on relative TSR, with the remaining 2/3 to vest on a Divisional EBITA/ROCE matrix. For the EBITA/ROCE element, there would have been no vesting unless EBITA growth in Morgan Ceramics was at least 6% pa and ROCE is 41% in 2014; full vesting would have occurred for EBITA growth of 15% pa and ROCE of 43.5%.

For LTIP awards granted to executives in the former Morgan Ceramics Division in 2012, 100% of awards were based on Morgan Ceramics Divisional performance, between the 2011 base financial year and the 2014 financial year:

Divisional EBITA	% of award that vests	Divisional average ROCE	% of award that vests
15% pa	50%	43.5%	50%
6% pa	15%	41%	15%
< 6% pa	Nil	< 41%	Nil

For LTIP awards granted to executives in the former Morgan Engineered Materials Division in 2012, 100% of awards were based on Morgan Engineered Materials Divisional performance, between the 2011 base financial year and the 2014 financial year:

Divisional EBITA	% of award that vests	Divisional average ROCE	% of award that vests
15% pa	50%	37.10%	50%
5% pa	15%	34.70%	15%
< 5% pa	Nil	< 34.7%	Nil

21. EMPLOYEE BENEFITS continued

2013 LTIP Awards

For LTIP awards granted to all participants in 2013, the extent to which 33% of the awards vest depends on the Company's TSR ranking against an appropriate comparator group over the period from 1 January 2013 to 31 December 2015. The extent to which 33% of these awards vest depends on the growth in the Company's EPS between the 2012 base financial year and the 2015 financial year. The extent to which 33% vest depends on the Group's average ROCE for the financial years ending 31 December 2013, 2014 and 2015:

TSR element		EPS element		ROCE element	
TSR against FTSE All-Share Industrials Index	**% of award that vests**	**EPS Growth**	**% of award that vests**	**Average ROCE**	**% of award that vests**
Upper quartile	33.33%	15% pa	33.33%	37%	33.33%
Median	10%	8% pa	10%	33%	10%
Below median	Nil	< 8% pa	Nil	< 33%	Nil

Performance metrics for the BDSMP

The BDSMP was introduced following shareholder approval in 2008.

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 performance metrics have been met. The performance metrics for the BDSMP are set annually.

Under the 2009 grant participants were given the opportunity to defer up to 50% of their bonus under the BDSMP and the performance metrics were based on EPS growth targets relative to the 2008 base year:

EPS performance	Vesting of Matching Shares (as multiple of the shares under the Deferred Award)
15% pa	3x match
10% pa	1.75x match
7.5% pa	1x match
5% pa	0.5x match
4% pa	0.25x match
< 4% pa	Nil

Under the 2010 grant participants were given the opportunity to defer up to 75% of their bonus under the BDSMP and the performance metrics were based on EPS growth targets relative to the 2009 base year:

EPS performance	Vesting of Matching Shares (as multiple of the shares under the Deferred Award)
RPI+15% pa	3x match
RPI+10% pa	1.75x match
RPI+7.5% pa	1x match
RPI+5% pa	0.5x match
RPI+4% pa	0.25x match
< RPI+4% pa	Nil

Under the 2011, 2012 and 2013 grants participants were given the opportunity to defer up to 50% of their bonus under the BDSMP and the performance metrics are based on EPS growth targets relative to the 2010, 2011 and 2012 base years respectively:

EPS performance	Vesting of Matching Shares (as multiple of the shares under the Deferred Award)
20% pa	3x match
16% pa	2x match
12% pa	1x match
8% pa	Nil
< 8% pa	Nil

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21. EMPLOYEE BENEFITS continued
ESOS 2004
There were no awards during 2013 (2012: nil).

Employee Sharesave Scheme 2004 Terms and Conditions
The terms and conditions of options that were outstanding on or after 2 January 2012 that are not covered in the information above are as follows:

Grant date/Employees entitled	Number of instruments granted	Vesting conditions	Contractual life of option
Options granted to UK employees in 2013 under the Employee Sharesave Scheme 2004	463,394	Three years of service	3 years
Options granted to UK employees in 2012 under the Employee Sharesave Scheme 2004	1,071,868	Three years of service	3 years
Options granted to UK employees in 2011 under the Employee Sharesave Scheme 2004	471,732	Three years of service	3 years
Options granted to UK employees in 2010 under the Employee Sharesave Scheme 2004	484,069	Three years of service	3 years

Share Plans – Further Details

	Awards made in 2013		
	LTIP 2004	**BDSMP**	**Employee Sharesave Schemes 2004**
Fair value at measurement date	**158.48-248.00p**	**286.40p**	**107.18p**
Share price	**276.70p**	**286.40p**	**311.00p**
Exercise price	**n/a**	**n/a**	**245.00p**
Expected volatility (expressed as weighted average volatility used in the model)	**50%**	**n/a**	**45%**
Option life (expressed as weighted average life used in the model)	**3 years**	**3 years**	**3 years**
Expected dividends	**3.6%**	**n/a**	**2.5%**
Risk-free interest rate	**0.5%**	**n/a**	**1.0%**

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 31 December 2013	**Number of options 31 December 2013**	Weighted average exercise price 31 December 2012	Number of options 31 December 2012
Outstanding at the beginning of the period	**66.20p**	**11,387,046**	40.61p	17,999,603
Granted during the period	**85.81p**	**1,973,749**	89.90p	4,045,797
Forfeited during the period	**60.78p**	**(676,768)**	51.30p	(519,561)
Exercised during the period	**49.45p**	**(2,520,584)**	34.59p	(9,009,111)
Lapsed during the period	**0.99p**	**(1,062,549)**	2.30p	(1,129,682)
Outstanding at the end of the period	**83.11p**	**9,100,894**	66.20p	11,387,046
Exercisable at the end of the period	**126.38p**	**611,204**	136.40p	889,085

The weighted average share price at the date of share options exercised during the period was 284.81 pence (2012: 319.85 pence).

The options outstanding at the year end have an exercise price in the range nil to 330.50 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 198.77 pence (2012: 266.28 pence).

The IFRS 2 fair value charge expensed to the income statement was £0.7 million (2012: £1.9 million).

22. PROVISIONS

Accounting policies

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 settle 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.

Provisions

	Closure and restructuring provisions £m	Other provisions £m	Environmental provisions £m	Total £m
Balance at 31 December 2012	**8.4**	**7.6**	**5.0**	**21.0**
Provisions made during the year	**9.3**	**1.9**	**–**	**11.2**
Provisions used during the year	**(10.6)**	**(1.6)**	**(1.8)**	**(14.0)**
Provisions reversed during the year	**(0.1)**	**(0.2)**	**–**	**(0.3)**
Effect of movements in foreign exchange	**–**	**(0.2)**	**–**	**(0.2)**
Balance at 31 December 2013	**7.0**	**7.5**	**3.2**	**17.7**
Current	**5.7**	**5.2**	**2.0**	**12.9**
Non-current	**1.3**	**2.3**	**1.2**	**4.8**
	7.0	**7.5**	**3.2**	**17.7**

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONTINUED

23. TRADE AND OTHER PAYABLES
Accounting policies
Trade and other payables are initially stated at their fair value and subsequently measured at amortised cost.

Trade and other payables

	2013 £m	2012 £m
Non-current		
Trade and non-trade payables	**1.4**	4.8
Current		
Trade payables due to associate	**0.3**	1.0
Other trade payables	**90.0**	93.7
Non-trade payables and accrued expenses	**85.6**	89.3
	175.9	184.0

Included in current non-trade payables and accrued expenses is £22.9 million (2012: £23.2 million) of tax accruals. Included in current non-trade payables and accrued expenses is £nil million (2012: £0.3 million) of deferred contingent consideration following the purchase of 51% of the Ordinary share capital of Clearpower Limited. For further details see note 2.

24. OPERATING LEASES
Accounting policies
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.

Leases as lessee
Non-cancellable operating lease rentals are payable as follows:

	2013 £m	2012 £m
Less than one year	**8.9**	8.5
Between one and five years	**18.1**	17.3
More than five years	**18.6**	26.2
	45.6	52.0

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 £1.8 million (2012: £2.5 million).

25. CAPITAL COMMITMENTS
Commitments for property, plant and equipment and computer software expenditure for which no provision has been made in these accounts amount to £1.8 million (2012: £2.4 million) for the Group.

26. CONTINGENCIES

Subsidiary undertakings within the Group have given unsecured guarantees of £10.2 million (2012: £8.9 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 £1.1 million (2012: £1.2 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.

27. 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 43), with its associates (see note 13) 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:

	2013 £m	2012 £m
Short-term employee benefits	**1.5**	1.7
Employer National Insurance Contributions	**0.4**	0.3
Pension and other post-employment costs	**0.4**	0.4
Share-based payments	**0.2**	0.4
Non-executive Directors' fees and benefits	**0.4**	0.4
Total compensation of key management personnel	**2.9**	3.2

Information on executive Directors' remuneration is given in the Remuneration Report on pages 59 to 80.

Other related party transactions

	2013 £m	2012 £m
Sales to associate	**10.3**	19.8

The balances with the Group's associate are shown in note 16 and note 23. In addition, the Group has trade receivables owed by associates of £1.6 million which have been fully provided for.

28. SUBSEQUENT EVENTS

On 11 February 2014, the Group merged its UK-based thermal fired shapes business with Magma Ceramics & Catalysts, a UK-based fired shapes specialist, in return for a 35% minority stake in the enlarged Magma business. There have been no other material events since the year end.

COMPANY BALANCE SHEET
AS AT 31 DECEMBER 2013

	Note	2013 £m	2012 £m
Fixed assets			
Tangible fixed assets	32	**2.0**	2.1
Investment in subsidiary undertakings	33	**846.4**	833.9
		848.4	836.0
Current assets			
Debtors – due within one year	34	**37.7**	47.3
Cash at bank and in hand		**25.4**	16.5
		63.1	63.8
Creditors – amounts falling due within one year	35	**59.2**	90.9
Net current assets/(liabilities)		**3.9**	(27.1)
Total assets less current liabilities		**852.3**	808.9
Creditors – amounts falling due after more than one year			
Amounts payable to subsidiary undertakings		**180.2**	172.1
Borrowings	36	**49.7**	48.1
		229.9	220.2
Provisions for liabilities and charges	37	**2.9**	3.8
		232.8	224.0
Net assets		**619.5**	584.9
Capital and reserves			
Equity shareholders' funds			
Called-up share capital	18	**71.4**	70.0
Share premium account	38	**111.7**	99.0
Merger reserve	38	**17.0**	17.0
Capital redemption reserve	38	**35.7**	35.7
Profit and loss account	38	**383.3**	362.8
		619.1	584.5
Non-equity shareholders' funds			
Called-up share capital	18	**0.4**	0.4
Shareholders' funds		**619.5**	584.9

The financial statements were approved by the Board of Directors on 13 February 2014 and were signed on its behalf by:

Mark Robertshaw
Chief Executive Officer

Kevin Dangerfield
Chief Financial Officer

NOTES TO THE COMPANY BALANCE SHEET

29. 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 Company has elected to prepare its financial statements in accordance with UK Generally Accepted Accounting Practice.

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.

Tangible 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 loans and borrowings

Immediately after issue, debt is stated at the fair value of the consideration received. Immediately after issue capital instruments are stated 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 40 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*.

NOTES TO THE COMPANY BALANCE SHEET
CONTINUED

29. 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:
- 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
- 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 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 21.

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 approved 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, at which point a liability would be recognised.

30. 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	
	2013	2012
Directors and head office staff	**33**	28
Regional staff	**10**	18
	43	46

The majority of the Directors and head office staff devote a proportion of their time to Regional duties. Of the 33 Directors and head office staff, the average number who spent all or a proportion of their time on corporate duties was 11 (2012: 10) as shown in note 5.

Full details of the Directors' remuneration for the period can be found in the remuneration report on pages 59 to 80.

Aggregate employee-related costs were as follows:

	2013 £m	2012 £m
Wages and salaries	**5.3**	5.5
Equity-settled share-based payments (see note 21)	**0.7**	1.9
Social security costs	**0.2**	2.8
Other pension costs	**0.8**	0.3
	7.0	10.5

£0.6 million (2012: £1.1 million) of the equity-settled share-based payments amount were recharged to other Morgan Group companies.

31. DIVIDENDS

Dividends payable for the First and Second Preference shares were £22,491 (2012: £22,491) of which £11,245 (2012: £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 88.

32. TANGIBLE FIXED ASSETS

	Plant, equipment and fixtures £m
Cost	
At 1 January 2013	**5.0**
Additions	**1.6**
Disposals	**(0.1)**
At 31 December 2013	**6.5**
Accumulated depreciation	
At 1 January 2013	**2.9**
Amount provided for in the year	**1.7**
Disposals	**(0.1)**
At 31 December 2013	**4.5**
Net book amounts at 31 December 2012	**2.1**
Net book amounts at 31 December 2013	**2.0**

NOTES TO THE COMPANY BALANCE SHEET
CONTINUED

33. INVESTMENT IN SUBSIDIARY UNDERTAKINGS

	Shares £m	Loans £m	Total £m
Cost			
At 1 January 2013	**597.6**	**291.8**	**889.4**
Additions	**219.2**	**123.6**	**342.8**
Fair value hedge of investments' exposure to foreign currency risk	**(3.9)**	**–**	**(3.9)**
Less: disposals/loan repayments/liquidations	**(235.5)**	**(38.7)**	**(274.2)**
At 31 December 2013	**577.4**	**376.7**	**954.1**
Amounts provided			
At 1 January 2013	**51.8**	**3.7**	**55.5**
Provided in the year	**72.9**	**9.6**	**82.5**
Less: disposals/loan repayments/liquidations	**(30.3)**	**–**	**(30.3)**
At 31 December 2013	**94.4**	**13.3**	**107.7**
Net book amounts at 31 December 2012	**545.8**	**288.1**	**833.9**
Net book amounts at 31 December 2013	**483.0**	**363.4**	**846.4**

A list of principal subsidiary undertakings is shown in note 43.

Most of the movement in shares in 2013 relates to a reorganisation of the Morgan Group's entity holding structure. Share additions consist of investments in Morgan North America Holding Limited, Morgan Europe Holding Limited and MNA Finance SARL. These companies are intermediate holding/finance companies within the Morgan Advanced Materials Group. Share disposals consist of the intra-Group sale of Morganite Electrical Carbon Limited, Morgan Technical Ceramics Limited, Thermal Ceramics UK Limited and Morganite Industries Inc. These companies were purchased by the above mentioned and other Group intermediate holding/finance companies.

34. DEBTORS

	2013 £m	2012 £m
Due within one year:		
Other debtors	**8.3**	8.9
Derivative financial assets	**0.4**	0.6
Prepayments and accrued income	**0.3**	0.2
Amounts receivable from subsidiary undertakings	**28.7**	37.6
	37.7	47.3

35. CREDITORS

	2013 £m	2012 £m
Due within one year:		
Bank overdrafts	**44.4**	58.8
Trade creditors	**1.1**	2.2
Amounts payable to subsidiary undertakings	**5.0**	21.0
Other creditors, including deferred consideration	**3.9**	2.8
Accruals and deferred income	**4.8**	5.7
Derivative financial liabilities	**–**	0.4
	59.2	90.9

36. BORROWINGS

	2013 £m	2012 £m
Bank and other loans	**49.7**	48.1
Bank overdrafts	**44.4**	58.8
	94.1	106.9
Less: amount repayable within one year included within current liabilities	**(44.4)**	(58.8)
Total repayable after more than one year	**49.7**	48.1

37. PROVISIONS FOR LIABILITIES AND CHARGES

	Closure and restructuring provisions £m	Other provisions £m	Total £m
At 1 January 2013	**2.4**	**1.4**	**3.8**
Provided in the year	**–**	**0.1**	**0.1**
Utilised in the year	**(0.9)**	**(0.1)**	**(1.0)**
At 31 December 2013	**1.5**	**1.4**	**2.9**

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.

38. SHARE PREMIUM AND RESERVES

	Share premium £m	Merger reserve £m	Capital redemption reserve £m	Profit and loss account £m
At 1 January 2013	**99.0**	**17.0**	**35.7**	**362.8**
Charges and transfers in relation to share-based payments for the year	**–**	**–**	**–**	**0.8**
Dividends	**12.7**	**–**	**–**	**(38.8)**
Own shares acquired for share incentive schemes	**–**	**–**	**–**	**(6.6)**
Retained profit for the year	**–**	**–**	**–**	**65.1**
At 31 December 2013	**111.7**	**17.0**	**35.7**	**383.3**

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 31 December 2013 is 305,041 (2012: 201,493) and at that date had a market value of £1.0 million (2012: £0.5 million).

The amount of reserves of Morgan Advanced Materials plc that may not be distributed under Section 831(4) of the Companies Act 2006 is £300.2 million (2012: £151.7 million).

Further details on share premium and reserves are given in note 18.

39. LEASING COMMITMENTS

Lease payments for which no provision has been made in these accounts that the Company is committed to pay within 12 months of the balance sheet date, analysed by lease term expiry date, are as follows:

	Land and buildings	
	2013 £m	2012 £m
Lease term expires within two to five years	**0.2**	0.2
	0.2	0.2

NOTES TO THE COMPANY BALANCE SHEET
CONTINUED

40. 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). Due to the historical complexity of the schemes 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. These schemes were closed to new members on 1 August 2011 from which time membership of a defined contribution plan is available.

The latest actuarial valuations of the MPS and the SSS were carried out as at 6 April 2011 and 1 April 2011 respectively, and updated for FRS 17 purposes to 31 December 2013 by a qualified independent actuary. The results for these schemes in respect of the Group are shown below:

	2013 %	2012 %
Assumptions:		
Inflation (RPI & CPI)	**3.30/2.10**	2.90/1.90
Discount rate	**4.50**	4.40
Pension increases in payment	**3.20/3.10/3.80**	2.90/3.10/3.60
General salary increases	**n/a**	n/a
Mortality – post-retirement:		
Life expectancy of a male retiring at age 60 in 2013/2012	**26.5 years**	26.3 years
Life expectancy of a male retiring at age 60 in 2033/2032	**28.0 years**	27.4 years

The assets in the scheme and the expected rates of return were:

	2013 £m	2012 £m
Asset distribution and balance sheet reconciliation:		
Equities	**146.2**	133.9
Bonds	**39.7**	35.7
Matching insurance policies	**179.2**	184.6
Other	**1.4**	1.5
Total market value of assets	**366.5**	355.7
Present value of liability	**(441.5)**	(427.0)
Deficit in the scheme	**(75.0)**	(71.3)
Employer contributions due within one year	**(0.2)**	(0.2)

Other assets include an insurance policy as described in note 21.

The employer's contribution for the year was £7.9 million (2012: £7.8 million).

The Company is expecting to pay £8.0 million of contributions into the UK defined benefit plans in 2014.

41. 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, at which point a liability would be recognised.

There are no other contingent liabilities in the Company as at 31 December 2013.

The Company 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 £1.1 million (2012: £1.2 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 Company's financial position.

42. RELATED PARTIES

The Company's transactions with non-wholly owned subsidiaries are as follows:

	2013 £m	2012 £m
Amounts invoiced to non-wholly owned subsidiaries	**4.4**	1.9
Amounts receivable from non-wholly owned subsidiaries	**0.7**	0.9
Amounts invoiced from non-wholly owned subsidiaries	**0.2**	0.3
Amounts payable to non-wholly owned subsidiaries	**6.0**	7.4

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.

43. PRINCIPAL SUBSIDIARY UNDERTAKINGS

North America	Principal products	Country of incorporation and operation
* Morgan Advanced Materials Canada Inc.	Electrical carbon	Canada
Grupo Industrial Morgan S.A. de C.V	Insulating fibre, bricks and monolithics and electrical carbon and seals and bearings	Mexico
* Morgan Technical Ceramics S.A. de C.V.	Ceramic cores	Mexico
* Certech Inc.	Ceramic cores	USA
* Graphite Die Mold Inc.	Machined graphite	USA
* Morganite Industries Inc.	Holding company	USA
* Morgan Advanced Ceramics Inc.	Engineered, structural and piezo-ceramics	USA
* Morgan Advanced Materials and Technology Inc.	Seals and bearings	USA
* Morganite Crucible Inc.	Crucibles	USA
* National Electrical Carbon Products Inc.	Electrical carbon	USA
* Thermal Ceramics Inc.	Insulating fibre, bricks and monolithics	USA

Europe	Principal products	Country of incorporation and operation
* Morgan Technical Ceramics Limited	Engineered and piezo-ceramics and ceramic cores	England
* Morganite Electrical Carbon Limited	Electrical carbon	England
* NP Aerospace Limited	Personnel and vehicle ballistic protection	England
* Thermal Ceramics UK Limited	Insulating fibre, bricks and monolithics	England
* Thermal Ceramics de France S.A.S.	Insulating fibre, bricks and monolithics	France
* Morgan Molten Metal Systems GmbH	Crucibles	Germany
* Morgan Rekofa GmbH	Electrical carbon, linear and rotary transfer systems	Germany
* Morgan Thermal Ceramics Deutschland GmbH	Insulating fibre, bricks and monolithics	Germany
* W. Haldenwanger Technische Keramik GmbH & Co. K.G.	Engineered ceramics	Germany
* Wesgo Ceramics GmbH	Engineered ceramics	Germany
* Morgan Materials Hungary Kft.	Electrical carbon	Hungary
* Morgan Carbon Italia s.r.l.	Seals and bearings	Italy
* Thermal Ceramics Italiana s.r.l.	Insulating fibre, bricks and monolithics	Italy
* Morganite Luxembourg S.A.	Seals and bearings	Luxembourg
* Morgan AM&T B.V.	Electrical carbon	Netherlands
* Thermal Ceramics Benelux B.V.	Insulating fibre, bricks and monolithics	Netherlands
* Thermal Ceramics Polska Sp Zoo	Insulating fibre, bricks and monolithics	Poland
* Limited Liability Company Morgan Thermal Ceramics Sukhoy Log	Insulating fibre, bricks and monolithics	Russia
* Thermal Ceramics Espana S.L.	Insulating fibre, bricks and monolithics	Spain

NOTES TO THE COMPANY BALANCE SHEET
CONTINUED

43. PRINCIPAL SUBSIDIARY UNDERTAKINGS continued

	Asia/Rest of World	Principal products	Country of incorporation and operation
*	Carbo San Luis S.A.	Insulating fibre, bricks and monolithics	Argentina
*	Morgan Technical Ceramics Australia Pty. Ltd.	Engineered ceramics	Australia
*	Morganite Australia Pty Limited	Insulating fibre, bricks and monolithics and electrical carbon and seals and bearings	Australia
*	Morganite Brasil Limitada	Insulating fibre, bricks and monolithics	Brazil
	Dalian Morgan Refractories Limited	Insulating fibre, bricks and monolithics	China
	Morgan AM&T (Shanghai) Co., Ltd.	Electrical carbon, linear and rotary transfer systems	China
*	Morgan AM&T Hairong Co. Limited	Lithium ion	China
	Morgan Kailong (Jingmen) Thermal Ceramics Co. Ltd.	Insulating fibre, bricks and monolithics	China
	Morgan Molten Metal Systems (Suzhou) Co. Ltd.	Crucibles	China
	Morgan Thermal Ceramics International Trading (Shanghai) Co. Ltd.	Insulating fibre, bricks and monolithics	China
	Morgan Thermal Ceramics Shanghai Ltd.	Insulating fibre, bricks and monolithics	China
*	Yixing Haldenwanger Fine Ceramic Co. Ltd.	Engineered ceramics	China
	Yixing Morgan Thermal Ceramics Co. Ltd.	Insulating fibre, bricks and monolithics	China
	Refractorios Nacionales SA	Insulating fibre, bricks and monolithics	Guatemala
*	Morganite Crucible (India) Limited	Crucibles	India
	Murugappa Morgan Thermal Ceramics Limited	Insulating fibre, bricks and monolithics	India
*	Morganite Carbon Kabushiki Kaisha	Electrical carbon and seals and bearings	Japan
	Shin-Nippon Thermal Ceramics Corporation	Insulating fibre, bricks and monolithics	Japan
	Morgan Ceramics Asia Pte. Ltd.	Insulating fibre, bricks and monolithics	Singapore
*	Morganite South Africa Pty. Limited	Electrical carbon	South Africa
*	Thermal Ceramics South Africa Pty. Limited	Insulating fibre, bricks and monolithics	South Africa
	Morgan Korea Company Limited	Insulating fibre, bricks and monolithics and electrical carbon and seals and bearings	South Korea
*	Morgan Karbon Grafit Sanayi A.S.	Electrical carbon	Turkey
	Morgan Ceramics Middle East FZE	Insulating fibre, bricks and monolithics	UAE

Morgan Advanced Materials plc's principal subsidiary undertakings, unless otherwise stated, are directly held by the Company.

* Denotes companies some or all of whose shares are owned by a subsidiary.

The Company has taken advantage of the exemption under Section 410 of the Companies Act 2006 by providing information only in relation to subsidiary undertakings whose results or financial position, in the opinion of the Directors, principally affected the financial statements. A full list of subsidiaries will be sent to Companies House with the next annual return.

In 2013 and 2012 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.

44. COMPANY RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

for the year ended 31 December 2013

	2013 £m	2012 £m
Retained profit for the financial year	**65.1**	102.6
Dividends	**(24.7)**	(16.1)
Issue of shares	**–**	0.8
Own shares acquired for share incentive schemes	**(6.6)**	(10.2)
Charges and transfers in relation to share-based payments for the year	**0.8**	2.7
Net increase in shareholders' funds	**34.6**	79.8
Opening shareholders' funds	**584.9**	505.1
Closing shareholders' funds	**619.5**	584.9

GROUP STATISTICAL INFORMATION
UNDER ADOPTED IFRSs

	2009 £m	2010 £m	2011 £m	2012 Restated* £m	**2013 Results before specific adjusting items £m**
Revenue	942.6	1,017.1	1,101.0	1,007.5	**957.8**
Profit from operations before restructuring costs, other one-off items and amortisation of intangible assets	89.0	109.5	143.4	120.9	**119.0**
Restructuring costs and other one-off items:					
Restructuring costs and costs associated with settlement of prior period anti-trust litigation	(14.0)	(8.5)	(5.6)	(13.3)	**(11.3)**
Gain on disposal of properties	2.0	0.6	2.4	0.1	**0.8**
Net pension credit	–	–	1.3	–	**–**
Profit from operations before amortisation of intangible assets	77.0	101.6	141.5	107.7	**108.5**
Amortisation of intangible assets	(16.3)	(8.0)	(8.3)	(8.3)	**(8.3)**
Operating profit	60.7	93.6	133.2	99.4	**100.2**
Net financing costs	(29.3)	(25.9)	(21.8)	(22.7)	**(23.3)**
Profit before taxation	31.4	67.7	111.4	76.7	**76.9**
Income tax expense	(8.7)	(19.7)	(32.6)	(21.6)	**(21.1)**
Profit after taxation before discontinued operations	22.7	48.0	78.8	55.1	**55.8**
Discontinued operations	–	–	–	21.0	**–**
Profit for the period	22.7	48.0	78.8	76.1	**55.8**
Assets employed					
Property, plant and equipment	276.2	269.2	259.8	245.5	**241.4**
Intangible assets	296.9	285.0	283.3	265.1	**249.5**
Investments and other receivables	9.3	9.1	10.3	10.0	**8.0**
Deferred tax assets	37.2	38.5	41.1	40.6	**28.2**
Net current assets	136.5	131.0	160.1	194.4	**132.8**
Total assets less current liabilities	756.1	732.8	754.6	755.6	**659.9**
Employee benefits	105.9	103.9	135.1	166.8	**144.6**
Provisions and other items	388.1	331.6	304.8	276.7	**207.7**
Deferred tax liabilities	47.5	45.2	44.5	40.5	**33.5**
	214.6	252.1	270.2	271.6	**274.1**
Equity					
Total equity attributable to equity holders of the parent Company	184.6	215.0	229.4	233.8	**238.1**
Non-controlling interests	30.0	37.1	40.8	37.8	**36.0**
Total equity	214.6	252.1	270.2	271.6	**274.1**
Ordinary dividends per share	7.0p	7.70p	9.25p	10.0p	**10.5p**
Earnings per share					
Basic	7.1p	15.8p	26.9p	18.7p	**14.8p**
Diluted	6.8p	15.0p	25.7p	18.4p	**14.7p**
Basic before amortisation of intangible assets	13.2p	18.7p	29.9p	21.7p	**21.5p**
Diluted before amortisation of intangible assets	12.6p	17.8p	28.6p	21.3p	**21.4p**

* IAS 19 (revised) *Employee Benefits* has been adopted for 2013 and the 2012 comparatives have been restated accordingly. Further details are given in note 1 to the financial statements. Figures for 2009-2011 have been prepared following the requirements of the previous IAS 19 *Employee Benefits* and have not been restated for the impact of the new IAS 19 (revised) *Employee Benefits*.

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.

GLOSSARY OF TERMS

Energy use	Energy from all sources
Group earnings before interest, tax, depreciation and amortisation ('EBITDA')	Operating profit before specific adjusting items, restructuring costs, depreciation and amortisation of intangible assets
Group EBITA	Operating profit before specific adjusting items, restructuring costs and amortisation of intangible assets
Group underlying operating profit	Operating profit before specific adjusting items and amortisation of intangible assets
Lost time accident ('LTA')	Accident which results in one or more days' lost time
Lost time per LTA	Total time lost due to health and safety in the year divided by the number of lost time accidents reported in the year
Net debt	Interest-bearing loans and borrowings, bank overdrafts less cash and cash equivalents
Restructuring costs	Include the costs of restructuring activity and gain on disposal of property
Non-financial KPIs	These are at constant currency and updated to reflect changes in reporting methodology
Regional EBITA	Segment operating profit before restructuring costs and amortisation of intangible assets
Restated	The results for the year ended 31 December 2012 have been restated to reflect the required adoption of IAS 19 (revised) *Employee Benefits*. See note 1 for further details
Return on operating capital employed ('ROCE')	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
Segment profit	Segment profit is defined as Regional EBITA, which is segment operating profit before restructuring costs and amortisation of intangible assets
Specific adjusting items	See note 6 for further details
Unallocated central costs	Includes plc costs (eg Report & Accounts, AGM, Non-executive) and Group management costs (eg Corporate head office rent, utilities, staff etc)
Underlying earnings per share ('EPS')	Basic earnings per share adjusted to exclude specific adjusting items and amortisation of intangible assets
Underlying profit before tax ('PBT')	Operating profit before specific adjusting items and amortisation of intangible assets, less net financing costs
Waste	Hazardous and non-hazardous waste, including recycled material
Water use/intensity	Water from all sources, including process, irrigation and sanitary use
Working capital (as used in the ROCE calculation)	Working capital as used in the calculation of ROCE is the sum of inventories, £118.9 million (2012: £139.9 million), trade and other receivables, £188.2 million (2012: £185.4 million), net derivative financial assets/(liabilities), £0.8 million (2012: £1.1 million), trade and other payables, £(175.9) million (2012: £(184.0) million) less tax accruals £(22.9) million (2012: £(23.2) million), plus the net of deferred consideration, third party dividends payable and other sundry items, £(1.9) million (2012: £(1.2) million)

SHAREHOLDER INFORMATION

Analysis of shareholdings as at 31 December 2013

		Number of holdings	% of total holdings	Number of shares	% of share capital
Size of holding	1 – 2,000	5,937	73.32	3,245,101	1.14
	2,001 – 5,000	1,197	14.78	3,835,537	1.34
	5,001 – 10,000	446	5.51	3,138,484	1.10
	10,001 – 50,000	296	3.66	6,298,004	2.21
	50,001 – 100,000	62	0.77	4,473,288	1.57
	100,001 and above	159	1.96	264,379,574	92.64
		8,097	**100.00**	**285,369,988**	**100.00**
Holding classification	Individuals	6,769	83.60	12,672,031	4.44
	Nominee companies	1,208	14.92	268,325,656	94.03
	Trusts (pension funds etc)	9	0.11	101,734	0.03
	Others	111	1.37	4,270,567	1.50
		8,097	**100.00**	**285,369,988**	**100.00**

Key dates

Dividend payment dates

30 May 2014*	Ordinary shares of 25 pence each
1 April 2014	5.5% Cumulative First Preference shares of £1 each and 5.0% Cumulative Second Preference shares of £1 each
1 October 2014	5.5% Cumulative First Preference shares of £1 each and 5.0% Cumulative Second Preference shares of £1 each
9 May 2014	2014 Annual General Meeting
23 July 2014	Half-year results

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.morganadvancedmaterials.com	
ISIN Code	GB0006027295	
Ticker symbol	MGAM	

* Subject to shareholders' approval at the 2014 AGM.

SHAREHOLDER INFORMATION
CONTINUED

Company details	
Company name change	The Company changed its name to Morgan Advanced Materials plc (from The Morgan Crucible Company plc) on 27 March 2013. Following this change, share certificates issued in the name 'The Morgan Crucible Company plc' remain valid (replacement share certificates in the name 'Morgan Advanced Materials plc' will not be issued to existing shareholders).
Registered office	Quadrant, 55-57 High Street, Windsor, Berkshire SL4 1LP Registered in England No. 286773 Telephone: +44 (0) 1753 837000 Fax: +44 (0) 1753 850872 Website: www.morganadvancedmaterials.com The Company's website provides information about the Group including the markets in which we operate, our strategy and recent news from the Group. The Investors section is a key source of information for shareholders, containing details of our financial results, shareholder meetings and dividend, with a frequently asked questions section. Current and past Annual, Half-year and EHS reports are also available to view and download.
Company registrars	Capita Asset Services, 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, 9.00am-5.30pm, excluding public holidays) Telephone (from outside the UK): +44 (0) 20 8639 3399 Email: shareholderenquiries@capita.co.uk Website: www.capitaassetservices.com Shareholders with queries relating to their shareholding should contact Capita directly. Alternatively, shareholders may find the Investors section of our website useful for general enquiries.
Share Portal	The Share Portal is a secure online site where you can manage your shareholding quickly and easily, reducing the need for paperwork and providing 24-hour access for your convenience. Through the Share Portal you can view your holding and get an indicative valuation, change your address, arrange to have dividends paid into your bank account and view your dividend payment history. To register for the Share Portal visit www.capitashareportal.com. All you need is your investor code, which can be found on your share certificate or your dividend tax voucher.
Dividend payments	You can choose to receive your dividend in a number of ways. Dividends will automatically be paid to you by cheque and sent to your registered address unless you have chosen one of the options below:
Direct payment to your bank	Cash dividends can be paid directly to a UK bank or building society account. This means that your dividend reaches your bank account on the payment date, it is more secure (cheques can sometimes get lost in the post), you don't have the inconvenience of depositing a cheque and it helps reduce cheque fraud. If you have a UK bank account you can sign up for this service on the Share Portal (by clicking on 'your dividend options' and following the onscreen instructions) or by contacting Capita.
International payments service	If you live outside the UK, Capita has partnered with Deutsche Bank to provide you with a service that will convert your sterling dividends into your local currency at a competitive rate. You can choose to receive payment directly into your local bank account or, alternatively, you can be sent a currency draft. You can sign up for this service on the Share Portal (by clicking on 'your dividend options' and following the onscreen instructions) or by contacting Capita. For further information contact Capita by telephone (in the UK on 0871 664 0385 (calls cost 10p per minute plus network extras, lines are open Monday-Friday, 9.00am-5.30pm, excluding public holidays) or from outside the UK on +44 (0) 20 8639 3405) or by email (ips@capita.co.uk).
Multiple accounts on the shareholder register	If a shareholder receives two or more sets of AGM documents, this means that there is more than one account in their name on the shareholder register, perhaps because either the name or the address appears on each account in a slightly different way. If you have multiple accounts and would like them to be combined, please write to Capita at the address above, detailing your different investor codes and requesting that they be combined into one account.
Donate your shares to charity	If you have only a small number of shares which are uneconomical to sell, you may wish to consider donating them to charity, free of charge, through ShareGift (registered charity 10528686), a charity that specialises in the donation of small, unwanted shareholdings to good causes. You can find out more by visiting www.sharegift.org.uk or by telephoning +44 (0) 20 7930 3737.
Unsolicited telephone calls and mail	Many companies have become aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters. If you are offered unsolicited investment advice, discounted shares, a premium price for shares you own, or free company or research reports, further information about what you should do before handing over any money is available on our website (http://www.morganadvancedmaterials.com/investors/shareholder-centre/unsolicited-telephone-calls-and-mail/).

For more information about Morgan Advanced Materials, please visit our website.

www.morganadvancedmaterials.com

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