Morgan Crucible
The Advanced Materials Group

2012 Full Year Financial Results

14th February 2013

Agenda

Introduction and Summary	Mark Robertshaw
2012 Group and Divisional Results and Operational Review	Kevin Dangerfield
"One Morgan" – Strategy and Organisational Model	Mark Robertshaw
Summary and Outlook	Mark Robertshaw

Summary

- Challenging end-market environment in 2012 but still the Group’s second highest operating profit before one-offs in our history
- c.90% of the business performed resiliently, but substantial demand declines in defence and renewable energy meant disappointing results in the Engineered Materials Division
- Overall Group order intake levels have stabilised in the past two to three months
- Significant actions taken in H2 in particular to reduce the cost base in those areas with lower end market demand
- New organisational model to present unified “One Morgan” face to our customers, position for higher growth and improve operational cost efficiency
- Name change to Morgan Advanced Materials plc to reflect the full depth and breadth of our advanced materials capabilities

2012 Group and Divisional Results and Operational Review

Kevin Dangerfield

Revenue lower than 2012 but EBITA margins >12% and total dividend up by c.8%

	FY12	FY11	% Change from FY11	
	£m	£m	As reported	At constant currency
Revenue	1,007.5	1,101.0	-8.5%	-6.9%
EBITA before restructuring and one-off items	122.0	143.4	-14.9%	-13.0%
EBITA margin % before restructuring and one-off items	12.1%	13.0%		
EBITA after restructuring and one-off items *	108.8	141.5	-23.1%	-21.6%
EBITA margin % after restructuring and one-off items *	10.8%	12.9%		
PBT before amortisation	89.7	119.7	-25.1%	-23.2%
Underlying earnings per share	23.2p	29.9p	-22.4%	
Total dividend per share	10.00p	9.25p	+8.1%	

* EBITA after restructuring and one-off items is also referred to as underlying operating profit (operating profit before amortisation of intangible assets)

Restructuring cost, net financing costs, tax

	FY12 £m	FY11 £m
Revenue	**1,007.5**	**1,101.0**
EBITA before restructuring and one-off items *	**122.0**	**143.4**
Net restructuring and one-off items*	**(13.2)**	**(1.9)**
EBITA after restructuring and one-off items *	**108.8**	**141.5**
Amortisation of intangible assets	**(8.3)**	**(8.3)**
Operating profit	**100.5**	**133.2**
Net financing costs	**(19.1)**	**(21.8)**
Profit before tax	**81.4**	**111.4**
Profit before tax and amortisation	**89.7**	**119.7**
Tax	**(22.1)**	**(32.6)**
Profit after tax	**59.3**	**78.8**
Discontinued operations	**21.0**	**0.0**
Profit for the period	**80.3**	**78.8**
Non-controlling interest	**(3.3)**	**(5.8)**
Profit attributable to owners of the parent for the period	**77.0**	**73.0**

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

- Restructuring costs mainly from actions in 2nd half 2012
- Net financing costs include IAS19 charge; see appendix for details of revised IAS19 charge
- Effective tax rate of 27.1% (2011: 29.3%)

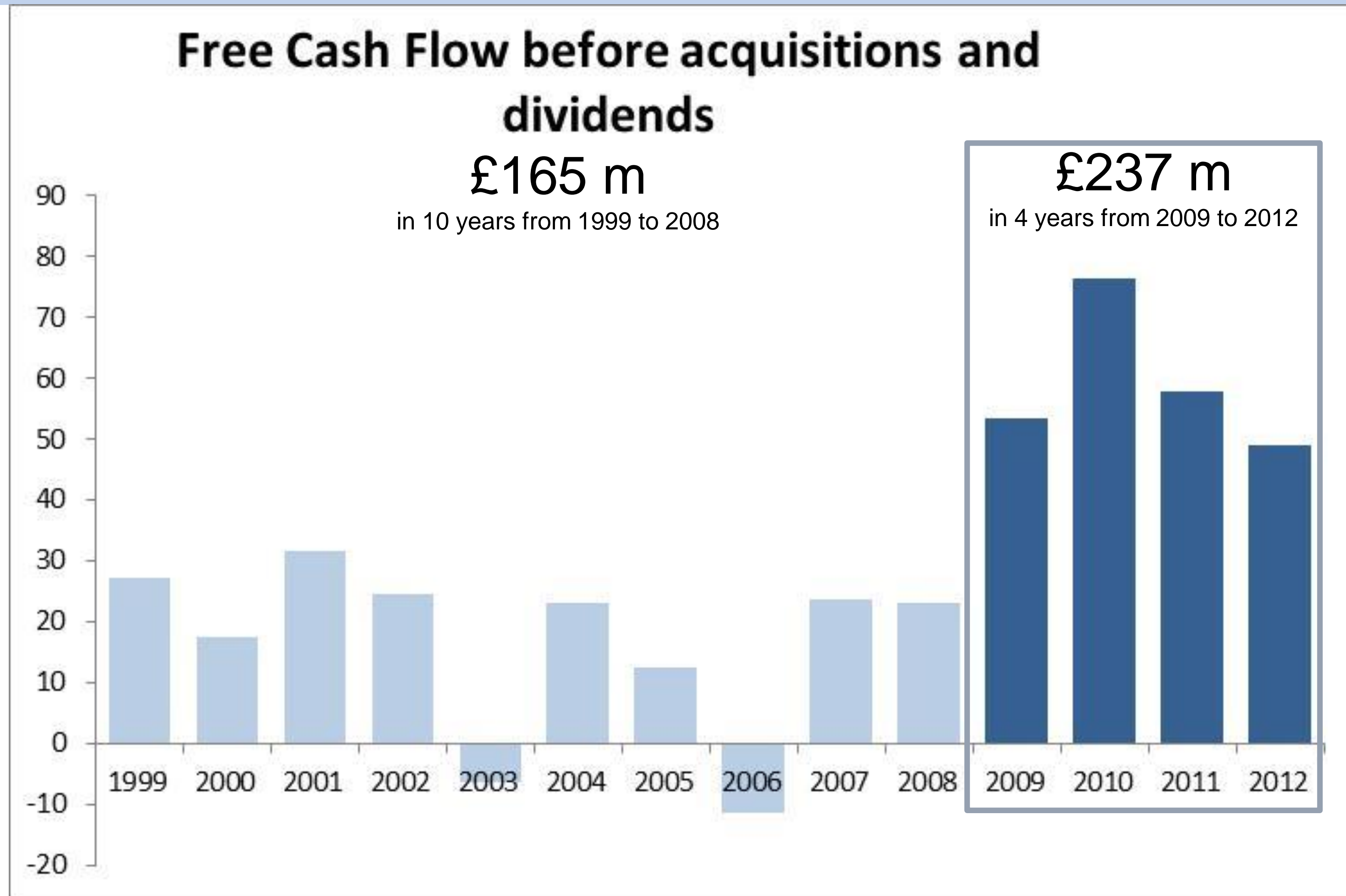
Free cash flow before dividends c.£50m

	FY12 £m	FY11 £m
Cash from trading	151.9	174.3
Change in working capital	(12.6)	(29.1)
Change in provisions	(12.5)	(7.8)
Cash flow from operations	**126.8**	**137.4**
Net capital expenditure	(26.7)	(25.5)
Net interest paid	(18.5)	(20.4)
Tax paid on ordinary activities	(26.8)	(25.6)
Restructuring costs and other one-off items	(5.9)	(8.1)
Free cash flow before acquisitions and dividends	**48.9**	**57.8**
Dividends paid	(16.1)	(18.4)
Cash flows from other investing and financing activities	(15.2)	(17.7)
Exchange movement	5.0	(0.9)
Opening net debt	(215.4)	(236.2)
Closing net debt	**(192.8)**	**(215.4)**

* Cash from trading is EBITA adjusted for depreciation and profit on sale of plant and machinery

- 3WC/Sales ratio for the Group of 20.9%; marginally higher than 2011 20.6%
- Gross capital expenditure of £29.4 million – ratio of c.1.0 x depreciation
- Net debt reduced by more than £20 million and net debt:EBITDA at 1.3 times

Strong cash generation reinforces improved business quality



Group cash flow before acquisitions and dividends is after cash flows in respect of restructuring and other one-off items

Ceramics and MMS showed continued margin improvement; AM&T and NPA disappointed

£ million	Revenue		EBITA		Profit Margins %	
	FY12	FY11	FY12	FY11	FY12	FY11
Technical Ceramics	273.3	285.1	42.7	43.1	**15.6%**	**15.1%**
Thermal Ceramics	387.2	400.1	51.9	49.6	**13.4%**	**12.4%**
Ceramics	**660.5**	**685.2**	**94.6**	**92.7**	**14.3%**	**13.5%**
AM&T	243.4	276.1	20.8	35.0	**8.5%**	**12.7%**
NP Aerospace	57.8	93.0	3.6	13.0	**6.2%**	**14.0%**
Molten Metal Systems	45.8	46.7	8.1	7.7	**17.7%**	**16.5%**
Engineered Materials	**347.0**	**415.8**	**32.5**	**55.7**	**9.4%**	**13.4%**
Unallocated Costs *			**(5.1)**	**(5.0)**	**-**	**-**
EBITA pre one-off items *	***1,007.5***	***1,101.0***	***122.0***	***143.4***	***12.1%***	***13.0%***
One-off items **			**(13.2)**	**(1.9)**		
EBITA post one-off items *			***108.8***	***141.5***	***10.8%***	***12.9%***

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

**** One-off items include the costs of restructuring activity, profit on disposal of properties and other one-off items**

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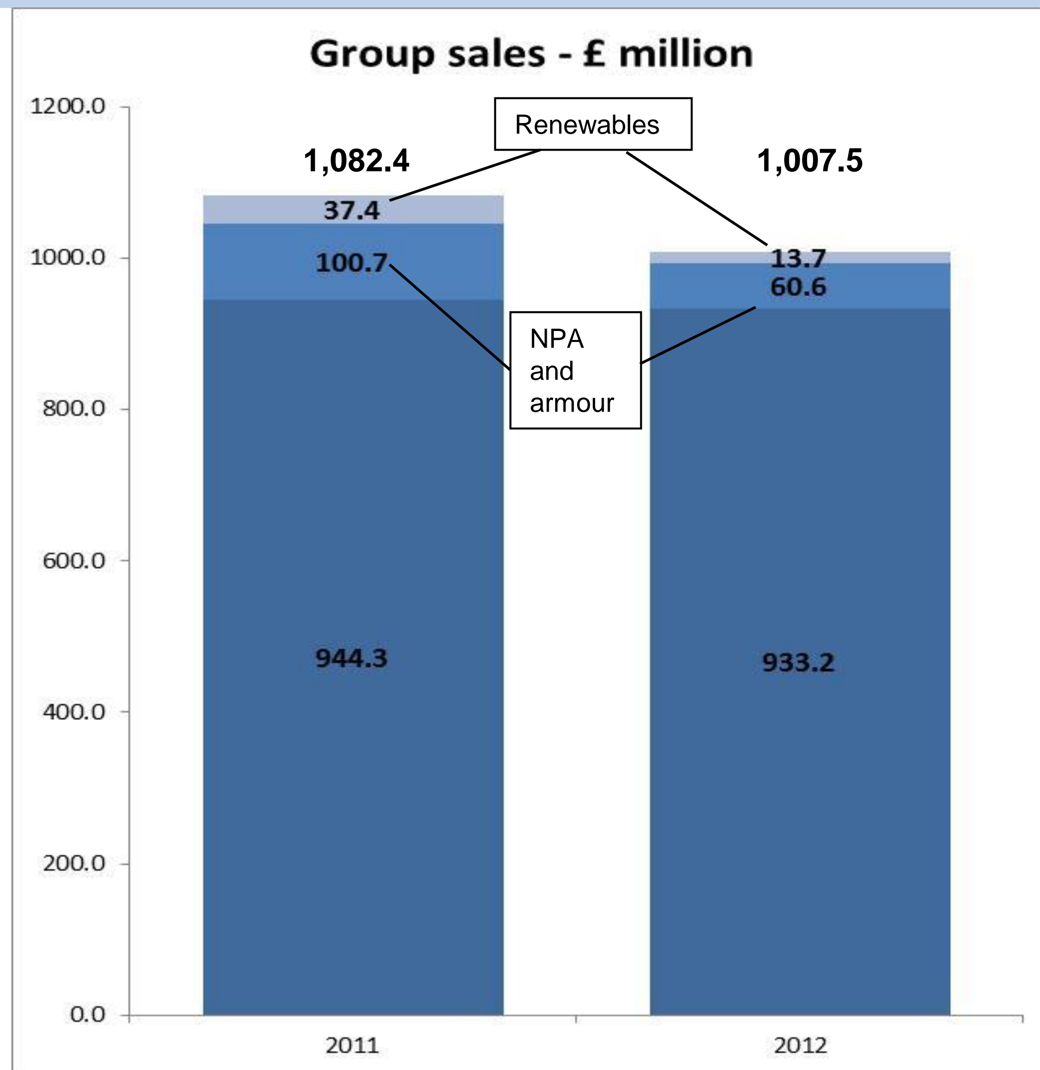
The Advanced Materials Group

c.90% of the business performed resiliently

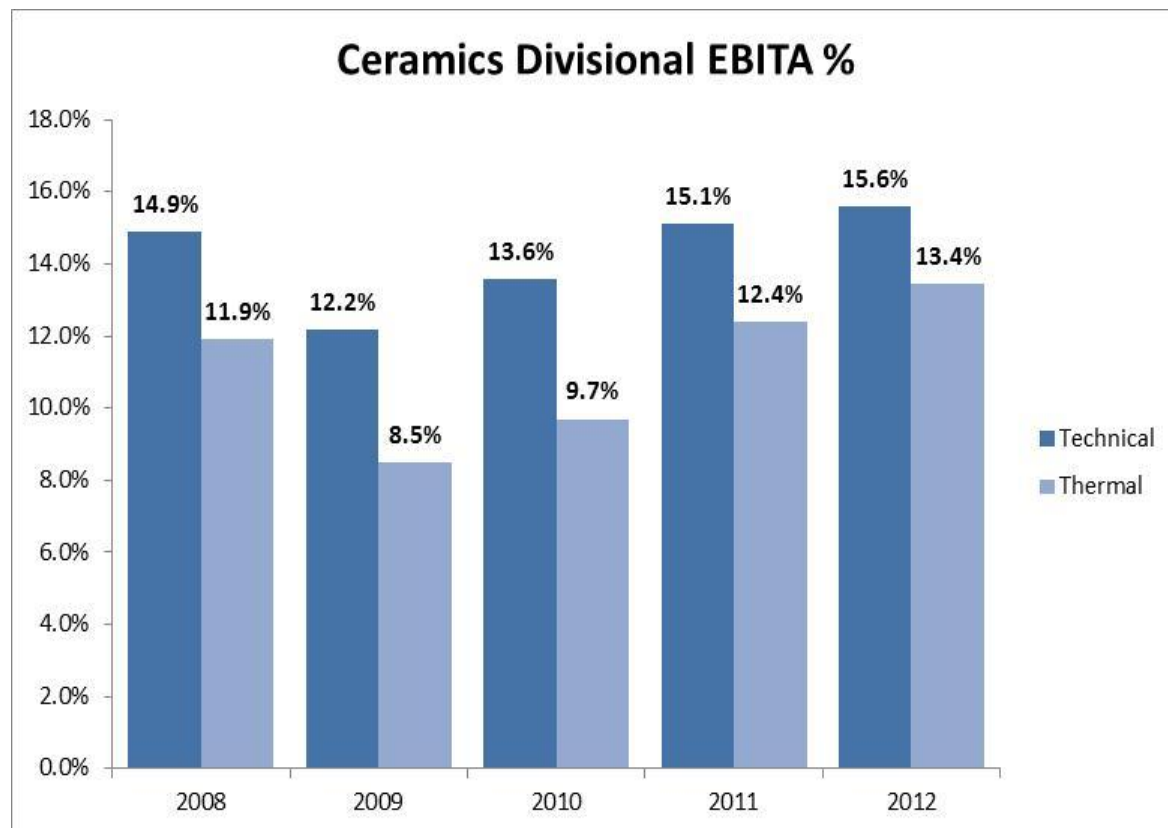
- c.90% of the Group saw resilient revenue performance, with a decline of c.1% in challenging market conditions
- NPA and armour (down c.40%) and renewables (down >60%) saw significant revenue declines which impacted margins



All at 2012 reported exchange rates

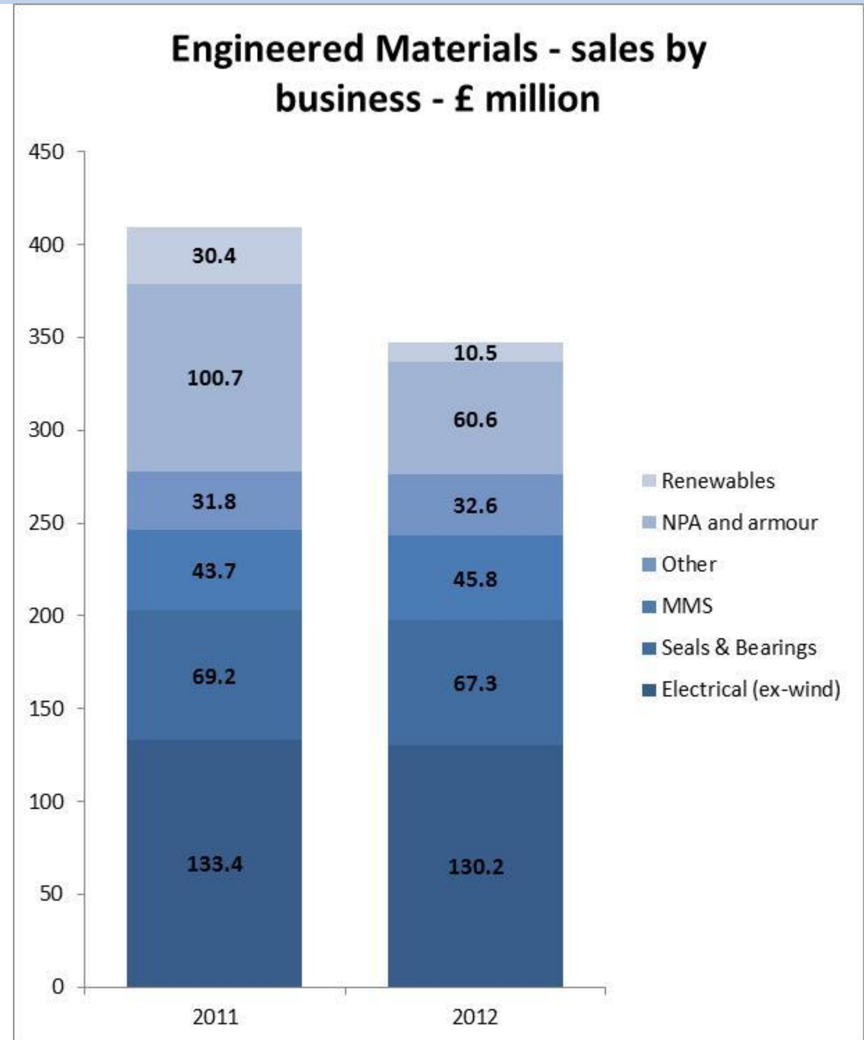
Continued margin progression in Ceramics

- Both Technical and Thermal margins above 2008 pre-downturn levels despite challenging market background
- Further margin progression delivered through:
  - Continued positive mix shift across both Businesses, including ongoing roll out of Superwool® fibre, which now represents c.40% of run-rate fibre sales
  - Ongoing benefits from integration of Technical and Thermal Businesses
  - Cost reduction initiatives, e.g. USA (site closure and use of low-cost Mexican operations) and Australia (one site closed and downsizing at another)
- Continued investment for future growth in application engineers and other resource investments made in Asia and South America



Engineered Materials impacted by end-market demand reductions in defence and renewables

- Revenue decline primarily driven by weakness in defence (NPA and US body armour) and renewables (solar and wind markets), both historically high margin businesses
- Balance of the Division saw some softness consistent with general industrial slow down
- NPA profit and margin specifically impacted by a number of one-off issues in H2. Revenue now expected to have stabilised at c.£60 million and cost base reduced
- MMS grew 4.8% at constant currency due to strong presence in dynamic growth markets



Renewables includes Solar and Wind; Electrical includes the rotary business; Other comprises semicon, specialty, lithium ion and non-solar high temp. All at 2012 reported exchange rates

Significant actions taken to address Engineered Materials cost base

- Substantially reduced the defence/armour cost base
  - NPA UK headcount reduced by 80, representing c.25% of the workforce
  - NPA Jordan Joint Venture exited
  - Closure of defence production line in AM&T UK

- Further rationalisation of Division's footprint and overhead cost base, especially in Europe
  - Closure announced of manufacturing in Holland and relocation to Hungary
  - Headcount reductions in number of European sites
  - Closure of two US sales offices plus additional headcount reductions

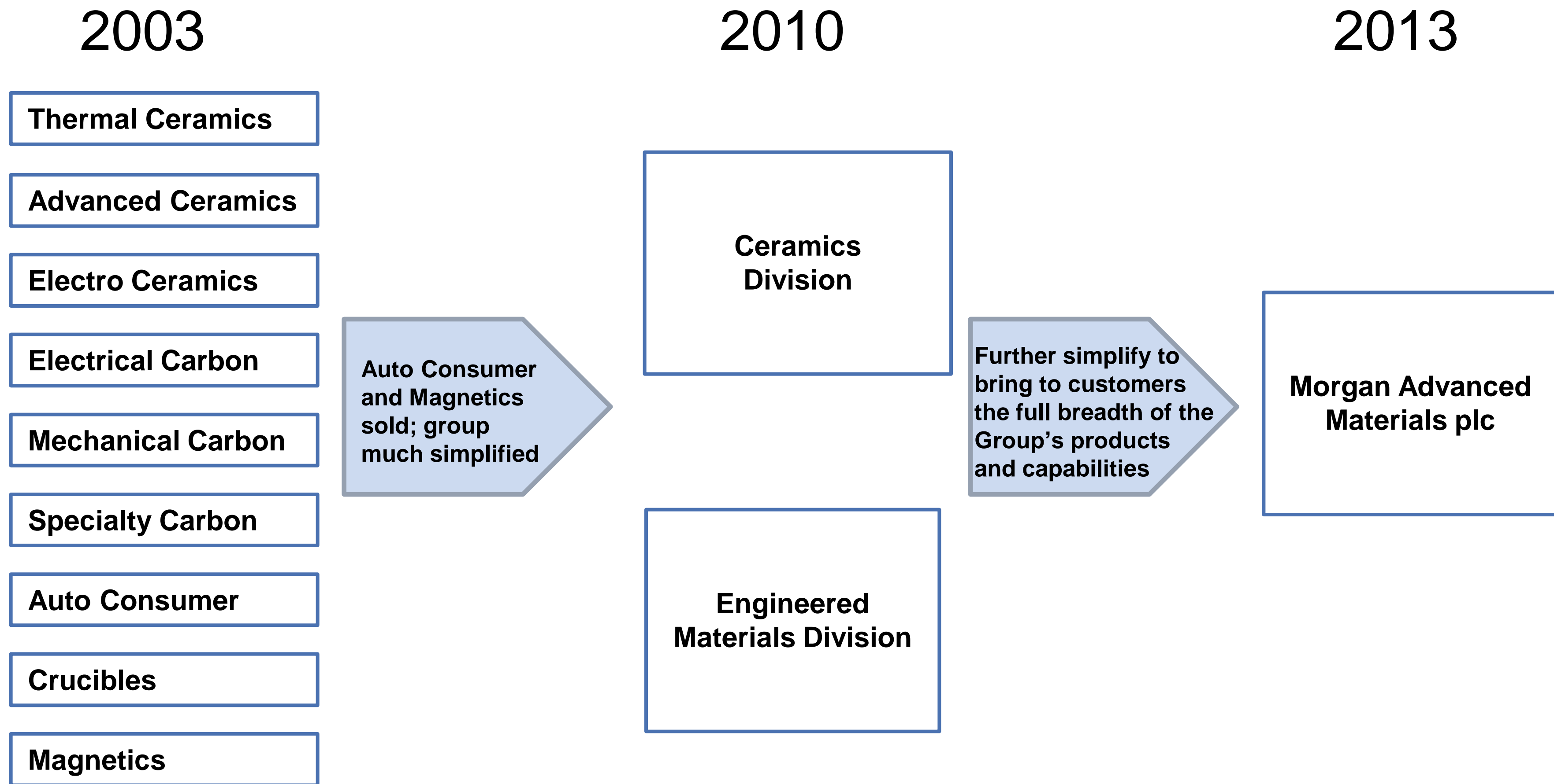
Summary of results

- 12% EBITA margins against background of challenging end-market conditions, particularly in H2
- c.90% of the business delivered resilient revenue and margin performance
- c.10% of the business delivered disappointing results driven by declines in defence and renewables
- Significant cost reductions initiated in H2 2012
- Continued good cash generation
- 8% increase in full year dividend underlining confidence in future prospects

“One Morgan”
Strategy and Organisational Model

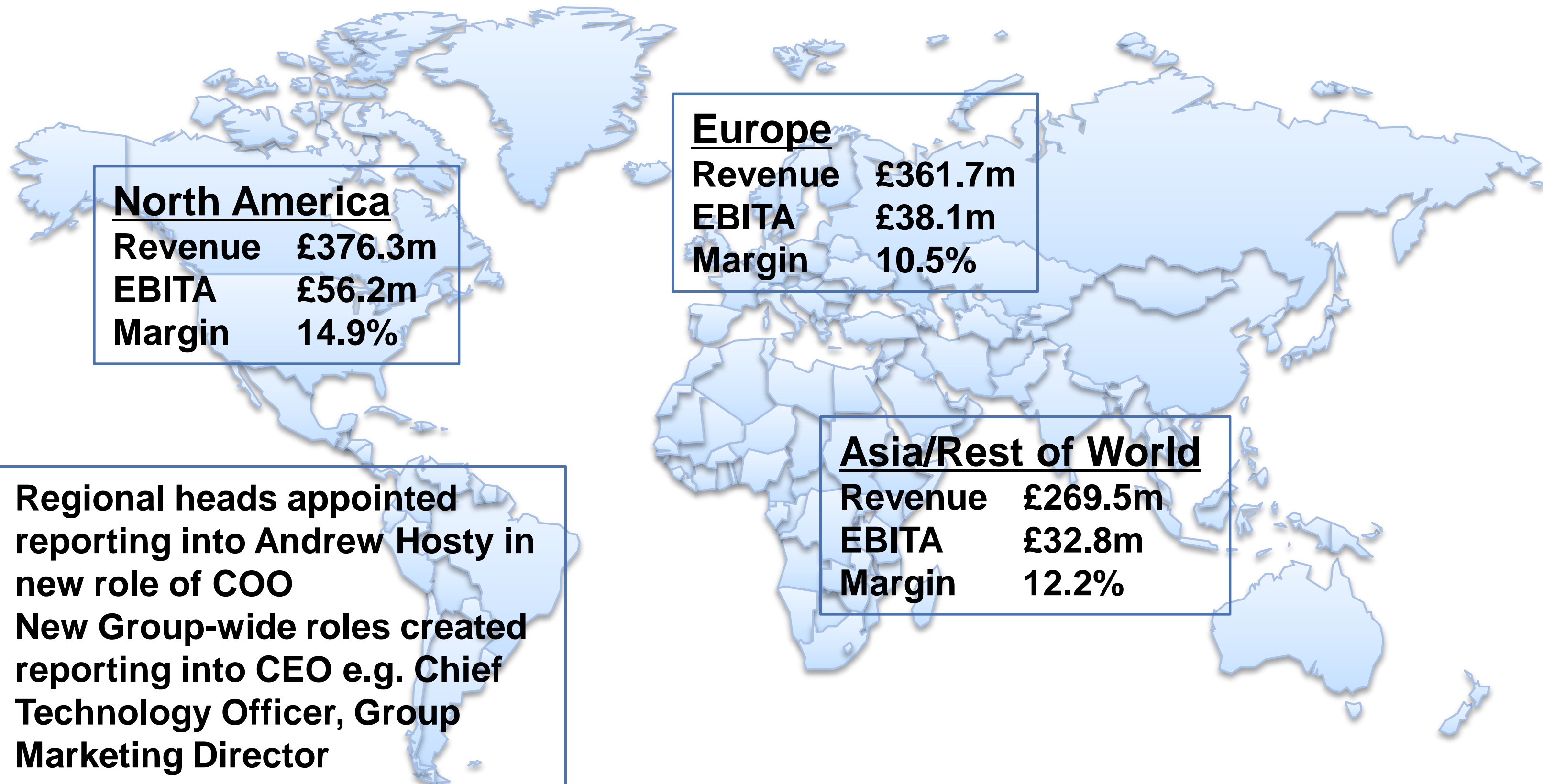
Mark Robertshaw

Next stage of integrating the Group – One Morgan



Continuation of direction of travel from a Group with 9 Divisions to a single integrated Advanced Materials business, operating on a regional basis with specific, relevant priorities, but a consistent unifying theme and goals

One Morgan: regional structure and priorities to drive >GDP growth, mid-teen margins and ROCE c.35%



All figures FY 2012; EBITA is before Unallocated Costs
Asia/Rest of World includes South America, Middle East and Africa

Tailored regional priorities

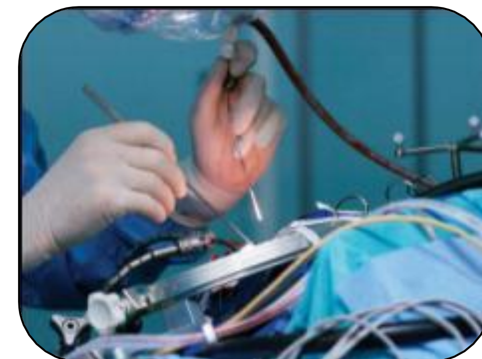
Region	Priorities
North America	• Drive positive mix shift towards higher tech, secular growth markets such as aerospace, healthcare, energy, emission control • Rollout of market leading differentiated technology e.g. Superwool ®. • Continued focus on operational improvements, including use of low-cost Mexican operations
Europe	• Simplify footprint and rationalise cost base • Leverage world-leading, differentiated technologies into export markets • Drive continued positive mix shift
Asia/Rest of World	• Leverage higher growth industrial markets • Lead the introduction of more sophisticated applications (e.g. aerospace) and products (e.g. Superwool ®) as these markets develop • Drive operating improvements through productivity programmes • Invest in long-term growth opportunities: new greenfield plants being built in China and Middle East

“One Morgan”: Driving profitable growth

- Maximise full breadth and depth of advanced materials capabilities for our customers
- Fully leverage our geographic and end-market positions
- Accelerate positive mix change across the regions into our target markets
- Optimise operating cost base – full year benefits of £6-8 million in 2014

Technical and Thermal Ceramics case study

- Revenue growth opportunities through unified structure:
  - Thermal Ceramics into new, high value-added markets
    - Leveraging Technical's established customer relationships to assist the adoption of Thermal Ceramics Superwool® fibre insulation products for investment casting of turbine blades - first orders now won
  - Technical Ceramics in to Asia
    - Feedthroughs for cochlear implants - first orders now won
    - Advanced ceramics for electronics and LED applications – first orders now won
    - Extruded tubes for chemical processing - being trialled



Unifying characteristics of an integrated One Morgan

- Leading edge material science
- Sophisticated application engineering
- Solving complex challenges in technically demanding applications
- Providing real value-add to our customers, enabling their products and processes to perform more efficiently, more reliably and for longer

Driving differentiated, market leading positions

Outlook

Mark Robertshaw

Outlook

- Order intake levels have stabilised in the last two to three months
- Nevertheless, we expect the end-market environment to remain fluid and uncertain in 2013
- In this environment, our management actions remain targeted on self-help. Based on the actions taken in H2 2012 and some initial benefits from the “One Morgan” model, we expect to improve our profit run rate by some £10 million in 2013 compared to H2 2012
- Our aspiration remains to deliver mid-teen operating profit margins and Operating ROCE of c.35% for the Group and all our regions
- “One Morgan” model announced today positions us for enhanced profitable growth

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Appendix

New regional structure – focus on delivering mid-teen margins in all three regions

£ million	Revenue		EBITA		Profit Margins %	
	FY12	FY11	FY12	FY11	FY12	FY11
North America	376.3	382.5	56.2	55.4	**14.9%**	**14.5%**
Europe	361.7	425.1	38.1	51.3	**10.5%**	**12.1%**
Asia and Rest of World	269.5	293.4	32.8	41.7	**12.2%**	**14.2%**
	1,007.5	**1,101.0**	**127.1**	**148.4**	**12.6%**	**13.5%**
Unallocated Costs *			**(5.1)**	**(5.0)**	**-**	**-**
EBITA pre one-off items *	***1,007.5***	***1,101.0***	***122.0***	***143.4***	***12.1%***	***13.0%***
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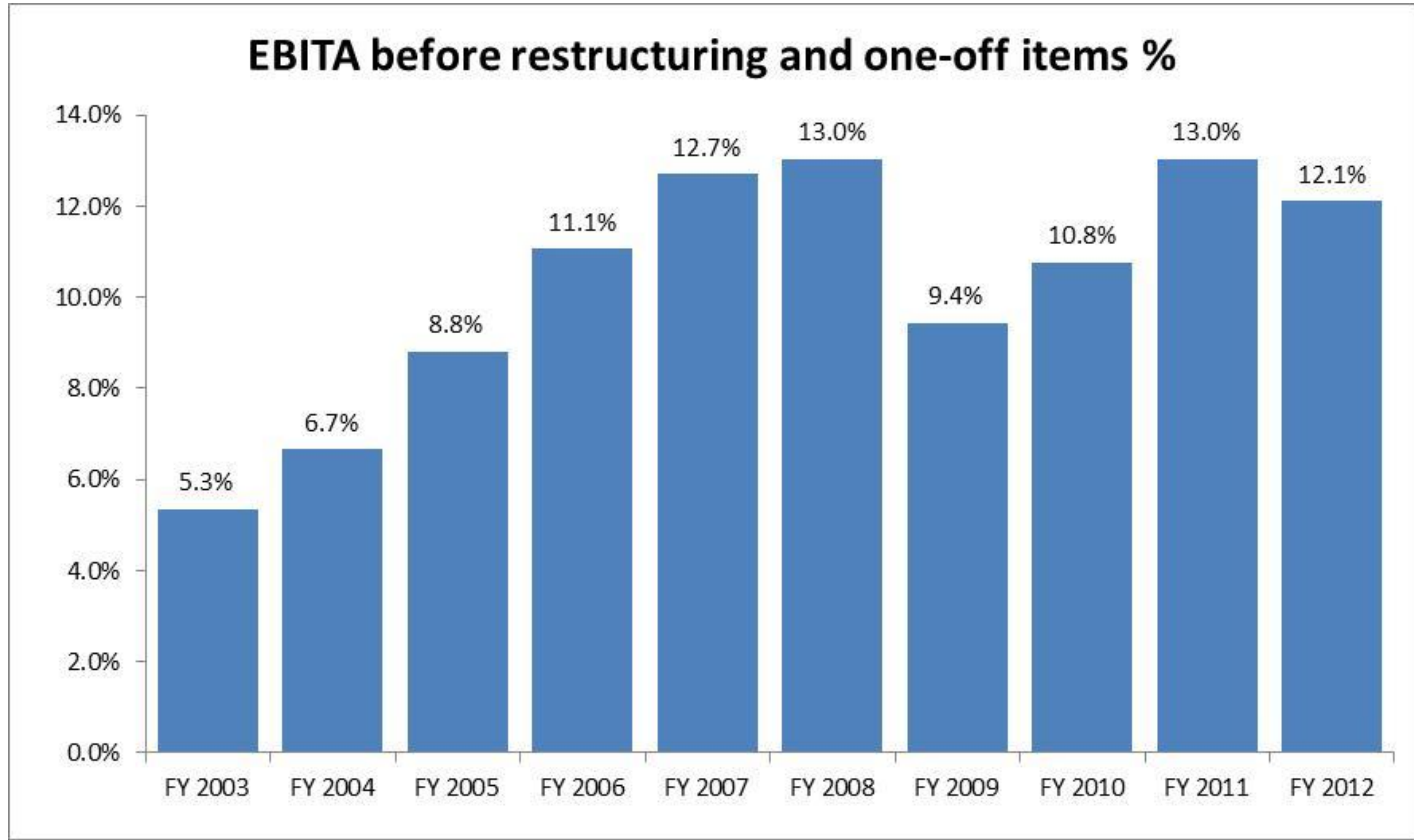
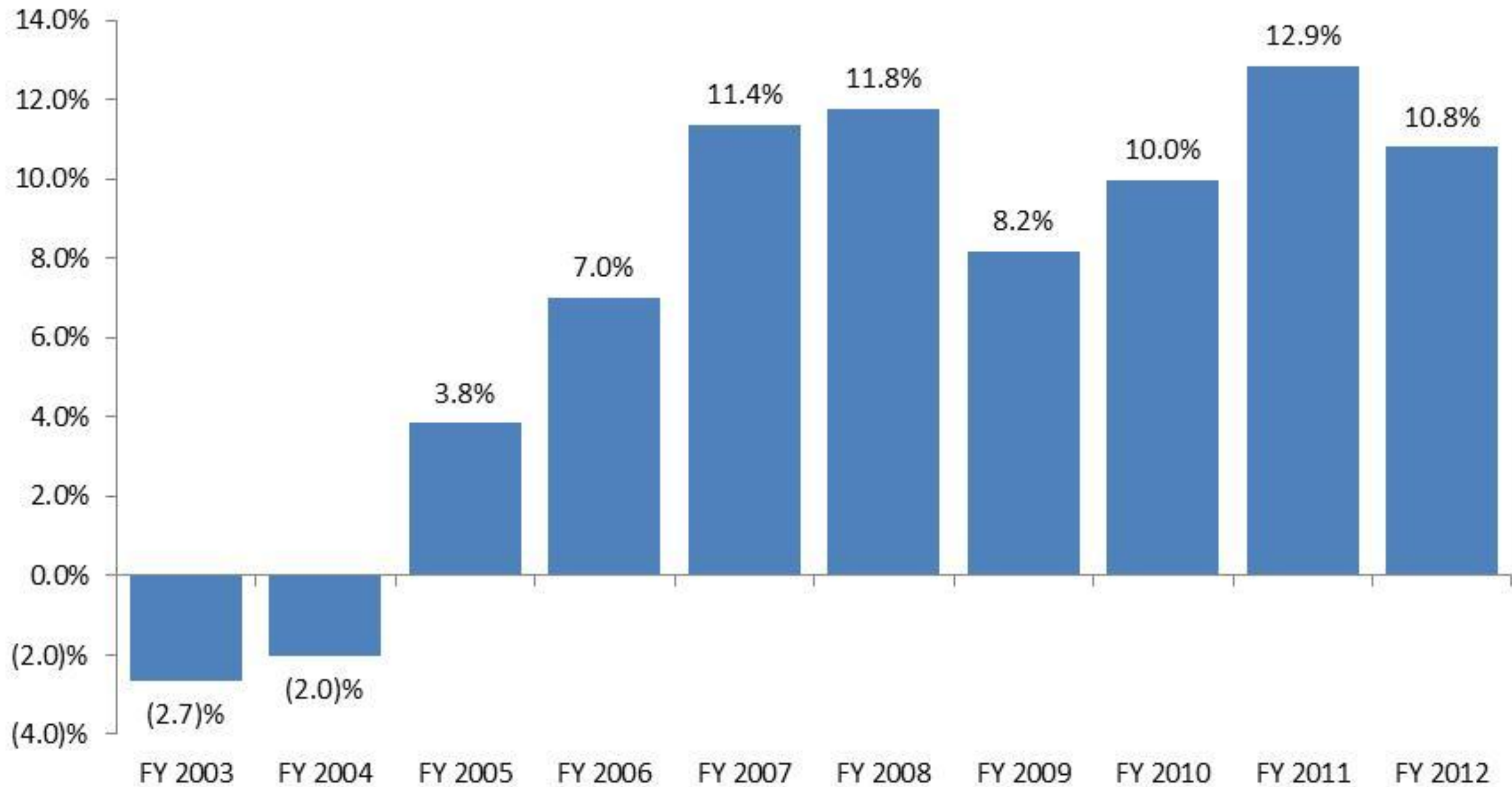
** One-off items include the costs of restructuring activity, profit on disposal of properties and other one-off items

* Regional EBITA and EBITA margins are quoted before the costs of restructuring activity, profit on disposal of property arising and other one-off items

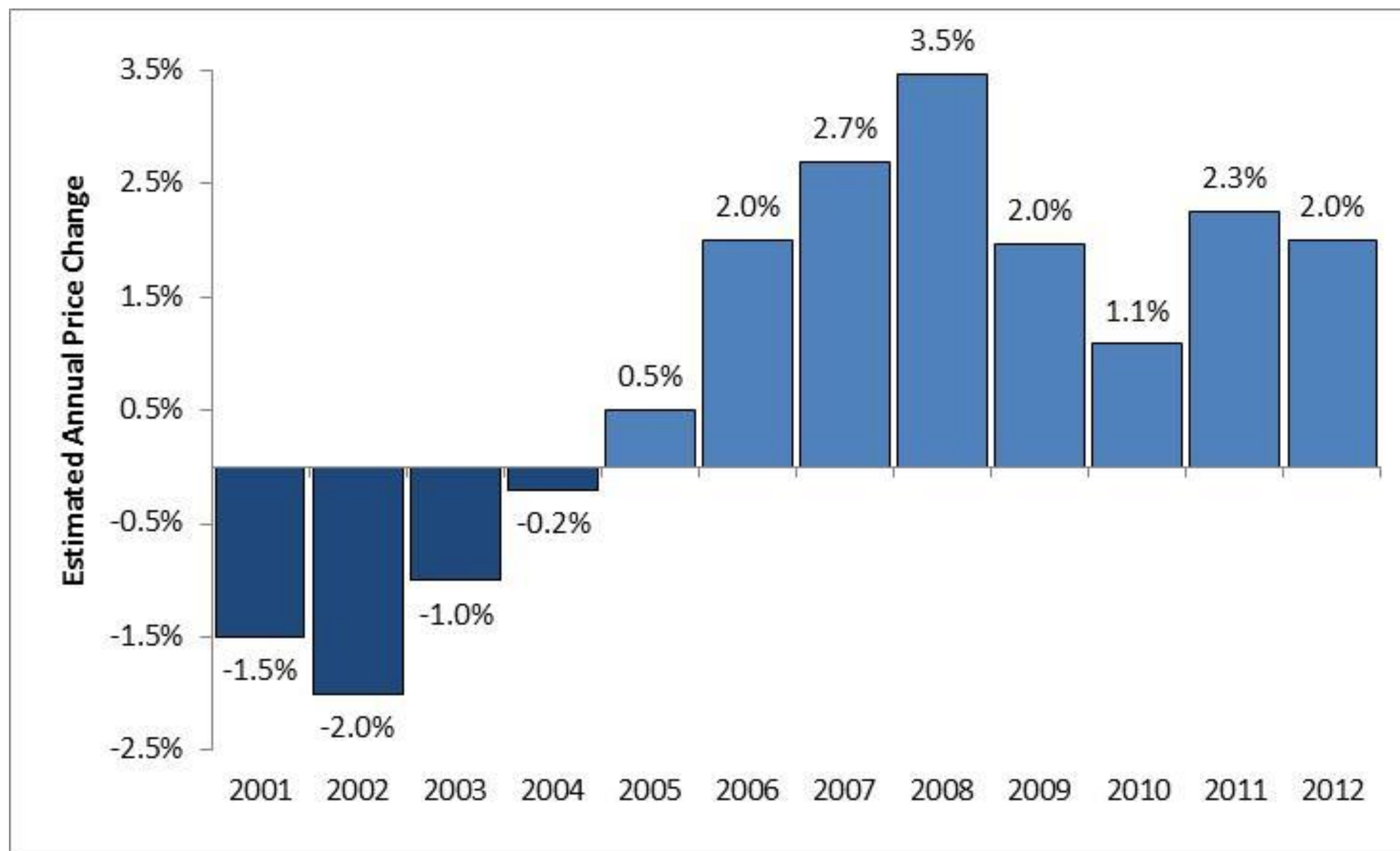
EBITA margins before restructuring and one-off items remain above 12.0%



EBITA margins after restructuring and one-off items impacted by large one-offs charge



Differentiated, high value-add applications with global technology leadership are key to our pricing position



Reduced Operating ROCE due to EBITA decline

All £ million At reported rates	2012 Year End	2011 Year End
LTM EBITA	108.8	141.5
Change -v- 2011 Year End	-23.1%	
Operating Capital		
Land & Building - NBV	98.9	102.4
Plant & Equipment - NBV	146.6	157.4
Third Party Working Capital	164.4	160.2
	409.9	420.0
Change -v- 2011 Year End	-2.4%	
Return on Operating Capital Employed	**26.5%**	**33.7%**

Net Finance Charge

	FY12 £m	FY11 £m
Bank interest charge	18.5	21.7
Bank interest income	(1.6)	(1.3)
Interest expense on unwinding of discount on deferred consideration	0.2	0.5
IAS19 - Interest cost on liability	26.7	27.3
- Expected return on assets	(24.7)	(26.4)
	19.1	21.8

Underlying EPS

	FY12 £m	FY11 £m
Basic earnings from continuing operations	56.0	73.0
Amortisation	8.3	8.3
Underlying earnings	64.3	81.3
Weighted average number of shares in the period	277.0m	271.7m
Underlying earnings per share from continuing operations	23.2p	29.9p

Pensions IAS19 – Impact on 2013

	FY11	FY 2012		FY 2013	
	Actual	Current IAS 19	Revised IAS 19	Current IAS 19	Revised IAS 19
	£m	£m	£m	£m	£m
Operating costs	4.8	4.6	5.7	5.0	6.2
Net Finance Charge	0.9	2.0	5.7	1.3	6.1
	5.7	6.6	11.4	6.3	12.3

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

The reasons for changes are:

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

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