Morgan Crucible
Annual Report 2012

ADVANCED MATERIALS
RESILIENT PERFORMANCE

Morgan Crucible
The Advanced Materials Group

Morgan Crucible
The Advanced Materials Group

Overview

Business review

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MORGAN CRUCIBLE IS A WORLD-LEADER IN ADVANCED MATERIALS

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

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

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

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

Our strategy is based on building a sustainable business for the long term, by continuing to focus on our five strategic priorities and remaining committed to delivering strong returns to our stakeholders.

OUR GOAL

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

OUR AIM

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

STRATEGIC PRIORITIES

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

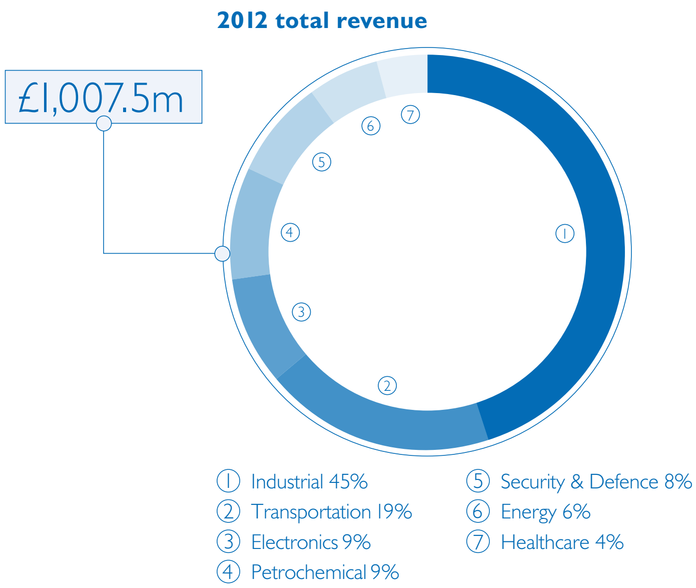
STRATEGY IN ACTION

Morgan Crucible identifies customer opportunities in sectors driven by megatrends where its materials science and applications engineering skills can solve technically demanding challenges. The Group chooses its markets carefully, focusing on those in which it can achieve leadership positions underpinned by technical differentiation.

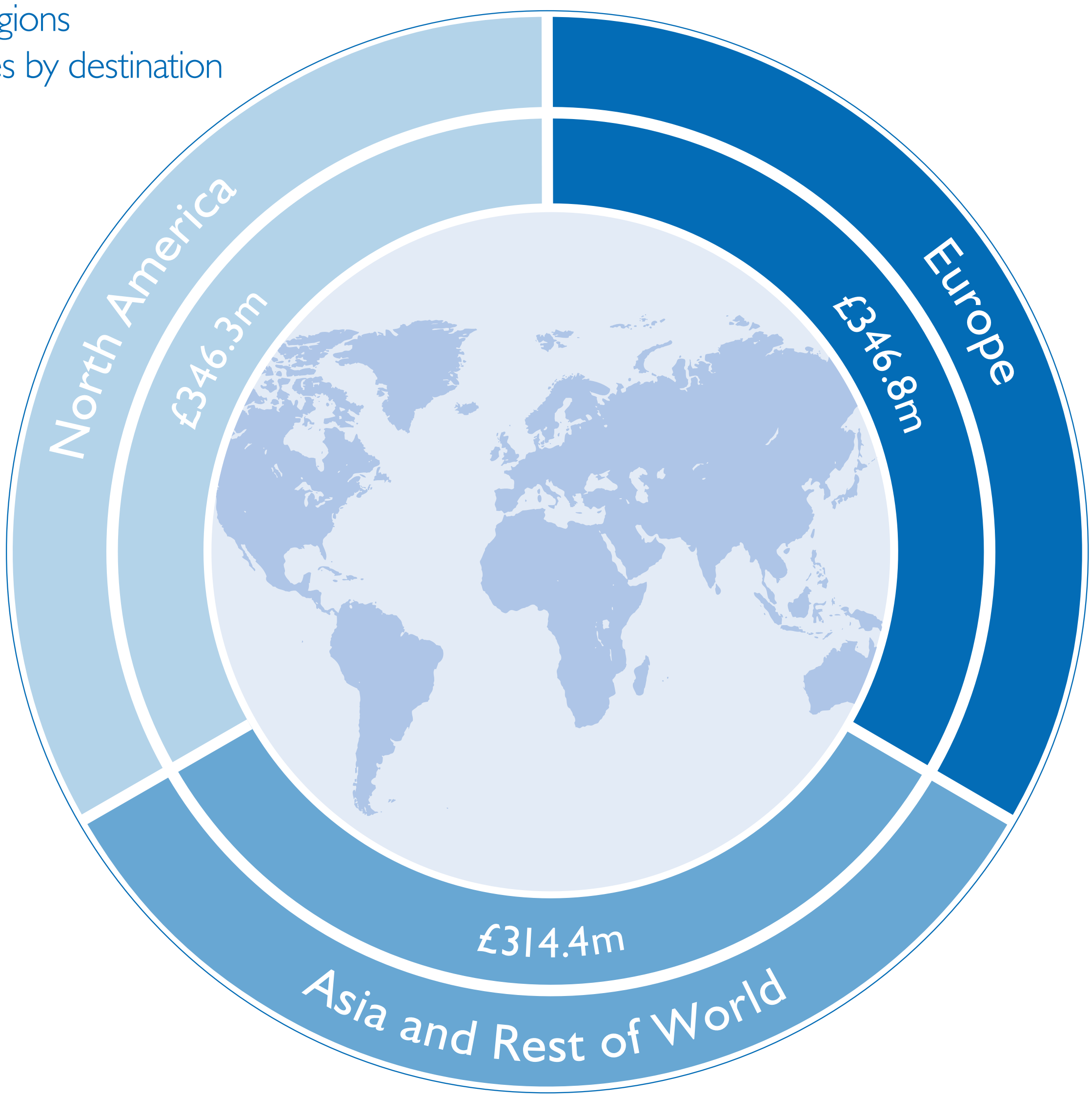
MORGAN CRUCIBLE AT A GLANCE

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

Morgan Crucible's markets
→



Our regions
→ Sales by destination



Our Divisions

MORGAN CERAMICS

Morgan Ceramics uses its expertise in material science and applications engineering to manufacture custom products for demanding environments.

Through its Technical Ceramics Business it supplies customer-specific, applications-engineered industrial products manufactured from advanced materials including structural ceramic, electro-ceramic and precious metals. The Thermal Ceramics Business provides thermal management solutions for high-temperature applications which benefit technically, financially and environmentally from optimised energy and emissions control.

Core products

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

Revenue £m
660.5m

Divisional EBITA* £m
Continuing business
94.6m

MORGAN ENGINEERED MATERIALS

Morgan Engineered Materials delivers materials technology through its global businesses.

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

Core products

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

Revenue £m
347.0m

Divisional EBITA* £m
Continuing business
32.5m

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

CHAIRMAN'S STATEMENT

Andrew Shilston
Chairman

Trading conditions were difficult in 2012, nevertheless operating profit before one-off costs of £122.0 million was the Group's second highest ever.

I am delighted to join the Board as Chairman. I am grateful to Tim Stevenson for helping this transition and also for his efforts since 2006 including leading the Group through the economic downturn and positioning the business for future growth. I am excited by the opportunities that the Group has to develop, and I look forward to contributing to its future success.

In recent years, great strides have been made to simplify the business, most recently in the consolidation of the two Ceramic Businesses in 2010. It is the case that we produce a variety of different products for different industrial and geographical markets, but there are powerful underlying unifying themes. We specialise in bringing science and application engineering expertise to meet demanding technical requirements involving advanced materials, and we look to position ourselves in growth markets. It has become apparent that we can further simplify the business to improve clarity at the customer interface, gain benefits from innovation across the Group and reduce costs. We are therefore re-organising the business on a regional basis and sharpening the brand identity, as is further explained in the Chief Executive Officer's review.

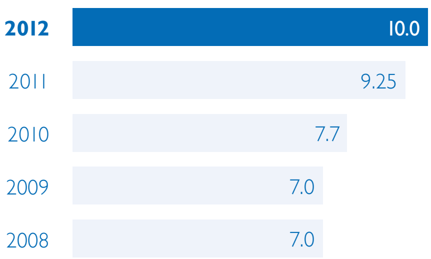
Trading conditions were difficult in 2012, nevertheless operating profit before one-off costs of £122.0 million was the Group's second highest ever. Cash generation was strong with a reduction in net debt of £22.6 million compared to £20.8 million in 2011. This reflects the strength of our capabilities and being present in growing markets, which helped to offset disappointing performance in Morgan Engineered Materials.

Dividend

The Board has decided to set the final dividend at 6.4 pence per share. This is an increase of 6.7% compared to the final dividend declared in 2011. This means that the full-year dividend is 10.0 pence.

Total dividend per share

Pence



Outlook

The macro-economic outlook for 2013 is not significantly better than 2012, with global imbalances and indebtedness in developed countries still weighing on growth. The changes we are announcing to the organisation structure will maximise our chances of growing. Despite the challenging economic environment we continue to invest in new manufacturing facilities and research and development and to look for bolt-on acquisitions to add capability.

Board and Governance

I should like to welcome Victoire de Margerie to the Board. She has a wealth of operational experience across Europe in related industries. It has been a pleasure to work with Board colleagues over the last nine months and we all remain committed to the development of the Group.

I have visited a number of the Group's sites since I joined the Board and have been impressed by the enthusiasm and loyalty to the Group of all those I have met. The Board recognises that the quality and commitment of our employees is key to future success and continues to be grateful for their efforts.

Andrew Shilston

Chairman

CHIEF EXECUTIVE OFFICER'S REVIEW

Mark Robertshaw
Chief Executive Officer

As one of the world's leading advanced materials groups we have a portfolio of exciting, innovative, differentiated new products and technologies.

Group results

Following the Group's record results in 2011, our 2012 performance, whilst still amongst one of the best in Morgan Crucible's 156-year history, was impacted by a much more difficult macro-economic environment. The Eurozone countries slipped back into recession, growth in the US economy was subdued and even the dynamic growth economies, such as China, India and Brazil, all struggled relative to their performance of recent years. We at Morgan Crucible were not immune from the global turbulence of 2012 with Group revenue at £1,007.5 million down 8.5% versus 2011 (£1,101.0 million) and profit from operations before one-off and restructuring costs at £122.0 million (2011: £143.4 million) down 14.9%. This overall Group performance was a reflection of a good year from the Ceramics Division offset by a disappointing one from the Engineered Materials Division. The Group's operating cashflow was strong once again with c.£50 million of free cash flow before acquisitions and dividends enabling the Board to increase the final dividend by over 6% whilst delivering a reduction in 2012 year end net debt levels to £192.8 million (2011: £215.4 million).

Divisional summary

The Ceramics Division performed well in the more difficult economic environment with an increase in year-on-year Divisional EBITA of £1.9 million on revenue which was slightly down on 2011's record levels (down 1.9% year-on-year on a constant currency basis and 3.6% at reported rates). Ceramics' Divisional EBITA margin (before any one-off or restructuring costs) improved from 13.5% in 2011 to 14.3% in 2012.

The key drivers of this encouraging improvement in Divisional EBITA margin were an increasing proportion of our business coming from higher margin product areas combined with ongoing improvements to our operating cost base.

We continued to make good progress in our high-temperature insulating fibre business and in particular the global rollout of our range of low bio-persistent fibres (Superwool® fibre products). High-temperature insulating fibre is the Group's single biggest product category representing close to 25% of total Group revenue. Our Superwool® range of high-temperature insulating fibres accounted for 37% of these fibre sales up from 34% in 2011 as we progressively convert over our fibre production capacity to be able to produce our differentiated and patent-protected Superwool® products. As I indicated in last year's Annual Report we continue to believe that the environmentally friendly properties of the new Superwool® range combined with their technical performance leave us well-placed to deliver profitable growth in this important business area over the coming years.

From a geographic perspective, the Ceramics Division delivered particularly strong performance in the North American region which achieved record levels of revenue and profit in 2012. In addition to the rollout of Superwool® fibre in this region, we also saw good profit growth from our aerospace related applications, such as the Morgan Certech businesses, where we are the global number one provider of ceramic cores used in the manufacture of turbine blades.

The Ceramics manufacturing footprint continued to be streamlined with the closure of one of our facilities in New Jersey as production was relocated to other larger sites in the US and lower cost operations in Mexico, and with the announced closure of a Thermal Ceramics site in Australia, with production being relocated to lower cost locations in Asia.

The performance of the Engineered Materials Division was disappointing in 2012 with revenue of £347.0 million, down 15.2% at constant currency (16.5% at reported rates), and Divisional EBITA down by more than 40% compared to 2011, as the softening of general industrial demand was exacerbated by the marked reduction in our business into high-margin renewable energy and defence applications. This impacted both the Advanced Materials & Technology and NP Aerospace businesses and in both we made significant reductions in the cost and headcount base to reflect the lower levels of demand. This has included the announced closure or downsizing of a number of sites, particularly in Continental Europe. Our goal is to have an operating cost base in these businesses which can deliver at or close to mid-teen operating profit margins at current demand levels. The highlight of the Engineered Materials Division in 2012 was the performance of the Molten Metal Systems business which grew revenue by 4.8% on a constant currency basis (a reduction of 1.9% at reported rates) with EBITA increasing to £8.1 million (£7.7 million in 2011) representing an EBITA margin of 17.7% (2011: 16.5%).

Changes to the Group's organisation structure

At the same time as the release of 2012 full-year results, we have also announced a new management structure which sees the Group organised on a regional basis. This change is consistent with our direction of travel in the past several years to present our customers and markets with a single, unified 'One Morgan' set of products and technologies. We believe that this leaves us better placed to exploit growth opportunities both geographically and by end-market, through more fully leveraging the breadth of our geographic and market access. It will also improve our operational cost efficiency through opportunities to further streamline our overhead and fixed cost base. The three regions: North America, Europe and Asia/Rest of World, will report to Andrew Hosty, who moves from being CEO of the Ceramics Division to become the Chief Operating Officer of the Group. Don Klas, CEO of the Engineered Materials Division, after helping work through the transition to the new model, will leave the Group after over 30 years with Morgan Crucible and I would like to take this opportunity to thank him for his commitment and service and to wish him well for the future.

In conjunction with the change to the organisational model, I am also pleased to announce that the Group will be renamed Morgan Advanced Materials plc which we believe is a better and more appropriate descriptor of the breadth and depth of the technologies and capabilities which we bring to our customers.

Looking forward

The macro-economic environment was more difficult in 2012 and we do not expect this to improve materially in 2013. We anticipate that European markets will remain challenging as austerity driven policies continue to impact demand and business confidence levels. The interconnectedness of global markets means that we will likely also see some degree of impact on business levels in the Americas and Asia. In this environment, our focus remains on self-help actions rather than relying on positive market conditions which may or may not transpire. As one of the world's leading advanced materials groups we have a portfolio of exciting, innovative, differentiated new products and technologies. We also have a truly global presence with market-leading positions. Above all we have a talented and committed workforce around the world who have shown themselves once again to be nimble, imaginative and tenacious in the uncertain and fluid market conditions of 2012. I would like to take this opportunity to thank them all for their efforts in 2012 and for their commitment to ongoing excellence in all that we do in 2013 and beyond.

Mark Robertshaw
Chief Executive Officer

GROUP BUSINESS REVIEW

Group activities

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

In 2012 the Group operated through two global Divisions: Morgan Ceramics and Morgan Engineered Materials.

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

Morgan Engineered Materials delivers highly engineered solutions built from a portfolio of advanced material technologies that includes carbon, silicon carbide, oxide-based ceramics and advanced polymeric composite materials. The Division consists of two global reportable operating segments: Morgan AM&T, which includes NP Aerospace, with core applications including current transfer systems for industrial and rail transportation, seals and bearings for fluid handling, high-temperature insulation for solar silicon wafer production and advanced lightweight ceramic/composite armour systems for personal and vehicle protection; and Molten Metal Systems, with core products of crucibles and foundry consumables.

Group strategy

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

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

The Group's five strategic priorities are:

- To focus on higher growth, higher margin, non-economically cyclical markets.
- To be innovative, differentiated and high value-added to its customers.
- To be number one or number two in its chosen market segments.
- To have a culture of operational excellence and cost efficiency.
- To find, keep and develop the right people.

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

Business model

Morgan Crucible's business model is aligned with and driven by the Group's strategy as set out above. In each Division and across all businesses and sites Morgan Crucible utilises advanced materials technology and manufacturing expertise to design, develop, manufacture and integrate technically differentiated solutions that help enhance the performance and efficiency of its customers' products or operations. This is supported with a focus on service excellence and the development of genuine partnerships such that the Group works alongside its customers and suppliers in the ongoing refinement of products and solutions. Further details of the Group's key resources and contractual relationships are set out on page 34 of this Business review.

The announcement of the new organisation structure, which reinforces a 'One Morgan' approach, underpins the Group's commitment to present its customers and markets with a single, unified set of products and technologies and allows it to fully leverage its breadth of geographic and market access.

This outward-facing part of Morgan Crucible's business model is combined with an internal focus on operational excellence and effective cost management and the continued work to take full advantage of the Group's low-cost manufacturing footprint is a tangible example of this. The new organisation structure will also contribute to this cost effectiveness, improving operational efficiency through the streamlining of overheads.

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

Additional information on the markets served by the Group and on its products are included in the Review of operations on pages 10 to 17 and in the Overview section on pages 1 to 5.

Revenue and profits

Group revenue decreased by 8.5% to £1,007.5 million (2011: £1,101.0 million). Group EBITA before restructuring charges and one-off items was £122.0 million (2011: £143.4 million), representing a margin of 12.1% (2011: 13.0%). The main factors for these movements are as follows:

Morgan Ceramics

- Technical Ceramics: Revenue for 2012 was £273.3 million (2011: £285.1 million), representing a decrease of 4.1%. Divisional EBITA was £42.7 million (2011: £43.1 million), a margin of 15.6% (2011: 15.1%).
- Thermal Ceramics: Revenue for 2012 was £387.2 million (2011: £400.1 million), representing a decrease of 3.2%. Divisional EBITA was £51.9 million (2011: £49.6 million), a margin of 13.4% (2011: 12.4%).

Morgan Engineered Materials

- Morgan AM&T: Revenue for 2012 was £301.2 million (2011: £369.1 million), representing a decrease of 18.4%. Divisional EBITA was £24.4 million (2011: £48.0 million), a margin of 8.1% (2011: 13.0%).
- Molten Metal Systems: Revenue for 2012 was £45.8 million (2011: £46.7 million), representing a decrease of 1.9%. Divisional EBITA was £8.1 million (2011: £7.7 million), a margin of 17.7% (2011: 16.5%).

Cash generation

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

KEY PERFORMANCE INDICATORS

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

As Morgan Crucible's businesses grow and evolve the list of KPIs selected will be 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 Divisional, financial and corporate responsibility sections of this Business review.

KPI	Performance 2012	2011	Relevant strategic objective
Financial KPIs			
Revenue (decline)/growth	**(8.5)%**	8.2%	→ Creating consistent long-term value for shareholders → Focus on higher growth markets
Underlying operating profit* (decline)/growth	**(23.1)%**	39.3%	→ Creating consistent long-term value for shareholders → Focus on higher growth markets → To be high value-added to the Group's customers → To have a culture of operational excellence and cost-efficiency
Underlying operating profit* margin	**10.8%**	12.9%	→ Creating consistent long-term value for shareholders → Focus on higher growth markets → To have a culture of operational excellence and cost-efficiency
Underlying profit before taxation**	**£89.7m**	£119.7m	→ Creating consistent long-term value for shareholders → Focus on higher growth markets → To have a culture of operational excellence and cost-efficiency
Free cash flow before acquisitions and dividends	**£48.9m**	£57.8m	→ Creating consistent long-term value for shareholders
Return on Operating Capital Employed***	**26.5%**	33.7%	→ Creating consistent long-term value for shareholders
Underlying earnings per share****	**23.2p**	29.9p	→ Creating consistent long-term value for shareholders
Dividend per share	**10.0p**	9.25p	→ Creating consistent long-term value for shareholders
Non-financial KPIs♦			
Year-on-year pricing change	**2.0%**	2.3%	→ To be high value-added to the Group's customers
Total employment costs as % of sales	**30.4%**	29.2%	→ To have a culture of operational excellence and cost-efficiency
Employee turnover	**13.4%**	13.7%	→ To find, keep and develop the right people
Training hours per employee	**15.1**	13.3	→ To find, keep and develop the right people
Lost time accident frequency (per 100,000 hours worked)	**0.52**	0.58	→ To have a culture of operational excellence and cost-efficiency → To find, keep and develop the right people
Tonnes CO_2 per £m revenue	**403**	411	→ To have a culture of operational excellence and cost-efficiency
Tonnes waste per £m revenue	**49**	45	→ To have a culture of operational excellence and cost-efficiency

* Underlying operating profit is defined as operating profit before amortisation of intangible assets.

** Underlying profit before taxation is defined as operating profit before amortisation of intangible assets less net financing costs.

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

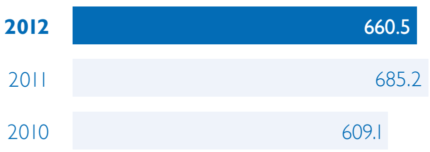
**** Underlying earnings per share is defined as basic earnings per share adjusted to exclude amortisation of intangible assets. See note 10 on page 82 for definition of basic earnings per share.

♦ Non-financial KPIs are at constant currency and updated to reflect changes in reporting methodology.

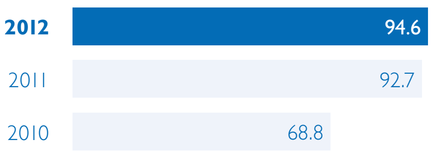
REVIEW OF OPERATIONS

MORGAN CERAMICS DIVISION

Revenue
£m



Divisional EBITA
£m



Business description

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

As at 31 December 2012 Morgan Ceramics employed approximately 5,800 people worldwide. The Division is a truly global business, with 57 manufacturing sites across six continents. It is structured with regional teams supported by global engineering, marketing, technology, research and development, strategy and finance functions. The Division's major sites are located in Argentina, Australia, Brazil, China, France, Germany, India, Italy, Japan, Korea, Mexico, Russia, the UK and the USA. The Division has 50 sales offices working directly with end-users and also sells some products through distribution networks.

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

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

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

The Technical Ceramics Business manufactures application-specific products to customer requirements using a wide range of structural ceramics, electro-ceramics and precious metals. Key markets for these products include electronics, aerospace, industrial equipment, healthcare and energy.

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

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

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

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

Market sectors

Industrial

In the industrial sector, Morgan Ceramics' products contribute to improved process efficiency, productivity and reduced waste and environmental impact.

Morgan Ceramics advanced ceramic materials offer an exceptionally wide range of characteristics, including superior insulating properties, dimensional stability, strength and stiffness. The resistance of these materials to chemical and physical wear, corrosion and extreme heat makes them ideally suited for use in harsh industrial processing and demanding manufacturing environments.

For example, Nilcra® magnesia partially-stabilised zirconia (MgO PSZ) is the material of choice for a wide range of applications from severe service valves and pumps, to tooling for battery and steel can production. Morgan Ceramics' high-temperature components are used in industrial annealing and in the manufacture of medical devices. The Division supplies ceramic membranes for efficient industrial water filtration and purification, helping businesses in that sector to reduce maintenance and save energy.

Insulating products from Morgan Ceramics allow manufacturers to control a variety of thermal processing operations, thereby optimising throughput and yields. It supplies monolithic linings for blast furnaces and fibre modules and firebricks for heat treatment furnaces. Its fire protection products are used in a range of infrastructure projects including sea defences, offshore oil and gas platforms and public buildings.

Transportation

Morgan Ceramics offers a wide range of products for many different transport applications. The Division has been meeting the exacting needs and demanding application requirements of the aerospace and automotive industries for more than 50 years. Its ceramic and brazed assemblies improve the efficiency and reliability of its customers' products. It produces ceramic components, sensors and brazed assemblies to tight specifications in quantities from one-offs and small production runs to high-volume.

Precision engineered materials, components and assemblies from Morgan Ceramics are used in instrumentation and control systems, engine monitoring, guidance systems and satellite positioning equipment. The Division's ceramic cores are used to form the cooling paths in aerospace engine turbine blades and its specialist braze alloys are used extensively in aero-engine manufacture and repair. Piezoceramics are used in gyroscopes and fuel level sensors; for example, every Boeing 777 aircraft is fitted with more than 50 of its ultrasonic fuel level sensors.

Morgan Ceramics ceramic materials offer a combination of physical properties, which makes them an attractive and cost-effective option for designers of transportation systems including road, rail, marine and aircraft, and its thermal management products are used widely in fire protection and suppression applications.

Security & Defence

Morgan Ceramics has provided precision-engineered materials, components and assemblies to meet the exacting standards of the international defence and security markets for several decades. From military hardware to surveillance equipment and armour for personnel and vehicle protection, its superior materials technology and impressive manufacturing capability deliver real performance benefits in the field.

The Division's piezoceramic components are highly versatile, stable and durable, even in challenging operating conditions, making them ideal for use in custom sensor and transducer systems. The Division is a major supplier to the manufacturers of power tubes used in image intensifiers, electronic counter-measures and communications equipment.

Morgan Ceramics' materials are used extensively for protection of personnel and vehicles in armour systems that are designed to meet the classified ballistic performance requirements of each individual customer. The Division also makes lightweight, heavy duty fire protection systems for commercial and naval vessels; the FireMaster® system is certified to meet most national and international military standards.

Morgan Ceramics is at the forefront of improving security systems at border controls. Its custom ceramic and metal assemblies are used to improve the image resolution of luggage and cargo scanners and its Diamonex™ diamond-like-carbon coatings are used in fingerprint swipe sensors.

Petrochemical

Morgan Ceramics provides precision-engineered materials, components and assemblies for the global petrochemical market. The resistance of its materials to chemical and physical wear, corrosion and extreme heat makes them ideally suited for use in challenging applications and harsh processing environments.

The Division supplies heat management systems with insulation requirements ranging from 500°C to 1,600°C, for fired heaters, ethylene crackers, reformers, sulphur recovery units, fluid catalytic cracking units and boilers.

Morgan Ceramics products enable users to optimise thermal efficiency, reduce energy costs and improve environmental performance through reduced CO_2 emissions. Its FireMaster® fire protection systems offer proven fire protection performance, certified to national and international standards.

The Division makes a range of parts and sub-assemblies for use in processing hydrocarbons, including specialist valves, pumps, seals and bearings. Its high-performance ceramic materials provide a level of precision and reliability equally suited to the demanding requirements of drilling and refining. For example, Nilcra® zirconia components extend the serviceability of valves and pumps and Deranox® 975 alumina is used in the harsh environment of the hydrocyclone, where sand and other solids are separated from the hydrocarbon stream, helping to protect and increase the lifetime of sensitive processing instrumentation and heat exchangers downstream.

REVIEW OF OPERATIONS
continued

MORGAN CERAMICS DIVISION continued

Electronics
Morgan Ceramics' capabilities in precision engineering are increasingly being specified to meet the needs of niche applications across the electronics sector. The Division supports designers and manufacturers of electronic equipment in their drive towards higher performance and reliability in smaller, lighter and more robust products.

Morgan Ceramics piezoceramic components are highly versatile, durable and stable with excellent electrical and thermal properties. It makes actuators for high-capacity hard disk drive (HDD) data storage which enable the head to be positioned with extraordinary accuracy and vibration control, ceramic formers for wire-wound radio frequency (RF) inductors for mobile phones, laptops, high definition televisions, lighting controls, sensors and wireless devices.

Dielectric materials from Morgan Ceramics offer high-quality capacitance solutions for applications from laser instrumentation to microwave and high-voltage systems. Its high-purity alumina ceramic is used extensively for waveguides in CO_2 lasers and insulators in excimer lasers that function in harsh environments and it is a major supplier of components for electron tubes used in communications, signalling and control equipment.

Morgan Ceramics produces a wide range of standard and specialised components and assemblies including metallised parts and ceramic-to-metal sub-assemblies. The Division's specialised manufacturing capabilities allow it to produce high-quality electronic components cost-effectively in high-volume.

Energy
Energy generation, management and distribution is arguably one of the fastest evolving industries of modern times. Morgan Ceramics components and sub-assemblies are widely used in a variety of systems that generate and distribute power from both renewable and traditional sources.

The Division has a broad range of dielectric materials and high quality capacitance solutions for high voltage systems, and its piezo materials are key components in a number of energy-harvesting applications.

It makes products that are used in the manufacture of thin-film photovoltaic cells for the solar industry and cores for industrial gas turbine blades. Its ceramic live line indicators are used in high voltage DC power distribution applications all over the world.

Morgan Ceramics high-performance insulating products enable users to reduce their energy costs and improve their environmental performance. The Division's high-temperature insulating fibre, bricks and monolithics are used to optimise thermal efficiency in industrial applications with operating temperatures from 500°C to 1,600°C. Latest-generation low bio-persistent Superwool® Plus fibre is used in duct and chimney insulation, process heater linings, pipe wrap and automotive exhaust heat shields where its exceptionally low thermal conductivity allows engineers to specify a significantly thinner blanket to achieve the same level of insulation.

Healthcare
Morgan Ceramics is an innovative manufacturer of ceramic implants, components and complex assemblies for a wide range of medical devices. Its high-quality ceramics can be found in surgical tools, medical instrumentation, therapeutic and diagnostic equipment. Its materials are favoured by equipment manufacturers and medical professionals for their exceptional physical characteristics.

The Division's broad medical engineering expertise encompasses ceramic orthopaedic joint replacements, precision engineered ceramic parts for cancer treatment, blood and cellular analysis systems, along with specialised ceramic-to-metal assemblies for implantable devices such as pacemakers, speech valves, cochlear implants, defibrillators and neurostimulators. Morgan Ceramics piezoelectric components are used extensively in medical ultrasound applications and in pumps for drug delivery.

The Division's superior materials display industry-leading electrical and mechanical properties enabling design of high-efficiency medical tools such as ultrasonic dental descalers, ultrasonic scalpels and tumour ablation tips.

Morgan Ceramics' applications engineering expertise is second to none and its specialist manufacturing facilities aid the evolution of key components in instrumentation and diagnostic equipment such as ultrasonic imaging, X-Ray, CAT and MRI scanners. Its superior piezoelectric ceramic components are used extensively in medical ultrasound to enable increased image resolution, while its non-magnetic, temperature stable dielectric materials are being used more extensively in next generation MRI systems.

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

Recent developments have focused on products for the medical, transportation and energy markets. Product innovation is driven by the customer's end-application. An increased emphasis on the development of new fire protection systems shows excellent promise for future growth.

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

Research into manufacturing processes has produced new generation fibre products with superior insulation. Low bio-persistent fibre technology, for use in automotive catalytic converters, has been developed and patented. A major focus for the Division is on recruitment of high-calibre material scientists and engineers to provide the talent and resources that the Division requires to fuel the growth from these exciting expanding markets.

Business performance

The Ceramics Division produced a good year in 2012, particularly when the more difficult macro-economic environment is considered. Revenue in the Morgan Ceramics Division was £660.5 million (2011: £685.2 million), representing a decrease at reported rates of 3.6%. At constant currency the decrease in revenue was 1.9%.

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

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

Business developments

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

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

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

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

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

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

Outlook

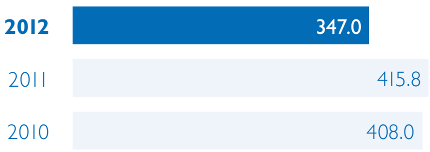
Following the decline in market demand in the second half of 2012, entering 2013 the orderbooks for both Technical and Thermal Ceramics appear to have stabilised. There remain weaker areas such as the construction market in Europe and whilst quotation levels for engineering projects in Thermal Ceramics are strong, the speed of conversion is slower than expected.

Both Businesses are continuing to pursue new business opportunities and increase their share of customer spend in 2013 which, along with a number of the Superwool® capital investments coming fully on line during the year, should leave them well placed to improve performance in 2013 and beyond.

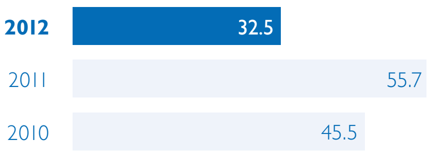
REVIEW OF OPERATIONS
continued

MORGAN ENGINEERED MATERIALS DIVISION

Revenue
£m



Divisional EBITA
£m



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

The Division's capabilities are rooted in the understanding, application and processing of its broad range of advanced materials. Today the Engineered Materials Division has strong positions in carbon brushes for industrial and rail traction applications, seals and bearings for fluid handling, crucibles for the processing of non-ferrous metals, high-temperature insulation for silicon solar wafer production and sapphire crystal substrates for LEDs, advanced lightweight protective ceramic/composite armour systems and graphite materials for lithium ion batteries.

As at 31 December 2012 the Division employed approximately 4,000 people, serving customers in around 100 countries worldwide. Its global presence includes 40 operating facilities in 25 countries, with major materials processing plants in the USA, Europe, South America and Asia feeding an integrated network of finishing plants. The Division benefits from a strategically located low-cost manufacturing base, with sites in Mexico, China, Hungary and India that allows the Division to serve customers across the globe.

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

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

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

Market sectors

Industrial

Morgan Engineered Materials products are used in a wide range of industrial equipment. They help manufacturers of non-ferrous metallurgy, steel, paper, cement, chemicals, pharmaceuticals and food to improve the efficiency of their processes.

The Division's high-quality carbon brushes, linear collectors and rotary current transfer products help to maximise equipment performance, extend system life and optimise energy efficiency, thereby reducing maintenance and operating costs.

Its carbon and graphite insulation materials and machined graphite products are used to support specialist processes in demanding high-temperature environments where their purity and structural characteristics are critical to achieving the required process quality.

In the mining industry, severe and changeable operating loads and high levels of vibration make considerable demands on the electrical performance of heavy machinery. Morgan Engineered Materials' superior advanced brush material technology has facilitated reliable equipment operation in the harshest and deepest mines in the world.

Morgan Engineered Materials' advanced crucible technology is helping to improve the efficiency of energy-intensive melting processes used in metal casting, through increased strength and longer life.

The Division's crucibles are used all over the world in foundries, die-casters and metal melting facilities working with zinc, precious metals, aluminium, copper, brass, bronze and other non-ferrous materials.

Transportation

Morgan Engineered Materials supplies key components for rail, road and aerospace transport.

Its specialist materials technologies deliver long-life performance for rail networks all over the world, even those operating in extreme environments such as very high-speed trains and long haul freight passing through widely varying conditions. Carbon brushes, commutation system components, earthing brushes, third rail and pantograph collectors are custom built and tested to meet individual rail network requirements.

In light rail systems, Morgan Engineered Materials advanced composite technology is chosen for its combination of structural integrity and light weight, which helps to save energy and provides better wear performance for longer life.

The Division's carbon and graphite components are used in commercial airlines, military aircraft and helicopters and it makes jet engine main shaft bearing seals, electrical brushes for alternators and generators, bearings for fuel pumps and high temperature carbon fabrics for insulating systems. Its materials are used where reliability is critical and high-performance paramount, such as in-flight refuelling at high altitude.

The Division supplies graphite anode materials for lithium ion batteries used in electric vehicles and is currently working with a number of world-leading partners to develop new materials for this sector.

Security & Defence

Morgan Engineered Materials is a global leader in lightweight armour systems for the effective protection of people and property.

The Division has an unparalleled record in rapid fielding of new equipment in support of a range of defence programmes. It is a critical resource supplier to the UK Ministry of Defence and has supplied tactical wheeled vehicles and equipment for use in Iraq and Afghanistan. It is designated a Tier 2 supplier of ceramic body armour plates to the US Department of Defense.

The Division's CAMAC™ vehicle armour combines advanced ceramics with high-technology composites. Its systems are typically 40% of the weight of the equivalent in armoured steel, making them easier, faster and more cost-effective to deploy. They also demonstrate higher ballistic performance.

Morgan Engineered Materials provides comprehensive fleet management and support services for defence and security vehicles from design of the armour system to manufacture, installation and spares provisioning. It also repairs and refurbishes vehicles in theatre or upon return.

The Division's rotary transfer products are specified for their high reliability for use in military vehicles operating in the harshest conditions. Examples include tank turret systems, specialist robotic mine detectors and radar systems.

Petrochemical

Morgan Engineered Materials makes critical components for fluid flow handling applications in the petrochemical industry, including seal faces, bearings, rotors and vanes. Its leading-edge materials offer excellent wear characteristics for the most extreme environments, contributing to the safety and efficiency in oil and gas extraction and downstream processing operations.

Morgan Engineered Materials carbon and silicon carbide materials are used to manufacture the high-performance seals and bearings that play a vital role in minimising fugitive gas and product vapour emissions from valves, pumps, compressors and other pressurised equipment. The engineered topography in its seal components can reduce leakage rates in critical applications by as much as 50%.

The Division's capability for precision machining of silicon carbide composite mechanical seals produces products that allow operators to work at elevated contact pressures, dramatically reducing interface leakage in demanding conditions.

Wear resistance is increasingly important in the design and operation of pumps and bearings for the petrochemical industry, where advanced materials are used to help reduce failure rates, warranty costs and downtime. Morgan Engineered Materials is working on next-generation materials with improved performance characteristics. For example, its patented silicon carbide and graphite composite reduces friction for longer life, better reliability and energy efficiency.

REVIEW OF OPERATIONS
continued

MORGAN ENGINEERED MATERIALS DIVISION continued

Electronics
Morgan Engineered Materials is playing a key role in helping the electronics industry to achieve its own demanding performance targets.

As semiconductor manufacturers continue the drive for smaller, faster integrated circuits that are less expensive to make, so processing equipment is increasingly dependent on advanced materials to achieve the desired performance. For example, use of advanced carbon technology in the silicon wafer tool helps to achieve the required purity and process temperatures.

Morgan Engineered Materials manufactures the highest purity and controlled microstructure materials in the world and has enabled yield and process improvements in specialised semiconductor and LED substrate fabrication processes, including ion implantation, epitaxy and compound crystal growth. The Division offers a state-of-the-art purification capability and is working with leading equipment manufacturers to develop and incorporate new materials that will allow them to meet the needs of the semiconductor and LED industries.

Advanced materials that the Division has engineered for applications in this sector allow manufacturers to work at higher temperatures with greater energy efficiency and reduced risk of contamination for a step-change in process performance. This has enabled the manufacture of new products, including integrated circuits, LED devices and very fine optical fibres.

Energy
Morgan Engineered Materials components play a critical role in traditional and renewable power generation and throughout the electricity supply chain. Its materials technology allows more efficient use of energy in a wide variety of industries by reducing friction, providing better insulation and enabling new technologies.

World-renowned for performance and reliability, the Division's brush technology is used in coal, gas, nuclear and wind power plants all over the world and is at the heart of electricity storage and distribution systems for applications from rail transport to electric vehicles. Its molten metal crucible technology is recognised as the most energy-efficient way to melt non-ferrous materials and is used extensively in the manufacture of copper components for electricity transmission systems.

Morgan Engineered Materials helps the world's leading producers of poly-silicon and silicon ingots to enhance solar cell performance. Its advanced insulation materials help to control the silicon melting process, optimising energy efficiency and reducing contamination, for more efficient photovoltaics.

The Division's graphite materials are used to make anodes for lithium-ion batteries for portable electronic devices, electric vehicles and grid energy storage and its carbon brushes and rotary transfer systems, designed to perform in the harshest environments, are used widely in wind power installations.

Healthcare
Morgan Engineered Materials supplies specialist components for niche markets in healthcare diagnostic equipment.

The Division's advanced carbon fibre composites are used as a strong, lightweight structural frames for an advanced technology X-ray treatment couch, used in oncology. The components help to ensure that patients are positioned correctly for optimum treatment, higher image quality and lower X-ray doses. The material enhances resolution diagnostics thanks to its high X-ray transparency.

Its graphite material is used in the case and graphite layer of a sophisticated ultrasonic diagnostic probe. It has developed a range of highly engineered, ultra-thin components to enable more accurate, higher resolution and reliable ultrasound imagery.

Silicon carbide and carbon are used in advanced oxygen concentration units that provide relief to patients suffering from chronic obstructive pulmonary diseases, such as emphysema and chronic bronchitis, that cause airflow blockage and breathing-related problems. Morgan Engineered Materials' components are part of a rotary valve that extracts more than 95% pure oxygen from the environment.

The Division's electrical rotary transfer products are used widely in medical analysis equipment from endoscopes to CCT and MRT scanners.

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

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

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

Business developments

The deterioration in the Morgan AM&T (excluding NP Aerospace) performance in 2012 reflects the softening in a number of end-markets globally but most acutely in China where the Business had experienced significant growth in recent years. The slowing of this dynamic growth economy, the sharp decline of high-margin renewable energy markets plus the fall in US armour revenue were the main reasons for the weaker results in the year.

Demand for electrical products across all regions began to soften in the second quarter and continued through the rest of the year. Seal and bearing demand, driven by weakening economies in the US and in Europe, began to soften in the third quarter and this continued through much of the second half. Demand for renewable and clean energy products fell off sharply at the end of the first quarter and remained depressed throughout the year, with the largest impacts being a 50% year-on-year drop in demand for high-temperature insulation products and an abrupt decline of the wind energy market in China.

Revenue from US body armour declined from 2011. However, good progress was made during the year in positioning the Business for success in 2013 and beyond.

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

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

Revenue in NP Aerospace was £57.8 million. The reduction in sales reflected the continued reduction in Urgent Operational Requirements demand from the UK Ministry of Defence ('MoD') for tactical wheeled vehicles. NP Aerospace margin was impacted in 2012, particularly in the second half, by vehicle contract closures resulting in both settlements with the MoD and prudent assessments of inventory remaining from the long period of supporting Urgent Operational Requirements for the MoD in Afghanistan. Entering 2013, revenue predictions are stable and the cost base has been right-sized for this level of revenue. NP Aerospace continues to build a significant pipeline of opportunities both through the USA, focused on key USA military vehicle OEMs, and through a growing series of export opportunities outside the UK and the USA. Investment in technology has continued to be a high priority and has yielded breakthrough developments in lighter weight personal protection and highly advanced vehicle armour systems that have the potential to generate significant growth in the future.

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

Outlook

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

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

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

CORPORATE RESPONSIBILITY

Corporate responsibility is integral to Morgan Crucible's business.

Morgan Crucible's corporate responsibility policies and programmes in this area support each of the Group's five strategic priorities and address key risks and opportunities.

This report summarises the Group's key corporate responsibility policies and procedures, their implementation and their effectiveness which is, where appropriate, monitored using key performance indicators.

The following section reports on Morgan Crucible's Responsible Business Programme, including the Group's policies, procedures and performance in respect of business ethics, community relations and suppliers and customers. Subsequent pages cover Environment, Health and Safety (EHS) and People. In addition, Morgan Crucible's 2012 EHS Report, planned for publication on the website in May 2013, will provide a more comprehensive review of the Group's EHS performance in 2012.

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

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

Corporate responsibility policies and procedures

The Group continues to develop its Responsible Business Programme as the core training and education platform for Morgan Crucible's corporate responsibility policies and procedures, other than EHS, which is a stand-alone programme. The Responsible Business Programme covers human rights, contract risk management, ethics and anti-bribery and competition.

The policies and procedures are mandated across the Group, taking into account local legislation and regulation. All policies are reviewed annually and where amendments are made these are communicated across the Group. Group policies are often accompanied by detailed manuals or guidelines which provide additional support to the Business.

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

Each year, the Divisional Chief Executives and Finance Directors are required to certify that their Division has implemented and complied in full with the policies or to declare any exceptions. This certification forms an integral part of the Group's system of internal controls. No material exceptions were declared in respect of 2012. Each business also completes an annual certification of compliance with the various elements of the Responsible Business Programme, including corporate responsibility policies.

The Morgan Crucible Ethics Hotline, operated by Expolink, was launched globally in 2011 and enables employees and other stakeholders 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.

Business ethics and compliance

The Board is responsible for overseeing the Group's Ethics Policy.

The Group's Core Values Statement, Ethics Policy and Competition Law/Anti-Trust Policy, which are available in 13 languages, oblige all employees to operate in accordance with applicable laws and regulations. The Ethics Policy specifically prohibits the giving or receiving of bribes and the Company is clear that no employee shall suffer discrimination as a result of refusing to pay or receive a bribe.

The Group policies apply, so far as is appropriate, to Morgan Crucible's business partners, including agents, joint ventures and representatives.

During 2012, an appropriately translated version of the Responsible Business Guide for Representatives was issued to third-party agents, and others acting 'on behalf' of the Group. This Guide summarises the ethical principles the Group requires its representatives to adhere to in order to act on behalf of the Group.

Customers and suppliers
Morgan Crucible's customer service policy is to respond quickly to changing customer demand, to identify emerging needs and to ensure product availability, quality and value. The Group stays close to its current and potential customers, building long-term relationships. Over 90% of the Group's manufacturing output is accredited to ISO 9001 and the Group's quality management systems help ensure that Morgan Crucible's products meet or exceed customer requirements. Management of the supply chain is a key part of ISO 9001 accreditation and includes supplier audits and screening as appropriate.

The Group engages with its customers, suppliers and other partners in mutually beneficial ways and works with business partners who the Group believes will act in accordance with Morgan Crucible's policies and values. Morgan Crucible's support for the Universal Declaration of Human Rights, referred to in the People section on page 26, commits the Group in respect of all those who work for it and those who have dealings with it, including suppliers.

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

Corporate responsibility policy implementation
The implementation of Morgan Crucible's corporate responsibility policies and procedures is aligned with the overall governance structure of the Group. The implementation of the Group's EHS and people-related policies is covered in more detail on pages 21 to 27.

Described below are some of the processes for implementing and monitoring the Group's corporate responsibility policies and procedures.

Business ethics and compliance
The Board of Morgan Crucible is committed to ensuring that the Group's policies relating to business integrity are upheld. Policies and manuals are implemented in the business through the Responsible Business Programme.

The Responsible Business Programme was introduced in 2010, with the first phase of the Programme completed in 2011. This phase introduced human rights, contract risk management, ethics and anti-bribery training. The second phase of the Programme from 2011 into 2012 covered the re-launch of the Group's Global Anti-Trust Compliance Programme, which underpins the Group's policy to comply with all anti-trust and competition laws around the world. In addition to covering anti-trust, the second phase of the Programme reinforced and refreshed the training provided in phase one with training delivered to over 2,000 relevant employees worldwide.

The programme is implemented via 'train-the-trainer' sessions for general managers and compliance officers who then deliver face-to-face training to relevant local and site staff. The face-to-face training is complemented by eLearning modules which are available in 13 different languages and require a 100% score in each eLearning test module in order to pass. The Responsible Business Programme is also a mandated part of induction training for new employees.

Local site-based Compliance Officers report to the Company Secretary, as Global Compliance Director, on the continuing effectiveness of the Responsible Business Programme, specifically incorporating annual business certification of compliance with the various elements of the Programme.

Regular compliance risk assessments across the Group help to identify those businesses which have a higher risk of a compliance breach, often where located in a high risk territory, working through a third party agent or with Government entities. In order to assist with managing these compliance risks, these high-risk businesses receive additional focus and support including further training, guidance and site visits. These risk assessments also inform internal audit practices.

During 2013, the Group plans to further develop the Responsible Business Programme with the incorporation of face-to-face export control training, updated contract risk training and updated face-to-face training on each of the existing modules, to reinforce the existing training materials.

The Ethics Hotline complements the training given in the Responsible Business Programme, providing an alternative means of reporting breaches of policy. This is promoted on the Group's intranet, through site posters and other promotional materials in 17 languages. The Ethics Hotline includes local free-phone numbers in each of the countries in which the Group operates with real-time translators available as necessary. The remit of internal audit includes ensuring the availability of the Ethics Hotline is suitably promoted at site level.

Customers and suppliers
The Chief Executives of each of the Group's Divisions have specific responsibility for customers and suppliers and related policies and procedures within their respective Divisions. Each Division and Business implements appropriate sales and customer account management structures with customer contacts and monitoring at senior levels to help ensure that customer feedback, concerns and opportunities are addressed.

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

CORPORATE RESPONSIBILITY
continued

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

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

Corporate responsibility policy effectiveness

Business ethics and Compliance
Participation in the Responsible Business Programme and implementation of the site training is monitored at a Group level through internal reporting procedures, the annual self-certification process and the annual business certification of compliance with the various elements of the programme. Adherence is also monitored by the collation and review of a number of reporting forms which include reporting any requests for a bribe and contact with competitors.

In addition, an assessment of the effectiveness of the programme has been incorporated into the internal audit process providing an additional 'check and balance' to the self-certification of policy compliance. This, along with independent audit of the anti-trust element of the programme, allows monitoring of the continued effectiveness of the programme, which is monitored by the Company Secretary as Global Compliance Director who reports to the Executive Committee and the Board on the effectiveness of the programme and on any issues arising.

Issues raised through the Ethics Hotline or via other channels are followed up by the Company Secretary. Further investigations may be conducted through the Audit Committee as required. Where appropriate, disciplinary action up to and including dismissal is taken and/or additional guidance and training provided. During 2012, 11 reports were received via the Hotline from three different countries. No material issues were reported via the Hotline in 2012. The Audit Committee monitors and reviews the effectiveness of the Ethics Hotline and of the follow-up and investigation processes. The Audit Committee reviewed the operation and effectiveness of the Hotline during the year and was satisfied that it is operating effectively.

Customers and suppliers
Morgan Crucible continues to benefit from long-term relationships with many customers and suppliers, reflecting the effectiveness of the Group's customer service and supplier-related strategies. Some examples of the products and markets served are included on pages 10 to 17 of this Annual Report.

Management of the supply chain is a key part of ISO 9001 accreditation and includes supplier audits and screening as appropriate.

Community
During the year the Group's charitable donations were £178,060 (2011: £194,744). This is in addition to the time given and donations made by Morgan Crucible employees around the world.

During 2012, Morgan Crucible supported a number of initiatives at Group, Divisional and site level. The main emphasis of this support is to help disadvantaged young people and sponsor local community projects which can also engage and involve employees. Example initiatives include:

→ The Group continues to support the joint Barnardo's/Outward Bound initiative which provides opportunities for young people to develop life skills at a centre in Ullswater, UK. This year, a team from Barnado's visited Head Office and presented on the value of their experience of the initiative.
→ NP Aerospace in Coventry, UK, is a major sponsor of the local Godiva Harriers Athletics Club and other local community and charitable initiatives and also supports the Army Winter Sports Association which creates the opportunity for many hundreds of soldiers to take part in winter challenges.
→ The Group also supported the British Heart Foundation and a number of other sports and health-related charities and appeals.

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

→ Morgan Technical Ceramics in the USA instituted a company-wide relief effort for those affected by Hurricane Sandy with extensive supplies, including canned goods, clothing and fuel being sent to the Group's Wood Ridge, NJ facility. Traditional shipping methods could not guarantee delivery dates so MTC New Bedford rented a truck which was then driven overnight to Wood Ridge by an MTC employee.
→ Employees from the Morgan Ceramics Asia team took part in the Standard Chartered Marathon Singapore 2012. Funds were raised for the Autism Association.

ENVIRONMENT, HEALTH AND SAFETY

Morgan Crucible's Environment, Health and Safety (EHS) Policy and implementation programmes support the Group's five strategic priorities and Core Values Statement. EHS performance has a direct and significant effect on operating performance and is therefore a key focus for risk assessment and operational management across the Group.

Morgan Crucible 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 ongoing and it is with regret that the Group reports that, for the first time in many years, two employees were involved in fatal accidents at the Group's manufacturing facilities. The accidents occurred in China in July and in the UK in December 2012. The UK accident is the subject of a detailed investigation that is still ongoing. Further details are included on page 24 below and during 2013 Morgan Crucible will be working to introduce an enhanced behavioural safety culture throughout the Group.

The Group is also committed to minimising the impact of its business on the environment and to maximising the positive environmental benefits of its products. Examples of Morgan Crucible's products which help enhance the environment-related performance and efficiency of the products and operations of the Group's customers are included in pages 10 to 17 of this Report.

The regular collection and 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 2012 EHS Report to be published on the Group's website in May 2013. The EHS Report will also include case studies to help demonstrate the Group's approach to EHS performance improvement.

EHS Policy

Morgan Crucible's EHS Policy applies Group-wide; it forms the basis for 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 Crucible'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.

EHS performance is reported half-yearly to the Board by the Chief Financial Officer. The governance structure for EHS places responsibility for EHS performance on the Chief Executive of each of the Group's Divisions, with each site having a point of accountability. The Chief Financial Officer is responsible for EHS Policy and performance monitoring and the Group's Director, Environment, Health and Safety provides Group direction and oversight and has responsibility for implementation of the Group EHS programmes including standards and procedures, review of the adequacy of EHS resources across the Group as well as training, performance reporting and assurance processes.

During 2012, the Group continued the recruitment of Divisional 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 is in line with the proposals for the enhancement and formalisation of EHS governance arrangements that were adopted by the Board at the end of 2011.

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

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

- → The EHS Compliance Audit Programme, which is carried out by external EHS consultants in Europe and Asia and in-house resources in the Americas. This programme reviews the EHS management at each site and helps ensure compliance with local regulations and good management practice. 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, 29 sites were audited during 2012 and 36 sites are planned for audit in 2013. The audit reports are reviewed by the Director, Environment, Health and Safety and by the Divisional Chief Executives. Action items are tracked through a formal follow-up process.
- → Formal training as an integral part of the implementation of the Group's EHS Policy. This is undertaken at a regional level in each Division according to business-specific risks and opportunities, with Group-level support and oversight. For example, during 2012 training programmes in China focused on machine safety, including the introduction of lock-out/tag-out systems at each site.
- → 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 2012 environmental management systems were in place at 94 sites worldwide, including 41 major sites certified to ISO 14001 (2011: 39 sites). Two additional sites in the USA and India achieved certification in 2012. These new certifications are in addition to the ongoing programme of re-certifications. All major production sites worldwide have health and safety management systems in place, with 15 sites certified to or working towards OHSAS 18001 (2011: 15).

CORPORATE RESPONSIBILITY
continued

ENVIRONMENT, HEALTH AND SAFETY continued

EHS Policy effectiveness
Morgan Crucible 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 23 and 24 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 2012 the Group expanded the independent external assurance performed by PwC to cover the Group's waste and recycling KPIs in addition to CO_2 intensity, energy intensity and water intensity that were also assured in 2011. The assurance report from PwC is set out on page 25. In addition, a work-programme is underway with a view to gain assurance for the Group's lost time accident frequency data in 2013.

The overall verification of Morgan Crucible's environmental, social and governance disclosures is further discussed on page 20.

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

- During the year Morgan Crucible's wholly owned UK businesses were accredited to the Carbon Trust Standard. This certified that they have measured, managed and reduced their carbon footprint.
- Morgan Crucible has made filings in respect of the Group's UK facilities under the UK government's Carbon Reduction Commitment (Energy Efficiency) scheme.
- The Group also participates in the Carbon Disclosure Project (CDP). The CDP is a 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 2012 CDP FTSE 350 Report the Group was featured in both the Carbon Disclosure Leadership Index (one of 35 companies) and the Carbon Performance Leadership Index (one of seven companies). This performance reflects the progress being made throughout the Group to reduce energy usage and resulting CO_2 emissions.

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

Morgan Crucible monitors the impact of its operations on the environment, as measured by its combined Scope 1 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 2012 performance is a report against the targets for the two-year period 2010-12.

The Group's intensity targets and KPIs relate environmental measures to revenue. The decline in revenue in 2012 and corresponding reduction in production volumes inevitably had an impact on the absolute CO_2 emissions, energy use and water use. Whilst the lower volumes led to lower efficiency in some of the Group's energy-intensive operations, the Group was still able to improve the CO_2 and energy related metrics as a result of the actions taken – further details are provided below.

Recycling rates improved although the quantity of waste reported increased due to the disposal of historic waste at a number of sites during 2012.

Further details of the Group's EHS targets and objectives, including updated and new targets for 2012-14, will be included in the Group's 2012 EHS Report, which is expected to be published on the Group's website in May 2013.

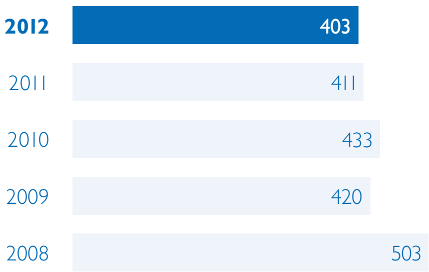
The Group's CO_2 intensity^ was reduced by 2% in 2012 bringing the reduction over the two years 2010-12 to 7%. This was ahead of the target to reduce the CO_2 emissions intensity due to energy use by 5% over the two year period. 2012 energy intensity^ was down by 7% compared to 2010, with a marginal decrease in the year. The reduction over the two years was achieved through increased efficiency at many of the Group's energy-intensive businesses driven by energy reduction programmes. This 7% reduction follows on from the 12% reduction achieved over the two-year period 2008-10. In absolute terms total CO_2 emissions due to energy use in 2012 were some 405,600 tonnes against 445,000 tonnes in 2011 and 428,500 tonnes in 2010. Total energy use was some 1,313 GWh in 2012 against 1,430 GWh in 2011 and 1,388 GWh in 2010. The Group will be seeking further reductions in energy intensity in 2013 and beyond.

Reported waste intensity^ increased by 4% over the two years 2010-12, which is behind the target to reduce waste intensity by 5% over the period. The increase in reported waste intensity follows programmes to identify and dispose of accumulated waste and surplus materials and equipment across a number of sites world-wide. Additionally the Group undertook a thorough review of waste generation and reporting in 2012. As a result a small number of waste streams are included in the 2012 reports which were not fully covered by previous reports. The proportion of total waste which was recycled was 28%^ in 2012, up from 22% in 2010 and meeting the target to increase recycling by 5% of total waste over the two years 2010-12. Total waste reported in 2012 was some 48,900 tonnes up from 48,600 tonnes in 2011 and against 46,400 tonnes in 2010.

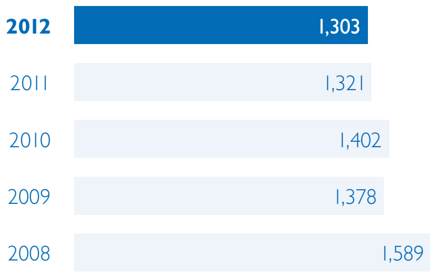
Water use intensity^ was down by 3% in the year, bringing the reduction the over the two years 2010-12 to 15%. This was ahead of the target to reduce water intensity by 5% over the two years 2010-12. This improvement was achieved through a focus on reducing water use at the Group's more water-intensive businesses, combined with further reductions achieved through re-use and recycling of water at a number of sites. Total water use in 2012 was 2.53 million m^3, down from 2.79 million m^3 in 2011 and down from 2.92 million m^3 in 2010.

^The 2012 CO_2 intensity, energy intensity, water use intensity, waste intensity and proportion of total waste recycled information has been subject to assurance by PwC. See Independent Assurance Report on page 25 for further details.

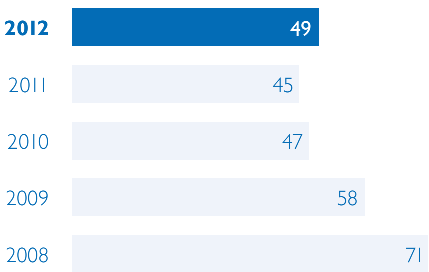
Total CO_2 intensity^*
Tonnes CO_2/£m revenue**



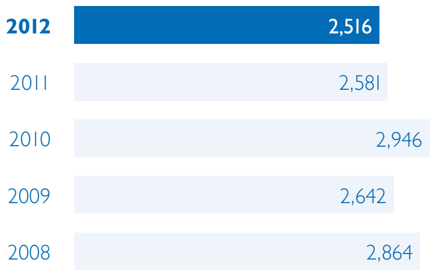
Energy intensity^+
MWh/£m revenue**



Waste intensity^~
Tonnes waste/£m revenue**



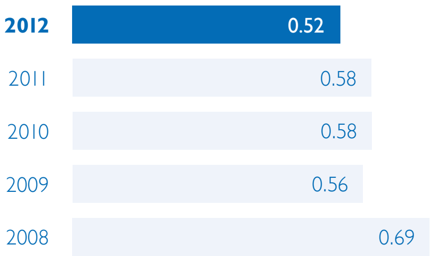
Water intensity^#
m^3/£m revenue**



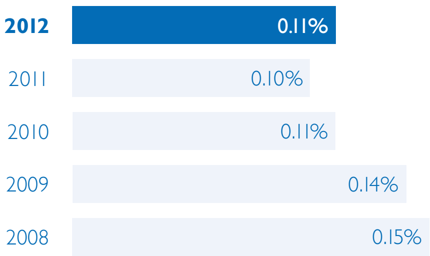
^ The 2012 and 2011 CO_2 intensity, energy intensity, water intensity and 2012 waste intensity information has been subject to assurance by PwC. See the Independent Assurance Report on page 25 for further details.
* Scope 1 emissions from fossil fuel usage and Scope 2 CO_2 using country-specific electricity factors.
** Constant currency basis and updated to reflect changes in reporting methodology.
+ Energy from all sources.
~ Hazardous and non-hazardous waste, including recycled material.
# Water from all sources, including process, irrigation and sanitary use.

CORPORATE RESPONSIBILITY
continued

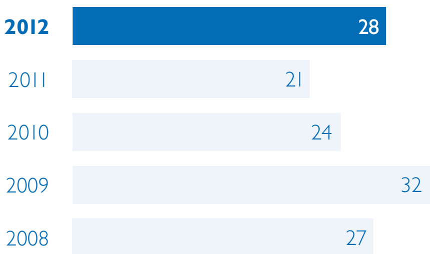
Lost time accident frequency*
LTAs/100k hours worked*



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



Lost time per LTA*#
Days per LTA*



* Lost time accident (LTA): accident which results in one or more days' lost time.
\# Total time lost due to health and safety in 2012 divided by the number of lost time accidents reported in the year.

Health and safety performance

As reported above, Morgan Crucible is committed to conducting all its activities in a manner which achieves high standards of health and safety for all its employees. The Group's policy statement on this is 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 statement is supported by site level assessment and monitoring of risks. However, there were two fatal accidents involving employees in 2012. The accidents had different causes with the first fatality occurring at the Group's Yixing Thermal Ceramics facility in China when an employee became trapped in an automated unloading and stacking machine. The Group has conducted a review of machine guarding, operator training and related procedures at its manufacturing facilities worldwide and is committed to making any necessary improvements. A second fatality occurred when an employee at the Technical Ceramics site in Ruabon, UK suffered crush injuries whilst moving a piece of heavy machinery. This incident is subject to an on-going investigation by the United Kingdom Health and Safety Executive. Although differing in nature, these fatal accidents have demonstrated the importance of the behavioural safety culture throughout the Group and Morgan Crucible is committed to introduce programmes to further enhance this in 2013.

Morgan Crucible's health and safety aim is to have no accidents or injuries. In 2012 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 and causes and related lost working time. These are used to monitor the effectiveness of the Group's Health and Safety Policies and related systems on a monthly basis.

In 2012 the frequency of lost time accidents across the Group was down 11% at 0.52 per 100,000 hours worked (2011: 0.58). The number of lost time accidents reported was 113 (2011: 131). Manual handling, cuts and abrasions remain the most common causes of accidents and the Group continues to address this, specifically targeting businesses with below-average performance.

All accidents are reported in the year in which the accident actually occurs, whereas the lost time, which impacts lost time as a % of total working time and the lost time per LTA metrics, is reported in the year in which the individual is away from work.

Reported lost time due to accidents and work-related illnesses as a percentage of working time increased from 0.10% in 2011 to 0.11% in 2012. This was caused by an increase of 12% in the number of days lost during 2012 and a 3% decrease in the number of hours worked. The increase in the number of days lost in 2012 largely related to time lost in the year due to accidents which occurred in 2011.

The reported average number of days lost per LTA in the year increased to 28 days from 21 days in 2011. This calculation was impacted by accidents that occurred and were reported in 2011 which resulted in lost time in 2012. Thus the 2011 figure includes the accident but not all of the lost time and the 2012 figure includes the balance of the lost time but not the accident. Whilst such items will always occur, in this instance it does lead to a large increase in the reported figure and, if the accidents and lost time were to be fully reported in the same period, then the increase in the days lost per LTA would be approximately 10%. There has been no change in the underlying nature or severity of the accidents reported.

INDEPENDENT ASSURANCE REPORT

Independent Assurance Report to the Directors of The Morgan Crucible Company plc.

The Directors of The Morgan Crucible Company plc ('Morgan Crucible') engaged us to provide limited assurance on the information described below and set out in Morgan Crucible's Annual Report for the year ended 31 December 2012.

What we are assuring ('Selected Information')

The selected environment, health and safety ('EHS') data for the year ended 31 December 2012 marked with the symbol^ presented in the Annual Report 2012. The scope of our work was restricted to the Selected Information for the year ended 31 December 2012 and does not extend to information in respect of earlier periods or to any other information in the Annual Report 2012.

How the information is assessed ('Reporting Criteria')

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

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

We have used ISAE 3000 (limited level of assurance) and we have complied with the ICAEW Code of Ethics.

Understanding reporting and measurement methodologies

There are no globally recognised and established practices 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 Crucible's reporting should therefore be read in conjunction with the Selected Information and associated statements reported on Morgan Crucible's website.

Work done

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

- Made enquiries of Morgan Crucible'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 eight sites and analysing a further 31 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 39 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 Crucible's responsibilities

The Directors of Morgan Crucible are responsible for:

- 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 Crucible's performance based on the Reporting Criteria; and
- The content of the Annual Report 2012.

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 Crucible.

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 2012 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 Crucible as a body in accordance with the agreement between us, to assist the Directors in reporting Morgan Crucible's EHS performance and activities. We permit this report to be disclosed in the Annual Report for the year ended 31 December 2012, 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 Crucible for our work or this report except where terms are expressly agreed between us in writing.

pwc

PricewaterhouseCoopers LLP
Chartered Accountants
London
14 February 2013

1 The maintenance and integrity of Morgan Crucible'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 Crucible's website.

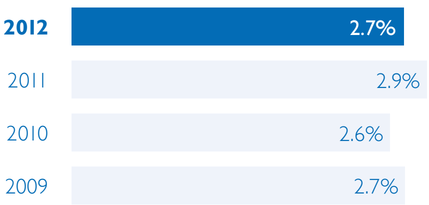
2 We have complied with International Standard on Assurance Engagements 3000 – 'Assurance Engagements other than Audits and Reviews of Historical Financial Information' issued by the IAASB, and with the applicable independence and competency requirements of the Institute of Chartered Accountants in England and Wales (ICAEW) Code of Ethics. 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 and the procedures performed in response to the assessed risks.

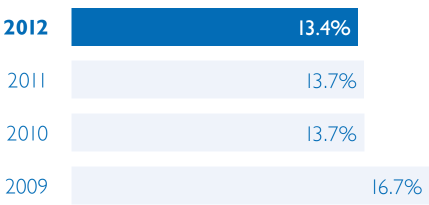
CORPORATE RESPONSIBILITY
continued

PEOPLE

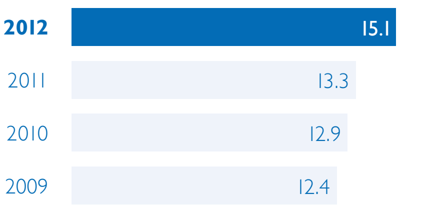
Total lost time
% of working time



Employee turnover
% per year



Training
hours per employee



Morgan Crucible recognises that its people are critical to the Group's success, with a workforce with highly unique skills. Set out below are the Group's People Policies, how they have been implemented, together with a review of their effectiveness.

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. The Director of Human Resources reports to the Chief Executive Officer and is responsible for the development of the Human Rights Policy and related matters, with the Chief Executives of each Division having responsibility for policy implementation within their respective Divisions. The Divisional Chief Executives report annually on their implementation of the Human Rights Policy. The Morgan Crucible Ethics Hotline enables employees who are aware of or suspect issues under the Group's Human Rights Policy to report these confidentially.

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

Talent and recruitment

Demands on the business as a whole continue to change, and the Group's businesses continuously explore different business development opportunities as they evolve into new markets and industries. The Group's approach is therefore to develop existing employee talent and recruit new people into jobs that fit those business requirements, at the time they are needed. The Group reviews short- and long-term business needs on a regular basis and carries out succession planning and talent reviews to identify any skill gaps. Again, this year this process has enabled several promotions around the Group, as well as some targeted external hiring.

Whether recruiting internally or externally for a vacant position, selection is based on many factors including a candidate's relevant education, work experience, competencies and performance record. The Group does not unfairly discriminate and it respects human rights. Should existing employees become disabled, the Group's policy is to provide continuing employment and training wherever practicable.

Training and development

Overall training hours per employee have increased (see People Policy Effectiveness). This training encompasses management, commercial, technical, and health & safety training. For example, last year the Group further developed its existing approaches to the assessment of management capability and development. This was through investment in management training and leadership development in both Divisions, and across all regions.

Within the local businesses, momentum continues regarding the Group's Responsible Business Programme, which was introduced in 2010, with training on human rights, contract risk management, ethics and anti-bribery training. The second phase of the Programme from 2011 into 2012 covered the re-launch of the Group's Global Anti-Trust Compliance Programme, which underpins the Group's policy to comply with all anti-trust and competition laws around the world. In addition to covering anti-trust, the second phase of the Programme reinforced and refreshed the training provided in phase one with training delivered to over 2,000 relevant employees worldwide.

The programme is implemented via 'train-the-trainer' sessions for general managers and compliance officers who then deliver face-to-face training to relevant local and site staff. The face-to-face training is complemented by eLearning modules which are available in 13 different languages and require a 100% score in each eLearning test module in order to pass.

During 2013, the Group plans to further develop the Responsible Business Programme with the incorporation of face-to-face export control training, updated contract risk training and will provide updated face-to-face training on each of the existing modules to reinforce the existing training materials. This programme is covered in more detail on pages 18 and 19.

In 2012, the Group continued to make progress with its 'Developing for Performance' management approach, with local businesses already beginning to see encouraging results. The system focuses on developing the skills of the Group's employees through performance management, goal-setting, competency assessment and development planning. The Group sees continuous learning and professional development as a major investment in its future. The Group's businesses continue to deliver local learning initiatives, to meet operational and local leadership needs.

Reward, Recognition and Awards

The Group recognises and celebrates the accomplishments of its people individually or as teams, and makes recognition awards to acknowledge achievement, loyalty, and innovation. In 2012, recognition awards continued to be made across local businesses.

The principle of pay for performance is applied to the Group's compensation approach. The Group establishes compensation levels that are both competitive in the countries in which it operates, and affordable to Morgan Crucible.

In pursuit of investing in future talent in the labour market, Morgan Crucible continues to sponsor annually the Science, Engineering & Technology Student of the Year awards. In 2012 the winner of the Morgan Crucible Best Materials Student Award was Faith Bateman from the University of Leeds for her project entitled 'The binding mechanism of "Recombinase-A" based nucleoprotein filaments in molecular scaffolding'. The Group also achieved its plan to increase the number of graduate recruits in 2012, and established a global approach to graduate recruitment and development.

Communication

The Divisions communicate regularly through employee forums, team briefs and Divisional magazines. Employees give feedback on many different aspects of its business. Local businesses also have Employee Suggestion programmes.

The Group continues to use its intranet site, providing access to information from diverse sources across the globe. In addition, the two Divisions developed their own sites to facilitate more effective communication. The Divisions continue to issue regular Divisional newsletters both electronically and in hard-copy formats. Employee feedback received regarding local communication mediums has been positive.

In Europe, the Group has an established consultative arrangement that provides an arena for the exchange of relevant and appropriate information across the European region. The Group also held its 16th annual European Employee Forum in May 2012, where site representatives attended from France, Germany, Hungary, Italy, the Netherlands and the United Kingdom.

Local business units conduct employee surveys according to the needs of local employee relations and team agendas. These measure a range of issues relevant to the business units, including employee satisfaction and awareness of business objectives. For example, in China, manufacturing plants saw an improvement in their employee satisfaction scores from 61.4% to 76.2% in 2012. Surveys of leadership style and culture are also conducted at regional and Divisional levels.

People Policy effectiveness

At the end of the year, Morgan Crucible employed circa 9,800 people. Additionally, the Group employs circa 1,000 people on short-term contractual arrangements to provide the numerical flexibility for the Group's businesses to react quickly to changes in market conditions.

The Group's geographic spread of people is as follows: 27% (28% in 2011) of employees in the USA, 15% (16% in 2011) in the UK, 16% (16% in 2011) in China, 17% (17% in 2011) in other Europe, 6% (5% in 2011) in other North America, 4% (4% in 2011) in South America and 15% (14% 2011) in the Rest of the World. Of these employees 74% (75% in 2011) are male.

Lost time as a proportion of total working time improved to 2.7% (2.9% in 2011), with lost time due to accidents in the workplace of 0.1% of total working time. Training hours per employee increased to 15.1 hours (13.3 hours in 2011). The Group's employee turnover was 13.4% in 2012 (13.7% in 2011). 3.2% of the workforce was made redundant during the year with higher levels of natural turnover coming from China and Mexico where labour markets are exceptionally fluid.

During the year, 19 employees around the world celebrated 40 years of loyal service with Morgan Crucible, with 130 employees celebrating anniversaries of 20, 25 or 30 years' service. The Group is pleased by the number of employees who remain with the Morgan Crucible for significant periods of their careers, and whose experience the Group has retained. The average length of service of the Group's employees is 11.5 years (13.7 years in 2011).

FINANCIAL REVIEW

Kevin Dangerfield
Chief Financial Officer

Whilst the Group has experienced tougher trading conditions in 2012, particularly in the second half of the year, it has achieved a 12.1% EBITA margin and good free cashflow, and has increased the full-year dividend to 10.0 pence per share.

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 68 to 125 and comply with adopted IFRSs.

Reference is made to 'Underlying operating profit'[3] and 'Underlying earnings per share (EPS)'. EPS is defined in note 10 on page 82. These measures of earnings are shown because the Directors consider that they give a better indication of underlying performance.

Group revenue and operating profit

Group revenue was £1,007.5 million (2011: £1,101.0 million), a decrease of 8.5% compared to 2011. On a constant currency basis, revenue decreased by 6.9%.

Group EBITA[2] was £122.0 million (2011: £143.4 million) representing a margin of 12.1% (2011: 13.0%).

Group underlying operating profit[3] was £108.8 million (2011: £141.5 million). Underlying operating profit margin was 10.8%, compared to 12.9% for 2011.

Group operating profit was £100.5 million (2011: £133.2 million). Operating profit margin was 10.0%, compared to 12.1% for 2011.

	Morgan Ceramics				Morgan Engineered Materials					
	Technical Ceramics		Thermal Ceramics		Morgan AM&T		Molten Metal Systems		Consolidated	
	2012 £m	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m
Revenue from external customers	**273.3**	285.1	**387.2**	400.1	**301.2**	369.1	**45.8**	46.7	**1,007.5**	1,101.0
Divisional EBITA[1]	**42.7**	43.1	**51.9**	49.6	**24.4**	48.0	**8.1**	7.7	**127.1**	148.4
Unallocated costs									**(5.1)**	(5.0)
Group EBITA[2]									**122.0**	143.4
Restructuring costs and other one-off items	**(1.4)**	1.1	**(5.4)**	(3.0)	**(6.4)**	–	**–**	–	**(13.2)**	(1.9)
Underlying operating profit[3]									**108.8**	141.5
Amortisation of intangible assets	**(2.5)**	(2.5)	**(1.3)**	(1.2)	**(4.3)**	(4.5)	**(0.2)**	(0.1)	**(8.3)**	(8.3)
Operating profit									**100.5**	133.2
Finance income									**26.3**	27.7
Finance expense									**(45.4)**	(49.5)
Profit before taxation									**81.4**	111.4

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

The restructuring costs and other one-off items of £13.2 million (2011: £1.9 million) included restructuring costs of £13.3 million (2011: £5.6 million) and a gain on sale of properties of £0.1 million (2011: £2.4 million). In 2011 the charge also included a net pension credit of £1.3 million. The restructuring costs in 2012 relate to a range of actions across the Group, mainly in the second half of the year, as the Group took action to reduce the cost base, particularly in the Morgan AM&T Business.

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	
	2012	2011	**2012**	2011
USD	**1.5852**	1.6043	**1.6255**	1.5541
€	**1.2336**	1.1529	**1.2330**	1.1972

The potential impact of changes in foreign exchange rates is given in note 20 on pages 93 to 100.

Amortisation of intangible assets

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

Finance costs

The net finance charge was £19.1 million (2011: £21.8 million). This charge was primarily net bank interest and similar charges of £16.9 million (2011: £20.4 million), a decrease of £3.5 million. The decrease in the net interest charge is due to the continuing reduction in average debt levels and lower interest rates following the refinancing of the bank facilities in 2011. The balance of the finance charge under IFRS is the net interest charge on pension scheme net liabilities, which was £2.0 million (2011: £0.9 million) and interest expense of £0.2 million (2011: £0.5 million) on the unwinding of the discount on the deferred consideration relating to the NP Aerospace acquisition. The impact of potential changes in interest rates on profit or loss is stated in note 20 on pages 93 to 100.

Taxation

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

Discontinued operations

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

Earnings per share

Underlying earnings per share was 23.2 pence (2011: 29.9 pence), and basic earnings per share from continuing operations was 20.2 pence (2011: 26.9 pence). Details of these calculations can be found in note 10 on pages 82 and 83.

Dividend

The Directors recommend the payment of a final dividend at the rate of 6.4 pence per share on the Ordinary share capital of the Company, payable on 31 May 2013 to Ordinary shareholders on the register at the close of business on 19 April 2013. Together with the interim dividend of 3.6 pence per share paid on 10 January 2013, this final dividend, if approved by shareholders, brings the total distribution for the year to 10.0 pence per share (2011: 9.25 pence).

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

A five-year summary of the Group's financial results is set out on page 126 of this Report.

Cash flow

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

Net debt* at the year end was £192.8 million (2011: £215.4 million). The net debt* to EBITDA ratio at the year end was 1.3 times (2011: 1.2 times).

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

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

Commitments for property, plant and equipment and computer software for which no provision has been made are set out in note 25 on page 114.

FINANCIAL REVIEW
continued

Capital structure

At the year end total equity was £271.8 million (2011: £270.2 million) with closing net debt of £192.8 million (2011: £215.4 million).

Non-current assets were £561.2 million (2011: £594.5 million) and total assets were £968.3 million (2011: £1,041.4 million).

Details of undiscounted contracted maturities of financial liabilities and capital management are set out in note 20 on page 95.

There have been no significant post-balance sheet events.

Capital structure is further discussed in note 20 on page 98 under the heading Capital management.

Pensions

The Group operates a number of pension schemes throughout the world, the majority of which are of a funded defined benefit type. The largest of these are located in the UK and the USA with the majority of others in Continental Europe. The Group pension deficit increased by £31.5 million since last year end to £166.6 million on an IAS 19 basis. The main movements were in the USA and UK defined benefit pension schemes. The UK schemes' deficit increased by £23.9 million to £71.3 million (2011: £47.4 million) and the USA schemes by £4.2 million to £62.7 million (2011: £58.5 million). This increase was mainly due to the impact of lower discount rates.

For the year ended 31 December 2013 the Group is required to adopt IAS 19 (revised) *Employee Benefits*. The Group's expectation is that profit before taxation for 2013 will be approximately £6 million lower than if the current IAS 19 had been applied. 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 financing costs, 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 re-classification of the administration costs to operating charges identified above.

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

Treasury Policies

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

Financial Risk Management and Treasury Policy

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

Foreign exchange risks

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

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

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

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

Credit risk
Credit risk arises when a counterparty fails to perform its obligations. The Group is exposed to credit risk on financial instruments such as liquid assets, derivative assets and trade receivables. Credit risk is managed by investing liquid assets and acquiring derivatives in a diversified way from high-credit-quality financial institutions. Counterparties are reviewed through the use of rating agencies, systemic risk considerations, and through regular review of the financial press. The Group has a Credit Policy in place in relation to trade receivables and exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The nature of the Group's operations is such that the Group has a significant number of low-value trade receivables. The risk is therefore considered minimal. Credit risk is further discussed in note 20 on pages 93 to 100.

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

Tax 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.

Accounting Policies
The Group adopted International Financial Reporting Standards as adopted by the EU (adopted IFRSs) in 2005. All Accounting Policies are compliant with adopted IFRSs.

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

The Group's debt and maturity profile is provided in notes 19 and 20 on pages 92 to 100.

Going concern
The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business review on pages 6 to 35. 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 facility. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance and exchange rates, show the Group operating comfortably within its debt financial covenants for the next 12 months.

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

RISK MANAGEMENT

The Group has an established risk management methodology in place which identifies, manages and mitigates risks, together with a comprehensive internal control framework and appropriate assurance processes.

During 2012, this approach to risk management was reviewed and further developed to adopt a holistic 'Risk Dashboard' approach to mapping identified risks in the context of the Groups controls, monitoring and assurance systems.

The Group's Risk Dashboard (populated with material risks identified from operating site level upwards) sets the agenda for a rolling review by the Board and Audit Committee of the Group's material strategic, operating, financial and compliance risks and the associated controls, monitoring and assurance processes.

The risk management processes seek to capture, manage and mitigate both existing and emerging risks that could impact the Group's immediate and long-term performance and value. Whilst they do not fully eliminate risks, they facilitate mitigation to an acceptable level within the context of the business environment in which the Group operates.

The following key risk areas are those that the Group feels could have the most serious adverse effect on achieving the Group's five strategic priorities, its performance and reputation. The relative importance of some of these risks has changed during 2012 as business conditions change. Where necessary, monitoring and controls to manage risk have been adjusted to ensure that the risks continue to be managed within acceptable limits.

RISK	MITIGATION
Strategy and strategic planning risks	
Delivery of Group Strategy In pursuit of its strategic goals and priorities, the Group continues to seek out growth opportunities both organically and through acquisition. Capital investments to drive organic growth carry inherent risks in execution and the delivery of anticipated benefits. Acquisitions can be complex and challenging and there is a risk that significant or costly issues arise which have not been identified in pre-acquisition due diligence nor identified in commercial business planning. The Group could also be subject to 'inherited' liabilities as a result of an acquisition.	The Board approves and monitors strategy, consulting external advisers and experts when necessary. Within its delegated authority, the Executive Committee and Divisional management implement strategic plans and regularly report performance. Processes are in place to ensure a structured approach to strategy, three-year plans, budgets, investment approval as well as monitoring and reporting performance. Acquisitions and capital investment are managed through an established process with appropriate monitoring and reporting.
Technology Obsolescence One of the Group's strategic priorities is that it aims to 'be innovative, differentiated and high value-added'. The Group is frequently in competition with existing technology producers or other innovators. Unforeseen/unmitigated technology obsolescence would impact the Group's business.	The Group has a technology pipeline which is regularly reviewed by Divisional Executives, the Group Executive and the Board. Each Division has a Chief Technical Officer who monitors technology, business developments and future regulations to ensure that the Business is in a strong position to optimise future events. R&D investment is maintained in new/improving technologies through the Group's research and development facilities. Where Group products are designed for a specific customer, they are developed in tandem with the customer to maintain leading-edge solutions. The Group seeks to secure IP protection, to the fullest extent possible, for the existing portfolio of products and external advisers manage this protection globally.
Recruiting, maintaining and motivating high-quality staff One of the Group's strategic priorities is to 'find, keep and develop the right people'. The Group relies on the quality and commitment of its people, from those working at a site level, through site management to the Divisional and Group Executives. Many of the Group's processes require a high degree of skill and experience and loss of these employees to other markets or competitors would impact the business.	The Group has a HR Director and a network of HR professionals within the business along with human resource policies and processes to manage the risks relating to its people. These cover areas including reward and recognition, health and safety, talent management, skills assessment and development, performance management and employee consultation. The Board and Executive hold annual talent management reviews. In 2012 the Group launched a Graduate Leadership Programme. This Programme develops individuals and aims to create the business leaders of the future.

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 heightens 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. Additional actions have been taken to respond to the Euro crisis.
Quality of Contracts Ineffective contract risk management could result in significant liabilities for the Group and damage customer relationships and Group reputation.	The Group Legal Policy requires review of high value or high risk contracts by Group Legal. This policy is supported by additional guidance documents and checklists. Where the contracts do not fall under the Group Legal Policy, the Divisions are responsible for managing their contractual risk and do so, pulling from the knowledge they have obtained through the Group's contract risk management training under the Responsible Business Programme (further information available on page 18).
IT 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 and information, the Business would be impacted.	The Group has established IT systems in place and Group and Divisional IT teams to manage the IT risks.
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.	Many of the Group 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 Crucible'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. The Group monitors legislation and regulation to manage future risks. The Group insurance programme includes product liability insurance.
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 profit: – a key site exposed to a strike, a natural catastrophe or serious incident such as fire could impact business continuity. → Single point customer: – the unmitigated loss of a major customer could have an impact on Group profit.	The Group Executive and Divisional Executive teams are responsible for monitoring and managing these single point exposures. This 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, maintaining product quality and customer relationships. The Group insurance programme includes business interruption cover.
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.	Further detail of the EHS programme in place to manage these risks is available on pages 21 to 24.
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.	The Group monitors changes in legislation and regulation, pro-actively modifying existing controls and compliance frameworks. 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. Global compliance training on a number of compliance subjects is provided through the Group's Responsible Business Programme, full information is available on pages 18 to 20. The Group has an Ethics Hotline, operated by Expolink, which enables employees and other stakeholders who are aware of, or suspect, misconduct, illegal activities, fraud, abuse of Group assets or violations of any Group policy, to report these confidentially.
External risks	
Changing political, economic and social environment 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, Arab Spring and China's slowdown. Many of these events impact local markets and some have a worldwide impact.	Key risks and events are regularly tracked at a Divisional 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. The Group's broad market/geographic spread helps to mitigate the effects of political and economic crises. Mitigation plans are in place to manage the financial and business impact of the Eurozone crisis and any large currency swings. These include not only cash and banking but also operational issues in the businesses. The Group maintains a carefully managed debt facility to ensure that its debt ratio is within acceptable market tolerances.
Pension Funding 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. There is regular Board review of the Group's pension position and strategy in the changing global environment.

KEY RESOURCES AND CONTRACTUAL RELATIONSHIPS

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

As is described below, no one contractual or other relationship is considered essential to the business of the Group as a whole. Further information on the Group's stakeholder relationships is included elsewhere in this Business review, including in the Corporate responsibility section on pages 18 to 27. As referred to in the Directors' report on page 41, a number of commercial and contractual agreements include change of control provisions which come into effect in the event of a change in ownership of the Company following a takeover.

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

Commercial relationships, market position and reputation

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

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

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

Employees

Morgan Crucible's most important resource is its people and the Group employs a highly skilled and qualified workforce. One of the Group's strategic priorities is 'finding, keeping and developing the right people'. Many employees stay with the Group for their whole careers, as is highlighted on page 27. Morgan Crucible places great emphasis on recruitment and training and the Group's policies and performance in these areas are set out on pages 26 and 27.

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

The executive Directors' contracts and the terms and conditions of appointment of the non-executive Directors are referred to on page 54 and are available for inspection prior to the 2013 Annual General Meeting and at the Company's registered office.

Research and development, patents and intellectual property

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

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

Both of Morgan Crucible's Divisions have a Technical Director, and have research and development capabilities variously located at Divisional centres of excellence, which is diffused through the business in the form of applications engineering. Further details are included in the Review of operations for both Divisions on pages 10 to 17.

Manufacturing capabilities

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

Joint venture partners

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

Banking and other financial relationships

Details of significant banking and other financial relationships are referred to on page 41 in the Directors' report. However, no one banking or financial relationship is considered to be essential to the performance and value of the Company.

CAUTIONARY STATEMENT

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

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

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

BOARD OF DIRECTORS

Andrew Shilston*†§*
Chairman

Andrew Hosty
CEO Morgan Ceramics

Martin Flower*†§
Senior Independent Director

Mark Robertshaw§
Chief Executive Officer

Kevin Dangerfield
Chief Financial Officer

Andrew Given*†§
Non-executive Director

Andrew Shilston†§

Non-executive Chairman (aged 57)

Andrew was appointed as Chairman Designate in May 2012 and as Chairman in August 2012. He is the Senior Independent Director of BP p.l.c. and a non-executive Director of Circle Holdings plc. From 2002 until his retirement in 2011 he 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.

Mark Robertshaw§

Chief Executive Officer (aged 44)

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

Andrew Hosty

CEO Morgan Ceramics (aged 48)

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

Kevin Dangerfield

Chief Financial Officer (aged 46)

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

Martin Flower*†§

Senior Independent Director (aged 66)

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

Andrew Given*†§

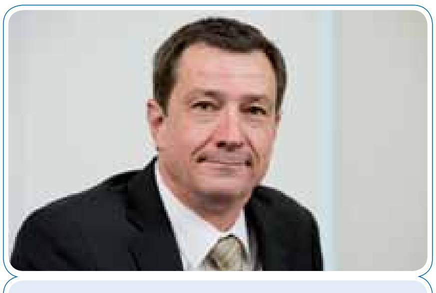
Non-executive Director (aged 65)

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

EXECUTIVE COMMITTEE

Simon Heale*†§
Non-executive Director

Paul Boulton
Company Secretary & General Counsel



Don Klas
CEO Morgan Engineered Materials

Victoire de Margerie*†§
Non-executive Director

Peter Blausten
Director of Human Resources

Simon Heale*†§

Non-executive Director (aged 59)

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

Victoire de Margerie*†§

Non-executive Director (aged 49)

Victoire was appointed as a non-executive Director in May 2012. She is the Chairman and first shareholder of Rondol Technology Limited. She is also a non-executive Director of the French quoted companies Arkema and Eurazéo, and the Norwegian quoted company Norsk Hydro. Victoire previously held non-executive positions at Ciments Français, Outokumpu and Ipsos, and was a Professor in 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.

Paul Boulton

Company Secretary & General Counsel (aged 45)

Paul was appointed Company Secretary in 2007 having joined Morgan Crucible in July 2004 as General Counsel and Deputy Company Secretary. Before joining the Company, he spent nine years with IMI plc, his last role being Deputy Company Secretary and Senior Legal Adviser. Paul is a qualified solicitor.

Peter Blausten

Director of Human Resources (aged 53)

Peter joined Morgan Crucible in March 2011 as Director of Human Resources. Prior to joining Morgan Crucible, 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. Peter is a member of the Council of the Institute of Employment Studies and was appointed as a Commissioner for the UK Civil Service in 2010.

Don Klas

CEO Morgan Engineered Materials (aged 54)

Don joined Morgan Crucible in 1980 as a plant engineer and has over a quarter of a century of experience with the Carbon business. In his role as CEO of Carbon Americas, Don was responsible for 50% of the revenue of the Carbon division. Don became CEO of the former Carbon division in 2008, and became CEO of Morgan Engineered Materials in July 2010 when the Carbon, NP Aerospace and Molten Metal Systems businesses were integrated into one division.

Mark Robertshaw
Chief Executive Officer

Kevin Dangerfield
Chief Financial Officer

Andrew Hosty
CEO Morgan Ceramics

Don Klas
CEO Morgan Engineered Materials

Paul Boulton
Company Secretary & General Counsel

Peter Blausten
Director of Human Resources

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

DIRECTORS' REPORT

The Directors present their report together with the financial statements and independent auditor's report for the year ended 31 December 2012. This Directors' report was approved by the Board on 14 February 2013.

Principal activities

The Morgan Crucible Company plc (the Company) and its subsidiary undertakings comprise two Divisions covering four operating segments (as outlined on page 8) that design, manufacture and market primarily carbon and ceramic components for applications in a wide range of markets. A review of developments affecting the Group during the year and of its prospects for the future appears on pages 10 to 17, to be read in conjunction with the cautionary statement on page 35.

Business review

The Business review sets out a comprehensive review of the development and performance of the business of the Company for the year ended 31 December 2012 and future developments. The Business review is set out on pages 6 to 35 (inclusive) of this Annual Report. All information detailed in those pages is incorporated by reference into this Directors' report and is deemed to form part of this Directors' report.

Corporate governance statement

The Corporate governance statement as required by Rule 7.2.1 of the FSA's Disclosure and Transparency Rules is set out on pages 42 to 48 of this Annual Report. All information detailed in the Corporate governance statement is incorporated by reference into this Directors' report and is deemed to form part of this Directors' report.

Financial results

The total profit for the year ended 31 December 2012 was £80.3 million (2011: £78.8 million). Profit before taxation for the same period was £81.4 million (2011: £111.4 million). Revenue was £1,007.5 million (2011: £1,101.0 million) and operating profit was £100.5 million (2011: £133.2 million). Basic earnings per share from continuing operations was 20.2 pence (2011: 26.9 pence). Capital and reserves at the end of the year were £271.8 million (2011: £270.2 million). The total profit of £80.3 million will be transferred to equity.

Dividends

The Directors recommend the payment of a final dividend at the rate of 6.4 pence per share on the Ordinary share capital of the Company, payable on 31 May 2013 to shareholders on the register at the close of business on 19 April 2013. Together with the interim dividend of 3.6 pence per share paid on 10 January 2013, this final dividend, if approved by shareholders, brings the total distribution for the year to 10.0 pence per share (2011: 9.25 pence).

Acquisitions and disposals

On 28 March 2012 the Company increased its equity stake in NP Aerospace from 80% to 90% by acquiring an additional 10% of the equity for £6.1 million which represents full consideration for the 10% of share capital acquired.

Post-balance sheet events

There have been no material events since the year end.

Share capital

The Company's share capital is set out in note 18 on pages 90 to 92. The Company's Ordinary shares represent 99.84% of the total issued share capital, with the 5.5% Cumulative First Preference shares representing 0.05% and the 5.0% Cumulative Second Preference shares representing 0.11%. The rights and obligations attaching to the Company's Ordinary shares, and restrictions on the transfer of shares in the Company, are set out in the Company's Articles of Association (Articles), copies of which can be obtained from Companies House in the UK or from the Company Secretary. The holders of Ordinary shares are entitled to receive dividends, when declared; to receive the Company's reports and accounts; to attend and speak at general meetings of the Company; to appoint proxies; and to exercise voting rights. Details of the structure of the Company's Preference share capital and the rights attached to the Company's Preference shares are set out on page 92. 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.

Policy on the payment of creditors

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

The number of days purchases outstanding for payment by the Company at the end of the year was 36 days (2011: 45 days) and for the Group was 55 days (2011: 58 days).

Research and development

Innovative use of existing and emerging technologies will continue to be crucial to the successful development of new products and solutions to satisfy customer demands. The Company has research and development facilities at its key manufacturing sites. The spend on research and development was £19.6 million during the year (2011: £14.3 million). The Group did not capitalise any development costs in 2012 (2011: £nil).

Financial instruments

Details of the Group's use of financial instruments, together with information on policies and exposure to price, liquidity, cash flow, credit, interest rate and currency risks, can be found in note 20 on pages 93 to 100. All information detailed in this note is incorporated into this Directors' report by reference and is deemed to form part of this Directors' report.

Human resources

Details of the Group's Human Resources Policy and employee involvement are set out on pages 26 and 27.

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

Employee share and share option schemes

The Company continues to encourage employee ownership of its shares through the provision of a number of employee share and share option schemes. 154 employees hold awards under the Morgan Crucible Long-Term Incentive Plan, 31 employees hold awards under the Morgan Crucible Bonus Deferral Share Matching Plan, 22 employees have options under the Company's Executive Share Option Schemes and 670 employees participate in the Company's UK Sharesave Plan. There are currently no participants in the Company's German Employee Share Purchase Plan. Details of outstanding share awards and share options are given in note 21 on page 106.

NP Aerospace operates an employee share option scheme pursuant to which NP Aerospace employees who were in employment as at 31 July 2007 have been granted options over shares in Clearpower Limited, the NP Aerospace holding company. 132 employees hold awards under this scheme. The NP Aerospace employee benefit trust holds 8,330 shares in Clearpower Limited in respect of the scheme.

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

The Morgan General Employee Benefit Trust (the Trust) held 201,493 shares on 31 December 2012 in connection with awards granted under the Company's employee share schemes. The trustees of the Trust (Trustees) have agreed to waive their entitlement to the payment of dividends on the shares held by the Trust. The Directors are not aware that any other shareholders waived or agreed to waive any dividends or future dividends during the period under review.

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

DIRECTORS' REPORT
continued

Directors
All those who served as Directors at any time during the year under review are listed on pages 36 to 37, with the exception of Tim Stevenson, who retired from the Board on 31 July 2012.

Details of Directors' interests in the share capital of the Company are listed on page 62. In the period from 31 December 2012 to 14 February 2013 the executive Directors acquired further Ordinary shares in the Company pursuant to the Company's Scrip Dividend Scheme.

All information detailed on page 62 in respect of Directors' interests is incorporated into this Directors' report by reference and is deemed to form part of this Directors' report.

All of the Directors will be offering themselves for election or re-election at the forthcoming Annual General Meeting (AGM) on 10 May 2013. Details of their background and experience can be found on pages 36 and 37 and details of the Board Committees on which they serve can be found on pages 46 to 48.

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

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

Share allotment and repurchase authorities
The Directors were granted authority at the 2012 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 £23,150,173 and (b) a nominal amount of £46,300,364 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 2013 AGM. At the 2013 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 2013.

The Directors did not seek an authority at the 2012 AGM to repurchase shares in the capital of the Company. As at 31 December 2012, there was no such authority in place. The Directors do not intend to seek an authority to repurchase shares at the 2013 AGM.

Full details of the resolutions to be proposed at the 2013 AGM are set out in the Circular to Shareholders which will be circulated in March 2013.

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.

Donations
During the year, Morgan Crucible companies made charitable donations of £178,060 (2011: £194,744).

Further details of charitable donations and activities of the Group are given on page 20. No political donations have been made.

Significant agreements

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

The most significant of such agreements are the UK £150 million Multicurrency Revolving Facility Agreement, which was signed on 5 April 2011, and the privately placed Note Purchase and Guarantee Agreements signed on 6 March 2003, 15 December 2007 and 30 June 2010, for which the outstanding loan amounts are USD9 million, USD350 million and €60 million respectively.

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

Substantial shareholdings

As at 31 December 2012, the Company had been notified of the following interests representing 3% or more of the issued Ordinary share capital of the Company*:

	Number of Ordinary shares	%**
Prudential Plc group of companies (M&G)	**40,330,677**	14.417
AXA Investment Managers SA	**23,560,970**	8.422
Standard Life Investments Ltd	**13,788,184**	4.929
Aviva plc and its subsidiaries	**11,197,379**	4.003

* As at 28 February 2013, Prudential Plc group of companies (M&G) held 39,287,142 Ordinary shares, 13.970%; Norge Bank held 8,473,625 Ordinary Shares, 3.010%; HSBC held 15,290,009 Ordinary Shares, 5.438%; there were no changes to the other substantial shareholdings shown in the above table.

** Percentages are shown as a percentage of the Company's issued share capital as at 31 December 2012.

Disclosure of information to the 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.

Auditor

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

Annual General Meeting

The AGM of the Company will be held on 10 May 2013 at The Lincoln Centre, 18 Lincoln's Inn Fields, London WC2A 3ED. A Circular will be sent with this Report to shareholders in March 2013 incorporating the Notice of AGM.

FSA's Disclosure and Transparency Rules

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

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

Each of the Directors, the names and roles of whom are set out on pages 36 and 37, confirms to the best of their knowledge:

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

For and on behalf of the Board

Paul Boulton
Company Secretary & General Counsel
14 February 2013

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

CORPORATE GOVERNANCE

Statement of compliance with the UK Corporate Governance Code

Throughout the year ended 31 December 2012 the Company has been in full compliance with the relevant provisions of the June 2010 version of the UK Corporate Governance Code (the 'Code') published by the Financial Reporting Council and 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 Business review and Remuneration report on pages 6 to 35 and 50 to 66 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 strategy meeting during the year, and has ensured that there is a framework of prudent and effective controls which enable risk to be assessed and managed. The Board sets the Company's values and standards, which are contained in the Core Values Statement and Ethics Policy, both of which are referred to on page 18 in the Business review.

Board meetings

In 2012, the Board met formally nine times, of which eight meetings were scheduled and one meeting was held by telephone at short notice.

The meeting in March 2012 was scheduled to coincide with the Group's 2012 Leadership Conference in San Francisco and also allowed the Board the opportunity to visit the Company's local operations and to meet local management. The October 2012 meeting included a dedicated half-day session on Group strategy.

Matters reserved

There is a schedule of matters specifically reserved for the Board including significant contractual commitments (including the acquisition or disposal of companies/businesses, treasury and intellectual property transactions), the review of the effectiveness of risk management processes, major capital expenditure and corporate responsibility. One meeting each year is specifically focused on strategy and the longer term development of the Group.

Summary of the Board's work during the year

During 2012, the Board carried out all its core duties as set out in the Schedule of Matters Reserved for the Board, including the following:

- Review of performance against the Group's three-year objectives.
- Growth opportunities within the business against a backdrop of low or no growth in the macroeconomic environment.
- Review of bolt-on merger and acquisition opportunities.
- Strategic review of the soldier survivability business.
- Technology and innovation within the business and resulting business opportunities.
- Approval of capital expenditure including investment in the Group's fibre business.
- Review of the Group's approach to risk management.
- Environmental and health and safety issues.
- Review and appointment of new corporate advisors.
- Consideration of major shareholders' views on the Group's performance and prospects.

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 46 to 47; the Nomination Committee report is set out on page 48; and the Remuneration Committee report is set out on pages 47 to 48. 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 CEO Morgan Ceramics) who, together with the CEO Morgan Engineered Materials, the Director of Human Resources and the Company Secretary, form the Executive Committee. The biographies of the members of the Executive Committee are set out on pages 36 to 37.

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.

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*~	6	6	–	–	3	3	1	1
Mark Robertshaw	9	9	–	–	–	–	5	5
Kevin Dangerfield	9	9	–	–	–	–	–	–
Andrew Hosty	9	9	–	–	–	–	–	–
Victoire de Margerie*~	6	6	4	4	3	3	1	1
Martin Flower*	9	9	5	5	5	5	5	5
Andrew Given*	9	9	5	5	5	5	5	5
Simon Heale*	9	9	5	5	5	5	5	5
Tim Stevenson*^	5	5	–	–	2	2	2	2

* 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 8 May 2012.
^ Retired from the Board on 31 July 2012.

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. The management of the Group's operating Divisions reports to the Chief Executive Officer.

The Chairman

Tim Stevenson resigned as Chairman on 31 July 2012. 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 terms is subject to rigorous review prior to reappointment for a further three-year term.

Martin Flower is the Senior Independent Director.

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 was reviewed during the year, taking into account succession planning and the need to progressively refresh the membership of the Board as well as the impending departure of Tim Stevenson who stepped down as Chairman and resigned from the Board on 31 July 2012.

Andrew Shilston was appointed to the Board as Chairman Designate on 8 May 2012 and was appointed as Chairman on 1 August 2012. Victoire de Margerie was appointed to the Board on 8 May 2012.

As at 14 February 2013, the Board comprises Andrew Shilston, Chairman; Mark Robertshaw, Chief Executive Officer; Kevin Dangerfield, Chief Financial Officer; Andrew Hosty, Chief Executive Officer Morgan Ceramics, and four independent non-executive Directors, Victoire de Margerie, Martin Flower, Andrew Given and Simon Heale. Biographies of the Directors, including details of their other main commitments, are set out on pages 36 and 37.

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

Appointments to the Board

As is further detailed in the report of the Nomination Committee, set out on page 48, there is a formal, rigorous and transparent procedure for appointments to the Board. Appointments are made on merit and against objective criteria, having due regard for diversity, including gender. The process used for the appointments of Andrew Shilston and Victoire de Margerie to the Board during 2012 are described in the report of the Nomination Committee on page 48.

The Board has also considered the recommendations made by the Davies Report on Women on Boards. The Board does not think quotas are a good option as the Board believes all appointments should be based on merit rather than through positive discrimination policies. The Board is, however, clear that obtaining the right balance and an appropriately diverse mix of skills and experience round the board-table is of paramount importance if the Board is to continue to deliver true entrepreneurial leadership of the business.

The Board is satisfied that there are succession plans in place for appointments to the Board and for senior management. The Board discussed the Group's approach to talent management and succession planning at senior levels within the Divisions at its strategy meeting in October 2012. A description of the work done on planning for Board succession and refreshing the Board is included in the report of the Nomination Committee on page 48.

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 their appointments to the Board on 8 May 2012, Andrew Shilston and Victoire de Margerie received comprehensive briefings to supplement the information on the Company's business provided during recruitment. The briefing for both Directors 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 both Directors included meetings with executive management, briefings from functional heads on governance, responsible business and key risks, visits to operational sites around the world and meetings with Divisional and operational management. In addition, Andrew Shilston, the incoming Chairman, met the Company's main institutional shareholders.

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.

During 2012, the Directors received a briefing on the UK Government's updated guidance on facilitation payments, a presentation on the Group's technology and its potential commercial applications, a briefing on Group's treasury arrangements and a briefing on changes to the UK Corporate Governance Code and Stewardship Code.

Non-executive Directors have access to management and staff at all levels and are encouraged to visit operating sites. In addition to visits by individual Directors and the Chairman, each year at least one Board meeting is held at an operating facility. During 2012 formal Board meetings were held at the Morgan Technical Ceramics site in Southampton, UK and at the Morgan Thermal Ceramics site in Bromborough, UK. In addition, the non-executive Directors attended the Group's leadership conference held in San Francisco and visited the Ceramics facility in Hayward, California.

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.

As an externally facilitated performance evaluation had been conducted in 2011, the Board decided that the 2012 process should be 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 2011 performance evaluation process, the current dynamic of the Board, as well as the work of the Board during 2012 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 a continuing focus on both short- and medium-term Board succession planning, with particular emphasis on matching the skills and experience of the Directors to the Group's strategy.
- The Board should simplify how the Group and its strategy are presented to external stakeholders.
- Embedding of the Group's updated approach to Risk (as detailed on page 32) should be closely monitored.
- More opportunities should be found for non-executive Directors to get to know key business leaders, particularly where they are based overseas.

Alongside the Board and Committee evaluation, each non-executive 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 2011 Board performance review were implemented during the year. Further emphasis was placed on succession planning and the composition of the Board especially within the context of the processes used to appoint Andrew Shilston, the Chairman, and Victoire de Margerie, a non-executive Director, as reported in the report of the Nomination Committee on page 48 below. A review of the style, presentation and length of Board papers was conducted in the context of the transition from paper-based to electronic Board papers.

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 it has met its obligations to present a balanced and understandable assessment of the Company's position and prospects as required by the Code and in accordance with the Accounting Standards Board's Reporting Statement 1, *The Operating and Financial Review (RS1)*. This is included in the Business review on pages 6 to 35. The Board also presents updated information in its half-year and other public reports.

A summary of the statement of Directors' responsibilities in respect of the Annual Report and the financial statements is set out on page 49 and the 'going concern' statement is set out in the Business review on page 31.

Business model and strategy

Details of the Company's business model, how it is working to generate and sustain long-term value and details of the Board's strategy for ensuring the Company meets its objectives are set out in the Business Review on pages 6 to 35.

Internal control

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

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

→ Control environment The Group's management processes include delegated authorities and the segregation of duties with documented policies and manuals. These cover financial procedures, environmental, health and safety practice and other areas. In addition, there is a schedule of matters reserved for the Board. The Group's Core Values Statement, Ethics Policy and other supporting policies and procedures set out the Group's commitment to the highest standards of corporate and individual behaviour and provide guidance for employees. The Group's Responsible Business Programme includes relevant training and reporting and is part of the control framework. The Ethics Hotline is available to employees and others in this regard. The Chief Executive of each Division makes an annual statement of compliance to the Board confirming that, for each of the businesses for which he is responsible, the financial statements are fairly presented in all material respects, appropriate systems of internal controls have been developed and maintained and the businesses comply with Group policies and procedures.

→ Financial reporting Risk management systems and internal controls are in place in relation to the Group's financial reporting processes and the process for preparing consolidated accounts. These include policies and procedures which require the maintenance of records which accurately and fairly reflect transactions and dispositions of assets, provide reasonable assurance that transactions are recorded as necessary to allow the preparation of financial statements in accordance with International Financial Reporting Standards (IFRS) and the review and reconciliation of reported data. As noted above, representatives of the business are required to certify that their reported information gives a true and fair view of the state of affairs of the business and its results for the period. The Audit Committee is responsible for monitoring these risk management systems and internal controls.

→ Performance monitoring There are regular meetings of the Board and of the Executive Committee. A comparison of forecast and actual results is considered, including cash flows and comparisons against budget and the prior year. Divisional management teams also meet regularly to review performance. In addition, regular site visits are made by members of the Executive Committee.

→ Risk management The identification of major business risks is an ongoing process carried out in conjunction with operating management. Steps are taken to mitigate or manage any material risks identified. The Board, either directly or through the Audit Committee, receives reports on financial, taxation, insurance, treasury, pension, legal and social, environmental and ethical risks from management. The Divisional Chief Executives cover risk issues at their management meetings. During the year, the Group's risk management system was reviewed and revised, with details set out in the Risk management section on page 32.

→ Risk factors Morgan Crucible's businesses are affected by a number of factors, many of which are influenced by macro-economic trends and are therefore outside the Company's immediate control, although, as described above and in the Business review, the identification and management of such risks is carried out systematically. These are further discussed in the Risk management section on pages 32 and 33.

→ Internal audit The Group's internal audit function reviews internal control and risk management processes. The Audit Committee approves the plans for internal audit reviews and receives reports accordingly. Actions resulting from internal audit reviews are agreed with management. The Internal Auditor has direct access to the Chairman of the Audit Committee.

Audit Committee and the external auditor

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

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 was safeguarded despite the provision of non-audit services by KPMG Audit plc.

Remuneration

Remuneration policy and practice is discussed in the Remuneration Report on pages 50 to 66.

Relations with shareholders

During 2012, the Chairman and other non-executive Directors attended the annual and half-year results presentations, the Group's Capital Markets Day and other investor events. This provided the opportunity to meet institutional shareholders and other attendees and to further develop an understanding of their views.

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

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

Constructive use of the Annual General Meeting

The Annual General Meeting is normally attended by all members of the Board and by a representative of the external auditor. At the AGM held in May 2012, 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.

Report of the Audit Committee

The Audit Committee assists the Board in effectively discharging its responsibilities for financial reporting and corporate control. Martin Flower, Andrew Given and Simon Heale were members of the Committee throughout the year. Victoire de Margerie became a member of the Audit Committee on her appointment as a Director on 8 May 2012. All members of the Committee are independent Directors and Andrew Given, the Chairman of the Committee, has the requisite financial experience.

The Audit Committee met five times during the year and has the power to, and does, request the attendance at meetings of any Director, auditor or member of management as may be considered appropriate by the Committee. At the end of each meeting the non-executive Directors who are members of the Committee also meet the auditor 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 the Internal Auditor as necessary.

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

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

- Monitoring and making appropriate recommendations to the Board with regard to the financial reporting process, the integrity of the financial statements of the Group, preliminary announcements, half-year reports and any formal announcements relating to the Group's financial performance, and reviewing significant financial reporting judgments contained in them.
- Reviewing accounting policies used by the Group and their consistent application across the Group.
- Reviewing whether the Group has followed appropriate accounting standards and made appropriate estimates and judgments, taking into account the views of the external auditor.
- Reviewing and monitoring the effectiveness of the Group's internal financial controls and internal control, internal audit and risk management systems.
- Reviewing and monitoring the Group's whistleblowing arrangements and systems and controls for the prevention of bribery.
- Making recommendations to the Board, for it to put to the shareholders for their approval at the AGM, in relation to the appointment, reappointment and removal of the external 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 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 Internal Auditor has access to the Chairman of the Committee and regularly meets with the Committee without other executives present.

The work of the Committee in discharging those responsibilities in respect of 2012 included:

- Reviewing the Group's 2011 financial statements and 2012 half-year statements prior to Board approval.
- Reviewing the scope of the external audit, and confirmation of the external auditor's terms of engagement and fee structures.
- Assessing the effectiveness of the external audit process and all aspects of the service provided by the external auditor.
- The review of the Group's approach to risk management and the approval of a new methodology and process by which the Group's main business risks are assessed and managed, with the principal strategic and operational risks being considered by the Board as a whole.
- Reviewing the effectiveness of and receiving reports from management on the Group's internal audit and risk management systems and updates to the Group's governance, risk and compliance plans.
- Approval of the work and plans for the internal audit function and the monitoring of progress against the plan.
- Review of the systems of internal controls within the Ceramics and Morgan Engineered Materials Divisions.
- Appraisal of the Group's whistleblowing process and related procedures and policies.
- Reviews of material litigation, crisis management plans and controls in relation to joint ventures.
- Monitoring the level of non-audit work of the auditor, which in 2012 included services amounting to £0.2 million, mainly in connection with tax services.
- A review of the Group's pension scheme arrangements.
- Assessing the impact of a potential breakdown of the Eurozone.

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 14% (2011: 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 the next rotation of audit partner will take place in 2013. Having reviewed the effectiveness of the audit process, all aspects of the service provided by the 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 2012 and will further review the situation during 2013.

Remuneration Committee

As is further described in the Remuneration report on pages 50 to 66, the Remuneration Committee has responsibility for setting remuneration for all executive Directors and the Chairman, including benefits such as share options and awards under the Company's incentive plans, pension rights and any compensation payments. The Committee also monitors the level and structure of remuneration for senior management. The Committee's terms of reference were reviewed and updated during the year to correct minor inconsistencies and are available on the Group's website.

Martin Flower, Andrew Given and Simon Heale, who is the Committee Chairman, were members of the Committee throughout the year. Andrew Shilston and Victoire de Margerie became members of the Committee on their appointment to the Board on 8 May 2012. Tim Stevenson was a member of the Committee until he stepped down from the Board on 31 July 2012. The Committee is assisted in its duties by the Chief Executive Officer, the Company Secretary and the Director of Human Resources. No member of the Committee or attendee is present when their own remuneration is under consideration, nor do they participate in any relevant voting. The Committee also has the power to request, for all or part of any meeting, the attendance of any Director or member of management as may be considered appropriate by the Committee. The Committee met five times during the year.

CORPORATE GOVERNANCE
continued

Remuneration Committee continued

It is the Company's policy to disclose the fees of any executive Director who serves as a non-executive Director of another company. During the year Mark Robertshaw served as a non-executive Director of SEGRO plc, Kevin Dangerfield served as a non-executive Director of e2v technologies plc and Andrew Hosty served as a non-executive Director of British Ceramic Research Limited and, with effect from 10 September 2012, as a non-executive Director of Fiberweb plc. The fees received by Mark Robertshaw, Kevin Dangerfield and Andrew Hosty in this regard are shown on page 54. The Remuneration report, which includes details of the Committee's responsibilities and terms of reference and of the Directors' remuneration and Directors' interests in options and shares, is set out on pages 50 to 66.

Report of the Nomination Committee

The Nomination Committee leads the process for Board appointments and makes recommendations to the Board on the appointment of new Directors. A majority of members of the Nomination Committee are independent non-executive Directors. Martin Flower, Andrew Given, Simon Heale and Mark Robertshaw were members of the Committee throughout the year. Andrew Shilston and Victoire de Margerie became members of the Committee on their appointment to the Board on 8 May 2012. Tim Stevenson, who acted as Chairman of the Committee, ceased to be a member on stepping down from the Board on 31 July 2012 when Andrew Shilston became Chairman of the Committee.

The Committee's terms of reference were reviewed but left unchanged during the year and are available on the Group's website.

The Committee has the power to request the attendance of any other Director or member of management, for all or part of any meeting, as may be considered appropriate by the Committee. The Committee met five times during 2012.

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 2012 included:

- Leading the search for a successor to the outgoing Chairman, Tim Stevenson, resulting in the selection and recommended appointment of Andrew Shilston to the role of Chairman.
- Leading the search for a new non-executive Director, resulting in the selection and recommended appointment of Victoire de Margerie.
- Reviewing the composition of the Board and its Committees and succession planning for the Directors who will retire at or before the 2014 AGM.

The process for appointing the new Chairman and non-executive Director is described below:

- Following consideration of a number of leading firms, the Committee appointed Egon Zehnder as external search agent.
- In the light of its discussions on the balance of skills and experience on the Board, the Committee considered and formulated a candidate specification for each role.
- 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 met the preferred candidates for both roles and the former Chairman met the preferred candidate for the non-executive Director role.
- 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.

Disclosure and Transparency Rules

This statement complies with sub-sections 2.1; 2.2(1); 2.3(1); 2.5; 2.7 and 2.10 of Rule 7 of the UK Listing Authority Disclosure and Transparency Rules. The information required to be disclosed by sub-section 2.6 of Rule 7 is shown in the Directors' report on pages 38 to 41 and is incorporated in this statement by reference.

Information on share capital and other matters

The information about share capital required to be included in this statement can be found on pages 38 to 41 of the Directors' report.

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

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

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

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

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

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

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

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

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

By order of the Board

Paul Boulton
Company Secretary & General Counsel
14 February 2013

REMUNERATION REPORT

A statement to shareholders from the Chairman of the Remuneration Committee

On behalf of the Remuneration Committee, I am pleased to present the Directors' report on remuneration for the year ended 31 December 2012.

The Committee has continued to ensure that the targets we set are both challenging and incentivise management appropriately. The Committee also sees the importance of ensuring that a significant part of the executive Directors' packages should be linked to the long-term success of the Group.

As you will have read earlier in this Annual Report, following the Group's record results in 2011, 2012 Group revenue was down versus 2011, yet it was still the second best operating profit before one-off costs in the Group's history.

Nevertheless, no bonus is payable for the CEO and CFO in respect of 2012 performance, and a significantly reduced bonus versus last year is payable to the CEO Morgan Ceramics, whose bonus was based on both Group targets and specific targets for his Division.

EPS performance over the three years from 2010 has remained strong, and therefore will be reflected in the maximum payouts of the 2010 Bonus Deferral Share Matching Plan (BDSMP). Long-term Incentive Plan (LTIP) awards granted in 2010 were also part-dependent on EPS performance, and this element also vested in full. However, 2012 performance has affected Total Shareholder Return (TSR), and so this has significantly reduced the potential payout for the 2010 LTIP overall. This is consistent with our approach to ensuring incentive payments do reflect stretching performance targets, and also reflect shareholder interests against relevant measures. Those shares will be released in 2013 at the end of their three-year vesting period, and details are shown in this report.

Last year, I noted the considerable achievement by management of key performance measures over the previous three years, not least the upper quartile growth in shareholder return. That performance resulted in a maximum vesting of the 2009 LTIP, and a 1.8 times match vesting of the 2009 BDSMP, which was also subject to very demanding EPS growth targets. Those shares were released during 2012 at the end of their three-year vesting period, and are now detailed in this report.

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 bonus deferral plan represent demanding targets over the next three years and remain appropriate for the 2013 award cycle.

Because no bonus was payable to the CEO and CFO in respect of 2012 performance, they will not be able to participate in the 2013 BDSMP.

ROCE targets, which were introduced last year, have 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 when compared to the Group's 2012 ROCE of 26.5%.

For the bonus, the Committee's view is that the likely macro-economic environment in 2013 makes effective cash management even more important. Accordingly, an Operating Working Capital/Sales % element has been applied to the executive Directors' bonus targets, consistent with that used in Divisional targets. This will accompany the main element of the bonus target, which will be operating profit before one-off costs.

My fellow Committee members and I have had contact with shareholders over the last 12 months, and value the views and feedback we have received. We have also specifically consulted those with the largest shareholdings on the proposals for the renewal of the LTIP, which will be submitted for approval at the 2013 AGM.

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.

Consistent with the new regulations governing the reporting of executive remuneration due to come into force in October 2013, we have opted to incorporate a number of the proposed changes in this year's report to enhance transparency.

Simon Heale
Chairman of the Remuneration Committee

Compliance statement

This Report covers the period 2 January 2012 to 31 December 2012 and provides details of the Remuneration Committee and remuneration policy of Morgan Crucible.

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) Regulations 2008. In accordance with Section 439 of the Companies Act 2006, an advisory resolution to approve this report will be proposed at the AGM on 10 May 2013.

Remuneration Committee

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

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 55.

i) Policy Report

Key principles of the 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 structure is appropriate and supports the business strategy. The Remuneration Committee will keep remuneration policy under review during the forthcoming year, and, in doing so, will continue to give full consideration to the principles set out in the UK Corporate Governance Code in relation to Directors' remuneration and to the guidance of investor representative bodies.

REMUNERATION REPORT
continued

Summary of Morgan Crucible's 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	Changes for 2013
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 FTSE350. 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.	None.	No changes to the policy for 2013. For this year, salary increases are effective from 1 March 2013 and are set out in the Implementation Section on page 56.
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.	Opportunities vary depending on the scheme in which an executive participates. Details for the executive Directors are set out in the Implementation Report on page 56.	None.	None.
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 and other expenses.	Benefits values vary by role and are reviewed periodically relative to market.	None.	None.
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 at the start of the year and are weighted to reflect the balance of Group and Divisional responsibilities for each executive. At the end of the year, the Remuneration Committee determines the extent to which these have been achieved.	Maximum annual bonus opportunities of 100% of salary.	2012 bonuses for the CEO and CFO were based 100% on Group PBTA, and for the CEO Morgan Ceramics were based 30% on Group PBTA, 50% on Morgan Ceramics EBITA and 20% on Morgan Ceramics third-party working capital to sales % targets. Further details are set out in the Implementation Section on page 57.	No change to the annual bonus opportunity. For 2013, executive Director annual bonuses will be based 80% on EBITA and 20% on third-party working capital to sales % targets.
Bonus Deferral Share Matching Plan 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 match based on performance. Award levels and performance conditions on which vesting depends are reviewed from time to time to ensure they remain appropriate.	Up to 75% of the annual bonus may be voluntarily deferred into shares for three years. A matching award of up to three shares for each deferred share may be earned based on the Company's performance.	The vesting of awards is usually subject to: → Continued employment. → The Company's performance over a three-year performance period. Measures used for the 2012 BDSMP award are set out in the Implementation Section on page 57.	No change.
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 from time to time to ensure they remain appropriate.	The LTIP provides for a conditional award of shares up to an annual limit of 150% of salary (200% of salary in exceptional circumstances).	The vesting of awards is usually subject to: → Continued employment. → The Group's performance over a three-year performance period. Measures used for the 2012 LTIP award are set out in the Implementation Section on page 59.	No change.

Share ownership guidelines

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

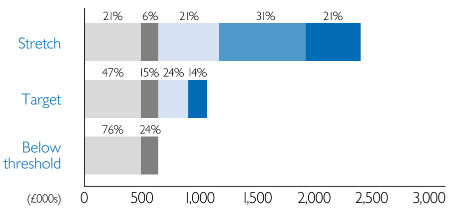
From 2013 onwards, the Committee decided to increase the shareholding guideline for the Chief Executive Officer to at least 150% of basic salary.

Current executive Director shareholdings are set out in the Implementation Section on page 62.

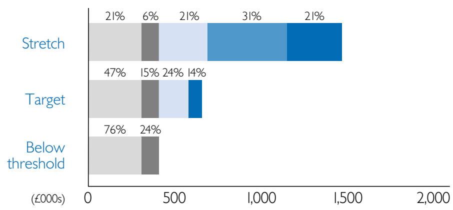
Pay-for-performance: scenario analysis

The graphs below provide estimates 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'.

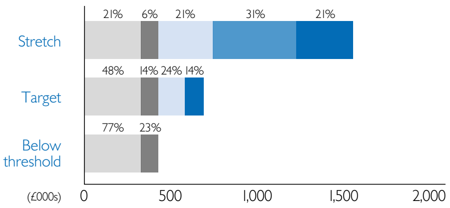
CEO



CFO



CEO Morgan Ceramics



Salary
Pension and benefits
Annual bonus
BDSMP
LTIP

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 2013. For the annual bonus, the amounts illustrated are those potentially receivable in respect of performance for 2013. For the BDSMP, the award opportunities assume full voluntary investment in Morgan Crucible 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. Please note, however, that actual pay delivered will further be influenced by changes in factors such as the Company's share price and the value of dividends paid. The following assumptions have been made in compiling the above charts:

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

* Normally up to 50% bonus deferral.

Employee context
The policy and practice with regard to the remuneration of senior executives below the Board is that these arrangements are typically reviewed annually, and principally with regard to performance against objectives, market information relevant to appropriate sectors and regions.

In making remuneration decisions, the Remuneration Committee also considers the pay and employment conditions elsewhere in the Group. 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. For UK businesses, salary increases in 2013 will be on average 3%.

Details of executive Directors' service contracts
The executive Directors are employed under contracts of employment with The Morgan Crucible Company plc. Contracts may be terminated on 12 months' notice given by the Company or on six months' notice given by the Director concerned. Contracts end on each Director's anticipated normal retirement date. The following table shows the date of the contract for each executive Director who served during the year:

				Notice period	
Executive	Position	Date of appointment	Date of service agreement	From employer	From employee
Mark Robertshaw	CEO	4 August 2006	15 August 2008	12 months	6 months
Kevin Dangerfield	CFO	3 August 2006	15 August 2008	12 months	6 months
Andrew Hosty	CEO Morgan Ceramics	28 July 2010	17 August 2010	12 months	6 months

Exit payments policy
The Company's policy is to limit severance payments on termination to pre-established contractual arrangements. 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.

Under normal circumstances, all leavers are entitled to receive termination payments in lieu of notice equal to base salary and benefits. There is no automatic entitlement to bonus as part of the termination arrangements, and the value of any termination payment will be at the judgment of the Remuneration Committee, having regard to all relevant factors including any available mitigation.

In the event an executive leaves for reasons of injury, disability, death, redundancy, retirement, or other such event as the Remuneration Committee determines, then outstanding LTIP awards and BDSMP matching awards will be pro-rated for time served and will vest based on performance over the full performance period. In the event of death, the date to which performance is tested may be brought forwards to the date of cessation of employment.

Upon a change of control of the Company, LTIP awards will be pro-rated for time and will vest early subject to performance to-date, unless the Committee determines otherwise, or that a replacement award should be made. BDSMP matching awards will vest early subject to performance and time elapsed to the change of control (unless a replacement award is made).

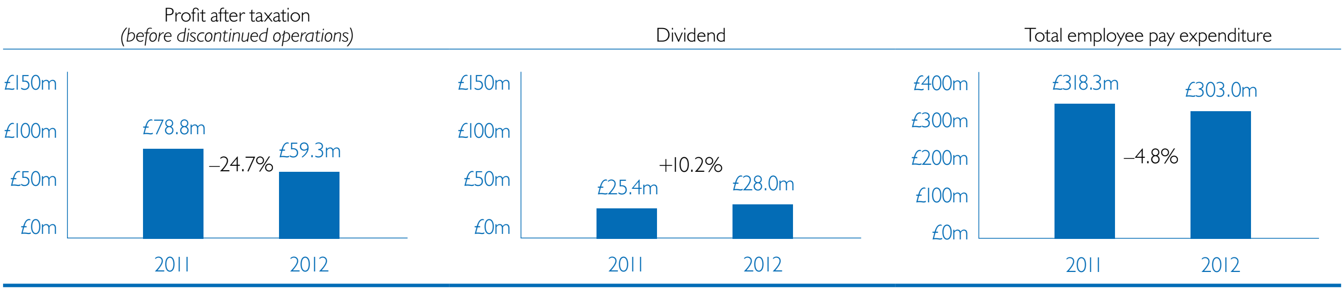
For all other leavers, outstanding LTIP awards and BDSMP matching awards will normally lapse. The Remuneration Committee retains discretion to alter these provisions on a case-by-case basis following a review of circumstances and to ensure fairness for both shareholders and participants.

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 during 2012 are as follows:

Executive Director	Company	Role	Fees retained
Mark Robertshaw	SEGRO plc	Non-Executive Director	£53,000
Kevin Dangerfield	e2v technologies plc	Non-Executive Director	£38,000
Andrew Hosty	Fiberweb plc	Non-Executive Director	£9,846
	British Ceramic Research Limited	Non-Executive Director	£6,750

Relative importance of spend on pay

The graph below shows Morgan Crucible's profit after tax, dividend, and total employee pay expenditure for the financial years ended 1 January 2012 and 31 December 2012, and the percentage change.



Considerations of shareholder views

The following table shows the results of the advisory vote on the 2011 Remuneration Report at the 2012 AGM. It is the Remuneration Committee's policy to consult with major shareholders prior to any major changes to its executive remuneration structure.

For	Against	Withheld
96.77%	0.55%	2.68%

ii) Implementation report

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

Remuneration Committee membership in 2012

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. Tim Stevenson retired from the Board on 31 July 2012, and also as a member of the Committee. Andrew Shilston and Victoire de Margerie joined the Committee on their appointments to the Board on 8 May 2012. The Remuneration Committee met five times during the year. Attendance at meetings by individual members is detailed in the Corporate Governance Report on page 42.

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

* until 31 July 2012
** from 8 May 2012

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 2012 Kepler Associates provided independent advice on performance measurement, the setting of incentive targets, total shareholder return (TSR) analysis, the structure of long-term incentives, and provided market data in respect of senior executive remuneration and non-executive Director fees. Kepler reports directly to the Chairman of the Remuneration Committee.

Kepler Associates is independent and does not provide any other services to the Group. The Committee received a specific report on international equity participation from Aon Hewitt New Bridge Street. It also received advice from both Kepler Associates and Slaughter & May on the proposed Long-term Incentive Plan renewal for 2013.

Both Kepler and Aon Hewitt New Bridge Street are signatories of the Code of Conduct for Remuneration Consultants.

Single total figure of remuneration

The table below sets out a single figure for the total remuneration received by each executive Director for the year ended 31 December 2012 and the prior year.

	Mark Robertshaw		Kevin Dangerfield		Andrew Hosty	
All figures shown in £'000	**2012**	2011	**2012**	2011	**2012**	2011
1 Salary	**480**	465	**285**	275	**313**	305
2 Benefits	**14**	14	**14**	14	**12**	12
3 Pension	**160**	129	**109**	68	**115**	75
4 Annual bonus	**–**	465	**–**	275	**43**	297
5 BDSMP	**291**	549	**–**	159	**–**	809
6 LTIP	**272**	1,733	**157**	1,005	**148**	946
Total	**1,217**	**3,355**	**565**	**1,796**	**631**	**2,444**

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.
3. Pension: 20x the increase in the value of their accrued benefit over the year, less Directors' contributions, plus the value of any Company contribution.
4. Annual bonus: the total bonus earned on performance during the year.
5. BDSMP: the estimated value on 31 December 2012 of 2010 BDSMP matching shares (and dividend equivalents) vesting in 2013 subject to performance over the three-year period ending 31 December 2012. The 2011 value represents the actual vest-date value (including dividend equivalents) of 2009 BDSMP matching shares.
6. LTIP: the estimated value on 31 December 2012 of 2010 LTIP shares vesting in 2013 subject to performance over the three-year period ended 31 December 2012. The 2011 value represents the actual vest-date value of 2009 LTIP shares.

Base salary

Annual salaries for executive Directors are generally reviewed each year by the Remuneration Committee, taking into account the performance of the individual and having regard to practice in FTSE 350 companies of comparable sector, size and complexity.

In line with the approach being taken across the organisation, executive Directors' salaries will be increased in 2013. For 2013, executive Directors' increases will be implemented with effect from 1 March. In considering the level of increase, the Committee has been mindful of the general level of increase across the Group of, on average 3%, as well as the positioning of roles against the market. In the case of Andrew Hosty, the Committee has also taken into account the additional global responsibilities of his new role of Chief Operating Officer which was announced in February 2013. The table below shows the salaries in 2012, and those which will take effect from 1 March 2013:

		Base salary at:		
Executive Director	Position	1 March 2013	1 January 2012	Increase
Mark Robertshaw	CEO	£495,000	£480,000	3.1%
Kevin Dangerfield	CFO	£300,000	£285,000	5.3%
Andrew Hosty	COO	£340,000	£312,500	8.8%

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, subject to completion of at least 20 years' employment (26 years and eight months for joiners since 2006).
- Life assurance of four times basic salary.
- Dependants' pension on death.

Pensionable salary is the member's basic salary restricted to an earnings cap of £136,800 for Kevin Dangerfield and Andrew Hosty and £110,437 for Mark Robertshaw for the 2012-13 tax year.

In addition, executive Directors received a pension allowance derived from employer contributions based notionally on the registered scheme pensionable salary in excess of the earnings cap. In the last report, the Company advised that the Committee had reviewed the impact of the Government's then new annual allowance limits on pension contributions. The Committee decided it wished to provide allowances for those affected, which overall were appropriate, cost-neutral and consistent with market practice. Of those affected, Mark Robertshaw was the only Executive Director. The value of the total Company pension contributions for each executive Director is shown in the Emoluments table on page 63.

The disclosure of executive Directors' scheme benefits is shown in the table on page 66 at the end of this report.

Benefits

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

Annual bonus

The purpose of the annual bonus is to incentivise the achievement of specific goals over the short-term that are also aligned to the long-term business strategy. In 2012 the target and maximum bonus earnings for the executive Directors were:

	% of annual salary	
Executive Director	Target	Maximum
Mark Robertshaw	50%	100%
Kevin Dangerfield	50%	100%
Andrew Hosty	50%	100%

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

For 2012, the bonus for the CEO and CFO was based on Group profit before taxation and amortisation. The targets were set to incentivise the executive Directors to deliver stretching earnings per share targets for the Group. Senior executives with Divisional responsibilities have part of their annual bonus linked to the performance of their Division and part linked to Group performance.

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

		Group PBTA			Divisional EBITA			Divisional third-party working capital to sales			
Director	Max bonus (% salary)	% max. bonus	PBTA targets met	% salary earned	% max. bonus	EBITA targets met	% salary earned	% max. bonus	Quarterly target thresholds achieved	% salary earned	Total payable
Mark Robertshaw	100%	100%	0%	0%							£0
Kevin Dangerfield	100%	100%	0%	0%							£0
Andrew Hosty	100%	30%	0%	0%	50%	Partially	13.7%	20%	0	0%	£42,800

No award was payable for the CEO and CFO because the minimum Group profit before tax and amortisation target, upon which 100% of their bonus is based, was not achieved. The CEO Morgan Ceramics also did not receive any bonus in respect of the Group PBTA (30% of his bonus potential) nor the Morgan Ceramics Division third-party working capital to sales percentage targets (20% of his bonus potential). However, the Morgan Ceramics EBITA target (50% of his bonus potential) for bonus purposes (before allocation of central costs and at 2012 budgeted exchange rates) was partially achieved at £103.2 million (in a range from £99.5 million to £113 million) resulting in a total bonus payment of 13.7% of salary for Andrew Hosty.

No changes will be made to the total annual bonus opportunity in 2013. For 2013, the performance measures for executive Directors' bonuses will be based 80% on EBITA and 20% on third-party working capital to sales. The Committee has taken into account the Group's restructuring plans that were announced in February 2013 and considered that EBITA pre-restructuring and other one-off charges would be an appropriate measure given the untypical circumstances of the restructuring. Performance targets have been set on this basis.

Bonus Deferral Share Matching Plan (BDSMP)

The BDSMP was introduced following shareholder approval in 2008.

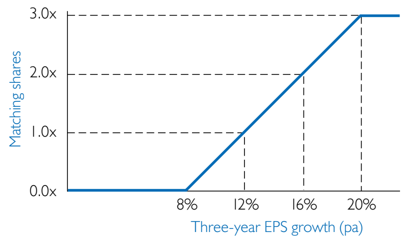
This plan operates alongside the other long-term incentive arrangements. Under the plan rules, participants may be offered the opportunity to defer up to 75% of their annual bonus on a pre- or post-tax basis into Company shares. Typically, the Committee has approved a deferral opportunity of 50% (the only exception being the 2010 award, where the opportunity was 75%). 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 after three years in the event that stretching performance targets have been met.

For the bonus earned for the 2011 performance year (ie payable in early 2012), participants were given the opportunity to defer up to 50% of their bonus under the BDSMP. For any bonus earned in respect of the 2012 performance year (payable in early 2013), participants will, again, be given the opportunity to defer up to 50% of their bonus under the BDSMP. As a result of the nil bonuses awarded in respect of 2012, there will be no opportunity for the Group CEO and CFO under the 2013 BDSMP.

The performance criteria for the BDSMP are set annually; in 2012 they were based on EPS growth targets against the 2011 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



The details of outstanding awards held by all Directors, including details of the performance criteria attached, are shown on page 65.

2009 BDSMP award vesting

The three-year performance period for the 2009 BDSMP awards ended on 1 January 2012. Over the period Morgan Crucible's actual EPS growth rate was 10.2% and accordingly a 1.8x match vested on 6 March 2012:

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	48,222	245,201	32,009	1.8x	147,120	19,205	98,081	12,804	6 March 2012
Kevin Dangerfield	13,973	71,052	9,272	1.8x	42,631	5,562	28,421	3,710	6 March 2012
Andrew Hosty	71,042	361,233	47,158	1.8x	216,739	28,293	144,494	18,865	6 March 2012

The investment shares in this table are stated on a post-tax basis. All other shares are stated on a pre-tax basis. Shares awarded on a pre-tax basis are subject to tax when released to participants.

2010 BDSMP award vesting

The performance period for the 2010 BDSMP awards ended on 31 December 2012. Over the period Morgan Crucible's actual EPS growth rate was RPI+20.5%. This exceeded the upper limit of the performance range and accordingly a 3x match will vest on 18 March 2013 and no 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	20,635	104,928	10,148	3x	104,928	10,148	0	0	18 March 2013

The investment shares in this table are stated on a post-tax basis. All other shares are stated on a pre-tax basis. Shares awarded on a pre-tax basis are subject to tax when released to participants.

2011 BDSMP awards outstanding

For the bonus earned for the 2010 performance year (ie payable in 2011) participants were given the opportunity to defer up to 50% of their bonus. In March 2011 Mark Robertshaw, Kevin Dangerfield and Andrew Hosty pledged shares equivalent to 50%, 25% and 44.44% of 2010 salary respectively and were granted matching awards of shares under the BDSMP equivalent to 3x their investments. The three-year performance period over which EPS performance will be measured began on 3 January 2011 and will end on 31 December 2013. Matching awards granted to executive Directors in 2011 are subject to three-year EPS growth. The EPS target requires three-year EPS growth above a threshold of 8% pa before any matching, 12% pa for a 1x match, 16% pa for a 2x match, and 20% pa or higher for a 3x match. There is straight-line vesting between these points. No award is eligible to vest until 23 March 2014.

	Investment shares				
	Number	as % 2010 salary	as % of 2010 bonus	Matching shares	Earliest date of vesting
Mark Robertshaw	74,875	50%	50%	224,625	23 March 2014
Kevin Dangerfield	22,046	25%	25%	66,138	23 March 2014
Andrew Hosty*	39,933	44.44%	40%	119,799	23 March 2014

* Andrew Hosty's annual salary was increased to £300,000 on his appointment to the Board on 28 July 2010. His total 2010 salary was £270,000 and his 2010 bonus was £300,000.

2012 BDSMP awards granted

In March 2012 Mark Robertshaw, Kevin Dangerfield and Andrew Hosty pledged shares equivalent to 50%, 13.64% and 48.75% of 2011 salary respectively and were granted matching awards of shares under the BDSMP equivalent to 3x their investments. The three-year performance period over which EPS performance will be measured began on 2 January 2012 and will end on 31 December 2014. No award is eligible to vest until 21 March 2015. The performance conditions attached to awards are discussed above.

		Investment shares			
	Number	as % 2011 salary	as % of 2011 bonus	Matching shares	Earliest date of vesting
Mark Robertshaw	70,347	50%	50%	211,041	21 March 2015
Kevin Dangerfield	11,346	13.64%	13.64%	34,038	21 March 2015
Andrew Hosty	44,988	48.75%	50%	134,964	21 March 2015

Long-term Incentive Plan

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

The Committee discusses and reviews the performance criteria for new three-year LTIP awards before they are granted. For the awards granted in 2012, the Committee considered its desire to have the most relevant balance of measures that reflected feedback from shareholders and directly related to the stretching objectives in the Group's business plan. The Committee therefore decided on the introduction of a ROCE measure for the 2012-14 performance period. For the CEO and CFO, TSR, EPS and ROCE performance are rewarded on an equal (one-third) basis 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

For the CEO Morgan Ceramics, a third of the 2012-14 LTIP is linked to Group TSR and two thirds is based on the Ceramics Division's EBITA and ROCE performance, as follows:

TSR against FTSE All-Share Industrials Index	% of award that vests	Divisional EBITDA	% of award that vests	Divisional average ROCE	% of award that vests
Upper quartile	33%	15% pa	33%	43.5%	33%
Median	10%	6% pa	10%	41%	10%
Below median	Nil	< 6% pa	Nil	< 41%	Nil

The details of outstanding LTIP awards held by the executive Directors are shown on page 64.

2009 LTIP award vesting

Awards granted to executive Directors in 2009 were subject to relative TSR. The TSR target required Morgan Crucible's three-year TSR performance to rank at median against 17 industrial and engineering companies comparators for 30% to vest, rising to full vesting if Morgan Crucible's TSR ranked at or above the upper quartile against these peers. The performance period for the 2009 LTIP awards ended on 1 January 2012. Over the period Morgan Crucible's TSR was 183%, which was at the 76th percentile versus the industrial and engineering comparator group.

The performance resulted in 100% of 2009 LTIP awards vesting.

REMUNERATION REPORT
continued

2010 LTIP award vesting

Awards granted to executive Directors in 2010 were subject to relative TSR and EPS. The EPS target (applying to 50% of each award) required three-year EPS growth of RPI+4% pa for 30% of that element to vest rising to full vesting for EPS growth of RPI+10% pa or higher.
The TSR target (applying to the other 50% of each award) required Morgan Crucible's three-year TSR performance to rank at median against 23 industrial and engineering comparators for 30% of that element to vest, rising to full vesting if Morgan Crucible's TSR ranked at or above the upper quartile against these peers. The performance period for the 2010 LTIP awards ended on 31 December 2012. Over the period:

- Morgan Crucible's EPS growth was equivalent to RPI+20.5%, which exceeded the upper limit of the performance range and accordingly 50% of the award vested under this criterion.
- Morgan Crucible's TSR was 69%, which was 41st percentile versus the industrial and engineering comparator group. Accordingly, none of the award vested under this criterion.

This combined performance resulted in 50% of 2010 LTIP awards vesting.

2011 LTIP awards outstanding

In March 2011 Mark Robertshaw, Kevin Dangerfield and Andrew Hosty were granted awards of shares under the LTIP equivalent to 111%, 100% and 100% of salary respectively. The three-year performance period over which performance will be measured began on 3 January 2011 and will end on 31 December 2013. 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 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) requires Morgan Crucible's three-year TSR performance to rank at median against the FTSE All-Share Industrials Index for 30% of that element to vest, rising to full vesting if Morgan Crucible's TSR ranks at or above the upper quartile against the companies in this index. For the 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, in which case 30% of that element will vest; full vesting will occur for EBITA growth of 18% pa and ROCE of 40.7%.

		Value of awards at grant		
	Number of LTIP shares granted	£	as % 2010 salary	Earliest date of vesting
Mark Robertshaw	171,068	500,000	111%	23 March 2014
Kevin Dangerfield	90,666	265,000	100%	23 March 2014
Andrew Hosty	102,641	300,000	100%	23 March 2014

2012 LTIP awards outstanding

In February 2012 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 2 January 2012 and will end on 31 December 2014. No award is eligible to vest until 27 February 2015. The performance conditions attached to awards are discussed above.

		Value of awards at grant		
	Number of LTIP shares granted	£	as % 2012 salary	Earliest date of vesting
Mark Robertshaw	134,907	480,000	100%	27 February 2015
Kevin Dangerfield	80,101	285,000	100%	27 February 2015
Andrew Hosty	87,830	312,500	100%	27 February 2015

Executive Share Option Scheme (ESOS)

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

No awards were made under the ESOS in 2011 or in 2012. There is one outstanding award to Mark Robertshaw, who has a vested option from 2004 that he has not exercised (see Directors' executive share options table on page 63). There is currently no intention to make awards under the ESOS in 2013.

Savings-related Share Option Scheme (SAYE)

As UK employees, the executive Directors may also participate in the SAYE on the same basis as other eligible employees and subject to UK legislation. SAYE participants save a fixed amount per month over three years and during 2012 options were granted with an exercise price at 80% of the five-day average market price calculated on 7 September 2012. Those Directors who have received options under the SAYE are shown in the table on page 66. No performance conditions apply to these options as they are a tax-efficient mechanism for all employees to acquire shares in the Company at their own cost.

Exit payments made in year

No executive Director left the Company during the year.

Chairman and non-executive Directors

Annual fees paid to the Chairman and non-executive Directors are reviewed on a biennial basis.

Tim Stevenson retired as Chairman on 31 July 2012, prior to which his fee had been £150,000 pa from 1 January 2012. The Committee reviewed market information before setting the fee for a new Chairman, and set the fee at £175,000 pa. Andrew Shilston was appointed Chairman Designate on 8 May 2012, on that fee basis*.

* From Andrew Shilston's appointment as Chairman Designate on 8 May 2012 until 26 July 2012, his fee was £75,000 pa.

The annual fee for non-executive Directors was set at £42,000 pa following the biennial review in 2010. Additional payments of £8,000 pa are made to the Senior Independent Director, the Chairman of the Audit Committee and to the Chairman of the Remuneration Committee. The biennial review of non-executive Directors' fees was conducted in December 2012, during which market information was also considered. It was decided to increase base fees only, to £46,000 pa with effect from 1 January 2013.

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

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

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
Tim Stevenson	Chairman*	1 December 2006	5 July 2006	8 May 2012
Martin Flower	Non-executive Director	10 December 2004	16 November 2004	8 May 2012
Simon Heale	Non-executive Director	18 February 2005	1 February 2005	8 May 2012
Andrew Given	Non-executive Director	7 December 2007	20 November 2007	8 May 2012
Andrew Shilston	Chairman**	8 May 2012	30 March 2012	–
Victoire de Margerie	Non-executive Director	8 May 2012	1 March 2012	–

* Retired from the Board 31 July 2012.
** Appointed Chairman Designate on 8 May 2012 and Chairman on 1 August 2012.

Total shareholdings of Directors

Directors' interests in shares

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

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

	As at 1 January 2012	As at 31 December 2012	As at 14 February 2013*
Executive Directors			
Mark Robertshaw	502,057**	623,447**	629,477**
Kevin Dangerfield	197,589**	221,169	221,397
Andrew Hosty	144,778**	122,644	122,644
Non-executive Directors			
Andrew Shilston#	–	30,000	30,000
Martin Flower	15,000	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
Tim Stevenson^	29,000	29,000	29,000

* The date of this report.
\# Appointed to the Board on 8 May 2012.
^ Retired from the Board on 31 July 2012.
** Including shares held as a post-tax deferred award under the BDSMP.

As at 28 February 2013, there was no change to the details listed in the above table.

Executive Directors' shareholding requirements

The table below shows the shareholding of each executive Director against their respective shareholding requirement as at 31 December 2012.

Director	Shareholding requirement (% 2012 salary)	Shares owned outright[1]	Shares subject to performance[2]	Performance tested but unvested shares[3]	Shares subject to BDSMP deferral[4]	Options vested but unexercised[5]	Current shareholding (% 2012 salary)[6]	Guideline met?
Mark Robertshaw[7]	100%	623,447	741,641	319,457	76,968	200,000	400%	Yes
Kevin Dangerfield	100%	221,169	270,943	124,329	17,698	–	228%	Yes
Andrew Hosty	100%	122,644	445,234	117,016	45,008	–	151%	Yes

1. Including shares held as a post-tax Deferred award under the BDSMP.
2. 2011 and 2012 LTIP awards and 2011 and 2012 BDSMP Matching awards.
3. 2010 LTIP and 2010 BDSMP Matching shares for the three-year performance period that ended on 31 December 2012. The 2010 LTIP vests on 13 May 2013 and the 2010 BDSMP vests on 18 March 2013.
4. Estimated net value of shares voluntarily deferred under the BDSMP.
5. Options granted under the Executive Share Option Scheme.
6. Based on an executive Director's 2012 salary and the share price at 31 December 2012, comprising shares owned outright and shares subject to deferral.
7. From 2013 onwards, the minimum shareholding guideline for the Chief Executive Officer is to be at least 150% of basic salary.

Emoluments table

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

Directors' emoluments

	Fees/salary £000		Annual bonus £000[1]		Other benefits £000[2]		Total emoluments £000		Pension allowance £000		Total remuneration £000	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Executive Directors												
Mark Robertshaw	**480**	465	**–**	465	**14**	14	**494**	944	**123**	114	**617**	1,058
Kevin Dangerfield	**285**	275	**–**	275	**14**	14	**299**	564	**72**	66	**371**	630
Andrew Hosty	**312.5**	305	**42.5**	297	**12**	12	**367**	614	**78**	72	**445**	686
Non-executive Directors												
Andrew Shilston (Chairman)#	**92**	–	**–**	–	**–**	–	**92**	–	**–**	–	**92**	–
Martin Flower	**50**	50	**–**	–	**–**	–	**50**	50	**–**	–	**50**	50
Andrew Given	**50**	50	**–**	–	**–**	–	**50**	50	**–**	–	**50**	50
Simon Heale	**50**	50	**–**	–	**–**	–	**50**	50	**–**	–	**50**	50
Victoire de Margerie#	**27**	–	**–**	–	**–**	–	**27**	–	**–**	–	**27**	–
Tim Stevenson^	**88**	140	**–**	–	**–**	–	**88**	140	**–**	–	**88**	140

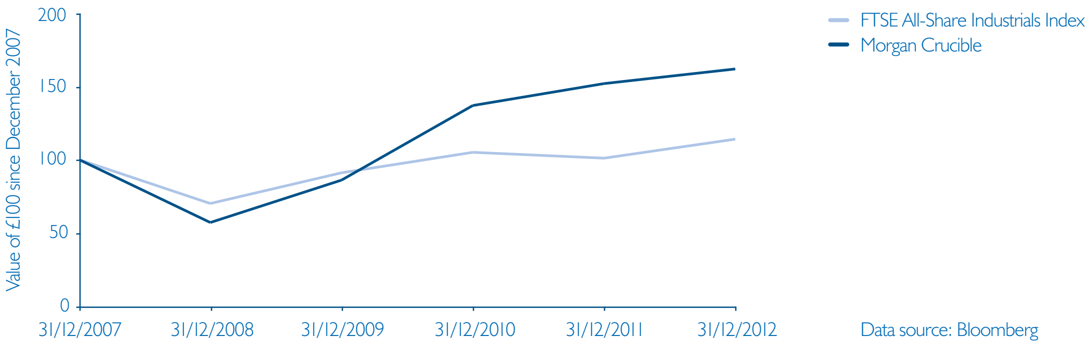
1. Annual bonus shows the total bonus payable in respect of the relevant year. Mark Robertshaw voluntarily deferred 50% of his 2011 bonus award into the BDSMP as set out in the table on page 65. Kevin Dangerfield deferred 13.64% and Andrew Hosty deferred 50% of their 2011 bonuses, also shown in the same table.
2. Other benefits include private medical insurance and a company car/car allowance.

\# Appointed to the Board on 8 May 2012.
^ Retired from the Board on 31 July 2012.

Comparison of Company performance

The graph below shows the value of £100 invested in Morgan Crucible's shares on 31 December 2007 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.

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



Summary of outstanding share awards

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

Directors' executive share options

	At 1 January 2012	Granted during the year	Exercised during the year	Lapsed during the year	As at 31 December 2012	Exercise price	Earliest date of exercise	Expiry date
Mark Robertshaw	200,000	–	–	–	200,000	145.275p	01.11.07	01.11.14

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

The share price at the year end was 268.7 pence and the high and low during the year were 360.0 pence and 220.3 pence respectively.

Awards to Directors under the Long-term Incentive Plan

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

	As at 1 January 2012	Allocations during the year	Shares released during the year	Shares lapsed during the year	As at 31 December 2012	Market price at date of allocation	Market price at date of release	Performance periods
Mark Robertshaw								
2009 LTIP	489,705	–	489,705	–	–	89.85p	353.36p	05.01.09 – 01.01.12
2010 LTIP	214,529	–	–	–	214,529	205.10p	–	04.01.10 – 31.12.12
2011 LTIP	171,068	–	–	–	171,068	292.28p	–	03.01.11 – 31.12.13
2012 LTIP	–	134,907	–	–	134,907	355.80p	–	02.01.12 – 31.12.14
Kevin Dangerfield								
2009 LTIP	283,806	–	283,806	–	–	89.85p	353.36p	05.01.09 – 01.01.12
2010 LTIP	118,939	–	–	–	118,939	205.10p	–	04.01.10 – 31.12.12
2010 LTIP – CSOP	5,390	–	–	–	5,390	205.10p	–	04.01.10 – 31.12.12
2010 LTIP – Funding	5,390	–	–	–	5,390	205.10p	–	04.01.10 – 31.12.12
2011 LTIP	84,185	–	–	–	84,185	292.28p	–	03.01.11 – 31.12.13
2011 LTIP – CSOP	6,481	–	–	–	6,481	292.28p	–	03.01.11 – 31.12.13
2011 LTIP – Funding	6,481	–	–	–	6,481	292.28p	–	03.01.11 – 31.12.13
2012 LTIP	–	80,101	–	–	80,101	355.80p	–	02.01.12 – 31.12.14
Andrew Hosty								
2009 LTIP	267,111	–	267,111	–	–	89.85p	353.36p	05.01.09 – 01.01.12
2010 LTIP	102,389	–	–	–	102,389	205.10p	–	04.01.10 – 31.12.12
2010 LTIP – CSOP	14,627	–	–	–	14,627	205.10p	–	04.01.10 – 31.12.12
2010 LTIP – Funding	14,627	–	–	–	14,627	205.10p	–	04.01.10 – 31.12.12
2011 LTIP	102,641	–	–	–	102,641	292.28p	–	03.01.11 – 31.12.13
2012 LTIP	–	87,830	–	–	87,830	355.80p	–	02.01.12 – 31.12.14

Notes:

1. Awards granted to executive Directors in 2009 were subject to relative TSR. The TSR target required Morgan Crucible's three-year TSR performance to rank at median against 17 industrial and engineering comparators for 30% to vest, rising to full vesting if Morgan Crucible's TSR ranks at or above the upper quartile against these peers. At the end of the performance period, Morgan Crucible's TSR performance resulted in 100% vesting. Vested awards were released on the third anniversary of grant (27 February 2012).
2. Awards granted to executive Directors in 2010 are subject to relative TSR and EPS. The EPS target (applying to 50% of each award) requires three-year EPS growth of RPI+4% pa for 30% of that element to vest rising to full vesting for EPS growth of RPI+10% pa or higher. The TSR target (applying to the other 50% of each award) requires Morgan Crucible's three-year TSR performance to rank at median against 23 industrial and engineering comparators for 30% of that element to vest, rising to full vesting if Morgan Crucible's TSR ranks at or above the upper quartile against these peers.
3. LTIP awards made in 2010 to Andrew Hosty and in 2010 and 2011 to Kevin Dangerfield are structured as an Approved Performance Share Plan (APSP) and comprise three elements: (i) HM Revenue & Customs (HMRC) approved options (CSOP) over shares to the value of up to £30,000 with an exercise price of 205.1 pence per share in respect of 2010 awards and of 292.28p pence per share in respect of the 2011 award; (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 of the approved option equals up to £30,000. The provisions of these CSOP options, funding awards and LTIP awards are linked so that the maximum aggregate number of shares that can be acquired on exercise of LTIP and CSOP awards (the funding award being used to pay the exercise price arising on exercise of the CSOP) is limited to that number of shares that had a market value on the date of the awards equal to 100% of Kevin Dangerfield's 2009 base salary and £240,000 for Andrew Hosty ('the limit').
4. 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 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) requires Morgan Crucible's three-year TSR performance to rank at median against the FTSE All-Share Industrials Index for 30% of that element to vest, rising to full vesting if Morgan Crucible's TSR ranks at or above the upper quartile against the companies in this index. For the 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 in which case 30% of that element will vest; full vesting of this element will occur for EBITA growth of 18% pa and ROCE of 40.7%.
5. Awards granted to executive Directors in 2012 are subject to relative TSR, EPS and average ROCE. The EPS target (applying to a third of each award) requires three-year EPS growth above a threshold 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 another third of each award) requires Morgan Crucible's three-year TSR performance to rank at median against the FTSE All-Share Industrials Index for 30% of that element to vest, rising to full vesting if Morgan Crucible's TSR ranks at or above the upper quartile against the companies in this index. For the CEO and CFO, the Group average 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 rising to full vesting at 37% or higher. For the CEO Morgan Ceramics, one-third of this award vests on relative TSR, with the remaining two-thirds vesting on a divisional EBITA/ROCE matrix. For the EBITA/ROCE element, there will be no vesting unless EBITA growth in Morgan Ceramics is at least 6% pa and Divisional average ROCE is 41.0% in 2014; full vesting will occur for EBITA growth of 15% pa and ROCE of 43.5%.

Awards to Directors under the Bonus Deferral Share Matching Plan

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

	As at 1 January 2012	Allocations during the year	Shares released during the year	Shares lapsed during the year	As at 31 December 2012	Market price at date of allocation	Market price at date of release	Performance periods
Mark Robertshaw								
2009 Award								
Investment shares[1]	48,222	–	48,222	–	–	80.75p	252.41p	–
Matching shares[2]	245,201	–	147,120	98,081	–	80.75p	252.41p	05.01.09 – 01.01.12
Dividend shares[3]	–	32,009	19,205	12,804	–	various[4]	252.41p	05.01.09 – 01.01.12
2010 Award								
Investment shares[1]	20,635	–	–	–	20,635	188.70p	–	–
Matching shares[2]	104,928	–	–	–	104,928	188.70p	–	04.01.10 – 31.12.12
2011 Award								
Investment shares[1]	74,875	–	–	–	74,875	300.50p	–	–
Matching shares[2]	224,625	–	–	–	224,625	300.50p	–	03.01.11 – 31.12.13
2012 Award								
Investment shares[1]	–	70,347	–	–	70,347	330.50p	–	–
Matching shares[2]	–	211,041	–	–	211,041	330.50p	–	02.01.12 – 31.12.14
Kevin Dangerfield								
2009 Award								
Investment shares[1]	13,973	–	13,973	–	–	80.75p	343.54p	–
Matching shares[2]	71,052	–	42,631	28,421	–	80.75p	343.54p	05.01.09 – 01.01.12
Dividend shares[3]	–	9,272	5,562	3,710	–	various[4]	343.54p	05.01.09 – 01.01.12
2011 Award								
Investment shares[1]	22,046	–	–	–	22,046	300.50p	–	–
Matching shares[2]	66,138	–	–	–	66,138	300.50p	–	03.01.11 – 31.12.13
2012 Award								
Investment shares[1]	–	11,346	–	–	11,346	330.50p	–	–
Matching shares[2]	–	34,038	–	–	34,038	330.50p	–	02.01.12 – 31.12.14
Andrew Hosty								
2009 Award								
Investment shares[1]	71,042	–	71,042	–	–	80.75p	326.71p	–
Matching shares[2]	361,233	–	216,739	144,494	–	80.75p	326.71p	05.01.09 – 01.01.12
Dividend shares[3]	–	47,158	28,293	18,865	–	various[4]	326.71p	05.01.09 – 01.01.12
2011 Award								
Investment shares[1]	39,933	–	–	–	39,933	300.50p	–	–
Matching shares[2]	119,799	–	–	–	119,799	300.50p	–	03.01.11 – 31.12.13
2012 Award								
Investment shares[1]	–	44,988	–	–	44,988	330.50p	–	–
Matching shares[2]	–	134,964	–	–	134,964	330.50p	–	02.01.12 – 31.12.14

1. Investment shares represent those shares acquired with a portion of the bonus set out in the emoluments table on page 63 voluntarily deferred into the BDSMP.
2. This is the maximum number of shares based on the pre-tax value of the investment shares that could be earned at the end of the performance period if the performance condition set out below is met in full.
3. The number of shares representing the value of reinvested dividends that would have accrued during the Retention Period on the executive Director's Matching award.
4. Dividends were paid throughout the Retention Period meaning there are various market prices applicable to these shares.
5. In 2009 and 2010, the executive Directors deferred their bonus payment on a net basis. In 2011 and 2012 deferral was on a gross basis, as it will be for 2013. The flexibility to defer on either basis is within the BDSMP rules.
6. Matching awards granted to executive Directors in 2009 were subject to three-year EPS growth. The EPS target required three-year EPS growth of 4% pa for a 0.25x match, 5% pa for a 0.5x match, 7.5% pa for a 1x match, 10% pa for a 1.75x match and 15% pa or higher for a 3x match. There is straight-line vesting between these points. The performance targets for awards made in 2009 did not reference growth above RPI. Given the difficult economic climate at that time the Committee considered the targets to be stretching. The three-year performance period for the 2009 BDSMP awards ended on 1 January 2012. Over the period Morgan Crucible's actual EPS growth rate was 10.2% and accordingly a 1.8x match vested on 6 March 2012.
7. Matching awards granted to executive Directors in 2008 and 2010 are subject to three-year EPS growth. The EPS target required three-year EPS growth of RPI+4% pa for a 0.25x match, RPI+5% pa for a 0.5x match, RPI+7.5% pa for a 1x match, RPI+10% pa for a 1.75x match and RPI+15% pa or higher for a 3x match. There is straight-line vesting between these points. The performance conditions attached to the 2008 BDSMP awards were not met and therefore matching awards lapsed in full.
8. Matching awards granted to executive Directors in 2011 and 2012 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.

REMUNERATION REPORT
continued

Options under the Sharesave scheme
The auditor is required to report on the information in this table.

	As at 1 January 2012	Granted during the year	Exercised during the year	Lapsed during the year	As at 31 December 2012	Exercise price	Exercise periods
Mark Robertshaw							
2010 scheme	5,454	–	–	–	5,454	165p	01.12.13 – 31.05.14
Kevin Dangerfield							
2011 scheme	4,225	–	–	–	4,225	213p	01.12.14 – 31.05.15
Andrew Hosty							
2009 scheme	1,417	–	1,417	–	–	128p	01.12.12 – 31.05.13
2011 scheme	3,380	–	–	–	3,380	213p	01.12.14 – 31.05.15
2012 scheme	–	841	–	–	841	214p	01.12.15 – 31.05.16

Pension benefits earned by the Directors
The auditor is required to report on the information in this table.

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

Executive Directors	Accrued benefits at 31 December 2012 £000 pa	Increase in accrued benefits excluding inflation (A) £000	Increase in accrued benefits including inflation £000	Transfer value of (A) less Director's contributions £000	Transfer value of accrued benefits at 1 January 2012 £000	Transfer value of accrued benefits at 31 December 2012 £000	Increase in transfer value less Director's contributions £000
Mark Robertshaw	30	4	4	39	340	452	95
Kevin Dangerfield	38	4	5	46	532	667	123
Andrew Hosty	51	4	5	51	803	973	158

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

Mark Robertshaw, Kevin Dangerfield and Andrew Hosty also received a pension allowance, details of which are set out in the Directors' emoluments table on page 63.

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

This Report was approved by the Board on 14 February 2013.

Signed on behalf of the Board.

Simon Heale
Chairman of the Remuneration Committee

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

We have audited the financial statements of The Morgan Crucible Company plc for the year ended 31 December 2012 set out on pages 68 to 125. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent Company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' responsibilities statement set out on page 49, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:
- The financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2012 and of the Group's profit for the year then ended;
- The Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- The parent Company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice;
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:
- The part of the Directors' Remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- The information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.
- Information given in the Corporate governance statement set out on pages 42 to 48 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:
- Adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- The parent Company financial statements and the part of the Directors' Remuneration report to be audited are not in agreement with the accounting records and returns; or
- We have not received all the information and explanations we require for our audit; or
- Certain disclosures of the Directors' remuneration specified by law are not made; or
- A Corporate governance statement has not been prepared by the Company.

Under the Listing Rules we are required to review:
- The Directors' statement, set out on page 31, in relation to going concern;
- The part of the Corporate governance statement on pages 42 to 48 relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- Certain elements of the report to shareholders by the Board on Directors' remuneration.

Stephen Cooper (Senior Statutory Auditor) for and on behalf of KPMG Audit plc, Statutory Auditor
Chartered Accountants
15 Canada Square, London E14 5GL
14 February 2013

Morgan Crucible
The Advanced Materials Group

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2012

	Note	**2012 £m**	2011 £m
Revenue	3	**1,007.5**	1,101.0
Operating costs before restructuring costs, other one-off items and amortisation of intangible assets	4	**(885.5)**	(957.6)
Profit from operations before restructuring costs, other one-off items and amortisation of intangible assets		**122.0**	143.4
Restructuring costs and other one-off items:	6		
Restructuring costs		**(13.3)**	(5.6)
Gain on disposal of properties		**0.1**	2.4
Net pension credit		**–**	1.3
Profit from operations before amortisation of intangible assets	3	**108.8**	141.5
Amortisation of intangible assets	4	**(8.3)**	(8.3)
Operating profit	3	**100.5**	133.2
Finance income		**26.3**	27.7
Finance expense		**(45.4)**	(49.5)
Net financing costs	7	**(19.1)**	(21.8)
Profit before taxation		**81.4**	111.4
Income tax expense	8	**(22.1)**	(32.6)
Profit after taxation before discontinued operations		**59.3**	78.8
Discontinued operations	9	**21.0**	–
Profit for the period		**80.3**	78.8
Profit for period attributable to:			
Owners of the parent		**77.0**	73.0
Non-controlling interests		**3.3**	5.8
		80.3	78.8
Basic earnings per share	10		
Continuing operations		**20.2p**	26.9p
Discontinued operations		**7.6p**	–
		27.8p	26.9p
Diluted earnings per share			
Continuing operations		**19.9p**	25.7p
Discontinued operations		**7.4p**	–
		27.3p	25.7p
Dividends			
Proposed interim dividend – pence		**3.60p**	3.25p
– £m		**10.1**	8.8
Proposed final dividend – pence		**6.40p**	6.00p
– £m		**17.9**	16.6

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2012

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

CONSOLIDATED BALANCE SHEET
as at 31 December 2012

	Note	2012 £m	2011 £m
Assets			
Property, plant and equipment	11	**245.5**	259.8
Intangible assets	12	**265.1**	283.3
Investments	13	**5.4**	6.1
Other receivables		**4.6**	4.2
Deferred tax assets	14	**40.6**	41.1
Total non-current assets		**561.2**	594.5
Inventories	15	**139.9**	166.6
Derivative financial assets		**1.8**	1.6
Trade and other receivables	16	**185.4**	195.3
Cash and cash equivalents	17	**80.0**	83.4
Total current assets		**407.1**	446.9
Total assets		**968.3**	1,041.4
Liabilities			
Interest-bearing loans and borrowings	19	**265.0**	287.3
Employee benefits	21	**166.6**	135.1
Provisions	22	**6.9**	7.0
Non-trade payables	23	**4.8**	10.5
Deferred tax liabilities	14	**40.5**	44.5
Total non-current liabilities		**483.8**	484.4
Interest-bearing loans and borrowings and bank overdrafts	19	**7.8**	11.5
Trade and other payables	23	**184.0**	251.3
Current tax payable		**6.1**	10.8
Provisions	22	**14.1**	12.0
Derivative financial liabilities		**0.7**	1.2
Total current liabilities		**212.7**	286.8
Total liabilities		**696.5**	771.2
Total net assets		**271.8**	270.2
Equity			
Share capital	18	**70.4**	68.7
Share premium		**99.0**	90.6
Reserves		**51.6**	60.4
Retained earnings		**13.0**	9.7
Total equity attributable to equity owners of parent Company		**234.0**	229.4
Non-controlling interests		**37.8**	40.8
Total equity		**271.8**	270.2

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2012

	Share capital £m	Share premium £m	Translation reserve £m	Hedging reserve £m	Fair value reserve £m	Special reserve £m	Capital redemption reserve £m	Other reserves £m	Retained earnings £m	Total parent equity £m	Non-controlling interests £m	Total equity £m
Balance at 3 January 2011	68.5	88.3	13.0	0.3	(1.5)	6.0	35.7	11.1	(6.4)	215.0	37.1	252.1
Profit for the year	–	–	–	–	–	–	–	–	73.0	73.0	5.8	78.8
Other comprehensive income	–	–	(4.4)	0.1	0.1	–	–	–	(39.6)	(43.8)	0.2	(43.6)
Transactions with owners:												
Dividends	0.2	2.3	–	–	–	–	–	–	(20.9)	(18.4)	(2.3)	(20.7)
Equity-settled share-based payment transactions	–	–	–	–	–	–	–	–	6.8	6.8	–	6.8
Own shares acquired for share incentive schemes	–	–	–	–	–	–	–	–	(3.2)	(3.2)	–	(3.2)
Balance at 1 January 2012	68.7	90.6	8.6	0.4	(1.4)	6.0	35.7	11.1	9.7	229.4	40.8	270.2
Balance at 2 January 2012	**68.7**	**90.6**	**8.6**	**0.4**	**(1.4)**	**6.0**	**35.7**	**11.1**	**9.7**	**229.4**	**40.8**	**270.2**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**77.0**	**77.0**	**3.3**	**80.3**
Other comprehensive income	**–**	**–**	**(9.2)**	**0.3**	**0.1**	**–**	**–**	**–**	**(41.2)**	**(50.0)**	**(3.5)**	**(53.5)**
Transactions with owners:												
Dividends	**0.9**	**8.4**	**–**	**–**	**–**	**–**	**–**	**–**	**(25.4)**	**(16.1)**	**(2.8)**	**(18.9)**
Equity-settled share-based payment transactions	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**3.1**	**3.1**	**–**	**3.1**
Own shares issued/acquired for share incentive schemes	**0.8**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(10.2)**	**(9.4)**	**–**	**(9.4)**
Balance at 31 December 2012	**70.4**	**99.0**	**(0.6)**	**0.7**	**(1.3)**	**6.0**	**35.7**	**11.1**	**13.0**	**234.0**	**37.8**	**271.8**

Details of the reserves are provided in note 18.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2012

	Note	2012 £m	2011 £m
Operating activities			
Profit for the period before discontinued operations		**59.3**	78.8
Adjustments for:			
Depreciation	4	**30.0**	31.1
Amortisation	4	**8.3**	8.3
Net financing costs	7	**19.1**	21.8
Profit on sale of property, plant and equipment		**(0.2)**	(2.6)
Income tax expense	8	**22.1**	32.6
Non-cash operating costs relating to restructuring	4	**5.0**	–
Equity-settled share-based payment expenses		**1.9**	5.9
Cash generated from operations before changes in working capital and provisions		**145.5**	175.9
Decrease/(increase) in trade and other receivables		**0.8**	(12.9)
Decrease/(increase) in inventories		**18.5**	(7.7)
(Decrease) in trade and other payables		**(31.9)**	(8.5)
(Decrease) in provisions and employee benefits		**(11.9)**	(17.5)
Cash generated from operations		**121.0**	129.3
Interest paid		**(20.1)**	(22.0)
Income tax paid		**(26.8)**	(25.6)
Net cash from operating activities		**74.1**	81.7
Investing activities			
Purchase of property, plant and equipment		**(29.4)**	(28.7)
Proceeds from sale of property, plant and equipment		**2.7**	3.2
Sale of investments		**0.1**	0.7
Interest received		**1.6**	1.6
Acquisition of subsidiaries, net of cash acquired		**(6.6)**	(10.4)
Forward contracts used in net investment hedging		**0.7**	(4.8)
Net cash from investing activities		**(30.9)**	(38.4)
Financing activities			
Purchase of own shares for share incentive schemes		**(9.4)**	(3.2)
Repayment of borrowings	17	**(16.2)**	(24.4)
Payment of finance lease liabilities	17	**(0.2)**	(0.4)
Dividends paid		**(16.1)**	(18.4)
Net cash from financing activities		**(41.9)**	(46.4)
Net increase/(decrease) in cash and cash equivalents		**1.3**	(3.1)
Cash and cash equivalents at start of period		**83.4**	85.0
Effect of exchange rate fluctuations on cash held		**(4.7)**	1.5
Cash and cash equivalents at period end	17	**80.0**	83.4

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Accounting policies, estimates and judgments

Accounting policies

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

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the 'Group'), and include the Group's interest in associates. The parent Company financial statements present information about the Company as a separate entity and not about its Group. These consolidated financial statements have been drawn up to 31 December 2012. The Group changed its fiscal year during the current period. The Group now maintains a 12-month calendar fiscal year ending on 31 December. Previously the Group maintained a 52- or 53-week fiscal year ending on the Sunday nearest to the Accounting Reference Date of the Company, 1 January.

The Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU (adopted IFRSs). The Company has elected to prepare its parent Company financial statements in accordance with UK Generally Accepted Accounting Practice; these are presented on pages 116 to 125.

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

The accounting policies set out below have, unless otherwise stated, 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 Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity. Associates are accounted for using the equity method and are initially recognised at cost.

(iii) Transactions eliminated on consolidation

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

(d) Foreign currency

(i) Foreign currency transactions

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

(ii) Financial statements of foreign operations

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
continued

1. Accounting policies, estimates and judgments continued

(e) 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:

1. Accounting policies, estimates and judgments continued

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.

Recognition of identifiable intangible assets and goodwill

Notes 2 and 12 contains information about intangible assets recognised on acquisition. These primarily relate to existing contracts, order books and customer relationships, which are supported by long-term relationships with key customers. The Group has estimated that the customer relationships have an economic life of 15-20 years.

Remeasurement of deferred contingent consideration

Note 2 contains information on deferred contingent consideration, arising as an element of the fair value of consideration on acquisition. Deferred contingent consideration is remeasured based upon the Group's best estimate of its future liability, calculated in accordance with the acquisition agreement.

Impairment of goodwill

Note 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 Business review on pages 6 to 35. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Business 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 bank facility headroom at 31 December 2012 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.

1. Accounting policies, estimates and judgments continued

Adoption of new and revised Standards

During the period, the Group has applied amendments to IFRS 7 *Disclosures – Transfers of Business Assets*. The above amendment has not had any significant impact on the reported results or financial position of the Group.

For the year ended 31 December 2013 the Group is required to adopt IAS 19 (revised) *Employee Benefits*. The Group's expectation is that profit before taxation for 2013 will be approximately £6 million lower than if the current IAS 19 had been applied. The reasons for this are:

(i) 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.

(ii) A £4.8 million increase in the net financing costs, 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 charges identified above.

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

The Group does not expect that the adoption of any other Standards and Interpretations that are in issue but not yet effective to have a material impact on the Group's financial statements.

2. Acquisitions

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)*.

Acquisitions

Clearpower Limited

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

The Group carries a liability of £0.3 million, representing the best estimate of the amount it will pay to acquire the remaining 10% of the Ordinary share capital of Clearpower Limited. This is included within current non-trade payables. The unwinding of the discount on this liability of £0.2 million is recorded as a finance expense (see note 7). The adjustment through goodwill since the date of acquisition as a result of the remeasurement is £9.3 million.

Other acquisitions in 2012 and 2011

There were no other business combinations in 2012 and 2011.

3. Segment reporting

Accounting policies

The Group has identified four reportable operating segments. These have been identified on the basis of internal management reporting information that is regularly reviewed by the Group's 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 four reportable operating segments:

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

Segment reporting

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

	Morgan Ceramics				Morgan Engineered Materials					
	Technical Ceramics		Thermal Ceramics		Morgan AM&T		Molten Metal Systems		Consolidated	
	2012 £m	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m
Revenue from external customers	**273.3**	285.1	**387.2**	400.1	**301.2**	369.1	**45.8**	46.7	**1,007.5**	1,101.0
Divisional EBITA[1]	**42.7**	43.1	**51.9**	49.6	**24.4**	48.0	**8.1**	7.7	**127.1**	148.4
Unallocated costs									**(5.1)**	(5.0)
Group EBITA[2]									**122.0**	143.4
Restructuring costs and other one-off items	**(1.4)**	1.1	**(5.4)**	(3.0)	**(6.4)**	–	**–**	–	**(13.2)**	(1.9)
Underlying operating profit[3]									**108.8**	141.5
Amortisation of intangible assets	**(2.5)**	(2.5)	**(1.3)**	(1.2)	**(4.3)**	(4.5)	**(0.2)**	(0.1)	**(8.3)**	(8.3)
Operating profit									**100.5**	133.2
Finance income									**26.3**	27.7
Finance expense									**(45.4)**	(49.5)
Profit before taxation									**81.4**	111.4

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
continued

3. Segment reporting continued

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

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

	Morgan Ceramics				Morgan Engineered Materials					
	Technical Ceramics		Thermal Ceramics		Morgan AM&T		Molten Metal Systems		Consolidated	
	2012 £m	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m
Segment depreciation	**8.7**	8.6	**9.9**	11.1	**9.9**	10.1	**1.4**	1.3	**29.9**	31.1
Unallocated depreciation									**0.1**	–
									30.0	31.1

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

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

4. Operating costs

	2012 £m	2011 £m
Change in stocks of finished goods and work in progress	**(0.1)**	(2.3)
Raw materials and consumables	**278.9**	320.2
Other external charges	**163.6**	176.1
Total	**442.4**	494.0
Employee costs:		
– wages and salaries	**239.2**	254.1
– equity-settled share-based payments	**1.9**	5.6
– social security costs	**51.0**	48.5
– other pension costs	**10.9**	10.1
Total	**303.0**	318.3
Depreciation	**30.0**	31.1
Rentals under operating leases:		
– hire of plant and machinery	**3.0**	3.1
– other operating leases	**5.3**	5.3
Total	**8.3**	8.4
Other operating charges and income:		
– net foreign exchange losses/(gains)	**0.4**	(1.3)
– other operating income and charges	**101.4**	107.1
Total	**101.8**	105.8
Total operating costs before restructuring costs, other one-off items and amortisation of intangible assets	**885.5**	957.6
Restructuring costs and other one-off items:		
– employment termination costs	**6.1**	5.1
– write-off of assets	**5.0**	–
– other site rationalisation and closure costs	**2.2**	0.5
– profit on disposal of properties	**(0.1)**	(2.4)
– net pension credit	**–**	(1.3)
Total	**13.2**	1.9
Amortisation of intangible assets	**8.3**	8.3
Total operating costs	**907.0**	967.8

The Group recognised £19.6 million in expense in respect of research and development (2011: £14.3 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
continued

4. Operating costs 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 2012 is set out below:

	2012 £m	2011 £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**	–
– other non-audit services	**0.2**	0.3
	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 **2012**	2011
USA	**2,758**	2,822
UK	**1,594**	1,552
China	**1,570**	1,547
Germany	**644**	616
France	**483**	489
Other Asia, Middle East and Africa	**1,473**	1,488
Other Europe	**542**	563
Other North America	**545**	534
South America	**424**	417
	10,033	10,028
Technical Ceramics	**2,724**	2,724
Thermal Ceramics	**3,172**	3,189
Morgan AM&T	**3,616**	3,625
Molten Metal Systems	**511**	480
Corporate	**10**	10
	10,033	10,028

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

- For the United Kingdom defined benefit pension schemes, future indexation of current employees' accrued benefits will be set by reference to the Consumer Prices Index ('CPI') rather than the Retail Prices Index ('RPI'). This change has resulted in a one-off pension credit (negative past service cost) of £3.1 million.
- In North America, a total charge of £1.8 million arose as a result of a charge of £1.6 million in respect of a provision relating to a USA pension plan and a charge of £0.2 million in respect of the curtailment and settlement loss as a result of closure of three Canadian defined benefit schemes.

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, expected return on IAS 19 pension assets and interest on IAS 19 obligations. Interest income is recognised in the income statement as it accrues, using the effective interest method.

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

Net finance income and expense

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

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.

8. Taxation – income tax expense continued

Taxation – income tax expense

Recognised in the income statement

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

Reconciliation of effective tax rate

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

	2012 £m	2011 £m
Income tax recognised directly in equity		
Tax effect on components of other comprehensive income:		
– Current tax associated with share schemes	**1.3**	–
– Deferred tax associated with defined benefit schemes	**5.4**	5.9
– Other	**–**	0.1
Total income tax recognised directly in equity	**6.7**	6.0

9. Discontinued operations

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

10. Earnings per share

Earnings per share from continuing operations

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

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

10. Earnings per share continued

Earnings per share from discontinued operations

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

	2012 Basic £m	2012 Diluted £m	2011 Basic £m	2011 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)	**277.0**	**282.0**	271.7	284.4
Earnings per share from discontinued operations (pence)	**7.6p**	**7.4p**	0.0p	0.0p

Underlying earnings per share

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

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

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 'Other one-off items' in the income statement. Gains and losses on the disposal of plant and equipment are recognised in 'Operating costs' in the income statement.

(ii) Leased assets

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

(iii) Depreciation

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

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

11. Property, plant and equipment continued

Property, plant and equipment

	Land and buildings £m	Plant and equipment and fixtures £m	Total £m
Cost			
Balance at 3 January 2011	167.2	521.6	688.8
Additions	1.3	25.5	26.8
Disposals	(12.5)	(8.1)	(20.6)
Effect of movement in foreign exchange	(1.4)	(4.8)	(6.2)
Balance at 1 January 2012	154.6	534.2	688.8
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**
Depreciation and impairment losses			
Balance at 3 January 2011	58.4	361.2	419.6
Depreciation charge for the year	4.8	26.3	31.1
Impairment loss	–	0.3	0.3
Disposals	(11.0)	(7.7)	(18.7)
Effect of movement in foreign exchange	–	(3.3)	(3.3)
Balance at 1 January 2012	52.2	376.8	429.0
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**
Carrying amounts			
At 2 January 2011	108.8	160.4	269.2
At 1 January 2012	102.4	157.4	259.8
At 31 December 2012	**98.9**	**146.6**	**245.5**

Assets pledged as security for liabilities

At 31 December 2012 assets with a carrying amount of £3.3 million (1 January 2012: £3.3 million) are subject to registered debentures to secure bank loans and other liabilities (see note 19).

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

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12. Intangible assets continued

	Goodwill £m	Order book £m	Customer relationships £m	Technology and trademarks £m	Capitalised development £m	Computer software £m	Total £m
Cost							
Balance at 3 January 2011	197.3	9.3	77.3	22.5	2.2	12.3	320.9
Additions (externally purchased)	0.3	–	–	–	–	3.5	3.8
Disposals	–	–	–	–	–	(2.7)	(2.7)
Remeasurement of goodwill	2.7	–	–	–	–	–	2.7
Effect of movement in foreign exchange	(0.5)	–	0.1	0.2	–	0.7	0.5
Balance at 1 January 2012	199.8	9.3	77.4	22.7	2.2	13.8	325.2
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)**
Effects 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**
Amortisation and impairment losses							
Balance as at 3 January 2011	–	9.3	12.4	3.4	1.1	9.7	35.9
Amortisation charge for the year	–	–	4.4	1.8	0.7	1.4	8.3
Disposals	–	–	–	–	–	(2.7)	(2.7)
Effects of movement in foreign exchange	–	–	–	0.1	–	0.3	0.4
Balance at 1 January 2012	–	9.3	16.8	5.3	1.8	8.7	41.9
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)**
Effects 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**
Carrying amounts							
At 2 January 2011	197.3	–	64.9	19.1	1.1	2.6	285.0
At 1 January 2012	199.8	–	60.6	17.4	0.4	5.1	283.3
At 31 December 2012	**191.1**	**–**	**54.2**	**15.8**	**–**	**4.0**	**265.1**

Impairment test for cash-generating units containing goodwill

In accordance with the requirements of IAS 36 *Impairment of Assets*, goodwill is allocated to the Group's cash-generating units that are expected to benefit from the synergies of the business combination that gave rise to the goodwill. Goodwill is attributed to each cash-generating unit as follows:

	2012 £m	2011 £m
Technical Ceramics	**67.2**	69.4
Thermal Ceramics	**20.4**	21.0
Morgan AM&T	**101.7**	107.5
Molten Metal Systems	**1.8**	1.9
	191.1	199.8

12. Intangible assets continued

Each cash-generating unit is assessed for impairment annually and whenever there is an indication of impairment.

As part of the annual impairment test review the carrying value of goodwill has been assessed with reference to its value in use reflecting the projected discounted cash flows of each cash-generating unit to which goodwill has been allocated.

The key assumptions used in determining value in use relate to growth rates and discount rates.

The cash flow projections in year one are based on budgeted operating results for the forthcoming year.

Growth rates for the period not covered by budgets are specific to each operating segment, ranging from 2.0% to 5.0% (2011: 2.0% to 5.0%). These growth rates reflect the products, industries and countries in which the operating segments operate. These medium- to long-term growth rates have been reviewed by management during 2012 and are considered to be appropriate.

Given the similar risk profiles of each of the operating segments, together with common funding from the central Group Treasury function, a standard pre-tax discount rate of 13.3% (2011: 13.9%), based on the Group's weighted average cost of capital, has been used in discounting the projected cash flows and calculating the terminal value at the end of year five. This discount rate has been used as the Group believes it suitably approximates the rate used by end-market participants.

The Directors have considered the following individual sensitivities and are confident that no impairment would arise in any of the following three circumstances:

- if the pre-tax discount rate was increased by 210bps to 15.4% (2011: 550bps to 19.4%);
- 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 15% (2011: 35%).

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.

	2012 £m	2011 £m
Non-current investments		
Investment in associate	**1.5**	1.5
Equity securities available-for-sale	**3.9**	4.6
	5.4	6.1

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.

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14. Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets 2012 £m	Assets 2011 £m	**Liabilities 2012 £m**	Liabilities 2011 £m	**Net 2012 £m**	Net 2011 £m
Property, plant and equipment	**–**	–	**21.2**	23.1	**21.2**	23.1
Intangible assets	**–**	–	**18.3**	21.4	**18.3**	21.4
Employee benefits	**(33.4)**	(28.4)	**–**	–	**(33.4)**	(28.4)
Provisions	**(5.7)**	(7.0)	**–**	–	**(5.7)**	(7.0)
Tax value of loss carried forward recognised	**(1.5)**	(5.5)	**–**	–	**(1.5)**	(5.5)
Other items	**–**	(0.2)	**1.0**	–	**1.0**	(0.2)
	(40.6)	(41.1)	**40.5**	44.5	**(0.1)**	3.4

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	2012 £m	2011 £m
Deductible temporary differences	**(90.4)**	(61.2)
Tax losses	**(70.3)**	(71.0)
	(160.7)	(132.2)

Movements in temporary differences during the year

	Balance 2 January 2011 £m	Recognised in income £m	Recognised directly in equity £m	Balance 1 January 2012 £m	**Recognised in income £m**	**Recognised directly in equity £m**	**Balance 31 December 2012 £m**
Property, plant and equipment	22.3	0.8	–	23.1	**(1.9)**	**–**	**21.2**
Intangible assets	22.9	(1.5)	–	21.4	**(3.1)**	**–**	**18.3**
Employee benefits	(22.8)	0.3	(5.9)	(28.4)	**0.4**	**(5.4)**	**(33.4)**
Provisions	(7.1)	0.1	–	(7.0)	**1.3**	**–**	**(5.7)**
Tax value of loss carried forward recognised	(6.4)	0.9	–	(5.5)	**4.0**	**–**	**(1.5)**
Others	(2.2)	2.1	(0.1)	(0.2)	**1.0**	**0.2**	**1.0**
	6.7	2.7	(6.0)	3.4	**1.7**	**(5.2)**	**(0.1)**

Deferred income tax of £2.0 million is provided on the potential unremitted earnings of overseas subsidiary undertakings.

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

	2012 £m	2011 £m
Raw materials and consumables	**45.8**	61.1
Work in progress	**39.7**	41.5
Finished goods	**54.4**	64.0
	139.9	166.6

The Group holds consignment inventory amounting to £17.7 million (2011: £20.6 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 £5.6 million were made against inventories and recognised in operating expenses (2011: £1.8 million).

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

	2012 £m	2011 £m
Current		
Trade receivables due from associate	**12.5**	10.4
Other trade receivables	**153.0**	159.4
Loans and receivables	**165.5**	169.8
Other non-trade receivables and prepayments	**19.9**	25.5
	185.4	195.3

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

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

Reconciliation of cash and cash equivalents to net debt*

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

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

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18. Capital and reserves

Accounting policies

Share capital

Ordinary share capital

Ordinary shares are classified as equity.

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.

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.

Reserves

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations, as well as from the translation of liabilities that hedge the Company's net investment in a foreign subsidiary and forward contracts used for net investment hedging.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of available-for-sale investments until the investment is derecognised.

Special reserve

A Special Resolution to cancel the Share Premium Account was passed at the Annual General Meeting of the Company held on 11 June 1993. This cancellation was confirmed by an Order of the High Court of Justice, Chancery Division, on 14 July 1993. The amount of £88.9 million standing to the credit of the Share Premium Account on 14 July 1993 was transferred to the special reserve against which goodwill on consolidation could be written off. This reserve, together with the amounts standing to the credit of the Share Premium Account on 12 October 1990 of £71.5 million, on 19 June 1987 of £38.9 million and on 27 July 1989 of £12.3 million which were transferred following previous Orders of the High Court, becomes distributable to the extent of subsequent increases in issued share capital and share premium account.

Capital redemption reserve

The capital redemption reserve arose when the Company redeemed Preference shares wholly out of distributable profits.

Other reserves

The other reserves includes the £10.8 million increase in the year ended 3 January 2010 in the fair value of the Group's original 49% interest in Clearpower Limited from the date of its original acquisition to 5 January 2009 excluding goodwill and to the extent not previously recognised as the Group's share of the results of Clearpower Limited.

Retained earnings

The Company has acquired own shares to satisfy the requirements of the various share option incentive schemes. 201,493 shares were held by The Morgan General Employee Benefit Trust and are treated as a deduction from equity (2011: 2,044,458). Nil treasury shares were held by the Company (2011: nil). All rights conferred by those shares are suspended until they are reissued.

18. Capital and reserves continued

Dividends

The following Ordinary dividends were declared and paid by the Company:

	Per share 2012 Pence	Per share 2011 Pence	Total 2012 £m	Total 2011 £m
2010 interim	**–**	2.70	**–**	7.3
2010 final	**–**	5.00	**–**	13.6
2011 interim	**3.25**	–	**8.8**	–
2011 final	**6.00**	–	**16.6**	–
Total	**9.25**	7.70	**25.4**	20.9

The Company also declared the following Ordinary dividend:

	Per share 2012 Pence	Total 2012 £m
2012 interim	**3.60**	**10.1**
	3.60	**10.1**

This Ordinary dividend had not been paid by the Company as at 31 December 2012 and has not been provided for at the year end.

In addition to the above, the Company also declared and paid dividends on the 5.5% Cumulative First Preference shares and 5.0% Cumulative Second Preference shares.

After 31 December 2012 the following dividends were proposed by the Directors for 2012. These dividends have not been provided for and there are no income tax consequences.

	£m
6.4 pence per qualifying Ordinary share	**17.9**
5.5% Cumulative First Preference shares (see note 31)	**–**
5.0% Cumulative Second Preference shares (see note 31)	**–**
	17.9

The proposed 2012 interim and final dividends are based upon the number of shares outstanding at the balance sheet date.

Called-up share capital

	2012 £m	2011 £m
Equity share capital		
Fully paid: 279,741,415 (2011: 273,139,791) issued Ordinary shares of 25 pence each	**70.0**	68.3
	70.0	68.3
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	**70.4**	68.7

18. Capital and reserves continued

Number of shares in issue

	Ordinary shares		Preference shares	
	2012	2011	**2012**	2011
In issue at beginning of period	**273,139,791**	272,166,025	**437,281**	437,281
Scrip dividend	**3,601,624**	973,766	**–**	–
Allotment	**3,000,000**	–	**–**	–
In issue at end of period	**279,741,415**	273,139,791	**437,281**	437,281

As at the date of this report 281,166,903 Ordinary shares have been issued (2011: 274,802,078).

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:

(i) the meeting is convened to consider any resolutions for reducing the capital, or authorising any issue of debentures or debenture stock, or increasing the borrowing powers of the Board under the Articles of Association of the Company, or winding up, or sanctioning a sale of the undertaking, or altering the Articles in any manner affecting their respective interests, or any other resolutions directly altering their respective rights and privileges; or
(ii) at the date of the notice convening the general meeting the Preference dividend is upwards of one month in arrears from the payment date of any half-yearly instalment.

On a return of capital on a winding-up the assets of the Company available for distribution shall be applied:

First, in payment to the holders of the First Preference shares of the amounts paid up on such shares, together with interest at the rate of 5.5% pa.

Second, in payment to the holders of the Second Preference shares of the amounts paid up on such shares, together with interest at the rate of 5.0% pa.

Third, in repaying the capital paid up or credited as paid up on the Ordinary shares.

Fourth, any surplus shall be distributed rateably amongst the holders of the Ordinary shares in proportion to the nominal amount paid up on their respective holdings of shares in the Company.

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 borrowings

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

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.

19. Interest-bearing loans and borrowings continued

Interest-bearing loans, borrowings and overdrafts

	2012 £m	2011 £m
Non-current liabilities		
Senior Notes	**264.3**	281.7
Bank and other loans	**0.5**	5.3
Obligations under finance leases	**0.2**	0.3
	265.0	287.3
Current liabilities		
Senior Notes	**5.8**	5.9
Bank and other loans	**1.8**	5.3
Obligations under finance leases	**0.2**	0.3
	7.8	11.5

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 2012 £m	Interest 2012 £m	Principal 2012 £m	Minimum lease payments 2011 £m	Interest 2011 £m	Principal 2011 £m
Less than one year	**0.2**	**–**	**0.2**	0.3	–	0.3
Between one and five years	**0.2**	**–**	**0.2**	0.3	–	0.3
More than five years	**–**	**–**	**–**	–	–	–
	0.4	**–**	**0.4**	0.6	–	0.6

Bank and other loans include £0.9 million (2011: £0.7 million) of loans secured on the assets of the Group.

As at 31 December 2012 the Group had available headroom under the bank syndication of £150.0 million (2011: £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:

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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20. Financial risk management continued

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	
	2012 £m	2011 £m
Available-for-sale financial assets	**3.9**	4.6
Trade and other receivables	**165.5**	169.8
Cash and cash equivalents	**80.0**	83.4
	249.4	257.8

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.

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, has less influence on credit risk.

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The Group does not require collateral in respect of financial assets.

The Group serves thousands of customers. Many of these have purchased the same product for several years and in some cases decades. Others have modified and enhanced designs or adopted the same components into new products, extending the lifecycle of the components that the Group supplies. The Group's level of customer retention is very high, particularly with its major accounts, and, although the top 20 ranking will alter from year to year, many of the names remain consistent over time.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a general loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The general loss allowance is determined based on historical data of payment statistics for similar financial assets.

The ageing of trade receivables at the reporting date was:

	Gross 2012 £m	**Impairment 2012 £m**	Gross 2011 £m	Impairment 2011 £m
Not past due	**125.5**	**(0.5)**	136.3	(1.6)
Past due 0-30 days	**21.6**	**(0.4)**	21.9	(0.5)
Past due 31-60 days	**8.9**	**(0.5)**	5.4	(0.2)
Past due 61-90 days	**13.6**	**(3.9)**	6.3	(0.4)
Past due more than 90 days	**8.5**	**(7.3)**	9.3	(6.7)
	178.1	**(12.6)**	179.2	(9.4)

The only movement in the allowance for impairment in respect of trade receivables was an increase of £3.3 million (2011: £0.2 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 2012 and 1 January 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 80% 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.

20. Financial risk management continued

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.

The following are the undiscounted contracted maturities of financial liabilities, including interest payments:

2012	Effective interest rate	Year of maturity	Carrying amount £m	Contractual cash flows £m	Less than 1 year £m	1-2 years £m	2-5 years £m	More than 5 years £m
Non-derivative financial liabilities								
6.84% US Dollar Senior Notes 2013	**6.84%**	**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**

2011	Effective interest rate	Year of maturity	Carrying amount £m	Contractual cash flows £m	Less than 1 year £m	1-2 years £m	2-5 years £m	More than 5 years £m
Non-derivative financial liabilities								
6.84% US Dollar Senior Notes 2013	6.84%	2013	12.0	12.6	6.5	6.1	–	–
5.70% US Dollar Senior Notes 2014	5.70%	2014	64.3	75.4	3.7	3.7	68.0	–
3.65% Euro Senior Notes 2015	3.65%	2015	33.7	37.9	1.2	1.2	35.5	–
4.32% Euro Senior Notes 2017	4.32%	2017	16.9	20.8	0.7	0.7	2.2	17.2
6.12% US Dollar Senior Notes 2017	6.12%	2017	112.5	154.0	6.9	6.9	20.7	119.5
6.26% US Dollar Senior Notes 2019	6.26%	2019	48.2	72.4	3.0	3.0	9.1	57.3
Bank and other loans	1.70%-8.00%	up to 2012	10.6	10.6	5.3	5.3	–	–
Obligations under finance leases	6.00%	up to 2014	0.6	0.6	0.3	0.1	0.2	–
Trade and other payables			121.3	121.3	116.0	5.3	–	–
Derivative financial liabilities								
Forward exchange contracts as cash flow hedges			0.8	0.8	0.8	–	–	–
Forward exchange contracts as fair value hedges			0.4	0.4	0.4	–	–	–
			421.3	506.8	144.8	32.3	135.7	194.0

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	**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**	**–**	**–**	**–**
Forward exchange contracts – Assets	1.1	54.9	44.7	10.2	–	–
Forward exchange contracts – Liabilities	(0.8)	(54.2)	(44.3)	(9.9)	–	–
Total 2011	0.3	0.7	0.4	0.3	–	–

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The Group buys and sells derivatives in the ordinary course of business for hedging purposes, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out in accordance with the Treasury Policy, which has been approved by the Audit Committee. Generally the Group seeks to apply hedge accounting in order to manage volatility in profit or loss.

Interest rate risk

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	Fixed rate instruments carrying amounts	
	2012 £m	2011 £m
Fixed rate instruments		
Financial assets	**–**	11.6
Financial liabilities	**(271.1)**	(292.7)
	(271.1)	(281.1)

	Variable rate instruments carrying amounts	
	2012 £m	2011 £m
Variable rate instruments		
Financial assets	**80.0**	83.4
Financial liabilities	**(2.7)**	(19.1)
	77.3	64.3

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 £270.1 million (2011: £287.6 million) of US Private Placement Debt. The average cost of the Group's fixed rate debt is 5.7% (2011: 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 £0.8 million (2011: £0.7 million). A decrease of 100 basis points would have decreased profit by £0.4 million (2011: £0.5 million). This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

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.

20. Financial risk management continued

Functional currency of Group operations

	2012 GBP £m	2012 USD £m	2012 € £m	2011 GBP £m	2011 USD £m	2011 € £m
Trade receivables	**2.5**	**9.9**	**13.4**	6.4	0.1	1.9
Cash and cash equivalents	**0.6**	**9.6**	**3.4**	5.3	0.2	1.6
Trade payables	**(4.6)**	**(6.5)**	**(4.1)**	(15.6)	(0.2)	(1.1)
Net balance sheet exposure	**(1.5)**	**13.0**	**12.7**	(3.9)	0.1	2.4

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. Most of the forward exchange contracts have maturities of less than one year after the balance sheet date.

In respect of other monetary assets and liabilities held in currencies other than the currency of the reporting unit, the Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

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 2012 was an asset of £1.0 million (2011: asset of £0.3 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:

	2012 £m	2011 £m
GBP	**4.6**	(8.9)
USD	**205.6**	221.0
€	**49.8**	70.6
Japanese Yen	**10.0**	11.8
Other	**2.8**	0.6
	272.8	295.1

The Group's sensitivity to changes in foreign exchange rates on financial assets and liabilities as at 31 December 2012 is as follows:

At 31 December 2012, if GBP had weakened/strengthened by 10% against USD with all other variables held constant, post-tax profit for the year would have been £1.3 million (2011: £1.3 million) higher/lower. Equity would have been £18.8 million (2011: £25.1 million) higher/lower.

At 31 December 2012, if GBP had weakened/strengthened by 10% against € with all other variables held constant, post-tax profit for the year would have been £0.2 million (2011: £0.3 million) higher/lower. Equity would have been £8.5 million (2011: £4.7 million) higher/lower.

The amounts generated from the sensitivity analysis are forward-looking estimates of market risk assuming certain adverse market conditions occur. Actual results in the future may differ materially from those projected results due to developments. The 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.

The impact of a one-cent movement in the USD exchange rate on results that are reported in USD would be a movement of circa £2.1 million in revenue and £0.2 million in profit.

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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 Company may also acquire its own shares under a share buy-back programme.

The Board seeks to maintain a balance between the advantages and security afforded by a sound capital position, and the higher returns that might be possible with higher levels of borrowings.

The Group monitors capital using the following indicators:

Debt to adjusted capital

	2012 £m	2011 £m
Total interest-bearing loans and borrowings	**272.8**	295.1
Less: cash and cash equivalents and overdrafts	**(80.0)**	(79.7)
Net debt*	**192.8**	215.4
Total equity	**271.8**	270.2
Less: amounts accumulated in equity relating to cash flow hedges	**(0.7)**	(0.4)
Adjusted capital	**271.1**	269.8
Debt to adjusted capital ratio	**0.7**	0.8

Net debt* to EBITDA

	2012 £m	2011 £m
Net debt* to EBITDA	**192.8**	215.4
Operating profit before restructuring and other one-off items	**113.7**	135.1
Depreciation and amortisation	**38.3**	39.4
EBITDA	**152.0**	174.5
Net debt* to EBITDA ratio	**1.3x**	1.2x

Interest cover

	2012 £m	2011 £m
EBITDA	**152.0**	174.5
Net finance costs (excluding IAS 19 pension and discount on deferred consideration)	**16.9**	20.4
Interest cover	**9.0x**	8.6x

* 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 2012 £m	**Fair value 2012 £m**	Carrying amount 2011 £m	Fair value 2011 £m
Financial assets and liabilities at amortised cost				
6.84% US Dollar Senior Notes 2013	**(5.8)**	**(5.8)**	(12.0)	(12.1)
5.70% US Dollar Senior Notes 2014	**(61.6)**	**(65.5)**	(64.3)	(70.3)
3.65% Euro Senior Notes 2015	**(32.7)**	**(34.1)**	(33.7)	(35.1)
4.32% Euro Senior Notes 2017	**(16.4)**	**(17.8)**	(16.9)	(18.0)
6.12% US Dollar Senior Notes 2017	**(107.5)**	**(124.1)**	(112.5)	(130.5)
6.26% US Dollar Senior Notes 2019	**(46.1)**	**(54.7)**	(48.2)	(55.7)
Bank and other loans	**(2.3)**	**(2.3)**	(10.6)	(10.6)
Obligations under finance leases	**(0.4)**	**(0.4)**	(0.6)	(0.6)
Trade and other payables	**(95.0)**	**(95.0)**	(121.3)	(121.3)
Loans and receivables	**165.5**	**165.5**	169.8	169.8
Cash and cash equivalents	**80.0**	**80.0**	83.4	83.4
	(122.3)	**(154.2)**	(166.9)	(201.0)
Available-for-sale financial instruments				
Available-for-sale financial assets	**3.9**	**3.9**	4.6	4.6
Derivatives and other items at fair value				
Forward exchange contracts used for hedging	**1.1**	**1.1**	0.4	0.4
	(117.3)	**(149.2)**	(161.9)	(196.0)

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the preceding table.

Equity securities

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

Derivatives

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

Interest-bearing loans and borrowings

Fair value is calculated based on discounted expected future principal and interest cash flows. The interest rates used to determine the fair value of loans and borrowings are 2.0-5.2% (2011: 2.4-5.2%) and finance leases 6.0% (2011: 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.

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 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)**
	3.9	**1.1**	**5.0**

	1 January 2012		
	Level 1 £m	Level 2 £m	Total £m
Available-for-sale financial assets	4.6	–	4.6
Derivative financial assets	–	1.6	1.6
	4.6	1.6	6.2
Derivative financial liabilities	–	(1.2)	(1.2)
	4.6	0.4	5.0

There have been no transfers between level 1 and level 2 during 2012 and 2011 and there were no level 3 financial instruments in either 2012 and 2011.

21. Employee benefits

Accounting policies

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

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

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

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

21. Employee benefits continued

Employee benefits

Morgan Crucible operates a number of defined benefit arrangements as well as defined contribution plans. The defined benefit plans are primarily in the UK, USA and Europe and predominantly provide pensions based on service and career-average pay. In addition post-retirement medical plans are operated in the USA.

	2012 UK £m	2012 USA £m	2012 Europe £m	2012 Rest of the World £m	2012 Total £m
Pension plans and employee benefits					
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
Deficit	(71.3)	(62.7)	(29.1)	(3.7)	(166.8)
Unrecognised past service costs	–	–	0.2	–	0.2
Net obligations	(71.3)	(62.7)	(28.9)	(3.7)	(166.6)
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	(18.2)	(7.2)	(1.0)	(0.3)	(26.7)
Actuarial losses	(43.2)	(17.5)	(5.0)	(1.4)	(67.1)
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)
Movements in fair value of plan assets					
At 2 January 2012	330.7	89.3	0.6	11.5	432.1
Expected return on plan assets	18.9	5.3	–	0.5	24.7
Actuarial 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)
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	31.9	10.5	–	1.5	43.9

	2012 UK £m	2012 USA £m	2012 Europe £m	2012 Rest of the World £m	2012 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)
Interest on defined benefit pension plan obligation	(18.2)	(7.2)	(1.0)	(0.3)	(26.7)
Expected return on defined benefit pension plan assets	18.9	5.3	–	0.5	24.7
Curtailments and settlements	–	–	–	(0.2)	(0.2)
Total expense	(1.5)	(2.3)	(1.3)	(1.5)	(6.6)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
continued

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:

	2012 £m	2011 £m
Operating costs	**(4.6)**	(4.8)
Finance income	**24.7**	26.4
Finance expense	**(26.7)**	(27.3)
Restructuring and other one-off items	**–**	3.0
	(6.6)	(2.7)

In the UK, during 2011 there was a change in the future increases to be provided to active members of the two Schemes before retirement from being linked to the Retail Prices Index (RPI) to the Consumer Prices Index (CPI). This resulted in a past service credit of £3.2 million in 2011. In the USA benefit accrual continues to be frozen in the Morgan US Employees Pension Plan.

The Group has adopted the policy of recognising actuarial gains and losses immediately in the balance sheet through OCI. Cumulative actuarial gains/losses reported in OCI since 5 January 2004, the date of transition to Adopted IFRSs, are £195.2 million.

Statement of financial position reconciliation

	2012 £m	2011 £m
At 2 January 2012	**(135.1)**	(103.9)
Pension expense	**(6.6)**	(2.7)
Contributions	**19.2**	17.0
Other comprehensive income	**(47.9)**	(45.5)
Currency adjustments	**3.8**	–
At 31 December 2012	**(166.6)**	(135.1)

The Group expects to contribute £18.0 million to these arrangements in 2012.

The fair values of the plan assets were as follows:

	2012 UK £m	2012 USA £m	2012 Europe £m	2012 Rest of the World £m	2012 Total £m
Equities	**133.9**	**46.7**	**–**	**–**	**180.6**
Bonds	**35.7**	**49.2**	**–**	**–**	**84.9**
Matching insurance policies	**184.6**	**–**	**0.4**	**2.8**	**187.8**
Other	**1.5**	**–**	**0.1**	**9.0**	**10.6**
Total	**355.7**	**95.9**	**0.5**	**11.8**	**463.9**

	UK £m	USA £m	Europe £m	Rest of the World £m	Total £m
Estimate of employer contributions to be paid into the plans during the 12-month period beginning 1 January 2013	**8.1**	**6.0**	**1.1**	**2.8**	**18.0**

21. Employee benefits continued

Principal actuarial assumptions were:

	2012 UK %	2012 USA %	2012 Europe %
Discount rate	**4.40**	**4.20**	**3.00**
Salary increase	**n/a**	**2.70**	**2.50**
Inflation (UK: RPI & CPI)	**2.90/1.90**	**2.20**	**2.00**
Pensions increase	**2.90/3.10/3.60**	**n/a**	**2.00**
Mortality – post-retirement:			
Life expectancy of a male retiring at age 60 in 2012	**26.3 years**	**23.4 years**	**23.2 years**
Life expectancy of a male retiring at age 60 in 2032	**27.4 years**	**24.2 years**	**26 years**

Expected rates of return on plan assets are determined by reference to relevant indices. The overall expected rate of return is calculated by weighting the individual rates in accordance with the anticipated balance in the plan's investment portfolio.

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Balance sheet					
Present value of defined benefit obligation	**(630.7)**	(567.4)	(521.8)	(489.1)	(446.3)
Fair value of plan assets	**463.9**	432.1	417.7	383.0	344.5
Deficit	**(166.8)**	(135.3)	(104.1)	(106.1)	(101.8)
Unrecognised past service costs	**0.2**	0.2	0.2	0.2	–
Net obligations	**(166.6)**	(135.1)	(103.9)	(105.9)	(101.8)

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Experience (losses)/gains					
Experience (losses)/gains on defined benefit obligation	**(9.5)**	(14.2)	0.8	(2.2)	1.7
Experience gains/(losses) on plan assets	**19.2**	(5.5)	15.0	34.3	(104.7)

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are:

	Change in assumption	2012 Increase effect £m	2011 Increase effect £m
Discount rate	Decrease by 0.1%	**7.7**	6.1
Rate of increase in salaries	Increase by 0.1%	**–**	–
Inflation	Increase by 0.1%	**3.4**	3.7
Mortality – post-retirement	Pensioners live 1 year longer	**12.5**	11.2

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.

21. Employee benefits continued

	2011 UK £m	2011 USA £m	2011 Europe £m	2011 Rest of the World £m	2011 Total £m
Present value of unfunded defined benefit obligations	–	(8.9)	(23.7)	(2.7)	(35.3)
Present value of funded defined benefit obligations	(378.1)	(138.9)	(1.5)	(13.6)	(532.1)
Fair value of plan assets	330.7	89.3	0.6	11.5	432.1
Deficit	(47.4)	(58.5)	(24.6)	(4.8)	(135.3)
Unrecognised past service costs	–	–	0.2	–	0.2
Net obligations	(47.4)	(58.5)	(24.4)	(4.8)	(135.1)
Movements in present value of defined benefit obligation					
At 2 January 2011	(347.2)	(135.7)	(23.4)	(15.5)	(521.8)
Current service cost	(2.5)	(0.1)	(0.5)	(1.7)	(4.8)
Interest cost	(18.7)	(7.0)	(1.1)	(0.5)	(27.3)
Actuarial losses	(26.2)	(10.8)	(2.5)	(0.5)	(40.0)
Benefits paid	14.7	7.2	1.5	2.0	25.4
Contributions by members	(1.4)	–	–	–	(1.4)
Past service credits	3.2	–	–	–	3.2
Curtailments and settlements	–	–	–	(0.2)	(0.2)
Exchange adjustments	–	(1.4)	0.8	0.1	(0.5)
At 1 January 2012	(378.1)	(147.8)	(25.2)	(16.3)	(567.4)
Movements in fair value of plan assets					
At 2 January 2011	320.6	85.4	0.5	11.2	417.7
Expected return on plan assets	20.0	5.8	–	0.6	26.4
Actuarial gains	(3.5)	(1.8)	0.1	(0.3)	(5.5)
Contributions by employer	6.9	6.4	1.5	2.2	17.0
Contributions by members	1.4	–	–	–	1.4
Benefits paid	(14.7)	(7.2)	(1.5)	(2.0)	(25.4)
Exchange adjustments	–	0.7	–	(0.2)	0.5
At 1 January 2012	330.7	89.3	0.6	11.5	432.1
Actual return on assets	16.5	4.0	0.1	0.3	20.9

	2011 UK £m	2011 USA £m	2011 Europe £m	2011 Rest of the World £m	2011 Total £m
Expense recognised in the consolidated income statement					
Current service cost and past service cost	0.7	(0.1)	(0.5)	(1.7)	(1.6)
Interest on defined benefit pension plan obligation	(18.7)	(7.0)	(1.1)	(0.5)	(27.3)
Expected return on defined benefit pension plan assets	20.0	5.8	–	0.6	26.4
Curtailments and settlements	–	–	–	(0.2)	(0.2)
Total expense	2.0	(1.3)	(1.6)	(1.8)	(2.7)

21. Employee benefits continued

The fair values of the plan assets were as follows:

	2011 UK £m	2011 USA £m	2011 Europe £m	2011 Rest of the World £m	2011 Total £m
Equities	125.9	44.9	–	–	170.8
Bonds	27.0	44.4	–	–	71.4
Matching insurance policies	176.4	–	0.5	2.2	179.1
Other	1.4	–	0.1	9.3	10.8
Total	330.7	89.3	0.6	11.5	432.1

Principal actuarial assumptions were:

	2011 UK %	2011 USA %	2011 Europe %
Discount rate	4.90	5.00	4.30
Expected rate of return on plan assets – Equities	7.50	7.40	n/a
– Bonds	4.60	4.60	n/a
– Matching insurance	4.90	n/a	4.30
Salary increase	n/a	2.70	2.50
Inflation (RPI & CPI)	3.00/1.80	2.20	2.00
Pensions increase	2.90/3.20	n/a	2.00
Mortality – post-retirement:			
Life expectancy of a male retiring at age 60 in 2011	25.9 years	23.3 years	23 years
Life expectancy of a male retiring at age 60 in 2031	27.2 years	24.1 years	25.9 years

Defined contribution plans

The Group operates a number of defined contribution pension plans. The total expense relating to these plans in the current year was £7.0 million (2011: £7.0 million). The Group expects to contribute £7.9 million to these arrangements in 2013.

Share-based payments

The Group operates various share option programmes that allow Group employees to acquire shares in the Company. Under The Morgan Crucible Company plc Long-term Incentive Plan ('LTIP') and The Morgan Crucible 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 an all-employee sharesave scheme available to employees in the UK ('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 services received are in return for awards made and share options granted. The estimate of the fair value of the services received is measured based on an appropriate model. In the case of the Monte Carlo model the contractual life of the options and awards are used as an input. Expectations of an early exercise is built into the model.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
continued

21. Employee benefits continued

The terms and conditions of all awards and grants made that were outstanding on or after 3 January 2011:

Grant date/Employees entitled	Number of instruments granted	Vesting conditions	Contractual life of option
Awards granted to senior employees in 2012 under the BDSMP	1,740,554	Three years of service plus satisfaction of performance criteria	3 years
Options granted to UK employees in 2012 under the Employee Sharesave Scheme 2004	1,071,868	Three years of service	3 years
Awards granted to senior employees in 2012 under the LTIP	1,251,358	Three years of service plus satisfaction of performance criteria	3 years
Awards granted to senior employees in 2011 under the BDSMP	1,484,633	Three years of service plus satisfaction of performance criteria	3 years
Options granted to UK employees in 2011 under the Employee Sharesave Scheme 2004	471,732	Three years of service	3 years
Awards granted to senior employees in 2011 under the LTIP	1,500,775	Three years of service plus satisfaction of performance criteria	3 years
Awards granted to senior employees in 2010 under the BDSMP	827,311	Three years of service plus satisfaction of performance criteria	3 years
Options granted to UK employees in 2010 under the Employee Sharesave Scheme 2004	484,069	Three years of service	3 years
Awards granted to senior employees in 2010 under the LTIP	2,331,758	Three years of service plus satisfaction of performance criteria	3 years
Awards granted to senior employees in 2009 under the BDSMP	3,426,473	Three years of service plus satisfaction of performance criteria	3 years
Options granted to UK employees in 2009 under the Employee Sharesave Scheme 2004	1,937,568	Three years of service	3 years
Awards granted to senior employees in 2009 under the LTIP	5,085,721	Three years of service plus satisfaction of performance criteria	3 years
Options granted to senior employees in 2005 under the ESOS 2004	2,097,000	Three years of service plus satisfaction of performance criteria	10 years
Options granted to senior employees in 2004 under the ESOS 2004	3,157,500	Three years of service plus satisfaction of performance criteria	10 years

The following options were outstanding at 31 December 2012 in respect of Ordinary shares:

	Exercise price(s)	Number of shares outstanding	Normal exercise dates ranging from	to
Employee Sharesave Scheme 2004	128.00p-213.00p	2,031,606	1 December 2012	31 May 2016
ESOS 2004	129.05p-171.90p	683,299	22 June 2007	23 May 2015
BDSMP	0.00p-330.50p	3,978,379	18 March 2013	21 September 2015
LTIP	0.00p	4,693,762	6 May 2013	24 September 2015

21. Employee benefits continued

Performance criteria for LTIP, BDSMP and ESOS 2004

The Key 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 12 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 IAS39 *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.

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 Return on Capital Employed ('Group ROCE') – Group underlying operating profit divided by the sum of Group working capital and the net book value of tangible assets.

Divisional Return on Capital Employed ('Divisional ROCE') – Divisional EBITA divided by the sum of Divisional working capital and the net book value of tangible assets.

Group average ROCE – the average of the Group ROCE at the end of each of the three financial years in the LTIP period.

Divisional EBITA for the LTIP & BDSMP calculations – Divisional revenue for the relevant financial years less operating costs (including restructuring costs and other one-off items), 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 – the average of the Divisional ROCE at the end of each of the three financial years in the LTIP period.

For the TSR elements of the plans, for performance between median and upper quartile, awards are made on a straight-line, pro-rate basis. Similarly for EPS, Group average EBITA, Group average ROCE, Divisional average EBITA and Divisional average ROCE metrics, for performance between the identified trigger points, awards are made on a straight-line, pro-rata basis.

Performance criteria for LTIP

The performance criteria 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 the Company's and/or Division's underlying financial performance. Awards will only vest therefore if the Remuneration Committee is satisfied that the Company's and/or Division's underlying financial performance over the performance period justifies vesting.

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21. Employee benefits continued

2008 LTIP Awards

For LTIP awards granted to the executive Directors in 2008, 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 5 January 2008 to 2 January 2011. The extent to which the other 50% of these awards vested depended on the growth in the Company's EPS over and above the Retail Price Index ('RPI') between the 2007 base financial year and the 2010 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

For LTIP awards granted to all other participants in 2008, the extent to which 33.33% of the awards vested depended on the Company's TSR ranking against an appropriate comparator group over the period from 5 January 2008 to 2 January 2011. The extent to which the other 66.67% of these awards vested depended on the growth in the Company's EPS compared with RPI between the 2007 base financial year and the 2010 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	33.33%	RPI+10% pa	66.67%
Median	15%	RPI+4% pa	15%
Below median	Nil	RPI+< 4% pa	Nil

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 vest depends 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 vest depends 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 grated 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 Group 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 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 target under both measures. Once the Divisional performance targets exceed the threshold, the two elements are then measured independently.

For the LTIP award granted to the CEO Morgan Ceramics in 2011, TSR ranking (as for CEO, CFO and Group 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 Morgan Ceramics executives 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 CEO Morgan Engineered Materials in 2011, TSR ranking (as for CEO, GFO and Group 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 Morgan Engineered Materials executives 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

21. Employee benefits continued

2012 LTIP Awards

For LTIP awards granted to the CEO, CFO and Group employees in 2012, the extent to which 33% of the awards vested depended 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 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%	10% pa	10%	33%	10%
Below median	Nil	< 10% pa	Nil	< 33%	Nil

As in 2011, to support the two-Divisional structure, the 2012 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 target under both measures. Once the Divisional performance targets exceed the threshold, the two elements are then measured independently.

For LTIP awards granted to the Divisional CEOs in 2012, a third of the award is linked to the Company's TSR ranking and two thirds is based on the relevant Divisional performance, between the 2011 base financial year and the 2014 financial year:

CEO Morgan Ceramics

TSR element		Divisional element			
TSR against FTSE All-Share Industrials Index	**% of award that vests**	**Divisional EBITA**	**% of award that vests**	**Divisional average ROCE**	**% of award that vests**
Upper quartile	33.33%	15% pa	33.33%	43.5%	33.33%
Median	10%	6% pa	10%	41%	10%
Below median	Nil	< 6% pa	Nil	< 41%	Nil

CEO Morgan Engineered Materials

TSR element		Divisional element			
TSR against FTSE All-Share Industrials Index	**% of award that vests**	**Divisonal EBITA**	**% of award that vests**	**Divisional average ROCE**	**% of award that vests**
Upper quartile	33.33%	15% pa	33.33%	37.1%	33.33%
Median	10%	5% pa	10%	34.7%	10%
Below median	Nil	< 5% pa	Nil	< 34.7%	Nil

For LTIP awards granted to Morgan Ceramics executives in 2012, 100% of awards are based on Morgan Ceramics Divisional performance, between the 2011 base financial year and the 2014 financial year:

Divisional EBITA growth	% 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 Morgan Engineered Materials executives in 2012, 100% of awards are based on Morgan Engineered Materials Divisional performance, between the 2011 base financial year and the 2014 financial year:

Divisional EBITA growth	% of award that vests	Divisional average ROCE	% of award that vests
15% pa	50%	37.1%	50%
5% pa	15%	34.7%	15%
< 5% pa	Nil	< 34.7%	Nil

21. Employee benefits continued

Performance criteria 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 targets have been met. The performance criteria for the BDSMP are set annually.

Under the 2008 grant participants were given the opportunity to defer up to 50% of their bonus under the BDSMP. Under the 2010 grant participants were given the opportunity to defer up to 75% of their bonus under the BDSMP. Under the 2008 and 2010 grants, the performance conditions were based on EPS growth targets relative to the 2007 and 2009 base year EPS respectively:

EPS performance	Vesting of Matching Shares (as multiple of 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 2009 grant participants were given the opportunity to defer up to 50% of their bonus under the BDSMP and the performance conditions were based on EPS growth targets relative to the 2008 base year:

EPS performance	Vesting of Matching Shares (as multiple of 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 2011 grant participants were given the opportunity to defer up to 50% of their bonus under the BDSMP and the performance conditions were based on EPS growth targets relative to the 2010 base year:

EPS performance	Vesting of Matching Shares (as multiple of shares under the Deferred Award)
20% pa	3x match
16% pa	2x match
12% pa	1x match
8% pa	Nil
< 8% pa	Nil

Under the 2012 and 2013 grants participants were given the opportunity to defer up to 50% of their bonus under the BDSMP. In 2012 and 2013 the performance conditions were based on EPS growth targets relative to the 2011 and 2012 base years respectively:

EPS performance	Vesting of Matching Shares (as multiple of shares under the Deferred Award)
20% pa	3x match
16% pa	2x match
12% pa	1x match
8% pa	Nil
< 8% pa	Nil

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
continued

21. Employee benefits continued
Awards made in 2012

	LTIP 2004	BDSMP	Employee Sharesave Scheme 2004
Fair value at measurement date	260.49p-333.11p	330.50p	98.17p
Share price	360.00p	330.50p	281.00p
Exercise price	n/a	n/a	214.00p
Expected volatility (expressed as weighted average volatility used in the model)	45%	n/a	45%
Option life (expressed as weighted average life used in the model)	3 years	3 years	3 years
Expected dividends	2.6%	n/a	2.5%
Risk-free interest rate	0.5%	n/a	0.4%

ESOS 2004
There were no awards during 2012 (2011: nil).

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 2012	Number of options 31 December 2012	Weighted average exercise price 1 January 2012	Number of options 1 January 2012
Outstanding at the beginning of the period	40.61p	17,999,603	37.86p	20,795,850
Granted during the period	89.90p	4,045,797	59.88p	3,457,140
Forfeited during the period	51.30p	(519,561)	114.49p	(364,934)
Exercised during the period	34.59p	(9,009,111)	172.06p	(1,265,605)
Lapsed during the period	2.30p	(1,129,682)	0.82p	(4,622,848)
Outstanding at the end of the period	66.20p	11,387,046	40.61p	17,999,603
Exercisable at the end of the period	136.40p	889,085	154.42p	1,123,641

The weighted average share price at the date of share options exercised during the period was 319.85 pence (2011: 283.42 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 266.28 pence (2011: 124.55 pence).

The IFRS 2 fair value charge expensed to the income statement was £1.9 million (2011: £5.9 million).

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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 settled the present obligation is the amount that an entity would rationally pay to settle the obligation at the end of the reporting period or to transfer it to a third party at that time. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(i) Restructuring

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

(ii) Onerous contracts

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

(iii) Environmental

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

Provisions

	Closure and restructuring provisions £m	Other provisions £m	Environmental provisions £m	Total £m
Balance at 1 January 2012	**5.8**	**7.1**	**6.1**	**19.0**
Provisions made during the year	**6.1**	**1.6**	**0.1**	**7.8**
Provisions used during the year	**(3.5)**	**(0.5)**	**(0.9)**	**(4.9)**
Provisions reversed during the year	**–**	**(0.4)**	**(0.2)**	**(0.6)**
Effect of movements in foreign exchange	**–**	**(0.2)**	**(0.1)**	**(0.3)**
Balance at 31 December 2012	**8.4**	**7.6**	**5.0**	**21.0**
Current	**5.7**	**5.1**	**3.3**	**14.1**
Non-current	**2.7**	**2.5**	**1.7**	**6.9**
	8.4	**7.6**	**5.0**	**21.0**

Closure and restructuring provisions are based on the Group's restructuring programmes and represent committed expenditure at the balance sheet date. The amounts provided are based on the costs of terminating relevant contracts, under the contract terms, and management's best estimate of other associated restructuring costs including professional fees, most of which are expected to be incurred over the next year. The amounts provided also include the obligation for discounted future payments under a non-cancellable lease for the Company's former headquarters, net of expected rental income under sub-leases. The lease expires in 2016.

Other provisions include the settlement of European class actions, together with the associated legal costs. The estimated costs are based on the Group's assessment of the probable future costs of these activities. The Group expects to incur most of the liability in more than one year.

Environmental provisions are for known environmental issues which the Group will rectify over the next few years. In a number of jurisdictions companies have a constructive obligation to remedy any known environmental problems. The estimated costs are based on management's best estimate of the costs required to remedy these problems. The Group expects to incur most of the liability over the next five years.

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

	2012 £m	2011 £m
Non-current		
Trade and non-trade payables	**4.8**	10.5
Current		
Trade payables due to associate	**1.0**	–
Other trade payables	**93.7**	109.8
Non-trade payables and accrued expenses	**89.3**	141.5
	184.0	251.3

Included in current non-trade payables and accrued expenses is £0.3 million (2011: £6.2 million) of deferred contingent consideration following the purchase of 51% of the Ordinary share capital of Clearpower Limited. In the year ended 1 January 2012 £5.1 million was included in non-current non-trade payables in respective of deferred contingent consideration on 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:

	2012 £m	2011 £m
Less than one year	**8.5**	6.6
Between one and five years	**17.3**	20.4
More than five years	**26.2**	34.9
	52.0	61.9

The Group leases a number of properties under operating leases of varying duration. In some cases, during the life of the lease, the rental payable is reviewed after a fixed period to reflect market rentals.

Leases as lessor

The total of future minimum sub-lease income under non-cancellable sub-leases is £2.5 million (2011: £2.8 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 £2.4 million (2011: £2.4 million) for the Group.

26. Contingencies

Subsidiary undertakings within the Group have given unsecured guarantees of £8.9 million (2011: £9.5 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 £1.2 million (2011: £1.4 million). In some cases it will not be possible to form a view, either because the facts are unclear or because further time is needed to properly assess the merits of the case and no provisions are held against such cases. The Board, having taken legal advice, is of the opinion that the remainder of these actions will not have a material impact on the Group's financial position.

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:

	2012 £m	2011 £m
Short-term employee benefits	**1.7**	3.2
Employer National Insurance Contributions	**0.3**	0.5
Pension and other post-employment costs	**0.4**	0.3
Share-based payments	**0.4**	1.0
Termination payments	**–**	0.2
Non-executive Directors' fees and benefits	**0.4**	0.3
Total compensation of key management personnel	**3.2**	5.5

Information on executive Directors' remuneration is given in the Remuneration Report on pages 50 to 66.

Other related party transactions

	2012 £m	2011 £m
Sales to associate	**19.8**	28.3

The balances with the Group's associate are shown in note 16 and note 23.

28. Subsequent events

There have been no material events since the year end.

COMPANY BALANCE SHEET
as at 31 December 2012

	Note	2012 £m	2011 £m
Fixed assets			
Tangible fixed assets	32	**2.1**	3.1
Investment in subsidiary undertakings	33	**833.9**	692.5
		836.0	695.6
Current assets			
Debtors – due within one year	34	**47.3**	36.7
Cash at bank and in hand		**16.5**	24.6
		63.8	61.3
Creditors – amounts falling due within one year	35	**90.9**	82.1
Net current liabilities		**(27.1)**	(20.8)
Total assets less current liabilities		**808.9**	674.8
Creditors – amounts falling due after more than one year			
Amounts payable to subsidiary undertakings		**172.1**	111.5
Other creditors, including deferred consideration	35	**–**	5.1
Borrowings	36	**48.1**	49.3
		220.2	165.9
Provisions for liabilities and charges	37	**3.8**	3.8
		224.0	169.7
Net assets		**584.9**	505.1
Capital and reserves			
Equity shareholders' funds			
Called-up share capital	18	**70.0**	68.3
Share premium account	38	**99.0**	90.6
Merger reserve	38	**17.0**	17.0
Capital redemption reserve	38	**35.7**	35.7
Profit and loss account	38	**362.8**	293.1
		584.5	504.7
Non-equity shareholders' funds			
Called-up share capital	18	**0.4**	0.4
Shareholders' funds		**584.9**	505.1

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

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

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 fixed assets and depreciation
Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Plant, equipment and fixtures – 3-20 years

Investments
Investments in subsidiary undertakings, associates and joint ventures are stated at cost less amounts written off unless they are designated as a hedged item in a fair value hedge of foreign currency risk under FRS 26 *Financial Instruments: Recognition and Measurement*. In this case they are accounted for at historical cost plus a hedging adjustment recognised in profit or loss for the changes in their fair value attributable to the foreign currency exposure from the date the hedge is designated.

Interest-bearing borrowings
Immediately after issue debt is stated at the fair value of the consideration received on the issue of the capital instrument after deduction of issue costs. The finance cost of the debt is allocated to periods over the term of the debt at a constant rate on the carrying amount.

Foreign currency
Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward contract. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Leases
Rentals payable under operating leases are charged in the profit and loss account on a straight-line basis over the lease term.

Post-retirement benefits
The Company participates in a Group-wide pension scheme providing benefits based on career-average pensionable pay. The assets of the scheme are held separately from those of the Company. The Company is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 *Retirement Benefits*, accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period. Refer to note 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:

a) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and
b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

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

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholders' funds (see dividend policy) are dealt with as appropriations in the reconciliation of movements in shareholders' funds.

Hedging instruments and hedged items are accounted for separately in the balance sheet. In fair value hedges, gains and losses from remeasuring the hedging instrument at fair value (for a derivative instrument) or the foreign currency component (for a non-derivative financial liability in a foreign currency hedge) are included in profit for the year when they arise. In cash flow hedges, gains and losses from remeasuring the hedging derivative instrument at fair value are initially recognised in other comprehensive income to the extent effective, and are later reclassified to profit or loss when the hedged transaction occurs or is no longer expected to occur.

Certain financial assets and liabilities have been designated as fair value through profit or loss and are recognised in the balance sheet at fair value.

Own shares held by The Morgan General Employee Benefit Trust

Transactions of the Group-sponsored Morgan General Employee Benefit Trust are treated as being those of the Company and are therefore reflected in the Company's financial statements. In particular, the Trust's purchases and sales of shares in the Company are debited and credited to equity.

Share-based payments

The share option programme allows employees to acquire shares of the Company. The fair value of options granted after 7 November 2002 and those not yet vested as at 4 January 2005 is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employee becomes 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 2012	2011
Directors and head office staff	**28**	28
Divisional staff	**18**	15
	46	43

The majority of the Directors and head office staff devote a proportion of their time to Divisional duties. Of the 28 Directors and head office staff, the average number who spent all or a proportion of their time on corporate duties was 10 (2011: 10) as shown in note 5.

The aggregate payroll costs of these persons were as follows:

	2012 £m	2011 £m
Wages and salaries	**5.5**	8.3
Equity-settled share-based payments (see note 21)	**1.9**	5.6
Social security costs	**2.8**	0.9
Other pension costs	**0.3**	0.7
	10.5	15.5

31. Dividends

Dividends payable for the First and Second Preference shares were £22,491 (2011: £22,491) of which £11,245 (2011: £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 68.

32. Tangible fixed assets

	Plant, equipment and fixtures £m
Cost	
At 2 January 2012	**4.7**
Additions	**0.3**
Disposals	**–**
At 31 December 2012	**5.0**
Accumulated depreciation	
At 2 January 2012	**1.6**
Amount provided for in the year	**1.3**
Disposals	**–**
At 31 December 2012	**2.9**
Net book amounts at 31 December 2012	**2.1**
Net book amounts at 1 January 2012	**3.1**

NOTES TO THE COMPANY BALANCE SHEET
continued

33. Investment in subsidiary undertakings

	Shares £m	Loans £m	Total £m
Cost			
At 2 January 2012	**617.4**	**129.2**	**746.6**
Additions	**–**	**170.2**	**170.2**
Fair value hedge of investments' exposure to foreign currency risk	**(1.5)**	**–**	**(1.5)**
Less: disposals/loan repayments/liquidations	**(18.3)**	**(7.6)**	**(25.9)**
At 31 December 2012	**597.6**	**291.8**	**889.4**
Amounts provided			
At 2 January 2012	**50.4**	**3.7**	**54.1**
Provided in the year	**1.4**	**–**	**1.4**
At 31 December 2012	**51.8**	**3.7**	**55.5**
Net book amounts at 31 December 2012	**545.8**	**288.1**	**833.9**
Net book amounts at 1 January 2012	**567.0**	**125.5**	**692.5**

A list of principal subsidiary undertakings is shown in note 43.

34. Debtors

	2012 £m	2011 £m
Due within one year:		
Other debtors	**8.9**	3.1
Derivative financial assets	**0.6**	2.3
Prepayments and accrued income	**0.2**	0.3
Amounts receivable from subsidiary undertakings	**37.6**	31.0
	47.3	36.7

35. Creditors

	2012 £m	2011 £m
Due within one year:		
Bank overdrafts	**58.8**	51.9
Trade creditors	**2.2**	1.9
Amounts payable to subsidiary undertakings	**21.0**	8.0
Other creditors, including deferred consideration	**2.8**	9.9
Accruals and deferred income	**5.7**	8.1
Derivative financial liabilities	**0.4**	2.3
	90.9	82.1
Due after one year:		
Other creditors, including deferred consideration	**–**	5.1
	–	5.1

36. Borrowings

	2012 £m	2011 £m
Bank and other loans	**48.1**	49.3
Bank overdrafts	**58.8**	51.9
	106.9	101.2
Less: amount repayable within one year included within current liabilities	**(58.8)**	(51.9)
Total repayable after more than one year	**48.1**	49.3

37. Provisions for liabilities and charges

	Closure and restructuring provisions £m	Other provisions £m	Total £m
At 2 January 2012	**2.4**	**1.4**	**3.8**
Provided in the year	**0.8**	**0.2**	**1.0**
Utilised in the year	**(0.8)**	**(0.2)**	**(1.0)**
At 31 December 2012	**2.4**	**1.4**	**3.8**

Closure and restructuring provisions relate mainly to an onerous lease provision for Morgan House, the Company's previous registered address.

Other provisions include the settlement of European class actions, together with the associated legal costs.

38. Share premium and reserves

	Share premium £m	Merger reserve £m	Capital redemption reserve £m	Profit and loss account £m
At 2 January 2012	**90.6**	**17.0**	**35.7**	**293.1**
Charges and transfers in relation to share-based payments for the year	**–**	**–**	**–**	**2.7**
Dividends	**8.4**	**–**	**–**	**(25.4)**
Own shares acquired for share incentive schemes	**–**	**–**	**–**	**(10.2)**
Retained profit for the year	**–**	**–**	**–**	**102.6**
At 31 December 2012	**99.0**	**17.0**	**35.7**	**362.8**

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 2012 is 201,493 (2011: 2,044,458) and at that date had a market value of £0.5 million (2011: £5.4 million).

The amount of reserves of The Morgan Crucible Company plc that may not be distributed under Section 831(4) of the Companies Act 2006 is £151.7 million (2011: £145.1 million).

Further details on share premium and reserves are given in note 18.

39. Leasing commitments

Operating lease commitments falling due during the next year, for which no provision has been made in these accounts, are:

	Land and buildings 2012 £m	Land and buildings 2011 £m
Less than one year	**–**	–
Between one and five years	**0.2**	0.2
More than five years	**–**	–
	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). Given that the Company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis, as permitted by FRS 17 *Retirement Benefits*, the schemes have been accounted for in these financial statements as if they were defined contribution schemes. These schemes were closed to new members on 31 July 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 2012 by a qualified independent actuary. The results for these schemes in respect of the Group are shown below:

	2012 %	2011 %
Assumptions:	**2.90/1.90**	3.00/1.80
Inflation (RPI & CPI)	**4.40**	4.90
Discount rate	**2.90/3.10/3.60**	2.90/3.20
Pension increases in payment	**n/a**	n/a
General salary increases		
Mortality – post-retirement:		
Life expectancy of a male retiring at age 60 in 2012/2011	**26.3 years**	25.9 years
Life expectancy of a male retiring at age 60 in 2032/2031	**27.4 years**	27.2 years

The assets in the scheme and the expected rates of return were:

	2012 £m	2011 Expected return %	2011 £m
Asset distribution and balance sheet reconciliation:			
Equities	**133.9**	7.5	125.9
Bonds	**35.7**	4.6	27.0
Matching insurance policies	**184.6**	4.9	176.4
Other	**1.5**	4.9	1.4
Total market value of assets	**355.7**		330.7
Present value of liability	**(427.0)**		(378.1)
Deficit in the scheme	**(71.3)**		(47.4)
Employer contributions due within one year	**(0.2)**		(0.2)

The employer's contribution for the year was £7.8 million (2011: £6.9 million).

The Company is expecting to pay £8.1 million of contributions into the UK defined benefit plans during the 12-month period beginning after 31 December 2012.

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 2012.

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 £1.2 million (2011: £1.4 million). In some cases it will not be possible to form a view, either because the facts are unclear or because further time is needed to properly assess the merits of the case and no provisions are held against such cases. The Board, having taken legal advice, is of the opinion that the remainder of these actions will not have a material impact on the Company's financial position.

42. Related parties

The Company's transactions with non-wholly owned subsidiaries are as follows:

	2012 £m	2011 £m
Amounts invoiced to non-wholly owned subsidiaries	**1.9**	1.4
Amounts receivable from non-wholly owned subsidiaries	**0.9**	0.8
Amounts invoiced from non-wholly owned subsidiaries	**0.3**	0.1
Amounts payable to non-wholly owned subsidiaries	**7.4**	6.6

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

		Business	Country of incorporation and principal place of business
Morgan Ceramics companies			
*	Carbo San Luis S.A.	Thermal Ceramics	Argentina
*	Morgan Technical Ceramics Australia Pty. Ltd.	Technical Ceramics	Australia
*	Beijing Yingtelai Morgan Thermal Ceramics Textiles Co. Ltd.	Thermal Ceramics	China
	Dalian Morgan Refractories Limited	Thermal Ceramics	China
	Morgan Kailong (Jingmen) Thermal Ceramics Co. Ltd.	Thermal Ceramics	China
	Morgan Thermal Ceramics International Trading (Shanghai) Co. Ltd.	Thermal Ceramics	China
	Morgan Thermal Ceramics Shanghai Ltd.	Thermal Ceramics	China
	Yixing Haldenwanger Fine Ceramic Co. Ltd.	Technical Ceramics	China
	Yixing Morgan Thermal Ceramics Co. Ltd.	Thermal Ceramics	China
	Morgan Technical Ceramics Limited	Technical Ceramics	England
	Thermal Ceramics UK Limited	Thermal Ceramics	England
*	Thermal Ceramics de France S.A.S.	Thermal Ceramics	France
*	Thermal Ceramics Deutschland GmbH & Co. K.G.	Thermal Ceramics	Germany
*	W. Haldenwanger Technische Keramik GmbH & Co. K.G.	Technical Ceramics	Germany
*	Wesgo Ceramics GmbH	Technical Ceramics	Germany
*	Ciria India Ltd.	Thermal Ceramics	India
	Murugappa Morgan Thermal Ceramics Limited	Thermal Ceramics	India
*	Thermal Ceramics Italiana s.r.l.	Thermal Ceramics	Italy
	Shin-Nippon Thermal Ceramics Corporation	Thermal Ceramics	Japan
*	Morgan Technical Ceramics S.A. de C.V.	Technical Ceramics	Mexico
*	Thermal Ceramics Benelux B.V.	Thermal Ceramics	Netherlands
*	Limited Liability Company Morgan Thermal Ceramics Sukhoy Log	Thermal Ceramics	Russia
	Morgan Ceramics Asia Pte. Ltd.	Thermal Ceramics	Singapore
*	Thermal Ceramics South Africa Pty. Limited	Thermal Ceramics	South Africa
*	Thermal Ceramics Espana S.L.	Thermal Ceramics	Spain
*	Certech Inc.	Technical Ceramics	USA
*	Morgan Advanced Ceramics Inc.	Technical Ceramics	USA
*	Morgan Technical Ceramics Auburn Inc.	Technical Ceramics	USA
*	Thermal Ceramics Inc.	Thermal Ceramics	USA

NOTES TO THE COMPANY BALANCE SHEET
continued

43. Principal subsidiary undertakings continued

		Business	Country of incorporation and principal place of business
Morgan Engineered Materials companies			
	Morgan Molten Metal Systems (Suzhou) Co. Ltd.	Molten Metal Systems	China
	Morgan AM&T (Shanghai) Co., Ltd.	Advanced Materials & Technology	China
	Morganite Electrical Carbon Limited	Advanced Materials & Technology	England
*	NP Aerospace Limited	Advanced Materials & Technology	England
*	Morgan Molten Metal Systems GmbH	Molten Metal Systems	Germany
*	Morgan Rekofa GmbH	Advanced Materials & Technology	Germany
*	Morgan Materials Hungary Kft.	Advanced Materials & Technology	Hungary
*	Assam Carbon Products Ltd.	Advanced Materials & Technology	India
*	Morganite Crucible (India) Limited	Molten Metal Systems	India
*	Morgan Carbon Italia s.r.l.	Advanced Materials & Technology	Italy
*	Morganite Carbon Kabushiki Kaisha	Advanced Materials & Technology	Japan
*	Morganite Luxembourg S.A.	Advanced Materials & Technology	Luxembourg
*	Morgan AM&T B.V.	Advanced Materials & Technology	Netherlands
*	Morganite South Africa Pty. Limited	Advanced Materials & Technology	South Africa
*	Morgan AM&T Taiwan Limited	Advanced Materials & Technology	Taiwan
*	Morgan Karbon Grafit Sanayi A.S.	Advanced Materials & Technology	Turkey
*	Morgan Advanced Materials and Technology Inc.	Advanced Materials & Technology	USA
*	National Electrical Carbon Products Inc.	Advanced Materials & Technology	USA
*	Graphite Die Mold Inc.	Advanced Materials & Technology	USA
*	Morganite Crucible Inc.	Molten Metal Systems	USA

Other subsidiary undertakings (trading companies covering both Divisions or intermediate holding companies)		
*	Morganite Australia Pty Limited	Australia
*	Morganite Brasil Limitada	Brazil
*	Morganite Canada Corporation	Canada
	Grupo Industrial Morgan S.A. de C.V.	Mexico
	Morgan Korea Company Limited	South Korea
	Morganite Industries Inc.	USA

* Denotes companies some or all of whose shares are owned by a subsidiary.

In 2012 and 2011 the following German subsidiaries, which are included in the Group consolidated accounts, utilised article 264b of the German Commercial Code to be liberated from preparing and disclosing audited statutory accounts:

- W Haldenwanger Technische Keramik GmbH & Co K.G.
- Technische Keramik & Co K.G.
- Thermal Ceramics Deutschland GmbH & Co K.G.

44. Company reconciliation of movements in shareholders' funds

for the year ended 31 December 2012

	2012 £m	2011 £m
Retained profit for the financial year	**102.6**	38.4
Dividends	**(16.1)**	(18.4)
Issue of shares	**0.8**	–
Own shares acquired for share incentive schemes	**(10.2)**	(3.2)
Charges and transfers in relation to share-based payments for the year	**2.7**	6.6
Net increase in shareholders' funds	**79.8**	23.4
Opening shareholders' funds	**505.1**	481.7
Closing shareholders' funds	**584.9**	505.1

GROUP STATISTICAL INFORMATION

Under adopted IFRSs

	2008 £m	2009 £m	2010 £m	2011 £m	**2012 £m**
Revenue	835.0	942.6	1,017.1	1,101.0	**1,007.5**
Profit from operations before restructuring costs, other one-off items and amortisation of intangible assets	108.8	89.0	109.5	143.4	**122.0**
Restructuring costs and other one-off items:					
Restructuring costs and costs associated with settlement of prior period anti-trust litigation	(11.4)	(14.0)	(8.5)	(5.6)	**(13.3)**
Gain on disposal of properties	0.8	2.0	0.6	2.4	**0.1**
Net pension credit	–	–	–	1.3	**–**
Profit from operations before amortisation of intangible assets	98.2	77.0	101.6	141.5	**108.8**
Amortisation of intangible assets	(3.2)	(16.3)	(8.0)	(8.3)	**(8.3)**
Operating profit	95.0	60.7	93.6	133.2	**100.5**
Net financing costs	(12.7)	(29.3)	(25.9)	(21.8)	**(19.1)**
Loss on disposal of businesses	(0.7)	–	–	–	**–**
Share of profit of associate (net of income tax)	1.2	–	–	–	**–**
Profit before taxation	82.8	31.4	67.7	111.4	**81.4**
Income tax expense	(20.1)	(8.7)	(19.7)	(32.6)	**(22.1)**
Profit after taxation before discontinued operations	62.7	22.7	48.0	78.8	**59.3**
Discontinued operations	–	–	–	–	**21.0**
Profit for the period	62.7	22.7	48.0	78.8	**80.3**
Assets employed					
Property, plant and equipment	319.6	276.2	269.2	259.8	**245.5**
Intangible assets	177.0	296.9	285.0	283.3	**265.1**
Investments and other receivables	50.6	9.3	9.1	10.3	**10.0**
Deferred tax assets	36.6	37.2	38.5	41.1	**40.6**
Net current assets	189.9	136.5	131.0	160.1	**194.4**
Total assets less current liabilities	773.7	756.1	732.8	754.6	**755.6**
Employee benefits	101.8	105.9	103.9	135.1	**166.6**
Provisions and other items	423.1	388.1	331.6	304.8	**276.7**
Deferred tax liabilities	40.8	47.5	45.2	44.5	**40.5**
	208.0	214.6	252.1	270.2	**271.8**
Equity					
Total equity attributable to equity holders of the parent Company	177.8	184.6	215.0	229.4	**234.0**
Non-controlling interests	30.2	30.0	37.1	40.8	**37.8**
Total equity	208.0	214.6	252.1	270.2	**271.8**
Ordinary dividends per share (paid)	7.0p	4.5p	7.0p	7.7p	**9.25p**
Earnings per share					
Basic	22.2p	7.1p	15.8p	26.9p	**20.2p**
Diluted	21.6p	6.8p	15.0p	25.7p	**19.9p**
Basic before amortisation of intangible assets	23.4p	13.2p	18.7p	29.9p	**23.2p**
Diluted before amortisation of intangible assets	22.8p	12.6p	17.8p	28.6p	**22.8p**

SHAREHOLDER INFORMATION

Analysis of shareholdings as at 31 December 2012

		Number of holdings	% of total holdings	Number of shares	% of share capital
Size of holding	1 – 2,000	6,072	72.64	3,303,042	1.18
	2,001 – 5,000	1,218	14.57	3,912,488	1.40
	5,001 – 10,000	524	6.27	3,705,374	1.32
	10,001 – 50,000	311	3.72	6,621,728	2.37
	50,001 – 100,000	52	0.62	3,728,317	1.33
	100,001 and above	182	2.18	258,470,466	92.40
		8,359	**100.00**	**279,741,415**	**100.00**
Holding classification	Individuals	7,130	85.30	14,996,936	5.36
	Nominee companies	1,124	13.45	258,546,337	92.42
	Trusts (pension funds etc)	9	0.10	104,734	0.04
	Others	96	1.15	6,093,408	2.18
		8,359	**100.00**	**279,741,415**	**100.00**

Key dates		
Dividends	Subject to members' approval at the 2013 AGM and to any Scrip alternative, a final cash dividend of 6.4 pence per Ordinary share of 25 pence shall be paid in respect of the financial year ended 31 December 2012. The dividend shall be paid on 31 May 2013 to holders of Ordinary shares on the register of members at the close of business on 19 April 2013.	31 May 2013
Preference dividends	Subject to the relevant detailed terms and approvals of the Board of Directors where 5.5% Cumulative First Preference shares of £1 each and 5.0% Cumulative Second Preference shares of £1 each	28 March 2013 and 1 October 2013
Annual General Meeting	The 2013 Annual General Meeting will take place on	10 May 2013
Financial results	The half-year results are announced in July with the Report and Accounts for the year normally posted in March	
Other information		
Capital gains tax	The market values of quoted shares and stocks at 31 March 1982 were:	
	Ordinary shares of 25 pence each	122.5 pence
	5.5% Cumulative First Preference shares of £1 each	30.5 pence
	5.0% Cumulative Second Preference shares of £1 each	28.5 pence
	For capital gains tax purposes, the cost of Ordinary shares is adjusted to take account of rights issues. Any capital gains arising on disposal will also be adjusted to take account of indexation allowances. Since the adjustments will depend on individual circumstances, shareholders are recommended to consult their professional advisers.	
Share price	The price can be obtained on the Company's website: www.morgancrucible.com	
ISIN Code	GB0006027295	
Ticker symbol	MGCR	

SHAREHOLDER INFORMATION
continued

Company details	
Registered office	Quadrant, 55-57 High Street, Windsor, Berkshire SL4 1LP Registered in England No. 286773 Telephone: 01753 837000 Fax: 01753 850872 Website: www.morgancrucible.com
Company registrars	Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU Telephone (in UK): 0871 664 0300 (calls cost 10p per minute plus network extras, lines are open Monday-Friday, 9.00am-5.30pm) Telephone (from overseas): +44 (0) 20 8639 3399 Email: ssd@capitaregistrars.com Website: www.capitaregistrars.com
Share portal	The Capita Share Portal (www.capitashareportal.com) is an online service enabling you to quickly and easily access and maintain your shareholding online, reducing the need for paperwork and providing 24-hour access for your convenience. Through the share portal you may, for example, view your holding balance, view the dividend payments you have received and register and change bank mandate instructions so that dividends can be paid directly to your bank account.
Scrip Dividend Scheme	The Company's Scrip Dividend Scheme enables shareholders to receive new, fully paid, Ordinary shares in the Company instead of cash dividends whenever a Scrip alternative is offered. Scrip elections can be made or revoked either online at www.capitashareportal.com or by contacting the Company's registrars to request a paper copy of the mandate form and the Scrip Dividend Scheme terms and conditions.
Unsolicited telephone calls and mail	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 (www.morgancrucible.com/investors/shareholder-centre/unsolicited-telephone-calls-and-mail/).

For more information about Morgan Crucible, please visit our website.

www.morgancrucible.com

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The Morgan Crucible Company plc
Quadrant, 55-57 High Street
Windsor, Berkshire SL4 1LP
Tel: +44 (0)1753 837000
Fax: +44 (0)1753 850872

www.morgancrucible.com