Morgan Crucible
Annual Report 2010

Extraordinary products from advanced materials

Morgan Crucible
The Advanced Materials Group

Morgan Crucible is a world leader in advanced materials...

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

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

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

Despite the complexity of our technologies our focus is simple:

We supply innovative, differentiated products made from advanced materials which enable our customers' products to perform more efficiently, more reliably and for longer.

Our business

What we do

We use advanced materials to manufacture products that make a real difference to our customers' businesses, working in partnership with them from concept and feasibility through prototyping to full production.

Performance

The unique qualities of our materials enable customers to elevate their products to new levels of performance.

Sustainability

Our products help customers reduce their energy use and, by lasting longer, reduce waste. They are also key components in many forms of sustainable energy generation.

Efficiency

Our products are designed to enable our customers to maximise the efficiency of their applications and processes, helping them to achieve optimum results.

Reliability

Our products perform reliably and consistently even in the most demanding environments, enabling our customers to use them with confidence in the most critical of applications where total reliability is vital.

Our markets

Energy

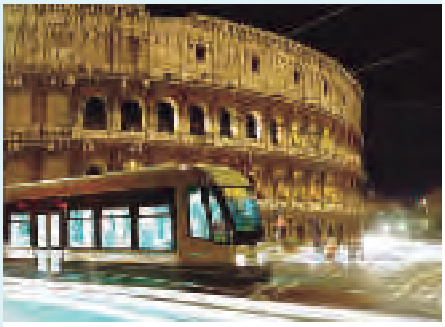
→ Further reading page 02

Petrochemical & industrial

→ Further reading page 06

Electronics

→ Further reading page 10



Transportation

→ Further reading page 14

Security & defence

→ Further reading page 18

Healthcare

→ Further reading page 20

Energy

Improving performance...

1. Wind turbine generators

3x

There is an improvement of up to 3x operating life (indicated by early trials) using Morgan Crucible materials compared to traditional components.

2. Solar

High-performance material technologies from Morgan Crucible are used extensively in the energy sector. Our advanced solutions help to increase the efficiency of both renewable and traditional energy generation.

+20%

Superwool® fibre can improve power plant insulation by up to 20% compared to conventional systems.

1. Wind turbine generators

Advanced engineered solutions from Morgan Crucible play a key role in wind energy generation. From manufacturing turbine blades to power slip ring systems and environment-specific brush-holders, we supply components that help to optimise generator performance in virtually any type of climate and provide an efficient renewable energy source.

2. Solar

Ceramic's superior physical, thermal and electrical properties make it a reliable and cost-effective material for the harsh environment found in solar cell manufacturing.

Morgan Crucible is providing high-performance components and insulations to leading solar cell manufacturers, enabling them to improve the efficiency of silicon wafer and thin-film photovoltaic manufacturing processes.

3. Power stations

Insulation in power stations is vital in minimising energy losses and increasing efficiency. Morgan Crucible's next-generation high-temperature insulation fibre – Superwool® – is the preferred solution for duct and boiler insulation in heat recovery steam generator systems. It can improve power plant insulation materials by up to 20% compared to conventional systems, thereby reducing energy loss and enhancing sustainability.

4. LEDs

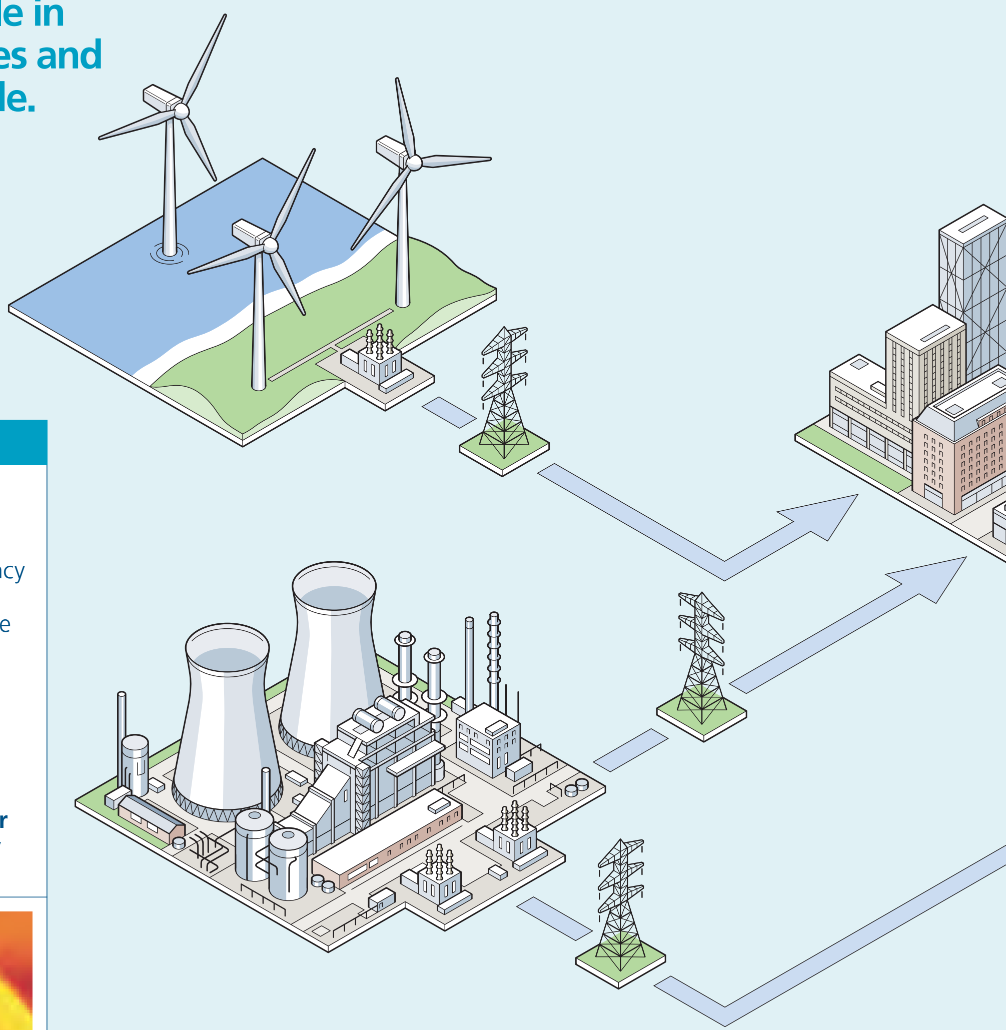
LEDs are fast emerging as the most energy-efficient light source, using 90% less power and lasting 50 times longer than conventional incandescent light bulbs.

Morgan Crucible designs and manufactures high-performance solutions for the efficient manufacture of low-power LEDs, from insulation for the melting of sapphire to components for chemical deposition of silicon carbide. This helps LED manufacturers reduce the costs of developing more environmentally friendly light sources.

Energy

...and enhancing sustainability.

Increasing energy efficiency and sustainability is at the core of Morgan Crucible's work and our products are playing a key role in reducing power used in homes and industrial processes worldwide.

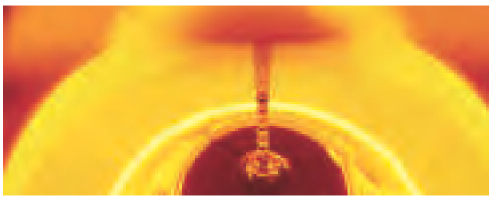


Insulation

Morgan Crucible is a world leader in high-temperature insulation products for wafer manufacturers and silicon melting operations around the globe, helping to increase efficiency and making markets such as solar energy a more viable source of long-term, sustainable electrical power.

25%

Morgan Crucible's products allow the solar silicon industry to reduce energy usage by up to 25%.

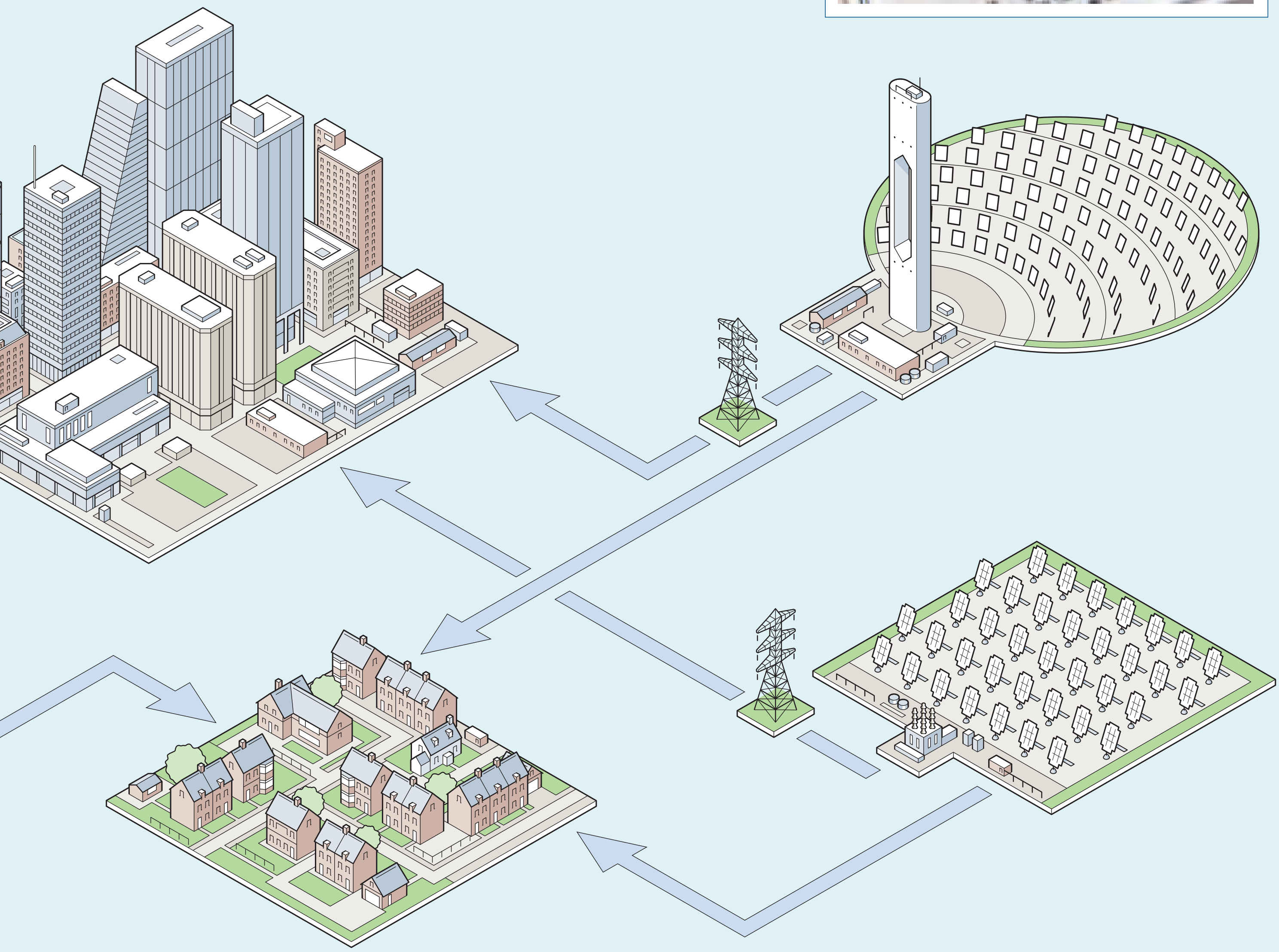


Smart metering

Smart meters are increasingly used to monitor energy use worldwide. Morgan Crucible is developing the ultrasonic technologies used in smart meters, enabling consumers to understand how much energy they are using so they can reduce their energy consumption.

£200m

Morgan Crucible's piezoelectric ceramic products will help UK consumers save an estimated £200m per annum in energy bills.



Petrochemical & industrial

Making our customers more efficient...

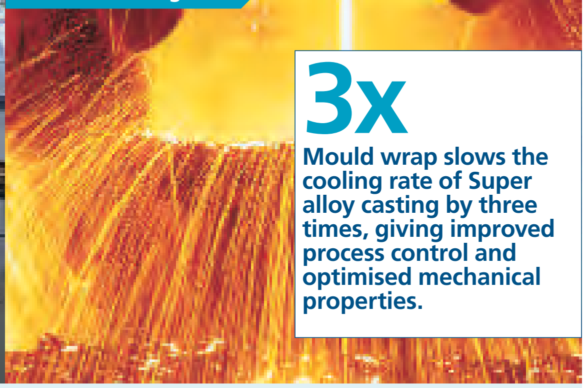
1. High-performance drilling

Throughout the petrochemical & industrial sectors our specialised materials are enabling customers to improve their process efficiency and productivity, minimise waste and reduce their environmental footprint.

2. Water filtration and desalination

3. Ceramic and glass manufacture

4. Metal casting



3x

Mould wrap slows the cooling rate of Super alloy casting by three times, giving improved process control and optimised mechanical properties.

1. High-performance drilling

Drilling bit reliability and tolerance are key to successful onshore and offshore exploration for oil, gas and other fossil fuels. We are a major supplier of highly engineered graphite powder used to manufacture polycrystalline diamond cutters, and our proprietary process for producing high-strength, high-purity brazed alloys for specialised drill bits ensures high performance, increased life and enhanced productivity.

2. Water filtration and desalination

Our composite electrodes are being trialled in wastewater treatment to remove disinfectant and phosphates – the only phosphate removal method to comply with forthcoming 2013 EU legislation. We are developing new materials to improve water sustainability, such as lightweight, low-friction and hence long-lasting ceramic shafts for water pumps, and ceramic discs and membranes for efficient wastewater filtration.

3. Ceramic and glass manufacture

Our fibre products are widely used in the ceramics and glass sectors to manufacture products ranging from tiles to tableware and from sanitaryware to bone china. By reducing kiln car mass, they provide manufacturers with significant energy savings. We also provide insulating firebricks used in roller, shuttle, tunnel and hobby kilns.

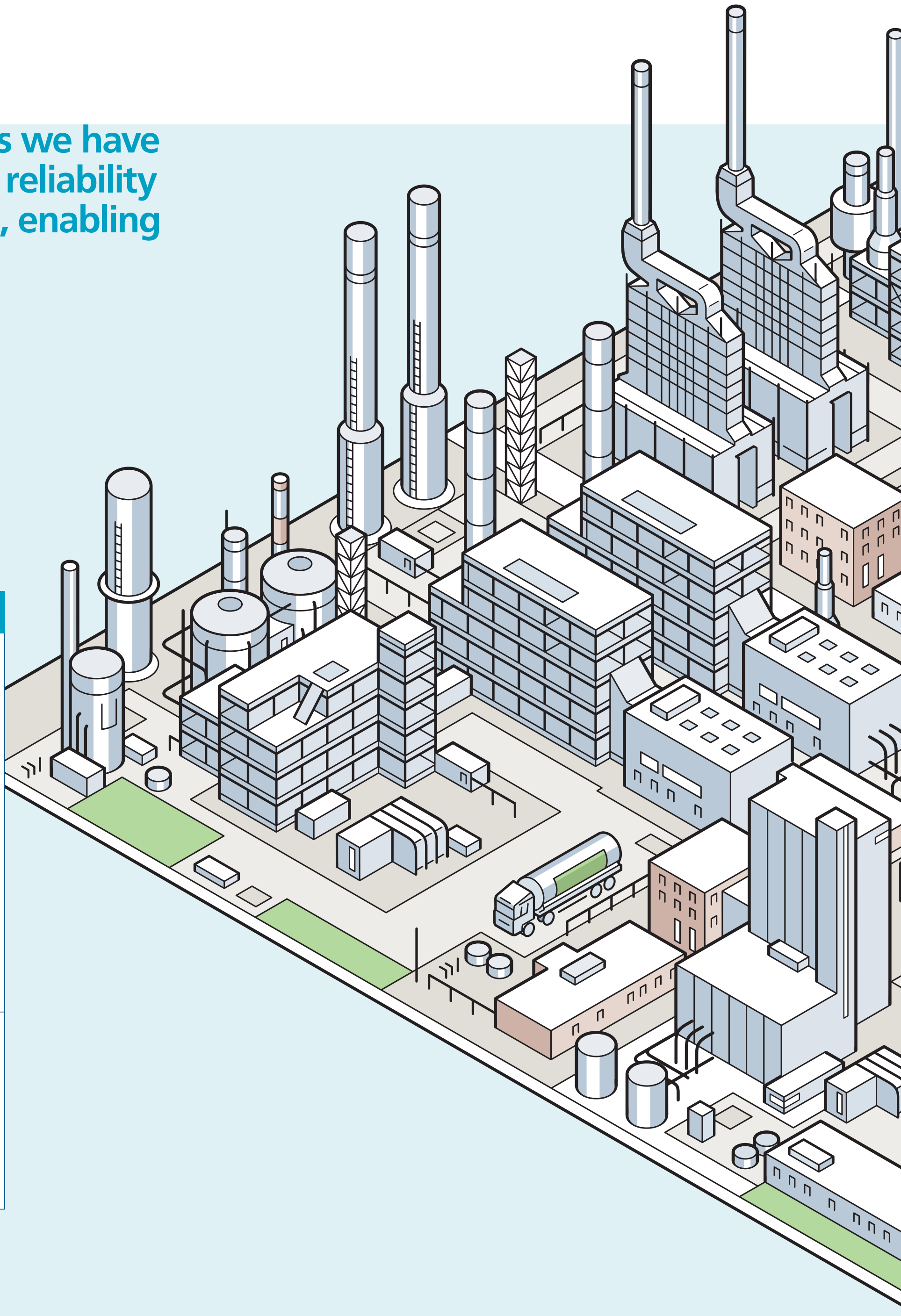
4. Metal casting

Our specialised insulation materials are widely used in metals casting to maintain furnaces at the required temperature while minimising energy use and improving efficiency and sustainability. Rolls-Royce is replacing its current insulation with our thermally efficient Superwool® fibres for mould wrap.

Petrochemical & industrial

...and improving reliability.

The high-performance materials we have developed give customers high reliability and increased product lifetimes, enabling them to minimise downtime.

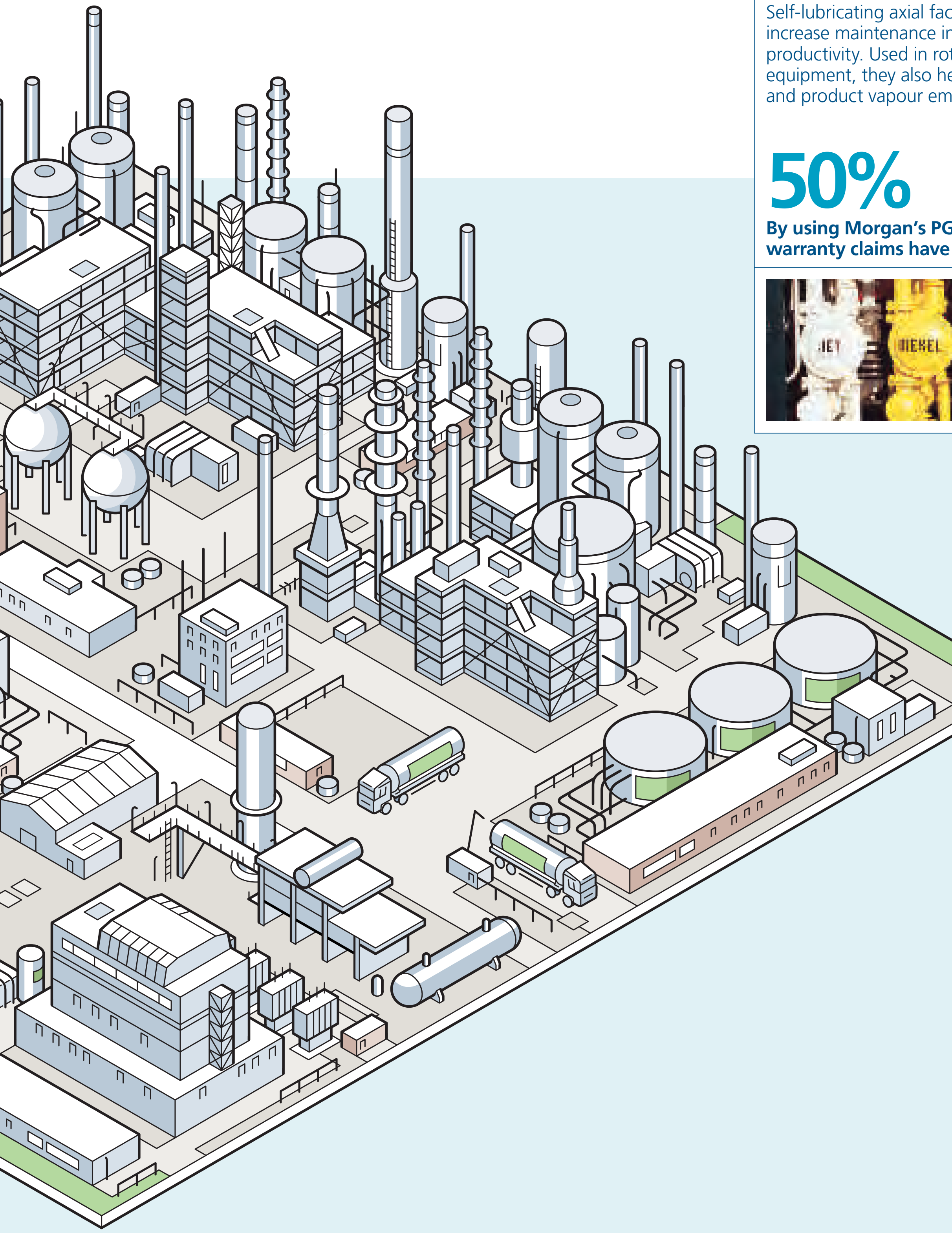


Heat management

We supply optimised heat management and fire protection solutions for petrochemical plants around the world. We offer a broad range of products backed by engineering design and support to help this sector reduce energy costs and extend service life.

50mm

Our 50mm-thick FireMaster™ fire insulation will protect cable tray structures from a 30-minute hydrocarbon fuel fire of 1,100°C.



Fluid handling

In industrial fluid handling, the performance of seals and bearings in pumps and compressors is critical. Our specialised carbon and silicon carbide products give pumps high reliability and long life in any environment, from high-temperature, high-pressure systems in refineries to food and chemical processing. Self-lubricating axial face seal materials help increase maintenance intervals and improve productivity. Used in rotating process equipment, they also help reduce fugitive gas and product vapour emissions.

50%

By using Morgan's PGS100 material, warranty claims have reduced by 50%.

Electronics

Providing advanced materials...

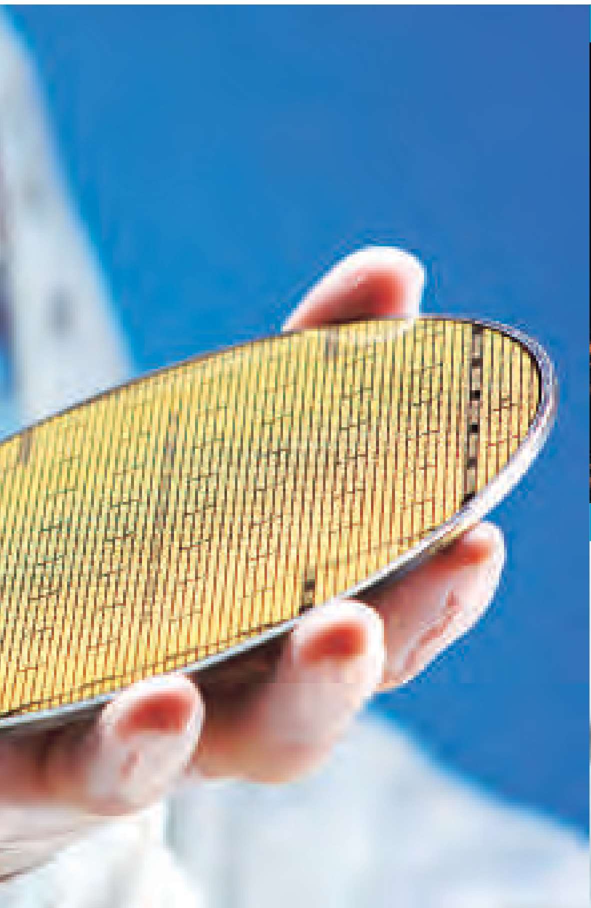
1. Disk drive storage

+20%

Our technology increases disk drive capacity by 15-20%.

2. Semiconductor manufacturing

Our materials are at the heart of many electronic components and play a key role in applications ranging from energy harvesting to semiconductor manufacturing and consumer electronics.



3. Industrial lasers

30 years

We have been designing ceramic components and reflectors for lasers for the last 30 years.

4. Electronic components

1. Disk drive storage
Consumer devices from HD-TVs to PCs require higher capacity storage without increasing disk size. This requires extremely accurate control of the read/write head. Our piezoceramic actuator plates enable the head to be positioned with extraordinary accuracy and vibration control.

2. Semiconductor manufacturing
Semiconductor manufacturers use our advanced materials to enable them to work at higher temperatures and achieve higher purity levels to increase production yields. One recent development is our Sharkskin™ surface treatment technology, which prevents process residues on chamber components from flaking off onto the wafer, thereby significantly improving yields and decreasing process-related defects during the manufacture of integrated circuits.

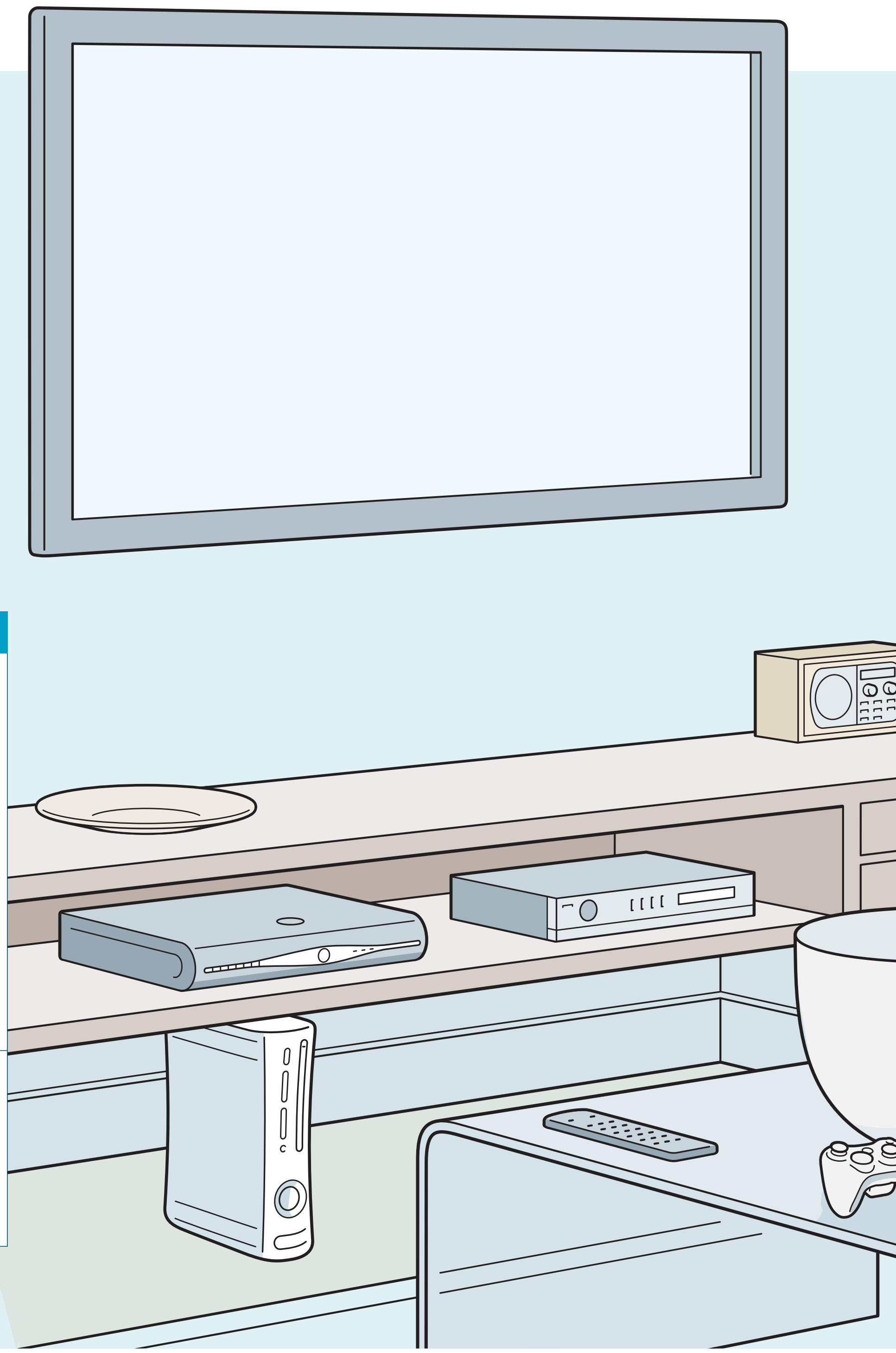
3. Industrial lasers
We work with the world's leading industrial laser manufacturers to develop robust ceramic components which improve system performance. Our yellow reflector glaze provides increased efficiency and reliability and extends lifespan, while improving output power by 9%. Our gas discharge igniter uses 99.5% purity alumina ceramic for carbon dioxide (CO_2) lasers, creating a robust assembly for high temperatures and harsh conditions.

4. Electronic components
Our high-volume ceramics are used to produce wire-wound RF inductors and shapes for many electronic applications, including mobile phones, laptops, HD-TVs, lighting controls, circuit board overhead protection, thermo-controls, sensors, wireless devices and energy harvesting. We also produce glass for high-quality hermetically sealed components for the military and industrial markets.

Electronics

...for complex applications.

Our extensive knowledge of advanced materials has enabled us to develop solutions for complex applications which provide increased performance, efficiency and sustainability.

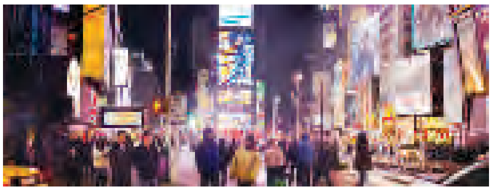


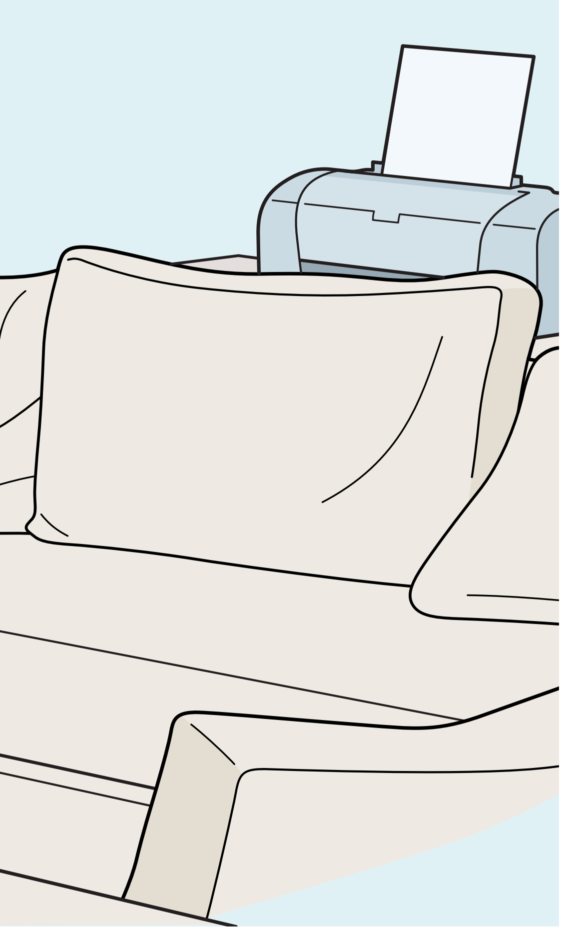
Energy harvesting

We worked with Glyndwr University, Wales to design and build a successful prototype of an energy harvesting system. The system used piezoelectric devices connected to a mat to collect and store energy from footfall for reuse – a technology which has considerable potential for generating renewable energy at major events and in public and private buildings.

5W/h

Can be generated from 1m² of floor area with busy footfall.





Chip production

The challenge in semiconductor production is to fit more transistors into a smaller area. To achieve this, manufacturers use a pad to flatten wafers between layers, which then has to be cleaned using diamond grit to remove unwanted material. Our Phoenix™ pad diamond conditioners improve waste material removal while minimising pad damage. This significantly improves productivity, resulting in more wafers produced per day, while reducing consumable expenses for chip manufacturers.

+30%

In laboratory tests, our conditioners achieved a 30% higher waste material removal rate.

Transportation

Specialist solutions...

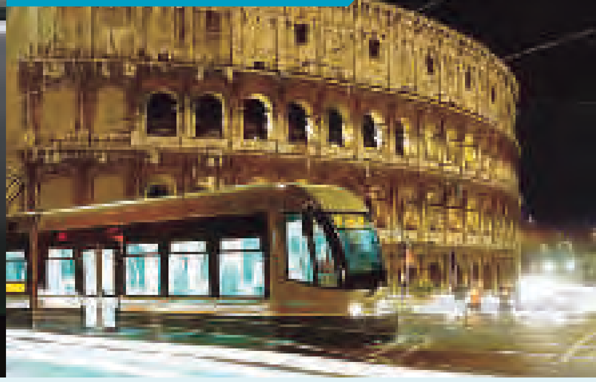
1. Lithium ion batteries

1m

One million electrical vehicles manufactured in China by 2020.

2. Diesel particulate filters

3. Electric current transfer



Morgan Crucible's advanced materials are used for precision-engineered components and assemblies throughout the aerospace and transportation industries, from trains and heavy goods lorries to commercial and military aircraft and the space shuttle.

4. Ceramics for engine turbine blades

1. Morgan AM&T Hairong

We recently acquired Changsha Hairong New Materials Co., Ltd. a company which manufactures graphite-based anode materials for lithium ion batteries. Hairong's materials are market-leading in the fast-growing electric vehicle industry. Its new advanced technology materials will help to improve battery performance and reduce costs for car makers. The technology is also used for energy storage in conjunction with wind and solar power.

2. Diesel particulate filters

Demand for diesel particulate filters is increasing rapidly, driven by stringent vehicle emission standards worldwide. The world's leading filter manufacturer uses our advanced technology insulation to enable the filter to reach the high temperatures needed for 'self-cleaning'. We jointly developed a solution using our Superwool 607 HT® fibre, which is efficient, reliable and sustainable.

3. Electric current transfer

Electric current transfer is critical in many transportation systems such as rail, trams, the underground and helicopters. As well as supplying carbon brushes, collectors and rotary current transfer products, we have developed an innovative carbon material which transfers current between stationary wires and moving parts in the low-humidity environments found at high altitude and in space. Used in starter motors for fixed and rotary wing aircraft, it provides high performance with increased life, reducing maintenance and operating costs.

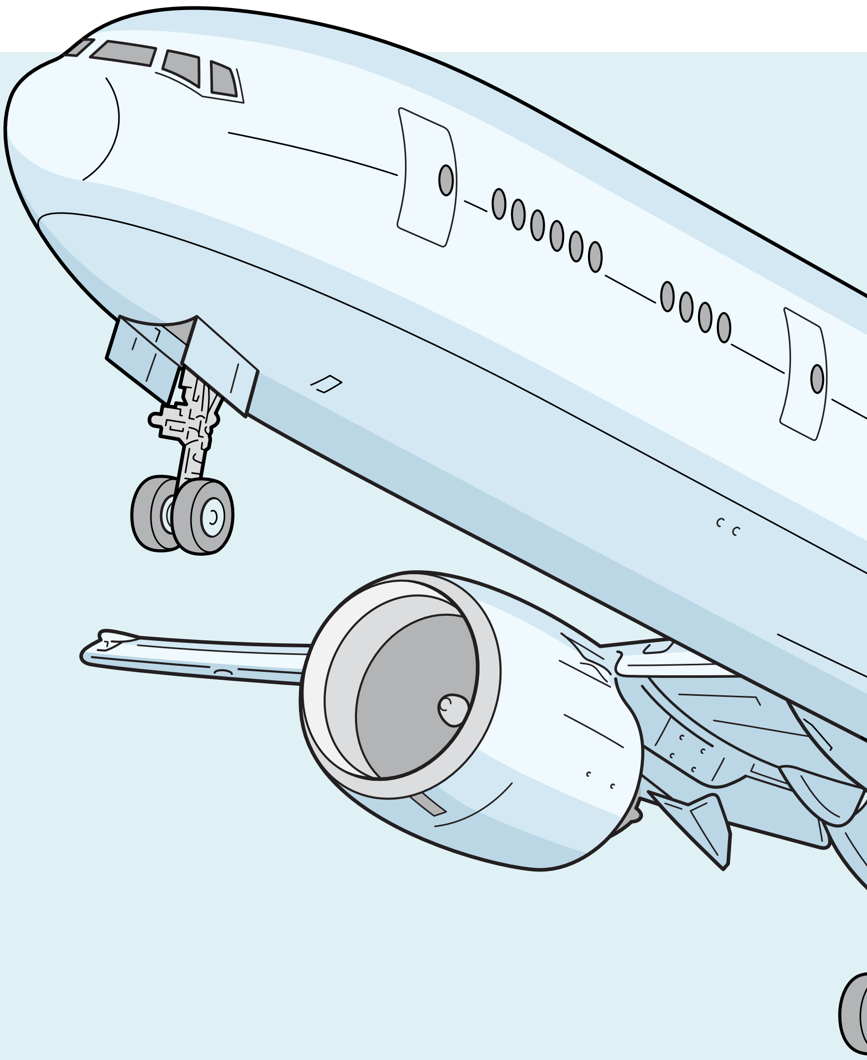
4. Ceramics for engine turbine blades

Our ceramic cores are used in the manufacture of turbine blades for the Rolls-Royce engines which power the world's largest commercial passenger planes – the Airbus A380 and the Boeing Dreamliner. They reduce weight and improve thermal operating performance, increasing fuel efficiency during take-off, flight and landing.

Transportation

...for technologically demanding applications.

Critical jet engine components are manufactured from our graphite and carbon materials, while our ceramics enable instruments to remain accurate despite high temperatures, vibration and mechanical shock.



Reliable engine components

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

+4.9%

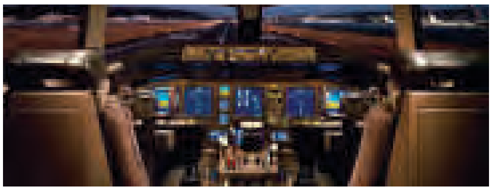
Passenger air travel is forecast to grow at 4.9% per annum, and cargo at 5.4%, creating strong continuing demand for more efficient aircraft.

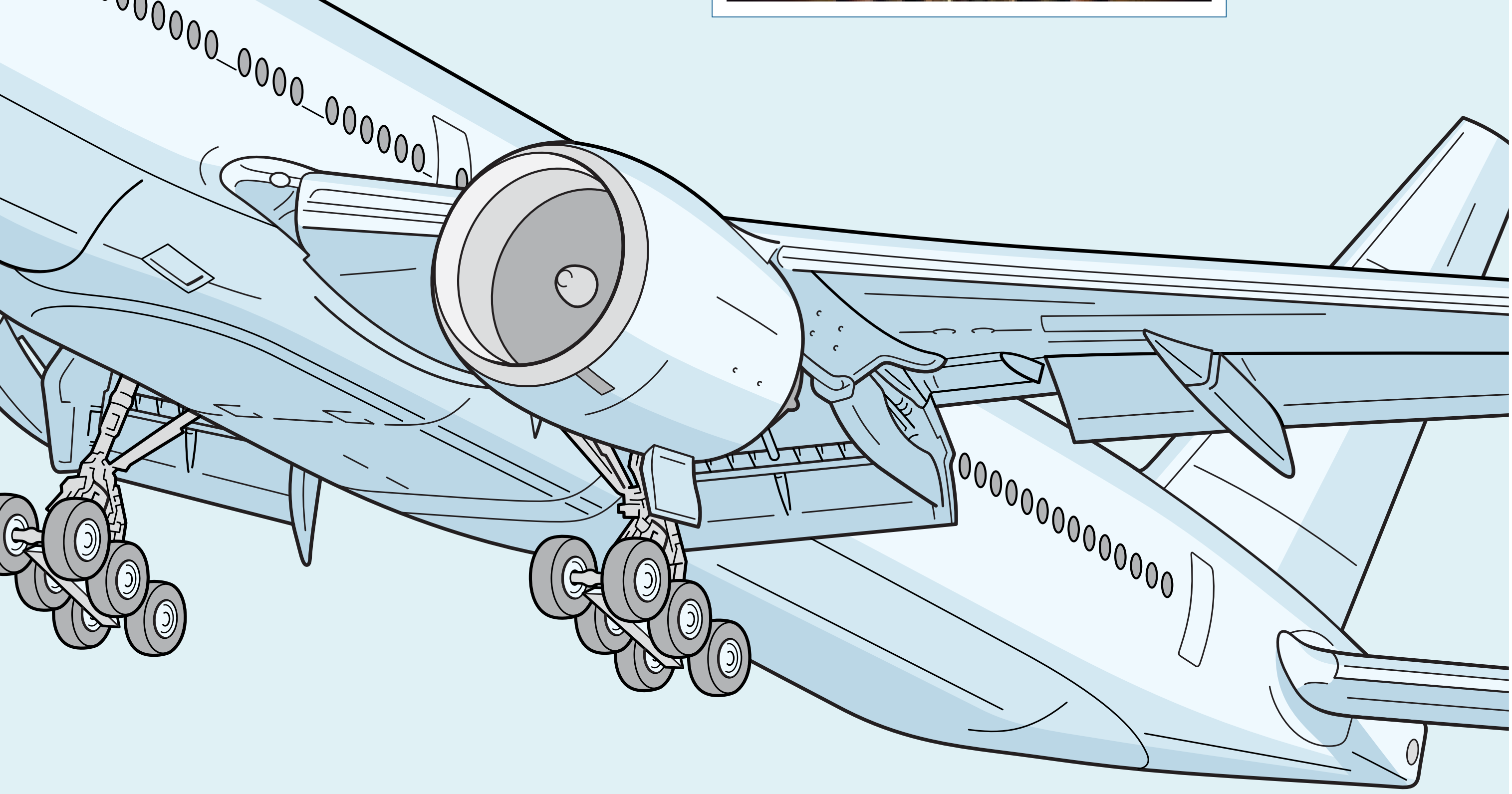
Aircraft instrumentation

We have developed advanced ceramic materials which play a vital role in many areas of aircraft instrumentation. Our piezoceramic and dielectric materials are used in accelerometers and gyroscopes, which measure an aircraft's acceleration, vibration and pitch. The piezoceramic materials are also key in ultrasonic fuel sensors, providing highly accurate readings whatever the orientation of the aircraft.

50+

Each Boeing 777 has over 50 Morgan Crucible fuel level sensors.





Security & defence

Market leader in security and defence systems.

1. Marine fire protection

Our advanced materials help protect civilian and military personnel around the world. From personal and vehicle armour to security scanners and critical components for sea, air and ground defence, their unique characteristics help to counter the increasing threats in the 21st century.

2. Security scanners

5x

The robustness of Diamonex™ coating extends the life of a fingerprint scanner by up to five times.

3. Vehicle armour

4. Sonar

1. Marine fire protection

Fire protection is a key consideration in the design of naval and coastal ships. It requires lightweight but heavy-duty products which can withstand much higher temperatures than are specified for commercial systems. Our FireMaster™ systems provide efficient fire insulation in this demanding sector, and are certified to meet national and international standards.

2. Security scanners

The unique properties of our metallised alumina ceramics have enabled X-ray tubes for luggage and cargo scanners to be made significantly smaller while achieving higher resolution. We also supply Diamonex™ diamond-like carbon coatings for fingerprint swipe sensors which significantly extend scanner life – a key benefit as mobile scanners become more widely used by police and security personnel.

3. Vehicle armour

By combining our world leadership in composite vehicle protection systems with our ceramics technology, we are driving the development of new, lighter and more resilient protection systems for vehicles and personal use. This technology will be used in discreet armoured cars transporting VIPs at the 2012 London Olympics.

4. Sonar

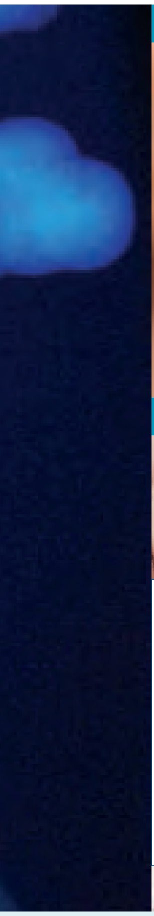
Piezoceramics are widely used in sonar equipment. We manufacture lightweight pre-stressed piezoceramic tubes which provide high acoustic output and increased reliability for the most demanding military detection systems. Our latest developments combine piezoceramics with composites to match transducer impedance more closely to that of water, resulting in higher efficiency, improved output levels and increased sensitivity.

Healthcare

Developing innovative solutions...

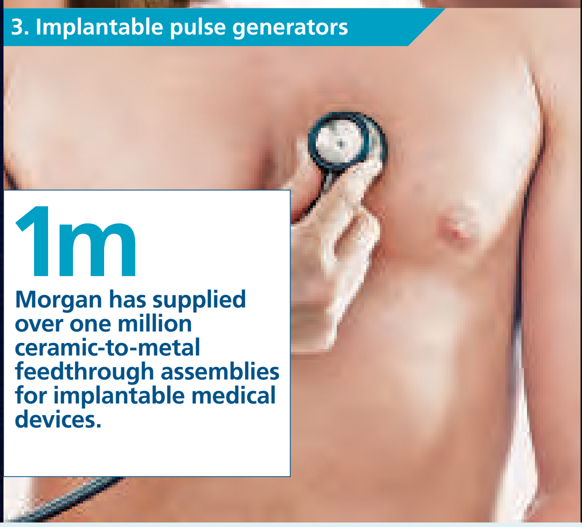
1. Diagnostic imaging

New technologies are continually driving developments in healthcare. Our advanced materials are playing a key role both within the innovative medical devices market and as components in diagnostic equipment such as CAT, MRI and ultrasound scanners.



2. Speech restoration

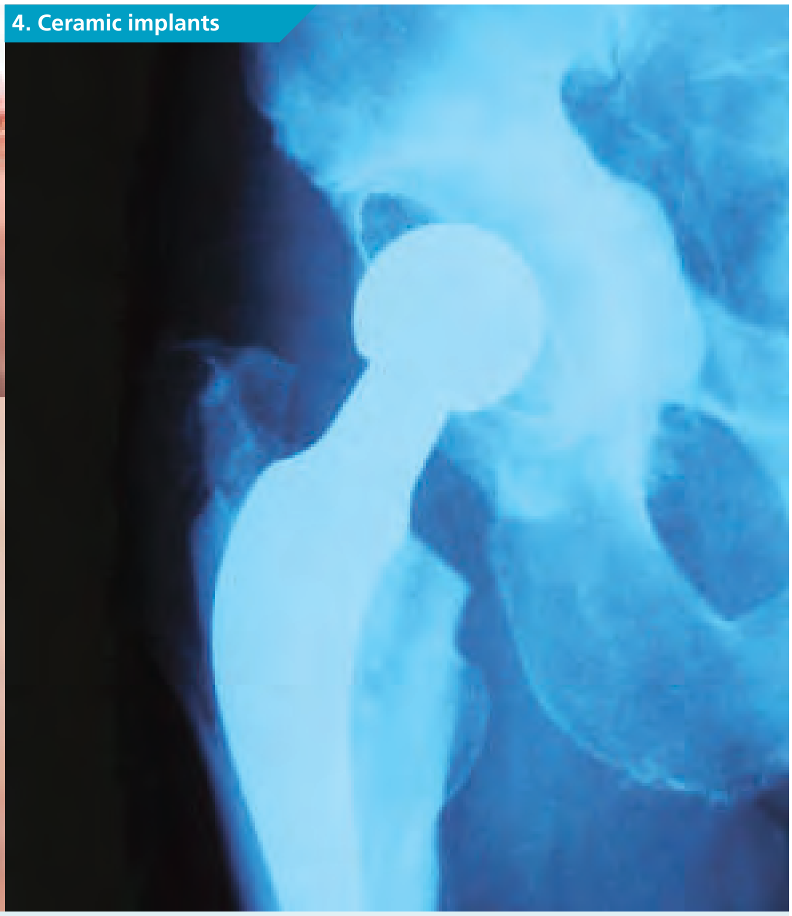
3. Implantable pulse generators



1m

Morgan has supplied over one million ceramic-to-metal feedthrough assemblies for implantable medical devices.

4. Ceramic implants



1. Diagnostic imaging

We have developed piezoelectric materials which produce a voltage proportional to applied mechanical pressure and change shape if a voltage is applied. Using these properties we have dramatically improved the performance of ultrasound transducers used in both medical imaging and as catheter, blood pressure and vascular flow sensors, providing more precise and predictable results and longer instrument life.

2. Speech restoration

Our ceramics are offering new hope to patients whose voice boxes have been removed due to throat cancer. The silicon valves used to connect windpipe and throat have to be changed every three months due to biofilm growth, a costly and sometimes distressing procedure. Working with medical experts, we have developed a new ceramic zirconia valve which resists biofilm growth and could last at least two years, saving money and significantly improving patient quality of life.

3. Implantable pulse generators

Implanted electronic devices which send signals to stimulate or block nerve impulses offer opportunities to treat medical conditions ranging from back pain to obesity, high blood pressure and diabetes. Morgan Crucible has developed a tiny ceramic-to-metal assembly to carry the electrical signal from a pulse generator to the wires to stimulate or block the nerve. These are already used in pacemakers, cochlear implants and defibrillators, and we are now developing an implantable zirconia housing to treat migraine and cluster headaches.

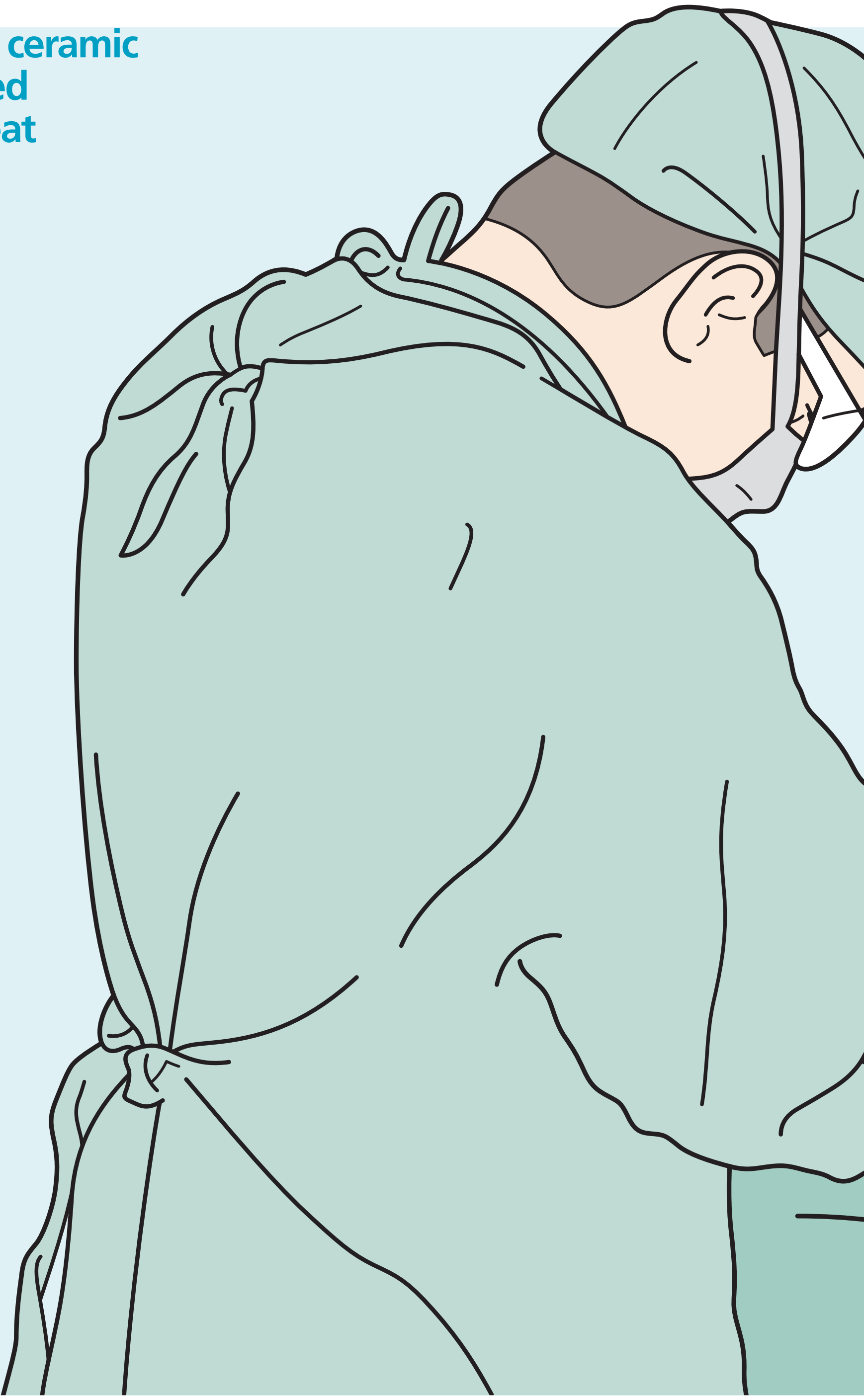
4. Ceramic implants

Ceramic's biocompatibility, repeatability and reliability make it an ideal material for medical devices. Using our world-leading injection-moulding capabilities and advanced materials technology we produce a wide range of medical implants, including zirconia dental abutments and copings and ceramic orthopaedic joint replacements.

Healthcare

...for critical applications.

The strength and biocompatibility of ceramic materials enable them to be machined into extremely intricate shapes to treat life-threatening conditions.

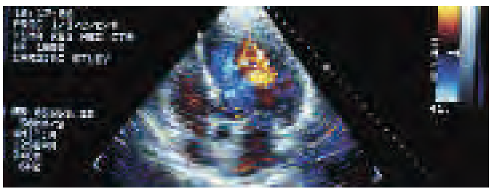


Open heart surgery

A pioneering medical device which uses ultrasound to separate microembolisms from blood during open heart surgery has been made possible by our piezoceramic technology. The piezoceramic plate expands and contracts rapidly when a current is applied, creating an ultrasound wave which separates out microembolisms without damaging blood cells. This procedure improves the experience for patients and reduces the need for blood transfusion.

+40 years

Ultrasound has been used in medical applications for over 40 years.

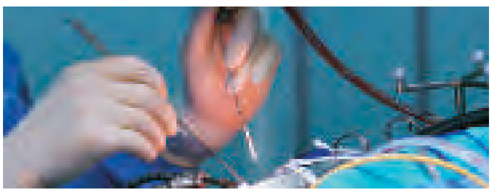


New tumour treatment

We have designed and manufactured ceramic tips for a ground-breaking device that destroys liver tumours in a minimally invasive procedure. The extremely fine tip directly pierces the tumour before microwave radiation is used to destroy the cells. This treatment significantly reduces patient trauma and recovery time, thus saving money by minimising hospital stays.

Up to 10x faster

The new device is three to 10 times faster than other systems. Hospital stays can be reduced from three weeks to a single day.



Morgan Crucible is a world leader in advanced materials. Our highly skilled, dynamic people provide high-technology solutions for specialised applications in selected global markets.

Operational and financial highlights

- Revenue for the year increased by 7.9% to £1,017.1 million
- Underlying operating profit* increased by 31.9% to £101.6 million, a margin of 10.0%
- Profit before taxation increased by 115.6% to £67.7 million
- Underlying earnings per share increased by 41.7% to 18.7 pence per share (2009: 13.2 pence)
- Proposed final dividend increased by 11.1% to 5.0 pence, giving a full-year dividend of 7.7 pence

Revenue
Continuing businesses £m

Underlying operating profit*
Continuing businesses £m

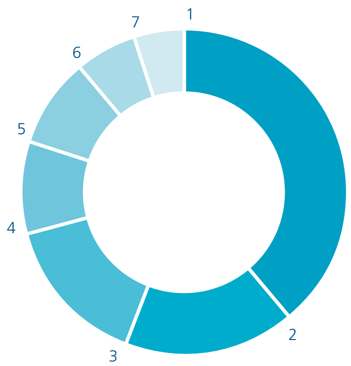
Underlying operating profit margin*
Continuing businesses %

Underlying earnings per share**
Pence

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

Morgan Crucible at a glance

Our markets



1	Industrial	39%
2	Transportation	17%
3	Security & defence	15%
4	Electronics	9%
5	Petrochemical	9%
6	Energy	6%
7	Healthcare	5%

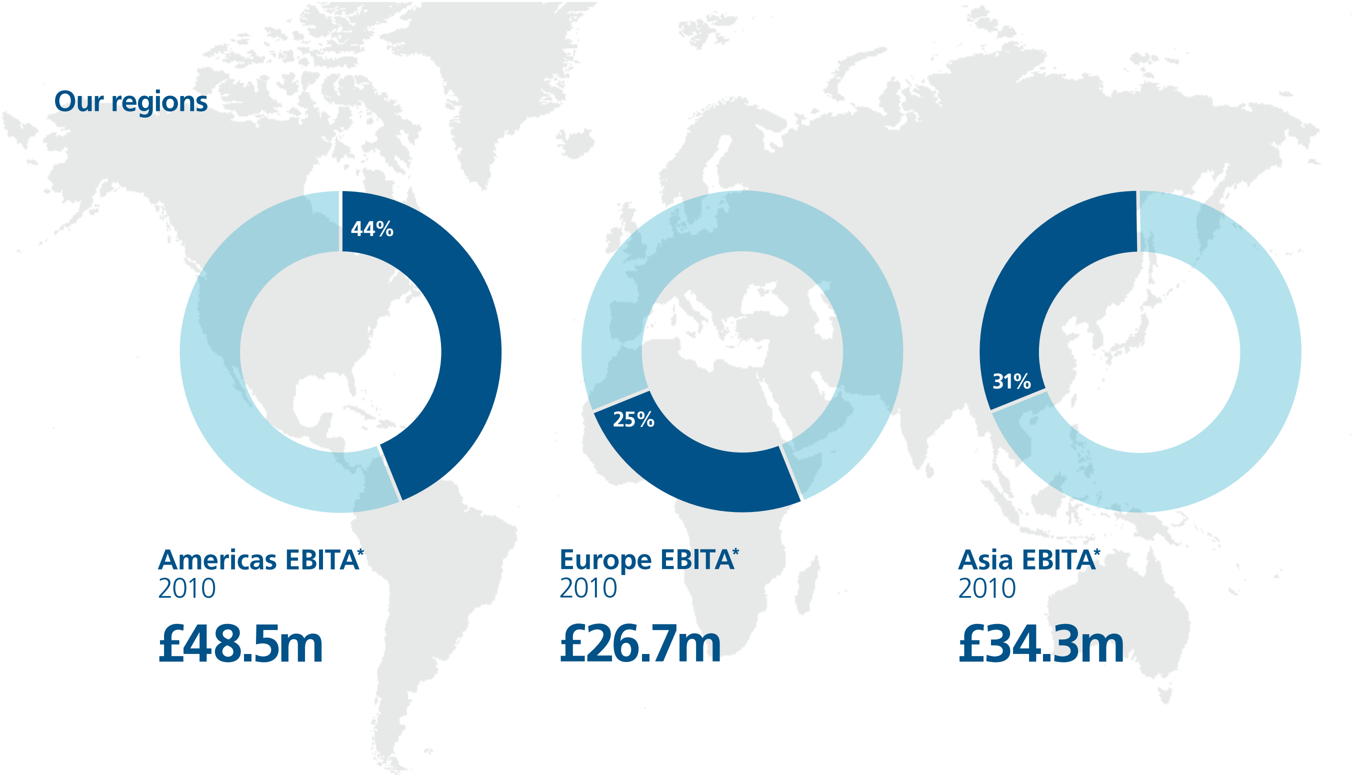
Our Divisions

We have further refined our structure and business model to better reflect the shape of our operations and the needs of our markets.

Morgan Ceramics

Morgan Engineered Materials

Our regions



Americas EBITA*
2010
£48.5m

Europe EBITA*
2010
£26.7m

Asia EBITA*
2010
£34.3m

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

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

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

Core markets
- Petrochemical & industrial
- Energy
- Healthcare
- Transportation
- Electronics

Revenue £m
609.1m

Divisional EBITA* £m
Continuing business
68.8m

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

Morgan Engineered Materials delivers materials technology through its global businesses.

Morgan Engineering 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 and furnaces

Core markets
- Security & defence
- Transportation
- Petrochemical & industrial
- Energy
- Electronics

Revenue £m
408.0m

Divisional EBITA* £m
Continuing business
45.5m

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

Chief Executive Officer's strategic review

Continuing our strategy

Mark Robertshaw
Chief Executive Officer

The Group's well-established strategy of focusing on the right growth markets and the right growth countries supported by continued effective cost management has generated good year-on-year improvement in both revenue and profit.

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

→ Focus on higher growth, higher margin, non-economically cyclical markets

→ Be high value-added to our customers

→ Have a culture of operational excellence and cost efficiency

→ Be number one or number two in our chosen market segments

→ Find, keep and develop the right people

Investing for growth

Our growth strategy is predicated on a three-pronged approach built around identifying and actively targeting the right growth markets, the right growth customers and the right growth geographies. Running throughout all this is a single-minded focus on innovative, differentiated products with a high value-added element.

→ **Right growth markets**
We take a medium-to long-term view to identify those end-markets with secular growth trends that should drive consistent increases in demand at levels above global GDP. For Morgan Crucible these targeted secular growth markets include aerospace, healthcare and renewable energy.

→ **Right growth customers**
Our mindset is to be the development partner of choice for our customers and to seek to work with the very best and most successful companies in our target sectors.

→ **Right growth geographies**
Our strategy is explicitly focused on leveraging the significant growth opportunities in the most dynamic economies of the world such as China, India, South America and the Middle East as they rapidly develop their own capabilities and domestic markets.

Investing for efficiency

In parallel to striving to deliver annual growth levels well in advance of global GDP, we are equally focused on looking to drive ongoing operational efficiencies throughout the Group. The three main sources of this are:

→ Operational excellence programmes implemented across all our sites to drive improved productivity and quality.

→ The increased use of low-cost manufacturing operations in countries such as Mexico, Hungary and China.

→ Streamlined organisational structures with clear accountabilities.

Chairman's statement

Tim Stevenson
Chairman

The quality of our business, the targeting of opportunities in faster growth end-markets and geographies and good operational leverage have together enabled delivery of much improved levels of profit.

Overview

For another year, in improving macro-economic conditions, Morgan Crucible has proved the strength of its strategy. Strong profit progression and cash generation enable the Board confidently to recommend an 11.1% increase in the final dividend.

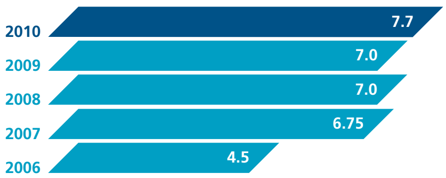
As I reported last year, 2009 was the test of our strategy. A portfolio of higher margin, more differentiated businesses enabled margins and operating profits to hold up well, despite the severity of the downturn. Firm and early action to reduce the cost base and align it with demand paid off and gave us a good platform to benefit from the somewhat better conditions and improving demand of 2010.

Group revenue broke the billion-pound threshold at £1,017.1 million, compared to £942.6 million in 2009. Underlying operating profit at £101.6 million compared to £77.0 million in 2009, and underlying diluted earnings per share was 17.8 pence (2009: 12.6 pence). The determined focus on cash generation resulted in a net cash inflow from operating activities which was 10.1% improved on 2009 at £148.1 million.

Dividend

Against this background the Board is recommending an 11.1% increase in the final dividend to 5.0 pence per Ordinary share, bringing the total dividend for the year to 7.7 pence.

Dividend per share
Pence



Board

The Board divided its time during the year between staying close to short-term operating performance in a global economy that remained uncertain, and considering the ways in which the Group can develop and evolve strategically given its new focus and distinctive strengths. As part of its operational engagement, the Board has continued to hold a number of its meetings each year at different Group locations. This has provided an important opportunity both to get to know local management better and to understand in greater depth the opportunities and challenges within individual businesses. A significant highlight was an intensive and very productive week visiting five of the Group's manufacturing plants in China.

During the year Dr Andrew Hosty joined the Board as a Director following the announcement of the amalgamation of the Technical Ceramics and Thermal Ceramics Businesses. This appointment reflects not only the importance of this structural move but also the strong performance of the Technical Ceramics Business under Andrew's leadership, and the particular skills and experience of Morgan Crucible's business that he brings to the Board's debates.

Outlook

Despite the recovery we have seen in 2010 across the majority of our end-markets and geographies, the external environment remains uncertain and volatile. Well-rehearsed issues such as European sovereign debt and emerging market inflationary pressures require us to be cautious in the face of potential new shocks to the global macro-economy. Despite that, both your Board and the executive management team remain confident that our position is strong, both in the short-term and over a multi-year horizon.

Morgan Crucible has a strong and effective culture. Both this and, consequently, the growing success and confidence of its business are, of course, due to the hard work, enthusiasm and commitment of all our employees around the world. The Board hugely appreciates all that they do for the Group.

Tim Stevenson
Chairman

Chief Executive Officer's review

Mark Robertshaw
Chief Executive Officer

Looking to the future, I am confident that Morgan Crucible is well placed in 2011 and beyond to deliver further improvements to our performance.

Group results

I am pleased to report that Morgan Crucible made encouraging progress in its performance in 2010. The Group's well-established strategy of focusing on the right growth markets and the right growth countries generated good year-on-year improvement in both revenue and profits. Group revenue increased by 7.9% relative to 2009 with notably good growth from our businesses in developing world economies such as China, India and Brazil. This top-line growth allied to tight operational cost management meant that our year-on-year profit growth was strong, with Group profit before taxation up a very healthy 115.6% compared to 2009.

Divisional highlights

Our focus has remained on the actions we ourselves can take to improve the quality and performance of our business rather than relying on the vagaries of the economic cycle. To this end, in July of 2010 I announced the streamlining and simplification of the Group's organisational structure by rationalising the existing business units into two Divisions. The two new Divisions are 'Morgan Ceramics', comprising the Technical Ceramics and Thermal Ceramics Businesses, and 'Morgan Engineered Materials', comprising the Morgan AM&T, including NP Aerospace, and MMS Businesses. My expectation is that the combined Businesses will deliver faster growth at higher margins through their strengthened global presence, deeper and broader end-market coverage and combined management talent. Over and above the accelerated growth potential, the opportunity to leverage common infrastructures will provide critical mass and operational cost efficiencies.

I am pleased to report that the programme to bring the Divisions together in the new structure is progressing well and I am confident that the Group is well on track to deliver its targeted operating cost benefits of at least £5 million in 2011. Furthermore, opportunities continue to be identified to deliver additional revenue, particularly for the Technical Ceramics Business in the emerging market economies.

Both the Morgan Ceramics and Morgan Engineered Materials Divisions delivered improved operating profits and operating margins in 2010 compared to 2009. Morgan Ceramics' revenue was up 16.9% and divisional EBITA was up 32.8% versus 2009, reflecting a strong year of performance across a broad spread of end-markets and geographies. Highlights included a strong increase in revenue of our North American business driven by aerospace-related demand from our large facility in Hayward, California, coupled with a broad-based pick-up across a number of our other US operations.

In the Thermal Ceramics Business we saw growing demand from our developing world businesses in China, India, South America and the Middle East, with strong demand in particular from petrochemical end-markets.

In the Morgan Engineered Materials Division, revenue was down slightly year-on-year following 2009's exceptional level of defence market sales from our NP Aerospace business in support of the UK Ministry of Defence's Urgent Operational Requirements (UOR) for UK forces in Afghanistan. Despite the reduction of UOR business in 2010, NP Aerospace revenue was a highly creditable £120.9 million which compares favourably to annual revenue of £51.7 million in 2007 when Morgan Crucible first acquired an initial 49% equity stake in the business.

In the intervening period, the Group's equity stake in NP Aerospace has been increased to 70% with the remaining 30% to be acquired in annual 10% instalments in 2011, 2012 and 2013.

The Morgan AM&T Business – formerly known as the Carbon Division – saw a good pick-up in performance in 2010 with all regions showing year-on-year profit improvements. Of particular note was the acquisition of the Changsha Hairong New Materials Co., Ltd. at the end of the year for 64 million RMB (£6.2 million). This business, which has been renamed Morgan AM&T Hairong Co., Ltd., is a recognised technical leader in the production of graphite materials for anodes used in lithium ion batteries for portable electronic devices and electric vehicles which we believe to have significant and exciting growth potential. Revenue for the business is forecast to be in excess of 52 million RMB (£5 million) in 2011 at mid-teen operating profit margins. The Changsha Hairong transaction is a sign of Morgan Crucible's willingness and ability to continue to invest in profitable growth opportunities in advanced materials both organically and through selected bolt-on acquisitions.

It is also worth noting the very strong performance of the MMS Business in 2010, which is now part of the newly created Morgan Engineered Materials Division. Revenue was up 33.9% and Divisional EBITA was up 600% reflecting the excellent work that has been done by the MMS management team in repositioning the Business and its manufacturing operations towards higher growth, lower cost markets such as China and India.

Looking forward

Morgan Crucible traded resiliently through the worst downturn in global industrial production for many decades. Profits and profit margins held up far better than in previous, less severe downturns; cash generation was excellent and banking covenant ratios were maintained even in the worst of the market environment. As industrial demand has begun to recover from its trough, Morgan Crucible enters 2011 in a position of robust health. Trading performance improved progressively during the course of 2010, with revenue, profits and margins higher in the second half of the year than the first.

Furthermore, we have a number of initiatives in place that can continue to improve the performance of the Group going forward. These include fully capturing the opportunities for growth in the emerging market economies and key end-sectors, such as renewable energy, delivering the cost and revenue synergies of the Divisional streamlining and continuing to improve the efficiencies of our Western world operations.

Looking to the future, I am confident that Morgan Crucible is well placed in 2011 and beyond to deliver further improvements to our performance.

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, we develop solutions that help to make the world more efficient, better protected and healthier.

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

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

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

Group strategy

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

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

The Group's five strategic priorities are:

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

We use our strategic priorities to test new investment opportunities, to screen our businesses for fit with the existing Group and to identify areas requiring strategic attention and action.

Revenue and profits

Group revenue increased by 7.9% to £1,017.1 million (2009: £942.6 million). Group EBITA before restructuring charges and one-off items was £109.5 million (2009: £89.0 million), representing a margin of 10.8% (2009: 9.4%). The main factors for these movements are as follows:

Morgan Engineered Materials

- **Morgan AM&T:** Revenue was £367.7 million (2009: £391.4 million), representing a decrease at reported rates of 6.1%. The revenue for Morgan AM&T excluding NP Aerospace was £246.8 million (2009: £205.2 million) representing a significant increase of 20.3% at reported rates and 17.2% on a constant currency basis. NP Aerospace revenue was £120.9 million (2009: £186.2 million), in line with our expectations following the exceptional level of vehicle integration contracts last year. Morgan AM&T excluding NP Aerospace EBITA margins were 8.9% (2009: 5.7%), those for NP Aerospace were 14.2% (2009: 15.5%).
- **Molten Metal Systems:** Revenue was up by 33.9% compared to 2009 at £40.3 million (2009: £30.1 million). The Business returned to strong profitability, with a Divisional EBITA of £6.3 million and a Divisional EBITA margin of 15.6%, compared to £0.9 million and a Divisional EBITA margin of 3.0% for 2009, as a result of the realignment of its cost base and focus on high-growth markets.

Morgan Ceramics

- **Technical Ceramics:** Revenue for 2010 was £250.1 million (2009: £206.0 million), an increase of 21.4%. Revenue was up by 20.5% on a like-for-like constant currency basis, with all regions showing strong improvement. Divisional EBITA was £34.0 million (2009: £25.1 million), reflecting a year-on-year increase of 35.5% at reported rates.
- **Thermal Ceramics:** Revenue for the Thermal Ceramics Business increased by 13.9% to £359.0 million in 2010 (2009: £315.1 million). On a constant currency basis, the year-on-year increase was 12.1%. Divisional EBITA also increased in the year to £34.8 million (2009: £26.7 million), an increase of 30.3% at reported rates.

Cash generation

The net cash inflow from operating activities was £148.1 million (2009: £134.5 million), an increase of 10.1% over the previous year. The Group was able to generate positive cash flow from working capital of £10.5 million despite the growth in sales volumes. Free cash flow before acquisitions and dividends was £76.5 million, a substantial increase on the £53.5 million achieved in 2009. Net debt at the year end was £236.2 million, an improvement of £16.5 million compared to the 2009 year-end position.

Key performance indicators

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

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

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

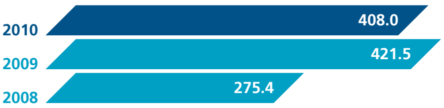
KPI	Performance 2010	2009	Relevant strategic objective
Financial KPIs			
Revenue growth	**7.9%**	12.9%	→ Creating consistent long-term value for shareholders → Focus on higher growth markets
Underlying operating profit* growth/(decline)	**31.9%**	(21.6)%	→ Creating consistent long-term value for shareholders → Focus on higher growth markets → To be high value-added to our customers → To have a culture of operational excellence and cost efficiency
Underlying operating profit* margin	**10.0%**	8.2%	→ 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	**£76.5m**	£53.5m	→ Creating consistent long-term value for shareholders
Underlying earnings per share**	**18.7p**	13.2p	→ Creating consistent long-term value for shareholders
Dividend per share	**7.7p**	7.0p	→ Creating consistent long-term value for shareholders
Non-financial KPIs♦			
Year-on-year pricing change	**1.1%**	2.0%	→ To be high value-added to our customers
Total employment costs as % of sales	**29.5%**	28.6%	→ To have a culture of operational excellence and cost efficiency
Employee turnover	**13.7%**	16.7%	→ To find, keep and develop the right people
Training hours per employee	**19.4**	12.4	→ To find, keep and develop the right people
Lost time accident frequency (per 100,000 hours worked)	**0.64**	0.56	→ To have a culture of operational excellence and cost efficiency → To find, keep and develop the right people
Tonnes CO_2 per £m revenue	**419**	408	→ To have a culture of operational excellence and cost efficiency
Tonnes waste per £m revenue	**44**	56	→ To have a culture of operational excellence and cost efficiency

* Defined as operating profit before amortisation of intangible assets.
** Defined as basic earnings per share adjusted to exclude amortisation of intangible assets. See note 9 on page 110 for definition of basic earnings per share.
♦ Non-financial KPIs are at constant currency.

Review of operations

Morgan Engineered Materials Division

Divisional revenue
£m



Divisional EBITA
£m

Business description

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

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

As at 2 January 2011 the Division employs some 4,000 people, serving customers in around 100 countries worldwide. Its global presence includes 40 operating facilities in 25 countries, with major materials processing plants in the USA, Europe, South America and Asia feeding an integrated network of finishing plants. The Division benefits from a strategically located low-cost manufacturing base, with sites in Mexico, China, Hungary and India that allow the Division to serve customers across the globe.

Growth in core markets drives significant profit improvement

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

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

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

Defence and protection
Morgan Crucible continues to be a supplier of advanced ceramic technology to the US body armour market through its Morgan AM&T Business. It is also the major supplier of protective body armour systems and advanced lightweight vehicle armour systems to the UK's defence forces through NP Aerospace. The acquisition of NP Aerospace broadened the materials portfolio and competency in ballistics, positioning Morgan Crucible as a global leader in lightweight armour systems. NP Aerospace remains a critical resource to the UK's Ministry of Defence for major integration contracts for the fielding of next-generation tactical wheeled vehicles and the highly advanced systems have seen service in both Iraq and Afghanistan.

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

Fluid handling
Seals and bearings are critical to the pumps and compressors used in many fluid handling applications in the petrochemical, food processing, residential, irrigation and oil and gas industries. Morgan AM&T has a wide and expanding range of carbon and silicon carbide materials and is a globally recognised leading provider of seal faces, bearings, rotors, vanes and other technical solutions required for a large variety of fluid handling applications.

Non-ferrous metals
MMS has a leading market position in crucibles used in foundry applications in the non-ferrous metals industry, which make up 80% of its revenue. Key markets are North America, India, Brazil, Germany and Asia – particularly China.

Review of operations
continued

Morgan Engineered Materials Division continued

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

Semiconductor processing
Morgan AM&T products are at the heart of many electronic innovations, and are used in semiconductor manufacturing processes such as ion implantation, epitaxy and compound crystal growth. With the drive to faster, smaller and lower cost devices, semiconductor processing equipment companies are dependent on advanced materials being able to work at higher temperatures and having higher purity levels to achieve the required performance. The Business also supplies products used in the manufacture of components such as optical fibres and laser diodes, and is securing a growing presence in the high-growth market for LEDs. Although this sector represented a relatively small portion of the Business's revenue in 2010, its engineered solutions are highly valued and prospects for future growth through innovation and global reach are promising.

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

Business performance
Revenue in the Engineered Materials Division was £408.0 million (2009: £421.5 million), representing a decrease at reported rates of 3.2%. At constant currency this decrease in revenue was 4.6%. The revenue for Morgan AM&T excluding NP Aerospace was £246.8 million (2009: £205.2 million) representing a significant increase of 20.3% at reported rates and 17.2% on a constant currency basis. NP Aerospace revenue was £120.9 million (2009: £186.2 million), in line with our expectations following the exceptional level of vehicle integration contracts last year. MMS achieved revenue of £40.3 million (2009: £30.1 million), representing very strong growth of 33.9% (29.9% on a constant currency basis).

EBITA for the Engineered Materials Division was £45.5 million (2009: £41.4 million), a margin of 11.2% (2009: 9.8%). This improvement reflects the strong recovery in Morgan AM&T and MMS and the fact that NP Aerospace continued to deliver mid-teen margins despite the large reduction in sales volumes. Morgan AM&T EBITA margins were 8.9% (2009: 5.7%), those for NP Aerospace 14.2% (2009: 15.5%), and for MMS 15.6% (2009: 3.0%).

The improvement in the Morgan AM&T results reflects the recovery of its core business across most end-markets with the order book showing continued improvement through the period. Morgan AM&T continues to benefit from the strong development of its Chinese business with revenue growing more than 40% in 2010. The Morgan AM&T Business also continues to see the benefits of the extensive cost reduction actions taken in 2008 and 2009, with improved margins being achieved from moves to low-cost regions such as Mexico, China and Hungary and from the ongoing Operational Excellence Program.

MMS revenue grew across all regions with a particularly strong performance in China, India and South Korea driving total revenue above the pre-recession levels of 2008. The business returned to strong profitability, at mid-teen margins, as a result of the realignment of its cost base and focus on high-growth markets.

Business developments

The background to 2010 has been the recovery in the global economy which saw a pick-up in the industrial markets served by the Morgan AM&T and MMS Businesses.

The Morgan AM&T Business saw demand in European markets and the Americas recover from the low levels during the global economic crisis, although in a number of areas it has not yet reached pre-recession levels. Sales in China, however, continued to grow strongly, largely due to the wind and automotive sectors. Solid market share gains were achieved in target segments such as railways and wind energy in both Western and developing economies.

Cost reduction initiatives were continued in Europe, despite increases in demand, with more production being moved to low-cost countries, production of similar products consolidated to fewer sites and overhead costs reduced.

In December, Morgan AM&T added a new technology to its portfolio through the acquisition of Changsha Hairong New Materials Co., Ltd., the leading lithium ion anode company in China for electric vehicle and energy storage applications. This acquisition strategically positions the Business to capitalise on these two burgeoning sectors in China and to build a strong global position in the wider global lithium ion market.

Looking forward, demand in the renewables sector is expected to grow significantly and Morgan AM&T is well placed in terms of its technology portfolio and global reach to capitalise on this growth.

The Division continues to invest heavily in the development of ballistic solutions to counter ever-increasing threats and to meet demand for lighter weight solutions. The ballistic protection market in the UK was less robust in 2010 than in recent years, with reduced Urgent Operational Requirement ('UOR') demand for tactical wheeled vehicles by the UK Ministry of Defence. Going forward the Division expects that the market will continue to offer solid opportunities due to the continued escalation of ballistic threats and increasing demand for lighter, more mobile solutions for both vehicles and personnel.

An NP Aerospace office was opened during the year in the USA in Detroit, Michigan as part of the Division's strategy to leverage its global infrastructure to deliver NP Aerospace's technologies to the major NATO militaries.

In the MMS Business, demand rebounded during 2010 led by strong growth in Asia with MMS well placed for the future growth that is expected to come from the 'BRIC' countries.

Outlook

For the Morgan AM&T Business the near- and long-term prospects remain positive, with demand in Western markets expected to continue to improve during 2011 and with operations in China expected to continue to grow strongly.

Improvements to the cost base and to global operational capability, along with the focus of effort and resource on higher growth markets, mean that the Business is well positioned to take advantage of improvements in the global economy.

NP Aerospace is expected to continue to perform well above pre-acquisition levels; however, revenue in 2011 is expected to be below that of the last two years as UOR demand continues to ramp down for the vehicle integration business. Opportunities beyond the UK market are being actively pursued with the potential to drive a further 'reinvention' of the business.

The outlook for MMS is positive with continued sales growth in Asia and increasing throughput through the Indian and Chinese manufacturing facilities. Having successfully completed the relocation of its manufacturing facilities, approximately 70% of MMS's 2010 output came from India, Brazil and China. MMS continues to be well placed to take advantage of the continuing growth of emerging economies and to retain its market-leading position.

Review of operations continued

Morgan Ceramics Division

Divisional revenue
£m

Divisional EBITA
£m

Business description

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

As at 2 January 2011 Morgan Ceramics employs some 5,800 people worldwide. The Division is a truly global business, with 57 manufacturing sites across six continents. The Business 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, 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 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 business 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.

Strong performance in recovering markets

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

Technical Ceramics' components and assemblies are used for 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 for aero engine build and repair and ceramic components and sub-assemblies for aero engine monitoring and control equipment.
- 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 and medical and industrial applications.

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

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

Market sectors

Energy

The Division is increasingly being called on to develop components and sub-assemblies for new products across the power sector. It supplies a range of products used in the manufacture of thin-film photovoltaic cells for the solar industry, while the Certech business manufactures cores used in the manufacture of turbine blades for industrial gas turbines.

Environmental and energy/cost efficiency issues make heat and thermal management a key issue in the power generation and renewable energy sector. The Division's thermal management products have a strong position in higher end applications, for example low bio-persistent fibre Superwool® is used for duct insulation in heat recovery steam generators (HRSGs), providing high-temperature resistance using an environmentally friendly material. The new-generation fibre Superwool Plus® improves HRSG design further by reducing heat losses or reducing panel thickness.

Review of operations
continued

Morgan Ceramics Division continued

Transportation
Morgan Ceramics supplies a wide range of products to the aerospace industry, from braze alloys for engine build and repair and ceramic components and sub-assemblies for engine monitoring and control equipment to cores used in the casting of turbine blades.

The Division also supplies piezoelectric components and sensors, including fuel level sensors and gyroscopes, and Diamonex™ engineered coatings for use on critical components of aircraft fuel systems. In addition, the Division's Min-k™ range of microporous insulation is used in many applications to provide heat shields, such as protecting aircraft reverse thrusters from hot exhaust gases and also protecting the electronics in a flight data recorder in the event of an accident.

As automotive technologies advance in response to regulatory and consumer demand, new materials and systems are required to solve thermal, noise reduction, high temperature filtration and friction-related issues. A wide range of Morgan Ceramics' products are used successfully to meet these needs with fibre blankets and papers providing thermal and acoustic solutions for the truck and bus industry in such areas as the floor, engine compartment and exhaust systems.

The piezoelectric properties of PZT ceramic make it an ideal material for the transducers and sensors found in numerous automotive applications such as parking aids, alarm systems, wheel balancing, engine knock sensors and ignition systems. Technical ceramics, such as alumina and zirconia, offer ideal properties for seals in injector units, pump bearings and valve plates.

Healthcare
Morgan Ceramics' medical engineering expertise includes ceramic orthopaedic joint replacements and highly specialised ceramic-to-metal assemblies for implantable devices such as pacemakers, cochlear implants and defibrillators.

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

Piezoelectric components are also the key technology in applications such as blood flow measurement and foetal heart monitors, providing increased reliability and accurate detection. Additionally, they can be found in ultrasonic air-in-line sensors in medical devices and infusion pumps. The high-performance piezoelectric material is used in high-power transmission of high-frequency waves to assist with surgical cutting. Morgan Ceramics supplies efficient materials for small medical tools such as ultrasonic dental descalers and ultrasonic scalpels, which are used in applications such as cataract removal, and ceramic capacitors can also be found in lasers for eye surgery.

Electronics, telecoms and consumer
Morgan Ceramics' components and sub-assemblies are used extensively in hand-held, land-based and satellite communications equipment and networks for the telecommunications sector, as well as in PCs, servers, data storage and a range of peripheral equipment for IT hardware producers.

The demand for mobile devices that offer increasing functionality, together with increased requirements for data storage, drives the consumer products market to develop and introduce a constant flow of new products. In addition, the laser market continues to find new applications that drive growth in product marking and process control.

Petrochemical
Morgan Ceramics supplies both new and retro-fit projects in the global petrochemical sector, providing heat management solutions for fired heaters, sulphur recovery units, fluid catalytic cracking units and boilers. The Division also supplies offshore platforms with FireMaster™ fire protection systems, which are comprehensively certified and extensively tested to meet national and international standards, offering proven performance.

Long-term growth in this sector is geared to population expansion with projects lasting many years in planning and implementation. Fire protection-related legislation is also a key factor in driving demand.

Industrial
Morgan Ceramics' high-efficiency piezoelectric materials are used in many high-power ultrasonic systems such as those for cleaning and welding, whilst its range of advanced ceramics are ideal for use in harsh processing environments such as those found in valves, pumps and a variety of manufacturing processes.

Morgan Ceramics' ceramic rollers are used in kilns used to manufacture metals, glass, ceramic-ware and fuel cells, and kiln furniture and high-temperature components are used in many specialist thermal processing applications, from industrial annealing to the manufacture of medical devices and scientific equipment. The Division's fibre products also offer multiple benefits to the ceramics industry, including saving energy by reducing kiln car mass, and over one million square metres of our insulating products are installed each year in kilns firing ceramic products, including tiles, tableware and sanitary ware.

The Division is a leading supplier of monolithic linings for blast furnaces, fibre modules in reheating and heat treatment furnaces and insulating firebricks for hearth and reheating furnaces where product quality is a key differentiator. The Division's FireMaster™ fire protection systems are comprehensively certified and extensively tested to meet national and international standards offering proven fire protection in industrial plants.

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

For technical ceramic applications, internal research and development for components and sub-assemblies has been focused on product development for the medical, renewable energy and water filtration markets. A number of patents are in process to protect our intellectual property in these areas. Developments include new technologies for implantable devices that will enable higher density electronic implantable devices for applications such as neurostimulation. This is a relatively new medical implant application but with high growth opportunities as it addresses a variety of illnesses and conditions.

Renewable energy and the supporting infrastructure continue to find new applications for ceramics. Water filtration using ceramic technology has also started to become an active area of development as the properties of ceramics can be controlled and outperform many other material solutions.

Review of operations
continued

Morgan Ceramics Division continued

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 our product range in this area.

Business performance

Revenue in the Morgan Ceramics Division was £609.1 million (2009: £521.1 million), representing an increase at reported rates of 16.9%. At constant currency the increase in revenue was 15.4%.

Revenue for the Technical Ceramics Business in 2010 was £250.1 million (2009: £206.0 million), an increase of 21.4% at reported rates. Revenue was up by 20.5% on a like-for-like constant currency basis with all regions showing strong improvement. Thermal Ceramics' revenue increased by 13.9% to £359.0 million in 2010 (2009: £315.1 million). On a constant currency basis, the year-on-year increase was 12.1%.

EBITA for the Morgan Ceramics Division was £68.8 million (2009: £51.8 million), a margin of 11.3% (2009: 9.9%). For Technical Ceramics, EBITA was £34.0 million (2009: £25.1 million), reflecting a year-on-year increase of 35.5% at reported rates. At constant currency this increase was 34.0%. Technical Ceramics raised its EBITA margin by 1.4 percentage points, reaching 13.6% for the year (2009: 12.2%). Thermal Ceramics' EBITA also increased in the year to £34.8 million (2009: £26.7 million), an increase of 30.3% at reported rates. The EBITA margin also showed good improvement to 9.7% (2009: 8.5%).

Business developments

During the year, Technical Ceramics maintained its focus on positive mix shift, building the number of new business projects in higher margin, higher value-added end-markets such as medical and aerospace, whilst continuing to reduce exposure to more commoditised and economically cyclical product areas. Continuous operational improvement programmes, cost reduction initiatives and emphasis on positive price pass-through are all helping to support margin growth. The plan to consolidate the majority of two sites in California, USA was completed on time and the benefits produced were in line with expectations and also supported margins in the year.

In 2010 major investments concentrated on opportunities that consolidated our position in the key market for next-generation hard disc drive components. The merger with the Thermal Ceramics Business now gives the Business greater resources to establish a significant Technical Ceramics Business in Asia and Latin America.

Whilst 2010 represented a return to growth for Thermal Ceramics, it has also been a period of continued cost control and consolidation in the face of challenging global economic conditions. Commencing in the second half of 2010 we began the process of reducing costs in mainland Europe and announced plans to reduce overheads.

Thermal Ceramics' new product development remains concentrated in the field of low bio-persistent fibre with the continued roll-out of Superwool Plus®, a product offering improved insulation performance, as well as the higher temperature Superwool HT®. The Business is positioned as the global technology leader in the production of its low bio-persistence product range.

The emphasis of the Thermal Ceramics 'World Class Manufacturing' programme was changed. The focus remains to increase productivity by improving health, safety and environmental performance, quality, cost, logistics and customer satisfaction. The programme has been renamed 'Operational Excellence' with targets based on a benchmarking programme that have accountability and responsibility at plant level. These locally based and managed initiatives are being coordinated and supported by engineering and research time to optimise manufacturing processes.

Outlook

Overall, market demand strengthened in 2010 as shown by Technical Ceramics' order book and its improved new business pipeline.

The North American business was the first to show recovery and towards the end of the first half Europe began to improve. Despite these positive signals the Technical Ceramics Business continues to watch carefully for any signs of inflation. Continued weakness in the industrial gas turbine sector and medical device markets are being offset by improvements in demand from sectors within the electronics market. The production ramp-up to meet demand for the next generation of hard disk drive products is continuing to plan.

The European business had a better year despite a slow start with weak market conditions in general industrial markets and construction. This principally affects the business in Germany, which supplies products for manufacturing applications involving thermal processing.

Throughout the year the Technical Ceramics Business saw reduced demand for industrial gas turbine products and this is likely to continue into 2011. The Business continues to look carefully at potential bolt-on acquisition opportunities that would enhance the offering in key markets, which together with a strong new business pipeline leaves the Business well placed for the future.

During the second half of 2010 Thermal Ceramics' order intake started to improve in all regions including Europe. This has continued into the early part of 2011 with the expectation that the year will show a trend of continued improvement. Of particular note is the strength of the South American market which is being led by the significant investments being made in the petrochemical sector.

The medium-term outlook for Thermal Ceramics remains encouraging, driven by the growth in global population and the continuing industrialisation of emerging economies. In 2010 some 39% of revenue was generated in the Asian and Latin American regions and this percentage is set to increase. These factors, combined with the need to reduce energy expenditure and the increasingly stringent environmental legislation that favours low bio-persistent fibres such as Superwool®, will continue to drive demand for Thermal Ceramics' heat management solutions. The merger with the Technical Ceramics Business will encourage the further differentiation of the Division's fibre business and allow the Business to leverage the strength of its worldwide management team.

Corporate responsibility

Introduction

At Morgan Crucible, corporate responsibility is integral to our business, supporting each of our five strategic priorities. In this section we report on our Responsible Business Programme and our policies, procedures and performance in respect of business ethics, community relations and suppliers and customers. Subsequent pages cover Environment, health and safety (EHS) and Our people. In addition, our 2010 EHS Report, planned for publication on our website in April 2011, will provide a more comprehensive review of our 2010 EHS performance.

The Board is accountable for corporate responsibility policies and procedures. The Chief Executive Officer, Mark Robertshaw, is the executive in charge of all corporate responsibility matters including internal and external stakeholders.

As detailed in the policy implementation section below, during 2010 the Group rolled out its Responsible Business Programme. At least one of the executive Directors and/or a member of the Executive Committee participated in each of the Responsible Business Programme 'train-the-trainer' sessions during the year. The Group also updated its whistleblowing procedure and the new ethics hotline was launched in early 2011.

Corporate responsibility policies and procedures

The Company's Group-wide intranet provides employees with online access to the Group's policies and related procedures and guidance notes. Key policies are also published on the Group website.

Core values

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

Business ethics

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

Our Core Values Statement and Ethics Policy oblige all employees to operate in accordance with applicable laws and regulations and specifically prohibit the giving or receiving of bribes. These policies apply, so far as is appropriate, to our business partners, including contractors, agents, joint ventures and suppliers. The Company also requires that no employee shall suffer discrimination as a result of refusing to pay or receive a bribe. Anti-bribery and corruption training is covered by the Responsible Business Programme further detailed below.

Our Anti-Trust Compliance Programme helps ensure that we comply with anti-trust and competition laws around the world. The programme has been in place since 2002 and was updated in 2008 to include new training materials and an updated programme structure. A further update is planned for 2011 as part of the development of the Responsible Business Programme.

Community

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

Customers and suppliers

Morgan Crucible's customer service strategy is to respond quickly to changing customer demand, to identify emerging needs and to improve product availability, quality and value. We stay close to our current and potential customers, building long-term relationships.

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

We aim to work with our customers, suppliers and other partners in mutually beneficial ways and, so far as is practicable, require that our customers and suppliers, joint venture partners and contractors throughout the supply chain act in accordance with our policies and values. Our support for the Universal Declaration of Human Rights, referred to in the Our people section on page 52, commits us in respect of all those who work for the Company and those who have dealings with it, including suppliers.

Corporate responsibility policy implementation

The implementation of our corporate responsibility-related policies and procedures is aligned with the overall governance structure of the Group. The implementation of our EHS and people-related policies is covered in more detail on pages 49 to 53.

We describe below some of the processes for implementing and monitoring our key corporate responsibility policies and procedures and those in respect of verification of our environmental, social and governance (ESG) disclosures.

The Group's Responsible Business Programme was rolled out during the year. Complementing the Group's existing Anti-Trust Compliance Programme, the Responsible Business Programme also covers human rights, legal and contract risk management and ethics and anti-bribery. The roll-out of the programme includes 'train-the-trainer' sessions for some 180 general managers, compliance officers and other key staff worldwide. The general managers then deliver the training on a site-by-site basis to over 1,200 relevant employees. The face-to-face training includes dilemma and scenario-based discussions complemented by e-learning modules. The training materials and e-learning modules are available in English and eight other languages. Participation in the programme and implementation of the site-by-site training are monitored at a Group level with participants required to achieve a 100% score in each e-learning module in order to pass.

During the year, train-the-trainer sessions were held in nine different locations in the Middle East, Asia, Europe and South America. Each was attended by one or more of the executive Directors and/or a member of the Executive Committee and senior Divisional management. Site-level training is underway and further 'train-the-trainer' sessions are being held in Africa, North America and the UK in early 2011.

Business ethics

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

The Morgan Crucible whistleblowing line enables employees and other stakeholders who are aware of, or suspect, misconduct, illegal activities, fraud, abuse of Company assets or violations of Morgan Crucible's Ethics Policy to report these confidentially without fear of retribution should they feel they cannot use a local channel. The Group is in the process of updating its whistleblowing procedure and the new third-party-operated ethics hotline was launched in early 2011. This includes local free-phone numbers in each of the countries in which the Group operates with real-time translators available as necessary. Posters for site noticeboards and other promotional materials for the new hotline are available in 17 languages.

Morgan Crucible's global Anti-Trust Compliance Programme is ongoing, with regular training for relevant employees across the Group. Anti-Trust Compliance Officers within each business report to the Company Secretary, as Global Compliance Director, on the continuing effectiveness of the programme. The Anti-Trust Compliance Programme includes independent audits, the results of which are considered by the Company Secretary who reports to the Executive Committee and the Board on the effectiveness of the programme and on any issues arising.

Community

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

Customers and suppliers

The Chief Executive of each of our Divisions have specific responsibility for customers and suppliers and the related policies and procedures within their respective Divisions.

Verification of ESG disclosures

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

Corporate responsibility
continued

All Morgan Crucible businesses are regularly reviewed under the Group's EHS Compliance Audit Programme and those sites and businesses certified to ISO 9001, ISO 14001, OHSAS 18001 and other standards have regular external audits. The Group also uses external professional advisers in relation to specific EHS matters as required and is considering the potential for external assurance of its EHS key performance indicators in 2011.

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

Corporate responsibility policy effectiveness

Business ethics

During the year ethics-related issues raised through the whistleblowing line, the dedicated ethics email facility or via other channels were followed up by the Director of Risk Assurance in consultation with the Company Secretary. Further investigations are conducted through the Audit Committee as required. Where appropriate, disciplinary action is taken and/or additional guidance and training provided. As detailed on page 47, a new third-party-operated ethics hotline was launched in early 2011. In respect of the Anti-Trust Compliance Programme, the independent audits referred to above confirm the continued effectiveness of the programme.

Customers and suppliers

Morgan Crucible continues to benefit from long-term relationships with many customers and suppliers, reflecting the effectiveness of our customer service and supplier-related strategies. Some examples of the products and markets we serve are included on pages 1 to 23 of this Annual Report.

Community

During the year the Group's charitable donations were £250,229 (2009: £302,232). This is in addition to the time given and donations made by Morgan Crucible employees around the world.

During 2010, Morgan Crucible supported a number of initiatives at Group, Divisional and site level. The main emphasis of this support is to help disadvantaged young people and sponsor local community projects which can also engage and involve employees. Example initiatives include:

- The Group continued its three-year, £60,000 programme to support the Army Cadet Force Association (ACFA) Outreach Project.
- Morgan Crucible continues to support the joint Barnardo's/Outward Bound initiative which provides opportunities for young people to develop life skills at a centre in Ullswater, UK.
- Our Divisions sponsor a number of local sports facilities and the teams that use them. For instance, NP Aerospace is a major sponsor of the Godiva Harriers, the oldest athletics club in Coventry, UK. The Technical Ceramics Business in Stourport, UK provides support to the local football team, and in the USA, the Morgan AM&T Business supports a number of athletic teams in St Mary's, PA, USA.
- NP Aerospace also supports Help for Heroes, the UK-based charity which helps wounded servicemen and women, as well as a number of related charitable causes.
- The Group also supported the Royal National Institute of Blind People and a number of other sports and health-related charities and appeals.
- As part of the 650th anniversary celebrations of the town of Berkatal, Germany, the MMS Business Carl Nolte Söhne made special small crucibles which were sold to raise money for a nearby home for children living with cancer.

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

- Employees at the Thermal Ceramics plant in Augusta, GA, USA supported the local 'Stop Hunger Now' project. The team joined 600 local volunteers at Augusta State University to help package 80,076 meals to be sent to Haiti to feed earthquake victims, particularly children in schools and orphanages. The company also sponsored the activity through the Rotary Club.
- A long-serving employee at the Technical Ceramics site in New Bedford, MA, USA introduced her colleagues to the charity 'Knit-a-Square', which helps less fortunate African children stay warm during the winter. After first knitting small squares they progressed to blankets, gloves and hats and held raffles to raise money for shipping.
- To support victims of the Qinghai Yushu earthquake, some 200 employees at the Morgan AM&T plant in Shanghai, China raised 20,250 RMB.
- In the UK a number of Morgan Crucible employees sponsored one of their colleagues in the Cardiff half-marathon to raise money for 'Education Towards a Future'. This charity supports Kenyans who cannot afford a university education but would use a degree to benefit their community.
- After February's Chilean earthquake, employees of the Thermal Ceramics Business in Chile organised trips in company vans to the affected areas, delivering donations from employees and the Company.

Environment, health and safety

Our Environment, Health and Safety (EHS) Policy and implementation programmes support our five strategic priorities and our Core Values Statement. The regular collection and reporting of EHS key performance indicators (KPIs) and the setting of EHS-related targets assist us in the development and monitoring of programmes to reduce the impact of our operations on the environment.

The Company is committed to conducting all its activities in a manner which achieves the highest practicable standards of health and safety for our employees and others affected by our operations.

This Report includes a summary of our EHS Policy and its effectiveness as demonstrated through our EHS KPIs and programmes. Further detail will be included in our 2010 EHS Report to be published on our website in April 2011. The EHS Report will also include case studies to help demonstrate our approach to enhancing the sustainability of our business.

EHS Policy

The Group's EHS Policy applies Group-wide. It is made available to all employees and is published on our website and in our annual EHS Report.

Our EHS Policy requires high standards of EHS management at all sites. These are achieved through risk assessment and the management and mitigation of identified risks to help provide continuous improvement in EHS performance in support of our strategic priorities.

EHS Policy implementation

Our EHS Policy forms the basis of our EHS management systems and processes. The management of our EHS performance is aligned with the operation of our day-to-day business. The Chief Financial Officer has specific responsibility for EHS Policy and performance, supported by the Director of Environment, Health and Safety. Operational responsibility is delegated to the Chief Executive of each Division and the manager of each operation. In practice, all employees are responsible for ensuring that our EHS Policy is implemented and for identifying additional areas and opportunities for further development.

Morgan Crucible's EHS management processes include the EHS Compliance Audit Programme which is carried out by external auditors in Europe and Asia and in-house resources in the Americas. This programme provides assurance of the EHS management at each site and helps ensure compliance with local regulations and good management practice. During 2010 the EHS Compliance Audit Programme was extended to cover the EHS KPIs reported by each site. All of the Group's manufacturing facilities are audited on a three-year rolling cycle. Twenty-eight sites were audited during 2010. Our target for 2011 is to audit a further 26 sites.

Training is an integral part of our EHS Policy implementation. During 2010 the Group's ongoing training programme in China focused on further developing the EHS management systems at each site and specific training in job safety analysis. In India all of the Group's facilities were assessed for their level of EHS awareness and competence, after which two EHS training courses were conducted, the first for senior management and the second for operational managers.

The EHS management system developed for use in China has been adapted to Indian regulations and implementation at the facilities has commenced. It is planned to complete this in 2011.

During the year our UK sites were accredited to the Carbon Trust Standard. This certifies that we have measured, managed and reduced our carbon footprint. The Group's UK facilities were registered under the UK government's Carbon Reduction Commitment scheme.

Environmental management systems are in place at 87 sites worldwide, including 35 major sites certified to ISO 14001 (2009: 33 sites). Three sites achieved certification in 2010, including the main NP Aerospace sites. These new certifications are in addition to the ongoing programme of recertifications. All of our major sites worldwide have health and safety management systems in place, with 11 sites certified to or working towards OHSAS 18001.

Corporate responsibility
continued

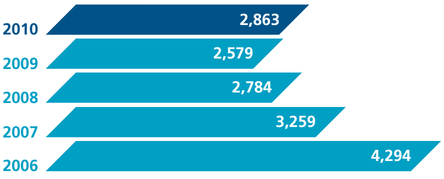
Environment, health and safety continued

CO_2 intensity*
Tonnes/£m revenue**

Energy intensity+
MWh/£m revenue**

Waste intensity~
Tonnes/£m revenue**

Water intensity#
m^3/£m revenue**



* CO_2 equivalent from all fossil fuels, including country specific electricity.
** Constant currency basis, including inter-company sales.
\+ Energy from all sources.
~ Hazardous and non-hazardous waste, including recycled material.
\# Water from all sources, including process, irrigation and sanitary use.

EHS Policy effectiveness

In addition to the EHS Compliance Audit Programme, the Group monitors the effectiveness of its EHS Policy through a series of EHS KPIs. These are reported Group-wide on a monthly basis and the Executive Committee and the Board receive reports every six months.

Where necessary, historic data has been restated to reflect reporting changes with environmental intensity KPIs reported at constant currency. The summary charts on pages 50 and 51 represent the Group's EHS performance in real terms, covering 100% of production sites during the year.

The verification of our environmental, social and governance disclosures is discussed on page 47 and the Group is considering the potential for external assurance of its EHS KPIs in 2011.

Environmental performance

Wherever possible we work to minimise the impact of our business on the environment and to maximise the positive environmental benefit of our products.

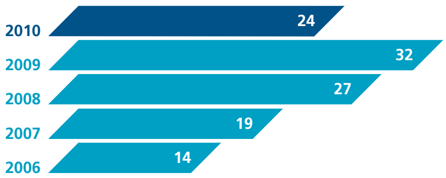
The Group's long-term aim is to reduce the impact of the Group's operations on the environment, as measured by energy, CO_2 emissions, waste and water intensity. Our target for the two years 2009-10 was to reduce the intensity of our CO_2 emissions from all sources of energy use by 5% in real terms. Although our CO_2 intensity was up by 3% in 2010 compared with 2009, over the two-year period 2009-10, CO_2 intensity was down by 12%. In absolute terms total CO_2 emissions due to energy use in 2010 were some 426,330 tonnes against 457,862 tonnes in 2008 (2009: 389,763 tonnes). In particular, the performance of our energy-intensive businesses benefited from the efforts that they have put into energy efficiency measures with an energy intensity reduction of 6% in 2010. During the year we reassessed our waste management reporting to exclude scrap material which is reused in-house and have restated our historic reports accordingly. On this basis waste intensity was down by 34% over the two-year period 2009-10, ahead of our 5% reduction target. The proportion of total waste which was recycled was 24% in 2010, up 7% on the prior year. This was ahead of our previous target which was to increase the proportion of waste which is recycled by 6%. Although our water intensity is down by 33% over the last five years, water intensity was up 11% in 2010 and by 3% over the two years 2009-10. Therefore we did not achieve our targeted 5% reduction over the period. The use and recycling of water remains an area of focus for the Group's businesses.

We will again be targeting reductions in our energy, emissions, waste and water intensity in 2011-12. Further details will be included in our EHS Report to be published on our website in April 2011.

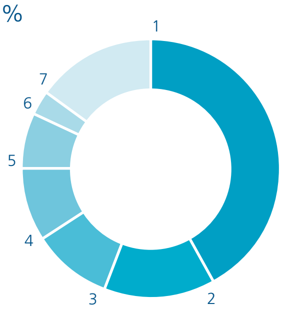
Lost time accident frequency*
LTAs/100,000 hours*

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

Lost time per LTA*
Days per LTA*



Accident causes
%



1	Cuts and abrasions	42%
2	Manual handling	14%
3	Strike stationary object	10%
4	Struck by object	9%
5	Slips, trips, falls	7%
6	Moving machinery	3%
7	Other	15%

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

Health and safety performance

Our long-term health and safety objective is to have no accidents. In 2010 we continued to extend our accident prevention and training programmes throughout the Group with the objective of reducing the time lost per lost time accident and placing particular focus on those sites with below-average performance.

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

In 2010 the number of days lost due to accidents was down 11% in the year, while lost time as a proportion of working time was down 15% to 0.12% of working time and the average time lost per lost time accident decreased to 24 days (32 days in 2009, 27 days in 2008).

The frequency of lost time accidents across the Group was 0.64 per 100,000 hours worked (0.56 in 2009, 0.69 in 2008). The number of lost time accidents was 122 (103 in 2009 and 142 in 2008). Manual handling, cuts and abrasions remain the most common causes of accidents and we continue to address this, specifically targeting businesses with below-average performance.

Corporate responsibility continued

Our people

The year has seen Morgan Crucible make good progress through improvements in the financial performance of the business with increased levels of revenue, of profits and of profit margins. The year also saw the Company streamline its organisational structure creating two Divisions, Morgan Ceramics and Morgan Engineered Materials, which has reinforced the strategic positioning of the Company globally and enhanced growth opportunities. These changes in the business have enabled us to further enhance the positive working environment for employees and create new and exciting challenges all over the world. During this period we have continuously worked to develop the skills of individuals and the capabilities of the organisation as a whole to meet these challenges as the performance of our people is critical to our success.

Our people performance is evaluated monthly, quarterly and annually through the collation of key performance indicators, which are summarised in the sections below.

People Policies

We support the Universal Declaration of Human Rights and our Human Rights Policy commits us to protect the rights of everyone who works for the Group 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 our 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 Morgan Crucible ethics hotline enables employees who are aware of or suspect issues under our Human Rights Policy to report these confidentially.

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

Key to building and maintaining the trust and respect of our people and growing their understanding and motivation levels is open, timely and factual communication. Our systems provide two-way communication forums through online working areas encouraging greater collaboration. The Divisions communicate regularly through employee forums, team briefs and Divisional magazines. We regularly request feedback from employees on many different aspects of our business.

Demands on the business are continuously changing and we see our businesses moving in different directions as they evolve into new markets and industries. This raises significant challenges in the placement of current and new talent into jobs that fit those business requirements, at the time they are needed. We review short- and long-term business needs on a regular basis and carry out succession planning and talent reviews to identify any skill gaps. When recruiting for a vacant position we will draw from internal talent and where necessary seek external candidates. Selection is based on many factors including a candidate's relevant education, work experience, competencies and performance record. We provide equal opportunities in recruitment and employment, ensuring we do not discriminate against any person based on sex, race, caste, origin, religion, disability, gender, sexual orientation, age or any other status protected by law. Should existing employees become disabled, our policy is to provide continuing employment and training wherever practicable.

For the business to achieve superior performance there is an expectation that our people need to operate at superior levels. We aim to support them through a formalised performance management system cascaded through the businesses that focuses on setting clear results-based objectives directly linked to the strategic goals and annual objectives of the business. Providing people with the skills to perform at a superior level is also critical, and we see continuous learning and professional development as a major investment in our future.

We recognise and celebrate the accomplishments of our people individually or as teams. In acknowledging and celebrating achievement, loyalty, innovation and creativity, we strive to motivate and inspire employees towards the pursuit of performance excellence, creating a sense of pride in their work and in Morgan Crucible. Our compensation systems reward people who apply their knowledge, skills and talents to support the achievement of business goals. We pay for performance in all our compensation practices. The total reward package includes a mix of base pay, variable pay and benefits. We establish compensation levels that are both competitive and affordable to Morgan Crucible. We have the flexibility to respond to changing market conditions and competition for high-demand skills, while maintaining equity in salary ranges and pay levels.

Implementation of our People-related Policies

This year the Company launched its Responsible Business Programme which is a blended learning programme focused on human rights, anti-bribery and corruption, and contract risk awareness. The programme covers direct training of general managers and compliance officers, utilising our online training programmes in these areas, providing them with the skills to cascade this training through their respective parts of the business. This programme will evolve with the changing demands of the business and regulatory frameworks around the world. All our businesses must complete an annual certification process confirming their compliance with the Morgan Crucible Policies.

Total lost time
% of working time

Employee turnover
% per year

Training
hours per employee

During the year 'MorgaNet', our intranet site, has grown to provide faster and more efficient access to information from diverse sources across the globe. It has enabled forums to be set up where people can connect and collaborate on many different areas of the business cross-divisionally and globally. Early in the year we set up a global project team to analyse business opportunities in the energy market. The project team collaborates through MorgaNet and regularly reports its findings to the Executive Committee.

Our employees tell us that they like to hear about what's happening in other parts of the Company and enjoy reading our global '360' e-magazine. In 2010, we launched an online version in Chinese in addition to having hard copies available in 13 languages. The Divisions continue to issue regular Divisional newsletters in both soft and hard formats. In Europe we have an established consultative arrangement that provides an arena for the exchange of relevant and appropriate information across the European region. We also held our 14th annual European Employee Forum in April 2010 where site representatives attended from France, Germany, Hungary, Italy, the Netherlands and the UK.

In 2010, we made significant progress with our online 'Developing for Performance' system. The system focuses on developing the skills of our employees through performance management, goal-setting, competency assessment and development planning. It has a Development Centre where Group and Divisional training programmes are located. The system enables managers and employees to track and record their learning and development and link specific development to the achievement of business goals and objectives. In addition, our businesses continue to support local learning initiatives.

In pursuit of growing capability in the labour market, Morgan Crucible continues to sponsor annually the Science, Engineering & Technology Student of the Year awards. We are proud to sponsor this event as we believe it allows high-calibre students to showcase their remarkable research work and demonstrate the depth of ability of graduates in the UK. In 2010 the winner of the Best Materials Student award was Rowan Leary from Leeds University.

People Policy effectiveness

At the end of the year, Morgan Crucible employed 9,844 people. Additionally, we employ 1,175 people on short-term contractual arrangements to provide the numerical flexibility for our businesses to react quickly to changes in market conditions. Our geographic coverage has 33% of employees in Europe, Middle East and Africa, 36% in the Americas, and 31% in Asia Pacific. Of these employees 74% are male. Lost time as a proportion of total working time was 2.6%, with lost time due to accidents in the workplace of 0.1% of total working time. Training hours per employee were 19.4. Our employee turnover was 13.7% in 2010. 2.1% of the workforce was made redundant during the year with high levels of natural turnover coming from China and Mexico where the labour markets are exceptionally fluid.

During the year 23 employees around the world celebrated 40 years of loyal service with Morgan Crucible, with 218 employees celebrating anniversaries of 20, 25 or 30 years service. We are always hugely impressed by the number of employees who remain in our employment for significant periods of their lives. The average length of service of our employees is 11.3 years.

Financial review

Kevin Dangerfield
Chief Financial Officer

There has been a good recovery across most of the markets and geographies served by the Group.

Introduction
These results are produced under International Financial Reporting Standards as adopted by the EU ('adopted IFRSs'). All the figures referred to below are extracted from the financial statements on pages 88 to 151 and comply with adopted IFRSs.

Reference is made to 'Underlying operating profit'* and 'Underlying earnings per share (EPS)'. EPS is defined in note 9 on pages 110 and 111. 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 £1,017.1 million (2009: £942.6 million), an increase of 7.9% compared to 2009. On a constant currency basis, revenue increased by 6.0%.

Group EBITA before restructuring costs and one-off items was £109.5 million (2009: £89.0 million) representing a margin of 10.8% (2009: 9.4%).

Group underlying operating profit was £101.6 million (2009: £77.0 million). Underlying operating profit margins were 10.0%, compared to 8.2% for 2009.

Group operating profit was £93.6 million (2009: £60.7 million). Operating profit margins were 9.2%, compared to 6.4% for 2009.

The Group has incurred costs of £8.5 million in respect of restructuring costs during the year, comprising restructuring activity across all Divisions. Net restructuring costs and gain on disposal of property were £7.9 million in 2010 (2009: £12.9 million). During the prior year net legal costs of £0.9 million were recovered relating to the settlement of prior period anti-trust litigation.

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

	Morgan Engineered Materials				Morgan Ceramics					
	Morgan AM&T		Molten Metal Systems		Technical Ceramics		Thermal Ceramics		Consolidated	
	2010 £m	2009 £m	**2010 £m**	2009 £m	**2010 £m**	2009 £m	**2010 £m**	2009 £m	**2010 £m**	2009 £m
Revenue from external customers	**367.7**	391.4	**40.3**	30.1	**250.1**	206.0	**359.0**	315.1	**1,017.1**	942.6
Divisional EBITA[1]	**39.2**	40.5	**6.3**	0.9	**34.0**	25.1	**34.8**	26.7	**114.3**	93.2
Unallocated costs									**(4.8)**	(4.2)
Group EBITA[2]									**109.5**	89.0
Restructuring costs and other one-off items	**(1.6)**	(5.0)	**0.1**	(1.7)	**(1.7)**	(2.0)	**(4.7)**	(4.2)	**(7.9)**	(12.9)
Unallocated gain associated with settlement of prior period anti-trust litigation									**–**	0.9
Underlying operating profit[3]									**101.6**	77.0
Amortisation of intangible assets	**(4.2)**	(12.7)	**(0.1)**	(0.1)	**(2.5)**	(2.4)	**(1.2)**	(1.1)	**(8.0)**	(16.3)
Operating profit									**93.6**	60.7
Finance income									**29.0**	24.4
Finance expense									**(54.9)**	(53.7)
Profit before taxation									**67.7**	31.4

1. Divisional EBITA is defined as 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.

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	
	2010	2009	**2010**	2009
US$	**1.5447**	1.5687	**1.5657**	1.6149
Euro	**1.1659**	1.1249	**1.1671**	1.1255

The potential impact of changes in foreign exchange rates is given in note 19 on pages 126 and 127.

Amortisation of intangible assets

The Group amortisation charge was £8.0 million (2009: £16.3 million). The main reason for the decrease in amortisation is based on a fair value assessment of the assets of NP Aerospace at the date of the 11% acquisition at the start of 2009. The amortisation calculation was driven by the NP Aerospace order book at the time which was 'fair valued' as part of the intangible assets and amortised over the 12-month period over which the orders were delivered. Hence in 2009 the Group had a one-off increase in its amortisation charge.

In 2010 the Group amortisation charge includes the amortisation on the other ongoing intangible assets the Group has booked on the acquisition of NP Aerospace, the Carpenter businesses and other historical acquisitions.

Finance costs

The net finance charge was £25.9 million (2009: £29.3 million). This charge was primarily net bank interest and similar charges of £24.7 million (2009: £22.8 million), an increase of £1.9 million. Whilst there was a saving of £0.7 million due to lower debt levels and improved cash management, there was a net increase due to 2010 being the first full year of the new Revolving Credit Facility established in 2009 with higher margins and commensurate arrangement and commitment fees.
The balance of the finance charge under IFRS is the net interest charge on pension scheme net liabilities, which was £2.0 million (2009: £4.3 million), an interest expense on the unwinding of discount on deferred consideration of £1.2 million (2009: £2.2 million) relating to the NP Aerospace acquisition, and a £2.0 million one-off gain arising from the closing out of certain US$/euro forward foreign exchange contracts. The impact of potential changes in interest rates on profit or loss is stated in note 19 on pages 125 and 126.

Taxation

Group taxation for the year was £19.7 million (2009: £8.7 million). The effective tax rate was 29.1% (2009: 27.7%). The medium-term view is that the effective tax rate will continue to be c.30%.

Earnings per share

Underlying earnings per share was 18.7 pence (2009: 13.2 pence), basic earnings per share was 15.8 pence (2009: 7.1 pence). Details of these calculations can be found in note 9 on pages 110 and 111.

Dividend

In view of the continued improvement in Group performance in 2010 and the positive future outlook the Directors recommend the payment of a final dividend at the rate of 5.0 pence per share on the Ordinary share

Financial review
continued

capital of the Company, payable on 8 July 2011 to shareholders on the register at the close of business on 20 May 2011. Together with the interim dividend of 2.7 pence per share paid on 12 January 2011, this final dividend, if approved by shareholders, brings the total distribution for the year to 7.7 pence per share (2009: 7.0 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 151 of this Report.

Cash flow

The net cash inflow from operating activities was £148.1 million (2009: £134.5 million), an increase of 10.1% over the previous year. The Group was able to generate positive cash flow from working capital of £10.5 million despite the growth in sales volumes. Free cash flow before acquisitions and dividends was £76.5 million, a substantial increase on the £53.5 million in 2009. At the year end, the Group had net debt* of £236.2 million, an improvement of £16.5 million compared to the 2009 year-end position of £252.7 million.

	2010 £m	2009 £m
Net cash inflow from operating activities	**148.1**	134.5
Net capital expenditure	**(17.0)**	(13.7)
Restructuring costs and other one-off items	**(7.8)**	(12.1)
Net interest paid	**(22.7)**	(23.2)
Tax paid	**(24.1)**	(32.0)
Free cash flow before acquisitions and dividends	**76.5**	53.5
Cash flows in respect of acquisitions	**(32.9)**	(31.9)
Dividends paid	**(15.4)**	(12.1)
Exchange movement and other items	**(11.7)**	28.2
Movement in net debt* in period	**16.5**	37.7
Opening net debt	**(252.7)**	(290.4)
Closing net debt	**(236.2)**	(252.7)

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

Commitments for property, plant and equipment and computer software for which no provision has been made are set out in note 24 on page 139.

Capital structure

At the year end total equity was £252.1 million (2009: £214.6 million) with closing net debt of £236.2 million (2009: £252.7 million).

Non-current assets were £601.8 million (2009: £619.6 million) and total assets were £1,033.2 million (2009: £1,041.2 million).

Details of undiscounted contracted maturities of financial liabilities and capital management are set out in note 19 on page 124.

There have been no significant post-balance sheet events.

Capital structure is further discussed in note 19 on page 127 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 US with others in Continental Europe. The Group pension deficit decreased by £2.0 million since last year end to £103.9 million on an IAS 19 basis. The main movements were in the US and UK pension schemes. The UK scheme deficit improved by £7.9 million to £26.6 million (2009: £34.5 million), with £6.5 million of this improvement being due to a switch from RPI to CPI indexation in respect of the deferred pensioners in the scheme. The US scheme deteriorated by £4.1 million to £50.3 million (2009: £46.2 million) mainly due to changes in the mortality assumptions. Refer to note 20 on pages 130 to 133 for further details.

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

Foreign exchange risks

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

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

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

Interest rate risk

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

Credit risk

Credit risk arises when a counterparty fails to perform its obligations. The Group is exposed to credit risk on financial instruments such as liquid assets, derivative assets and trade receivables. Credit risk is managed by investing liquid assets and acquiring derivatives in a diversified way from high-credit-quality financial institutions. Counterparties are reviewed through the use of rating agencies, systemic risk considerations, and through regular review of the financial press. The Group has a Credit Policy in place in relation to trade receivables and exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The nature of the Group's operations is such that the Group has a significant number of low-value trade receivables. The risk is therefore considered minimal. Credit risk is further discussed in note 19 on pages 121 to 123.

Capital investment

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

Tax planning risk

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

Accounting Policies

We adopted International Financial Reporting Standards as adopted by the EU ('adopted IFRSs') in 2005. All Accounting Policies shown on pages 93 to 101 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.

During the year the Group raised €60 million through the US private placement market and reduced its multi-currency Revolving Credit Facility amount from £280 million to £180 million. Further information on the Group's debt and maturity profile is provided in note 18 on pages 120 and 121.

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 32 to 61. The financial position of the Group, its cash flows, liquidity position and borrowing facilities, are described earlier in this Financial review. In addition, note 19 includes the Group's policies and processes for managing financial risk; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The Group's multi-currency revolving facility ('the facility') matures in May 2012, and appropriate steps are being taken to refinance this during 2011. 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

Introduction

The 2009 Annual Report described the ongoing process of evolving the Group's Risk Management Policy and processes. During 2010, we trained 30 risk officers around the world and ran risk workshops in most of the key businesses. Additionally we reviewed and updated the role and function of the Risk Management Committee. We will continue to train additional risk officers and management in the use of the risk management methodology in 2011.

The risk management processes are designed to be forward-looking in the identification, management and mitigation of business risks that could impact the Group's short- and long-term performance and value. The processes will not eliminate risks but rather mitigate them to an acceptable level within the context of the business environment in which we operate. The process covers both risks and opportunities.

Management of business risk is an integral part of delivering performance and is the responsibility of all managers. Our risk management decision-making and reporting procedures are integrated into our formal business reporting up to the Board.

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

The risks described below include the main areas of risk that could impact Morgan Crucible. These cover most areas of known and emerging business risk. They include internal risks where we have a greater degree of control and influence as well as external risks where our ability to completely control them may be more limited. They are nevertheless assessed and managed down to an acceptable level. The relative importance of some of these risks has changed during 2010 as business conditions change. As a consequence the controls to manage risk have been adjusted to ensure that the risks continue to be managed within acceptable limits. The Group reviews its processes and controls to ensure that they are effective and cost-efficient. Linked to continuous improvement and operational excellence, controls are re-evaluated and improved where needed. Within the context of managing risk at Morgan Crucible, controls include policies, processes, design of equipment and facilities, business continuity planning and multiple sourcing.

Strategic planning risks

These risks relate to the appropriateness of strategy, business model or product portfolio, acquisitions, disposals and planning and delivery of the strategy. A recent example of good practice is the Divisional streamlining in July 2010. Our programme management has identified and managed the risks alongside delivery of the benefits.

External risks

Political, economical and social

We are exposed to these risks in a number of countries in which we operate as part of realising business opportunities. We operate within the local conditions while monitoring the political, economic and social changes in these countries and adjusting our business plan, operations and controls accordingly. The culture and accepted practices in some countries represent an important risk of doing business in those countries and sometimes requires specific training and education of staff.

Financial

Operating in a number of countries, we are exposed to events in the financial environment including the changing banking and economic issues of 2010, commodity and energy prices, currency exchange and other financial market incidents, market volatility, interest rates, liquidity, pension funding and tax planning. These risks are managed through proactive assessment, contingency planning and the use of appropriate mitigation.

Examples of mitigation include:

- Flexible contingency plans to respond to changes in the global markets during 2010.
- Minimising the impact on the Group of a major currency devaluation.
- Fixing long-term pricing for the purchase of energy and other materials.
- Entering into certain hedging arrangements to help manage the impact of currency fluctuations (the Group's relevant Treasury Policies are summarised in the Financial review on pages 56 and 57).
- Managing pension funds using independent, competent Trustee Boards and external advisers.

Further details of the Group's pension plans and employee benefits are included in note 20 on pages 130 to 137.

Market dynamics and competition

Our products tend to be technologically advanced and use complex and high-added-value manufacturing techniques. We operate in a business environment where we need to be proactive with respect to market dynamics including customer preference, new technology and new competition.

We monitor our current areas of business, working with our customers to ensure that we continue to satisfy their evolving needs. We adjust our strategies and business plans to reflect changing conditions, thereby helping to ensure that risks are managed within acceptable limits.

Compliance and ethics risks

Legal, regulatory and litigation

We are subject to varying laws and regulations around the world. Changes in these could affect the long- and short-term value of the Group. As a listed company we are also exposed to the risks of ensuring compliance with listing requirements. We cannot always predict whether future developments in laws and regulations concerning our businesses will have an adverse or a positive effect.

To manage these risks, we monitor potential changes in regulation as well as having appropriate training and compliance processes in place.

From time-to-time, and in the normal course of business, we are subject to certain litigation. Provisions for the expected costs and liabilities are set out in note 21 to the accounts. If the liabilities arising were significantly to exceed the amounts provided for, there could be a material financial effect on the value of the Group.

Health, safety and environmental

Our operations involve the normal environmental, health and safety risks associated with manufacturing operations in the countries in which we operate. Although we believe that our operations are in compliance with current regulations, we cannot eliminate the risk of all accidents or non-compliance.

Further detail of the programmes in place to manage these risks are included on pages 49 to 51.

Business conduct risks

Risks such as a potential breach in the area of ethical behaviour could impact the Group's reputation or image.

Our reputation with our stakeholders is fundamental to the continued success of the Group and we mitigate reputational risks through various means, including:

- Our Responsible Business Programme and our Core Values Statement.
- Our Ethics Policy, ethics hotline and related procedures.
- Our systems of internal control and risk management.

The 2010 UK Bribery Act necessitates having 'adequate procedures' in place to help minimise the risk of being liable under the Act. While Morgan Crucible already has procedures in place, this has been an opportunity to benchmark against best practices and implement a number of improvements to ensure that we have the necessary procedures in place for 2011.

The Group's Ethics Policy and Anti-Trust Compliance Programme are further described in the Corporate responsibility section. These programmes address the risk of unethical business behaviour and are supported by mandatory training and by the Group's ethics hotline and related procedures.

Operational risks

Financial, physical property, intellectual property and information

The Group's financial, physical and intellectual property assets are exposed to risks such as theft, loss, natural catastrophe and accidental disclosure. Such incidents can also impact the continuity of the business. Some sites or external suppliers are part of an internal supply chain where their inability to provide materials, goods or services could impact several businesses.

These risks are managed through internal controls, proactive design and protection of facilities and business continuity measures to minimise the impact of an incident. Audits by experts in their fields (including financial auditors) review and assess the effectiveness of such measures.

In some cases, risks are partially transferred through insurance programmes.

Human resources risks

The Group maintains human resource policies and processes to manage the risks relating to our people. These cover areas including reward and recognition, health and safety, talent management including succession planning, skills assessment and development, performance management and employee consultation.

Product development, performance and safety risks

Our products are used in many industrial sectors including medical, aerospace and defence. These sectors require high-quality and conformance to specification as well as consideration of the health and safety of the end users.

Robust research and development processes, both in-house and where undertaken in co-operation with our customers, minimise product development risks. Our design, testing and quality assurance processes, including ISO 9001 accreditations, help to control manufacturing risks while contractual risks are mitigated through our legal contracts.

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 have been built up over many years to support the Group'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 46 to 53. As referred to in the Directors' report on page 66, a number of commercial and contractual agreements include change of control provisions which come into effect in the event of a change in ownership of the Company following a takeover.

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

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

The Group's businesses provide products and services to other companies and we have developed close working relationships with many of our customers and suppliers and work in collaboration 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 Division, none is considered essential to the business of 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 we employ a highly skilled and qualified workforce. One of our 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 53. We place great emphasis on recruitment and training and our policies and performance in these areas are set out on pages 52 and 53.

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 are referred to on page 82 and the terms and conditions of appointment of the non-executive Directors are referred to on page 81 and are available for inspection prior to the Annual General Meeting and at the Company's registered office.

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

The Group 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 the Group's Divisions have a Technical Director, and have research and development capabilities variously located at Divisional centres of excellence and diffused through the business in the form of applications engineering. Further details are included in the Review of operations for both Divisions on pages 36 to 45.

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 our 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 the Group as a whole.

Banking and other financial relationships
Details of significant banking and other relationships are referred to on page 66 in the Directors' report. However, no one banking relationship is considered to be essential to the performance and value of the Company.

Cautionary statement

This Business review has been prepared for and only for the members of the Company as a body and no other persons. Its purpose is to assist shareholders 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. The Company, its Directors, employees, agents or advisers do not accept or assume responsibility for any other purpose or to any other person to whom this document is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed. This Business review and certain other sections of the Annual Report contain 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 Report will be realised. The forward-looking statements reflect the knowledge and information available at the date of preparation 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. This Business review has not been audited or otherwise independently verified.

Board of Directors

Tim Stevenson OBE[†§]
Chairman

Mark Robertshaw[§]
Chief Executive Officer

Kevin Dangerfield
Chief Financial Officer

Andrew Hosty
CEO Morgan Ceramics

Martin Flower[*†§]
Senior Independent Director

Tim Stevenson OBE[†§]
Non-executive Chairman

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

Mark Robertshaw[§]
Chief Executive Officer

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

Andrew Hosty
CEO Morgan Ceramics

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

Kevin Dangerfield
Chief Financial Officer

Kevin was appointed as Chief Financial Officer in August 2006, having joined Morgan Crucible in July 2000 as Deputy Group Financial Controller before being promoted to Group Financial Controller. He was appointed as a non-executive Director of e2v technologies plc in January 2011. Before joining Morgan Crucible Kevin worked for London International Group plc and Virgin Retail Europe Limited. He qualified as a chartered accountant with PricewaterhouseCoopers.

Martin Flower[*†§]
Senior Independent Director

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

Executive Committee

Andrew Given*†§
Non-executive Director

Paul Boulton
Company Secretary

Don Klas
CEO Morgan Engineered Materials

Simon Heale*†§
Non-executive Director

Amanda Wooding
Director of Human Resources

Andrew Given*†§
Non-executive Director
Andrew was appointed as a non-executive Director in December 2007 and is the Chairman of the Audit Committee. He was previously the senior non-executive Director and Chair of the Audit Committee at 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 CMG plc and held senior management positions in Plessey and Nortel Networks.

Simon Heale*†§
Non-executive Director
Simon was appointed as a non-executive Director in February 2005 and is the Chairman of the Remuneration Committee. He is Senior Independent Director and Chair of the Audit Committee of Panmure Gordon and Co 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 and a non-executive Director and Chair of the Audit and Compliance Committee of Marex Group Limited. Simon was appointed as a trustee of Macmillan Cancer Support in May 2010 and sits on their Finance and Legal Committee and their Audit Committee. He was Chief Executive of China Now from 2007 to 2008 and was Chief Executive of the London Metal Exchange from 2001 to 2006. Simon qualified as an accountant with Price Waterhouse and has had extensive experience in the Far East, having held senior positions with the Swire Group in Japan and Hong Kong and with Jardine Fleming in Hong Kong.

Mark Robertshaw
Chief Executive Officer

Kevin Dangerfield
Chief Financial Officer

Don Klas
CEO Morgan Engineered Materials

Andrew Hosty
CEO Morgan Ceramics

Paul Boulton
Company Secretary

Amanda Wooding
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 2 January 2011. This Directors' report was approved by the Board on 16 February 2011.

Principal activities
The Morgan Crucible Company plc ('the Company') and its subsidiary undertakings comprise two Divisions covering four operating segments (as outlined on page 34) that design, manufacture and market primarily carbon and ceramic components for applications for 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 32 to 60, to be read in conjunction with the cautionary statement on page 61.

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 2 January 2011 and future developments. The Business review is set out on pages 32 to 61 (inclusive) of this Annual Report. All information detailed in these 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 68 to 74 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.

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.

Financial results
The total profit for the year ended 2 January 2011 was £48.0 million (2009: £22.7 million). Profit before taxation for the same period was £67.7 million (2009: £31.4 million). Revenue was £1,017.1 million (2009: £942.6 million) and operating profit was £93.6 million (2009: £60.7 million). Basic earnings per share was 15.8 pence (2009: 7.1 pence). Capital and reserves at the end of the year were £252.1 million (2009: £214.6 million). The total profit of £48.0 million will be transferred to equity. The Group's accounting policies can be found on pages 93 to 101.

Dividends
The Directors recommend the payment of a final dividend at the rate of 5.0 pence per share on the Ordinary share capital of the Company, payable on 8 July 2011 to shareholders on the register at the close of business on 20 May 2011. Together with the interim dividend of 2.7 pence per share paid on 12 January 2011, this final dividend, if approved by shareholders, brings the total distribution for the year to 7.7 pence per share (2009: 7.0 pence).

Acquisitions and disposals
On 1 April 2010 the Company increased its equity stake in NP Aerospace from 60% to 70% by acquiring an additional 10% of the equity for £24.9 million which represents a combination of:

i. full consideration for the 10% of share capital acquired; and

ii. an additional 'true up' consideration in respect of the 11% of share capital acquired at the beginning of January 2009, which was originally based on the forecast results for NP Aerospace for 2009 and has been updated to reflect the actual results.

On 3 December 2010 the Company acquired all of the issued capital of Changsha Hairong New Materials Co., Ltd. in Changsha, China for 64 million RMB (£6.2 million). The acquisition was made by Shanghai Morgan Carbon Co., Ltd, a joint venture company in which the Company has a controlling 70% stake.

Post-balance sheet events
There have been no material events since the year end.

Share capital
The Company's share capital is set out in note 17 on pages 118 to 120. The Company's Ordinary shares represent 99.36% of the total issued share capital, with the 5.5% Cumulative First Preference shares representing 0.18% and the 5.0% Cumulative Second Preference shares representing 0.46%. 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 120. No person holds securities in the Company carrying special rights with regard to control of the Company. The Company is not aware of any agreements between holders of securities that may result in restrictions on the transfer of securities or on voting rights. The Articles may be amended by a special resolution of the Company's shareholders.

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

The number of days purchases outstanding for payment by the Company at the end of the year was 30 days (2009: 18 days) and for the Group was 69 days (2009: 54 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 customer demands. The Company has research and development facilities at its key manufacturing sites. The spend on research and development, which excludes the amounts spent working with customers and others by way of product enhancement and application engineering, was £15.9 million during the year (2009: £14.6 million). The Group did not capitalise any development costs in 2010 (2009: £0.7 million capitalised).

Financial instruments
Details of the Group's use of financial instruments, together with information on policies and exposure to credit, interest rate and currency risks, can be found in note 19 on pages 121 to 129. 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 personnel policies (including its policy on equal opportunities for disabled employees) and employee involvement are set out on pages 52 and 53.

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. 172 employees hold awards under the Morgan Crucible Long Term Incentive Plan, 37 employees hold awards under the Morgan Crucible Bonus Deferral Share Matching Plan, 45 employees have options under the Company's Executive Share Option Schemes and 635 employees participate in the Company's UK Sharesave Plan. There are 83 participants in the Company's German Employee Share Purchase Plan. There are currently no participants in the Company's US Employee Share Purchase Plan. Details of outstanding options are given in note 20 on pages 133 to 137.

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. 139 employees hold awards under this scheme. The NP Aerospace employee benefit trust holds 25,000 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 1,007,003 shares on 2 January 2011 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 throughout the year under review are listed on pages 62 to 63.

Details of Directors' interests in the share capital of the Company are listed on page 83. In the period from 2 January 2011 to 16 February 2011 the executive Directors acquired further Ordinary shares in the Company pursuant to the Company's Scrip Dividend Scheme. The Directors' shareholdings are shown on page 83.

All information detailed on pages 83 to 86 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 on 10 May 2011. Details of their background and experience can be found on pages 62 and 63 and details of the Board Committees on which they serve can be found on pages 72 and 74.

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 Annual General Meeting ('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 determined that the full Board of Directors will stand for election or re-election at the forthcoming Annual General Meeting in compliance with the provisions of the UK Corporate Governance Code.

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

The Directors were granted authority at the 2010 Annual General Meeting to allot shares in the Company and to grant rights to subscribe for or convert any securities into shares in the Company up to (a) a nominal amount of £22,517,188 and (b) a nominal amount of £45,034,376 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 Annual General Meeting. At the Annual General Meeting, 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 of £3,411,387.

Full details of these resolutions are set out in the Circular to Shareholders which will be circulated in March 2011.

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

Donations

During the year, Morgan Crucible companies made charitable donations of £250,229 (2009: £302,232).

Further details of charitable donations and activities of the Group are given on page 48. No political donations have been made.

Significant agreements

As referred to in the Key resources and contractual relationships section on page 60, 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 £180 million Multicurrency Revolving Facility Agreement which was signed on 1 May 2009 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 US$27.4 million, US$350 million and €60 million respectively.

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

Substantial shareholdings

As at 16 February 2011, the Company has been notified of the following interests representing 3% or more of the issued Ordinary share capital of the Company*:

	Number of Ordinary shares	%**
Aegon UK	10,751,020	3.980
Ameriprise Financial Inc	14,938,399	5.489
AXA S.A.	27,375,198	10.030
JPMorgan Chase & Co	11,935,619	4.420
Legal & General Group plc	10,738,156	3.970
Lloyds TSB Group plc	10,907,770	4.037
Prudential Plc group of companies	13,912,627	5.110
Schroders plc	12,494,272	4.522
Standard Life Investments Ltd	27,124,937	9.939

* As at 28 February 2011, there was no change in the details shown in the above table.
** Percentages are shown as a percentage of the Company's issued share capital as at 16 February 2011.

Disclosures of information to auditors

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

Auditors

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

Annual General Meeting

The AGM of the Company will be held on 10 May 2011 at St Anne's Manor, London Road, Wokingham RG40 1ST. A Circular will be sent with this Report to shareholders in March 2011 incorporating the Notice of AGM.

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 62 and 63, confirms to the best of his knowledge:

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

For and on behalf of the Board

Paul Boulton
Secretary
16 February 2011

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 Combined Code
During the year ended 2 January 2011 the Company was subject to the June 2008 edition of the Combined Code on Corporate Governance ('the Code') published by the Financial Reporting Council and available on its website www.frc.org.uk.

Throughout the year the Company has been in full compliance with the provisions set out in Section 1 of the Code and 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 32 to 61 and pages 76 to 86 respectively. The Company also has plans in place to help ensure compliance with the new UK Corporate Governance Code which came into effect for accounting periods beginning on or after 29 June 2010, including for the annual re-election of Directors and an externally facilitated evaluation of the Board at least every three years.

Directors
The Board
The Board is collectively responsible to the Company's shareholders for the success of the Company. The Board is satisfied it has met the Code's requirements for its effective operation. It has set the Company's strategic aims, which were reviewed by the Board at its strategy meeting during the year, and has ensured that there is a framework of prudent and effective controls which enable risk to be assessed and managed. The Board sets the Company's values and standards, which are contained in the Core Values Statement and Ethics Policy, both of which are referred to on page 46 in the Business review.

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

During the year Andrew Hosty was appointed as an executive Director on 28 July 2010. There were no other changes of membership of the Board and there were no changes of role.

As at 16 February 2011 the Board comprises Tim Stevenson, Chairman; Mark Robertshaw, Chief Executive Officer; Kevin Dangerfield, Chief Financial Officer, Andrew Hosty, Chief Executive Officer of the Morgan Ceramics Division and three non-executive Directors deemed by the Board to be independent, Martin Flower, Andrew Given and Simon Heale. Martin Flower is the Senior Independent Director. Biographies of the Directors, including details of their other main commitments, are set out on pages 62 and 63.

All Directors submit themselves for election by the shareholders at the first Annual General Meeting following their appointment. The Board has resolved that all Directors who are willing to continue in office will stand for re-election by the shareholders each year. Non-executive Directors are appointed for a term of three years, subject now to annual re-election. The independence, commitment and effectiveness of any non-executive Director who has served for six or more years is subject to particularly rigorous review.

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

	Board		Audit		Remuneration		Nomination	
Director	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
Tim Stevenson*	9	9	–	–	7	7	2	2
Mark Robertshaw	9	9	–	–	–	–	2	2
Kevin Dangerfield	9	9	–	–	–	–	–	–
Andrew Hosty**	3	3	–	–	–	–	–	–
Martin Flower*	9	9	5	5	7	7	2	2
Andrew Given*	9	9	5	5	7	7	2	2
Simon Heale*	9	9	5	5	7	7	2	2

Excludes meetings attended by invitation for all or part of a meeting.
* Indicates a Director deemed by the Board to be independent or, in the case of the Chairman, independent on appointment.
** Appointed 28 July 2010.

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

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

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

Chairman and Chief Executive Officer

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

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

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

Board balance and independence

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. At the year end, in addition to the Chairman, whom the Company deemed to be independent on appointment, the Board comprised three executive Directors and three non-executive Directors deemed by the Board to be independent. 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.

Martin Flower was appointed in December 2004 and Simon Heale was appointed in February 2005 and both have served on the Board for six years. As noted above, a non-executive Director serving for more than six years is subject to particularly rigorous review. The Chairman has conducted a thorough review with each Director and concluded that both continue to demonstrate the independence, commitment and effectiveness expected by the Board.

The size, structure and composition of the Board was reviewed during the year and one additional executive Director was appointed.

Appointments to the Board

As is further detailed in the report of the Nomination Committee, set out on page 74, there is a formal, rigorous and transparent procedure for appointments to the Board. Appointments are made on merit and against objective criteria.

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

Information and professional development

The Company Secretary, with the Chairman, is responsible for ensuring the Board has full and timely access to all appropriate information to enable it to discharge its duties. Board papers are generally sent out five working days before each meeting.

All Directors received a full, formal and tailored induction on joining the Board. Each Director's experience and background is taken into account in developing a tailored programme.

Non-executive Directors are encouraged to visit operating sites and have access to management and other staff. In addition to visits by individual Directors and the Chairman, each year at least one Board meeting is held at an operating facility. During 2010 formal Board meetings were held at the Technical Ceramics site in Stourport, UK and at the Thermal Ceramics technology centre in Bromborough, UK. In addition, the Board visited the Morgan AM&T and Thermal Ceramics sites in Shanghai, China and the Molten Metals Systems site in Suzhou, China.

Training and development needs are assessed as part of the Board performance review process and the Directors regularly update and refresh their skills and knowledge, taking into account environmental, social and governance matters. The Company Secretary keeps the suitability of external courses under review.

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

Performance evaluation

The Board undertook a formal evaluation of its performance, its committees and of the individual Directors during the year. The review consisted of a structured interview between the Chairman and each Director, the Divisional Chief Executives, the Company Secretary and the Director of Risk Management. These one-to-one discussions were complemented by a questionnaire and each Director had the opportunity to raise broader issues relating to the Company's strategy and governance. The results of the review were communicated to the Board with one-to-one feedback where appropriate. As noted above, this was complemented by further rigorous review of those non-executive Directors who have served for six or more years.

Corporate governance
continued

The evaluation concluded that the Board performed effectively, with open and constructive discussions and the right emphasis on short- and long-term matters. The Board calendar and agendas were appropriate with a number of meetings held at operating locations during the year and good exposure to senior management throughout the Group. The Chairman and the non-executive Directors also confirmed that they have sufficient time to fulfil their commitments to the Company and, as noted above, the training needs of the Directors are assessed.

The recommendations which will be implemented following the 2010 Board performance evaluation include continued emphasis on succession planning and risk management and on ensuring the composition of the Board and the balance of skills and experience of the Directors continues to be appropriate. In addition allowance will be made in the Board timetable for informal meetings and the Board expects to use an external facilitator to support the Board performance evaluation process in 2011.

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.

The recommendations made following the 2009 Board performance review were implemented during the year. These included increasing the amount of interaction outside the formal Board environment, a review of the Board procedures in relation to capital expenditure proposals, increasing the focus on succession planning throughout the business and further presentations of the Group's technology to the Board (including a visit by the Board to the Thermal Ceramics Business's technology centre in Bromborough, UK). The Board also reviewed its performance evaluation process and determined that an evaluation led by the Chairman was appropriate for 2010 with the expectation that an externally facilitated process will be adopted in 2011.

Remuneration
Remuneration policy and practice is discussed in the Remuneration report on pages 76 to 86.

Accountability and audit
Financial reporting
In its reporting to shareholders, the Board aims to present the balanced and understandable assessment of the Company's position and prospects 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 32 to 61. The Board also presents updated information in its Interim 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 75 and the 'going concern' statement is set out in the Business review on page 57.

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; 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 ethics hotline is available to employees and others in this regard. The Chief Executive of each Division makes an annual statement of compliance to the Board confirming that for each of the businesses for which he is responsible, the financial statements are fairly presented in all material respects, appropriate systems of internal controls have been developed and maintained and the businesses comply with Group policies and procedures.

- **Financial reporting** Risk management systems and internal controls are in place in relation to the Group's financial reporting processes and the process for preparing consolidated accounts. These include policies and procedures which require the maintenance of records which accurately and fairly reflect transactions and dispositions of assets, provide reasonable assurance that transactions are recorded as necessary to allow the preparation of financial statements in accordance with International Financial Reporting Standards ('IFRS') and the review and reconciliation of reported data. As noted above, representatives of the business are required to certify that their reported information gives a true and fair view of the state of affairs of the business and its results for the period. The Audit Committee is responsible for monitoring these risk management systems and internal controls.
  Performance monitoring There are regular meetings of the Board and of the Executive Committee. A comparison of forecast and actual results is considered, including cash flows and comparisons against budget and the prior year. Divisional management teams also meet regularly to review performance. Presentations of actual and forecast performance are made to the Executive Committee and the Board by the Group's Divisional Chief Executives. In addition, regular site visits are made by members of the Executive Committee.
- **Risk management** The identification of major business risks is an ongoing process carried out in conjunction with operating management. Steps are taken to mitigate or manage any material risks identified. The Board, either directly or through the Audit Committee, receives reports on financial, taxation, insurance, pension, legal and social, environmental and ethical risks from management. The Divisional Chief Executives cover risk issues at their management meetings and the Director of Risk Assurance helps to ensure that internal control and risk management is embedded into the Group's operations through the Risk Management Committee, which is chaired by the Chief Financial Officer and is attended by the Chief Financial Officer of each Division.
- **Risk factors** Morgan Crucible's businesses are affected by a number of factors, many of which are influenced by macro-economic trends and are therefore outside the Company's immediate control, although, as described above and in the Business review, the identification and management of such risks is carried out systematically. These are further discussed in the Risk management section on pages 58 and 59.
- **Internal audit** The Group's internal audit function reviews internal control and risk management processes. The Audit Committee approves the plans for internal audit reviews and receives reports accordingly. Actions resulting from internal audit reviews are agreed with management. The Internal Auditor has direct access to the Chairman of the Audit Committee.

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

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

Conflicts of interest
The Board has procedures in place to address the requirements of Section 175 of the Companies Act 2006 concerning the duty of the Directors to avoid conflicts of interest. These procedures are in accordance with the GC100 guidance.

Accordingly the Directors are required to continue 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.

During the year the Board undertook a review of Directors' outside interests to identify actual or potential conflicts of interest, including the interests of connected persons where such interests could give rise to an indirect conflict. This confirmed that there were no actual conflicts of interest and the only potential conflicts of interest identified were outside directorships. The Board considered each Director's situation and authorised any potential conflicts for a period of 15 months from December 2010. Such authorisation is revocable at any time at the Board's discretion.

Should an actual or potential conflict be identified, the Board shall consider 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.

The Board is responsible for undertaking a regular review of any authorisations given and will itself, or through one of its committees, ensure that the procedures for reporting and, if appropriate, authorising conflicts and potential conflicts of interest are operated correctly. In addition, the Nomination Committee will review the outside interests of a proposed Director to identify actual or potential conflicts of interest and will make recommendations to the Board as to whether the situation should be authorised.

Corporate governance
continued

Relations with shareholders

Dialogue with shareholders

The importance of dialogue with major shareholders is recognised and meetings are held in order to help achieve a mutual understanding of objectives. In this respect, the Chief Executive Officer and Chief Financial Officer make themselves available to major shareholders as appropriate throughout the year, in particular at the time of the half-year and final results announcements. The Chairman also discusses governance and other matters directly with shareholders. The Chairman and the non-executive Directors avail themselves of opportunities to meet major shareholders and attend investor briefings to help ensure they have an understanding of the views of major shareholders. They would also attend meetings with major shareholders if requested. The Senior Independent Director is available to attend separate meetings with major shareholders on request.

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

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

Constructive use of the Annual General Meeting

The Annual General Meeting is normally attended by all members of the Board and by a representative of the auditors. At the AGM held in April 2010, 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 Company's website as soon as practicable after the meeting.

Board committees

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

Audit

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

The Audit Committee met five times during the year and has the power to, and does, request the attendance at meetings of any Director, auditor or member of management as may be considered appropriate by the Chairman of the Committee. At the end of each meeting the non-executive Directors who are members of the Committee also meet the auditors without the executive Directors or other members of management present.

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.

The Audit Committee's terms of reference include:

- Monitoring and making appropriate recommendations to the Board with regard to the financial reporting process, the integrity of the financial statements of the Company, any formal announcements relating to the Company's financial performance, and reviewing significant financial reporting judgments contained in them.
- Reviewing and monitoring the effectiveness of the Company's internal financial controls and internal control, internal audit and risk management systems.
- Making recommendations to the Board, for it to put to the shareholders for their approval in general meeting, in relation to the appointment, reappointment and removal of the external auditors and to approve the remuneration and terms of engagement of the external auditors.
- Reviewing and monitoring the external auditors' independence and objectivity and the effectiveness of the process for the statutory audit of the annual consolidated accounts, taking into consideration relevant UK professional and regulatory requirements.
- Developing and implementing policy on the engagement of the external auditors to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external auditors.
- Reporting to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken.

The Committee has the authority to investigate any matters according to its terms of reference and may obtain external advice at the cost of the Company. The Director of Risk Assurance and the Internal Auditor both have access to the Chairman of the Committee and meet, when appropriate, with the Committee without other executives present.

The work of the Committee in discharging those responsibilities in respect of 2010 included:

- Reviewing the Group's 2009 financial statements and 2010 interim statements prior to Board approval.
- The review of the process by which the Group's main business risks are assessed and managed, with the principal risks being considered by the Board as a whole.
- Reviewing the effectiveness of the Group's internal audit and risk management systems.
- Consideration of the work and plans for the internal audit function.
- Appraisal of the Company's whistleblowing provision and related procedures and policies.
- Confirmation of the external auditors' terms of engagement and fee structures.
- Monitoring the level of non-audit work of the auditors, which in 2010 included services amounting to £0.1 million, mainly in connection with tax advice.

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

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

During the year the proportion of the auditors' fees for non-audit work relative to the audit fee was 6% (2009: 5%).

The external auditors have processes in place to safeguard their independence and have written to the Committee confirming that, in their opinion, they are independent. The Company last changed its auditors in late 2001 and undertook a formal review of the external auditors which included a re-tender presentation during 2007. The external auditors rotated the partner responsible for the Group's audit work in 2008. The Committee recommended to the Board that the Group's audit work should not be put out to third-party tender during 2010 and will further review the situation during 2011.

Remuneration

As is further described in the Remuneration report on pages 76 to 86, 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.

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

It is the Company's policy to disclose the fees of any executive Director who serves as a non-executive Director of another company. During the year Mark Robertshaw served as a non-executive Director of Segro plc and Andrew Hosty served as a non-executive Director of British Ceramic Research Ltd. The fees received by Mark Robertshaw and Andrew Hosty in this regard are shown on page 82.

The report of the Remuneration Committee, which includes details of the Committee's responsibilities and terms of reference and of the Directors' remuneration and Directors' interests in options and shares, is set out on pages 76 to 86.

Corporate governance
continued

Nomination

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

The Committee 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 Chairman of the Committee. The Committee formally met twice during 2010 and also held further informal discussions regarding the shape and size of the Board.

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

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

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

The procedures referred to above were used by the Nomination Committee in recommending the appointment of Andrew Hosty as an executive Director on 28 July 2010. There were no other nominations to the Board or changes in role during the year.

Disclosure and Transparency Rules

This statement complies with sub-sections 2.1; 2.2(1); 2.3(1); 2.5; 2.7 and 2.10 of Rule 7 of the UK Listing Authority Disclosure and Transparency Rules. The information required to be disclosed by sub-section 2.6 of Rule 7 is shown in the Directors' report on pages 64 to 67 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 64 to 65 of the Directors' report.

Statement of Directors' responsibilities in respect of the Annual Report and the financial statements

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

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

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

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

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

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

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

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

By order of the Board

Paul Boulton
Secretary
16 February 2011

Remuneration report

The Directors' Remuneration report has been prepared by the Remuneration Committee ('the Committee') and has been approved by the Board. Shareholders will be given the opportunity to approve the report at the Annual General Meeting on 10 May 2011.

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

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

The Remuneration Committee

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

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

The Committee met on seven occasions during the year. Each Committee member's attendance at these meetings is set out in the Corporate governance report on page 68.

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

During 2010, following a review of remuneration consultants, Kepler Associates was appointed by the Committee as its executive remuneration advisers and has provided advice on performance measurement, setting annual bonus and long-term incentive targets, and benchmarking senior executive remuneration and non-executive Director fees. Kepler provided no other services to the Company during the year.

During the financial year, Deloitte LLP (who were previously appointed as the Committee's advisers) provided advice on market practice and remuneration policy as well as total shareholder return (TSR) analysis. In addition, Deloitte provided unrelated tax advice to the Company.

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 Company successfully and to create value for shareholders.

The policy of the Committee is to ensure that a significant proportion of the total remuneration opportunity is performance-related and based on the achievement of measurable targets which 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 Company.

In assessing all aspects of pay and benefits, the Committee takes into account the packages offered by similar companies to ensure the remuneration packages for executive Directors are competitive against the market in which the Company competes for talent. For the purposes of such analysis, comparator companies are chosen having regard to: 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 Company when determining executive Directors' remuneration.

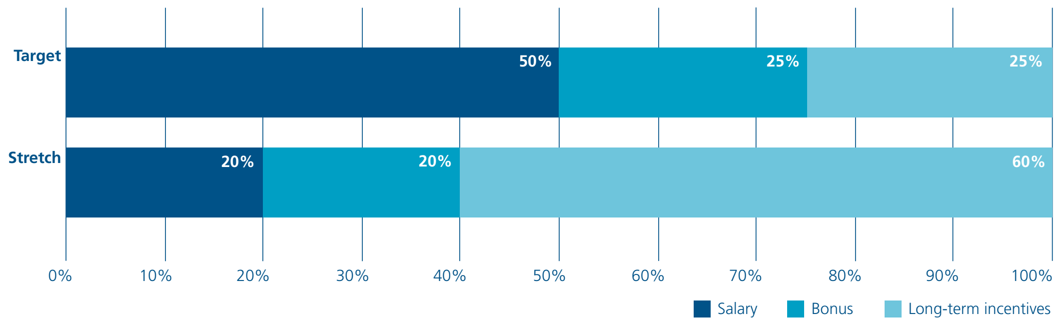
The Committee believes that the current remuneration structures are appropriate and support the business strategy.

Main components of remuneration

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

Element	Policy	Details
Base salary	→ Provides the fixed element of the remuneration package → Set at competitive levels against the market	→ Benchmarked against companies of a similar size and complexity in the FTSE 350 → Annual review date of 1 January
Annual bonus	→ Incentivises the achievement of specific goals over the short-term that are also aligned to the long-term business strategy	→ Maximum bonus award of 100% of salary → Targets based on profit before tax and amortisation and, for the CEO Morgan Ceramics, include key measures of divisional performance
Bonus Deferral Share Matching Plan	→ Designed to encourage long-term Company growth and to retain key individuals over this time period → Provides an opportunity for individuals to invest in Company shares and receive matching shares based on Group performance	→ Designed to work alongside the Long Term Incentive Plan → Up to 50% of the annual bonus may be voluntarily deferred into shares for three years (up to 75% in 2010 in respect of the bonus earned for the 2009 performance year) → A matching award of up to three shares for each deferred share may be earned based on the Company's performance against stretching earnings per share (EPS) targets
Long Term Incentive Plan	→ Aligns the interests of executives and shareholders by delivering executive Directors and other senior executives shares as a reward for outstanding performance	→ Award of shares based on performance over a three-year period → Awards made in 2010 are based on TSR and EPS performance
Pension	→ Provides post-retirement benefits for participants in a cost-efficient manner	→ Defined benefit scheme subject to a notional earnings cap with an above-the-cap allowance for current executive Directors
Shareholding guidelines	→ Encourages executives to build an interest in the Company's shares and supports alignment with shareholder interests	→ Policy of 100% of basic salary for executive Directors → Supported by the Bonus Deferral Share Matching Plan which encourages investment in Company shares

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



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

Remuneration report
continued

Base salary

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

In line with the approach being taken across the organisation, executive Directors' salaries will be increased in 2011. In considering the level of increase, the Committee has been mindful of the general level of increase across the Group as well as the positioning of roles against the market. The table below shows the salaries in 2010 and with effect from 1 January 2011. During the year, Andrew Hosty was promoted to the Board as CEO Morgan Ceramics. His base salary from appointment to the Board was £300,000 and will be increased to £305,000 from 1 January 2011.

	2010	Salary 2011
Mark Robertshaw	£450,000	£465,000
Kevin Dangerfield	£265,000	£275,000
Andrew Hosty	£300,000*	£305,000

* From date of appointment to Board.

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

Annual bonus

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

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

For 2010, the bonus for the CEO and CFO was based on Group profit before taxation and amortisation. The targets were set to incentivise the executive Directors to manage much more of the income statement to improve the earnings per share of the Group. For 2011, the annual bonus will again be based 100% on the achievement of Group profit before tax and amortisation targets.

For 2010, the bonus for the CEO Morgan Ceramics was balanced between the performance of the Technical Ceramics Division and the Group as a whole, comprising Group profit before tax and amortisation (20%), Technical Ceramics EBITA (40%) and Technical Ceramics cash conversion (40%). For 2011, his bonus will be based on Group profit before taxation and amortisation (30%), Morgan Ceramics EBITA (50%) and Morgan Ceramics third party working capital to sales % (20%).

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

The bonuses awarded to executive Directors in respect of 2010 were as follows:

- Mark Robertshaw – 100% of salary (2009: 20%).
- Kevin Dangerfield – 100% of salary (2009: 20%).
- Andrew Hosty – 100% of salary.

The awards for the CEO and CFO were made on the basis that in 2010 the maximum Group profit before tax and amortisation target was achieved resulting in a bonus payment of 100% of salary. The award for the CEO Morgan Ceramics also reflected performance against the Group profit before tax and amortisation target together with a Technical Ceramics EBITA target (achieved at the maximum performance level) and a Technical Ceramics cash target (achieved at the maximum level), resulting in a bonus payment of 100% of salary.

Long-term incentive arrangements

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

Bonus Deferral Share Matching Plan (BDSMP)

In 2008 shareholder approval was gained for the introduction of the BDSMP.

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

For the bonus earned for the 2008 performance year (ie payable in early 2009), participants were given the opportunity to defer up to 50% of their bonus under the Plan. This opportunity was increased to 75% in respect of the bonus earned for the 2009 performance year (ie payable in early 2010) to provide participants with a meaningful opportunity to invest in Morgan Crucible shares and increase their alignment with shareholders. The performance criteria attaching to these awards are disclosed in notes 4 and 5 to the 'Awards to Directors under the Bonus Deferral Share Matching Plan' table on page 85. Following a review of remuneration in 2010, the Committee has decided for the 2010 performance year (ie payable in early 2011) that participants should have the opportunity to defer up to 50% of their bonus in order to ensure greater alignment with shareholders through greater ownership in Company shares.

The targets for 2011 matching awards are as follows:

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

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

EPS growth is considered the best measure of performance for the BDSMP as it provides alignment with our strategy and good line-of-sight for management. To improve the relevance and further enhance the line-of-sight to EPS this year, the Committee has dropped the reference to RPI, whilst being mindful of the need to ensure targets remain stretching. UK Retail Price Inflation is not considered a relevant benchmark for Morgan Crucible's profit growth as 79% of sales are generated outside the UK. Defining EPS targets in nominal terms also has the benefit of providing more clarity around actual pence targets for the 2013 financial year. The Committee will continue to review the EPS targets at the start of each award cycle.

Long Term Incentive Plan (LTIP)

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

During the year, an award over 214,529 shares (equivalent to 100% of 2009 salary) was made to Mark Robertshaw, an award over 124,329 shares (equivalent to 100% of 2009 salary) was made to Kevin Dangerfield and an award over 117,016 shares (equivalent to 100% of 2009 salary) was made to Andrew Hosty before his promotion to the Board.

Due to the economic uncertainty at the time the 2009 awards were made, the Remuneration Committee decided to recalibrate the focus of awards between internal financial targets and relative share price targets. Consequently, awards made under the LTIP in 2009 were based wholly on the Company's TSR performance against the comparator group overleaf. If the Company's TSR places it at the median of the comparator group, 30% of the award will vest, with 100% of the awards vesting for performance at the upper quartile or above. For performance between median and upper quartile, awards vest on a straight-line basis. The Committee must also be satisfied that the Group's underlying financial performance justifies the level of vesting.

For 2010 awards, the Remuneration Committee felt it was appropriate to return to the previous split between TSR and EPS targets on the basis that the Company was again in a position to be able to set robust three-year EPS targets with meaningful line of sight for participants. The split between TSR and EPS provides the right balance between incentivising strong financial growth and the Company's share price performance relative to peers (see tables overleaf). Therefore, awards made under the LTIP in 2010 are based 50% on EPS growth above UK RPI and 50% on TSR against the comparator group overleaf, extended from the 2009 comparator group to include six new companies. In addition to the EPS and TSR targets, the Committee must be satisfied that the Group's underlying financial performance justifies the level of vesting.

Remuneration report
continued

The vesting schedule for the 2010 awards is as follows:

TSR performance against the sector comparator group	% of the award which vests	EPS growth	% of the award which vests
Upper-quartile-ranked performance	50%	RPI+ 10% pa	50%
Median-ranked performance	15%	RPI+ 4% pa	15%
Below-median-ranked performance	0%	< RPI+ 4% pa	0%

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

The TSR comparator group* for the 2007–2010 awards is set out below:

Bodycote	Meggitt	Spectris
Charter International	Porvair**	Spirax-Sarco
Chemring Group	Qinetiq**	Tomkins
Cobham	Renishaw**	TT Electronics
Cookson Group	Ricardo**	Ultra Electronics Holdings
Halma	Rotork	Umeco**
IMI	Senior	Weir Group
Laird Group	Smiths Group**	

* The original comparator group also included FKI and Foseco which have subsequently delisted.
** Additional comparator companies for 2010 awards.

Following a review of executive long-term incentives in 2010, the Committee has decided that awards made under the LTIP in 2011 will continue to be based 50% on EPS growth and 50% on relative TSR performance for the CEO and CFO. To support the new two-Divisional structure, the Committee has proposed that long-term incentive plans for senior Divisional executives be tailored to the value creation of each Division. The LTIP within each Division is therefore based on performance against stretching EBITA growth and ROCE targets, combined in a matrix. For the Divisional CEOs, Andrew Hosty and Don Klas, half of their long-term incentive will continue to be linked to Group TSR and half will be based on the relevant Divisional EBITA / ROCE matrix.

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

This combination of measures is considered most appropriate for the Divisional CEOs, reflecting their roles as senior executives within the Group as well as their roles as heads of Divisions. The stretching targets reflect the strategic plans within each of these Divisions.

As described above (with reference to the BDSMP), the Committee has reviewed the EPS targets for the 2011-2013 cycle to ensure they continue to be stretching and relevant, and has dropped the reference to RPI, whilst being mindful of the need to ensure targets remain stretching.

The Remuneration Committee also continues to keep the TSR peer group under review and for 2011 has decided that a broader peer group is appropriate to provide a more robust benchmark against which to measure Morgan Crucible's TSR performance. TSR-based awards for 2011 will therefore vest based on performance relative to the constituents of the FTSE All-Share Industrials Index ('the Index') on the date of grant of an LTIP award. This index has been chosen as it comprises a sufficient number of companies (around one hundred constituents) to be robust to M&A activity and is a relevant benchmark against which to assess Morgan Crucible's performance. All the current TSR benchmark constituents are members of this index.

The vesting schedule for 2011 LTIP awards is as follows:

TSR performance against the sector comparator group	% of the award that vests	EPS growth	% of the award that vests
Upper-quartile-ranked performance	50%	15% pa	50%
Median-ranked performance	15%	8% pa	15%
Below-median-ranked performance	0%	< 8% pa	0%

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

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

The details of awards held by all Directors are shown on pages 84 to 86.

Executive Share Option Scheme (ESOS)

The ESOS was approved at the 2004 Annual General Meeting 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.

There are two outstanding awards to the executive Directors. Mark Robertshaw has a vested option from 2004 that he has not exercised. Kevin Dangerfield has an unvested option from 2001 that is subject to annual re-test for up to 10 years from the date of the grant (see Directors' share options table on page 84). There is currently no intention to make awards under the ESOS in 2011.

Savings-related Share Option Scheme (SAYE)

As UK employees, the executive Directors may also participate in the Savings-related Share Option Scheme on the same basis as other eligible employees and subject to UK legislation. Scheme members save a fixed amount per month over three years and options have been granted with an exercise price at 80% of the market price at the date of grant. Those Directors who received options under this scheme are shown in the table on page 86. No performance conditions apply to these options as they are a tax-efficient mechanism for all employees to acquire shares in the Company at their own cost.

Other benefits

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

Shareholding guidelines

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

Chairman and non-executive Directors

Tim Stevenson was appointed as Chairman on 1 December 2006. Annual fees paid to the Chairman are reviewed on a biennial basis. A review was held in December 2008 and an increase for the Chairman was recommended. However, in view of the economic conditions at the time, and at the request of the Chairman, this increase was deferred for 12 months. Therefore, with effect from 1 January 2010 his annual fee was increased from £125,000 to £140,000.

Non-executive Director fees are also reviewed biennially. Since 2006, non-executive Directors have received a basic annual fee of £40,000. Additional payments of £4,500 pa are made to the Senior Independent Director, £7,500 to the Chairman of the Audit Committee and £5,000 to the Chairman of the Remuneration Committee.

Following a biennial review in 2010, the annual fee for non-executive Directors has been increased from £40,000 to £42,000 pa. The additional payments of £4,500 made to the Senior Independent Director, £7,500 made to the Chairman of the Audit Committee and £5,000 to the Chairman of the Remuneration Committee have each been increased to £8,000 pa. Therefore, with effect from 1 January 2011 Martin Flower's, Simon Heale's and Andrew Given's annual fees were increased to £50,000.

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

None of the non-executive Directors has a service contract with the Company although they do have letters of appointment which contain no obligations relating to any notice period. There are no obligations on the Company to make any payments in lieu of notice to any non-executive Director. The non-executive Directors do not participate in any of the incentive, share or share option plans. Each of the non-executive Directors will be subject to re-election by shareholders every year from 2011 onward in accordance with the provisions of the UK Corporate Governance Code.

Remuneration report
continued

Service contracts

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

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

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

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

Company pensions policy

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

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

Pensionable salary is the member's basic salary restricted to a scheme earnings cap of £123,600 for the 2010-11 tax year.

In addition, executive Directors received a pension allowance derived from employer contributions based notionally on the registered scheme pensionable salary in excess of the earnings cap. The value of the pension allowance for each executive Director is set out in the Directors' emoluments table on page 83.

External directorships

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

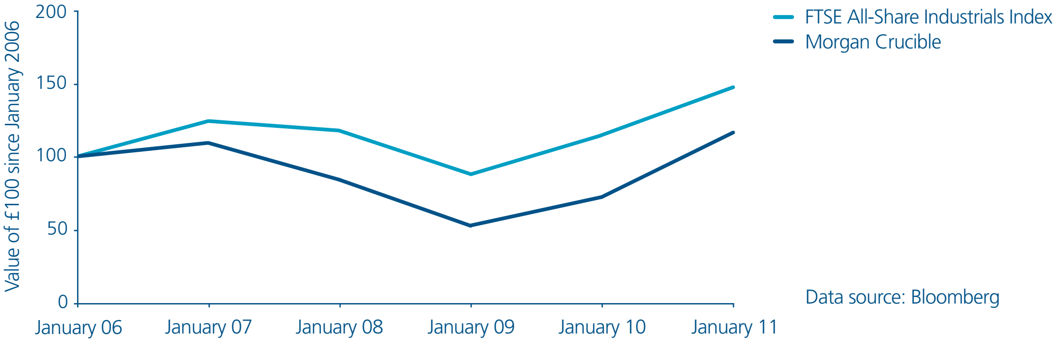
The total amount of fees received by Mark Robertshaw in respect of his non-executive Directorships was £40,250.

The total amount of fees received by Andrew Hosty in respect of a non-executive Directorship was £6,748.

Performance graph

The following graph shows the cumulative total shareholder return (TSR) for the Company for the five-year period to 2 January 2011 against the FTSE All-Share Industrials Index. Both are rebased to 100 as at 5 January 2006. The FTSE All-Share Industrials Index is considered to be appropriate for comparison as it is a broad market index and the Company forms part of that index.

Total shareholder return for the five-year period January 2006 to January 2011



The auditors are required to report on the following information:

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

	As at 4 January 2010*	As at 2 January 2011	As at 16 February 2011**
Executive Directors			
Mark Robertshaw	338,595	348,525	350,541
Kevin Dangerfield	138,717	138,914	139,495
Andrew Hosty (appointed 28 July 2010)	98,213	98,213	99,392
Non-executive Directors			
Tim Stevenson	29,000	29,000	29,000
Martin Flower	15,000	15,000	15,000
Simon Heale	18,000	18,000	18,000
Andrew Given	10,000	10,000	10,000

* Or date of appointment.
** The date of report. As at 28 February 2011, there was no change to the details listed in the above table.

At the market price on 16 February 2011, Mark Robertshaw, Kevin Dangerfield and Andrew Hosty respectively held shares worth 233%, 157% and 110% of their basic salaries.

Directors' emoluments

	Fees/salary £000		Annual bonus £000[1]		Other benefits £000[2]		Total emoluments £000		Pension allowance £000		Other payments £000		Total remuneration £000	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
Executive Directors														
Mark Robertshaw	**450**	440	**450**	88	**13**	13	**913**	541	**114**	114	**–**	–	**1,027**	655
Kevin Dangerfield	**265**	255	**265**	51	**13**	12	**543**	318	**66**	66	**–**	–	**609**	384
Andrew Hosty[3]	**270**	–	**300**	–	**11**	–	**581**	–	**63**	–	**–**	–	**644**	–
Non-executive Directors														
Tim Stevenson (Chairman)	**140**	125	**–**	–	**–**	–	**140**	125	**–**	–	**–**	–	**140**	125
Martin Flower	**45**	45	**–**	–	**–**	–	**45**	45	**–**	–	**–**	–	**45**	45
Andrew Given[4]	**48**	53	**–**	–	**–**	–	**48**	53	**–**	–	**–**	–	**48**	53
Simon Heale	**45**	45	**–**	–	**–**	–	**45**	45	**–**	–	**–**	–	**45**	45

1. Annual bonus shows the total bonus payable in respect of the relevant year. Mark Robertshaw voluntarily deferred 75% of his 2009 bonus award into the Bonus Deferral Share Matching Plan as set out in the table on page 85.
2. Other benefits include private medical insurance and a company car/car allowance.
3. Andrew Hosty's salary received reflects an increase in his annual salary from £240,000 to £300,000 on his appointment to the Board on 28 July 2010.
4. Andrew Given received a back-payment in 2009 for non-payment of certain fees due in 2008.

Remuneration report
continued

Directors' share options

	At 4 January 2010	Granted during the year	Exercised during the year	Lapsed during the year	At 2 January 2011	Exercise price	Earliest date of exercise	Expiry date
Mark Robertshaw	200,000	–	–	–	200,000	145.275p	01.11.07	01.11.14
Kevin Dangerfield	10,520	–	–	–	10,520	180.08p	23.11.04	23.11.11

The performance measure for the Executive Share Option Scheme awards above was based on the Company's TSR performance against the FTSE 350. Thirty per cent 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 243.6 pence and the high and low during the year were 254.1 pence and 159.8 pence respectively.

Awards to Directors under the Long Term Incentive Plan

	As at 4 January 2010	Allocations during the year	Shares released during the year	Shares lapsed during the year	As at 2 January 2011	Market price at date of allocation	Market price at date of release	Performance periods
Mark Robertshaw								
2008 LTIP	220,000	–	–	–	220,000	203p	–	05.01.08 – 04.01.11
2009 LTIP	489,705	–	–	–	489,705	89.85p	–	05.01.09 – 04.01.12
2010 LTIP	–	214,529	–	–	214,529	205.10p	–	04.01.10 – 31.12.12
Kevin Dangerfield								
2007 LTIP	80,000	–	–	80,000	–	282p	–	05.01.07 – 04.01.10
2008 LTIP	120,000	–	–	–	120,000	203p	–	05.01.08 – 04.01.11
2009 LTIP	283,806	–	–	–	283,806	89.85p	–	05.01.09 – 04.01.12
2010 LTIP	–	118,939	–	–	118,939	205.10p	–	04.01.10 – 31.12.12
2010 LTIP – CSOP	–	5,390	–	–	5,390	205.10p	–	04.01.10 – 31.12.12
2010 LTIP – Funding	–	5,390	–	–	5,390	205.10p	–	04.01.10 – 31.12.12
Andrew Hosty								
2007 LTIP	80,000	–	–	80,000	–	282p	–	05.01.07 – 04.01.10
2008 LTIP	120,000	–	–	–	120,000	203p	–	05.01.08 – 04.01.11
2009 LTIP	267,111	–	–	–	267,111	89.85p	–	05.01.09 – 04.01.12
2010 LTIP	–	102,389	–	–	102,389	205.10p	–	04.01.10 – 31.12.12
2010 LTIP – CSOP	–	14,627	–	–	14,627	205.10p	–	04.01.10 – 31.12.12
2010 LTIP – Funding	–	14,627	–	–	14,627	205.10p	–	04.01.10 – 31.12.12

Notes:
1. Awards granted to Executive Directors in 2007 and 2008 were subject to relative TSR and EPS. The EPS target (applying to 50% of each award) requires three-year EPS growth of RPI+4% pa for 30% of that element to vest rising to full vesting for EPS growth of RPI+10% pa or higher. The TSR target (applying to the other 50% of each award) requires Morgan Crucible's three-year TSR performance to rank at median against 17 industrial and engineering comparators for 30% of that element to vest, rising to full vesting if Morgan Crucible's TSR ranks at or above the upper quartile against these peers. The performance conditions attached to the 2007 LTIP awards were not met and therefore awards lapsed in full.
2. Awards granted to Executive Directors in 2009 are subject to relative TSR. The TSR target requires Morgan Crucible's three-year TSR performance to rank at median against 17 industrial and engineering comparators for 30% of that element to vest, rising to full vesting if Morgan Crucible's TSR ranks at or above the upper quartile against these peers.
3. Awards granted to Executive Directors in 2010 are subject to relative TSR and EPS. The EPS target (applying to 50% of each award) requires three-year EPS growth of RPI+4% pa for 30% of that element to vest rising to full vesting for EPS growth of RPI+10% pa or higher. The TSR target (applying to the other 50% of each award) requires Morgan Crucible's three-year TSR performance to rank at median against 23 industrial and engineering comparators for 30% of that element to vest, rising to full vesting if Morgan Crucible's TSR ranks at or above the upper quartile against these peers.
4. LTIP awards made in 2010 to Kevin Dangerfield and Andrew Hosty are structured as an Approved Performance Share Plan (APSP) and comprise three elements: (i) HM Revenue & Customs approved options (CSOP) over shares to the value of up to £30,000 with an exercise price of 205.1 pence per share; (ii) an LTIP award in the form of a conditional award of free shares to the value of the remainder of the award above this limit; and (iii) a funding award, also in the form of a conditional award of free shares, over such numbers of shares whose value at exercise at the approved option equals £30,000. The vesting of each element of the award is subject to the 2010 LTIP performance measures set out on page 80. The provisions of these CSOP options, funding awards and LTIP awards are linked so that the maximum aggregate number of shares that can be acquired on exercise of LTIP and CSOP awards (the funding award being used to pay the exercise price arising on exercise of the CSOP) is limited to that number of shares that had a market value on the date of the awards equal to 100% of Kevin Dangerfield's 2009 base salary and £240,000 for Andrew Hosty ('the limit'). Vested funding awards are not transferred to the participant.

Awards to Directors under the Bonus Deferral Share Matching Plan

	As at 4 January 2010	Allocations during the year	Shares released during the year	Shares lapsed during the year	As at 2 January 2011	Market price at date of allocation	Market price at date of release	Performance periods
Mark Robertshaw								
2008 Award								
Investment shares[1]	104,743	–	–	104,743	–	197.625p	–	–
Matching shares[2]	314,229	–	–	–	314,229	197.625p	–	05.01.08 – 04.01.11
2009 Award								
Investment shares[1]	48,222	–	–	–	48,222	80.75p	–	–
Matching shares[2]	245,201	–	–	–	245,201	80.75p	–	05.01.09 – 04.01.12
2010 Award								
Investment shares[1]	–	20,635	–	–	20,635	188.70p	–	–
Matching shares[2]	–	104,928	–	–	104,928	188.70p	–	04.01.10 – 30.12.12
2008 Deferred Award Dividend Rollup	–	12,022	–	12,022	–	188p	–	–
2008 Replacement Deferred Award	–	68,675	–	–	68,675	188p	–	–
Kevin Dangerfield								
2008 Award								
Investment shares[1]	58,266	–	–	58,266	–	197.625p	–	–
Matching shares[2]	174,798	–	–	–	174,798	197.625p	–	05.01.08 – 04.01.11
2009 Award								
Investment shares[1]	13,973	–	–	–	13,973	80.75p	–	–
Matching shares[2]	71,052	–	–	–	71,052	80.75p	–	05.01.09 – 04.01.12
2008 Deferred Award Dividend Rollup	–	6,687	–	6,687	–	188p	–	–
2008 Replacement Deferred Award	–	38,202	–	–	38,202	188p	–	–
Andrew Hosty								
2008 Award								
Investment shares[1]	53,652	–	–	53,652	–	197.625p	–	–
Matching shares[2]	160,956	–	–	–	160,956	197.625p	–	05.01.08 – 04.01.11
2009 Award								
Investment shares[1]	71,042	–	–	–	71,042	80.75p	–	–
Matching shares[2]	361,233	–	–	–	361,233	80.75p	–	05.01.09 –04.01.12
2008 Deferred Award Dividend Rollup	–	6,156	–	6,156	–	188p	–	–
2008 Replacement Deferred Award	–	35,175	–	–	35,175	188p	–	–

1. Investment shares represent those shares acquired with a portion of the bonus set out in the emoluments table on page 83 voluntarily deferred into the Bonus Deferral Share Matching Plan.
2. This is the maximum number of shares based on the pre-tax value of the deferred shares that could be earned at the end of the performance period if the performance condition set out on page 79 is met in full.
3. In 2008 the Executive Directors deferred their bonus payment on a gross basis and in 2009 and 2010 deferral was on a net basis. In 2011 deferral will be on a gross basis. The flexibility to defer on either basis is within the Plan rules.
4. Matching awards granted to Executive Directors in 2008 and 2010 are subject to three-year EPS growth. The EPS target requires three-year EPS growth of RPI+4% pa for a 0.25x match, RPI+5% pa for a 0.5x match, RPI+7.5% pa for a 1x match, RPI+10% pa for a 1.75x match and RPI+15% pa or higher for a 3x match. There is straight-line vesting between these points.
5. Matching awards granted to Executive Directors in 2009 are subject to 3-year EPS growth. The EPS target requires three-year EPS growth of 4% pa for a 0.25x match, 5% pa for a 0.5x match, 7.5% pa for a 1x match, 10% pa for a 1.75x match and 15% pa or higher for a 3x match. There is straight-line vesting between these points. The performance targets for awards made in 2009 did not reference growth above RPI. Given the difficult economic climate at that time the Committee considered the targets to be stretching.

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

Remuneration report
continued

Options under the Sharesave scheme

	As at 4 January 2010	Granted during the year	Exercised during the year	Lapsed during the year	As at 2 January 2011	Exercise price	Exercise periods
Mark Robertshaw							
2006 scheme	4,725	–	4,725	–	–	200p	01.03.10 – 31.08.10
2010 scheme	–	5,454	–	–	5,454	165p	01.12.13 – 31.05.14
Kevin Dangerfield							
2008 scheme	5,680	–	–	–	5,680	169p	01.12.11 – 31.05.12
Andrew Hosty							
2008 scheme	4,544	–	–	–	4,544	169p	01.12.11 – 31.05.12
2009 scheme	1,417	–	–	–	1,417	128p	01.12.12 – 31.05.13

Pension benefits earned by the Directors

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 2 January 2011 £000	Increase in accrued benefits excluding inflation (A) £000	Increase in accrued benefits including inflation £000	Transfer value of (A) less Director's contributions £000	Transfer value of accrued benefits at 3 January 2010 £000	Transfer value of accrued benefits at 2 January 2011 £000	Increase/ (decrease) in transfer value less Director's contributions £000
Mark Robertshaw	21	3	3	7	176	210	15
Kevin Dangerfield	30	1	2	3	336	366	19
Andrew Hosty	42	1	1	3	517	578	56

Notes re pension benefits:
1. The accrued benefit entitlement for Mark Robertshaw, Kevin Dangerfield and Andrew Hosty is the pension which would be paid annually on retirement based on service at the end of the year.
2. The transfer values for the pension benefits have been calculated on the basis set by the Trustee of the pension scheme.
3. Members of the pension scheme had the option to pay Additional Voluntary Contributions. Neither the contributions nor the resulting benefits are included in the above table.
4. Andrew Hosty became a Director on 28 July 2010 and therefore the transfer value of the accrued benefits at the beginning of the year is calculated as at that date. The increase in accrued benefits reflects the five months qualifying service as a Director.

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 83.

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

Simon Heale
Chairman
Remuneration Committee
16 February 2011

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 2 January 2011 set out on pages 88 to 151. 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 75, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

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

Opinion on financial statements
In our opinion:

- The financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 2 January 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 68 to 74 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 101, in relation to going concern;
- The part of the Corporate governance statement relating to the Company's compliance with the nine provisions of the June 2008 Combined 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
16 February 2011

Consolidated income statement
for the year ended 2 January 2011

	Note	2010 £m	2009 £m
Revenue	2	**1,017.1**	942.6
Operating costs before restructuring costs, other one-off items and amortisation of intangible assets	4	**(907.6)**	(853.6)
Profit from operations before restructuring costs, other one-off items and amortisation of intangible assets		**109.5**	89.0
Restructuring costs and other one-off items:			
Restructuring costs and costs associated with settlement of prior period anti-trust litigation	8	**(8.5)**	(14.0)
Gain on disposal of property		**0.6**	2.0
Profit from operations before amortisation of intangible assets	2	**101.6**	77.0
Amortisation of intangible assets	4	**(8.0)**	(16.3)
Operating profit	2	**93.6**	60.7
Finance income		**29.0**	24.4
Finance expense		**(54.9)**	(53.7)
Net financing costs	6	**(25.9)**	(29.3)
Profit before taxation		**67.7**	31.4
Income tax expense	7	**(19.7)**	(8.7)
Profit for the period		**48.0**	22.7
Profit for period attributable to:			
Owners of the parent		**42.5**	19.0
Non-controlling interests		**5.5**	3.7
Profit for the period		**48.0**	22.7
Earnings per share	9		
Basic		**15.8p**	7.1p
Diluted		**15.0p**	6.8p
Dividends			
Proposed interim dividend – pence		**2.70p**	2.50p
– £m		**7.3**	6.8
Proposed final dividend – pence		**5.00p**	4.50p
– £m		**13.6**	12.1

The proposed interim and final dividends (2009: actual) are based upon the number of shares outstanding at the balance sheet date.

Consolidated statement of comprehensive income
for the year ended 2 January 2011

	2010 £m	2009 £m
Profit for the period	**48.0**	22.7
Foreign exchange translation differences	**6.2**	(17.5)
Actuarial loss on defined benefit plans	**(6.1)**	(18.7)
Revaluation on step acquisition	**–**	10.8
Net (loss)/gain on hedge of net investment in foreign subsidiary	**(0.6)**	9.1
Cash flow hedges:		
Effective portion of changes in fair value	**0.6**	0.2
Transferred to profit or loss	**(0.5)**	4.6
Change in fair value of equity securities available for sale	**0.2**	1.0
Tax effect on components of other comprehensive income	**2.6**	5.5
Total comprehensive income for the period	**50.4**	17.7
Total comprehensive income attributable to:		
Owners of the parent	**42.2**	17.1
Non-controlling interests	**8.2**	0.6
Total comprehensive income for the period	**50.4**	17.7

Consolidated balance sheet
as at 2 January 2011

	Note	2010 £m	2009 £m
Assets			
Property, plant and equipment	10	**269.2**	276.2
Intangible assets	11	**285.0**	296.9
Investment in associate	12	**1.5**	1.5
Other investments	12	**5.6**	5.7
Other receivables	15	**2.0**	2.1
Deferred tax assets	13	**38.5**	37.2
Total non-current assets		**601.8**	619.6
Inventories	14	**161.0**	146.3
Derivative financial assets	19	**0.7**	0.5
Trade and other receivables	15	**184.7**	165.8
Cash and cash equivalents	16	**85.0**	107.6
Assets classified as held for sale	10	**–**	1.4
Total current assets		**431.4**	421.6
Total assets		**1,033.2**	1,041.2
Liabilities			
Interest-bearing loans and borrowings	18	**310.4**	346.6
Employee benefits	20	**103.9**	105.9
Grants for capital expenditure		**0.1**	0.2
Provisions	21	**7.6**	5.5
Non-trade payables	22	**13.5**	31.7
Derivative financial liabilities	19	**–**	4.1
Deferred tax liabilities	13	**45.2**	47.5
Total non-current liabilities		**480.7**	541.5
Bank overdraft	16	**1.0**	1.2
Interest-bearing loans and borrowings	18	**9.8**	12.5
Trade and other payables	22	**265.4**	250.3
Current tax payable		**5.8**	4.5
Provisions	21	**12.8**	10.9
Derivative financial liabilities	19	**5.6**	5.7
Total current liabilities		**300.4**	285.1
Total liabilities		**781.1**	826.6
Total net assets		**252.1**	214.6
Equity			
Share capital	17	**68.5**	67.9
Share premium		**88.3**	85.3
Reserves		**64.6**	61.4
Retained earnings		**(6.4)**	(30.0)
Total equity attributable to equity owners of parent Company		**215.0**	184.6
Non-controlling interests		**37.1**	30.0
Total equity		**252.1**	214.6

The financial statements were approved by the Board of Directors on 16 February 2011 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 2 January 2011

	Share capital £m	Share premium £m	Translation reserve £m	Hedging reserve £m	Fair value reserve £m	Special reserve £m	Capital redemption reserve £m	Other reserves £m	Retained earnings £m	Total parent equity £m	Non-controlling interests £m	Total equity £m
Balance at 4 January 2009	67.9	85.3	9.9	(4.6)	(2.7)	6.0	35.7	1.0	(20.7)	177.8	30.2	208.0
Profit for the year	–	–	–	–	–	–	–	–	19.0	19.0	3.7	22.7
Other comprehensive income	–	–	0.2	4.8	1.0	–	–	10.8	(18.7)	(1.9)	(3.1)	(5.0)
Other movements	–	–	–	–	–	–	–	(0.7)	0.2	(0.5)	0.5	–
Transactions with owners:												
Dividends	–	–	–	–	–	–	–	–	(12.1)	(12.1)	(1.3)	(13.4)
Equity-settled share-based payment transactions	–	–	–	–	–	–	–	–	2.3	2.3	–	2.3
Balance at 3 January 2010	67.9	85.3	10.1	0.2	(1.7)	6.0	35.7	11.1	(30.0)	184.6	30.0	214.6
Balance at 4 January 2010	**67.9**	**85.3**	**10.1**	**0.2**	**(1.7)**	**6.0**	**35.7**	**11.1**	**(30.0)**	**184.6**	**30.0**	**214.6**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**42.5**	**42.5**	**5.5**	**48.0**
Other comprehensive income	**–**	**–**	**2.9**	**0.1**	**0.2**	**–**	**–**	**–**	**(3.5)**	**(0.3)**	**2.7**	**2.4**
Transactions with owners:												
Dividends	**0.5**	**2.9**	**–**	**–**	**–**	**–**	**–**	**–**	**(18.9)**	**(15.5)**	**(1.1)**	**(16.6)**
Equity-settled share-based payment transactions	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**3.5**	**3.5**	**–**	**3.5**
Issue of shares	**0.1**	**0.1**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**0.2**	**–**	**0.2**
Balance at 2 January 2011	**68.5**	**88.3**	**13.0**	**0.3**	**(1.5)**	**6.0**	**35.7**	**11.1**	**(6.4)**	**215.0**	**37.1**	**252.1**

Details of the reserves are provided in note 17.

Consolidated statement of cash flows
for the year ended 2 January 2011

	Note	2010 £m	2009 £m
Operating activities			
Profit for the period		**48.0**	22.7
Adjustments for:			
Depreciation	4	**32.3**	31.7
Amortisation	4	**8.0**	16.3
Net financing costs		**25.9**	29.3
Profit on sale of property, plant and equipment		**(0.5)**	(2.1)
Income tax expense	7	**19.7**	8.7
Equity-settled share-based payment expenses		**3.1**	2.0
Cash generated from operations before changes in working capital and provisions		**136.5**	108.6
(Increase)/decrease in trade and other receivables		**(13.7)**	26.5
(Increase)/decrease in inventories		**(11.6)**	8.1
Increase/(decrease) in trade and other payables		**35.8**	(7.3)
Decrease in provisions and employee benefits		**(6.7)**	(13.5)
Cash generated from operations		**140.3**	122.4
Interest paid		**(25.7)**	(25.5)
Income tax paid		**(24.1)**	(32.0)
Net cash from operating activities		**90.5**	64.9
Investing activities			
Purchase of property, plant and equipment		**(19.1)**	(18.1)
Proceeds from sale of property, plant and equipment		**2.1**	4.4
Sale of investments		**0.3**	0.2
Interest received		**3.0**	2.3
Acquisition of subsidiaries and associate, net of cash acquired		**(32.9)**	(31.9)
Forward contracts used in net investment hedging		**(6.0)**	(0.3)
Net cash from investing activities		**(52.6)**	(43.4)
Financing activities			
Increase in borrowings	16	**54.3**	169.2
Repayment of borrowings	16	**(102.1)**	(204.7)
Payment of finance lease liabilities	16	**(0.5)**	(0.6)
Dividends paid		**(15.4)**	(12.1)
Net cash from financing activities		**(63.7)**	(48.2)
Net decrease in cash and cash equivalents		**(25.8)**	(26.7)
Cash and cash equivalents at start of period		**107.6**	139.4
Effect of exchange rate fluctuations on cash held		**3.2**	(5.1)
Cash and cash equivalents at period end	16	**85.0**	107.6

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

Notes to the consolidated financial statements

1. Accounting policies, estimates and judgments

Accounting policies

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

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the 'Group'), and include the Group's interest in associates. The parent Company financial statements present information about the Company as a separate entity and not about its Group. These consolidated financial statements have been drawn up to Sunday 2 January 2011. The Group maintains a 52-or 53-week fiscal year ending on the Sunday nearest to the Accounting Reference Date of the Company, 1 January.

The Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ('adopted IFRSs'). The Company has elected to prepare its parent Company financial statements in accordance with UK Generally Accepted Accounting Practice; these are presented on pages 141 to 150.

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

During the period, the Group has applied IFRS 3 (Revised 2008) *Business Combinations* and IAS 27 (Revised 2008) *Consolidated and Separate Financial Statements*. The revised standards introduce changes to acquisition accounting, notably in respect of treatment of acquisition costs, step and partial acquisitions, non-controlling interests and contingent consideration. The revised standards have had no impact on the reported results or financial position of the Group. In addition, the Group has applied amendments to the following adopted IFRSs: IAS 17 *Leases*, IAS 18 *Revenue*, IAS 27 (Amended 2008) *Consolidated and Separate Financial Statements*, IAS 36 *Impairment of Assets*, IAS 38 *Intangible Assets*, IAS 39 *Financial Instruments*, IFRS 2 *Share-Based Payment*, IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, IFRS 8 *Operating Segments*, IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*, IFRIC 17 *Distributions of Non-Cash Assets to Owners*, IFRIC 18 *Transfers of Assets from Customers*. The above amendments have not had any significant impact on the reported results or financial position of the Group.

(a) Measurement convention

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

(b) Functional and presentation currency

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

(c) Basis of consolidation

(i) Subsidiaries

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

(ii) Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity. Associates are accounted for using the equity method and are initially recognised at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the income and expenses and equity movements of associates, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the carrying amount of that interest is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the associate.

(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.

Notes to the consolidated financial statements
continued

1. Accounting policies, estimates and judgments continued

(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').

(iii) Net investment in foreign operations

Exchange differences arising from the translation of the net investment in foreign operations are taken to the translation reserve. They are released into the income statement upon disposal.

(e) Derivative financial instruments

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

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

The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price.

(f) Hedging

(i) Cash flow hedges

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

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

(ii) Hedge of monetary assets and liabilities

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

(iii) Hedge of net investment in foreign operations

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

(iv) Fair value hedges

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

1. Accounting policies, estimates and judgments continued

(g) Property, plant and equipment

(i) Owned assets

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

Certain items of property, plant and equipment that had been revalued to fair value on or prior to 5 January 2004, the date of transition to adopted IFRSs, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation. 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 – presses, kilns and furnaces	10-20 years
Other plant and equipment	10 years
Fixtures and fittings	10 years
Motor vehicles and IT equipment	3 years

(h) Intangible assets

(i) Goodwill

All business combinations are accounted for by applying the purchase method. In respect of business acquisitions that have occurred since 5 January 2004, goodwill represents the difference between the cost of the acquisition and the fair value of assets, liabilities and contingent liabilities acquired.

In respect of acquisitions prior to this date, goodwill is included on the basis of its deemed cost, which represents the amount recorded under UK GAAP. The classification and accounting treatment of business combinations that occurred prior to 5 January 2004 has not been reconsidered. Goodwill is stated at cost less any accumulated impairment losses.

Goodwill is allocated to cash-generating units and is tested annually for impairment (see accounting policy 'l').

(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 (see accounting policy 'l'). 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 (see accounting policy 'l').

Notes to the consolidated financial statements
continued

1. Accounting policies, estimates and judgments continued

(iv) Amortisation

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

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

(i) Trade and other receivables

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

(j) Inventories

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

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

(k) Cash and cash equivalents

Cash and cash equivalents comprises cash balances and call deposits.

(l) Impairment

The carrying amounts of the Group's assets, other than inventories (see accounting policy 'j') and deferred tax assets (see accounting policy 's'), 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. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

(i) Calculation of recoverable amount

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

(ii) Reversals of impairment

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

1. Accounting policies, estimates and judgments continued

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 will be reversed, with the amount of the reversal recognised in profit or loss.

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

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

(m) Share capital

(i) Ordinary share capital

Ordinary shares are classified as equity.

(ii) Preference share capital

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

(iii) Repurchase of share capital and own shares held by ESOP trust (treasury shares)

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 Group-sponsored ESOP trust are presented as a deduction from total equity. Repurchased shares are classified as treasury shares until their subsequent cancellation.

(n) Employee benefits

(i) Defined contribution plans

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

(ii) Defined benefit plans

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

(iii) Long-term service benefits

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

(iv) Share-based payment transactions

The Group operates various share option programmes that allow Group employees to acquire shares in the Company. Under the Long Term Incentive Plan (LTIP) and The Morgan Crucible Bonus Deferral Share Matching Plan awards of shares are made to various key executives and under the Directors' Share Option Plan 2006 (2006 ESOP), the Executive Share Option Scheme 2004 (2004 ESOS) and the Executive Share Option Scheme 1995 (1995 ESOS) share options are granted by the Company. The Company also maintains an all-employee Sharesave Scheme available to employees in the UK and Germany. The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options for which the related service and non-market vesting conditions are met.

Notes to the consolidated financial statements
continued

1. Accounting policies, estimates and judgments continued

The fair value of the options and awards under each scheme have been measured using the following models:

Directors' Share Option Plan 2006	Monte Carlo model
Long Term Incentive Plan 2004	Monte Carlo model
The Morgan Crucible Bonus Deferral Share Matching Plan	Monte Carlo model
Executive Share Option Scheme 2004	Monte Carlo model
Executive Share Option Scheme 1995 (grants made since 2004)	Binominal Lattice option pricing model
Employee Sharesave Scheme 1995 (grants made since 2004)	Black-Scholes Merton model
Employee Sharesave Scheme 2004	Black-Scholes Merton model
Employee Sharesave Scheme 2004 (Germany)	Black-Scholes Merton model

(o) Provisions

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

(i) Restructuring

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

(ii) Onerous contracts

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

(iii) Environmental

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

(p) Trade and other payables

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

(q) Revenue

(i) Goods sold

Revenue from the sale of products is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

(ii) Government grants

Government grants are recognised in the balance sheet initially as deferred income, as grants for capital expenditure, when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in the income statement on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised in the income statement as other operating income on a systematic basis over the useful life of the asset.

(r) Expenses

(i) Operating lease payments

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

1. Accounting policies, estimates and judgments continued

(ii) Finance lease payments

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

(iii) Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, interest receivable on funds invested, gains and losses on hedging instruments that are recognised in the income statement (see accounting policy 'f'), 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.

(s) Income tax

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

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

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

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

(t) Segment reporting

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

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

(u) Classification of financial instruments issued by the Group

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

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

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

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

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

Notes to the consolidated financial statements
continued

1. Accounting policies, estimates and judgments continued

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

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

(x) Capitalisation of borrowing costs
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.

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

(z) 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.

(aa) New Standards and Interpretations not yet adopted
A number of new Standards and amendments to Standards and Interpretations are not yet effective for the year ended 2 January 2011, and have not been applied in preparing these consolidated financial statements.

The following adopted IFRSs were available for early application but have not been applied:

(i) IAS 24 *Related Party Disclosures (revised 2009)*

(ii) IFRS 9 *Financial Instruments*

The revised IAS 24 *Related Party Disclosures* amends the definition of a related party.

IFRS 9 *Financial Instruments* retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the individual entity's business model and the contractual cash flow characteristics of the financial asset.

The Group does not expect the above standards to have any significant impact on the financial statements for the period commencing 3 January 2011.

Amendments to the following adopted IFRSs were available for early application but have not been applied:

(i) IAS 24 *Related Party Disclosures (revised 2009)*

(ii) IAS 32 *Financial Instruments: Presentation*

(iii) IFRS 7 *Financial Instruments: Disclosure*

(iv) IFRIC 14 *IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction*

(v) IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*

The Group does not expect the above amendments to have any significant impact on the financial statements for the period commencing 3 January 2011.

1. Accounting policies, estimates and judgments continued

Accounting estimates and judgments

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

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

Provisions

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

Recognition of identifiable intangible assets and goodwill

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

Remeasurement of deferred contingent consideration

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

Impairment of goodwill

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

Credit risk

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

Foreign currency exposure

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

Pension assumptions

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

Taxation

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

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business review on pages 32 to 61. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Business review. In addition, note 19 includes the Group's policies and processes for managing financial risk, details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The Group's multi-currency Revolving Facility ('the facility') matures in May 2012, and appropriate steps are being taken to refinance this during 2011. The Group meets its day-to-day working capital requirements through local banking arrangements that are supported 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 the Group's debt financial covenants for the next 12 months.

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

Notes to the consolidated financial statements
continued

2. Segment reporting

The Group comprises the following four operating segments:

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

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

	Morgan Engineered Materials				Morgan Ceramics					
	Morgan AM&T		Molten Metal Systems		Technical Ceramics		Thermal Ceramics		Consolidated	
	2010 £m	2009 £m	**2010 £m**	2009 £m	**2010 £m**	2009 £m	**2010 £m**	2009 £m	**2010 £m**	2009 £m
Revenue from external customers	**367.7**	391.4	**40.3**	30.1	**250.1**	206.0	**359.0**	315.1	**1,017.1**	942.6
Divisional EBITA[1]	**39.2**	40.5	**6.3**	0.9	**34.0**	25.1	**34.8**	26.7	**114.3**	93.2
Unallocated costs									**(4.8)**	(4.2)
Group EBITA[2]									**109.5**	89.0
Restructuring costs and other one-off items	**(1.6)**	(5.0)	**0.1**	(1.7)	**(1.7)**	(2.0)	**(4.7)**	(4.2)	**(7.9)**	(12.9)
Unallocated gain associated with settlement of prior period anti-trust litigation									**–**	0.9
Underlying operating profit[3]									**101.6**	77.0
Amortisation of intangible assets	**(4.2)**	(12.7)	**(0.1)**	(0.1)	**(2.5)**	(2.4)	**(1.2)**	(1.1)	**(8.0)**	(16.3)
Operating profit									**93.6**	60.7
Finance income									**29.0**	24.4
Finance expense									**(54.9)**	(53.7)
Profit before taxation									**67.7**	31.4

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

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

The Group did not have any significant inter-segment revenue between reportable operating segments in 2010 and 2009.

	Morgan Engineered Materials				Morgan Ceramics					
	Morgan AM&T		Molten Metal Systems		Technical Ceramics		Thermal Ceramics		Consolidated	
	2010 £m	2009 £m	**2010 £m**	2009 £m	**2010 £m**	2009 £m	**2010 £m**	2009 £m	**2010 £m**	2009 £m
Segment assets	**378.9**	384.4	**31.3**	31.6	**224.8**	220.9	**273.1**	258.2	**908.1**	895.1
Unallocated assets									**125.1**	146.1
Total assets									**1,033.2**	1,041.2
Segment liabilities	**81.6**	78.5	**7.6**	7.4	**43.2**	32.9	**85.4**	64.9	**217.8**	183.7
Unallocated liabilities									**563.3**	642.9
Total liabilities									**781.1**	826.6
Segment capital expenditure	**6.8**	5.0	**1.0**	0.9	**4.9**	6.1	**6.3**	5.9	**19.0**	17.9
Unallocated capital expenditure									**0.1**	0.2
Total capital expenditure									**19.1**	18.1

2. Segment reporting continued

	Morgan Engineered Materials				Morgan Ceramics					
	Morgan AM&T		Molten Metal Systems		Technical Ceramics		Thermal Ceramics		Consolidated	
	2010 £m	2009 £m	**2010 £m**	2009 £m	**2010 £m**	2009 £m	**2010 £m**	2009 £m	**2010 £m**	2009 £m
Segment depreciation	**10.1**	9.9	**1.4**	1.2	**9.0**	9.1	**11.8**	11.5	**32.3**	31.7

	Europe		Americas		Far East & Australia		Middle East & Africa		Consolidated	
	2010 £m	2009 £m	**2010 £m**	2009 £m	**2010 £m**	2009 £m	**2010 £m**	2009 £m	**2010 £m**	2009 £m
Revenue from external customers (based on geographical location of selling company)	**422.7**	453.3	**388.5**	325.1	**180.0**	140.1	**25.9**	24.1	**1,017.1**	942.6
Non-current assets (excluding deferred tax and financial instruments)	**260.0**	285.0	**212.9**	216.9	**88.7**	78.8	**1.7**	1.7	**563.3**	582.4

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

Revenue from external customers attributed to the UK (the Group's country of domicile) was £197.6 million (2009: £252.7 million) and non-current assets (excluding deferred tax and financial instruments) attributed to the UK was £175.0 million (2009: £193.2 million).

Major customer

Revenue from a range of different products to one customer of the Group's Morgan AM&T Business represent £106.5 million of the Group's total revenue (2009: £161.1 million).

3. Acquisitions

Acquisitions in 2010

Clearpower Limited

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

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

In accordance with IAS 32 *Financial Instruments: Presentation*, the Group has also recognised a liability, representing the estimated present value of the redemption amount in respect of its obligation to acquire the remaining 30% of the Ordinary share capital of Clearpower Limited. It has treated these shares as if they were acquired by the Group on 5 January 2009. Since this consideration is contingent on the future performance of Clearpower Limited this liability is remeasured at each reporting date with any adjustments recorded through goodwill, in accordance with IFRS 3 *Business Combinations (2004)*. It is possible that the carrying amount of this liability will increase or decrease if the future performance of Clearpower varies from current expectations. At 2 January 2011 this liability was remeasured and reduced to £17.3 million.

At 2 January 2011 the Group carries a total liability of £17.3 million in respect of deferred consideration in relation to the acquisition of Clearpower Limited. This is included within current and non-current non-trade payables. The unwinding of the discount on this liability of £1.2 million is recorded as a finance expense (see note 6). The adjustment through goodwill since the date of acquisition as a result of the remeasurement is £6.8 million.

Notes to the consolidated financial statements
continued

3. Acquisitions continued

Changsha Hairong New Materials Co., Ltd

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

In accordance with IAS 32 *Financial Instruments: Presentation*, the Group has recognised a £0.2 million liability, representing the present value of the remaining redemption amount in respect of its obligation to acquire the remaining 13.7% of the Ordinary share capital of Changsha Hairong New Materials Co., Ltd. It has treated these shares as if they were acquired by the Group on 3 December 2010, on the basis that there is an irrevocable commitment to purchase the remaining shareholding and the Group holds the risks and rewards of future ownership of these shares. This is included within current non-trade payables.

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

The detail of the transaction, result and fair value adjustments arising from the change in ownership are shown below:

	Acquiree's carrying amount 2010 £m	Fair value to the Group 2010 £m
Changsha Hairong New Materials Co., Ltd		
The figures in the table below represent a 100% interest in Changsha Hairong New Materials Co., Ltd		
Intangible assets	–	3.3
Property, plant and equipment	0.5	0.5
Other working capital	1.6	1.8
Interest-bearing loans and other borrowings	(0.4)	(0.4)
Cash and cash equivalents	0.3	0.3
Deferred taxation	–	(0.5)
Net assets acquired	2.0	5.0
Goodwill		1.2
Fair value of net assets acquired and goodwill arising		6.2
Components of cost of acquisition		
Fair value of consideration		6.2
Fair value of net assets acquired and goodwill arising		6.2

Provisional fair value adjustments were made to reflect the fair value of the assets/liabilities acquired and principally represent the recognition of the fair value of technology and non-contractual customer relationships and the associated deferred tax on the temporary timing difference created by the fair value adjustments. Management does not expect any adjustments to the provisional fair values to be material.

3. Acquisitions continued
Excluding goodwill a total of £3.3 million of intangible assets has been recognised comprising £0.4 million of customer relationships and £2.9 million of technology. These have been recognised within operating intangibles arising on acquisition (see note 11).

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

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

Acquisition related costs of £0.1 million have been recognised as an expense in the year.

Other acquisitions in 2010
There have been no other business combinations during the current year.

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

At 3 January 2010 this liability to purchase the remaining 40% of the Ordinary share capital of Clearpower Limited was remeasured and increased to £46.0 million.

At 3 January 2010 the Group carried a total liability of £54.1 million in respect of deferred consideration, including an additional amount payable on the acquisition of 11% of the Ordinary share capital of Clearpower Limited. This was included within current and non-current non-trade payables. The unwinding of the discount on this liability of £2.2 million was recorded as a finance expense. The adjustment through goodwill since the date of acquisition as a result of the remeasurement was £7.3 million.

The principal activity of NP Aerospace Limited is the development, manufacture and marketing of ballistic and non-ballistic products in the defence and civil sectors. In the 12 months to 3 January 2010 Clearpower Limited and its subsidiaries contributed an operating profit before amortisation of intangible assets of £28.8 million to the consolidated net profit.

The details of the transaction, result and fair value adjustments arising from the change in ownership are shown below:

	Acquiree's carrying amount 2009 £m	Fair value to the Group 2009 £m
Clearpower Limited		
The figures in the table below represent a 100% interest in Clearpower Limited		
Intangible assets	–	51.5
Property, plant and equipment	2.9	2.9
Other working capital	0.1	0.1
Derivative financial liabilities	(0.8)	(0.8)
Interest-bearing loans and other borrowings	(58.3)	(58.3)
Non-controlling interest	(1.2)	(1.2)
Deferred taxation	0.3	(14.1)
Net liabilities acquired	(57.0)	(19.9)
Goodwill		96.7
Fair value of net liabilities acquired and goodwill arising		76.8

Notes to the consolidated financial statements
continued

3. Acquisitions continued

	Fair value to the Group 2009 £m
Components of cost of acquisition	
Fair value of consideration for initial 49% shareholding in 2007	0.5
Fair value of consideration for remaining 51% shareholding in 2009	64.1
Total cost of acquisition	64.6
Earnings under equity method of initial 49% shareholding (while Clearpower Limited was an associate)	1.4
Revaluation surplus arising on step acquisition	10.8
Fair value of net liabilities acquired and goodwill arising	76.8
Cash paid on acquisition of 11% of the Ordinary share capital	12.2
Acquisition costs	0.1
Net cash outflow to the Group in 2009	12.3

Provisional fair value adjustments were made to reflect the fair value of the assets/liabilities acquired and principally represent the recognition of the fair value of non-contractual customer relationships, order book and technology and the associated deferred tax on the temporary timing difference created by the fair value adjustments. No adjustments to fair value were made.

Recognised goodwill comprised £22.5 million arising on the initial purchase of the 49% interest in 2007 and £74.2 million arising on the effective acquisition of the remaining 51% interest on 5 January 2009.

Excluding goodwill a total of £51.5 million of intangible assets has been recognised comprising £23.9 million of customer relationships, £18.3 million of technology and an order book of £9.3 million. These were recognised within operating intangibles arising on acquisition.

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

The fair value of the purchase consideration, which is dependent on future results, represents management's best estimate of the likely final purchase consideration.

The revaluation surplus, recorded in the statement of comprehensive income, reflects the increase 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.

Other acquisitions in 2009
On 6 April 2009, the Group acquired a 50% stake in Integrated Survivability Technologies Limited. The principal activity of Integrated Survivability Technologies Limited is acting as prime contractor for delivery of military vehicles and provision of related support services. This company did not trade prior to the date of acquistion.

During 2009 the Company acquired a further 9% of the Ordinary share capital and voting rights of Carbo San Luis SA for £1.1 million, resulting in a total shareholding of 84.6% at 3 January 2010.

4. Operating costs

	2010 £m	2009 £m
Change in stocks of finished goods and work in progress	**1.6**	(0.7)
Raw materials and consumables	**301.8**	302.3
Other external charges	**168.6**	148.3
Total	**472.0**	449.9
Employee costs:		
– wages and salaries	**239.5**	214.3
– equity-settled share-based payments	**3.1**	2.0
– social security costs	**45.0**	45.1
– other pension costs	**10.6**	7.1
Total	**298.2**	268.5
Depreciation:		
– owned assets	**32.1**	30.5
– assets held under finance leases	**0.2**	1.2
Total	**32.3**	31.7
Rentals under operating leases:		
– hire of plant and machinery	**3.1**	3.0
– other operating leases	**5.1**	8.7
Total	**8.2**	11.7
Other operating charges and income:		
– foreign exchange losses	**1.9**	3.9
– other operating charges	**102.0**	97.3
– foreign exchange gains	**(4.2)**	(6.1)
– other operating income	**(2.8)**	(3.3)
Total	**96.9**	91.8
Total operating costs before restructuring costs, other one-off items and amortisation of intangible assets	**907.6**	853.6
Restructuring costs and other one-off items:		
– employment termination costs	**5.9**	11.3
– other site rationalisation and closure costs	**2.6**	3.6
– costs recovered associated with settlement of prior period anti-trust litigation	**–**	(0.9)
– profit on disposal of property	**(0.6)**	(2.0)
Total	**7.9**	12.0
Amortisation of intangible assets	**8.0**	16.3
Total operating costs	**923.5**	881.9

The Group recognised £15.9 million in expense in respect of research and development (2009: £13.9 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 2 January 2011 is set out below:

	2010 £m	2009 £m
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**0.4**	0.4
Fees payable to the Company's auditor and its associates for other services:		
– the audit of the Company's subsidiaries pursuant to legislation and other services	**1.5**	1.6
– tax services	**0.1**	0.1
	2.0	2.1

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	
	2010	2009
United Kingdom	**1,459**	1,484
Rest of Europe	**1,637**	1,738
The Americas	**3,631**	3,632
Far East and Australia	**2,634**	2,692
Middle East and Africa	**250**	242
	9,611	9,788
Morgan AM&T	**3,463**	3,548
Molten Metal Systems	**432**	502
Technical Ceramics	**2,590**	2,698
Thermal Ceramics	**3,117**	3,032
Corporate	**9**	8
	9,611	9,788

6. Net finance income and expense

	2010 £m	2009 £m
Recognised in profit or loss		
Interest income on bank deposits	**1.0**	2.3
Expected return on IAS 19 scheme assets	**26.0**	22.1
Gain on foreign exchange derivatives in respect of financial indebtedness	**2.0**	–
Finance income	**29.0**	24.4
Interest expense on financial liabilities measured at amortised cost	**(25.7)**	(25.1)
Interest on IAS 19 obligations	**(28.0)**	(26.4)
Interest expense on unwinding of discount on deferred consideration	**(1.2)**	(2.2)
Finance expense	**(54.9)**	(53.7)
Net financing costs recognised in profit or loss	**(25.9)**	(29.3)

The above finance income and expense include the following in respect of assets/(liabilities) not at fair value through profit or loss:

	2010 £m	2009 £m
Total interest income on financial assets	**1.0**	2.3
Total interest expense on financial liabilities	**(25.7)**	(25.1)
Recognised directly in equity		
Net change in fair value of available for sale financial assets	**0.2**	1.0
Cash flow hedges:		
– effective portion of changes in fair value of cash flow hedges	**0.6**	0.2
– transferred to profit or loss	**(0.5)**	4.6
Effective portion of change in fair value of net investment hedge	**(0.6)**	9.1
Foreign currency translation differences for foreign operations	**3.5**	(8.9)
	3.2	6.0
Recognised in:		
Fair value reserve	**0.2**	1.0
Translation reserve	**2.9**	0.2
Hedging reserve	**0.1**	4.8
	3.2	6.0

7. Taxation – income tax expense

Recognised in the income statement

	2010 £m	2009 £m
Current tax expense		
Current year	**23.3**	17.3
Adjustments for prior years	**(2.5)**	(0.8)
	20.8	16.5
Deferred tax expense		
Origination and reversal of temporary differences	**(1.1)**	(7.8)
Total income tax expense in income statement	**19.7**	8.7

Notes to the consolidated financial statements
continued

7. Taxation – income tax expense continued
Reconciliation of effective tax rate

	2010 £m	2010 %	2009 £m	2009 %
Profit before tax	**67.7**		31.4	
Income tax using the domestic corporation tax rate	**18.9**	**28.0**	8.8	28.0
Non-deductible expenses	**0.6**	**0.8**	6.4	20.4
Temporary differences not equalised in deferred tax	**2.8**	**4.1**	(4.3)	(13.7)
Over-provided in prior years	**(2.5)**	**(3.7)**	(0.2)	(0.6)
Other (including the impact of overseas tax rates)	**(0.1)**	**(0.1)**	(2.0)	(6.4)
	19.7	**29.1**	8.7	27.7

Income tax recognised directly in equity

	2010 £m	2009 £m
Tax effect on components of other comprehensive income:		
– Deferred tax associated with defined benefit schemes	**2.6**	–
– Utilisation of losses previously booked directly to equity	**–**	5.5
Other	**–**	(0.2)
Total income tax recognised directly in equity	**2.6**	5.3

The Emergency Budget on 22 June 2010 announced that the UK corporation tax rate will reduce from 28% to 24% over a period of four years from 2011. The first reduction in the UK corporation tax rate from 28% to 27% was enacted in Finance (No 2) Act 2010 and will be effective from 1 April 2011.

8. Restructuring costs and costs associated with settlement of prior period anti-trust litigation
Costs of restructuring were £8.5 million (2009: £14.9 million). During the prior year net legal costs of £0.9 million were recovered relating to the settlement of prior period anti-trust litigation.

9. Earnings per share
Basic earnings per share

The calculation of basic earnings per share at 2 January 2011 was based on the profit attributable to equity holders of The Morgan Crucible Company plc of £42.5 million (3 January 2010: £19.0 million) and a weighted average number of Ordinary shares outstanding during the period ended 2 January 2011 of 269,828,216 (3 January 2010: 268,070,252) calculated as follows:

	2010 £m	2009 £m
Profit attributable to equity holders of The Morgan Crucible Company plc	**42.5**	19.0

Weighted average number of Ordinary shares

	2010	2009
Issued Ordinary shares at the beginning of the period	**270,206,256**	270,206,256
Effect of shares issued in period and treasury shares held by the Company	**(378,040)**	(2,136,004)
Weighted average number of Ordinary shares during the period	**269,828,216**	268,070,252
Basic earnings per share (pence)	**15.8p**	7.1p

9. Earnings per share continued

Diluted earnings per share

The calculation of diluted earnings per share at 2 January 2011 was based on the profit attributable to equity holders of The Morgan Crucible Company plc of £42.5 million (3 January 2010: £19.0 million) and a weighted average number of Ordinary shares outstanding during the period ended 2 January 2011 of 283,821,251 (3 January 2010: 279,724,482), calculated as follows:

	2010 £m	2009 £m
Profit attributable to equity holders of The Morgan Crucible Company plc	**42.5**	19.0
Diluted weighted average number of Ordinary shares:		
Weighted average number of Ordinary shares during the period	**269,828,216**	268,070,252
Effect of share options/incentive schemes	**13,993,035**	11,654,230
Diluted weighted average number of Ordinary shares during the period	**283,821,251**	279,724,482
Diluted earnings per share (pence)	**15.0p**	6.8p

Underlying earnings per share

The calculation of underlying earnings per share at 2 January 2011 was based on operating profit before amortisation, less net financing costs, income tax expense and non-controlling interests of £50.5 million (3 January 2010: £35.3 million) and a weighted average number of Ordinary shares outstanding during the period ended 2 January 2011 of 269,828,216 (3 January 2010: 268,070,252) calculated as follows:

	2010 £m	2009 £m
Operating profit before amortisation, less net financing costs, income tax expense and non-controlling interests	**50.5**	35.3
Weighted average number of Ordinary shares:		
Issued Ordinary shares at the beginning of the period	**270,206,256**	270,206,256
Effect of shares issued in period and treasury shares held by the Company	**(378,040)**	(2,136,004)
Weighted average number of Ordinary shares during the period	**269,828,216**	268,070,252
Earnings per share before amortisation of intangible assets (pence)	**18.7p**	13.2p

Diluted underlying earnings per share

The calculation of diluted underlying earnings per share at 2 January 2011 was based on operating profit before amortisation, less net financing costs, income tax expense and non-controlling interests of £50.5 million (3 January 2010: £35.3 million) and a weighted average number of Ordinary shares outstanding during the period ended 2 January 2011 of 283,821,251 (3 January 2010: 279,724,482) calculated as follows:

	2010 £m	2009 £m
Operating profit before amortisation, less net financing costs, income tax expense and non-controlling interests	**50.5**	35.3
Diluted weighted average number of Ordinary shares:		
Weighted average number of Ordinary shares during the period	**269,828,216**	268,070,252
Effect of share options/incentive schemes	**13,993,035**	11,654,230
Diluted weighted average number of Ordinary shares during the period	**283,821,251**	279,724,482
Diluted earnings per share before amortisation of intangible assets (pence)	**17.8p**	12.6p

Notes to the consolidated financial statements
continued

10. Property, plant and equipment

	Land and buildings £m	Plant and equipment and fixtures £m	Total £m
Cost			
Balance at 4 January 2009	181.4	529.3	710.7
Acquisitions through business combinations	1.5	1.4	2.9
Additions	1.4	12.6	14.0
Disposals	(4.3)	(11.0)	(15.3)
Transfer to assets classified as held for sale	(4.1)	(0.6)	(4.7)
Effect of movement in foreign exchange	(13.2)	(36.1)	(49.3)
Balance at 3 January 2010	162.7	495.6	658.3
Balance at 4 January 2010	**162.7**	**495.6**	**658.3**
Acquisitions through business combinations	**–**	**0.5**	**0.5**
Additions	**2.7**	**17.3**	**20.0**
Disposals	**(0.2)**	**(4.0)**	**(4.2)**
Effect of movement in foreign exchange	**2.0**	**12.2**	**14.2**
Balance at 2 January 2011	**167.2**	**521.6**	**688.8**
Depreciation and impairment losses			
Balance at 4 January 2009	56.4	334.7	391.1
Depreciation charge for the year	4.5	27.2	31.7
Impairment loss	0.3	–	0.3
Disposals	(1.0)	(9.0)	(10.0)
Transfer to assets classified as held for sale	(2.8)	(0.5)	(3.3)
Effect of movement in foreign exchange	(4.4)	(23.3)	(27.7)
Balance at 3 January 2010	53.0	329.1	382.1
Balance at 4 January 2010	**53.0**	**329.1**	**382.1**
Depreciation charge for the year	**4.8**	**27.5**	**32.3**
Disposals	**–**	**(3.1)**	**(3.1)**
Effect of movement in foreign exchange	**0.6**	**7.7**	**8.3**
Balance at 2 January 2011	**58.4**	**361.2**	**419.6**
Carrying amounts			
At 4 January 2009	125.0	194.6	319.6
At 3 January 2010	109.7	166.5	276.2
At 2 January 2011	**108.8**	**160.4**	**269.2**

Assets pledged as security for liabilities

At 2 January 2011 assets with a carrying amount of £5.7 million (3 January 2010: £4.3 million) are subject to registered debentures to secure bank loans and other liabilities (see note 18).

Assets classified as held for sale

	2010 £m	2009 £m
Land and buildings	**–**	1.3
Plant and equipment	**–**	0.1
	–	1.4

11. Intangible assets

	Goodwill £m	Order book £m	Customer relationships £m	Technology and trademarks £m	Capitalised development costs £m	Computer software £m	Total £m
Cost							
Balance at 4 January 2009	118.4	–	56.6	1.3	1.6	12.4	190.3
Acquisitions through business combinations	96.8	9.3	23.9	18.3	–	–	148.3
Additions – externally purchased	–	–	–	–	0.7	0.9	1.6
Disposals	(0.2)	–	–	–	–	(0.7)	(0.9)
Effect of movement in foreign exchange	(8.2)	–	(5.5)	(0.1)	(0.1)	(0.9)	(14.8)
Balance at 3 January 2010	206.8	9.3	75.0	19.5	2.2	11.7	324.5
Balance at 4 January 2010	**206.8**	**9.3**	**75.0**	**19.5**	**2.2**	**11.7**	**324.5**
Acquisitions through business combinations	**1.2**	**–**	**0.4**	**2.9**	**–**	**–**	**4.5**
Additions – externally purchased	**–**	**–**	**–**	**–**	**–**	**0.6**	**0.6**
Disposals	**–**	**–**	**–**	**–**	**–**	**(0.1)**	**(0.1)**
Remeasurement of goodwill	**(13.8)**	**–**	**–**	**–**	**–**	**–**	**(13.8)**
Effect of movement in foreign exchange	**3.1**	**–**	**1.9**	**0.1**	**–**	**0.1**	**5.2**
Balance at 2 January 2011	**197.3**	**9.3**	**77.3**	**22.5**	**2.2**	**12.3**	**320.9**
Amortisation and impairment losses							
Balance at 4 January 2009	–	–	4.2	0.3	0.1	8.7	13.3
Amortisation charge for the year	–	9.2	4.0	1.6	0.3	1.2	16.3
Disposals	–	–	–	–	–	(0.7)	(0.7)
Effect of movement in foreign exchange	–	–	(0.4)	–	–	(0.9)	(1.3)
Balance at 3 January 2010	–	9.2	7.8	1.9	0.4	8.3	27.6
Balance at 4 January 2010	**–**	**9.2**	**7.8**	**1.9**	**0.4**	**8.3**	**27.6**
Amortisation charge for the year	**–**	**0.1**	**4.3**	**1.5**	**0.7**	**1.4**	**8.0**
Disposals	**–**	**–**	**–**	**–**	**–**	**(0.1)**	**(0.1)**
Effects of movement in foreign exchange	**–**	**–**	**0.3**	**–**	**–**	**0.1**	**0.4**
Balance at 2 January 2011	**–**	**9.3**	**12.4**	**3.4**	**1.1**	**9.7**	**35.9**
Carrying amounts							
At 4 January 2009	118.4	–	52.4	1.0	1.5	3.7	177.0
At 3 January 2010	206.8	0.1	67.2	17.6	1.8	3.4	296.9
At 2 January 2011	**197.3**	**–**	**64.9**	**19.1**	**1.1**	**2.6**	**285.0**

Operating intangibles arising on acquisition include an order book, customer relationships and technology. On 5 January 2009 the Group recognised a £9.3 million order book on acquisition of Clearpower Limited. This has been amortised over a period of 12 months, being the period over which the associated orders are fulfilled. For further details of acquired operating intangible assets see note 3. The order book recognised in 2010 on acquisition of Changsha Hairong New Materials Co., Ltd was less than £0.1 million.

Notes to the consolidated financial statements
continued

11. Intangible assets continued

Impairment test for cash-generating units containing goodwill

In accordance with the requirements of IAS 36 *Impairment of Assets*, goodwill is allocated to the Group's cash-generating units that are expected to benefit from the synergies of the business combination that gave rise to the goodwill. The most significant elements of the Group's total consolidated goodwill of £197.3 million at 2 January 2011 are allocated to the Morgan AM&T cash-generating unit.

Goodwill is attributed to each cash-generating unit as follows:

	2010 £m	2009 £m
Morgan AM&T	**104.8**	117.0
Molten Metal Systems	**2.2**	2.1
Technical Ceramics	**69.3**	67.2
Thermal Ceramics	**21.0**	20.5
	197.3	206.8

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 on which the cash flow projections are based relate to growth rates and discount rates.

The cash flow projections in year one are based on budgeted operating results for the forthcoming year. The budget for 2011 was approved in November 2010.

Growth rates for the period not covered by budgets are specific to each operating segment, ranging from 4.0% to 6.0% (2009: 4.4% to 6.9%). 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 2010 and are considered to remain 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 12.2% (2009: 12.9%), 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 650bps to 18.7% (2009: 15.9%);
- 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 40% (2009: 25%).

12. Other investments

	2010 £m	2009 £m
Non-current investments		
Investment in associate	**1.5**	1.5
Equity securities available for sale	**5.6**	5.7
	7.1	7.2

Investment in associate

Integrated Survivability Technologies Limited

During 2009 the Group acquired a 50% stake in Integrated Survivability Technologies Limited. The principal activity of Integrated Survivability Technologies Limited is acting as prime contractor for delivery of military vehicles and provision of related support services. Total consideration paid including fees was £1.5 million.

The Group's share of profit after tax in Integrated Survivability Technologies Limited was £nil (2009: £nil).

Summary financial information for the Group's investment in Integrated Survivability Technologies Limited, not adjusted for the 50% ownership held by the Group:

	2010 £m	2009 £m
Current assets	**10.5**	15.3
Non-current assets	**0.1**	0.1
Total assets	**10.6**	15.4
Current liabilities	**7.5**	12.4
Non-current liabilities	**–**	–
Total liabilities	**7.5**	12.4
Revenue	**73.2**	44.0
Profit	**–**	–

Equity securities available for sale

The equity securities available for sale represent an investment in a mutual fund. A 10% increase in the unit price would increase the fair value of the investments by £0.4 million.

13. Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets 2010 £m	Assets 2009 £m	**Liabilities 2010 £m**	Liabilities 2009 £m	**Net 2010 £m**	Net 2009 £m
Property, plant and equipment	**–**	–	**22.3**	23.3	**22.3**	23.3
Intangible assets	**–**	–	**22.9**	24.2	**22.9**	24.2
Employee benefits	**(22.8)**	(19.8)	**–**	–	**(22.8)**	(19.8)
Provisions	**(7.1)**	(5.4)	**–**	–	**(7.1)**	(5.4)
Tax value of loss carried forward recognised	**(6.4)**	(7.5)	**–**	–	**(6.4)**	(7.5)
Other items	**(2.2)**	(4.5)	**–**	–	**(2.2)**	(4.5)
	(38.5)	(37.2)	**45.2**	47.5	**6.7**	10.3

Notes to the consolidated financial statements
continued

13. Recognised deferred tax assets and liabilities continued

Unrecognised deferred tax assets

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

	2010 £m	2009 £m
Deductible temporary differences	**(46.2)**	(38.9)
Tax losses	**(62.0)**	(43.9)
	(108.2)	(82.8)

Movements in temporary differences during the year

	Balance 4 January 2009 £m	Recognised in income £m	Acquired in business combinations £m	Recognised directly in equity £m	Balance 3 January 2010 £m	**Recognised in income £m**	**Recognised directly in equity £m**	**Balance 2 January 2011 £m**
Property, plant and equipment	23.5	(0.2)	–	–	23.3	**(1.0)**	**–**	**22.3**
Intangible assets	16.1	(6.0)	14.1	–	24.2	**(1.3)**	**–**	**22.9**
Employee benefits	(24.1)	4.3	–	–	(19.8)	**(0.4)**	**(2.6)**	**(22.8)**
Provisions	(6.6)	1.2	–	–	(5.4)	**(1.7)**	**–**	**(7.1)**
Tax value of loss carried forward recognised	(3.2)	(4.3)	–	–	(7.5)	**1.1**	**–**	**(6.4)**
Others	(1.5)	(2.8)	–	(0.2)	(4.5)	**2.3**	**–**	**(2.2)**
	4.2	(7.8)	14.1	(0.2)	10.3	**(1.0)**	**(2.6)**	**6.7**

No deferred income tax is provided on the unremitted earnings of overseas subsidiary undertakings as the Group is able to control the remittance of such earnings and currently has no intention of making any such remittance, where such remittance would incur additional tax liabilities.

14. Inventories

	2010 £m	2009 £m
Raw materials and consumables	**65.6**	56.9
Work in progress	**35.8**	32.4
Finished goods	**59.6**	57.0
	161.0	146.3

Inventories stated at fair value less costs to sell	**2.6**	2.5
Carrying amount of inventories subject to retention of title clauses	**2.7**	2.0

The Group holds consignment inventory amounting to £54.8 million (2009: £24.5 million) which is not reflected in the balance sheet. The balance includes 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 £4.4 million were made against inventories and recognised in operating expenses (2009: £4.4 million). £0.6 million provisions against inventory were reversed during 2010 (2009: £nil).

15. Trade and other receivables

	2010 £m	2009 £m
Non-current		
Non-trade receivables and prepayments	**2.0**	2.1
	2.0	2.1
Current		
Trade receivables due from associate	**4.8**	7.3
Other trade receivables	**155.9**	137.2
Trade receivables	**160.7**	144.5
Other non-trade receivables and prepayments	**24.0**	21.3
	184.7	165.8

The Group's exposure to credit and currency risks related to trade and other receivables is disclosed in note 19.

16. Cash and cash equivalents/bank overdrafts

	2010 £m	2009 £m
Bank balances	**68.0**	92.9
Cash deposits	**17.0**	14.7
Cash and cash equivalents	**85.0**	107.6
Bank overdrafts	**(1.0)**	(1.2)

Reconciliation of cash and cash equivalents to net debt*

	2010 £m	2009 £m
Opening borrowings	**(360.3)**	(429.8)
Net decrease in borrowings	**47.8**	35.5
Payment of finance lease liabilities	**0.5**	0.6
Effect of movements in foreign exchange on borrowings	**(9.2)**	33.4
Closing borrowings	**(321.2)**	(360.3)
Cash and cash equivalents	**85.0**	107.6
Closing net debt	**(236.2)**	(252.7)

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

Notes to the consolidated financial statements
continued

17. Capital and reserves

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

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

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 can be written off. This reserve, together with the amounts standing to the credit of the Share Premium Account on 12 October 1990 of £71.5 million, on 19 June 1987 of £38.9 million and on 27 July 1989 of £12.3 million which were transferred following previous Orders of the High Court, becomes distributable to the extent of subsequent increases in issued share capital and share premium account.

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

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

Retained earnings
The Company has acquired own shares to satisfy the requirements of the various share option incentive schemes. The number of treasury shares held by the Company at the year end was 1,007,003 (2009: 1,984,022); 1,007,003 shares were held by The Morgan General Employee Benefit Trust (2009: 1,984,022) and nil shares were held by the Company (2009: nil). All rights conferred by those shares are suspended until they are reissued.

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

		Per share		Total
	2010 Pence	2009 Pence	**2010 £m**	2009 £m
2008 final	**–**	4.50	**–**	12.1
2009 interim	**2.50**	–	**6.8**	–
2009 final	**4.50**	–	**12.1**	–
Total	**7.00**	4.50	**18.9**	12.1

The Company also declared the following Ordinary dividend:

	Per share 2010 Pence	Total 2010 £m
2010 interim	**2.70**	7.3
	2.70	7.3

17. Capital and reserves continued
This Ordinary dividend had not been paid by the Company as at 2 January 2011 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 2 January 2011 the following dividends were proposed by the Directors for 2010. These dividends have not been provided for and there are no income tax consequences.

	£m
5.00 pence per qualifying Ordinary share	13.6
5.5% Cumulative First Preference shares (see note 30)	–
5.0% Cumulative Second Preference shares (see note 30)	–
	13.6

Called-up share capital	Authorised **2010 £m**	Authorised 2009 £m	Issued **2010 £m**	Issued 2009 £m
Equity share capital				
434,650,876 (2009: 434,650,876) Ordinary shares of 25 pence each	**108.7**	108.7		
Fully paid: 272,166,025 (2009: 270,206,256) Ordinary shares of 25 pence each			**68.1**	67.5
	108.7	108.7	**68.1**	67.5
Preference share capital				
125,327 authorised and issued 5.5% Cumulative First Preference shares of £1 each, fully paid	**0.1**	0.1	**0.1**	0.1
311,954 authorised and issued 5.0% Cumulative Second Preference shares of £1 each, fully paid	**0.3**	0.3	**0.3**	0.3
Total Preference share capital	**0.4**	0.4	**0.4**	0.4
Total share capital	**109.1**	109.1	**68.5**	67.9

Number of shares in issue	Ordinary shares **2010**	Ordinary shares 2009	Preference shares **2010**	Preference shares 2009
In issue at beginning of period	**270,206,256**	270,206,256	**437,281**	437,281
Partial consideration relating to deferred consideration on purchase of Clearpower Limited	**47,175**	–	**–**	–
Scrip dividend	**1,912,594**	–	**–**	–
In issue at end of period	**272,166,025**	270,206,256	**437,281**	437,281

As at the date of this report 272,911,009 Ordinary shares have been issued (2009: 270,206,256).

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.

Notes to the consolidated financial statements
continued

17. Capital and reserves continued

The following options were outstanding in respect of Ordinary shares:

Number of shares		Exercise price(s)	Normal exercise dates ranging from	to
21,040	The Morgan Executive Share Option Scheme 1995	180.08p	23 November 2004	22 November 2011
2,801,751	The Morgan Crucible Sharesave Scheme 2004	128.00p-249.00p	1 December 2010	31 May 2014
246,079	The Morgan Crucible Savings Related Share Option Scheme for Employees in Germany	EUR 1.64	1 December 2011	31 May 2012
1,262,231	The Morgan Crucible Executive Share Option Scheme 2004	129.05p-171.90p	22 June 2007	23 May 2015
6,721,864	The Morgan Crucible Bonus Deferral Share Matching Plan	0.00p-197.62p	11 March 2011	18 March 2013
9,742,883	The Morgan Crucible Long Term Incentive Plan 2004	0.00p	26 March 2011	16 August 2013

The 5.5% Cumulative First Preference shares of £1 each and the 5.0% Cumulative Second Preference shares of £1 each confer on the holders thereof the right to receive a cumulative preferential dividend at the rate of 5.5% and 5.0% respectively, calculated up to 30 June and 31 December respectively in every year. The First and Second Cumulative Preference shares shall not entitle the holders thereof to attend or vote at any general meeting unless either:

(i) the meeting is convened to consider any resolutions for reducing the capital, or authorising any issue of debentures or debenture stock, or increasing the borrowing powers of the Board under the Articles of Association of the Company, or winding up, or sanctioning a sale of the undertaking, or altering the Articles in any manner affecting their respective interests, or any other resolutions directly altering their respective rights and privileges; or

(ii) at the date of the notice convening the general meeting the Preference dividend is upwards of one month in arrears from the payment date of any half-yearly instalment.

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

→ first, in payment to the holders of the First Preference shares of the amounts paid up on such shares, together with interest at the rate of 5.5% pa.
→ second, in payment to the holders of the Second Preference shares of the amounts paid up on such shares, together with interest at the rate of 5.0% pa.
→ third, in repaying the capital paid up or credited as paid up on the Ordinary shares.
→ fourth, any surplus shall be distributed rateably amongst the holders of the Ordinary shares in proportion to the nominal amount paid up on their respective holdings of shares in the Company.

18. Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings which are measured at amortised cost. For more information about the Group's exposure to interest rate and foreign currency risk, see note 19.

	2010 £m	2009 £m
Non-current liabilities		
Senior Notes	**287.0**	233.7
Multi-currency revolving facility	**15.9**	105.4
Bank and other loans	**6.9**	6.6
Obligations under finance leases	**0.6**	0.9
	310.4	346.6
Current liabilities		
Senior Notes	**5.8**	10.9
Bank and other loans	**3.5**	0.9
Obligations under finance leases	**0.5**	0.7
	9.8	12.5

18. Interest-bearing loans and borrowings continued

Terms and debt repayment schedule

The terms and conditions of outstanding loans were as follows:

	Nominal interest rate	Year of maturity	Carrying amount 2010 £m	2009 £m
6.23% US Dollar Senior Notes 2010	6.23%	2010	**–**	5.1
6.84% US Dollar Senior Notes 2013	6.84%	2013	**17.8**	23.1
5.70% US Dollar Senior Notes 2014	5.70%	2014	**63.8**	61.8
3.65% Euro Senior Notes 2015	3.65%	2015	**34.5**	–
4.32% Euro Senior Notes 2017	4.32%	2017	**17.3**	–
6.12% US Dollar Senior Notes 2017	6.12%	2017	**111.6**	108.2
6.26% US Dollar Senior Notes 2019	6.26%	2019	**47.8**	46.4
Multi-currency revolving facility	3.65%	2012	**15.9**	105.4
Bank and other loans	4.00%-8.00%	up to 2012	**10.4**	7.5
Obligations under finance leases	6.00%	up to 2014	**1.1**	1.6
Total interest-bearing loans and borrowings			**320.2**	359.1

Finance lease liabilities

Finance lease liabilities are payable as follows:

	Minimum lease payments 2010 £m	**Interest 2010 £m**	**Principal 2010 £m**	Minimum lease payments 2009 £m	Interest 2009 £m	Principal 2009 £m
Less than one year	**0.6**	**–**	**0.6**	0.8	0.1	0.7
Between one and five years	**0.6**	**0.1**	**0.5**	0.9	–	0.9
More than five years	**–**	**–**	**–**	–	–	–
	1.2	**0.1**	**1.1**	1.7	0.1	1.6

Bank and other loans include £0.4 million (2009: £0.2 million) of loans secured on the assets of the Group.

As at 2 January 2011 the Group had available headroom under the bank syndication of £162.9 million (2009: £171.4 million).

19. Financial risk management

Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk.

This note presents information about the Group's exposure to each of the above risks, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board delegates the establishment and implementation of the systems for internal control and risk management to the operating Divisions, which are responsible for the identification and evaluation of significant risks applicable to their area of business together with the design and operation of suitable internal controls. The Board delegates the monitoring and review of the internal control and risk management systems to the Audit Committee assisted by the Risk Management Committee. The Risk Management Committee, which is chaired by the Chief Financial Officer, reviews the full range of risks faced by Morgan Crucible as a Group, ensures there are adequate systems in place and evaluates their effectiveness. Where necessary, the Risk Management Committee will initiate action to improve the systems and ensure compliance.

→ Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

The Group has set up notional cash pooling agreements with a number of banks. Under the notional cash pooling agreement the Group has the legal right to offset liabilities on undrawn bank accounts against surplus balances.

Notes to the consolidated financial statements
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19. Financial risk management continued

Trade and other receivables

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

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

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

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

Investments

The Group limits its exposure to credit risk by only investing in liquid securities and only with counterparties that have a sound credit rating. Given these high credit ratings, management does not expect any counterparty to fail to meet its obligations.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Carrying amount	
	2010 £m	2009 £m
Available for sale financial assets	**5.6**	5.7
Loans and receivables	**160.7**	144.5
Cash and cash equivalents	**85.0**	107.6
	251.3	257.8

The maximum exposure to credit risk for trade receivables at the reporting date by Division was:

	Carrying amount	
	2010 £m	2009 £m
Morgan AM&T	**54.5**	53.1
Molten Metal Systems	**5.9**	5.0
Technical Ceramics	**31.1**	25.9
Thermal Ceramics	**69.2**	60.5
	160.7	144.5

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

	Carrying amount	
	2010 £m	2009 £m
Europe	**66.0**	67.5
Americas	**50.8**	44.3
Far East and Australasia	**40.3**	28.7
Middle East and Africa	**3.6**	4.0
	160.7	144.5

19. Financial risk management continued

Impairment losses

The ageing of trade receivables at the reporting date was:

	Gross 2010 £m	**Impairment 2010 £m**	Gross 2009 £m	Impairment 2009 £m
Not past due	**123.5**	**(1.5)**	111.6	(0.1)
Past due 0-30 days	**24.3**	**(0.6)**	21.4	(0.4)
Past due 31-60 days	**5.7**	**(0.2)**	5.6	(0.3)
Past due 61-90 days	**7.6**	**(0.5)**	8.3	(0.7)
Past due more than 90 days	**8.8**	**(3.9)**	7.8	(4.4)
	169.9	**(6.7)**	154.7	(5.9)
General impairment allowance		**(2.5)**		(4.3)
		(9.2)		(10.2)

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2010 £m	2009 £m
Balance at beginning of period	**10.2**	10.5
Decrease in allowance for impairment	**(1.0)**	(0.3)
Balance at end of period	**9.2**	10.2

A specific impairment allowance may be created in respect of an individual trade receivable for which full recovery is doubtful. As at 2 January 2011 and 3 January 2010 there were no specific impairment allowances that were significant to the Group. In addition, local management may create a general impairment allowance to reflect their experience of the historical recoverability of trade receivables past due in the respective markets in which their businesses operate.

The allowances in the accounts in respect of trade receivables are used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at the point the amount is considered irrecoverable it is written off against the financial asset directly.

Concentrations of credit risk

Trade receivables from one customer of the Group's Morgan AM&T operating segment represent £4.0 million of the Group's total trade receivables (2009: £9.9 million).

→ Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by cash. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions.

The Group seeks a balance between certainty of funding and a flexible, cost-effective borrowing structure. The policy is to ensure that the Group has sufficient liquidity available to meet all foreseeable needs.

Notes to the consolidated financial statements
continued

19. Financial risk management continued

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

	Effective interest rate	Carrying amount £m	Contractual cash flows £m	Less than 1 year £m	1-2 years £m	2-5 years £m	2010 More than 5 years £m
Non-derivative financial liabilities							
6.84% US Dollar Senior Notes 2013	**6.84%**	**17.8**	**19.2**	**6.8**	**6.4**	**6.0**	**–**
5.70% US Dollar Senior Notes 2014	**5.70%**	**63.8**	**78.4**	**3.6**	**3.6**	**71.2**	**–**
3.65% Euro Senior Notes 2015	**3.65%**	**34.5**	**40.3**	**1.3**	**1.3**	**37.7**	**–**
4.32% Euro Senior Notes 2017	**4.32%**	**17.3**	**22.0**	**0.7**	**0.7**	**2.2**	**18.4**
6.12% US Dollar Senior Notes 2017	**6.12%**	**111.6**	**159.6**	**6.8**	**6.8**	**20.5**	**125.5**
6.26% US Dollar Senior Notes 2019	**6.26%**	**47.8**	**74.9**	**3.0**	**3.0**	**9.0**	**59.9**
Multi-currency revolving facility	**3.69%**	**15.9**	**17.3**	**0.2**	**17.1**	**–**	**–**
Bank and other loans	**4.00%-8.00%**	**10.4**	**10.4**	**3.5**	**6.9**	**–**	**–**
Bank overdrafts	**3.50%**	**1.0**	**1.0**	**1.0**	**–**	**–**	**–**
Obligations under finance leases	**6.00%**	**1.1**	**1.2**	**0.6**	**0.2**	**0.4**	**–**
Other trade payables		**122.1**	**122.1**	**121.7**	**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		**0.1**	**0.1**	**0.1**	**–**	**–**	**–**
Forward exchange contracts as net investment hedges		**5.4**	**5.4**	**5.4**	**–**	**–**	**–**
Interest rate swaps not designated		**–**	**–**	**–**	**–**	**–**	**–**
		448.9	**552.0**	**154.8**	**46.4**	**147.0**	**203.8**

	Effective interest rate	Carrying amount £m	Contractual cash flows £m	Less than 1 year £m	1-2 years £m	2-5 years £m	2009 More than 5 years £m
Non-derivative financial liabilities							
6.84% US Dollar Senior Notes 2013	6.84%	23.1	25.7	7.0	6.6	12.1	–
6.23% US Dollar Senior Notes 2010	6.23%	5.1	5.1	5.1	–	–	–
5.70% US Dollar Senior Notes 2014	5.70%	61.8	79.5	3.5	3.5	72.5	–
6.12% US Dollar Senior Notes 2017	6.12%	108.2	161.4	6.6	6.6	19.9	128.3
6.26% US Dollar Senior Notes 2019	6.26%	46.4	75.5	2.9	2.9	8.7	61.0
Multi-currency revolving facility	4.94%	105.4	110.7	2.1	–	108.6	–
Bank and other loans	4.00%-8.00%	7.5	7.5	3.0	–	4.5	–
Bank overdrafts	6.75%	1.2	1.2	1.2	–	–	–
Obligations under finance leases	6.00%	1.6	1.7	0.9	0.3	0.5	–
Other trade payables		97.1	97.1	96.6	0.5	–	–
Derivative financial liabilities							
Forward exchange contracts as cash flow hedges		0.1	0.1	0.1	–	–	–
Forward exchange contracts as fair value hedges		0.4	0.4	0.4	–	–	–
Forward exchange contracts as net investment hedges		8.8	8.8	4.7	4.1	–	–
Interest rate swaps not designated		0.5	0.5	0.5	–	–	–
		467.2	575.2	134.6	24.5	226.8	189.3

19. Financial risk management continued

Loans drawn under the £180 million multi-currency revolving facility are repayable within 12 months, but have been classified as non-current as the relevant committed facilities are available until 1 May 2012.

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**	**Less than 1 year £m**	**1-2 years £m**	**2-5 years £m**	**2010 More than 5 years £m**
Cash flows associated with derivatives that are cash flow hedges:						
Forward exchange contracts – Assets	**0.4**	**34.8**	**24.1**	**10.7**	**–**	**–**
Forward exchange contracts – Liabilities	**(0.1)**	**(34.4)**	**(23.7)**	**(10.7)**	**–**	**–**
	0.3	**0.4**	**0.4**	**–**	**–**	**–**

	Carrying amount £m	Contractual cash flows £m	Less than 1 year £m	1-2 years £m	2-5 years £m	2009 More than 5 years £m
Cash flows associated with derivatives that are cash flow hedges:						
Forward exchange contracts – Assets	0.2	2.8	2.8	–	–	–
Forward exchange contracts – Liabilities	(0.1)	(2.5)	(2.5)	–	–	–
	0.1	0.3	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, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Risk Management Committee. Generally the Group seeks to apply hedge accounting in order to manage volatility in profit or loss.

Interest rate risk

Profile

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

	Carrying amount **2010 £m**	2009 £m
Fixed rate instruments		
Financial liabilities	**(298.5)**	(250.8)
Variable rate instruments		
Financial assets	**85.0**	107.6
Financial liabilities	**(22.7)**	(109.5)
	62.3	(1.9)

The average cost of the Group's fixed rate debt is 5.7% (2009: 6.4%).

Notes to the consolidated financial statements
continued

19. Financial risk management continued

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates on the Group's net debt at the reporting date would have increased/(decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2009.

	Profit or loss 100 bp increase £m	100 bp decrease £m
2 January 2011		
Variable rate instruments	**0.6**	**(0.3)**
Cash flow sensitivity (net)	**0.6**	**(0.3)**
3 January 2010		
Variable rate instruments	1.1	(0.5)
Cash flow sensitivity (net)	1.1	(0.5)

Foreign currency risk

The table below shows the Group's currency exposures, being exposures on currency transactions that give rise to net currency gains and losses recognised in the income statement. Such exposures comprise the monetary assets and liabilities of the Group that are not denominated in the functional currency of the operating company involved, other than certain non-sterling borrowings treated as hedges of net investments in overseas entities.

			2010			2009
Functional currency of Group operations	**GBP £m**	**US$ £m**	**Euro £m**	GBP £m	US$ £m	Euro £m
Trade receivables	**5.4**	**0.7**	**2.3**	4.1	0.2	3.2
Cash and cash equivalents	**0.9**	**0.2**	**3.0**	8.9	0.2	1.9
Trade payables	**(2.2)**	**(1.0)**	**(2.8)**	(1.9)	(1.0)	(1.7)
Net balance sheet exposure	**4.1**	**(0.1)**	**2.5**	11.1	(0.6)	3.4

The amounts shown in the table take into account the effect of the forward contracts entered into to manage these currency exposures.

	Average rate **2010**	2009	Year-end rate **2010**	2009
US$	**1.5447**	1.5687	**2.5657**	1.6149
Euro	**1.1659**	1.1249	**1.1671**	1.1255

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.

Forecasted transactions

The Group classifies its forward exchange contracts hedging forecasted transactions as cash flow hedges and states them at fair value. The net fair value of forward exchange contracts used as hedges of forecasted transactions at 2 January 2011 was a gain of £0.3 million (2009: loss of £0.4 million), comprising assets of £0.4 million (2009: £0.1 million) and liabilities of £0.1 million (2009: £0.5 million) that were recognised in fair value derivatives.

Cash flow hedges

The contractual cash flows associated with the forward exchange contracts that are designated as cash flow hedges are shown in the section on liquidity risk. The impact on profit or loss is expected to occur at the same time as the associated cash flows.

19. Financial risk management continued

Hedge of net investment in foreign subsidiaries

The Group manages the translation exposure of overseas net assets by seeking to match the currency of borrowings with the currency in which the net assets are denominated. The objectives are to maintain a low cost of borrowing, whilst maintaining a balanced portfolio of net assets by currency.

The Group enters into forward contracts to hedge net investments in overseas subsidiaries. The Group also designates the euro drawdowns under the £180 million multi-currency revolving credit facility as a hedge of the Group's investment in subsidiaries in Europe. Euro drawdowns during the year amounted to €20.0 million (2009: €43.5 million).

Sensitivity analysis

The Group's sensitivity to changes in foreign exchange rates on financial assets and liabilities as at 2 January 2011 is set out in the table below. The impact of a weakening in sterling on the Group's financial assets and liabilities would be more than offset in equity and income by its impact on the Group's overseas net assets and earnings respectively. Sensitivity on Group assets other than financial assets and liabilities is not included in this analysis.

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 in the global financial markets which may cause fluctuations in interest and exchange rates to vary from the hypothetical amounts disclosed in the table below, which therefore should not be considered to be a projection of likely future events and losses.

The estimated changes for foreign exchange rates are based on an instantaneous 10% weakening or strengthening in sterling against all other currencies from the levels applicable at 2 January 2011, with all other variables remaining constant. Such analysis is for illustrative purposes only – in practice market rates rarely change in isolation.

	10% weakening in sterling	
2 January 2011	**Equity £m**	**Profit before tax £m**
US$	**(19.7)**	**(1.4)**
Euro	**(6.5)**	**(0.3)**
Other	**4.4**	**0.2**

	10% weakening in sterling	
3 January 2010	Equity £m	Profit before tax £m
US$	(20.5)	(1.6)
Euro	(5.5)	(0.2)
Other	1.2	–

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

Other market price risk

Equity price risk arises from available for sale equity securities held for meeting partially the unfunded portion of the Group's defined benefit pension obligations. The primary goal of the Group's investment strategy is to maximise returns in order to meet partially the Group's unfunded defined benefit obligations.

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 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.

Notes to the consolidated financial statements
continued

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

The Group's debt to adjusted capital ratio at the end of the reporting period was as follows:

	2010 £m	2009 £m
Total interest-bearing loans and borrowings	**320.2**	359.1
Less: cash and cash equivalents and overdrafts	**(84.0)**	(106.4)
Net debt	**236.2**	252.7
Total equity	**252.1**	214.6
Less: amounts accumulated in equity relating to cash flow hedges	**(0.3)**	(0.2)
Adjusted capital	**251.8**	214.4
Debt to adjusted capital ratio	**0.9**	1.2

There were no changes in the Group's approach to capital management during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

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

	Carrying amount 2010 £m	**Fair value 2010 £m**	Carrying amount 2009 £m	Fair value 2009 £m
Financial assets and liabilities at amortised cost				
6.23% US Dollar Senior Notes 2013	**(17.8)**	**(18.7)**	(23.1)	(23.8)
6.84% US Dollar Senior Notes 2010	**–**	**–**	(5.1)	(5.1)
5.70% US Dollar Senior Notes 2014	**(63.8)**	**(68.0)**	(61.8)	(63.3)
3.65% Euro Senior Notes 2015	**(34.5)**	**(34.4)**	–	–
4.32% Euro Senior Notes 2017	**(17.3)**	**(17.2)**	–	–
6.12% US Dollar Senior Notes 2017	**(111.6)**	**(121.4)**	(108.2)	(110.0)
6.26% US Dollar Senior Notes 2019	**(47.8)**	**(51.1)**	(46.4)	(46.2)
Bank syndication	**(15.9)**	**(15.9)**	(105.4)	(105.4)
Bank and other loans	**(10.4)**	**(10.4)**	(7.5)	(7.5)
Bank overdrafts	**(1.0)**	**(1.0)**	(1.2)	(1.2)
Obligations under finance leases	**(1.1)**	**(1.1)**	(1.6)	(1.6)
Trade and other payables	**(139.4)**	**(139.4)**	(151.2)	(151.2)
Trade receivables	**160.7**	**160.7**	144.5	144.5
Cash and cash equivalents	**85.0**	**85.0**	107.6	107.7
	(214.9)	**(232.9)**	(259.4)	(263.1)
Available for sale financial instruments				
Available for sale financial assets	**5.6**	**5.6**	5.7	5.7
Derivatives and other items at fair value				
Forward exchange contracts used for hedging:				
Assets	**0.7**	**0.7**	0.5	0.5
Liabilities	**(5.6)**	**(5.6)**	(9.8)	(9.8)
	(4.9)	**(4.9)**	(9.3)	(9.3)
	(214.2)	**(232.2)**	(263.0)	(266.7)
Unrecognised profit/(loss)		**(18.0)**		(3.7)

19. Financial risk management continued

Estimation of fair values

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

Equity securities

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

Derivatives

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

Interest-bearing loans and borrowings

Fair value is calculated based on discounted expected future principal and interest cash flows.

Finance lease liabilities

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

Trade and other receivables/payables

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

Interest rates used for determining fair value

The interest rates used to determine the fair value of loans and borrowings and finance leases are as follows:

	2010	2009
Loans and borrowings	**2.5-5.3%**	2.7-6.3%
Finance leases	**6.0%**	6.0%

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices)

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

2 January 2011	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Available for sale financial assets	**5.6**	**–**	**–**	**5.6**
Derivative financial assets	**–**	**0.7**	**–**	**0.7**
	5.6	**0.7**	**–**	**6.3**
Derivative financial liabilities	**–**	**(5.6)**	**–**	**(5.6)**
	5.6	**(4.9)**	**–**	**0.7**

3 January 2010	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Available for sale financial assets	5.7	–	–	5.7
Derivative financial assets	–	0.5	–	0.5
	5.7	0.5	–	6.2
Derivative financial liabilities	–	(9.8)	–	(9.8)
	5.7	(9.3)	–	(3.6)

There have been no transfers between Level 1 and Level 2 during 2010 and 2009.

Notes to the consolidated financial statements
continued

20. Employee benefits

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

	2010 UK £m	2010 USA £m	2010 Europe £m	2010 Rest of world £m	2010 Total £m
Pension plans and employee benefits					
Present value of unfunded defined benefit obligations	–	(9.0)	(22.5)	(2.7)	(34.2)
Present value of funded defined benefit obligations	(347.2)	(126.7)	(0.9)	(12.8)	(487.6)
Fair value of plan assets	320.6	85.4	0.5	11.2	417.7
Deficit	(26.6)	(50.3)	(22.9)	(4.3)	(104.1)
Unrecognised past service costs	–	–	0.2	–	0.2
Net obligations	(26.6)	(50.3)	(22.7)	(4.3)	(103.9)
Movements in present value of defined benefit obligation					
At 4 January 2010	(333.4)	(120.1)	(23.5)	(12.1)	(489.1)
Current service cost	(2.2)	(0.8)	(0.5)	(1.6)	(5.1)
Interest cost	(19.0)	(7.4)	(1.1)	(0.5)	(28.0)
Actuarial losses	(6.7)	(11.4)	(0.5)	(2.5)	(21.1)
Benefits paid	15.4	7.5	1.5	1.7	26.1
Contributions by members	(1.3)	–	–	–	(1.3)
Curtailments and settlements	–	0.1	–	–	0.1
Exchange adjustments	–	(3.6)	0.7	(0.5)	(3.4)
At 2 January 2011	(347.2)	(135.7)	(23.4)	(15.5)	(521.8)
Movements in fair value of plan assets					
At 4 January 2010	298.9	73.9	0.5	9.7	383.0
Expected return on plan assets	19.8	5.8	–	0.4	26.0
Actuarial gains	9.7	4.2	–	1.1	15.0
Contributions by employer	6.3	6.8	1.5	1.5	16.1
Contributions by members	1.3	–	–	–	1.3
Benefits paid	(15.4)	(7.5)	(1.5)	(1.7)	(26.1)
Exchange adjustments	–	2.2	–	0.2	2.4
At 2 January 2011	320.6	85.4	0.5	11.2	417.7
Actual return on assets	29.5	10.0	–	1.5	41.0

	2010 UK £m	2010 USA £m	2010 Europe £m	2010 Rest of world £m	2010 Total £m
Pension plans and employee benefits					
Expense recognised in the consolidated income statement					
Current service cost and past service cost	(2.2)	(0.8)	(0.5)	(1.6)	(5.1)
Interest on defined benefit pension plan obligation	(19.0)	(7.4)	(1.1)	(0.5)	(28.0)
Expected return on defined benefit pension plan assets	19.8	5.8	–	0.4	26.0
Gain on curtailment and settlements	–	0.1	–	–	0.1
Total expense	(1.4)	(2.3)	(1.6)	(1.7)	(7.0)

20. Employee benefits continued

The expense is recognised in the following line items in the consolidated income statement:

	2010 £m	2009 £m
Operating costs	**(5.1)**	(5.2)
Finance income	**26.0**	22.1
Finance expense	**(28.0)**	(26.4)
One-off items	**0.1**	2.0
	(7.0)	(7.5)

The Group has adopted the policy of recognising actuarial gains and losses immediately in the balance sheet through other comprehensive income. Cumulative actuarial losses recorded in other comprehensive income since 5 January 2004, the date of transition to Adopted IFRSs, are £101.8 million.

The fair values of the plan assets were as follows:

	2010 UK £m	**2010 USA £m**	**2010 Europe £m**	**2010 Rest of world £m**	**2010 Total £m**
Equities	**131.7**	**48.4**	**–**	**–**	**180.1**
Bonds	**17.7**	**36.5**	**–**	**–**	**54.2**
Matching insurance policies	**169.9**	**–**	**0.5**	**1.9**	**172.3**
Other	**1.3**	**0.5**	**–**	**9.3**	**11.1**
Total	**320.6**	**85.4**	**0.5**	**11.2**	**417.7**

Principal actuarial assumptions were:

		UK %	**USA %**	**Europe %**
Discount rate		**5.50**	**5.50**	**5.00**
Expected rate of return on plan assets	– Equities	**7.80**	**8.40**	**n/a**
	– Bonds	**5.20**	**5.30**	**n/a**
	– Matching insurance	**5.50**	**n/a**	**5.00**
Salary increase		**n/a**	**2.70**	**2.50**
Inflation (RPI & CPI)		**3.40/2.70**	**2.20**	**2.00**
Pensions increase		**3.30/3.40**	**n/a**	**2.00**
Mortality – post-retirement:				
Life expectancy of a male retiring at age 60 in 2010		**25.9 years**	**22.1 years**	**22.5 years**
Life expectancy of a male retiring at age 60 in 2030		**27.2 years**	**22.1 years**	**25.4 years**

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.

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Balance sheet					
Present value of defined benefit obligation	**(521.8)**	(489.1)	(446.3)	(450.7)	(446.1)
Fair value of plan assets	**417.7**	383.0	344.5	403.0	403.4
Deficit	**(104.1)**	(106.1)	(101.8)	(47.7)	(42.7)
Unrecognised past service costs	**0.2**	0.2	–	–	–
Net obligations	**(103.9)**	(105.9)	(101.8)	(47.7)	(42.7)

Notes to the consolidated financial statements
continued

20. Employee benefits continued

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Experience gains/(losses)					
Experience gains/(losses) on defined benefit obligation	**0.8**	(2.2)	1.7	(0.2)	(2.0)
Experience gains/(losses) on plan assets	**15.0**	34.3	(104.7)	(17.5)	7.2

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

	Change in assumption	2010 Increase effect £m	2009 Increase effect £m
Discount rate	Decrease by 0.1%	**6.1**	5.8
Rate of increase in salaries	Increase by 0.1%	**0.1**	0.1
Inflation	Increase by 0.1%	**3.5**	3.6
Mortality – post-retirement	Pensioners live 1 year longer	**9.9**	8.8

The curtailment gains of £0.1 million in 2010 and £1.3m in 2009 in the USA resulted from benefit accrual being frozen in the Morgan US Employees Pension Plan. In 2009 there was a curtailment gain of £0.7 million in Europe arose as a result of two 'medaille du travail' arrangements in France being withdrawn. The unrecognised past service cost in France is as a result of a change in future benefit accrual and is being amortised over 13 years.

In the UK, there was a change in the statutory measure of indexation for some pension benefits from the Retail Prices Index ('RPI') to the Consumer Prices Index ('CPI'), this resulted in an actuarial gain of £6.5m which has been accounted for as a change of assumptions.

	2009 UK	2009 USA	2009 Europe	2009 Rest of world	2009 Total
Present value of unfunded defined benefit obligations	–	(8.7)	(22.5)	(2.1)	(33.3)
Present value of funded defined benefit obligations	(333.4)	(111.4)	(1.0)	(10.0)	(455.8)
Fair value of plan assets	298.9	73.9	0.5	9.7	383.0
Deficit	(34.5)	(46.2)	(23.0)	(2.4)	(106.1)
Unrecognised past service costs	–	–	0.2	–	0.2
Net obligations	(34.5)	(46.2)	(22.8)	(2.4)	(105.9)
Movements in present value of defined benefit obligation					
At 4 January 2009	(278.5)	(131.6)	(25.0)	(11.2)	(446.3)
Current service cost	(1.4)	(2.0)	(0.4)	(1.4)	(5.2)
Interest cost	(17.7)	(7.3)	(1.1)	(0.3)	(26.4)
Actuarial losses	(50.1)	(1.5)	(0.7)	(0.7)	(53.0)
Benefits paid	15.8	7.2	1.3	1.6	25.9
Contributions by members	(1.5)	–	–	–	(1.5)
Past service costs	–	–	(0.2)	–	(0.2)
Curtailments and settlements	–	1.3	0.7	–	2.0
Exchange adjustments	–	13.8	1.9	(0.1)	15.6
At 3 January 2010	(333.4)	(120.1)	(23.5)	(12.1)	(489.1)
Movements in fair value of plan assets					
At 4 January 2009	265.4	70.2	0.6	8.3	344.5
Expected return on plan assets	17.7	4.1	–	0.3	22.1
Actuarial losses	25.4	7.6	–	1.3	34.3
Contributions by employer	4.7	6.7	1.2	1.4	14.0
Contributions by members	1.5	–	–	–	1.5
Benefits paid	(15.8)	(7.2)	(1.3)	(1.6)	(25.9)
Exchange adjustments	–	(7.5)	–	–	(7.5)
At 3 January 2010	298.9	73.9	0.5	9.7	383.0
Actual return on assets	43.1	11.7	–	1.6	56.4

20. Employee benefits continued

	2009 UK £m	2009 USA £m	2009 Europe £m	2009 Rest of world £m	2009 Total £m
Expense recognised in the consolidated income statement					
Current service cost and past service cost	(1.4)	(2.0)	(0.4)	(1.4)	(5.2)
Interest on defined benefit pension plan obligation	(17.7)	(7.3)	(1.1)	(0.3)	(26.4)
Expected return on defined benefit pension plan assets	17.7	4.1	–	0.3	22.1
Gain on curtailment of US and French employee benefit schemes	–	1.3	0.7	–	2.0
Total expense	(1.4)	(3.9)	(0.8)	(1.4)	(7.5)

The fair values of the plan assets were as follows:

	2009 UK £m	2009 USA £m	2009 Europe £m	2009 Rest of world £m	2009 Total £m
Equities	125.0	39.7	–	–	164.7
Bonds	6.4	33.8	–	–	40.2
Matching insurance policies	167.5	–	0.5	1.7	169.7
Other	–	0.4	–	8.0	8.4
Total	298.9	73.9	0.5	9.7	383.0

Principal actuarial assumptions were:

		UK %	USA %	Europe %
Discount rate		5.80	6.10	5.20
Expected rate of return on plan assets	– Equities	8.40	9.00	n/a
	– Bonds	5.30	5.70	n/a
	– Matching insurance	5.80	n/a	5.20
Salary increase		n/a	2.70	2.50
Inflation		3.50	2.20	2.00
Pensions increase		3.40/3.40	n/a	2.00
Mortality – post-retirement:				
Life expectancy of a male retiring at age 60 in 2009		25.8 years	21.2 years	22.5 years
Life expectancy of a male retiring at age 60 in 2029		27.1 years	21.0 years	25.0 years

The actual liability in respect of global employee benefits will not be known until the last payments have been made. In placing a current estimate on the Company's past service benefit obligations, a number of assumptions about the future are required. For defined benefit schemes, the Directors make annual estimates and assumptions in respect of discount rates, future changes in salaries, employee turnover, inflation rates and life expectancy. In making these estimates and assumptions, the Directors consider advice provided by external advisers, such as actuaries.

Defined contribution plans

The Group operates a number of defined contribution pension plans. The total expense relating to these plans in the current year was £6.0 million (2009: £3.9 million).

Share-based payments

During 2004, the Group established a new Long Term Incentive Plan and a new Executive Share Option Scheme. During 2004, the Company also renewed its all-Employee Sharesave Scheme and took the opportunity to extend a similar scheme to employees in Germany.

During 2005 to 2010 inclusive, the Group made awards under the 2004 Long Term Incentive Plan. During 2005 and 2006 the Group made awards under the 2004 Executive Share Option Scheme. Also in 2005 to 2010 inclusive the Company granted options under the UK all-Employee Sharesave Scheme and in 2008 the Company granted options under the German all-Employee Sharesave Scheme.

During 2008, the Group established The Morgan Crucible Bonus Deferral Share Matching Plan and awards were made under this plan in 2008, 2009 and 2010.

Additionally, equity-settled share option grants and awards made under the Executive Share Option Scheme 1995 are outstanding. In accordance with the transitional provisions under IFRS 1, the recognition and measurement principles in IFRS 2 have not been applied to these grants.

Notes to the consolidated financial statements
continued

20. Employee benefits continued

The terms and conditions of all awards and grants made since 7 November 2002 are as follows:

Grant date/Employees entitled	Number of instruments	Vesting conditions	Contractual life of option
Awards granted to senior employees in 2010 under The Morgan Crucible Bonus Deferral Share Matching Plan	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 Long Term Incentive Plan 2004	2,331,758	Three years of service plus satisfaction of performance criteria	3 years
Awards granted to senior employees in 2009 under The Morgan Crucible Bonus Deferral Share Matching Plan	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 Long Term Incentive Plan 2004	5,085,721	Three years of service plus satisfaction of performance criteria	3 years
Awards granted to senior employees in 2008 under The Morgan Crucible Bonus Deferral Share Matching Plan	2,888,005	Three years of service plus satisfaction of performance criteria	3 years
Options granted to UK employees in 2008 under the Employee Sharesave Scheme 2004	1,089,783	Three years of service	3 years
Options granted to German employees in 2008 under The Morgan Crucible Savings Related Share Option Scheme for Employees in Germany	278,451	Three years of service	3 years
Awards granted to senior employees in 2008 under the Long Term Incentive Plan 2004	2,691,123	Three years of service plus satisfaction of performance criteria	3 years
Options granted to UK employees in 2007 under the Employee Sharesave Scheme 2004	856,885	Three years of service	3 years
Awards granted to senior employees in 2007 under the Long Term Incentive Plan 2004	1,540,000	Three years of service plus satisfaction of performance criteria	3 years
Options granted to senior employees in 2006 under the Directors' Share Option Plan 2006	1,000,000	Three years of service plus satisfaction of performance criteria	10 years
Options granted to senior employees in 2006 under the Executive Share Option Scheme 2004	398,500	Three years of service plus satisfaction of performance criteria	10 years
Awards granted to senior employees in 2006 under the Long Term Incentive Plan 2004	477,500	Three years of service plus satisfaction of performance criteria	3 years
Options granted to UK employees in 2005 under the Employee Sharesave Scheme 2004	976,614	Three years of service	3 years
Awards granted to senior employees in 2005 under the Long Term Incentive Plan 2004	3,804,820	Three years of service plus satisfaction of performance criteria	3 years
Awards granted to senior employees in 2004 under the Long Term Incentive Plan 2004	5,084,031	Three years of service plus satisfaction of performance criteria	3 years
Options granted to senior employees in 2005 under the Executive Share Option Scheme 2004	2,097,000	Three years of service plus satisfaction of performance criteria	10 years
Options granted to senior employees in 2004 under the Executive Share Option Scheme 2004	3,157,500	Three years of service plus satisfaction of performance criteria	10 years
Options granted to UK employees in 2004 under the Employee Sharesave Scheme 2004	521,884	Three years of service	3 years
Options granted to German employees in 2004 under The Morgan Crucible Savings Related Share Option Scheme for Employees in Germany	516,844	Three years of service	3 years
Options granted to UK employees in 2003 under the Employee Sharesave Scheme 1995	779,421	Three years of service	3 years
Options granted to senior employees in 2004 under the Executive Share Option Scheme 1995	263,000	Three years of service plus satisfaction of performance criteria	10 years
Options granted to senior employees in 2002 under the Executive Share Option Scheme 1995	1,780,000	Three years of service plus satisfaction of performance criteria	10 years

20. Employee benefits continued

Performance criteria for Long Term Incentive Plan 2004, Directors' Share Option Plan 2006 and Executive Share Option Scheme 2004.

For awards granted from 2004 to 2006 inclusive, the extent to which awards vested depended on the Company's Total Shareholder Return ('TSR') ranking against the TSR of the other companies in the FTSE 350 measured over the performance period.

If the Company's TSR placed it at the median, then 30% of the awards would vest on the third anniversary of the date of the grant.

If the Company's TSR placed it at the upper quartile, then 100% of the option would vest on the third anniversary of the date of grant. Between the median and upper quartile, the option would vest on a straight-line basis. Below the median, none of the shares would vest.

In 2007 additional performance criteria were attached to the Long Term Incentive Plan 2004. The TSR performance criteria referred to above now only relate to 50% of awards made. The extent to which the other 50% of these awards vest will depend on the Company's earnings per share ('EPS') compared with the Retail Price Index ('RPI'). The full 50% will vest if, over the three-year performance period, the Company's EPS increases by more than the sum of the annual RPI increase and 10% pa. If the Company's EPS increases by more than the sum of the annual RPI increase and between 4% and 10% pa then the proportion of awards vesting will be interpolated between 15% and 50%. If the Company's EPS increases by more than the sum of the annual RPI increase and 4% pa then 15% of the awards will vest. If the Company's EPS increases by less than the sum of the RPI increase and 4% pa then 0% of the awards will vest.

In 2008 further changes were made to the performance criteria attached to the Long Term Incentive Plan 2004 for awards made in 2008 and onwards. For all participants excluding executive Directors the TSR performance criteria referred to above now only relate to 33.3% of awards made. The extent to which the other 66.7% of these awards vest will depend on the Company's EPS compared with the RPI. The full 66.7% will vest if, over the three-year performance period, the Company's EPS increases by more than the sum of the annual RPI increase and 10% pa. If the Company's EPS increases by more than the sum of the annual RPI increase and between 4% and 10% pa then the proportion of awards vesting will be interpolated between 15% and 50%. If the Company's EPS increases by more than the sum of the annual RPI increase and 4% pa then 15% of the awards will vest. If the Company's EPS increases by less than the sum of the RPI increase and 4% pa then 0% of the awards will vest. For executive Director participants the conditions remain unchanged from 2007.

In 2009 further changes were made to the performance criteria attached to the Long Term Incentive Plan 2004. For all participants the TSR performance criteria referred to above related to 100.0% of awards made.

In 2010 the performance criteria attached to the awards granted pursuant to the Long Term Incentive Plan 2004 reverted to a TSR/EPS split. The TSR performance criteria relate to 50% of awards made. The extent to which the other 50% of these awards vest will depend on the Company's EPS compared with the RPI. The full 50% will vest if, over the three-year performance period, the Company's EPS increases by more than the sum of the annual RPI increase and 10% pa. If the Company's EPS increases by more than the sum of the annual RPI increase and between 4% and 10% pa then the proportion of awards vesting will be interpolated between 15% and 50%. If the Company's EPS increases by more than the sum of the annual RPI increase and 4% pa then 15% of the awards will vest. If the Company's EPS increases by less than the sum of the RPI increase and 4% pa then 0% of the awards will vest. In addition, the 2010 LTIP awards were restructured to include an HMRC-approved element as part of the overall LTIP award.

In addition, an improvement must be shown in the Company's underlying financial performance.

Performance criteria for The Morgan Crucible Bonus Deferral Share Matching Plan

The extent to which awards will vest will depend on the Company's EPS compared with the RPI. Participants are able to defer up to 75% of their annual bonus into Company shares, subject to approval by the Remuneration Committee. Under the 2008 grant, the Remuneration Committee allowed participants to defer up to 50% of their annual bonus into Company shares. Participants must hold the deferred shares for three years to be eligible for a matching award. Matching shares may be earned at the end of three years in the event that a stretching EPS target has been met. If the Company's EPS increases by more than the sum of the annual RPI increase and 15% pa then matching shares equal to three times the deferred shares will be earned. If the Company's EPS increases by more than the sum of the annual RPI increase and between 4% and 10% pa then the proportion of awards will be interpolated between 0.25x deferred shares and 1.75x deferred shares. If the Company's EPS increases by more than the sum of the annual RPI increase and 4% pa then matching shares equal to 0.25x deferred shares will be earned. If the Company's EPS increases by less than the sum of the RPI increase and 4% pa then 0% of the awards will vest.

Notes to the consolidated financial statements
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20. Employee benefits continued
In 2009 additional criteria were attached to the Bonus Deferral Share Matching Plan. Under the 2009 grant, the Remuneration Committee allowed participants to defer up to 50% of their annual bonus into Company shares. Participants must hold the deferred shares for three years to be eligible for a matching award. Matching shares may be earned at the end of three years in the event that a stretching EPS target has been met. If the Company's EPS increases by more than 15% pa then matching shares equal to three times the deferred shares will be earned. If the Company's EPS increases by between 4% and 10% pa then the proportion of awards will be interpolated between 0.25x deferred shares and 1.75x deferred shares. If the Company's EPS increases by more than 4% pa then matching shares equal to 0.25x deferred shares will be earned. If the Company's EPS increases by less than 4% pa then 0% of the awards will vest.

In 2010, the Remuneration Committee allowed participants to defer up to 75% of their annual bonus into Company shares. Participants must hold the deferred shares for three years to be eligible for a matching award. Matching shares may be earned at the end of three years in the event that a stretching EPS target has been met. If the Company's EPS increases by more than the sum of the annual RPI increase and 15% pa then matching shares equal to three times the deferred shares will be earned. If the Company's EPS increases by more than the sum of the annual RPI increase and between 4% and 10% pa then the proportion of awards will be interpolated between 0.25x deferred shares and 1.75x deferred shares. If the Company's EPS increases by more than the sum of the annual RPI increase and 4% pa then matching shares equal to 0.25x deferred shares will be earned. If the Company's EPS increases by less than the sum of the RPI increase and 4% pa then 0% of the awards will vest.

Performance criteria for the Executive Share Option Scheme 1995
The diluted earnings per share for the Company must grow by at least 2% pa in excess of RPI over the period of date of grant to date of vesting.

The fair values of services received are in return for awards made and share options granted. The estimate of the fair value of the services received is measured based on an appropriate model as shown in accounting policy note 'n'. In the case of the Binomial Lattice model and Monte Carlo model the contractual life of the options and awards are used as an input. Expectations of early exercise are incorporated into both of these models.

Long Term Incentive Plan 2004

	2010 awards
Fair value at measurement date	**117.91-174.96p**
Share price	**205.10p**
Exercise price	**n/a**
Expected volatility (expressed as weighted average volatility used in the model)	**45%**
Option life (expressed as weighted average life used in the model)	**3 years**
Expected dividends	**3.6%**
Risk-free interest rate	**1.8%**

The Morgan Crucible Bonus Deferral Share Matching Plan

	2010 awards
Fair value at measurement date	**188.70p**
Share price	**188.70p**
Exercise price	**n/a**
Expected volatility (expressed as weighted average volatility used in the model)	**n/a**
Option life (expressed as weighted average life used in the model)	**3 years**
Expected dividends	**n/a**
Risk-free interest rate	**n/a**

Executive Share Option Scheme 2004
There were no awards during 2010.

20. Employee benefits continued

Employee Sharesave Schemes UK

	2010 awards
Fair value at measurement date	**70.33p**
Share price	**206.25p**
Exercise price	**165.00p**
Expected volatility (expressed as weighted average volatility used in the model)	**40%**
Option life (expressed as weighted average life used in the model)	**3 years**
Expected dividends	**2.5%**
Risk-free interest rate	**1.2%**

The Morgan Crucible Savings Related Share Options Scheme for Employees in Germany

There were no awards during 2010.

Employee Share Option Scheme 1995

There were no awards during 2010.

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 2 January 2011	Number of options 2 January 2011	Weighted average exercise price 3 January 2010	Number of options 3 January 2010
Outstanding at the beginning of the period	**45.53p**	**20,119,192**	94.08p	13,455,505
Granted during the period	**40.41p**	**4,005,075**	28.33p	10,449,762
Forfeited during the period	**79.43p**	**(716,976)**	149.95p	(1,283,019)
Exercised during the period	**165.26p**	**(200,440)**	0.00p	–
Lapsed during the period	**83.13p**	**(2,411,001)**	181.21p	(2,503,056)
Outstanding at the end of the period	**37.86p**	**20,795,850**	45.53p	20,119,192
Exercisable at the end of the period	**162.69p**	**1,373,554**	153.71p	1,625,391

The weighted average share price at the date of share options exercised during the period was 233.20 pence (2009: nil pence).

The options outstanding at the year end have an exercise price in the range nil to 249.00 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 estimates of the fair value of the services received is measured based on either a Monte Carlo model, a Binomial Lattice option pricing model or a Black-Scholes Merton model. The choice of model takes into account the terms and conditions upon which the options were granted.

The weighted average fair value of options issued in the period was 145.92 pence (2009: 58.95 pence).

The IFRS 2 fair value charge expensed to the income statement was £3.1 million (2009: £2.0 million).

Notes to the consolidated financial statements
continued

21. Provisions

	Closure and restructuring provisions £m	Other provisions £m	Environmental provisions £m	Total £m
Balance at 3 January 2010	**7.3**	**5.8**	**3.3**	**16.4**
Provisions made during the year	**6.1**	**2.4**	**5.1**	**13.6**
Provisions used during the year	**(5.3)**	**(1.1)**	**(1.5)**	**(7.9)**
Provisions reversed during the year	**(0.3)**	**(1.3)**	**–**	**(1.6)**
Effect of movements in foreign exchange	**(0.1)**	**0.1**	**(0.1)**	**(0.1)**
Balance at 2 January 2011	**7.7**	**5.9**	**6.8**	**20.4**
Current	**5.4**	**4.8**	**2.6**	**12.8**
Non-current	**2.3**	**1.1**	**4.2**	**7.6**
	7.7	**5.9**	**6.8**	**20.4**

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 offices of the Company's former headquarters, net of expected rental income under sub-leases. The lease expires in 2016.

Other provisions include the settlement of European class actions, together with the associated legal costs. The estimated costs are based on the Group's assessment of the probable future costs of these activities. The Group expects to incur most of the liability in more than one year.

Environmental provisions are for known environmental issues which the Group will rectify over the next few years. In a number of jurisdictions companies have a constructive obligation to remedy any known environmental problems. The estimated costs are based on management's best estimate of the costs required to remedy these problems. The Group expects to incur most of the liability over the next five years.

22. Trade and other payables

	2010 £m	2009 £m
Non-current		
Other trade payables	**0.4**	0.5
Non-trade payables	**13.1**	31.2
	13.5	31.7
Current		
Other trade payables	**121.7**	96.6
Non-trade payables and accrued expenses	**143.7**	153.7
	265.4	250.3

Included in current non-trade payables and accrued expenses and non-current non-trade payables are £8.3 million (2009: £26.6 million) and £9.0 million (2009: £27.5 million) respectively of deferred contingent consideration on purchase of 51% of the Ordinary share capital of Clearpower Limited. For further details see note 3.

23. Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	2010 £m	2009 £m
Less than one year	**8.0**	7.9
Between one and five years	**19.7**	19.6
More than five years	**29.2**	32.0
	56.9	59.5

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 £3.4 million (2009: £2.8 million).

24. Capital commitments

Commitments for property, plant and equipment and computer software expenditure for which no provision has been made in these accounts amount to £1.3 million (2009: £2.7 million) for the Group.

25. Contingencies

Subsidiary undertakings within the Group have given unsecured guarantees of £11.0 million (2009: £10.8 million) in the ordinary course of business.

In an international group of companies a variety of claims arise from time to time. Provision has been made in these accounts against those claims which the Directors consider meet the requirements of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and are likely to result in significant liabilities.

The Group has been subject to legal claims in the USA, Canada and Europe. Settlements for the majority of these have been agreed. There remain provisions in respect of these claims of £1.4 million (2009: £0.7 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.

26. Related parties

Identification of related parties

The Group has related party relationships with its subsidiaries (a list of principal subsidiary undertakings is shown in note 42), with its associates (see note 12) and with its Directors and executive officers.

Transactions with key management personnel

The Company has written service contracts or letters of appointment with each of its Directors, under which the Directors receive a salary or a fee and other emoluments.

The key management of the Group and parent Company consists of the Board of Directors (including non-executive Directors) and members of the Executive Committee.

Their compensation charged in the year was:

	2010 £m	2009 £m
Short-term employee benefits	**3.4**	2.2
Employer National Insurance Contributions	**0.4**	0.2
Pension and other post-employment costs	**0.4**	0.3
Share-based payments	**0.7**	0.7
Termination payments	**0.4**	–
Non-executive Directors' fees and benefits	**0.3**	0.3
Total compensation of key management personnel	**5.6**	3.7

Information on executive Directors' remuneration is given in the Remuneration report on pages 76 to 86.

Notes to the consolidated financial statements continued

26. Related parties continued

Transactions in connection with former Directors

During the prior period the Group made payments on behalf of former Chief Executive Ian Norris of £1.5 million to cover the costs of his legal defence against extradition to stand trial in the USA. In addition, in the prior period, the Group recovered fees of £1.6 million in respect of court cost awards relating to legal costs expended on behalf of Ian Norris in prior periods.

Other related party transactions

	2010 £m	2009 £m
Sales to associate	**54.5**	12.4

The balances with our associate are shown in note 15.

27. Subsequent events

There have been no material events since the year end.

Company balance sheet
as at 2 January 2011

	Note	2010 £m	2009 £m
Fixed assets			
Tangible assets	31	**1.2**	1.8
Investment in subsidiary undertakings	32	**740.2**	790.7
		741.4	792.5
Current assets			
Debtors – due within one year	33	**30.4**	36.9
Total debtors		**30.4**	36.9
Cash at bank and in hand		**27.5**	8.5
		57.9	45.4
Creditors – amounts falling due within one year	34	**128.9**	63.5
Net current assets		**(71.0)**	(18.1)
Total assets less current liabilities		**670.4**	774.4
Creditors – amounts falling due after more than one year			
Amounts payable to subsidiary undertakings		**108.4**	178.7
Other creditors, including deferred consideration	34	**9.0**	27.6
Derivative financial liabilities	34	**–**	4.1
Borrowings	35	**67.7**	105.4
		185.1	315.8
Provisions for liabilities and charges	36	**3.6**	2.8
		188.7	318.6
Net assets		**481.7**	455.8
Capital and reserves			
Equity shareholders' funds			
Called-up share capital	17	**68.1**	67.5
Share premium account	37	**88.3**	85.3
Merger reserve	37	**17.0**	17.0
Capital redemption reserve	37	**35.7**	35.7
Profit and loss account	37	**272.2**	249.9
		481.3	455.4
Non-equity shareholders' funds			
Called-up share capital		**0.4**	0.4
Shareholders' funds		**481.7**	455.8

The financial statements were approved by the Board of Directors on 16 February 2011 and were signed on its behalf by:

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

Notes to the Company balance sheet

28. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards, and under the historical cost accounting rules.

Under Section 408(4) of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account.

Under FRS 1 *Cash Flow Statements* the Company is exempt from the requirement to prepare a cash flow statement on the grounds that the cash flows of the Company are included within the published consolidated financial statement.

The Company has taken advantage of the exemption contained in FRS 8 *Related Parties* and has therefore not disclosed transactions or balances with wholly owned subsidiaries.

Fixed assets and depreciation

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Buildings	50 years
Motor vehicles	3 years
Fixtures	10-20 years
Computer software	3-6 years

Investments

Investments in subsidiary undertakings, associates and joint ventures are stated at cost less amounts written off unless they are designated as a hedged item in a fair value hedge of foreign currency risk under FRS 26 *Financial Instruments: Recognition and Measurement*. In this case they are accounted for at historical cost plus a hedging adjustment recognised in profit or loss for the changes in their fair value attributable to the foreign currency exposure from the date the hedge is designated.

Interest-bearing borrowings

Immediately after issue debt is stated at the fair value of the consideration received on the issue of the capital instrument after deduction of issue costs. The finance cost of the debt is allocated to periods over the term of the debt at a constant rate on the carrying amount.

Foreign currency

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward contract. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Leases

Rentals payable under operating leases are charged in the profit and loss account on a straight-line basis over the lease term.

Post-retirement benefits

The Company participates in a Group-wide pension scheme providing benefits based on career-average pensionable pay. The assets of the scheme are held separately from those of the Company. The Company is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 *Retirement Benefits*, accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period. Refer to note 39 for the additional disclosures required by FRS 17.

Taxation

The charge for taxation is based on the result for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19 *Deferred Tax*.

28. Accounting policies continued

Classification of financial instruments issued by the Company

Following the adoption of FRS 25 *Financial Instruments: Disclosure and Presentation*, financial instruments issued by the Company are treated as equity (ie forming part of shareholders' funds) only to the extent that they meet the following two conditions:

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

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

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

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholders' funds (see dividend policy) are dealt with as appropriations in the reconciliation of movements in shareholders' funds.

Hedging instruments and hedged items are accounted for separately in the balance sheet. In fair value hedges, gains and losses from remeasuring the hedging instrument at fair value (for a derivative instrument) or the foreign currency component (for a non-derivative financial liability in a foreign currency hedge) are included in profit for the year when they arise. In cash flow hedges, gains and losses from remeasuring the hedging derivative instrument at fair value are initially recognised in other comprehensive income to the extent effective, and are later reclassified to profit or loss when the hedged transaction occurs or is no longer expected to occur.

Certain financial assets and liabilities have been designated as fair value through profit or loss and are recognised in the balance sheet at fair value.

Own shares held by ESOP trust

Transactions of the Group-sponsored ESOP trust are treated as being those of the Company and are therefore reflected in the Company's financial statements. In particular, the trust's purchases and sales of shares in the Company are debited and credited to equity.

Share-based payments

The share option programme allows employees to acquire shares of the Company. The fair value of options granted after 7 November 2002 and those not yet vested as at 4 January 2005 is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employee becomes unconditionally entitled to the options. The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting. For details of share-based payments made and the assumptions used in measuring the fair value see note 20.

Share-based payments recharged to subsidiary undertakings are recorded via the inter-company loan account.

Dividends on shares presented within shareholders' funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

Financial guarantee contracts

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

Notes to the Company balance sheet
continued

29. Staff numbers and costs

The average number of persons employed by the Company (including Directors) during the year, analysed by category, was as follows:

	Number of employees	
	2010	2009
Directors and head office staff	**26**	23
Global business units' staff	**16**	13
	42	36

The majority of the Directors and head office staff devote a proportion of their time to global business duties. Of the 26 Directors and head office staff, the average number who spent all or a proportion of their time on corporate duties was nine (2009: eight) as shown in note 5.

The aggregate payroll costs of these persons were as follows:

	2010 £m	2009 £m
Wages and salaries	**8.9**	4.9
Share-based payments (see note 20)	**3.0**	2.0
Social security costs	**0.9**	1.1
Other pension costs	**0.4**	0.6
Total overhead employee cost	**13.2**	8.6

30. Dividends

Dividends payable for the First and Second Preference shares were £22,491 (2009: £22,491) of which £11,245 (2009: £11,245) was outstanding at the balance sheet date.

For proposed Ordinary dividends see the consolidated income statement on page 88.

31. Tangible assets

	Plant, equipment and fixtures £m
Cost	
At 4 January 2010	**4.1**
Additions	**0.3**
At 2 January 2011	**4.4**
Accumulated depreciation	
At 4 January 2010	**2.3**
Amount provided for in the year	**0.9**
At 2 January 2011	**3.2**
Net book amounts at 2 January 2011	**1.2**
Net book amounts at 3 January 2010	**1.8**

32. Investment in subsidiary undertakings

	Shares £m	Loans £m	Total £m
Cost			
At 4 January 2010	**643.6**	**198.1**	**841.7**
Additions	**12.1**	**6.9**	**19.0**
Fair value hedge of investments' exposure to foreign currency risk	**4.6**	**–**	**4.6**
Less: disposals/loan repayments/liquidations	**(14.3)**	**(58.2)**	**(72.5)**
At 2 January 2011	**646.0**	**146.8**	**792.8**
Amounts provided			
At 4 January 2010	**47.3**	**3.7**	**51.0**
Provided in the year	**1.6**	**–**	**1.6**
At 2 January 2011	**48.9**	**3.7**	**52.6**
Net book amounts at 2 January 2011	**597.1**	**143.1**	**740.2**
Net book amounts at 3 January 2010	**596.3**	**194.4**	**790.7**

A list of principal subsidiary undertakings is shown in note 42.

33. Debtors

	2010 £m	2009 £m
Due within one year:		
Other debtors	**2.9**	1.9
Derivative financial assets	**0.1**	1.0
Prepayments and accrued income	**0.4**	0.7
Amounts receivable from subsidiary undertakings	**27.0**	33.3
	30.4	36.9

34. Creditors

	2010 £m	2009 £m
Due within one year:		
Bank overdrafts	**83.9**	8.5
Trade creditors	**1.8**	1.0
Amounts payable to subsidiary undertakings	**18.2**	14.7
Other creditors, including deferred consideration	**10.2**	29.0
Accruals and deferred income	**9.6**	4.8
Derivative financial liabilities	**5.2**	5.5
	128.9	63.5
Due after one year:		
Other creditors, including deferred consideration	**9.0**	27.6
Derivative financial liabilities	**–**	4.1
	9.0	31.7

Notes to the Company balance sheet
continued

35. Borrowings

	2010 £m	2009 £m
Bank and other loans	**67.7**	105.4
Bank overdrafts	**83.9**	8.5
	151.6	113.9
Less: amount repayable within one year included within current liabilities	**(83.9)**	(8.5)
Total repayable after more than one year	**67.7**	105.4

36. Provisions for liabilities and charges

	Closure and restructuring provisions £m	Other provisions £m	Total £m
At 4 January 2010	**2.1**	**0.7**	**2.8**
Provided in the year	**–**	**1.3**	**1.3**
Utilised in the year	**(0.3)**	**(0.2)**	**(0.5)**
Released in the year	**–**	**–**	**–**
At 2 January 2011	**1.8**	**1.8**	**3.6**

Closure and restructuring provisions relate mainly to an onerous lease provision for Morgan House, the Company's previous registered address.

Other provisions include the settlement of European class actions, together with the associated legal costs.

37. Share premium and reserves

	Share premium £m	Merger reserve £m	Capital redemption reserve £m	Profit and loss account £m
At 4 January 2010	**85.3**	**17.0**	**35.7**	**249.9**
Charges and transfers in relation to share-based payments for the year	**–**	**–**	**–**	**3.3**
Issue of new shares	**0.1**	**–**	**–**	**–**
Dividends	**2.9**	**–**	**–**	**(18.9)**
Retained profit for the year	**–**	**–**	**–**	**37.9**
	88.3	**17.0**	**35.7**	**272.2**

HSBC Trustee (C.I.) 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 2 January 2011 is 1,007,003 (2009: 1,984,022) and at that date had a market value of £2.5 million (2009: £3.2 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 £142.7 million (2009: £139.7 million).

38. Leasing commitments

Operating lease commitments falling due during the next year, for which no provision has been made in these accounts, are:

	Land and buildings	
	2010 £m	2009 £m
Less than one year	**–**	–
Between one and five years	**0.4**	0.2
More than five years	**0.3**	0.5
	0.7	0.7

39. Pension costs

The Morgan Pension Scheme and The Morgan Senior Staff Pension and Life Assurance Scheme

The Company participates in two defined benefit schemes in the UK. The assets of these schemes are held in separate trustee-administered funds, The Morgan Pension Scheme ('MPS') and The Morgan Group Senior Staff Pension and Life Assurance Scheme ('SSS'). Given that the Company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis, as permitted by FRS 17 *Retirement Benefits*, the schemes have been accounted for in these financial statements as if they were defined contribution schemes.

The latest actuarial valuations of the MPS and the SSS were carried out as at 6 April 2009 and 1 April 2009 respectively, and updated for FRS 17 purposes to 31 December 2010 by a qualified independent actuary. The results for these schemes in respect of the Group are shown below:

	2010 %	2009 %
Assumptions:		
Inflation (RPI & CPI)	**3.40/2.70**	3.50/n/a
Discount rate	**5.50**	5.80
Pension increases in payment	**3.30/3.40**	3.40/3.40
General salary increases	**n/a**	n/a

The assets in the scheme and the expected rates of return were:

	2010 Expected return %	**2010 £m**	2009 Expected return %	2009 £m
Asset distribution and balance sheet reconciliation:				
Equities	**7.8**	**131.7**	8.4	125.0
Bonds	**5.2**	**17.7**	5.3	6.4
Property	**6.2**	**–**	6.4	–
Other	**5.5**	**171.2**	5.8	167.5
Total market value of assets		**320.6**		298.9
Present value of liability		**(347.2)**		(333.4)
Deficit in the scheme		**(26.6)**		(34.5)
Employer contributions due within one year		**(0.2)**		(0.1)

Other assets include an insurance policy as described in note 20.

The contribution for the year was £6.3 million (2009: £4.7 million).

Notes to the Company balance sheet
continued

40. Contingent liabilities
Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its Group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

There are no other contingent liabilities in the Company as at 2 January 2011.

The Group has been subject to legal claims in the USA, Canada and Europe. Settlements for the majority of these have been agreed. There remain provisions in respect of these claims of £1.4 million (2009: £0.7 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.

41. Related parties
The Company's transactions with non-wholly owned subsidiaries are as follows:

	2010 £m	2009 £m
Amounts invoiced to non-wholly owned subsidiaries	**0.5**	0.7
Amounts receivable from non-wholly owned subsidiaries	**0.7**	4.1
Amounts payable to non-wholly owned subsidiaries	**7.0**	4.9

The Directors have reviewed transactions with related parties (as defined in FRS 8 *Related Party Disclosures*) and have concluded that there are no other material transactions which require disclosure which have not been acknowledged elsewhere in the Annual Report and Accounts.

42. Principal subsidiary undertakings

		Business	Country of incorporation and principal place of business
Morgan Ceramics companies			
*	Carbo San Luis S.A.	Thermal Ceramics	Argentina
*	Morgan Technical Ceramics Australia Pty. Ltd.	Technical Ceramics	Australia
	Dalian Morgan Refractories Limited	Thermal Ceramics	China
	Morgan Thermal Ceramics International Trading (Shanghai) Co. Ltd.	Thermal Ceramics	China
	Morgan Thermal Ceramics Shanghai Ltd.	Thermal Ceramics	China
*	Yixing Haldenwanger Fine Ceramic Co. Ltd.	Technical Ceramics	China
	Yixing Morgan Thermal Ceramics Co. Ltd.	Thermal Ceramics	China
	Certech International Limited	Technical Ceramics	England
	Morgan Advanced Ceramics Limited	Technical Ceramics	England
	Morgan Electro Ceramics Limited	Technical Ceramics	England
	Thermal Ceramics UK Limited	Thermal Ceramics	England
*	Thermal Ceramics de France S.A.S.	Thermal Ceramics	France
*	Thermal Ceramics Deutschland GmbH & Co. K.G.	Thermal Ceramics	Germany
*	W. Haldenwanger Technische Keramik GmbH & Co. K.G.	Technical Ceramics	Germany
	Wesgo Ceramics GmbH	Technical Ceramics	Germany
*	Ciria India Ltd.	Thermal Ceramics	India
	Murugappa Morgan Thermal Ceramics Limited	Thermal Ceramics	India
*	Thermal Ceramics Italiana s.r.l.	Thermal Ceramics	Italy
	Shin-Nippon Thermal Ceramics Corporation	Thermal Ceramics	Japan
*	Morgan Technical Ceramics S.A. de C.V.	Technical Ceramics	Mexico
*	Thermal Ceramics Benelux B.V.	Thermal Ceramics	Netherlands
*	Limited Liability Company Morgan Thermal Ceramics Sukhoy Log	Thermal Ceramics	Russia
	Thermal Ceramics Asia Pte. Ltd.	Thermal Ceramics	Singapore
*	Thermal Ceramics South Africa Pty. Limited	Thermal Ceramics	South Africa
*	Thermal Ceramics Espana S.L.	Thermal Ceramics	Spain
*	Certech Inc.	Technical Ceramics	USA
*	Morgan Advanced Ceramics Inc.	Technical Ceramics	USA
*	Morgan Technical Ceramics Auburn Inc.	Technical Ceramics	USA
*	Thermal Ceramics Inc.	Thermal Ceramics	USA

42. Principal subsidiary undertakings continued

		Business	Country of incorporation and principal place of business
Morgan Engineered Materials companies			
*	Morgan Molten Metal Systems (Suzhou) Co. Ltd.	Molten Metal Systems	China
	Shanghai Morgan Carbon Co. Ltd.	Advanced Materials & Technology	China
	Shanghai Morganite Electrical Carbon Co. Ltd.	Advanced Materials & Technology	China
	Morganite Electrical Carbon Limited	Advanced Materials & Technology	England
*	NP Aerospace Limited	Advanced Materials & Technology	England
*	Morgan Molten Metal Systems GmbH	Molten Metal Systems	Germany
*	Morgan Rekofa GmbH	Advanced Materials & Technology	Germany
*	Morgan Materials Hungary Kft.	Advanced Materials & Technology	Hungary
*	Assam Carbon Products Ltd.	Advanced Materials & Technology	India
*	Morganite Crucible (India) Limited	Molten Metal Systems	India
*	Morgan Carbon Italia s.r.l.	Advanced Materials & Technology	Italy
*	Morganite Carbon Kabushiki Kaisha	Advanced Materials & Technology	Japan
*	Morganite Luxembourg S.A.	Advanced Materials & Technology	Luxembourg
*	National Electrical Carbon B.V.	Advanced Materials & Technology	Netherlands
*	Morganite South Africa Pty. Limited	Advanced Materials & Technology	South Africa
*	Morgan Karbon Grafit Sanayi A.S.	Advanced Materials & Technology	Turkey
*	Morgan Advanced Materials and Technology Inc.	Advanced Materials & Technology	USA
*	National Electrical Carbon Products Inc.	Advanced Materials & Technology	USA
*	Graphite Die Mold Inc.	Advanced Materials & Technology	USA
*	Morganite Crucible Inc.	Molten Metal Systems	USA
Other subsidiary undertakings			
*	Morganite Australia Pty Limited	Group	Australia
*	Morganite Brasil Limitada	Group	Brazil
*	Morganite Canada Corporation	Group	Canada
	Grupo Industrial Morgan S.A. de C.V.	Group	Mexico
	Morgan Korea Company Limited	Group	South Korea
	Morganite Industries Inc.	Group	USA

* Denotes companies some or all of whose shares are owned by a subsidiary.

In 2010 and 2009 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 GmbH & Co K.G.
→ Thermal Ceramics Deutschland GmbH & Co K.G.

Notes to the Company balance sheet
continued

43. Company reconciliation of movements in shareholders' funds
for the year ended 2 January 2011

	2010 £m	2009 £m
Retained profit for the financial year	**37.9**	16.5
Dividends	**(15.5)**	(12.1)
Issue of shares	**0.2**	–
Charges and transfers in relation to share-based payments for the year	**3.3**	2.3
Net increase in shareholders' funds	**25.9**	6.7
Opening shareholders' funds	**455.8**	449.1
Closing shareholders' funds	**481.7**	455.8

Group statistical information
Under adopted IFRSs

	2006 £m	2007 £m	2008 £m	2009 £m	**2010 £m**
Revenue	677.8	693.2	835.0	942.6	**1,017.1**
Profit from operations before restructuring costs, other one-off items and amortisation of intangible assets	74.9	88.1	108.8	89.0	**109.5**
Restructuring costs and other one-off items:					
Restructuring costs and costs associated with settlement of prior period anti-trust litigation	(27.7)	(9.0)	(11.4)	(14.0)	**(8.5)**
Gain on curtailment of UK employee benefit schemes	11.0	–	–	–	**–**
Terminated bid approach costs	(2.1)	–	–	–	**–**
Gain/(loss) on disposal of property	0.3	(0.2)	0.8	2.0	**0.6**
Profit from operations before amortisation of intangible assets	56.4	78.9	98.2	77.0	**101.6**
Amortisation of intangible assets	(1.2)	(1.6)	(3.2)	(16.3)	**(8.0)**
Operating profit	55.2	77.3	95.0	60.7	**93.6**
Net financing costs	(3.4)	(5.5)	(12.7)	(29.3)	**(25.9)**
Loss on disposal of businesses	(1.5)	(0.3)	(0.7)	–	**–**
Share of profit of associate (net of income tax)	–	0.2	1.2	–	**–**
Profit before taxation	50.3	71.7	82.8	31.4	**67.7**
Income tax expense	(10.6)	(15.2)	(20.1)	(8.7)	**(19.7)**
Profit for the period	39.7	56.5	62.7	22.7	**48.0**
Assets employed					
Property, plant and equipment	230.2	246.6	319.6	276.2	**269.2**
Intangible assets	66.4	69.8	177.0	296.9	**285.0**
Investments and other receivables	8.4	49.5	50.6	9.3	**9.1**
Deferred tax assets	28.8	25.8	36.6	37.2	**38.5**
Net current assets	44.0	74.4	189.9	136.5	**131.0**
Total assets less current liabilities	377.8	466.1	773.7	756.1	**732.8**
Employee benefits	42.7	47.7	101.8	105.9	**103.9**
Provisions and other items	103.6	202.9	423.1	388.1	**331.6**
Deferred tax liabilities	28.4	19.2	40.8	47.5	**45.2**
	203.1	196.3	208.0	214.6	**252.1**
Equity					
Total equity attributable to equity holders of the parent Company	186.7	176.2	177.8	184.6	**215.0**
Non-controlling interests	16.4	20.1	30.2	30.0	**37.1**
Total equity	203.1	196.3	208.0	214.6	**252.1**
Ordinary dividends per share paid	4.5p	6.75p	7.0p	4.5p	**7.0p**
Earnings per share					
Basic	12.9p	19.1p	22.2p	7.1p	**15.8p**
Diluted	12.3p	18.5p	21.6p	6.8p	**15.0p**
Basic before amortisation of intangible assets	13.3p	19.7p	23.4p	13.2p	**18.7p**
Diluted before amortisation of intangible assets	12.7p	19.1p	22.8p	12.6p	**17.8p**

Shareholder information

Analysis of shareholdings as at 2 January 2011

		Number of holdings	% of total holdings	Number of shares	% of share capital
Size of holding	1 – 2,000	6,172	75.35	3,305,421	1.22
	2,001 – 5,000	1,081	13.20	3,437,699	1.26
	5,001 – 10,000	371	4.53	2,659,420	0.98
	10,001 – 50,000	290	3.54	5,999,628	2.20
	50,001 – 100,000	73	0.89	5,193,511	1.91
	100,001 and above	204	2.49	251,570,346	92.43
		8,191	**100.00**	**272,166,025**	**100.00**
Holding classification	Individuals	7,187	87.75	16,229,895	5.96
	Nominee companies	901	11.00	252,663,171	92.83
	Trusts (pension funds etc)	11	0.13	475,700	0.18
	Others	92	1.12	2,797,259	1.03
		8,191	**100.00**	**272,166,025**	**100.00**

Key dates

Dividends	Subject to the relevant detailed terms and approvals of the Board of Directors where applicable	
	5.5% Cumulative First Preference shares of £1 each and	1 April 2011 and
	5.0% Cumulative Second Preference shares of £1 each	1 October 2011
Annual General Meeting	The 2011 Annual General Meeting will take place on	10 May 2011
Financial results	The Interim results are announced in July with the Report and Accounts for the year normally posted in March	

Other information

Capital gains tax

The market values of quoted shares and stocks at 31 March 1982 were:

Ordinary shares of 25 pence each	122.5 pence
5.5% Cumulative First Preference shares of £1 each	30.5 pence
5.0% Cumulative Second Preference shares of £1 each	28.5 pence

For capital gains tax purposes, the cost of Ordinary shares is adjusted to take account of rights issues. Any capital gains arising on disposal will also be adjusted to take account of indexation allowances. Since the adjustments will depend on individual circumstances, shareholders are recommended to consult their professional advisers.

Share price

The price can be obtained on the Company's website: www.morgancrucible.com

Company details

Registered office

Quadrant, 55-57 High Street, Windsor, Berkshire SL4 1LP Registered in England No. 286773
Telephone: 01753 837000
Fax: 01753 850872
Website: www.morgancrucible.com

Company registrars

Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU
Telephone (in UK): 0871 664 0300 (calls cost 10p per minute plus network extras, lines are open Monday-Friday, 8.30am-5.30pm)
Telephone (from overseas): +44 (0) 20 8639 3399
Email: ssd@capitaregistrars.com
Website: www.capitaregistrars.com

Share portal

The Capita share portal (www.capitashareportal.com) is an online service enabling you to quickly and easily access and maintain your shareholding online, reducing the need for paperwork and providing 24-hour access for your convenience. Through the share portal you may, for example, view your holding balance, view the dividend payments you have received and register and change bank mandate instructions so that dividends can be paid directly to your bank account.

Scrip Dividend Scheme

The Company's Scrip Dividend Scheme enables shareholders to receive new, fully paid, ordinary shares in the Company instead of cash dividends whenever a Scrip alternative is offered. Scrip elections can be made or revoked either online at www.capitashareportal.com or by contacting the Company's registrars to request a paper copy of the mandate form and the Scrip Dividend Scheme terms and conditions.

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