Morgan Advanced Materials
Half-year Report 2013

Morgan
Advanced Materials

Morgan Advanced Materials

Management report

Financial statements

MORGAN ADVANCED MATERIALS produces a wide range of specialist, high-specification materials that have extraordinary attributes and properties.

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

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

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

OPERATIONAL AND FINANCIAL HIGHLIGHTS

Commenting on the results, strategy and outlook for Morgan Advanced Materials, Chief Executive Officer, Mark Robertshaw said:

"The market environment has remained challenging in the first six months of the year, with Group revenue broadly flat at constant currency compared to the second half of last year. Our focus has been on improving our performance through operational efficiencies and the organisational changes we have made in the transition to the 'One Morgan' model. This has been achieved whilst continuing to invest strategically for the future, both in growth capex and in increased levels of R&D and application engineering resource."

Outlook

Our expectation for the second half is that market conditions remain challenging, however, our book-to-bill ratio for the first half of the year has been marginally positive, indicating potential for modest revenue growth in the second half. The focus remains on delivery of the self-help initiatives as part of the 'One Morgan' model driving positive mix change into growth niche markets combined with continued rigorous operational management.

Results summary

£ million unless otherwise stated	H1 2013	H2 2012 Restated^	H1 2012 Restated^
Revenue	**486.1**	474.5	533.0
Group EBITA~	**58.3**	52.4	68.5
Group underlying operating profit++	**51.6**	40.5	67.2
Underlying PBT*	**39.7**	29.6	55.4
Underlying EPS** (pence)	**10.0p**	7.9p	13.8p
Interim/Final dividend (pence)	**3.8p**	6.4p	3.6p
Net cash inflow from operating activities	**55.7**	76.9	49.9
Basic EPS from continuing operations (pence)	**8.5p**	6.4p	12.3p
Operating profit	**47.6**	36.3	63.1
Profit before tax	**35.7**	25.4	51.3

~ Group EBITA is defined as operating profit before restructuring costs, other one-off items and amortisation of intangible assets.
++ Group underlying operating profit is defined as operating profit of £47.6 million (2012: £63.1 million) before amortisation of intangibles of £4.0 million (2012: £4.1 million).
* Underlying PBT is defined as operating profit of £47.6 million (2012: £63.1 million) before amortisation of intangibles of £4.0 million (2012: £4.1 million), less net financing costs of £11.9 million (2012: £11.8 million).
** Underlying earnings per share ("EPS") is defined as basic earnings per share of 8.5 pence (2012: 12.3 pence) adjusted to exclude amortisation of 1.5 pence (2012: 1.5 pence).
^ The results for the half years ended 30 June 2012 and 31 December 2012 have been restated to reflect the required adoption of IAS 19 (revised) *Employee Benefits*.
The impact of the changes on the half year ended 30 June 2012 and 31 December 2012 are set out in the Financial review on page 3.

Financial highlights

- As expected, revenue at constant currency in the first half of the year was broadly flat compared to the second half of 2012
- Group EBITA margin for the first half of the year was 12.0%, an improvement over the second half of 2012 which was 11.0%
- Good cash generation from operating activities versus H1 2012
- Net debt to EBITDA ratio at half year was 1.5 times (2012: full year 1.3 times)
- Interim dividend increased by 5.6% to 3.8 pence per share (2012: Interim 3.6 pence per share) reflecting the Board's confidence in the business

Operational highlights

- New 'One Morgan' model is being successfully implemented and is working well and providing the Group with improved focus on profitable growth opportunities, positive mix change into our target markets and operational cost efficiencies
- Benefits of restructuring actions started in late 2012 combined with the 'One Morgan' model initiatives are on track to deliver the stated profit improvements of £10 million in 2013 (1/3rd in H1 and 2/3rd in H2) compared to the second half of 2012
- Reorganisation delivered without any loss of focus on operational performance delivery
- European revenue up 5.6% at constant currency from H2 2012 and margin at 11.2% (8.0% in H2 2012) reflecting cost-cutting measures and improved product mix
- Resilient performance in North America with mid-teen EBITA margin of 14.8%
- Tougher trading conditions in Asia/Rest of World, with continued lower activity levels, principally in petrochemical and industrial markets

OPERATING REVIEW

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

	Revenue			EBITA			EBITA Margin		
	H1 2013 £m	H2 2012 £m	H1 2012 £m	**H1 2013 £m**	H2 2012 £m	H1 2012 £m	**H1 2013 %**	H2 2012 %	H1 2012 %
Europe	**180.4**	164.6	197.1	**20.2**	13.1	24.4	**11.2%**	8.0%	12.4%
North America	**183.9**	179.2	197.1	**27.3**	27.5	28.2	**14.8%**	15.3%	14.3%
Asia/Rest of World	**121.8**	130.7	138.8	**13.1**	14.4	18.4	**10.8%**	11.0%	13.3%
	486.1	474.5	533.0	**60.6**	55.0	71.0	**12.5%**	11.6%	13.3%
Unallocated central costs*				**(2.3)**	(2.6)	(2.5)			
EBITA pre one-off items**				**58.3**	52.4	68.5	**12.0%**	11.0%	12.9%
One-off items**				**(6.7)**	(11.9)	(1.3)			
EBITA post one-off items**				**51.6**	40.5	67.2	**10.6%**	8.5%	12.6%

* Includes plc costs (eg Report & Accounts, AGM, Non-Executives) and Group Management costs (eg Corporate head office rent, utilities, staff etc.).
** One-off items include the costs of restructuring activity, gain on disposal of property and other one-off items.

Sales by market for H1 2013

	Group	Europe	North America	Asia/ Rest of World
Industrial	45%	48%	32%	64%
Petrochemical	8%	6%	9%	8%
Transportation	19%	14%	26%	14%
Energy	6%	5%	6%	9%
Electronics	8%	5%	13%	4%
Security and Defence	5%	17%	7%	1%
Healthcare	9%	5%	7%	0%

The operational reviews below are based on the new 'One Morgan' organisational model, in three geographical regions. Commentary is mainly based on how the businesses have performed against the second half of 2012 as this provides a better and more up-to-date reference for the Group results at this half year.

Europe

Revenue for the first half of the year was £180.4 million (H1 2012: £197.1 million) representing a decline of 8.5% at reported rates. At constant currency this decline was 10.2%. Compared to the second half of last year (H2 2012: £164.6 million) revenue was up 9.6% and on a constant currency basis up 5.6%.

EBITA for the first half of the year was £20.2 million (H1 2012: £24.4 million). Compared to the second half of last year (H2 2012: £13.1 million) EBITA was significantly improved by £7.1 million. EBITA margins were 11.2% in the first half of 2013 (H1 2012: 12.4%) and significantly improved compared with the 8.0% in the second half of last year.

The trading conditions in Europe were modestly positive overall in the first half compared to the second half of last year. Across our electrical and seals & bearings businesses revenue and profitability improved compared to the second half of last year. In the Technical Ceramics business, strength in aerospace, medical and industrial gas turbines was partially offset by weakness in energy markets. In the Thermal Ceramics business larger engineering project business has been weak as customers delay major investment decisions, but this has been more than compensated for by a steady flow of general base business. Revenue in Composites and Defence Systems (formerly NP Aerospace) is up in the first half compared to the second half of last year, with improving profitability based on a combination of product mix, volume and operational cost reductions.

Operational efficiencies and self-help initiatives have been a major contribution to the performance of the European business.

A combination of site closures and headcount reductions, both direct and indirect, with particular emphasis in the electrical and Composites and Defence Systems businesses, has significantly reduced the cost base.

North America

Revenue for the first half of the year was £183.9 million (H1 2012: £197.1 million) representing a decline of 6.7% at reported rates. At constant currency this decline was 8.7%. Compared to the second half of last year (H2 2012: £179.2 million) revenue was up 2.6% and on a constant currency basis marginally down by 0.8%.

EBITA for the first half of the year was £27.3 million (H1 2012: £28.2 million and H2 2012: £27.5 million). The region continues to deliver mid-teen margins.

Trading in the first half has been mixed across end-markets. The overall effect of this was flat revenue, at constant currency, in the first half of 2013 compared to the second half of 2012. Aerospace demand continues to be good in our ceramic core business and improving in the seals & bearings business where we supply into fuel control and power units. Technical Ceramics also achieved increased revenue in medical and oil and gas, though this was offset by weaker semi-conductor and hard disk drive business. The Thermal Ceramics business experienced a drop in larger engineering project business through the period as well as a reduction in Mexican revenue as a result of constraints on government spending.

Demand for high-temperature insulation products into the renewables sector and for US body armour remained at the low levels experienced in the second half of last year. The electrical business has been broadly flat in revenue since the second half of 2012.

The region will progressively see the benefits from the removal of overheads under the 'One Morgan' organisational change.

Asia/Rest of World

Revenue for the first half of the year was £121.8 million (H1 2012: £138.8 million) representing a decline of 12.2% at reported rates. At constant currency this decline was 9.1%. Compared to the second half of last year (H2 2012: £130.7 million) revenue was down 6.8% and on a constant currency basis down 6.4%.

EBITA for the first half of the year was £13.1 million (H1 2012: £18.4 million, H2 2012: £14.4 million). EBITA margins of 10.8% were down marginally compared with the second half of last year as operational improvements and cost management largely offset the impact of the revenue decline.

Trading across the region has in general remained weak since the second half of last year. Both China and India continue to remain soft across the industrial sectors. The Thermal Ceramics businesses, in particular, experienced a decline in larger engineering project orders in the iron and steel and chemical industries in China and India but also in the Middle East and Africa and this accounts for the majority of the decline in revenue compared to the second half of 2012. In general the other businesses have had mixed end-market conditions but overall broadly flat compared to the second half of last year. Molten Metal Systems, which has close to 50% of its business in this region, was affected by a slowing in the automotive and aluminium sector, particularly in India, and by the exit of the small furnace assembly business in South America.

Financial review

Reference is made to 'Underlying operating profit' and 'Underlying EPS' below, both of which are defined at the front of this statement. These measures of earnings are shown because the Directors consider that they give the best indication of underlying performance.

Group revenue in the first half of 2013 was £486.1 million, a decrease of 8.8% compared to the first half of 2012 and on a constant currency basis, revenue decreased by 9.4%. Compared to the second half of 2012 revenue in the first half was up 2.4% at reported rates and flat on a constant currency basis.

Group EBITA before restructuring charges and one-off items was £58.3 million (H1 2012: £68.5 million) representing a margin of 12.0% (H1 2012: 12.9%). The 12.0% EBITA margin in the first half of this year is a 100 basis points improvement compared to the 11.0% in the second half of 2012.

Group underlying operating profit (EBITA after restructuring costs and one-off items) for the first half of 2013 was £51.6 million (H1 2012: £67.2 million). Underlying operating profit margin was 10.6%, compared to 12.6% for the first half of 2012.

The restructuring costs and other one-off items of £6.7 million (H1 2012: £1.3 million) relate mainly to the actions that the Group has undertaken as a consequence of moving to the 'One Morgan' model and the re-organisation into geographical regions. The full year restructuring charge is estimated to be c.£10 million.

The Group amortisation charge for the half year was £4.0 million (H1 2012: £4.1 million).

The net finance charge was £11.9 million (H1 2012 : £11.8 million), comprising the net bank interest and similar charges of £8.6 million (H1 2012: £8.6 million), which is flat year-on-year, and the finance charge under IAS 19 (revised), being the interest charge on pension scheme net liabilities which was £3.3 million (H1 2012: £3.1 million).

The tax charge for the period was £10.2 million (H1 2012: £15.3 million). The effective tax rate for the half year is 28.5% (H1 2012: 29.8%).

Underlying EPS is 10.0 pence (H1 2012: 13.8 pence).

The Return on Operating Capital Employed at 30 June 2013, defined as Group underlying profit for the last 12 months divided by the sum of working capital and the net book value of tangible assets, was 21.2%, compared with 26.3% at 31 December 2012 and 30.6% at 30 June 2012.

For the period ended 30 June 2013 the Group is required to adopt IAS 19 (revised) *Employee Benefits* and the results for the half years ended 30 June 2012 and 31 December 2012 have been restated to reflect this.

The impact of the changes on the half year ended 30 June 2012 is a £2.1 million reduction in profit after taxation, consisting of:

a) a £0.5 million reduction in Group EBITA, Group underlying operating profit and operating profit as a result of the requirement to reclassify pension scheme administration costs from net finance charge to operating costs;
b) a £2.4 million reduction in Underlying PBT and profit before tax due to the new requirement for the expected return on assets to be calculated by applying the corporate bond yield discount rate to the balance sheet pension-related assets;
c) a £0.3 million reduction in taxation charge as a result of the above changes.

The impact of the changes on the half year ended 31 December 2012 is a £2.1 million reduction in profit after taxation, consisting of:

a) a £0.6 million reduction in Group EBITA, Group underlying operating profit and operating profit as a result of the requirement to reclassify pension scheme administration costs from net finance charge to operating costs;
b) a £2.3 million reduction in Underlying PBT and profit before tax due to the new requirement for the expected return on assets to be calculated by applying the corporate bond yield discount rate to the balance sheet pension-related assets;
c) a £0.2 million reduction in taxation charge as a result of the above changes.

OPERATING REVIEW
continued

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

	H1 2013 £m	H2 2012 Restated £m	H2 2012 Previously reported £m	H1 2012 Restated £m	H1 2012 Previously reported £m
Operating costs:					
– Service cost	**(1.9)**	(2.4)	(2.4)	(2.0)	(2.0)
– Curtailment charge	**–**	(0.2)	(0.2)	–	–
– Administration costs	**(0.6)**	(0.6)	–	(0.5)	–
Total operating costs	**(2.5)**	(3.2)	(2.6)	(2.5)	(2.0)
Net finance charge:					
– Net interest charge	**(3.3)**	(2.5)	(0.2)	(3.1)	(0.7)
– Administration costs	**–**	–	(0.6)	–	(0.5)
Net finance charge	**(3.3)**	(2.5)	(0.8)	(3.1)	(1.2)
Total IAS 19 charge	**(5.8)**	(5.7)	(3.4)	(5.6)	(3.2)

The Group pension deficit has decreased by £23.4 million since last year end to £143.4 million on an IAS 19 (revised) basis. The main movements were in the US and UK defined benefit pension schemes. The UK deficit reduced by £10.1 million to £61.2 million (December 2012: £71.3 million) and the US deficit decreased by £11.9 million to £50.8 million (December 2012: £62.7 million). This decrease is mainly due to higher discount rates – UK from 4.4% at 31 December 2012 to 4.7% at 30 June 2013 and USA from 4.2% to 5.0%.

Cash flow

	H1 2013 £m	H2 2012 £m	H1 2012 £m
Net cash inflow from operating activities	**55.7**	76.9	49.9
Net capital expenditure	**(13.8)**	(14.7)	(12.0)
Restructuring costs and other one-off items	**(8.3)**	(3.1)	(2.8)
Net interest paid	**(8.5)**	(8.3)	(10.2)
Tax paid	**(11.9)**	(11.9)	(14.9)
Free cash flow before acquisitions and dividends	**13.2**	38.9	10.0
Cash flows in respect of disposals/(acquisitions)	**0.4**	0.2	(6.8)
Dividends paid	**(15.3)**	(11.3)	(4.8)
Purchase of own shares for share incentive schemes	**(5.5)**	(2.4)	(7.0)
Exchange movement and other items	**(15.6)**	3.8	2.0
Movement in net debt in period	**(22.8)**	29.2	(6.6)
Opening net debt*	**(192.8)**	(222.0)	(215.4)
Closing net debt	**(215.6)**	(192.8)	(222.0)

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

The net cash inflow from operating activities was £55.7 million (H1 2012: £49.9 million). Free cash flow before acquisitions and dividends was £13.2 million (H1 2012: £10.0 million). As a consequence of the decision to bring forward the payment of dividends, in H1 2013 both the 2012 interim and 2012 final dividends were paid. A scrip alternative for both of these dividends was offered and there was an average take up of this scrip of 43%. The exchange movement largely reflects the impact of the strengthening of the US$ versus £ sterling.

Net debt at the half year end was £215.6 million (2012 year end: £192.8 million) representing a net debt to EBITDA ratio to 1.5 times (2012 year end: 1.3 times). At the half year all of the Group bank facility of £150 million was undrawn.

Interim dividend

The Board has declared an interim dividend of 3.8 pence per ordinary share. This is an increase of 5.6% compared to the interim dividend declared in 2012. The dividend will be paid on 29 November 2013 to Ordinary shareholders on the register of members at the close of business on 25 October 2013.

A scrip alternative to the cash dividend will be offered again as part of this interim dividend giving shareholders the opportunity to increase their shareholding without incurring dealing costs or stamp duty.

Principal risks and uncertainties

The Group has in place processes for identifying, evaluating and managing the key risks which could have an impact upon the Group's performance.

The current risks, together with a description of how they relate to the Group's strategy and the approach to managing them, are set out in the 2012 Annual Report, which is available at the Group's website at **www.morganadvancedmaterials.com** The Group has reviewed these risks and concluded that they adequately represent the current principal risks and uncertainties of the Group and will continue to remain relevant for the second half of the financial year.

The principal risks comprise: obstacles to delivery of strategy; single point exposures; a changing political, economic and social environment; maintaining technology and innovation leadership; treasury risks; supply chain exposure including raw materials; natural or man-made catastrophes impacting operations and business continuity; recruiting, maintaining and motivating high-quality staff; product safety and liability; quality of contracts; IT risks; changes to or non-compliance with laws and regulations; environmental, health and safety risks; and pension funding.

Going concern

As reported on page 31 of the 2012 financial statements, the Group meets its day-to-day working capital requirements through local banking arrangements that are supported by the flexibility provided by the Group bank facility of £150 million unsecured five-year multi-currency revolving credit facility. The headroom on this at the half year was £150 million.

The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group is able to operate within the level of its committed facilities. The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the condensed consolidated financial statements for the six months ended 30 June 2013.

Responsibility statement

We confirm that to the best of our knowledge:

- → the condensed consolidated set of financial statements has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU;
- → the interim management report includes a fair review of the information required by:
  - (a) DTR 4.2.7R of the *Disclosure and Transparency Rules*, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
  - (b) DTR 4.2.8R of the *Disclosure and Transparency Rules*, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

By order of the Board

Andrew Shilston
Chairman

Mark Robertshaw
Chief Executive Officer

CONDENSED CONSOLIDATED INCOME STATEMENT

for the six months ended 30 June 2013

	Note	**Six months 2013 £m**	Six months 2012 Restated £m	Year 2012 Restated £m
Revenue	3	**486.1**	533.0	1,007.5
Operating costs before restructuring costs, other one-off items and amortisation of intangible assets		**(427.8)**	(464.5)	(886.6)
Profit from operations before restructuring costs, other one-off items and amortisation of intangible assets		**58.3**	68.5	120.9
Restructuring costs and other one-off items:				
Restructuring costs		**(6.8)**	(1.4)	(13.3)
Gain on disposal of property		**0.1**	0.1	0.1
Profit from operations before amortisation of intangible assets	3	**51.6**	67.2	107.7
Amortisation of intangible assets		**(4.0)**	(4.1)	(8.3)
Operating profit	3	**47.6**	63.1	99.4
Finance income		**0.6**	1.1	1.6
Finance expense		**(12.5)**	(12.9)	(24.3)
Net financing costs	4	**(11.9)**	(11.8)	(22.7)
Profit before taxation		**35.7**	51.3	76.7
Income tax expense	5	**(10.2)**	(15.3)	(21.6)
Profit after taxation before discontinued operations		**25.5**	36.0	55.1
Discontinued operations	6	**–**	21.0	21.0
Profit for the period		**25.5**	57.0	76.1
Profit for the period attributable to:				
Owners of the parent		**24.0**	54.8	72.8
Non-controlling interests		**1.5**	2.2	3.3
Profit for the period		**25.5**	57.0	76.1
Basic earnings per share	7			
Continuing operations		**8.5p**	12.3p	18.7p
Discontinued operations		**–**	7.6p	7.6p
		8.5p	19.9p	26.3p
Diluted earnings per share				
Continuing operations		**8.5p**	11.9p	18.4p
Discontinued operations		**–**	7.4p	7.4p
		8.5p	19.3p	25.8p
Dividends				
Proposed interim dividend – pence		**3.80p**	3.60p	
– £m		**10.8**	10.1	
Approved final dividend – pence				6.40p
– £m				17.9

The proposed interim and approved final dividends are based upon the number of shares outstanding at the balance sheet date.
Details of the restatement are given in note 1.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 June 2013

	Translation reserve £m	Hedging reserve £m	Fair value reserve £m	Retained earnings Restated £m	Total parent comprehensive income Restated £m	Non-controlling interests £m	Total comprehensive income Restated £m
Six months ended 30 June 2012							
Profit for the period	–	–	–	54.8	54.8	2.2	57.0
Items that will not be reclassified subsequently to profit or loss:							
Actuarial loss on defined benefit plans	–	–	–	(19.6)	(19.6)	–	(19.6)
Tax effect of components of other comprehensive income not reclassified	–	–	–	1.3	1.3	–	1.3
	–	–	–	(18.3)	(18.3)	–	(18.3)
Items that may be reclassified subsequently to profit or loss:							
Foreign exchange translation differences	(7.1)	–	–	–	(7.1)	(1.1)	(8.2)
Net gain on hedge of net investment in foreign subsidiaries	1.5	–	–	–	1.5	–	1.5
Cash flow hedges:							
Effective portion of changes in fair value	–	0.6	–	–	0.6	–	0.6
Transferred to profit or loss	–	(0.3)	–	–	(0.3)	–	(0.3)
	(5.6)	0.3	–	–	(5.3)	(1.1)	(6.4)
Total comprehensive income, net of tax	(5.6)	0.3	–	36.5	31.2	1.1	32.3
Year ended 31 December 2012							
Profit for the period	–	–	–	72.8	72.8	3.3	76.1
Items that will not be reclassified subsequently to profit or loss:							
Actuarial loss on defined benefit plans	–	–	–	(43.2)	(43.2)	–	(43.2)
Tax effect of components of other comprehensive income not reclassified	–	–	–	6.2	6.2	–	6.2
	–	–	–	(37.0)	(37.0)	–	(37.0)
Items that may be reclassified subsequently to profit or loss:							
Foreign exchange translation differences	(11.8)	–	–	–	(11.8)	(3.5)	(15.3)
Net gain on hedge of net investment in foreign subsidiaries	2.6	–	–	–	2.6	–	2.6
Cash flow hedges:							
Effective portion of changes in fair value	–	0.9	–	–	0.9	–	0.9
Transferred to profit or loss	–	(0.6)	–	–	(0.6)	–	(0.6)
Change in fair value of equity securities available-for-sale	–	–	0.1	–	0.1	–	0.1
	(9.2)	0.3	0.1	–	(8.8)	(3.5)	(12.3)
Total comprehensive income, net of tax	(9.2)	0.3	0.1	35.8	27.0	(0.2)	26.8

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the six months ended 30 June 2013 continued

	Translation reserve £m	Hedging reserve £m	Fair value reserve £m	Retained earnings £m	Total parent comprehensive income £m	Non-controlling interests £m	Total comprehensive income £m
Six months ended 30 June 2013							
Profit for the period	**–**	**–**	**–**	**24.0**	**24.0**	**1.5**	**25.5**
Items that will not be reclassified subsequently to profit or loss:							
Actuarial gain on defined benefit plans	**–**	**–**	**–**	**25.3**	**25.3**	**–**	**25.3**
Tax effect of components of other comprehensive income not reclassified	**–**	**–**	**–**	**(5.5)**	**(5.5)**	**–**	**(5.5)**
	–	**–**	**–**	**19.8**	**19.8**	**–**	**19.8**
Items that may be reclassified subsequently to profit or loss:							
Foreign exchange translation differences	**2.2**	**–**	**–**	**–**	**2.2**	**0.9**	**3.1**
Net loss on hedge of net investment in foreign subsidiaries	**(1.0)**	**–**	**–**	**–**	**(1.0)**	**–**	**(1.0)**
Cash flow hedges:							
Effective portion of changes in fair value	**–**	**(1.7)**	**–**	**–**	**(1.7)**	**–**	**(1.7)**
Transferred to profit or loss	**–**	**0.3**	**–**	**–**	**0.3**	**–**	**0.3**
	1.2	**(1.4)**	**–**	**–**	**(0.2)**	**0.9**	**0.7**
Total comprehensive income, net of tax	**1.2**	**(1.4)**	**–**	**43.8**	**43.6**	**2.4**	**46.0**

Details of the restatement are given in note 1.

CONDENSED CONSOLIDATED BALANCE SHEET

as at 30 June 2013

	Note	30 June 2013 £m	30 June 2012 Restated £m	31 December 2012 Restated £m
Assets				
Property, plant and equipment		**252.0**	252.1	245.5
Intangible assets		**269.4**	275.4	265.1
Investments		**5.0**	5.4	5.4
Other receivables		**4.4**	4.0	4.6
Deferred tax assets		**36.8**	42.2	40.6
Total non-current assets		**567.6**	579.1	561.2
Inventories		**146.0**	161.5	139.9
Derivative financial assets	9	**1.9**	1.9	1.8
Trade and other receivables		**198.7**	198.7	185.4
Cash and cash equivalents	8	**68.4**	70.8	80.0
Total current assets		**415.0**	432.9	407.1
Total assets		**982.6**	1,012.0	968.3
Liabilities				
Interest-bearing loans and borrowings		**284.0**	283.1	265.0
Employee benefits		**143.4**	151.1	166.8
Provisions		**6.6**	6.4	6.9
Non-trade payables		**4.9**	5.1	4.8
Deferred tax liabilities		**41.8**	42.7	40.5
Total non-current liabilities		**480.7**	488.4	484.0
Interest-bearing loans and borrowings and bank overdrafts		**–**	9.7	7.8
Trade and other payables		**184.8**	213.5	184.0
Current tax payable		**6.1**	12.3	6.1
Provisions		**12.6**	10.8	14.1
Derivative financial liabilities	9	**1.5**	0.5	0.7
Total current liabilities		**205.0**	246.8	212.7
Total liabilities		**685.7**	735.2	696.7
Total net assets		**296.9**	276.8	271.6
Equity				
Share capital		**71.7**	69.9	70.4
Share premium		**110.4**	94.2	99.0
Reserves		**51.7**	55.1	51.6
Retained earnings		**24.6**	16.5	12.8
Total equity attributable to equity holders of parent Company		**258.4**	235.7	233.8
Non-controlling interests		**38.5**	41.1	37.8
Total equity		**296.9**	276.8	271.6

Details of the restatement are given in note 1.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2013

	Share capital £m	Share premium £m	Translation reserve £m	Hedging reserve £m	Fair value reserve £m	Special reserve £m	Capital redemption reserve £m	Other reserves £m	Retained earnings Restated £m	Total parent equity Restated £m	Non-controlling interests £m	Total equity Restated £m
Balance at 2 January 2012	68.7	90.6	8.6	0.4	(1.4)	6.0	35.7	11.1	9.5	229.2	40.8	270.0
Profit for the period	–	–	–	–	–	–	–	–	54.8	54.8	2.2	57.0
Other comprehensive income	–	–	(5.6)	0.3	–	–	–	–	(18.3)	(23.6)	(1.1)	(24.7)
Transactions with owners:												
Dividends	0.4	3.6	–	–	–	–	–	–	(25.5)	(21.5)	(0.8)	(22.3)
Equity-settled share-based payment transactions	–	–	–	–	–	–	–	–	3.8	3.8	–	3.8
Own shares acquired for share incentive schemes	0.8	–	–	–	–	–	–	–	(7.8)	(7.0)	–	(7.0)
Balance at 30 June 2012	69.9	94.2	3.0	0.7	(1.4)	6.0	35.7	11.1	16.5	235.7	41.1	276.8
Balance at 2 January 2012	68.7	90.6	8.6	0.4	(1.4)	6.0	35.7	11.1	9.5	229.2	40.8	270.0
Profit for the period	–	–	–	–	–	–	–	–	72.8	72.8	3.3	76.1
Other comprehensive income	–	–	(9.2)	0.3	0.1	–	–	–	(37.0)	(45.8)	(3.5)	(49.3)
Transactions with owners:												
Dividends	0.9	8.4	–	–	–	–	–	–	(25.4)	(16.1)	(2.8)	(18.9)
Equity-settled share-based payment transactions	–	–	–	–	–	–	–	–	3.1	3.1	–	3.1
Own shares acquired for share incentive schemes	0.8	–	–	–	–	–	–	–	(10.2)	(9.4)	–	(9.4)
Balance at 31 December 2012	70.4	99.0	(0.6)	0.7	(1.3)	6.0	35.7	11.1	12.8	233.8	37.8	271.6
Balance at 31 December 2012	**70.4**	**99.0**	**(0.6)**	**0.7**	**(1.3)**	**6.0**	**35.7**	**11.1**	**12.8**	**233.8**	**37.8**	**271.6**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**24.0**	**24.0**	**1.5**	**25.5**
Other comprehensive income	**–**	**–**	**1.2**	**(1.4)**	**–**	**–**	**–**	**–**	**19.8**	**19.6**	**0.9**	**20.5**
Transactions with owners:												
Dividends	**1.3**	**11.4**	**–**	**–**	**–**	**–**	**–**	**–**	**(28.0)**	**(15.3)**	**(1.0)**	**(16.3)**
Equity-settled share-based payment transactions	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1.5**	**1.5**	**–**	**1.5**
Own shares acquired for share incentive schemes	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(5.5)**	**(5.5)**	**–**	**(5.5)**
Adjustment arising from change in non-controlling interest	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**0.3**	**–**	**0.3**	**(0.7)**	**(0.4)**
Balance at 30 June 2013	**71.7**	**110.4**	**0.6**	**(0.7)**	**(1.3)**	**6.0**	**35.7**	**11.4**	**24.6**	**258.4**	**38.5**	**296.9**

Details of the restatement are given in note 1.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

for the six months ended 30 June 2013

	Note	**Six months 2013 £m**	Six months 2012 Restated £m	Year 2012 Restated £m
Operating activities				
Profit for the period before discontinued operations		**25.5**	36.0	55.1
Adjustments for:				
Depreciation		**15.5**	15.6	30.0
Amortisation		**4.0**	4.1	8.3
Net financing costs		**11.9**	11.8	22.7
Profit on sale of property, plant and equipment		**(0.1)**	(0.1)	(0.2)
Income tax expense		**10.2**	15.3	21.6
Non-cash operating costs relating to restructuring		**0.2**	–	5.0
Equity-settled share-based payment expenses		**1.4**	2.5	1.9
Cash generated from operations before changes in working capital and provisions		**68.6**	85.2	144.4
(Increase)/decrease in trade and other receivables		**(7.1)**	(9.0)	0.8
(Increase)/decrease in inventories		**(1.8)**	2.4	18.5
Decrease in trade and other payables		**(2.6)**	(24.2)	(31.9)
Decrease in provisions and employee benefits		**(9.7)**	(7.3)	(10.8)
Cash generated from operations		**47.4**	47.1	121.0
Interest paid		**(9.0)**	(11.2)	(20.1)
Income tax paid		**(11.9)**	(14.9)	(26.8)
Net cash from operating activities		**26.5**	21.0	74.1
Investing activities				
Purchase of property, plant and equipment		**(14.0)**	(14.3)	(29.4)
Proceeds from sale of property, plant and equipment		**0.2**	2.3	2.7
Sale of investments		**0.3**	0.6	0.1
Interest received		**0.5**	1.0	1.6
Acquisitions of subsidiaries, net of cash acquired		**(0.4)**	(6.8)	(6.6)
Forward contracts used in net investment hedging		**1.3**	0.7	0.7
Deferred consideration received on disposal of subsidiary		**0.8**	–	–
Net cash from investing activities		**(11.3)**	(16.5)	(30.9)
Financing activities				
Purchase of own shares for share incentive schemes		**(5.5)**	(7.0)	(9.4)
Repayment of borrowings	8	**(10.2)**	(5.3)	(16.2)
Payment of finance lease liabilities	8	**(0.1)**	(0.1)	(0.2)
Dividends paid		**(15.3)**	(4.8)	(16.1)
Net cash from financing activities		**(31.1)**	(17.2)	(41.9)
Net (decrease)/increase in cash and cash equivalents		**(15.9)**	(12.7)	1.3
Cash and cash equivalents at start of period		**80.0**	83.4	83.4
Effect of exchange rate fluctuations on cash held		**4.3**	0.1	(4.7)
Cash and cash equivalents at period end	8	**68.4**	70.8	80.0

A reconciliation of cash and cash equivalents to net borrowings is shown in note 8.
Details of the restatement are given in note 1.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation

Morgan Advanced Materials plc (the 'Company') (formerly The Morgan Crucible Company plc) is a company domiciled in the United Kingdom. The condensed consolidated financial statements of the Company as at and for the six months ended 30 June 2013 comprise the Company and its subsidiaries (together referred to as the 'Group') and the Group's interests in associates.

The condensed consolidated financial statements for the six months ended 30 June 2013 have been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements as at and for the year ended 31 December 2012. The condensed consolidated financial statements do not include all the information required for full annual financial statements prepared in accordance with International Financial Reporting Standards.

These condensed consolidated half-yearly financial statements do not comprise statutory accounts within the meaning of Section 435 of the Companies Act 2006, and should be read in conjunction with the Annual Report 2012. The comparative figures for the year ended 31 December 2012 are not the Group's statutory accounts for that financial year.

Preparing the condensed consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing the condensed consolidated financial statements, significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2012.

As required by the Disclosure and Transparency Rules of the Financial Conduct Authority, these condensed consolidated financial statements have been prepared by applying the accounting policies that were applied in the preparation of the Company's published consolidated financial statements for the year ended 31 December 2012 except for the impact of adopting the accounting standards below.

During the period, the Group has applied IAS 19 (revised) *Employee Benefits*. The impact on the Group of the revised standard is as follows:

(a) interest cost and expected return on assets were replaced by a net interest cost which is calculated by applying the discount rate to the net defined benefit obligation.

(b) pension scheme administration costs have been reclassified from net finance charge to operating costs. Such costs include the PPF levy and actuary, audit, legal and trustee charges which, under the previous IAS 19, were allowed to be included within the net finance charge.

(c) past service costs are recognised immediately instead of being accrued over the vesting period.

The impact of the changes was a £3.0 million reduction in profit for the period (£2.1 million reduction in the half-year ended 30 June 2012 and £4.2 million reduction in the full-year ended 31 December 2012), as follows:

(i) A £0.6 million increase in operating costs (£0.5 million increase in the half-year ended 30 June 2012 and £1.1 million increase in the full-year ended 31 December 2012);

(ii) A £2.4 million increase in net financing costs (£1.9 million increase in the half-year ended 30 June 2012 and £3.6 million increase in the full-year ended 31 December 2012);

(iii) A £0.4 million reduction in taxation charge (£0.3 million reduction in the half-year ended 30 June 2012 and £0.5 million reduction in the full-year ended 31 December 2012).

1. Basis of preparation continued

The changes resulted in a £3.0 million increase in other comprehensive income excluding profit for the period (£2.1 million increase in the half-year ended 30 June 2012 and £4.2 million increase in the full-year ended 31 December 2012). The impact of the changes on the balance sheet was a £0.2 million increase in the net employee benefits obligation.

The increase in operating costs resulted in a decrease in Divisional EBITA for the Group's new reportable operating segments (see note 3) as follows: Europe £0.3 million (£0.3 million reduction in the half-year ended 30 June 2012 and £0.6 million reduction in the full-year ended 31 December 2012) and North America £0.3 million (£0.2 million reduction in the half-year ended 30 June 2012 and £0.5 million reduction in the full-year ended 31 December 2012).

The comparative figures for the financial year ended 31 December 2012 are not the Company's statutory consolidated accounts for that financial year. Those accounts have been reported on by the Company's auditors and delivered to the registrar of companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006. The consolidated financial statements of the Group as at and for the year ended 31 December 2012 are available on request from the Company's registered office at Quadrant, 55-57 High Street, Windsor, Berkshire SL4 1LP or at **www.morganadvancedmaterials.com**.

The condensed consolidated financial statements for the six months ended 30 June 2013 and the comparative period have neither been audited nor reviewed. The condensed consolidated financial statements for the six months ended 30 June 2013 were approved by the Board on 24 July 2013.

2. Acquisitions

Clearpower Limited

In 2007 the Group acquired 49% of the Ordinary share capital of Clearpower Limited, a company that, via two intermediary holding companies, owns 100% of NP Aerospace Limited. On 5 January 2009 the Group acquired the remaining 51% of the Ordinary share capital of Clearpower Limited for a total of £56.8 million, an amount contingent on the future performance of Clearpower Limited. This comprised £12.2 million in cash for 11% of the Ordinary share capital and £44.6 million in discounted deferred contingent consideration for 40% of the Ordinary share capital. The discounted deferred contingent consideration 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 related to the first of the four synthetic forwards noted above. The remaining payment of £7.7 million relates to deferred contingent consideration on the acquisition of 11% of Clearpower in 2009. £12.4 million of the total was deferred for payment until 6 July 2010. In addition to these payments the Group paid £2.3 million to the Employee Benefit Trust in accordance with the terms of the original acquisition agreement.

On 31 March 2011 and 28 March 2012 the Group paid £9.1 million and £6.1 million respectively for the second and third synthetic forwards. In addition to these payments on 31 March 2011 and 28 March 2012 the Group paid £0.8 million and £0.6 million respectively to the Employee Benefit Trust in accordance with the terms of the original acquisition agreement.

At 30 June 2013 the Group anticipates acquiring the remaining 10% of Clearpower Limited for nil consideration and therefore has not recognised a liability for this. The adjustment through goodwill since the date of acquisition as a result of the remeasurement is £9.6 million.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
continued

3. Segment information

The tables below show restated comparative figures for the operating segments and for the Group for the half-year ended 30 June 2012 and the full-year ended 31 December 2012. The restatements reflect the impact of changes the Group made to its internal organisation changes during the half-year ended 30 June 2013, which caused the composition of its reportable segments to change. In addition the restatements reflect the impact from the adoption of the change in IAS 19 (revised) *Employee Benefits* that was adopted for the half-year ended 30 June 2013. Details of the impact of the adoption of IAS 19 (revised) *Employee Benefits* are given in note 1.

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

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

	Europe		North America		Asia/Rest of World		Consolidated	
	Six months 2013 £m	Six months 2012 Restated £m	**Six months 2013 £m**	Six months 2012 Restated £m	**Six months 2013 £m**	Six months 2012 Restated £m	**Six months 2013 £m**	Six months 2012 Restated £m
Revenue from external customers	**180.4**	197.1	**183.9**	197.1	**121.8**	138.8	**486.1**	533.0
Divisional EBITA before impact of IAS 19 restatement (six months ended 30 June 2012)		24.7		28.4		18.4		71.5
Impact of IAS 19 restatement (six months ended 30 June 2012)		(0.3)		(0.2)		–		(0.5)
Divisional EBITA[1]	**20.2**	24.4	**27.3**	28.2	**13.1**	18.4	**60.6**	71.0
Unallocated costs							**(2.3)**	(2.5)
Group EBITA[2]							**58.3**	68.5
Restructuring costs and other one-off items	**(1.5)**	(0.7)	**(1.9)**	(0.6)	**(1.9)**	–	**(5.3)**	(1.3)
Unallocated restructuring costs and other one-off items							**(1.4)**	–
Underlying operating profit[3]							**51.6**	67.2
Amortisation of intangible assets	**(2.0)**	(2.2)	**(1.4)**	(1.4)	**(0.6)**	(0.5)	**(4.0)**	(4.1)
Operating profit							**47.6**	63.1
Finance income before impact of IAS 19 restatement (six months ended 30 June 2012)								13.1
Impact of IAS 19 restatement (six months ended 30 June 2012)								(12.0)
Finance income							**0.6**	1.1
Finance expense before impact of IAS 19 restatement (six months ended 30 June 2012)								(23.0)
Impact of IAS 19 restatement (six months ended 30 June 2012)								10.1
Finance expense							**(12.5)**	(12.9)
Profit before taxation							**35.7**	51.3
Segment assets	**375.4**	385.2	**291.3**	290.5	**206.9**	217.1	**873.6**	892.8
Unallocated assets							**109.0**	119.2
Total assets							**982.6**	1,012.0
Segment liabilities	**158.8**	158.0	**111.2**	121.7	**46.2**	51.0	**316.2**	330.7
Unallocated liabilities							**369.5**	404.5
Total liabilities							**685.7**	735.2

3. Segment information continued

	Europe	North America	Asia/ Rest of World	Consolidated
	Year 2012 Restated £m	Year 2012 Restated £m	Year 2012 Restated £m	Year 2012 Restated £m
Revenue from external customers	361.7	376.3	269.5	1,007.5
Divisional EBITA before impact of IAS 19 restatement	38.1	56.2	32.8	127.1
Impact of IAS 19 restatement	(0.6)	(0.5)	–	(1.1)
Divisional EBITA[1]	37.5	55.7	32.8	126.0
Unallocated costs				(5.1)
Group EBITA[2]				120.9
Restructuring costs and other one-off items	(6.2)	(1.5)	(5.5)	(13.2)
Underlying operating profit[3]				107.7
Amortisation of intangible assets	(4.3)	(2.8)	(1.2)	(8.3)
Operating profit				99.4
Finance income before impact of IAS 19 restatement				26.3
Impact of IAS 19 restatement				(24.7)
Finance income				1.6
Finance expense before impact of IAS 19 restatement				(45.4)
Impact of IAS 19 restatement				21.1
Finance expense				(24.3)
Profit before taxation				76.7
Segment assets	370.0	268.7	201.6	840.3
Unallocated assets				128.0
Total assets				968.3
Segment liabilities	167.5	117.6	51.6	336.7
Unallocated liabilities				360.0
Total liabilities				696.7

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

The above measures of profit are shown because the Directors use them to measure the underlying performance of the business, as referred to in the Management report section of the Half-year report.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
continued

4. Net finance income and expense

	Six months 2013 £m	Six months 2012 Restated £m	Year 2012 Restated £m
Interest income on bank deposits measured at amortised cost	**0.6**	1.1	1.6
Finance income	**0.6**	1.1	1.6
Interest expense on financial liabilities measured at amortised cost	**(9.2)**	(9.7)	(18.5)
Net Interest on IAS 19 obligations and assets	**(3.3)**	(3.1)	(5.6)
Interest expense on unwinding of discount on deferred consideration	**–**	(0.1)	(0.2)
Finance expense	**(12.5)**	(12.9)	(24.3)
Net financing costs recognised in profit or loss	**(11.9)**	(11.8)	(22.7)

5. Taxation – income tax expense

	Six months 2013 £m	Six months 2012 Restated £m	Year 2012 Restated £m
Tax on profit	**10.2**	15.3	21.6

The Group's consolidated effective tax rate in respect of continuing operations for the six months ended 30 June 2013 is based on the Directors' best estimate of the effective tax rate for the year.

6. Discontinued operations

Discontinued operations in the half-year ended 30 June 2012 and the full-year ended 31 December 2012 was a tax credit arising from the review and release of tax liabilities set up in prior years relating to business disposals.

7. Earnings per share

Earnings per share from continuing operations

The calculation of basic/diluted earnings per share from continuing operations at 30 June 2013 was based on the following:

	Six months 2013		Six months 2012		Year 2012	
	Basic £m	**Diluted £m**	Basic Restated £m	Diluted Restated £m	Basic Restated £m	Diluted Restated £m
Profit attributable to equity holders of the Company from continuing operations	**24.0**	**24.0**	33.8	33.8	51.8	51.8
Weighted average number of Ordinary shares						
Issued Ordinary shares at the beginning of the period (millions)	**279.7**	**279.7**	273.1	273.1	273.1	273.1
Effect of shares issued in period and shares held by The Morgan General Employee Benefit Trust (millions)	**1.3**	**1.3**	2.3	2.3	3.9	3.9
Dilutive effect of share options/incentive schemes (millions)		**2.7**		9.7		5.0
Basic/diluted weighted average number of Ordinary shares during the period (millions)	**281.0**	**283.7**	275.4	285.1	277.0	282.0
Earnings per share from continuing operations (pence)	**8.5p**	**8.5p**	12.3p	11.9p	18.7p	18.4p

7. Earnings per share continued

Earnings per share from discontinued operations

The calculation of basic/diluted earnings per share from discontinued operations at 30 June 2013 was based on the following:

	Six months 2013		Six months 2012		Year 2012	
	Basic £m	**Diluted £m**	Basic £m	Diluted £m	Basic £m	Diluted £m
Profit attributable to equity holders of the Company from discontinued operations	**–**	**–**	21.0	21.0	21.0	21.0
Basic/diluted weighted average number of Ordinary shares during the period – calculated as above (millions)	**281.0**	**283.7**	275.4	285.1	277.0	282.0
Earnings per share from discontinued operations (pence)	**0.0p**	**0.0p**	7.6p	7.4p	7.6p	7.4p

Underlying earnings per share

The calculation of basic/diluted underlying earnings per share at 30 June 2013 was based on the following:

	Six months 2013		Six months 2012		Year 2012	
	Basic £m	**Diluted £m**	Basic Restated £m	Diluted Restated £m	Basic Restated £m	Diluted Restated £m
Profit from operations before amortisation, less net financing costs, income tax expense and non-controlling interests	**28.0**	**28.0**	37.9	37.9	60.1	60.1
Basic/diluted weighted average number of Ordinary shares during the period – calculated as above (millions)	**281.0**	**283.7**	275.4	285.1	277.0	282.0
Earnings per share before amortisation of intangible assets (pence)	**10.0p**	**9.9p**	13.8p	13.3p	21.7p	21.3p

8. Cash and cash equivalents

	30 June 2013 £m	30 June 2012 £m	31 December 2012 £m
Bank balances	**53.1**	61.8	64.2
Cash deposits	**15.3**	9.0	15.8
Cash and cash equivalents	**68.4**	70.8	80.0

Reconciliation of cash and cash equivalents to net debt*

	Six months 2013 £m	Six months 2012 £m	Year 2012 £m
Opening borrowings	**(272.8)**	(298.8)	(298.8)
Repayment in borrowings	**10.2**	5.3	16.2
Payment of finance lease liabilities	**0.1**	0.1	0.2
Effect of movements in foreign exchange on borrowings	**(21.5)**	0.6	9.6
Closing borrowings	**(284.0)**	(292.8)	(272.8)
Cash and cash equivalents	**68.4**	70.8	80.0
Closing net debt	**(215.6)**	(222.0)	(192.8)

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
continued

9. Financial risk management

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 30 June 2013 £m	**Fair value 30 June 2013 £m**	Carrying amount 30 June 2012 £m	Fair value 30 June 2012 £m	Carrying amount 31 December 2012 £m	Fair value 31 December 2012 £m
Financial assets and liabilities at amortised cost						
6.84% US Dollar Senior Notes 2013*	**–**	**–**	(6.0)	(6.0)	(5.8)	(5.8)
5.70% US Dollar Senior Notes 2014	**(66.0)**	**(69.2)**	(63.8)	(68.7)	(61.6)	(65.5)
3.65% Euro Senior Notes 2015	**(34.6)**	**(35.6)**	(32.6)	(34.0)	(32.7)	(34.1)
4.32% Euro Senior Notes 2017	**(17.3)**	**(18.5)**	(16.3)	(17.7)	(16.4)	(17.8)
6.12% US Dollar Senior Notes 2017	**(115.3)**	**(128.8)**	(111.5)	(129.8)	(107.5)	(124.1)
6.26% US Dollar Senior Notes 2019	**(49.4)**	**(56.0)**	(47.8)	(57.3)	(46.1)	(54.7)
Bank and other loans	**(1.1)**	**(1.1)**	(14.4)	(14.4)	(2.3)	(2.3)
Obligations under finance leases	**(0.3)**	**(0.3)**	(0.5)	(0.5)	(0.4)	(0.4)
Trade and other payables	**(94.9)**	**(94.9)**	(101.0)	(101.0)	(95.0)	(95.0)
Loans and receivables	**176.7**	**176.7**	178.2	178.2	165.5	165.5
Cash and cash equivalents	**68.4**	**68.4**	70.8	70.8	80.0	80.0
	(133.8)	**(159.3)**	(144.9)	(180.4)	(122.3)	(154.2)
Available-for-sale financial instruments						
Available-for-sale financial assets	**3.5**	**3.5**	3.9	3.9	3.9	3.9
Derivatives and other items at fair value						
Forward exchange contracts used for hedging	**0.4**	**0.4**	1.4	1.4	1.1	1.1
	(129.9)	**(155.4)**	(139.6)	(175.1)	(117.3)	(149.2)

* The 6.84% US Dollar Senior Notes 2013 were repaid as scheduled on 6 March 2013.

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

Equity securities

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

Derivatives

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

Interest-bearing loans and borrowings

Fair value is calculated based on discounted expected future principal and interest cash flows. The interest rates used to determine the fair value of loans and borrowings are 2.1-3.9% (30 June 2012: 2.2-3.2%; 31 December 2012: 2.0-5.2%).

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.

9. Financial risk management continued

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices).
Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	30 June 2013			30 June 2012		
	Level 1 £m	**Level 2 £m**	**Total £m**	Level 1 £m	Level 2 £m	Total £m
Available-for-sale financial assets	**3.5**	**–**	**3.5**	3.9	–	3.9
Derivative financial assets	**–**	**1.9**	**1.9**	–	1.9	1.9
	3.5	**1.9**	**5.4**	3.9	1.9	5.8
Derivative financial liabilities	**–**	**(1.5)**	**(1.5)**	–	(0.5)	(0.5)
	3.5	**0.4**	**3.9**	3.9	1.4	5.3

	31 December 2012		
	Level 1 £m	Level 2 £m	Total £m
Available-for-sale financial assets	3.9	–	3.9
Derivative financial assets	–	1.8	1.8
	3.9	1.8	5.7
Derivative financial liabilities	–	(0.7)	(0.7)
	3.9	1.1	5.0

There have been no transfers between level 1 and level 2 between 1 January 2012 and 30 June 2013 and there were no level 3 financial instruments between 1 January 2012 and 30 June 2013.

10. Related parties

The Company has related party relationships with its subsidiaries and its associates and with its Directors and executive officers.

Transactions with key management personnel

Details of transactions with key management personnel are described in note 27 of the Group's 2012 Annual Report and Accounts.

	Six months 2013 £m	Six months 2012 £m	Year 2012 £m
Transactions with associate			
Sales to associate	**5.0**	13.3	19.8
Trade receivables due from associate	**9.3**	11.4	12.5
Trade payables due to associate	**–**	–	1.0

Except as disclosed in the table above:

- There were no related party transactions during the period that have materially affected the financial position or the performance of the Group during the period; and
- There have been no changes in the nature of related party transactions as described in note 27 of the Group's 2012 Annual Report and Accounts that could have a material effect on the financial position or performance of the Group during the period.

This Report has been printed in the UK. Our printers are environmental management system ISO 14001-accredited and Forest Stewardship Council (FSC) chain of custody-certified. All inks used are vegetable-based. This paper is environmentally friendly ECF (elemental chlorine-free) and wood-free with a high content of selected pre-consumer recycled material. The mill is fully FSC-certified. The paper is also completely bio-degradable and recyclable.

If you have finished reading this Report and no longer wish to retain it, please pass it on to other interested readers, return it to Morgan Advanced Materials or dispose of it in your recycled paper waste. Thank you.

Designed and produced by The College www.the-college.com

Morgan Advanced Materials plc
Quadrant, 55-57 High Street
Windsor, Berkshire SL4 1LP
Tel: +44 (0)1753 837000
Fax: +44 (0)1753 850872

www.morganadvancedmaterials.com