

Advanced materials for technically complex applications

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Morgan Crucible is a world leader in advanced materials.

Our highly skilled, dynamic people provide high technology solutions for specialised applications in diverse markets around the world.

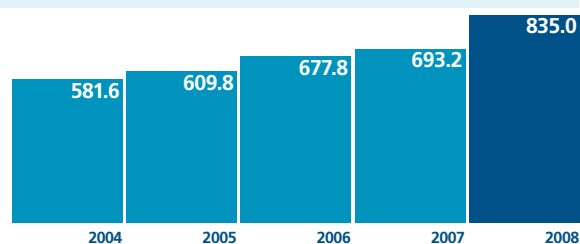
Operational and financial highlights

Highlights

- Revenue for the full year grew to £835.0 million, up 20.5% on the previous year
- Group underlying operating profit margin* improved to 11.8% compared to 11.4% for the full year 2007
- Underlying EPS improved by 18.8% to 23.4 pence from 19.7 pence
- The technical ceramics businesses acquired from the Carpenter Technology Corporation in March 2008 have performed well with revenues and profits ahead of expectations

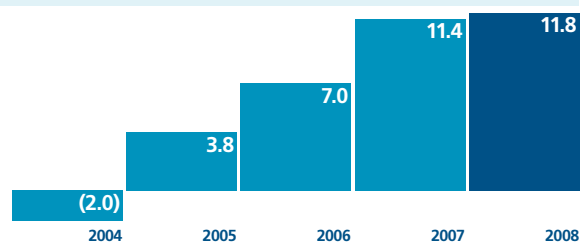
Revenue

Continuing businesses £m



Underlying operating profit margin*

Continuing businesses %



* Operating profit before amortisation of intangible assets.

Clear positioning...

Our vision

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

Our aim

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

Our strategic priorities

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

...and structure

The Morgan Crucible Company plc

Insulating Ceramics Division

Divisional revenue
£

382.9m

The Insulating Ceramics Division designs, manufactures and installs a wide variety of engineered solutions from its range of world renowned advanced insulation and thermal management products. These solutions help customers to protect equipment and personnel and also to reduce dramatically energy consumption in their processes and, in many applications, also help reduce emissions to the environment.

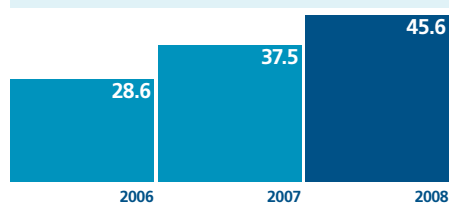
Core products/applications:

- Thermal management solutions
- Insulating fibres
- Insulating fire bricks
- Crucibles and furnaces

Markets:

- Petrochemical
- Power generation
- Ceramics and glass
- Metals
- Transportation

Divisional EBITA*
Continuing businesses £m



Technical Ceramics Division

Divisional revenue
£

212.2m

The Technical Ceramics Division utilises advanced ceramic, glass, precious metals, piezoelectric and dielectric materials combined with innovative design and applications engineering to provide an extensive range of ceramic components, assemblies and related products for niche technological applications in selected markets. In many applications, the technology provided by Technical Ceramics defines the performance of the customer's end product.

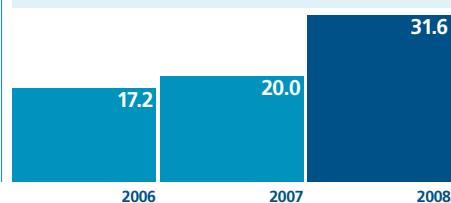
Core products/applications:

- Electron tube components and assemblies
- Ceramic cores for turbine blades
- Piezoelectric ceramic actuators
- Laser components

Markets:

- Aerospace
- Electronics
- Medical
- Power generation and distribution
- Security and defence

Divisional EBITA*
Continuing businesses £m



Carbon Division

Divisional revenue
£

239.9m

The Carbon Division is a global provider of advanced materials technology with extensive expertise in the processing and applications of carbon, graphite, silicon carbide, oxide ceramics and other related materials. Working at the forefront of materials technology, Carbon develops value-added customer solutions through engineering innovation and an understanding of industry-specific needs, opportunities and challenges.

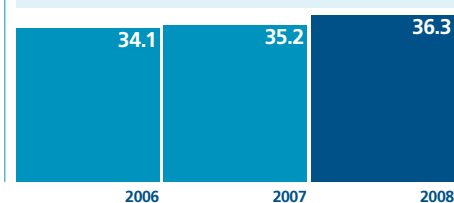
Core products/applications:

- Electrical brushes
- Seals and bearings
- Protective ballistic armour
- Ultra high temperature insulation

Markets:

- Transportation
- Industrial equipment
- Fluid handling
- Defence and aerospace
- Renewable energy

Divisional EBITA*
Continuing businesses £m



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

A global business...

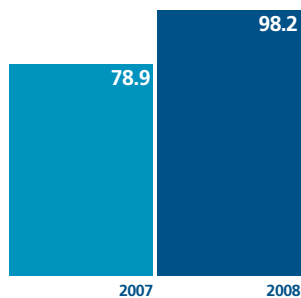
Operations by geography

Morgan Crucible has operations in 40 countries and employs over 10,000 people worldwide.

Americas

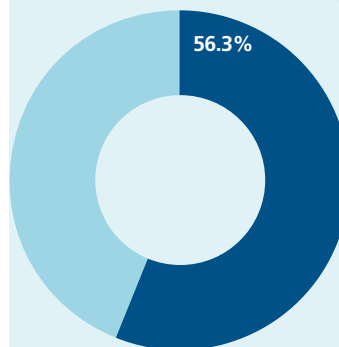
Group underlying operating profit* £m

+24.5%



Underlying operating profit* 2008

£55.3m



* Operating profit before amortisation of intangible assets.

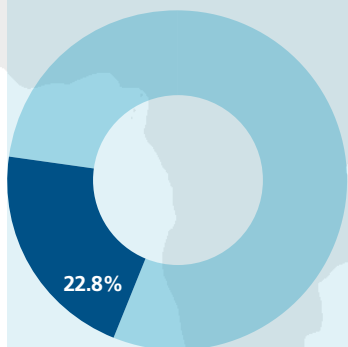
...growing profits worldwide

EMEA

(Europe, Middle East and Africa)

Underlying operating profit*
2008

£22.4m

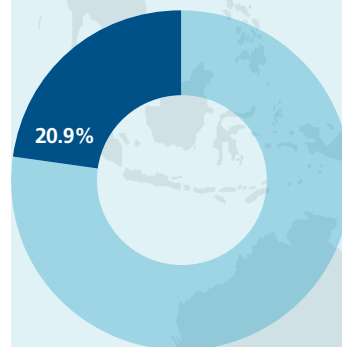


Asia

(Including Australia and New Zealand)

Underlying operating profit*
2008

£20.5m



Leading edge solutions for a demanding world

Thermal Ceramics: Investing in technology

New global research and development centre

Improved thermal and energy efficiency is a key global imperative for the 21st century. As part of the Insulating Ceramics Division, the Thermal Ceramics business is well placed to help address this need with its differentiated advanced technology insulation solutions, including the bio-soluble Superwool™ range of materials. Thermal Ceramics is building on its success in high temperature bio-soluble insulating fibre having invested in 2008 in a new global R&D centre at Bromborough, UK. The new R&D centre houses pilot equipment dedicated to developing and trialling the next generation of materials.



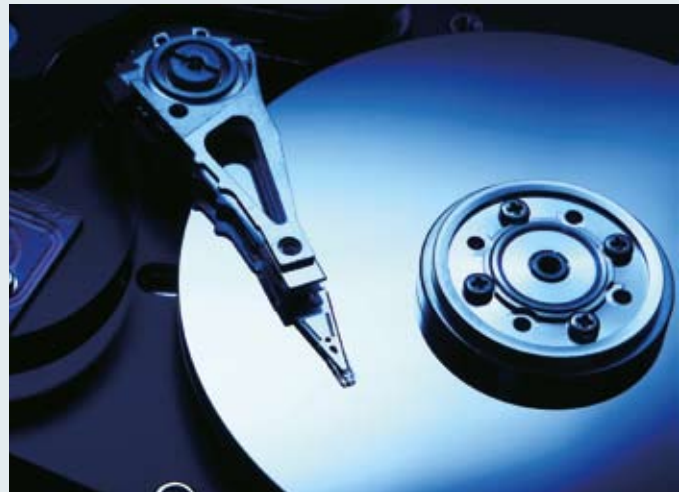


Carbon: Generations of world leading technology

Efficiency in the world's power stations

World demand for electricity is increasing and the carbon brushes designed and manufactured by the Carbon Division provide the key technology which allows electricity to be transferred from a high rotational speed modern generator into the electricity distribution grid.

To perform this task the Carbon Division has developed unique graphite materials technology for excitation slip rings, with good life, film forming and electrical current sharing properties. It is this technology that has enabled the Carbon Division to maintain its position as a long-term, world leader, approved and used by original equipment manufacturers around the world.



Technical Ceramics: Growth through innovation

Innovation improves disk drive storage capacity

Total demand for data storage has been growing by over 50% annually in recent years and high capacity storage is now required in ever more devices including HD-TV recorders and increasingly powerful PCs. Increasing the physical size of such devices is not an option and so the Technical Ceramics Division has been working with major players in the field to increase disk drive capacity. Fitting more data onto the same size of disk requires increasingly accurate control of the read/write head and Technical Ceramics' piezoelectric actuator plates enable the head to be positioned with extraordinary accuracy and vibration control. This leading edge technology increases disk drive capacity by 15-20%, opening up opportunities for Morgan and its customers.

Strong partnerships and ground breaking technology



Thermal Ceramics: Long-term partnerships

Superwool 607 diesel particulate filters production

Thermal Ceramics, part of the Insulating Ceramics Division, has a comprehensive technical and supply agreement with the leading manufacturer of diesel particulate filters. Demand for these filters is being driven by increased use of diesel engines and increasingly stringent global vehicle emission standards. Advanced technology insulation is used to enable the filter to reach the high temperatures necessary for 'self cleansing'. Working with its customer, Thermal Ceramics achieved a technological breakthrough which enables bio-soluble Superwool 607HT™ to be used, delivering benefits to our customer, in manufacture, in service and at end-of-life.



Molten Metal Systems: Addressing customer needs

Recuperative furnace

Traditional brick lined gas-fired metal-melting furnaces are energy hungry. Much of the energy goes into heating the brick lining or goes up the stack. As a result an aluminium melting furnace may only be 18% efficient. The MkV 'R' furnace from Morgan Molten Metal Systems, part of the Insulating Ceramics Division, uses recuperative burner systems to recycle waste heat from the furnace stack to preheat the combustion air entering the burner. This is combined with the most efficient low thermal mass materials for the furnace lining so the MkV 'R' furnace can be more than twice as efficient as a traditional one – a real breakthrough. In addition, advanced burner technology means lower NOx emissions, enabling the furnace to be operated both safely and with minimum environmental impact.



Technical Ceramics: Global technology solution

Medical diagnostic imaging demands technical solution

Technical Ceramics works closely with its customers in the healthcare sector, helping to push forward the frontiers of material technology to produce ceramic based components which are critical to the performance of the latest high definition medical diagnostics and imaging equipment. For example, ceramics are increasingly used in the vacuum tubes at the heart of the latest x-ray and CAT scanning machines, replacing traditional glass components. The high purity, engineered components supplied by Technical Ceramics have specific electrical and physical properties which help equipment manufacturers to produce machines which offer longer life, higher power and better images.

40

Technical Ceramics: Joint technology development

40 years of collaboration and innovation

During 2008, Technical Ceramics and leading pump manufacturer Grundfos celebrated 40 years of working together. The two companies have collaborated on multiple innovations over the years, including the development of a ceramic solution intrinsic to the performance of the circulator pumps to be found in most modern central heating systems. Millions of these pumps are made annually so it was appropriate that the 40 year celebration also included the formal opening of the new Volume Precision Ceramics department at Technical Ceramics' Stourport, UK site and the award by Grundfos of a new multi-million euro contract.

Preben Jakobsen, Grundfos Technical Manager, said:

"The reliability and durability of the components that Technical Ceramics supplies are absolutely critical to us. Without the reassurance they offer we would not be able to stand by our lifetime and performance guarantees, on which our reputation in the industry relies."

Enhancing global sustainability



Carbon: Helping make a difference

Getting the power from the wind into the grid

Demand for clean, sustainable, CO₂ free energy has never been greater and Carbon is well placed to help original equipment makers to develop this growth market. The Division supplies the key enabling technologies for wind power generation – for both turbines and the generators within. Long life and reliability are essential for all the key components in a wind turbine. Many are installed in harsh and corrosive marine and high altitude environments where access is difficult and repeated maintenance is not an easy option.



Group-wide: Co-operating to add value

A bright future for solar energy

The Earth receives an impressive 10,000 times more energy from the sun than mankind consumes every year. The three Divisions of Morgan Crucible are involved in the challenge to harness this solar energy for our everyday use.

Technical Ceramics is working with leading companies who are developing photovoltaic (PV-Cell) power. Utilising materials science and applications engineering their contribution takes the form of optimised products for both the PV-cell manufacturing process and the finished panels.

The Carbon Division is leveraging its world leading capability in high temperature insulation for solar silicon manufacturers around the globe, helping to increase efficiency and making solar energy a more viable source of long-term, sustainable electrical power.

Thermal Ceramics' advanced insulation systems are used in the emerging 'concentrated solar power' sector where arrays of tracking reflectors are used to focus solar energy to create a high temperature in a defined space. This includes 'power tower' applications where the concentrated sunlight melts salt and the heat energy is then used to generate electricity and also 'Sterling engine' applications whereby heat energy is directly converted into mechanical power which is used to generate electricity.

The solar energy market is set for a bright future and Morgan is well positioned to support its ongoing growth and success.



Thermal Ceramics: Reducing CO₂ emissions per unit of electricity

Heat recovery steam generators boost efficiency

The most efficient way of converting fossil fuel into electricity is in a combined cycle power station which combines a gas turbine with a heat recovery steam generator (HRSG) which recovers exhaust heat from the gas turbine to make steam to power a second generator. The HRSG boosts efficiency and thermal efficiency is key to achieving this. Thermal Ceramics has a leading position in supplying the advanced insulation solutions required. The market is set to see further growth as gasification technology is used to convert coal and heavy crude oil into 'syngas' which can then be used in a gas turbine rather than being limited to use in a traditional coal or oil fired power station.

Developing and retaining the right people

Thermal Ceramics: Global recruitment

Finding the right people worldwide

Thermal Ceramics is using its global presence to help identify, attract and retain the right people worldwide. For example the European and Asian operations are working with Chinese MBA students attending the Conservatoire National des Arts et Métiers (CNAM) in Paris. Whilst the students are in Europe they have the opportunity to spend time with Thermal's European operations, carrying out special projects which support the business and their studies whilst also learning about Thermal Ceramics' advanced insulation technologies. On completion of their studies they have the opportunity to join the Thermal Ceramics team of over 800 employees in China bringing world-class business, technical and language skills. Recent participants came from backgrounds in finance, automation, biotechnology and engineering.





Technical Ceramics: The next generation

Graduate recruitment programme

To help ensure Technical Ceramics continues to attract the best talent, the Division initiated a Graduate Recruitment Programme at the end of 2007. The programme targets graduates in both North America and Europe and emphasises the opportunity to join a global business and to work with cutting edge materials technology. Following a series of assessment days, five graduates and post-graduates are selected from a variety of disciplines, including mechanical, systems, materials and biomaterials, ceramics and chemical engineering.

Ken Ash, HR Manager, Technical Ceramics Stourport, said:

"This program has enabled us to identify a really high quality batch of new engineers. In the coming years they will help sustain the technical expertise in Technical Ceramics while bringing fresh ideas into the business."



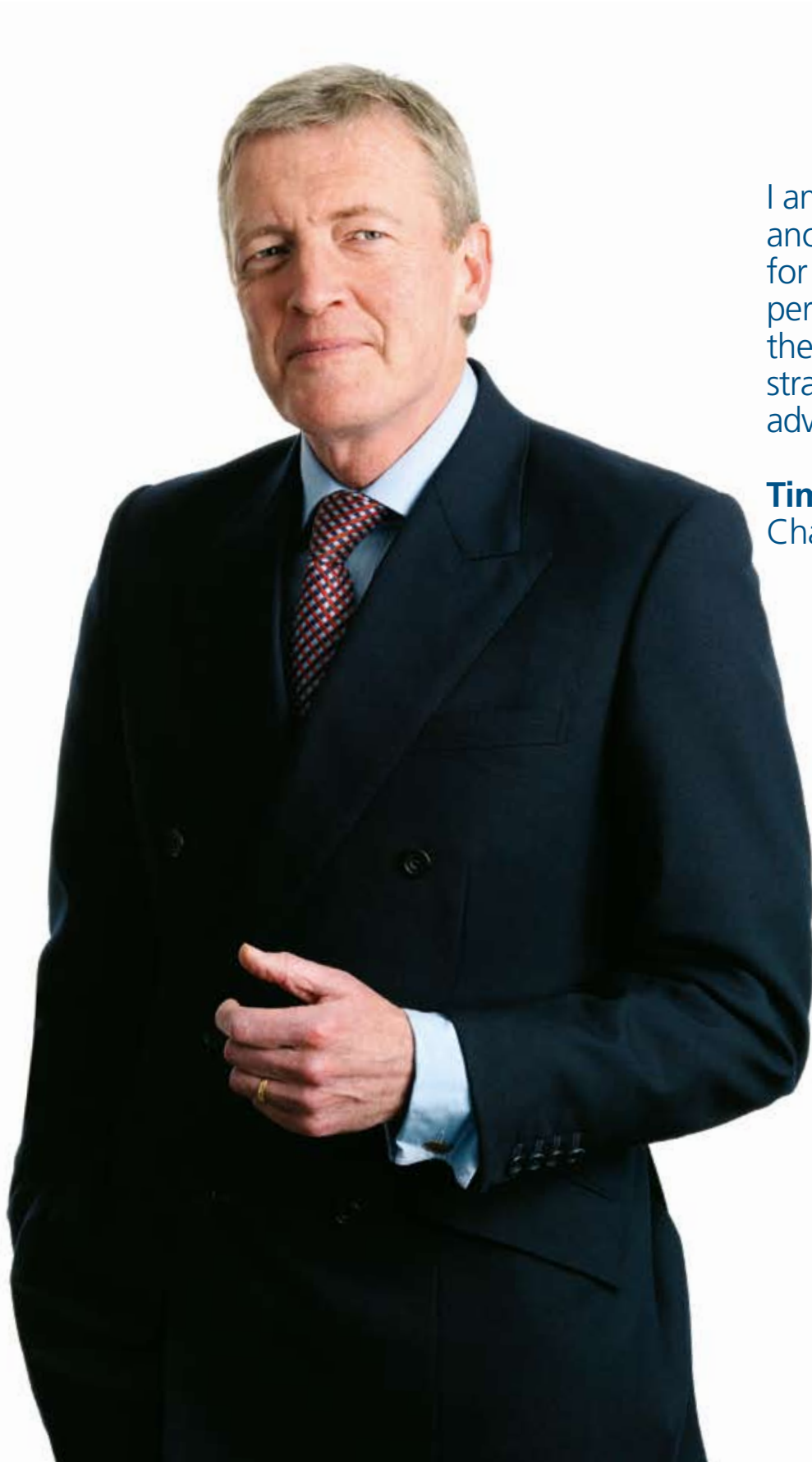
Group-wide: e-learning to share the vision

Developing our people to achieve their full potential

Our aim is to enable our people to achieve their full potential by developing the depth and breadth of their skills and capabilities that will help to achieve our vision of being one of the world's very best advanced materials companies.

In August 2008 we launched our first worldwide e-learning programme, 'Business English'. With businesses around the globe, Morgan Crucible's e-learning programmes extend the range and power of training and development that we can offer our people. The 'Business English' programme will help and encourage our people to communicate with greater effect across borders, countries and continents and improve the overall performance of our business.

Chairman's statement



I am delighted to report another successful year for Morgan Crucible. Our performance demonstrates the success of our focused strategy to be a world-leading advanced materials company.

Tim Stevenson
Chairman

Overview

I am delighted to report that 2008 was another successful year for Morgan Crucible despite an economic environment which has proved to be increasingly difficult. This performance clearly demonstrates the successful implementation of our vision to be a world-leading advanced materials company. The five strategic priorities highlighted in the Group CEO's report which underpin this vision are being rigorously implemented across our three Divisions with demonstrable success. The formula is one which is transforming the nature of Morgan's business. The Board believes that this will stand your Company in good stead for the difficult economic circumstances that surely lie ahead of us in 2009 and potentially beyond.

The Group benefits from many years of investment in customer-focused research and development and in global manufacturing capability. From this customer-centric approach, we have continued to build on our strong technological and market positions. Selected examples are included in the case studies on the preceding pages.

Acquisitions

Both of the acquisitions we announced in 2007 – the technical ceramics businesses of Carpenter Technology Corporation and our initial 49% stake in NP Aerospace – performed extremely well in 2008, ahead of our expectations at the point of purchase. The complex task of integrating the former Carpenter businesses into our Technical Ceramics Division has been carried out with great commitment and efficiency. Together these two acquisitions represent an important part of the strategy of moving Morgan into higher growth, higher margin and less economically cyclical markets. I am also delighted to report that, since the year end, we have increased our stake in NP Aerospace to 60%. This additional stake will help further accelerate plans to realise the full potential of the combined NP Aerospace and Morgan Crucible businesses in the armour systems market.

Board

Our non-executive Directors play a vital role in the governance of the Company and a key measure of the success of the Board is its ability to add real value to the work of the executive team. As I announced in my statement last year, Joe MacHale retired from the Board following the AGM held on 18 April 2008. Joe joined the Board in 2003 and made an invaluable contribution to the strategic development of the Group both as Chairman of the Audit Committee and Senior Independent Director. Following Joe's retirement Andrew Given became Chairman of the Audit Committee and Martin Flower was appointed as Senior Independent Director.

This year's appraisal of the effectiveness of the Board, reported on later in this Annual Report, demonstrated that it is working effectively. Of particular importance is the effort to ensure that a number of our Board meetings each year involve visits to operations in different parts of the world, giving the Board both real insight into the business, and exposure to senior management.

Dividend

The Board has proposed a final dividend of 4.5 pence per Ordinary share. This brings the total dividend for the year to 7.0 pence (2007: 6.75 pence) and reflects the Board's confidence in the financial health of Morgan Crucible.

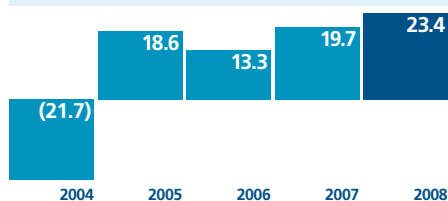
People

In my second year as Chairman, I have continued the process of visiting Morgan sites and meeting as many of our people as I can. Again I have been impressed by the consistent quality of our senior, middle and junior management; their understanding of our businesses and the markets in which they operate, and their commitment to the success of the Group. In particular, we are proud to have many employees who have worked for the business for many years – in 2008 we celebrated 20 further staff achieving 40 years of service with Morgan Crucible. We make particular effort to ensure the cross-fertilisation of experience across and within Divisions, and to keep senior employees abreast of developments in the business as a whole.

I would like to extend my personal thanks to all of the Group's employees for their dedication and energy in driving the business forward in 2008 such that we enter 2009 having made further significant progress towards our vision of being one of the world's very best advanced materials companies with the aim of creating long-term superior shareholder value.

Tim Stevenson
Chairman

Underlying earnings per share*
pence



* Based on profit after tax and minority interest, before amortisation of intangible assets.

Chief Executive Officer's review



Given the increasingly challenging market environment in 2008, it is pleasing to report that all three Divisions delivered year-on-year increases in sales and operating profits.

Mark Robertshaw
Chief Executive Officer

Strategic priorities...

Strategy

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

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

To help implement this vision and achieve our aim we have set five strategic priorities. We use these to filter new investment opportunities, to screen our businesses for fit with the existing Group and to identify areas requiring strategic attention and action.

→ To focus on higher growth, higher margin, non-economically cyclical markets

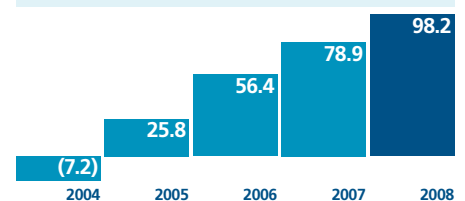
→ To be high value-added to our customers

→ To be number one or number two in our chosen market segments

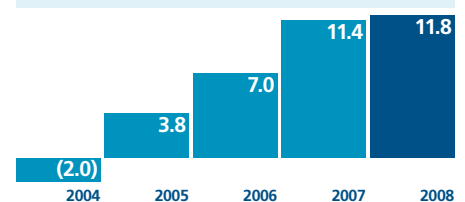
→ To have a culture of operational excellence and cost efficiency

→ To find, keep and develop the right people

Underlying operating profit*
Continuing businesses £m



Underlying operating profit margin*
Continuing businesses %



* Operating profit before amortisation of intangible assets.

...delivering substantial progress

Group results

I am pleased to report that Morgan Crucible has delivered another healthy set of financial results in 2008 against the backdrop of an increasingly difficult economic environment.

Group revenues were up 20.5% on last year at £835.0 million. For the first time in a number of years, currency translation effects have actually been in our favour on the income statement with our reported financials benefiting from the strength of the US dollar and the euro against sterling. We also saw nine months of good financial contribution from the advanced ceramics businesses acquired from Carpenter Technology Corporation at the end of March.

Overall organic sales growth, that is to say excluding the additional revenue from these acquired businesses, was a very respectable 4% on a constant currency basis.

This revenue growth, allied with strong ongoing operational management of the cost base, helped the Group to show continued improvement in profit margins despite the headwinds caused by inflationary pressures in raw material and energy costs. Underlying operating profit margins for the year were a healthy 11.8% compared to 11.4% in 2007. Our goal as a Group remains mid-teen operating profit margins in good times and double digit in bad times.

Pre-tax profit for the Group was £82.8 million; up 15.5% on the prior year. Underlying earnings per share at 23.4 pence compared to 19.7 pence last year also showed double digit levels of year on year growth.

Divisional highlights

Given the increasingly challenging market environment in 2008 it is pleasing to report that all three Divisions delivered year-on-year increases in sales and operating profits.

Progress was particularly encouraging in the Insulating Ceramics Division – the Group's largest Division by revenue – which saw revenues rise 18.2% from £324.0 million to £382.9 million; 6.1% on a constant currency basis. This was driven in particular by large project orders into the chemical

and petroleum markets along with robust demand in emerging market economies. The focus on operational excellence in the Division through the World Class Manufacturing (WCM) programme yielded good improvements in our manufacturing processes. Our commitment to remaining at the forefront of world technical leadership in the insulating ceramics field was underpinned by the opening of a new global R&D centre in Bromborough, UK.

The Technical Ceramics Division also had an excellent year with revenues up from £152.6 million in 2007 to £212.2 million in 2008, representing 3.3% growth on a constant currency basis and excluding acquisitions. There was good progress in the underlying business particularly in medical market applications with divisional performance also bolstered by the new revenue and earnings stream from the Carpenter businesses. I am pleased to report that these newly acquired businesses – which predominantly serve the aerospace and power generation markets – have delivered an excellent set of results in their first nine months with the Group.

The Carbon Division also reported year on year growth in revenues and operating profits. Revenues increased from £216.6 million to £239.9 million; representing 1.3% growth on a constant currency basis. This revenue progress was achieved despite delays to the US military procurement programme for the next generation of US body armour, X-SAPI. Encouragingly, the NP Aerospace business in which we acquired a 49% equity stake last year finished a very successful 2008 with a strong order book for 2009 having secured additional contracts from the UK military for vehicle armouring applications.

Management

A major priority for me as Group Chief Executive remains to continue to develop and enhance the senior management team of Morgan Crucible with the next generation of home grown talent. I am therefore delighted to report that John Maxwell was appointed CEO of the Molten Metal Systems business unit (formerly known as the Crucibles business) on 1 October 2008.

John brings a wealth of experience to the role on the back of his 18 years service with Morgan Crucible during which time he has lived and worked across the globe for the Group in a range of different roles and businesses. John replaces Phil Wright who, after 16 years of loyal and committed service to Morgan Crucible, retired from the Group at the end of the year. Phil has successfully brought about significant changes to the manufacturing footprint of the Molten Metal Systems business leaving it well positioned for the future. I would like to thank Phil personally for all of his contributions over the years.

Looking forward

Unprecedented volatility in the global economy clearly makes it much more difficult than usual to forecast the demand outlook accurately. However, our ongoing strategy of moving towards less economically cyclical markets has successfully reduced the Group's exposure to some of the sectors which came under particular pressure in the latter half of 2008 such as automotive, consumer goods and semiconductors. Demand in markets such as defence and medical remained strong which to date has offset the softening we have seen in some sectors which are more aligned with the general industrial cycle. In those markets where we have seen weakening demand we have taken decisive actions to reduce the cost base. Going forward, we remain watchful and prepared to respond proactively to any other signs of slowdowns in our end markets as they emerge.

The general economic environment is clearly more difficult now than it has been for many years but I remain confident that Morgan Crucible is a higher quality, more resilient business than in the past. As we look to the future, we are committed to demonstrating this quality and resilience over the next 12 months.

Mark Robertshaw
 Chief Executive Officer

Key performance indicators

To support the Group's strategy and to monitor performance, the Board of Directors and the Executive Committee uses 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 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'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 2008	2007	Relevant strategic objective
Financial KPIs			
Revenue growth	20.5%	2.3%	→ Creating consistent, long-term value for shareholders → Focus on higher growth markets
EBITA* growth	24.5%	39.9%	→ Creating consistent, long-term value for shareholders → Focus on higher growth markets → To be high value-added to our customers → Operational excellence and cost efficiency
EBITA* margin	11.8%	11.4%	→ Creating consistent, long-term value for shareholders → Focus on higher margin markets → Operational excellence and cost efficiency
Total employment costs as % of sales	31.5%	31.2%	→ To have a culture of operational excellence and cost efficiency
Free cash flow before dividends	£23.2m	£23.7m	→ Creating consistent, long-term value for shareholders
Underlying earnings per share**	23.4p	19.7p	→ Creating consistent, long-term value for shareholders
Dividend per share	7.0p	6.75p	→ Creating consistent, long-term value for shareholders
Non-financial KPIs[‡]			
Year-on-year pricing change	3.5%	2.7%	→ To be high value-added to our customers
Average employee tenure (years) [†]	7.0	7.1	→ To find, keep and develop the right people
Training hours per employee [†]	14.9	13.5	→ To find, keep and develop the right people
Lost time accident frequency (per 100,000 hours worked)	0.69	0.55	→ To have a culture of operational excellence and cost efficiency → To find, keep and develop the right people
Tonnes CO ₂ per £m revenue	482	537	→ To have a culture of operational excellence and cost efficiency
Tonnes waste per £m revenue	78	96	→ To have a culture of operational excellence and cost efficiency

* Earnings before interest, tax and amortisation of intangible assets.

** Based on profit after tax and minority interest, before amortisation of intangible assets.

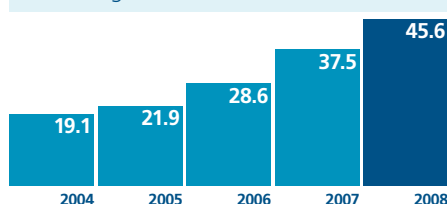
‡ Non-financial KPIs are at constant currency.

† 2008 HR data covers 96% of employees (2007: 66%).

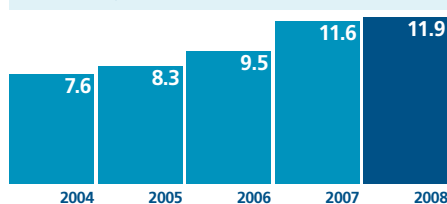
Review of operations

Insulating Ceramics

Divisional EBITA*
Continuing businesses £m



Divisional EBITA margin*
Continuing businesses %



Key performance indicators

	2008	2007	Increase %
Divisional revenue	£382.9m	£324.0m	18.2%
Divisional EBITA*	£45.6m	£37.5m	21.6%

Business description

The Insulating Ceramics Division is a global supplier of thermal management and metal melting solutions for high temperature applications which benefit technically, financially and environmentally from increased thermal and energy efficiency and management. The Division consists of two global businesses: Thermal Ceramics and Molten Metal Systems (MMS).

Thermal Ceramics

Thermal Ceramics is a world leader in the design and supply of heat management solutions, and insulation and refractory technology, to a diverse range of markets and end users. These range from the insulation of furnaces and petrochemical process plants to the protection of aircraft flight data recorders.

Thermal Ceramics' core products are manufactured from advanced insulating materials and include insulating fibres, insulating fire bricks and monolithics. These are marketed under a number of leading brands including Superwool™, JM™, Pyro-Bloc™, FireMaster™ and Tri-mor™.

Thermal Ceramics employs over 3,200 people** across a network of 34 manufacturing facilities and 50 sales offices world-wide. The business is structured geographically, with regional teams supported by global engineering, sales and marketing, technology and research and development functions. Major sites are

located in the USA, France, UK, Italy, Mexico, Brazil, Korea, Japan, India and China.

Thermal Ceramics' strategic objective is to be the world's leading provider of advanced insulation solutions. This is implemented through:

- Focusing on high growth, high margin and high value-added products and markets.
- Establishing and maintaining leading positions in target markets.
- Changing the scale and location of manufacturing operations to deliver the best value.
- Driving operational excellence through World Class Manufacturing.
- Satisfying customers.
- Ensuring that Thermal Ceramics is 'A Great Place to Work'.

Thermal Ceramics targets growth opportunities in the following key markets:

- **Petrochemical** As petrochemical and refining processes and technology develop, high temperature heat management and energy efficiency become increasingly critical. Thermal Ceramics targets both new and retro-fit projects supplying the areas of fired heaters, sulphur recovery units, fluid catalytic cracking units (FCCU) and boilers. Sector growth is geared to population expansion and so is expected to remain buoyant.

Operating in niche markets around the world...

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

** As at 4 January 2009.

- **Power Generation** Increasing demand for electricity across the world, and particularly in the emerging economies, is driving expansion in the sector. Environmental and energy/cost efficiency issues make heat and thermal management a key issue for all operators. Thermal Ceramics' Superwool™ is used for duct insulation in heat recovery steam generators (HRSG), offering high temperature resistance with the important reassurance that the materials are low bio-persistent providing a more environmentally friendly solution. The new Superwool Plus™ improves HRSG design by reducing heat losses or reducing panel thickness. As with petrochemical, this sector is closely linked into population growth and so is expected to remain strong.
- **Ceramics and Glass** Thermal Ceramics fibre products offer multiple benefits in the sector, including saving energy by reducing kiln car mass. Over 1,000 kilns firing ceramic products from tiles to tableware or from sanitary ware to fine bone chinaware have been lined with our range of insulating products. Sold under the JM™, K™ and TJM™ brands, our insulating fire bricks are used in roller kilns, shuttle kilns, tunnel kilns and hobby kilns. The sector is linked into building and construction and so has seen softening demand in the last year but the outlook remains good longer term.
- **Iron and Steel** Despite the recent downturn, the demand for steel is forecast to continue rising into the next decade fuelled by industrialisation, population growth and construction activities. Steel producers seek new solutions to tackle environmental concerns, rising energy costs and to increase operational efficiency. Typical applications for Thermal Ceramics include monolithics in blast furnaces, fibre modules in reheating and heat treatment furnaces, and insulating fire bricks for hearth and reheating furnaces.

Developing our team in Brazil

With Thermal Ceramics' range of high-technology, differentiated insulation materials, having the right people in applications engineering is a key competitive advantage. Thermal Ceramics' Brazilian applications engineering team is a prime example, having worked with the business as students they joined the graduate programme and today they form the core of the applications and customer service team. The early identification of talent has paid off. Thermal Brazil's sales grew by over 20% last year and the talent management programme is stronger than ever.



World Class Manufacturing in Saint-Marcellin

Thermal Ceramics' Saint-Marcellin plant in France is the pilot plant for the Division's World Class Manufacturing (WCM) programme. This involves all of the plant's employees and is a holistic vision for market-leading performance. The focus is on continual improvement in quality, cost, lead time, flexibility and customer service using a variety of tools in a process driven approach. The emphasis on eliminating waste and non-productive activity is resulting in higher productivity and reduced resource intensity. The programme has been running since mid 2008 and already the benefits are being realised as the team works towards the objective of reducing production costs by 10%. Saint-Marcellin will become a working model for the implementation of WCM at other Thermal Ceramics plants world-wide.



- **Transportation** Thermal Ceramics works with the commercial aviation, military aircraft and space exploration sectors, offering the Min-K™ micro-porous insulation used, for example to protect the electronics in a flight data recorder. In automotive, the Thermal Ceramics business supplies critical insulation products engineered in co-operation with Tier 1 and Tier 2 suppliers, for catalytic converters and diesel particulate filters (DPF). Thermal Ceramics' work in containing molten super-alloy has positioned our advanced insulation materials at the heart of the growth in turbo-chargers in diesel engines. In the truck and bus sector, Thermal Ceramics' fibre blankets and papers provide thermal and acoustic solutions for areas such as the engine compartment, floor, motor compartment and tunnel and exhaust systems.
- **Fire Protection** Thermal Ceramics' FireMaster™ Fire Protection Systems are comprehensively certified and extensively tested to meet national and international standards, offering customers the security of proven fire performance in assorted market sectors including commercial buildings, hotels, airports, industrial plants, offshore platforms, cruise ships, military vessels, as well as tunnels and other underground construction. Though the construction sector is currently experiencing a downturn, the increasing regulatory requirements for fire protection continue to drive opportunities for growth. In 2009, process upgrades in Thermal Ceramics plants in Europe and USA will allow a new generation of FireMaster™ products to be offered bringing significant advantages of reduced weight to many users.

Review of operations continued

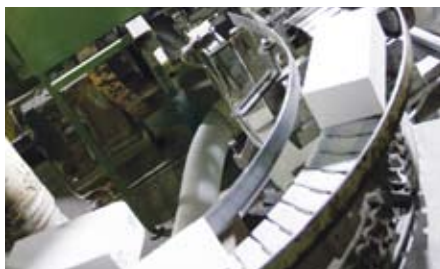
Investing in growth – India and China

As part of the implementation of its operational excellence and growth strategies, Molten Metal Systems has been investing in the development of its production capabilities in India and China. The combination of leading materials and production technologies have been successfully put in place with the help of our technology centres in Europe. The plants will produce a significant proportion of MMS's global output. Both will be brought fully on stream during 2009.



Global productivity – New automated plant in China

Thermal Ceramics' newly commissioned insulating fire brick plant in Yixing, China incorporates the best productivity enhancing technology utilised by other Thermal Ceramics plants around the world. The new facility is adjacent to the Division's existing Yixing plant and its output is more than the total of the two existing production lines with much higher efficiencies. The plant is the Asian regional production centre for insulating fire bricks and the increased automation offers customers higher and more consistent quality products whilst employees have an improved work environment with reduced manual handling and related hazards.



Molten Metal Systems (MMS)

MMS has a leading position in the supply of crucibles to the non-ferrous metals industry. MMS also manufactures equipment and foundry products used in the melting, holding and processing of metals and alloys.

MMS uses its advanced materials and manufacturing technologies to design and manufacture crucibles for metal melting and holding which offer technical and cost advantages. MMS's leading edge range of furnaces are designed to reduce energy consumption and costs, offering energy savings of up to 50% compared to brick lined furnaces. MMS's furnaces also use advanced recuperative burner technology to reduce NOx and carbon monoxide emissions.

MMS employs over 500 people* at its 10 locations worldwide. These include marketing and technical facilities in the UK, the USA, France, Mexico and South Africa and manufacturing in Germany, Brazil, India (2) and China.

MMS's strategy is to deliver targeted solutions for metal casters, focused on improving their metal quality, increasing efficiency and reducing energy consumption. This is implemented by:

- Focusing on high value/high challenge opportunities.
- Striving for operational excellence worldwide.
- Developing a growth-culture throughout the business.

MMS's key growth opportunities lie in the development and implementation of a solutions based approach for high-value metal casters and processors. These customers in turn serve a wide variety of markets, including:

- The production of pure aluminium for electronics applications.
- The recycling and refining of precious metals from mining projects.
- The production of metal powder for the cosmetics, aerospace and defence markets.
- Non-ferrous castings for the automotive, marine and rail markets.
- Copper and brass castings for the construction, chemical processing and oil and gas sectors.

* As at 4 January 2009.

Divisional performance

Revenues within the Insulating Ceramics Division rose by 18.2% to £382.9 million (2007: £324.0 million) and on a constant currency basis by 6.1%. The ongoing focus on pricing as well as improving operational efficiencies has yielded another year of improving margins. This has been achieved despite the increasing costs of energy, raw materials and freight. EBITA was up by 21.6% at £45.6 million (2007: £37.5 million) with divisional EBITA margins increasing to 11.9% (2007: 11.6%).

Thermal Ceramics

The Thermal Ceramics business had an excellent year, with revenues up 19.0% (6.7% on a constant currency basis) to £347.4 million (2007: £291.9 million). Growth was driven primarily by demand from emerging market economies. The Thermal Ceramics business continued to make good profit progress with EBITA rising 23.6% to £41.4 million (2007: £33.5 million), a margin of 11.9% as significant inflationary pressure on input costs was more than offset through operational efficiencies and pricing action. In the second half of the year the business did see the effects of the economic downturn with markets such as automotive, building products and iron and steel all slowing. In contrast the chemical and processing (CPI) sectors remained buoyant and regionally Asia, the Middle East and Latin America continued to grow albeit at reduced levels.

Molten Metal Systems

MMS revenues rose by 10.6% in 2008 (1.0% on a constant currency basis) to £35.5 million (2007: £32.1 million). Sales into Asia grew particularly strongly, whilst Europe and the Americas both advanced against the previous year. EBITA increased by 5.0% to £4.2 million (2007: £4.0 million), a margin of 11.8%, as the business experienced unprecedented increases in raw materials and energy costs. In addition, the strengthening of the euro, particularly against sterling and the US dollar, reduced the margins on some exports from our German manufacturing plant.

Business developments

In June 2008, Thermal Ceramics opened its new global R&D centre in the UK. This is equipped with state of the art instrumentation and pilot manufacturing facilities for advanced product development and accelerated speed to market.

During 2008 Thermal Ceramics has continued its strong development in emerging markets by significantly expanding its insulating fire brick facility in China. Furthermore, in 2009, new fibre capacity will come on line in Russia.

The new products Superwool Plus™ and Superwool HT™ will play a strong role in the development of Thermal Ceramics' sales in 2009. Superwool Plus™, announced in June 2008, offers improved insulation properties over all high temperature insulation wools currently available and will offer significant advantages in fire protection systems and energy saving. To manufacture these products, our large fibre production lines in the USA and France have been upgraded during 2008 while Brazil and India will be upgraded during 2009.

Within its own manufacturing facilities, Thermal Ceramics is focused on reducing the energy losses in its high temperature processes. Progress in this area is part of a strategy to reduce carbon footprint and to counter the effects of volatile energy prices. Also started in 2008 and planned to grow throughout 2009 and 2010 is the 'World Class Manufacturing' programme. The objective of the programme is to increase productivity overall by improving health, safety and environmental performance, quality, cost, logistics and customer service using techniques pioneered in Japanese industry.

The MMS UK manufacturing operation was closed in April 2008 and additional manufacturing capacity was commissioned in Germany and in India. In addition, our new manufacturing plant in Suzhou China was completed and commenced pilot production in December 2008, on schedule. The plant will be fully commissioned in Q1 2009.

Outlook

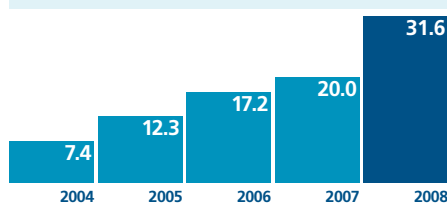
The long-term outlook for Thermal Ceramics remains positive, driven by the growth in global population and the continuing industrialisation of emerging economies. These factors, combined with the need to reduce energy expenditure and the increasingly stringent environmental regulations, will drive demand for our products. The rollout of High Temperature Superwool™ production in North America and the worldwide launch of Superwool Plus™ are also both progressing well.

Despite MMS's strong order intake throughout 2008, there is some expectation of a softening of demand going into 2009, as a consequence of the worsening economic forecasts for all regions. However, with over 50% of its manufacturing capacity now established in low-cost countries, MMS is well placed to manage the effects of any slowdown and to take advantage of available opportunities.

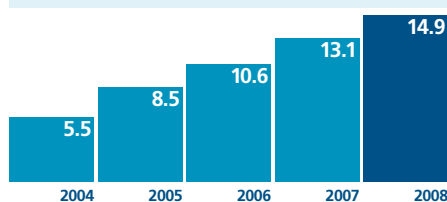
Review of operations continued

Technical Ceramics

Divisional EBITA*
Continuing businesses £m



Divisional EBITA margin*
Continuing businesses %



Key performance indicators

	2008	2007	Increase %
Divisional revenue	£212.2m	£152.6m	39.1%
Divisional EBITA*	£31.6m	£20.0m	58.0%

Business description

Technical Ceramics is a leading supplier of bespoke, applications engineered industrial products. These are manufactured from advanced materials including ceramic, glass, precious metals, piezoelectric and dielectric materials. Applications include medical implants, electron tubes used in airport security scanning devices and ceramic cores used in the manufacture of turbine blades.

The Technical Ceramics Division operates worldwide with 23 manufacturing sites across the USA, UK, Germany, Mexico, Australia and China. The Division employs over 3,000 people** and offers full technical support and advice to customers throughout their product development cycle, working closely with them to provide engineered solutions that add value and help differentiate their end products.

The Technical Ceramics Division's strategy is aligned with the Group's strategy and in summary is to:

- Focus on niche applications in growth markets.
- Use applications engineering and distinctive competencies to provide customers with differentiated solutions.
- Be the supplier of choice in our chosen markets, exhibiting excellent customer service.
- Demonstrate dissatisfaction with the status quo and through continuous improvement and best practice initiatives achieve higher levels of business performance.
- Through recruitment, development and training ensure we have the strongest teams in all areas of the business.
- Constantly review our manufacturing footprint and its ability to deliver our growth and profit objectives.

...delivering high-tech solutions...

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

** As at 4 January 2009.

The Division is structured regionally with global support from marketing, technology, business development, strategy and finance.

Technical Ceramics offers an extensive range of products 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, primarily implantable devices, prosthetics, surgical and diagnostic equipment.
- Ceramics and assemblies for electron tubes; devices used in a range of medical, security, industrial and research applications, such as airport security scanners, TV and Radio broadcast and X-Ray equipment.
- Engineered ceramics used in fluid handling equipment.
- Piezoelectric ceramic actuators used in data storage.
- Components and assemblies used in a variety of lasers for product marking, medical and industrial applications.

Technical Ceramics' product range serves nine main markets – aerospace, automotive, electronics, household goods, industrial equipment, medical, power generation and distribution, process control and monitoring and security and defence. The five key markets are further described below.

Aerospace

As engines run hotter in order to increase efficiency, demands on the materials used in their construction become greater as does the need to monitor and control operating conditions. Technical Ceramics produces braze alloys for engine build and repair, ceramic components and sub-assemblies for engine monitoring and control equipment. Our Certech business manufactures cores used in the casting of turbine blades.

Diamond-like coating for finger print swipe sensors

Finger print swipe sensors are a key biometric tool for identity verification, security and crime detection. Robustness, consistency, reliability and accuracy in operation are all essential features. A scratched or worn sensor will disrupt the scan, making the scanner useless. Technical Ceramics can supply 'Diamonex' diamond-like carbon coatings that will extend the life of the swipe sensor by up to five times – this robustness will be a key feature as handheld mobile scanners become more widely used by security personnel and police.



Leadership development programme

The ongoing Technical Ceramics leadership development programme formed a key element of the strategy to rapidly and fully integrate the Carpenter Technology Corporation businesses which became part of the Division on 31 March 2008. The programme has so far involved 145 of the Division's senior team and is designed to further develop their strategic leadership skills and behavioural capabilities. The programme includes both on-site and off-site modules and feedback from the participants from both businesses showed that the early involvement of the former Carpenter team made it a fast-track way of getting to know their new colleagues, understanding their respective cultures and forming synergistic working relationships.



Review of operations continued

Electronics

Consumer demand for mobile devices to offer increasing functionality, together with increased requirements for data storage, drives this market to develop and introduce a constant flow of new products. Our components are used in hand-held, land-based and satellite communications equipment and networks for the telecommunications sector; as well as PCs, servers, data storage and a range of peripheral equipment for IT hardware producers. In addition, the laser market continues to find new applications that drive growth in healthcare, product marking and process control.

Medical

An ageing population and step change improvements in procedural practice maintain growth rates consistently above GDP in this market. Technical Ceramics produces components and sub-assemblies for a broad range of application niches, primarily within medical devices, including implants, prosthetics and surgical equipment. In addition we supply key components for diagnostic equipment such as ultrasonic imaging, CAT and MRI scanners.

Power generation and distribution

Increasing global demand for power and dramatic increases in energy costs have placed more emphasis on environmental issues and the need for renewable energy. We supply a range of products that are used in the manufacture of thin film photovoltaic cells for the solar industry and our Certech business manufactures cores used in the manufacture of turbine blades used for industrial gas turbines.

Security and defence

Ceramic materials are used extensively in armour systems for personnel and vehicle armour. The latter has seen a resurgence of interest because it supports rapid deployment strategies and protects against the type of threats seen in modern battlefield scenarios. Scanners used in border controls use metal/ceramic assemblies at the heart of the equipment and commercial and domestic security has created interest in 'diamond-like' carbon coatings for fingerprint scanners.

Divisional performance

Revenue for the Technical Ceramics Division rose 39.1% to £212.2 million (2007: £152.6 million), including that contributed by the businesses acquired from the Carpenter Technology Corporation at the end of March 2008. Organic revenue growth for the year (at constant currency and excluding acquisitions) was 3.3%.

The Division made good profit progress with strong underlying trading in the second half of the year, combined with a solid first half performance. EBITA rose to £31.6 million (2007: £20.0 million) and margins for the year improved to 14.9%. The former Carpenter businesses contributed a margin of 16% in the nine months of ownership. Although raw material and energy costs increased compared to 2007, these were countered by a combination of operational efficiencies and price increases.

Globally the industrial equipment, medical, power generation and security and defence markets performed well. In the USA, demand was robust for aerospace applications in our metals business, and for our advanced medical components. In combination, these businesses offset some softness in more economically cyclical end-markets such as consumer electronics. Our European business also performed well, led by aerospace and medical applications. In Asia the additional capacity recently installed to meet demand for the thermal processing market is now fully utilised and we anticipate further expansion as a result. The consumer facing markets such as automotive, semiconductor equipment manufacturing and telecommunications slowed during the year; however, these make up a much smaller portion of our business than in previous years.

Business developments

The ceramics businesses acquired from the Carpenter Technology Corporation at the end of the first quarter have made an excellent start with both revenues and profits ahead of expectations and a good order book going into 2009.

In May 2008 we announced the closure of our Shanghai operation as we continue to focus on technically differentiated products. Many of its products had reached the end of their life cycle and the site was also surrounded by residential and office developments which threatened utilities supplies.

Outlook

The Technical Ceramics Division has significant potential for further revenue and profit growth. Our strategy is to continue to focus on customers and markets that are themselves growing and are innovative in their approach.

Growth was achieved in six of our key markets during 2008, which now account for over 75% of the Division's revenues. These include aerospace, our largest market, medical, specialist industrial equipment and power generation and distribution. The acquisition of the Carpenter Advanced Ceramics businesses demonstrates our commitment to increasing our presence in these markets.

The business remains focused on continued operating profit margin progression with improvements seen in all regions in 2008, supported by investment in new product introductions. The operational disciplines developed over the last few years will continue to be a focus for the business so that we can mitigate as much as possible the effects of the downturn in the general economy.

We plan to increase our presence in the Asian region to address the expanding market there. This has been helped by new capacity in Yixing, China installed in response to demand from the solar power industry. We are looking carefully for further bolt-on acquisition opportunities that would enhance our offering in our core markets, which together with a strong new business pipeline, leaves the Division well placed for the future.

Freeze-casting to optimise the Bentley's bumper

Over recent years, Technical Ceramics has invested to develop its freeze-casting capabilities. This technology enables ceramics to be made into very large and complex shapes. The Division has been using the tight geometrical tolerances and heat resistance properties of freeze-cast ceramics in its work to optimise the ceramic moulds for the Bentley Motor Company's unique metal/composite body panels. These lightweight metal and carbon fibre panels are made by spraying a freeze-cast ceramic mould with a thin layer of metal. The resulting metal shell is then strengthened with a composite fibre backing to create a strong lightweight panel. The VW Audi Group now plans to trial the moulding technology across its premium marques using the Technical Ceramics freeze-cast forms.



Acquisition synergies

The acquisition of the Certech and Carpenter Advanced Ceramics businesses was completed on 31 March 2008. Fundamental to this strategic acquisition are operational, commercial, marketing and technical synergies. One example of a synergy benefit is the development of a rapid prototyping service for customers in the aerospace and industrial gas turbine sectors. By combining Certech's specialist design skills and Technical Ceramics process technology, customers can now achieve a competitive advantage from lead time advantages on new products.

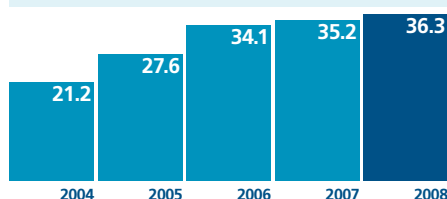
"The two businesses are an excellent fit," said Mark Moore, Technical Ceramics' Director of Strategy Implementation. "As we look to the future, part of the post acquisition process is to make sure that we make best use of our combined strengths to optimise results. We are very positive about our future together and are already seeing synergy benefits in our results."



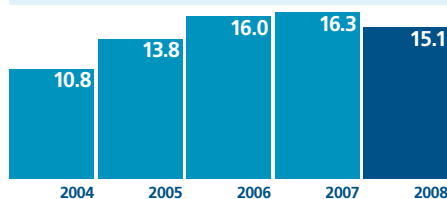
Review of operations continued

Carbon

Divisional EBITA*
Continuing businesses £m



Divisional EBITA margin*
Continuing businesses %



Key performance indicators

	2008	2007	Increase %
Divisional revenue	£239.9m	£216.6m	10.8%
Divisional EBITA*	£36.3m	£35.2m	3.1%

Business description

The Carbon Division is a global supplier of engineered solutions for applications which benefit from the unique properties of carbon, graphite, silicon carbide, oxide ceramics and related advanced materials. These properties, which include electrical conductivity, self lubrication, heat and corrosion resistance, high compressive strength, highly pure forms and non-toxicity, are leveraged to meet the specific and specialist requirements of multiple demanding applications; from body armour to railway trains, aerospace and electronics.

The Carbon Division has a truly global presence with a workforce of over 3,700** operating in more than 25 countries. With this coverage we provide a local service to our customers whilst benefiting from a global infrastructure and market presence. This includes significant operational capability in a number of low-cost countries, including Mexico, China and within Eastern Europe, providing a competitive manufacturing footprint that we leverage across all our markets.

The Division's strategy is aligned with the Group's priorities and in summary 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 on 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 to instill a culture of continuous reinvention.
- Continuously seek and develop the right people.

...applying market leading technical expertise.

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

** As at 4 January 2009.

The Division is structured regionally and is able to leverage its global footprint and infrastructure as necessary to ensure that the best possible resource is deployed to offer advanced materials and technologies in the form of engineered solutions to the following global markets:

Industrial and railway electrical applications

Electrical current transfer systems are critical enablers for many industries. The Carbon Division supplies electrical current transfer systems from carbon brushes through to collectors and rotary current transfer products. The Division utilises a core technology portfolio and a global network providing regional support and is a leading supplier of component solutions to the railroad, transit industry and to industrial markets.

Fluid handling

Seals and bearings are critical to the pumps and compressors used in many fluid handling applications in industries such as chemical and food processing. The Carbon Division has a wide and expanding range of carbon and silicon carbide materials. Morgan is a globally recognised provider of seal faces, bearings, rotors, vanes and other technical solutions required for a large variety of fluid handling applications.

Defence

We provide critical components for the world's sea, ground and air defence, from nuclear submarines and aircraft carriers to tactical and strategic ground vehicles and weapon systems, and fixed and rotor winged fighters. In each case, the distinctive characteristics of our advanced materials provide a special solution to a design need. Our supply of a range of oxide and non-oxide ceramic technology solutions for vehicle and body armour applications ensures protection against new and emerging threats.

Leader in ultra high temperature insulation

The Carbon Division is a world leader in ultra high temperature thermal management, offering products capable of working at service temperatures up to 3,000°C in inert or vacuum environments. The Division was first in the world to process carbon cloth and today its technology spans carbon and graphite felt and cloth, rigid board and machined graphite components, combined with industry leading purification measured in parts per billion. These high-level technical capabilities are key enablers required by the aerospace, semiconductor, photo-voltaic cell, optical fibre and other specialist manufacturing sectors.



Countering ballistic threats

Through the Group's strategic investment in NP Aerospace, the Carbon Division has expanded its geographic spread, materials capability and customer base in the armour market. NP Aerospace is a major supplier to the UK Ministry of Defence for personal and vehicle protection. NP Aerospace's composite technology, combined with Carbon's ceramic technology, is driving the innovation of new, lighter and more resilient protection systems to help counter ballistic threats. With NP Aerospace, the Carbon Division is at the forefront of vehicle and personal protection systems.



Review of operations continued

Mexico facility set for continued growth

The development of the Carbon Division's facility in Mexico demonstrates how operational excellence and continuous improvements in customer value delivery underpin the Division's strategy. From its beginnings 50 years ago, following heavy investment in manufacturing technology the Mexican facility is a centre of excellence for the finishing of electrical brushes and mechanical seal and bearing components for the North American market. The quality and cost profile of the plant's output gives Carbon a competitive advantage in a number of market sectors and investment continues to ensure this position is sustained.



Aerospace

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

Semiconductor processing

Carbon is at the heart of many electronic innovations shaping today's world and is used in semiconductor manufacturing processes such as ion implantation, epitaxy and compound crystal growth. With the drive to faster, smaller and less expensive 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 desired performance. We now offer state-of-the-art purification capability and are working with leading equipment OEM's to develop and incorporate new materials technology. Carbon also supplies products used in the manufacture of components such as optical fibres, laser diodes, and transistors for mobile and satellite communications.

Energy

We provide the critical components that enable the power generation requirements for today and the new emerging technologies of tomorrow. Whether it's traditional power generation companies, the nuclear industry, solar power or wind energy generation, Morgan is supplying advanced materials solutions to enable their growth. In the solar industry, Carbon is a world leader in the supply of carbon and graphite felt and cloth, machined and purified rigid board and graphite components for solar silicon manufacture. For wind power generation, we supply material solutions and rotary transfer systems that are able to perform in the harshest environments around the globe.

Divisional performance

The Carbon Division performed well in 2008 with all regions delivering growth. Revenues for the full year were up by 10.8% to £239.9 million (2007: £216.6 million). On a constant currency basis year on year revenue growth was 1.3%. We experienced strong performance in high temperature products business during the year, as well as continued growth across all sectors in Asia. Weakening demand in the semiconductor sector during the second half, and a softening at the year end in our electrical carbon brush and seals and bearings businesses dampened the Division's year-on-year growth.

Divisional EBITA improved by 3.1% to £36.3 million (2007: £35.2 million), a margin of 15.1%. The 'lock out' situation in one of our India facilities was resolved at the end of October after nearly 12 months. This situation along with the capacity constraint issues experienced during the first quarter in our US silicon carbide armour business impacted full year earnings and EBITA margins. On a constant currency basis EBITA was down by 5.3%.

Our traditional business in electrical carbon brushes and seals and bearings held up well through most of the year. Our brush business finished slightly below 2007 in Europe and in the Americas, impacted by the global downturn in the last two months of the year. Growth in Asia was tempered by the downturn, but again showed strong year-on-year performance. Our global seals and bearings business had solid growth in the first half of the year but was also affected by the global slowdown, particularly in the fourth quarter. On a year-on-year basis sales to these sectors at constant currency were broadly flat.

After several years of double digit growth, our semiconductor business experienced a major contraction in the second half of the year along with the whole of that industry. Our rotary business was impacted by the slow down in the construction industry and major capital spend at a number of customers, though further progress was made in China and in the global wind energy sector.

Our armour business in the Americas showed good growth and significant progress has been made in establishing armour capability and capacity in Europe. We continue to invest in our materials and ballistic technologies to develop our product offering for both personal and tactical vehicle armour solutions. Our investments have been strategically targeted to offer leading edge solutions to both the US and European defence industries and have positioned us well for future defence programmes.

Building upon technologies developed in support of the US space shuttle programme, our high temperature insulation business grew significantly in 2008. Demand for these products is driven by the processing of advanced materials for markets such as solar energy and semiconductors. A new rigid product line was successfully commissioned in the second quarter, and additional capacity for our soft felt product line was introduced in the third quarter. Market demand is expected to continue to grow and our global presence means that we are well positioned to take advantage of this trend.

Business developments

During the course of 2008 we continued to advance the Division's technology portfolio, breadth of market reach, and presence in high growth non-cyclical markets. The expansion of our high temperature product range has broadened our presence in the high growth solar energy sector and provides a solid foundation for continued growth and increased market penetration.

During the second and third quarters we successfully transferred our Ceramor™ armour technology from Canada to the UK in order to strengthen the Division's presence in the UK and Continental European armour markets. Subsequent to the year end Morgan Crucible increased its equity stake in NP Aerospace from 49% to a 60% majority. These two strategic initiatives have positioned Morgan as the major armour systems supplier in the UK with the ability to offer this capability across a number of regions. NP Aerospace will be fully consolidated into the Morgan Crucible accounts for 2009.

Outlook

The Carbon Division continues to focus on business segments that will provide us with long-term attractive growth potential. The progress made in 2008 in developing segments such as armour and high temperature insulation means that we are less dependent on the more traditional, slower growth markets and have more exposure to global markets where we are able to fully exploit our advanced materials and technology portfolio and provide high value added, engineered solutions to a discerning customer base.

We will continue to review our operational footprint and will ensure that we make full use of our low-cost manufacturing base. The actions taken in recent years mean that the Division is well placed for 2009. Although our traditional businesses face the challenges presented by the global economic conditions, we do expect solid growth in high temperature products and our newly acquired majority stake in NP Aerospace provides an exciting new platform for growth and a very strong order book through 2009.

Corporate responsibility

Taking our responsibilities seriously...

At Morgan Crucible, corporate responsibility is integral to our business, supporting each of our five strategic priorities. In this section we report on our policies, procedures and performance in respect of business ethics, community relations and suppliers and customers. The following pages cover Environment, Health and Safety and Our People. In addition, our 2008 EHS Report, planned for publication on our website in April 2009, will provide a more comprehensive review of our 2008 environmental and health and safety 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.

Corporate responsibility policies and procedures

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.

The existing Morgan Crucible Ethics Policy is going through a review and update process and an updated policy together with a new training programme will be rolled out across the Group in the coming year. The Group's Ethics Policy, Core Values Statement and the related training programme provide employees with guidance for both their everyday activities and other circumstances.

Our Core Values Statement and Ethics Policy oblige all employees to operate in accordance with applicable laws and regulations and specifically prohibits 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.

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 refreshed during the year to include new training materials and an updated programme structure.

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 continuously improve product availability, quality and value. We stay close to our current and potential customers, building long term relationships.

Morgan commits to ACFA project

Morgan Crucible has made a three year commitment to help support the Army Cadet Force Association Outreach Project. This UK-wide and ambitious project helps socially disadvantaged young people who are vulnerable to crime to become better citizens. Young people, usually aged between 12 and 14, are referred by youth offending teams, referral panels, police and schools. Typically they have been subject to a police reprimand, or warning, excluded from school, or are showing behavioural problems. Statistics indicate that the behaviour or attitude of 60% of the young people referred shows a significant improvement after nine months. The Army Cadet Force uses 8,000 volunteer instructors and Morgan Crucible is proud to be able to help. For further details see www.armycadets.com



Morgan helps extend literacy in South Africa

Literacy is a national priority in South Africa. Thermal Ceramics in Springs has been supporting the National Skills Development Strategy with an hour of training included at the beginning or end of the working day. Employees match this time commitment and start with reading and writing before moving on to computer, maths and life skills such as financial budgeting. Over the past seven years many have been awarded certificates of competence and a number have completed post-school qualifications. Most employees have completed their literacy and maths training and the focus for 2009 will be on technical and work-related subjects. The benefits of the programme are two way as employees grow their skills, helping the Company to meet the need for an educated and motivated workforce.



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 ISO9001 and ISO14001 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 below, 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 environmental, health and safety and people related policies is covered in more detail on the following pages.

Below we describe some of the processes for implementing and monitoring our key corporate responsibility policies and procedures and in respect of verification of our ESG disclosures.

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 to be 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 eight languages. Appropriate training is provided, including induction training for new employees and via e-learning. Both the Ethics Policy and the Core Values Statement are available on our website.

The Morgan Crucible Ethics and Compliance Helpline 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.

Morgan Crucible's global Anti-Trust Compliance Programme is ongoing with training for appropriate employees across the Group. Anti-Trust Compliance Officers within each business report to the Company Secretary as Global Compliance Director in this regard. 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.

Corporate responsibility continued

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 has 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 Risk Assurance work with external independent consultants to review and where appropriate verify our environmental, social and governance (ESG) disclosures. This process covers the environmental, health and safety and human resources related non-financial key performance indicators included in this report.

All Morgan Crucible businesses are regularly reviewed under the Group's Compliance Audit Programme and those sites and businesses certified to ISO9001, ISO14001, OHSAS18001 and other standards have regular external audits. The Group also uses external professional advisers in relation to specific health and safety and environmental matters as required.

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

Ethics-related issues raised through the Ethics and Compliance help line or via other channels are initially investigated by the Director of Risk Assurance. Further investigations may be conducted through the Audit Committee as required. Where appropriate disciplinary action is taken and/or additional guidance and training

provided. 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 our customer relationships are included on pages 8 and 9 and elsewhere in this Annual Report.

Community

In 2008 Morgan Crucible made charitable donations of £114,736 (2007: £193,598). This is in addition to the time given and donations made by Morgan Crucible employees around the world.

During 2008, 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:

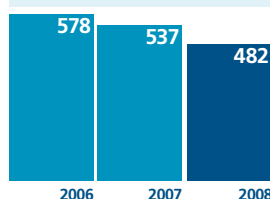
- The Group's most significant commitment in 2008 was to provide £60,000 over three years to support the Army Cadet Force Association (ACFA) Outreach Project as detailed in the case study on page 33.
- Morgan continues to support the joint Barnardo's/Outward Bound initiative which provides opportunities 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, Technical Ceramics Stourport, UK provides a football pitch for the local team, and in the USA, the Carbon Division supports a number of athletic teams in St Mary's, PA.
- In South Africa, Thermal Ceramics continues to run its voluntary literacy and life skills programme for shop floor employees as detailed in the case study on page 33.

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:

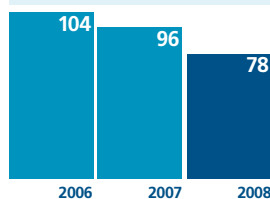
- Employees at the Technical Ceramics New Bedford, MA, USA site continue to be strong community supporters. Working closely with United Way, employees pledge payroll deductions to local charities, make donations to the local United Way Food Pantry and participate in the United Way Day of Caring, when they help with landscaping, painting, and other community tasks.
- One of the finance team at Carbon's Durham, CT, USA facility works with Covenant to Care for Children, a non-denominational organisation, to help abused, neglected and impoverished children. Through their 'Adopt a social worker' programme over 27,000 children have received help in the past year.
- Employees from the Technical Ceramics plants at Corby and Derby in the UK collaborated to raise over £2,000 to combat breast cancer by participating in the Edinburgh Moon Walk and Breast Cancer Awareness Day.
- Mark Moore, Technical Ceramics Director of Strategy Implementation, ran the 2008 Dublin marathon to raise funds for the Alzheimer's Society. He achieved his target time (under 3 hours 50 minutes) and, sponsored by a number of colleagues, raised over £1,000.
- Two days after the Wenchuan earthquake in May 2008, the staff at the plant in Yixing, China, organised a donation to help support the earthquake victims. The employees and the company jointly donated 50,000RMB (approx £5,000).

Environment

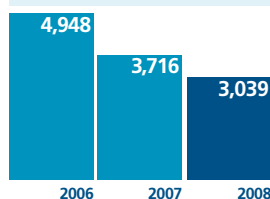
CO₂ intensity*
Tonnes/£m revenue**



Waste intensity†
Tonnes/£m revenue**



Water intensity
m³/£m revenue**



Our Environmental Policy and implementation programmes support our five strategic priorities and our Core Values Statement which commits us to strive to minimise the impact of our operations on the environment and to environmental sustainability in our product development programmes.

This report includes a summary of our Environmental Policy and its effectiveness as demonstrated through our performance and programmes. Further detail will be included in our 2008 EHS Report to be published on our website in April 2009. The EHS Report will also include case studies to help demonstrate our approach to enhancing the sustainability of our business.

Environmental policy

The Group's Environmental Policy forms part of our EHS Policy Statement which is available throughout the Group and is published on our website and in our EHS Report.

Our policy applies Group-wide and requires high standards at all sites with the objective of continuous improvement in environmental performance in support of our strategic priorities and is based on risk assessment and the management and mitigation of identified risks.

In the coming year we plan to review and externally benchmark our EHS policies and any revisions will be agreed by the Executive Committee and approved by the Board.

Environmental policy implementation

Our Group Environmental Policy forms the basis of our environmental management systems and processes. The management of our environmental 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 Risk Assurance. 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 policies are implemented and for identifying additional areas and opportunities for further development.

Environmental management systems are in place at 84 sites worldwide, representing over 90% of production capacity, including 28 major sites or 41% of capacity certified to ISO14001. The nine sites acquired from the Carpenter Technology Corporation were not certified and two ISO14001 certified sites were closed during the year. Plans are in place for a number of the former Carpenter sites and a number of other sites to achieve certification in 2009-10. This is in addition to the ongoing programme of re-certifications.

Morgan Crucible's environmental management processes also include the EHS Compliance Audit Programme. This programme provides assurance and helps ensure compliance with local regulations and good management practice using external auditors in Europe and Asia and in-house resources in North America. We audit all the Group's manufacturing facilities on a three year rolling cycle and audited 23 sites during 2008, including the nine sites acquired from the Carpenter Technology Corporation, having deferred scheduled audits of the Group's Chinese facilities pending completion of the EHS training programme (see below). Our target for 2009 is to audit a further 36 sites.

Training is an integral part of our EHS policy implementation programme and during 2008 we implemented an in-depth EHS assessment and training programme at all of the Group's Chinese facilities. The work was carried out with the assistance of external consultants and included comprehensive training of senior management and the development and installation of an EHS management system at all sites.

Environmental policy effectiveness

The Group monitors the effectiveness of its environmental policy through a series of environmental key performance indicators (KPIs) which are reported Group-wide on a monthly basis. The Executive Committee and the Board review environmental matters regularly.

Verification of our environmental, social and governance disclosures is discussed on page 34.

* CO₂ equivalent from all energy sources, including country specific electricity.

** Constant currency basis, includes inter-company sales.

† Hazardous and non-hazardous waste, including recycled material.

Corporate responsibility continued

Wherever possible we work to minimise the impact of our business on the environment and to maximise the positive environmental benefit of our products. Selected examples of this work are included here, on pages 8, 10 and 11 and in the Review of operations.

During 2008 we extended our environmental reporting to cover the nine production sites acquired from the Carpenter Technology Corporation and the data in this report includes the environmental impacts of these businesses during their nine months of ownership. Where necessary, historic data has been restated to reflect changes to the business and the KPIs reported are at constant currency. The summary KPI charts on the previous page present our performance in real terms, covering 100% of production site sales during the year.

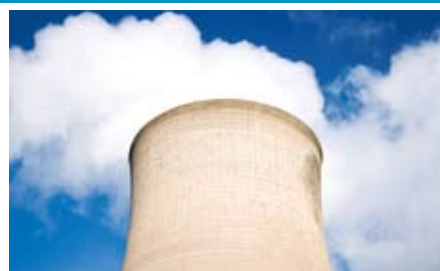
Our target for the two years 2007-8 was to reduce the intensity of our CO₂ emissions due to all sources of energy use by 5% in real terms. Including the former Carpenter businesses CO₂ intensity was down by 17% over the two years (9% reduction excluding Carpenter). In absolute terms total CO₂ emissions due to energy use were some 453,000 tonnes (437,000 tonnes excluding Carpenter), against 437,000 tonnes in 2007 and 422,000 tonnes in 2006. Our waste intensity was down by 25% over the two years (18% down excluding Carpenter), ahead of our 5% reduction target. The proportion of total waste which was recycled was 29% in 2008, the same as the prior year and we did not achieve our target to recycle 35% of total waste (excluding the Carpenter businesses 30% of total waste was recycled). Our water intensity was down 39% over the two years (31% down excluding Carpenter). This was ahead of the targeted 10% reduction over the two years, with improved measurement and a variety of reduction programmes helping to improve performance.

We will again be targeting reductions in our energy, emissions, waste and water intensity over the two year period 2009-10. Further details will be included in our EHS report to be published on our website in April 2009.

Reducing CO₂ emissions through energy efficiency

Across the Group many sites improved their energy efficiency to help reduce Morgan Crucible's emissions intensity in 2008. Example initiatives include:

- The efficiency programme at the Technical Ceramics site at New Bedford, OH, USA resulted in the replacement of two old air compressors with one oil free variable speed drive compressor. This saved 69,000 kWh of electricity, cutting related CO₂ emissions by some 40 tonnes.
- The new automated Thermal Ceramics insulating firebrick plant in Yixing, China incorporates best manufacturing practice from Thermal plants around the world. The new plant uses 20% less energy per unit of output relative to the existing Yixing plant.



Saving water worldwide

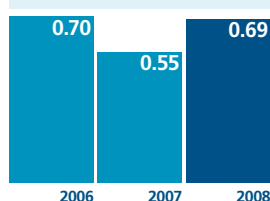
Morgan Crucible has been working to reduce its use of this finite and increasingly scarce resource and has been cutting water use worldwide.

- The Technical Ceramics site in Rugby, UK uses waste de-ionised water from its processes to service the site toilets. This was previously discharged to the sewer. Combined with other reduction initiatives this helped reduce site water use by 19% and 25% relative to sales.
- MMS in Brazil has been working to maximise water recycling in their production processes. This site's annual water use is down by 1,500m³ since 2006, a 40% reduction in water use intensity over two years.

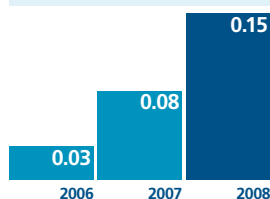


Health and Safety

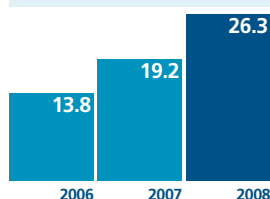
Lost time accident frequency* LTAs/100,000 hours



Lost time % of total working time



Lost time per LTA* Days per LTA



Morgan Crucible is committed to conducting all its activities in a manner which achieves the highest practicable standards of health and safety for its employees and others affected by our operations. This commitment aligns with our five strategic objectives and our Core Values Statement.

In this report we summarise our policy implementation and effectiveness with further detail and case studies to be included in our 2008 EHS report which will be published in April 2009.

Health and Safety policy

The Group's Health and Safety Policy forms part of our EHS policy statement which is available throughout the Group and is published on our website and in our EHS report.

Our policy applies Group-wide and requires high standards at all sites with the objective of continuous improvement in health and safety performance.

In the coming year we plan to review and externally benchmark our EHS policies and any revisions will be agreed by the Executive Committee and approved by the Board.

Health and Safety policy implementation

Our Group Health and Safety Policy forms the basis of our health and safety management systems and processes. As with environmental performance, the management of our health and safety performance is aligned with the operation of the business. In practice all employees are responsible for ensuring that our health and safety policies are implemented and for identifying additional areas and opportunities for further development.

All of our major sites worldwide have health and safety management systems in place, with nine sites certified or working to OHSAS18001.

Our health and safety management processes also include the EHS Compliance Audit Programme which is described in more detail under the Environmental section.

The training programmes mentioned in the environmental section also cover health and safety.

Health and Safety policy effectiveness

Our health and safety key performance indicators include accident frequencies and causes and related lost working time. These are used to monitor the effectiveness of our health and safety policy and related systems on a monthly basis. The Executive Committee and the Board receive regular reports. During the year, reporting was extended to cover 100% of all employees (2007: 99%), including the businesses acquired from the Carpenter Technology Corporation. Verification of our health and safety and other ESG disclosures is covered on page 34.

Our long-term objective is to have no accidents and we are working to extend our accident preventative and training programmes, for example in China. One impact of this has been an increase in accident reporting rates, which, when combined with the effect of the former Carpenter businesses saw 2008 increase to 0.69 lost time accidents per 100,000 hours worked. This is a marginal improvement on the 2006 rate of 0.70. Manual handling cuts and abrasions are the most common cause of accidents and a small number of more severe cases, combined with the impact of the Carpenter businesses, saw health and safety related lost time up to 0.15% of total working time.

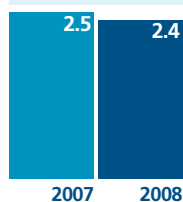
Our objectives for 2009 are to work towards our long-term goal of zero accidents and to continue coverage of 100% of our employees. The emphasis on increasing reporting rates will continue with particular focus on those sites with below average performance and on reductions in the average time lost per lost time accident.

* Lost time accident (LTA): accidents resulting in one or more days lost time.

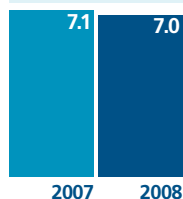
Corporate responsibility continued

Our people

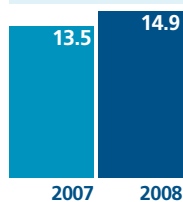
Total lost time*
% of working time



Employee tenure*
years



Training*
hours/employee



To keep ahead of our competitors and to grow our businesses we rely on the capabilities of our people to deliver added value to our customers. We leverage the diversity and creativity of our people around the world to create a network that reaches our customers and supports their individual needs globally. Hence, our people are key to our success and one of the five strategic priorities for Morgan Crucible is 'finding, keeping and developing the right people'.

Assessing the capabilities of our people, meeting development needs and creating an effective organisational structure are essential as we empower our people to be successful.

People policies

Our policy is to provide equal opportunities for employees in recruitment, learning and development and reward, including for those with disabilities. Should existing employees become disabled, our policy is to provide continuing employment and training, wherever practicable.

We support the Universal Declaration of Human Rights and our policy commits us to protect the rights of everyone who works for the Company and all those who have dealings with it. The principles of our 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. We aim regularly to communicate the policy and provide training to ensure its implementation in our businesses. Our Ethics and Compliance Helpline enables employees who are aware of or suspect issues under our Human Rights Policy to report these confidentially.

Implementation of our people-related policies People engagement

The retention of employees is closely related to their degree of engagement with the business. Ensuring our people are informed of what is happening throughout the Company and enabling them to connect with one another across businesses and disciplines supports Morgan Crucible's strategy to keep the right people. We communicate regularly through team

briefings, employee forums, Divisional newsletters and through the Morgan Crucible '360°' magazine. In addition we undertake regular employee surveys, as highlighted opposite.

We believe in celebrating the success of the business with our employees in recognition of their commitment. In 2008 we marked the 50th anniversary of the Morgan Crucible businesses in Brazil and Mexico, and of the GBC Materials business in Latrobe, Pennsylvania, USA. Our Thermal Ceramics business in Wissembourg, France celebrated its 40th anniversary and our Diamond Crucible Company in Mehsana, India celebrated its 25th anniversary. During this period 20 employees around the world celebrated 40 years of loyal service with Morgan Crucible.

People development

We provide blended learning solutions for employees at all levels. This helps them achieve their full potential by developing the depth and breadth of various skill sets. Development opportunities are aligned with our vision of being one of the very best advanced materials companies in the world. Our individual annual performance review process sets goals for the forthcoming year, identifying development necessary to help ensure the successful completion of those goals.

Our organisation talent review process links the long-term strategy of our businesses with the capabilities needed now and in the future so that we can develop the skills of our employees to support the development and growth of our businesses.

We are growing our Group-wide development programmes, including e-learning via the internet, to reach our employees globally. We launched a 'Business English' learning programme in 2008 and have 290 participants from over 15 countries across all regions, including over 100 participants in China. We are hugely encouraged by the enthusiasm of our employees to grow their ability to operate in a global environment.

In 2009 we will have a number of compliance training programmes available via e-learning, including Ethics and Human Rights.

* 2008 data covers 96% of employees (2007: 66%). (for comparison purposes these KPIs exclude the Indian facility which was subject to a 'lock-out' during part of 2007 and 2008).

People policy effectiveness

Key performance indicators

On average during the year, Morgan Crucible employed 10,621 people, up from 9,607, including the employees who joined the Group as a result of the acquisition of the technical ceramics businesses of Carpenter Technology Corporation, with 33% of employees in Europe, Middle East and Africa, 32% in the Americas, and 35% in Asia-Pacific. Of these employees 90% are 'permanent' and 74% are male. During the year we extended our processes to gather and benchmark employee metrics Group-wide and to cover businesses acquired during the year. These metrics support our strategic priority to find, keep and develop the right people and as is shown in the charts on the previous page lost time as a proportion of total working time was down in the year and training levels were increased. Average employee tenure, including both voluntary leavers and redundancies, fell from 7.1 to 7.0 years.

People surveys

Since 2003, our people have provided feedback through our regular global employee surveys. Listening to our people with their significant knowledge and experience of Morgan Crucible is essential if we are to continuously improve and grow our business over the long-term.

The 2008 survey was conducted in 16 languages with 40 questions covering: 'Vision, direction and goals'; 'Communication'; 'the global company' and 'Your work and your site'. The survey could be completed online or in hard-copy. This generated a 75% response rate, a year-on-year improvement of 30% with almost 2,000 more participants than in the previous year. With more people participating this has created additional challenges as some employees are both new to the process and to Morgan Crucible following recent acquisitions. Consequently, whilst the overall results are very positive, there are some areas for further attention. We see this as an opportunity to involve our employees in creatively developing new methods of communicating globally and to further develop initiatives on employee development, reward and recognition.

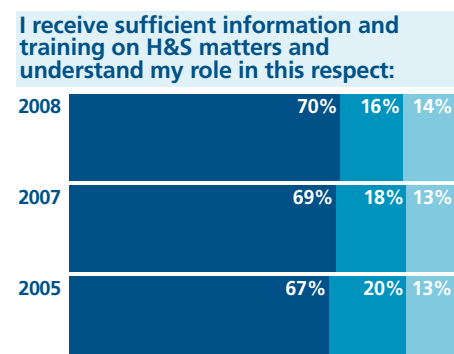
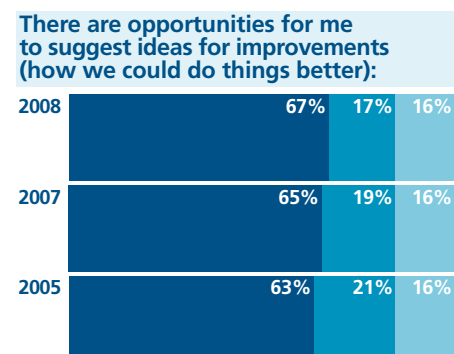
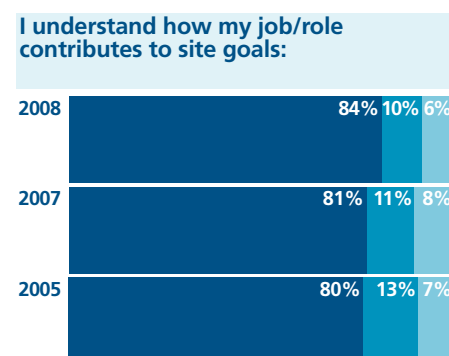
With a decentralised organisation, engaging people at site level to understand how they can contribute directly to the success of their site is critical and the feedback confirms that our managers are continuing to work very hard on this initiative. Results from the survey indicate that 84% of our employees understand how their job/role contributes to the site goals. Additionally, over two thirds stated that there are opportunities for them to suggest improvements to do things better. Involving our employees by utilising their knowledge, skills and understanding of our products and processes supports the engagement and retention of talent in our organisation.

Health and safety and the environment are critical to all our businesses around the world and this is reinforced with every employee on a continuous basis. The survey results confirm that 70% of participants stated that they have received sufficient information and training on health and safety matters and understand their role in this respect.

We value the feedback we receive from our employees and will endeavour to reach as many Morgan Crucible employees throughout the world as possible as we continue to involve our people whenever and wherever possible in building a robust business.

People surveys*

■ Agree ■ Neither ■ Disagree



* An employee survey was not conducted in 2006. Thus 2005 is used as the base year.

Financial review



Continued progress in underlying operating profit margins in 2008 with our underlying EPS improving to 23.4 pence, an increase of 18.8% over the previous year.

Kevin Dangerfield
Chief Financial Officer

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 70 to 123 and comply with adopted IFRSs.

We make reference to underlying operating profit* and underlying earnings per share (EPS). EPS is defined in note 10 on pages 88 and 89. These measures of earnings are shown because the Directors consider that they give a better indication of underlying performance.

* Underlying operating profit is defined as operating profit before amortisation.

Group revenue and operating profit

	2008 £m	Revenue 2007 £m	Divisional 2008 £m	EBITA** 2007 £m
Carbon	239.9	216.6	36.3	35.2
Technical Ceramics	212.2	152.6	31.6	20.0
Insulating Ceramics	382.9	324.0	45.6	37.5
Unallocated costs	—	—	(4.7)	(4.6)
Total Group revenue	835.0	693.2		
Total divisional EBITA**			108.8	88.1
One-off items:				
Restructuring costs and costs associated with prior period anti-trust litigation			(11.4)	(9.0)
Profit/(loss) on disposal of property			0.8	(0.2)
Total one-off items			(10.6)	(9.2)
Underlying operating profit			98.2	78.9
Amortisation of intangible assets			(3.2)	(1.6)
Operating profit			95.0	77.3

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

Group revenue was £835.0 million (2007: £693.2 million). Continuing Group revenue, excluding acquisitions, on a constant currency basis increased by 4.0% over the previous year.

Group underlying operating profit margins continued to show strong progress to 11.8% from 11.4%, driven by improved pricing, operational efficiencies and a margin enhancing acquisition.

Group operating profit increased by 22.9% to £95.0 million (2007: £77.3 million), with operating profit margins increasing to 11.4% from 11.2%.

The table below highlights the half-yearly improvement that we have made since 2007 with the second half of 2008 showing a 11.9% underlying operating profit margin.

Continuing Group results

(actual currency rates used)

	1st half £m	2008 2nd half £m	1st half £m	2007 2nd half £m
Revenue	401.2	433.8	347.8	345.4
Underlying operating profit	46.4	51.8	39.9	39.0
Underlying operating profit margin	11.6%	11.9%	11.5%	11.3%

The continuing rationalisation and restructuring of our manufacturing footprint cost £10.5 million in 2008 (2007: £9.8 million) and costs associated with the settlement of prior period anti-trust litigation were £0.9 million (2007: a cost recovery of £0.8 million).

The net finance charge was £12.7 million (2007: £5.5 million). This net finance charge was comprised of three elements. Net bank interest and similar charges were £14.3 million (2007: £7.2 million). Foreign exchange gains on net investment hedge were £1.5 million (2007: £nil). The final part of the finance charge under adopted IFRSs is the net IAS 19 *Employee Benefits* income which was £0.1 million (2007: £1.7 million charge).

A five-year summary of the Group's financial results is set out on page 124 of this report.

Foreign currency impact

The principal exchange rates used in the translation of the results of overseas subsidiaries were as follows:

	Average rate 2008	2007	Year end rate 2008	2007
US\$	1.8552	2.0003	1.4450	1.9742
Euro	1.2582	1.4615	1.0408	1.3363

Taxation

Group taxation for the year showed a net charge of £20.1 million (2007: £15.2 million). The effective tax rate was 24% (2007: 21%).

Dividend

The Group is proposing a final dividend of 4.5 pence per share bringing the total dividend for the year to 7.0 pence per share. This total dividend represents a 3.7% increase over the prior year.

Earnings per share

Underlying earnings per share was 23.4 pence (2007: 19.7 pence), an increase of 18.8%. Basic earnings per share was 22.2 pence (2007: 19.1 pence), an increase of 16.2%. Details of these calculations can be found in note 10 on pages 88 and 89.

Balance sheet

At the year end total equity was £208.0 million (2007: £196.3 million) with closing net debt of £290.4 million (2007: £119.7 million).

Non-current assets were £583.8 million (2007: £391.7 million) and total assets increased from £737.2 million in 2007 to £1,078.7 million at the end of 2008. The most significant elements of these increases were due to the acquisition of the Carpenter Group of companies in March and the translation effect of the strength of the US dollar and the euro, in particular, in the second half of the year.

Financial review continued

Cash flow

Net cash inflow from operating activities was £111.2 million (2007: £89.5 million). This performance included a £21.8 million increase in working capital (2007: increase of £18.5 million). Cash costs in the year from restructuring projects and costs associated with prior period litigation were £11.5 million (2007: £11.4 million). The Group saw a £23.2 million free cash flow before dividends for 2008 (2007: £23.7 million). Net cash outflow in connection with the share buy-back programme announced in December 2006 was £12.1 million (2007: £46.9 million) and, in addition, the Group purchased £nil million (2007: £0.8 million) of shares in connection with the various share incentive schemes. At the year end, the Group had net borrowings of £290.4 million (2007: £119.7 million). The cash flow on page 72 highlights the main cash movements in 2008.

	2008 £m	2007 £m
Net cash inflow from operating activities	111.2	89.5
Net capital expenditure	(31.5)	(33.1)
Restructuring costs and other one-off items	(11.5)	(11.4)
Net interest paid	(16.9)	(8.8)
Tax paid	(28.1)	(12.5)
Free cash flow before dividends	23.2	23.7
Dividends	(18.8)	(18.8)
Cash flows from other investing activities	(86.2)	(45.7)
Cash flows from financing activities	(12.1)	(47.7)
Exchange movement	(76.8)	2.9
Opening net debt	(119.7)	(34.1)
Closing net debt	(290.4)	(119.7)

Treasury policy

Group Treasury acts as a service to Morgan Crucible's business, not as a profit centre. Group Treasury seeks to reduce financial risk and to ensure that the Group has sufficient liquidity available to meet all foreseeable needs. It is responsible for all of the Group's funding requirements, cash management and other treasury business. Group Treasury makes limited use of derivative instruments to hedge foreign currencies and interest rates; speculative transactions are not permitted.

Foreign exchange risks

Subsidiaries are encouraged to manage all material transactional foreign currency exposures using forward contracts. Any items of a more complex nature require approval

by Group Treasury. Currency translation risks are controlled centrally. The Group's policy is to manage 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.

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.

The Group is currently looking to refinance the existing \$420 million facility which will mature in March 2010.

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.

Interest rate risk

The Group adopts a policy of ensuring that between 30% and 70% of its exposure to changes in interest rates on borrowings is on a fixed rate basis.

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 have adopted International Financial Reporting Standards as adopted by the EU (adopted IFRSs) in 2005. All accounting policies shown on pages 74 to 81 are compliant with adopted IFRSs.

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 Europe. Net employee benefit liabilities totalling £101.8 million are included in the financial statements at the end of the year, an increase of £54.1 million compared with the previous year. Of this increase, £37.6 million was in the US and the main elements are shown in note 21, which include exchange adjustments of £8.1 million. The US pension schemes show a deficit of £61.4 million on an IAS 19 basis.

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 16 to 45. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described earlier in this Financial Review. In addition, note 20 to the financial statements includes the Group's policies and processes for managing financial risk; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The Group meets its day-to-day working capital requirements through local banking arrangements that are supported by a committed bank syndication facility of \$420 million. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show the Group operating within the level of its current facility. The Group is well advanced in the refinancing of its bank syndication facility, which is due for renewal in March 2010, and expects to complete this exercise in the first half of 2009.

The current economic climate will have an impact on the Group, its customers and suppliers, but it is too early to be precise about the scale and duration of these effects. 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

Our risk management processes are designed to identify, manage and mitigate 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.

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 in our formal business reporting up to the Board. We benchmark best practices to ensure that our processes are evolving and effective. Key risks are monitored by the Risk Management Committee and effectiveness of risk management and internal control is monitored by the Audit Committee.

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.

Strategic planning risks

Such risks relate to the appropriateness of strategy, business model or product portfolio, acquisitions and disposals. The risks to planning and delivery of the strategy are also included.

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 and operations accordingly.

Financial

Operating in a number of countries, we are exposed to events in the financial environment that impact the Group including commodity and energy prices, currency exchange, the current credit crisis and other financial market incidents, market volatility, interest rates, liquidity, pension funding, tax planning, etc. These risks are mitigated through proactive assessment, contingency planning and the use of appropriate mitigation.

Examples of mitigation include:

- Optimising exchange rate exposure through the supply chain by raw material sourcing, manufacturing and selling to minimise exchange rate impact.
- 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 page 42.
- 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 21 on page 105.

Risk management continued

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 exposed to the risks of ensuring compliance with listing requirements. We cannot predict whether future developments in laws and regulations concerning our businesses will have an adverse or a positive effect.

For example, a failure to comply with export control regulations could have a negative impact, whilst new environmental performance legislation which affects our customers could increase the demand for our energy conserving products and services which can help our customers to address the requirements of such legislation.

From time to time and in the normal course of business, we are subject to certain litigation, in particular in the USA. Provision for the expected costs and liabilities are set out in note 22 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 35 to 37.

Business conduct risks

Risks such as a potential breach of our Core Values Statement 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 such risks through various means, including:

- Our corporate responsibility programme, and our Statement of Core Values.
- Our Ethics Policy and Internal Compliance Reporting Helpline.
- Our systems of internal control and risk management.

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

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, accidental disclosure, etc. Such incidents can also impact the continuity of the business.

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. e.g. 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.

Key contractual relationships

Morgan Crucible 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. However, 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 are included elsewhere in this Business review, including in the Corporate responsibility section on pages 32 to 39. As referred to in the Directors report on page 50, 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.

Commercial relationships

Morgan Crucible benefits from close commercial relationships with a large number of customers and suppliers none of which are individually essential to the business of the Group as a whole. Notwithstanding this the Group devotes significant resources to ensure 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. 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 Directors' contracts are referred to on page 64 and are available for inspection prior to the AGM and at the Company's registered office.

Patents and intellectual property

The Group benefits from technological know-how and other forms of intellectual property, some of which is 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.

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 one 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 50 in the Directors report. However, no one individual 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 contains forward looking statements that are subject to risk factors associated with, amongst other things, the economic and business circumstances occurring from time to time in the countries, sectors and markets in which the Group operates. These and other factors could adversely affect the outcome and financial effects of the plans and events described. Forward looking statements by their nature involve a number of risks, uncertainties and assumptions because they relate to events and/or depend on circumstances that may or may not occur in the future and could cause actual results and outcomes to differ materially from those expressed in or implied by the forward looking statements. It is believed that the expectations reflected in these statements are reasonable but they may be affected by a wide range of such variables. No assurances can be given that the forward looking statements in this Business review 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 Business review for next year. This Business review has not been audited or otherwise independently verified.

Directors and Executive Committee

Executive Directors

Mark Robertshaw^s Chief Executive Officer

Mark was appointed as Chief Executive Officer in August 2006. Previous 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 Rathbones Brothers plc. He previously worked for the NatWest Group and also spent nine years as a management consultant with Marakon Associates.

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. Before joining Morgan Crucible Kevin worked for London International Group plc and Virgin Retail Europe Limited. He qualified as a chartered accountant with PricewaterhouseCoopers.

Non-executive Directors

Tim Stevenson OBE^{ts} Chairman

Tim was appointed as Chairman of Morgan Crucible in December 2006. He is also Chairman of Travis Perkins plc, a position that he has held since November 2001. He was a non-executive Director of Tribal Group plc from 2004 to 2008 and was latterly the Senior Independent Director. 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.

Martin Flower^{**ts} Senior Independent Director

Martin was appointed as a non-executive Director in December 2004 and Senior Independent Director in April 2008. He is also Chairman of Croda International Plc and of Alpha Group Plc and is a non-executive Director of Low & Bonar PLC and Autogrill Group Inc. 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.

From left to right

Tim Stevenson
Simon Heale
Andrew Given
Martin Flower
Kevin Dangerfield
Mark Robertshaw
Paul Boulton
Amanda Wooding
Tim Hayter
Andrew Hosty
Don Klas



Simon Heale^{†§}

Simon was appointed as a non-executive Director in February 2005 and is the Chairman of the Remuneration Committee. He is a non-executive Director of Kazakhmys plc, Panmure Gordon and Co plc, PZ Cussons plc and Marex Group Limited. 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.

Andrew Given^{†§}

Andrew was appointed as a non-executive Director in December 2007 and is the Chairman of the Audit Committee. He is currently the senior non-executive Director and Chair of the Audit Committee at VT Group plc and was previously the Senior Independent Director and Chair of the Audit Committee of Spectris plc. He was also formerly a non-executive Director and Chair of the Audit Committee of Spirent Communications plc. He has extensive experience within the manufacturing and technology sectors having been Deputy Chief Executive of Logica CMG plc and in the 1980s held senior management positions in Plessey and Nortel Networks.

Executive Committee

Mark Robertshaw
Chief Executive Officer

Kevin Dangerfield
Chief Financial Officer

Don Klas
CEO Carbon

Andrew Hosty
CEO Technical Ceramics

Tim Hayter
CEO Thermal 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 auditors' report for the year ended 4 January 2009. This Directors' report was approved by the Board on 19 February 2009.

Principal activities and business review

The Morgan Crucible Company plc ('the Company') and its subsidiary undertakings comprise three reporting Divisions (as outlined on page 3) 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 16 to 45, to be read in conjunction with the cautionary statement on page 45.

The Companies Act 2006 requires the Directors' report to include a Business review. Certain information that fulfils the requirements of the Business review can be found in this Directors' Report and on pages 20 to 31 (Review of operations), 40 to 42 (Financial review), 43 and 44 (Risk management), and 32 to 39 (Corporate responsibility), to be read in conjunction with the cautionary statement on page 45.

Financial results

The total profit for the year ended 4 January 2009 was £62.7 million (2007: £56.5 million). Profit before tax for the same period was £82.8 million (2007: £71.7 million). Revenue was £835.0 million (2007: £693.2 million) and operating profit was £95.0 million (2007: £77.3 million). Basic earnings per share was 22.2 pence (2007: 19.1 pence). Capital and reserves at the end of the year were £208.0 million (2007: £196.3 million). The total profit of £62.7 million will be transferred to equity. The Group's accounting policies can be found on pages 74 to 81.

Dividends

The Directors recommend the payment of a final dividend at the rate of 4.5 pence per share on the Ordinary share capital of the Company, payable on 9 July 2009 to shareholders on the register at the close of business on 5 June 2009. Together with the interim dividend of 2.5 pence per share paid on 7 November 2008, this final dividend, if approved by shareholders, brings the total distribution for the year to 7.0 pence per share (2007: 6.75 pence).

Acquisitions and disposals

On 31 March 2008 the Company acquired Carpenter Technology Corporation's Certech and Carpenter Advanced Ceramics businesses for £74.6 million.

On 30 October 2008, the Company acquired a further 6.39% of the issued share capital of Carbo San Luis S.A. for £0.7 million bringing its interest in Carbo San Luis to 75.6%.

Post balance sheet events

On 6 January 2009 the Company announced an increase in its equity stake in NP Aerospace from 49% to 60% by acquiring an additional 11% of the equity for £12.2 million.

The Company proposes to pay a final ordinary dividend of 4.5 pence per share in respect of the 2008 financial year.

Share capital

As at 4 January 2009, pursuant to an authority granted at the Company's Annual General Meeting on 18 April 2008, the Company was authorised pursuant to the Companies Act 1985 to purchase up to 9.99% of its issued share capital. This authority expires on the date of the Annual General Meeting to be held on 17 April 2009 at which the Directors will seek to renew this authority for a further year.

Pursuant to this authority the Company has during the year under review purchased 6,250,000 Ordinary shares with a nominal value of 25 pence each (representing 2.3% of the ordinary issued share capital of the Company as at 4 January 2009) for an aggregate consideration of £12.1 million (nominal value £1.6 million). The Directors were of the opinion that the purchase of these shares was both in the best interests of shareholders generally and would increase the Company's earnings per share. The shares purchased by the Company have been cancelled.

The Company's share capital and details of shares issued and purchased during the year are set out in note 18 on pages 95 to 97. 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, copies of which can be obtained from Companies House in the UK or 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; 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 97. 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. Unless expressly specified to the contrary in the Articles of Association of the Company, the Company's Articles of Association 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 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 33 days (2007: 42 days) and for the Group was 68 days (2007: 60 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 £11.4 million during the year (2007: £8.7 million), including £1.6 million of capitalised development costs (2007: £nil).

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 20 on pages 99 to 105.

Human resources

Details of the Company's and the Group's personnel policies (including its policy on equal opportunities for disabled employees) and employee involvement are set out on pages 38 and 39.

Following an update of Executive Directors' service contracts during the year, 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. 137 employees hold awards under the Morgan Crucible Long Term Incentive Plan, 31 employees hold awards under the Morgan Crucible Bonus Deferral Share Matching Plan, 83 employees have options under the Company's Executive Share Option Schemes and 562 employees participate in the Company's UK Sharesave Plan. There are 95 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 21 on pages 105 to 112.

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 2,593,799 shares on 4 January 2009 in connection with awards granted under the Company's Employee Share Schemes. In the period 4 January 2009 to 19 February 2009 no shares were transferred out of the Trust. 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 Trustee will have absolute and unfettered discretion on whether or not 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 46 and 47. Joe MacHale resigned as a Director on 18 April 2008.

Details of Directors' interests in the share capital of the Company are listed on page 65. The Company has not been notified of any change in their holdings in the period 5 January 2009 to 19 February 2009.

None of the Directors will be offering themselves for election and re-election at the forthcoming Annual General Meeting on 17 April 2009 as all of the current Directors have been elected or re-elected at the last two Annual General Meetings.

The Company's Articles of Association ('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 following appointment and all Directors are required to submit themselves for re-election at the third Annual General Meeting following their appointment or re-election.

Subject to the Company's Memorandum and Articles of Association, 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 also seek authority from shareholders at each Annual General Meeting to allot shares, to disapply pre-emption rights and to make market purchases of the Company's Ordinary shares. These powers may be exercised under authority of resolutions of the Company passed at its Annual General Meeting.

As at the date of this report, indemnities are in force under which the Company has agreed to indemnify all of the Directors, to the extent permitted by law and the Company's Articles of Association, in respect of all losses arising out of, or in connection with, the execution of their powers, duties and responsibilities, as Directors of the Company or any of its subsidiaries.

Donations

During the year, Morgan Crucible companies made charitable donations of £114,736 (2007: £193,598).

Further details of charitable donations and activities of the Group are given on page 34. No political donations have been made.

Significant agreements

As referred to in the Key contractual relationships section on page 45, the Group has a number of borrowing facilities provided by various banking groups. 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 such agreements are: the US\$420 million Multicurrency Revolving Facility Agreement which was signed in March 2005 and subsequently amended by an Amendment Agreement in July 2007 and the US\$80 million and US\$350 million Note Purchase and Guarantee Agreements signed in March 2003 and December 2007 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 19 February 2009, the Directors have been advised of the following holdings representing 3% or more of the issued Ordinary share capital of the Company:

Company	Number of Ordinary shares	%*
Standard Life Investments Ltd	46,169,109	17.09
Prudential Plc group of companies (inc. M&G)	13,822,557	5.12
JPMorgan Chase & Co.	13,591,569	5.03
Schroders plc	12,494,272	4.62
Lloyds TSB Group plc	10,907,770	4.04
Legal & General Group plc	10,790,668	3.99
Aegon UK	10,619,504	3.93
Lazard Asset Management LLC	10,342,906	3.83
BAE Systems Pension Funds Management Ltd	10,142,618	3.75

* The number of Ordinary shares is expressed as a percentage of the Company's issued share capital as at 19 February 2009 in each case.

Disclosures of information to auditors

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and that each Director 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 Annual General Meeting of the Company will be held on 17 April 2009 at The Oakley Court Hotel, Windsor Road, Water Oakley, Windsor, Berkshire, SL4 5UR. A Circular will be sent with this report to shareholders in March 2009 incorporating the Notice of Annual General Meeting and detailing any special business to be transacted at that time.

Directors' Responsibility Statement in respect of the Disclosure and Transparency Rules

We confirm to the best of our 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 1985 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 loss 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 principle risks and uncertainties they face.

For and on behalf of the Board

Paul Boulton

Secretary
19 February 2009

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

Throughout the year ended 4 January 2009 the Company has been in compliance with Section 1 of the June 2006 edition of the Combined Code on Corporate Governance (the Code).

This statement describes how the Company has applied the main and supporting principles of the Code. It should be read in conjunction with the Business review and Remuneration report on pages 16 to 45 and pages 59 to 67 respectively.

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 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 32 in the Business review.

The Board met formally eight 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. Various matters are delegated to duly authorised sub-committees of the Board.

During the year a number of Board changes were made. Joe MacHale retired following the Annual General Meeting held on 18 April 2008 and effective on the same date, Andrew Given was appointed as Chairman of the Audit Committee and Martin Flower was appointed as Senior Independent Director.

As at 4 January 2009, the Board comprises Tim Stevenson, Chairman; Mark Robertshaw, Chief Executive Officer; Kevin Dangerfield, Chief Financial Officer and three independent non-executive Directors. Biographies of the Directors, including details of their other main commitments are set out on pages 46 and 47.

All Directors submit themselves for election by the shareholders at the first Annual General Meeting following their appointment and for re-election at least once every three years. Should a non-executive Director serve for more than six years, his re-election would be subject to particularly rigorous review. Should any Director serve for longer than nine years he would then be subject to annual re-election.

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

Director	Board		Audit		Remuneration		Nomination	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
Tim Stevenson*	8	8	—	—	5	5	2	2
Mark Robertshaw	8	8	—	—	—	—	2	2
Kevin Dangerfield	8	8	—	—	—	—	—	—
Joseph MacHale**	3	3	1	1	1	1	0	0
Martin Flower*	8	8	5	5	5	5	2	2
Andrew Given*	8	6	5	4	5	4	2	2
Simon Heale*	8	8	5	5	5	5	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.

Retired from the Board following the AGM on 18 April 2008.

During 2008, the Chairman and the non-executive Directors met without the executive Directors present on two occasions. During the year, the Senior Independent Director and the other non-executive Directors also 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. On his retirement, Joe MacHale did not express any such concerns.

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 running the Board and the Chief Executive Officer is responsible for running the Company's business.

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 two executive Directors and three further 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 or with charities receiving material support from the Company.

During the year the structure and shape of the Board was reviewed. As the Board has regular access to and interaction with senior management, and in order to prevent the total size of the Board from becoming unwieldy, it was considered that the current level of executive representation on the Board remains appropriate.

Appointments to the Board

As is further detailed in the report of the Nomination Committee, set out on page 57, there is a formal, rigorous and transparent procedure for appointments to the Board.

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 Board receives, in a timely manner, information in a form and of a quality appropriate to enable it to discharge its duties, with Board papers generally sent out five working days before each meeting.

All Directors receive 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 to meet with management. In addition to visits by individual Directors and the Chairman, each year at least one Board meeting is held at an operating facility. During 2008 the Board visited three sites in the USA, two in Germany and one in the UK. Formal Board meetings took place at the Technical Ceramics site in Southampton, UK, the Carbon Division's Ahrweiler site in Germany and at the Carbon Division's manufacturing site in Greenville, SC, USA.

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. 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 and the Company Secretary. The one-to-one discussions were complemented by a questionnaire and provided each Director with 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.

The evaluation concluded that the Board was of the right size; works effectively in that there are open and frank discussions covering the right and relevant issues; governance obligations are covered effectively; and the Board adds value to the executive team. A number of recommendations are being implemented following the review, including increased reporting between meetings; enhancing the exposure of the Board to senior management, particularly the Divisional Chief Executives; and Board meetings are to be held at manufacturing locations as often as feasible.

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.

Corporate governance continued

Remuneration

Remuneration policy and practice is discussed in the Remuneration report on pages 59 to 67.

Accountability and audit

Financial reporting

The balanced and understandable assessment of the Company's position and prospects as required by the Code is included in the Business review on pages 16 to 45. 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 58 and the 'going concern' statement is set out in the Business review on page 42.

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. Through the Audit Committee, the Board reviews the effectiveness of the internal control system annually and did so during the year. This review covered all material controls, including financial, operational and compliance controls, and risk management systems. The Audit Committee is 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 initiates action to improve the systems and ensure compliance.

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 Ethics and Compliance Helpline is available to support employees and others in this regard.
- **Financial reporting** A detailed budgeting system for each Division exists with an annual consolidated budget reviewed and approved by the Board. Businesses present their revenue and capital expenditure budgets for approval. Monthly results for the Group are presented to the Executive Committee and the Board, including comparisons against budget and the prior year. The Group's annual and half yearly results are reported externally, in addition to interim management statements. The annual results are audited.
- **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 by the Group's Divisional Chief Executive Officers. 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 Assurance Risk helps to ensure that internal control and risk management is embedded into the Group's operations.
- **Risk factors** Morgan's businesses are affected by a number of factors, many of which are influenced by macroeconomic 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.
- **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 head of the internal audit function 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 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

During the year the Board adopted procedures to address the requirements of Section 175 of the Companies Act 2006 concerning the duty of the Directors to avoid conflicts of interest. Prior to 1 October 2008, the date on which Section 175 became effective, and in accordance with the GC100 guidance, 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. 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 October 2008, to be reviewed annually. Such authorisation is revocable at any time at the Board's discretion. 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.

As of 1 October 2008, 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. Once an actual or potential conflict has been identified, the Board shall consider whether to authorise the situation and, if so, the terms of any authorisation.

The Board is responsible for undertaking a regular review of 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.

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 Preliminary and Interim announcements. The Chairman also discusses governance and other matters directly with shareholders. The Chairman and the non-executive Directors are invited to investor briefings and 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 Preliminary and Interim 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 AGM

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 2008, 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.

Corporate governance continued

Board committees

The full terms of reference of the following Board committees are available upon request and are 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. Joe MacHale was the Committee Chairman until his retirement as a Director on 18 April 2008 when Andrew Given was appointed Committee Chairman. All members of the Committee are independent Directors and 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 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 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 audit process, 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 has access to the Chairman of the Committee and meets, when appropriate, with the Committee without other executives present.

The work of the Committee in discharging those responsibilities in 2008 included:

- Reviewing the Group's 2007 financial statements and 2008 interim statements prior to Board approval.
- Consideration of the Group's main business risks and receiving regular updates on areas of risk.
- 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 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 2008 included services amounting to £0.2 million, mainly in connection with the acquisitions completed during the year and tax assistance.

To 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.

The proportion of the auditors' fees for non-audit work relative to the audit fee has declined from 36% in 2007 to 11% in 2008.

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 Committee recommended to the Board that the Group's audit work should not be put out to third party tender during 2008.

Remuneration

As is further described in the Remuneration report on pages 59 to 67, 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. Joe MacHale was a member of the Committee until his retirement from the Board on 18 April 2008. The Committee is assisted in its duties by the Group Chief Executive, the Company Secretary and the Director of Human Resources, none of whom takes part in discussion of their own remuneration or votes on any resolution. 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 five 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 Rathbone Brothers plc. The fees received by Mark Robertshaw in this regard are shown on page 64.

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 59 to 67.

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. Joe MacHale was a member until his retirement from the Board on 18 April 2008.

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 met twice during 2008.

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.

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 International Financial Reporting Standards as adopted by the EU (adopted IFRSs) and applicable law and have elected to prepare the parent Company financial statements in accordance with UK Accounting Standards (UK Generally Accepted Accounting Practice) and applicable law.

The Group financial statements are required by law and adopted IFRSs to present fairly the financial position and the performance of the Group; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The parent Company financial statements are required by law to give a true and fair view of the state of affairs of the parent Company and of the profit or loss of the parent Company 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 adopted IFRSs;
- 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; and
- 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 proper accounting records that 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 1985. 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 report 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

19 February 2009

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 17 April 2009.

The report has been drawn up in accordance with the Combined Code on Corporate Governance, Schedule 7A to the Companies Act 1985 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, Joe MacHale, Tim Stevenson and Andrew Given. Joe MacHale retired from the Board and from the Committee following the AGM on 18 April 2008. 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 to the Board.

The Committee met on five occasions during the year.

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. No executive Director or other attendee is present when his or her own remuneration is under consideration.

Deloitte LLP was appointed by the Committee as its retained advisers in February 2007 and has provided advice on market practice and remuneration policy as well as Total Shareholder Return (TSR) analysis.

During the financial year, Deloitte LLP has also provided unrelated tax and corporate finance services to the Company.

During the year, Imbucon provided Total Shareholder Return (TSR) analysis relating to the Company's share plans. Imbucon did not provide any other services to the Company. Additionally, the Committee had access to advice from the Chief Executive Officer, the Chief Financial Officer, the Company Secretary, and the Director of Human Resources.

Remuneration policy

The Remuneration Committee aims to ensure that 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 we compete for talent. For the purposes of such analysis, comparator companies are chosen having regard to: the size of the company (e.g. market capitalisation, turnover and number of people employed); the diversity and complexity of its businesses; and the geographical spread of its businesses.

In 2007, the Committee undertook a comprehensive review of the current incentive arrangements in order to ensure that the executive remuneration policy and practices continue to support the business. This led to the introduction of the Deferred Bonus Share Matching Plan for which shareholder approval was obtained at the 2008 Annual General Meeting. The Committee believes that the current remuneration structures continue to be relevant.

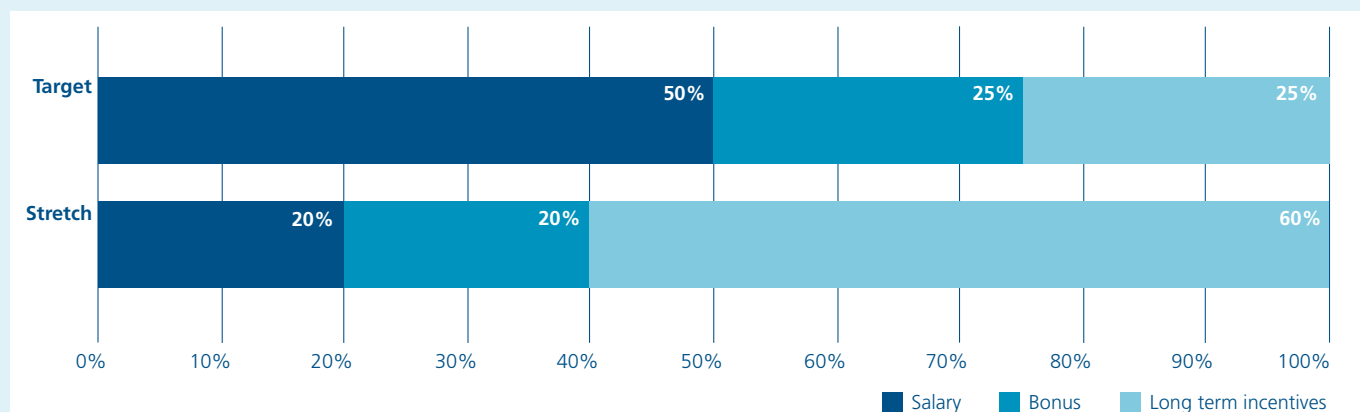
Remuneration report continued

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	→ Maximum bonus award of 100% of salary → Targets based on financial performance (90% of salary) and the achievement of personal objectives (10% of salary)
Deferred Bonus 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	→ New plan introduced in 2008, 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 → 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 TSR and EPS performance over a three-year period → Awards to be made in 2009 will be based on TSR
Executive Share Option Scheme	→ Drives and rewards sustained Company performance	→ Market value options scheme with awards based on TSR performance over a three-year period → No option awards were made in 2008 and there is currently no intention to make awards under the scheme in 2009
Pension	→ Provides post-retirement benefits for participants in a cost efficient manner	→ Defined benefit scheme subject to a notional earnings cap → 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 Deferred Bonus 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 the current incentive arrangements, assuming maximum deferral under the Deferred Bonus Share Matching Plan.



Calculated on a projected value basis assuming 10% pa share price growth at Target performance and 15% pa share price growth at Stretch.

Base salary

The basic 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.

The current base salaries for executive Directors are as follows:

- Mark Robertshaw – £440,000 (effective from January 2008).
- Kevin Dangerfield – £255,000 (effective from January 2008).

At the request of the executive Directors, there was no increase in base salaries in January 2009. The next salary review will take place in January 2010.

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 and fostering the continued development of inter-divisional co-operation and collaboration.

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 2008, 90% of the bonus related to financial targets and 10% related to the achievement of personal objectives. The financial element for executive Directors was based on underlying operating profit performance (up to 80% of salary) and operating cash flow (up to 10% of salary).

For 2009, the bonus will be based wholly on financial performance. The targets for the awards will be set to address the new demands placed on the business in the current economic climate and will be based on underlying operating profit performance (up to 60% of salary) and cash conversion (up to 40% of salary).

In considering the awards, the Committee will also take into account the quality of the overall performance of the Company. The bonus targets set for 2008 were considered to be very stretching, and the bonus awarded to executive Directors who served during the year was as follows:

- Mark Robertshaw – 60% of salary (100% in 2007).
- Kevin Dangerfield – 30% of salary (98% in 2007).

Remuneration report continued

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.

Deferred Bonus Share Matching Plan

In 2008 shareholder approval was gained for the introduction of a new long-term incentive plan, the Deferred Bonus Share Matching Plan. This Plan now operates alongside other long-term incentive arrangements. The Plan offers executive Directors and senior executives the opportunity to ordinarily 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 stretching EPS targets have been met.

The performance conditions for awards to be made under the plan in 2009 are as follows:

EPS performance	Matching shares
15% pa	3x match
10% pa	1.75x match
7.5% pa	1x match
5% pa	0.5x match
4% pa	0.25x match
< 4% pa	0x match

There is straight-line vesting in between each point above.

The performance conditions for awards made in 2008 were as above but referenced growth above RPI. Given the change in the economic climate, the Committee considers the targets for the 2009 awards above to be stretching.

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.

For awards made under the LTIP in 2007 and 2008, the Committee set the targets so that 50% of awards be based on TSR against a tailored comparator group and 50% based on real EPS growth.

The vesting schedule for the awards is as follows:

	% of the Award which vests TSR performance against the sector comparator group	% of the Award which vests EPS growth	
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 Committee must also be satisfied that the Company's underlying financial performance justifies the level of vesting.

The TSR comparator group is set out below*:

Bodycote International	Rotork
Charter	Senior
Chemring Group	Spectris
Cobham	Spirax-Sarco
Cookson Group	Tomkins
Halma	TT Electronics
IMI	Ultra Electronics
Laird Group	Weir Group
Meggitt	

* The original comparator group also included FKI and Foseco which have subsequently delisted.

During the year, an award over 220,000 shares was made to Mark Robertshaw and an award over 120,000 shares was made to Kevin Dangerfield.

Awards to be made in 2009 will be based 100% on TSR against the comparator group on page 62. The Committee must also be satisfied that the Company's underlying financial performance justifies the level of vesting. This approach reflects the challenges around setting robust EPS targets over the next three years and provides a clear focus on shareholder value creation.

Executive Share Option Scheme (ESOS)

The ESOS was also 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.

Option awards are subject to a measure based on the comparative TSR performance of the Company measured over the three-year period from the start of the year in which the option is granted. TSR is measured against a comparator group comprising the FTSE 350 at the date of grant. If the Company's TSR performance places it at the median of the comparator group, 30% of the options will be exercisable, with 100% of the options being exercisable for upper quartile performance. For performance between median and upper quartile, options are exercisable on a straight-line pro-rata basis. The Committee must also be satisfied that the level of vesting is justified by the Company's underlying financial performance over the period.

No awards were made under the ESOS in 2007 or 2008 and there is currently no intention to make awards under the option plan in 2009. The details of options and awards held by all Directors are shown on page 66.

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 67. 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 a cash allowance in lieu of a company car, 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 Deferred Bonus Share Matching Plan under which participants are encouraged to invest their bonus into Company shares.

Chairman and non-executive Directors

Tim Stevenson was appointed as Chairman on 1 December 2006 and during the year he received an annual fee of £125,000.

Non-executive Directors receive a basic fee of £40,000. Additional payments of £4,500 per annum 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. The Chairman and non-executive Directors are also entitled to reimbursement of expenses incurred in attending Board, strategy and other meetings. No changes were made to non-executive fees during the year.

Annual fees paid to the Chairman and non-executive Directors are reviewed on a biennial basis. A review was held in 2008, while no increases were recommended for the non-executive Directors an increase for the Chairman was recommended based on market data but, at the request of the Chairman, has been deferred for 12 months and will be reviewed again in December 2009.

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 is subject to re-election by shareholders every third year after their initial confirmation by shareholders as a Director.

Should any non-executive Director serve for nine or more years they would be subject to annual re-election.

Remuneration report

continued

Service contracts

In 2008, Mark Robertshaw and Kevin Dangerfield signed new service agreements. The Company's policy remains unchanged such that 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

Both service agreements for Mark Robertshaw and Kevin Dangerfield 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.

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. Its main features are now:

- 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.
- Dependant's pension on death.

Pensionable salary is the member's basic salary restricted to a scheme earnings cap of £117,600 for the 2008-9 tax year.

In addition, executive Directors receive a pension allowance derived from employer contributions based notionally on the registered scheme pensionable salary in excess of the earnings cap as at 5 April 2006. The value of the pension allowance for each executive Director is set out in the Directors' emoluments table on page 65.

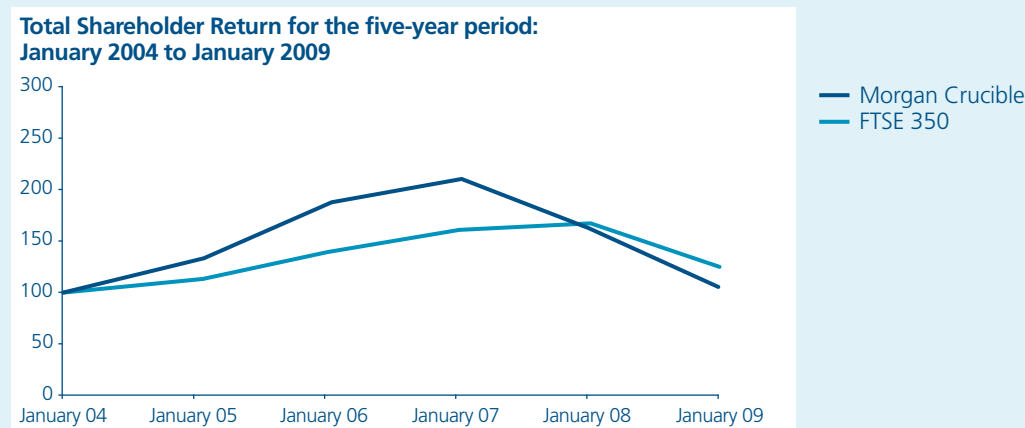
External directorships

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 amounts of fees received by Mark Robertshaw in respect of a non-executive Directorship was £35,000.

Performance graph

The following graph shows the cumulative total shareholder return (TSR) for the Company for the five-year period to 4 January 2009 against the FTSE 350. Both are rebased to 100 as at 5 January 2004. The FTSE 350 is considered to be appropriate for comparison as a broad market index and the Company forms part of that index.



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 2008	As at 4 January 2009	As at 19 February 2009
Executive Directors			
Mark Robertshaw	219,002	331,595	331,595
Kevin Dangerfield	81,463	138,717	138,717
Non-executive Directors			
Tim Stevenson	29,000	29,000	29,000
Martin Flower	15,000	15,000	15,000
Simon Heale	8,000	18,000	18,000
Joe MacHale (retired 18 April 2008)	100,000	–	–
Andrew Given	–	10,000	10,000

At the market price on 19 February 2009, Mark Robertshaw and Kevin Dangerfield held shares worth 76% and 55% respectively 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	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Executive Directors														
Mark Robertshaw	440	407	264	414	13	23	717	844	108	109	–	–	825	953
Kevin Dangerfield	255	225	77	230	12	17	344	472	60	35	–	–	404	507
Non-executive Directors														
Tim Stevenson (Chairman)	125	125	–	–	–	–	125	125	–	–	–	–	125	125
Martin Flower	43	40	–	–	–	–	43	40	–	–	–	–	43	40
Simon Heale	45	45	–	–	–	–	45	45	–	–	–	–	45	45
Joe MacHale ³	16	52	–	–	–	–	16	52	–	–	–	–	16	52
Andrew Given	45	2	–	–	–	–	45	2	–	–	–	–	45	2
Former Directors														
Warren Knowlton (retired on 3 August 2006) ⁴	–	–	–	–	–	–	–	–	–	–	84	190	84	190
Mark Lejman (resigned on 2 January 2008) ⁵	–	274	–	58	–	13	–	345	–	83	5	411	5	839

¹ Annual bonus shows the total bonus payable in respect of the relevant year. Mark Robertshaw and Kevin Dangerfield voluntarily deferred 50% of their 2007 bonus awards into the Bonus Deferral Share Matching Plan as set out in the table on page 66.

² Other benefits include private medical insurance, the provision of a company car and fuel.

³ Joe MacHale retired from the Board on 18 April 2008.

⁴ £71,499 of the 'Other payments' made to Warren Knowlton in 2008 relate to the reimbursement by the Company to Warren Knowlton of US employer social costs in respect of his time with the Company. Warren Knowlton's liability to make such payments resulted from a change in his tax residence in December 2005. The social security liability discharged by him was properly an employer cost and there was therefore no material benefit to him resulting from this payment. The balancing figure of £12,725 relates to the cost of providing professional tax advice to Warren Knowlton in accordance with the Company's agreement with him on his retirement.

⁵ The payment made to Mark Lejman relates to the provision by the Company of life assurance and private medical insurance until December 2008 as agreed as part of his leaver provisions.

Remuneration report

continued

Directors' share options

	At 5 January 2008	Granted during the year	Exercised during the year	Lapsed during the year	At 4 January 2009	Exercise price	Earliest date of exercise	Expiry date
Mark Robertshaw	200,000 1,000,000*	– –	– –	– –	200,000 1,000,000	145.275p 256p	01.11.07 20.12.09	01.11.14 20.12.16
Kevin Dangerfield	10,520 10,520 50,000 150,000	– – – –	– 10,520 50,000 –	– – – –	10,520 – – 150,000	180.08p 49.42p 129.05p 256p	23.11.04 13.12.05 22.06.07 20.12.09	23.11.11 13.12.12 22.06.14 20.12.16

The share price at the year end was 121.75 pence and the high and low during the year were 244.75 pence and 67.75 pence respectively.

* This relates to an award made to Mark Robertshaw on his appointment as Chief Executive Officer in February 2006. The award is structured as a market value option over 1,000,000 shares subject to the performance conditions that apply to awards under the Executive Share Option Scheme.

Awards to Directors under the Long Term Incentive Plan

	As at 5 January 2008	Allocations during the year	Shares released during the year	Shares lapsed during the year	As at 4 January 2009	Market price at date of allocation	Market price at date of release	Performance periods
Mark Robertshaw								
2005 LTIP	223,967	–	215,814	8,153	–	171.9p	215.7978p	05.01.05 – 04.01.08
2006 LTIP (May)	250,000	–	–	–	250,000	242.95p	n/a	05.01.06 – 04.01.09
2006 LTIP (December)	50,000	–	–	–	50,000	256p	n/a	05.01.06 – 04.01.09
2008 LTIP	–	220,000	–	–	220,000	203p	n/a	05.01.08 – 02.01.11
Kevin Dangerfield								
2005 LTIP	101,803	–	98,097	3,706	–	171.9p	215.7978p	05.01.05 – 04.01.08
2006 LTIP (December)	107,500	–	–	–	107,500	256p	n/a	05.01.06 – 04.01.09
2007 LTIP	80,000	–	–	–	80,000	282p	n/a	05.01.07 – 03.01.10
2008 LTIP	–	120,000	–	–	120,000	203p	n/a	05.01.08 – 02.01.11

The performance measure for the 2005 and 2006 LTIP awards is based on the Company's Total Shareholder Return (TSR) against the FTSE350. 30% of the awards vest for achieving 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.

Awards to Directors under the Bonus Deferral Share Matching Plan

	As at 5 January 2008	Allocations during the year	Shares released during the year	Shares lapsed during the year	As at 4 January 2009	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	197.625	–	–
Matching shares ²	–	314,229	–	–	314,229	197.625	–	05.01.08 – 02.01.11
Kevin Dangerfield								
2008 award								
Investment shares ¹	–	58,266	–	–	58,266	197.625	–	–
Matching shares ²	–	174,798	–	–	174,798	197.625	–	05.01.08 – 02.01.11

¹ Investment shares represent those shares acquired with a portion of the bonus set out in the emoluments table on page 65 voluntarily deferred into the Bonus Deferral Share Matching Plan.

² This is the maximum number of shares that could be earned at the end of the performance period if the performance condition set out on page 62 is met in full.

Options under the Sharesave scheme

	As at 5 January 2008	Granted during the year	Exercised during the year	Lapsed during the year	As at 4 January 2009	Exercise price	Exercise periods
Mark Robertshaw 2006 scheme	4,725	–	–	–	4,725	200p	01.03.10 – 31.08.10
Kevin Dangerfield 2006 scheme	4,725	–	–	4,725	–	200p	01.03.10 – 31.08.10
2008 scheme	–	5,680	–	–	5,680	169p	01.12.11 – 31.05.12

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.

	Accrued benefit at 4 January 2009 £000	Increase in accrued benefits excluding inflation (a) £000	Increase in accrued benefits including inflation £000	Transfer value of (a) less Directors' contributions £000	Transfer value of accrued benefits at 4 January 2008 or date of appointment if later £000	Transfer value of accrued benefit at 4 January 2009 £000	Increase/ (decrease) in transfer value less Directors' contributions £000
Executive Directors							
Mark Robertshaw	13 pa	3 pa	4 pa	(5)	77	64	(31)
Kevin Dangerfield	24 pa	2 pa	3 pa	(1)	190	140	(60)

Notes to pension benefits:

- The accrued benefit entitlement for Mark Robertshaw and Kevin Dangerfield is the pension which would be paid annually on retirement based on service at the end of the year.
- The transfer values for the pension benefits have been calculated on the basis set by the Trustee of the pension scheme having taken actuarial advice and in accordance with current legislation.
- 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.

Mark Robertshaw and Kevin Dangerfield also received a pension allowance, details of which are set out in the Directors' emoluments table on page 65.

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

Simon Heale

Chairman

Remuneration Committee

19 February 2009

Shareholder information

Analysis of shareholdings as at 4 January 2009

		Number of holdings	% of total	Number of shares	% of share capital
Size of holding	1-2,000	6,619	75.34	3,733,150	1.38
	2,001 – 5,000	1,243	14.15	3,959,701	1.47
	5,001 – 10,000	387	4.40	2,770,204	1.02
	10,001 – 50,000	272	3.10	5,787,305	2.14
	50,001 – 100,000	59	0.67	4,377,251	1.62
	100,001 and above	206	2.34	249,578,645	92.37
		8,786	100.00	270,206,256	100.00
Holding classification	Individuals	7,593	86.42	17,925,489	6.63
	Nominee Companies	1,079	12.28	248,792,936	92.08
	Trust (Pension Funds etc)	12	0.14	127,635	0.05
	Others	102	1.16	3,360,196	1.24
		8,786	100.00	270,206,256	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 2009 and	
	5.0% Cumulative Second Preference shares of £1 each		1 October 2009	
Annual General Meeting			17 April 2009	
Financial results	The interim results are issued in August 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
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Company details

Registered office	Quadrant, 55-57 High Street, Windsor, Berkshire SL4 1LP Telephone: 01753 837000 Fax: 01753 850872 Website: www.morgancrucible.com	Registered in England No 286773
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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)
Telephone (from overseas): +44 208 639 3399
Email: ssd@capitaregistrars.com
Website: www.capitaregistrars.com

Independent auditors' report to the members of The Morgan Crucible Company plc

We have audited the Group and parent Company financial statements (the 'financial statements') of The Morgan Crucible Company plc for the year ended 4 January 2009 which comprise the Consolidated income statement, the Consolidated and Company balance sheets, the Consolidated statement of cash flows, the Consolidated statement of recognised income and expense and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 auditors

The Directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards as adopted by the EU (adopted IFRSs), and for preparing the parent Company financial statements and the Directors' Remuneration report in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the statement of Directors' responsibilities in respect of the Annual Report and the financial statements on page 58.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation. We also report to you whether, in our opinion, the information given in the Directors' report is consistent with the financial statements. The information given in the Directors' report on pages 48 to 51 includes that information presented in the Review of operations on pages 20 to 31, Financial review on pages 40 to 42, and Risk management section on pages 43 and 44 that are cross referenced from the Principal activities and business review section of the Directors' report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Corporate governance statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration report to be audited. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration report to be audited.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with adopted IFRSs, of the state of the Group's affairs as at 4 January 2009 and of its profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the parent Company financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the parent Company's affairs as at 4 January 2009;
- the parent Company financial statements and the part of the Directors' Remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the financial statements.

KPMG Audit Plc

Chartered Accountants, Registered Auditor
8 Salisbury Square, London EC4Y 8BB
19 February 2009

Consolidated income statement

for the year ended 4 January 2009

	Note	2008 £m	2007 £m
Revenue	2	835.0	693.2
Operating costs before restructuring costs, other one-off items and amortisation of intangible assets	5	(726.2)	(605.1)
Profit from operations before restructuring costs, other one-off items and amortisation of intangible assets		108.8	88.1
Restructuring costs and other one-off items:			
Restructuring costs and costs associated with settlement of prior period anti-trust litigation	9	(11.4)	(9.0)
Profit/(loss) on disposal of property		0.8	(0.2)
Profit from operations before amortisation of intangible assets	2	98.2	78.9
Amortisation of intangible assets	5	(3.2)	(1.6)
Operating profit	2	95.0	77.3
Finance income		34.3	28.8
Finance expenses		(47.0)	(34.3)
Net financing costs	7	(12.7)	(5.5)
Loss on disposal of business		(0.7)	(0.3)
Share of profit of associate (net of income tax)	13	1.2	0.2
Profit before taxation		82.8	71.7
Income tax expense (all relates to overseas tax payable)	8	(20.1)	(15.2)
Profit after taxation for the period		62.7	56.5
Profit for period attributable to:			
Equity holders of the parent		59.2	52.6
Minority interest		3.5	3.9
		62.7	56.5
Earnings per share	10		
Basic		22.2p	19.1p
Diluted		21.6p	18.5p
Dividends			
Interim dividend	18	2.50p	2.25p
– pence		6.8	6.3
– £m		4.50p	4.50p
Proposed final dividend	18	12.2	12.4
– pence			
– £m			

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

Consolidated balance sheet

as at 4 January 2009

	Note	2008 £m	2007 £m
Assets			
Property, plant and equipment	11	319.6	246.6
Intangible assets	12	177.0	69.8
Investment in associate	13	6.4	5.2
Other investments	13	5.2	7.5
Other receivables	16	39.0	36.8
Deferred tax assets	14	36.6	25.8
Total non-current assets		583.8	391.7
Inventories	15	143.9	97.7
Derivative financial assets	20	0.2	–
Trade and other receivables	16	196.3	139.8
Cash and cash equivalents	17	154.5	108.0
Total current assets		494.9	345.5
Total assets	2	1,078.7	737.2
Liabilities			
Interest-bearing loans and borrowings	19	410.9	193.1
Employee benefits	21	101.8	47.7
Grants for capital expenditure		0.2	0.2
Provisions	22	7.2	5.7
Non-trade payables	23	4.0	3.7
Derivative financial liabilities	20	0.8	0.2
Deferred tax liabilities	14	40.8	19.2
Total non-current liabilities		565.7	269.8
Bank overdraft	17	17.3	20.8
Interest-bearing loans and borrowings	19	16.7	13.8
Trade and other payables	23	220.9	208.5
Current tax payable		22.4	15.2
Provisions	22	12.5	11.8
Derivative financial liabilities	20	15.2	1.0
Total current liabilities		305.0	271.1
Total liabilities		870.7	540.9
Total net assets		208.0	196.3
Equity			
Issued capital	18	67.9	69.5
Share premium	18	85.3	85.3
Reserves	18	45.3	32.5
Retained earnings	18	(20.7)	(11.1)
Total equity attributable to equity holders of parent company		177.8	176.2
Minority interest	18	30.2	20.1
Total equity	18	208.0	196.3

The financial statements were approved by the Board of Directors on 19 February 2009 and were signed on its behalf by:

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

Consolidated statement of cash flows for the year ended 4 January 2009

	Note	2008 £m	2007 £m
Operating activities			
Profit for the period		62.7	56.5
Adjustments for:			
Depreciation	5	27.6	23.7
Amortisation	5	3.2	1.6
Net financing costs	7	12.7	5.5
Loss on disposal of business		0.7	0.3
Share of profit of associate	13	(1.2)	(0.2)
Profit on sale of property, plant and equipment		(0.7)	(0.1)
Income tax expense	8	20.1	15.2
Equity settled share-based payment expenses		2.2	2.7
Cash generated from operations before changes in working capital and provisions		127.3	105.2
(Increase)/decrease in trade and other receivables		(8.7)	5.7
(Increase)/decrease in inventories		(11.9)	(8.5)
Increase/(decrease) in trade and other payables		(1.2)	(15.7)
Non-cash operating costs relating to restructuring	5	4.2	0.2
Increase/(decrease) in provisions and employee benefits		(10.0)	(8.8)
Cash generated from operations		99.7	78.1
Interest paid		(21.1)	(12.5)
Income tax paid		(28.1)	(12.5)
Net cash from operating activities		50.5	53.1
Investing activities			
Purchase of property, plant and equipment		(33.4)	(34.9)
Proceeds from sale of property, plant and equipment		1.9	1.8
Sale/(purchase) of investments		1.9	(0.3)
Interest received		4.2	3.7
Acquisition of subsidiaries and associate, net of cash acquired		(79.2)	(9.4)
Forward contracts used in net investment hedging		(8.9)	–
Issue of debt to associate		–	(36.0)
Net cash from investing activities		(113.5)	(75.1)
Financing activities			
Purchase of own shares	18	(12.1)	(47.7)
Increase in borrowings	17	127.2	102.5
Payment of finance lease liabilities		(0.3)	(0.3)
Dividends paid		(18.8)	(18.8)
Net cash from financing activities		96.0	35.7
Net increase in cash and cash equivalents		33.0	13.7
Cash and cash equivalents at start of period		90.1	73.5
Effect of exchange rate fluctuations on cash held		16.3	2.9
Cash and cash equivalents at period end	17	139.4	90.1

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

Consolidated statement of recognised income and expense for the year ended 4 January 2009

	2008 £m	2007 £m
Foreign exchange translation differences	61.6	14.8
Net loss on hedge of net investment in foreign subsidiaries	(42.8)	(6.9)
Actuarial loss on defined benefit plans	(47.0)	(9.9)
Deferred tax associated with employee benefit schemes	5.4	0.5
Cash flow hedges:		
Effective portion of changes in fair value	(3.4)	(1.2)
Change in fair value of equity securities available-for-sale	(3.8)	0.3
Income and expense recognised directly in equity	(30.0)	(2.4)
Profit for the period	62.7	56.5
Total recognised income and expense for the period	32.7	54.1
Attributable to:		
Equity holders of the parent	29.2	50.2
Minority interest	3.5	3.9
Total recognised income and expenses for the period	32.7	54.1

Notes to the consolidated financial statements

1. 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.

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 115 to 123.

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

In the application of these accounting policies, judgments made by the Directors that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year, are discussed in note 28.

(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, expenses and equity movements of the associate, 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 the associate are eliminated against the investment to the extent of the Group's interest in the associate. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(d) Foreign currency

(i) Foreign currency transactions

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

1. Accounting policies continued

(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 IFRSs are recognised directly in a separate component of equity.

(iii) Net investment in foreign operations

Exchange differences arising from the translation of the net investment in foreign operations and of related hedges, are taken to the translation reserve. They are released to 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 as trading instruments.

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 recognised asset or liability, or a highly probable forecasted transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the hedging reserve. If a hedge of a forecasted transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains and losses that were recognised directly in the hedging reserve are reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss (i.e. when interest income or expense is recognised). For cash flow hedges, other than those covered by the preceding policy statement, the associated cumulative gain or loss is removed from the hedging reserve and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects profit or loss. The ineffective part of any gain or loss is recognised immediately in the income statement.

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.

(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 profit or loss. Gains and losses on the disposal of plant and equipment are recognised in 'Operating costs' in profit or loss.

Notes to the consolidated financial statements continued

1. Accounting policies continued

(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. 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 computer equipment	3 years

(h) Intangible assets

(i) Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries. 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 the net identifiable assets 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 I).

Goodwill arising on the acquisition of a minority interest in a subsidiary represents the excess of the cost of the additional investment over the carrying amount of the interest in the net assets acquired at the date of exchange. Goodwill arising on the acquisition of a minority interest in a subsidiary is recognised in 'Other reserves'.

(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 I). 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 I).

(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
Operating intangible assets	8-20 years

(i) Trade and other receivables

Trade and other receivables are stated at their fair value less impairment losses (see accounting policy I).

1. Accounting policies continued

(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. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(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 equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is recognised in profit or loss even though the financial asset has not been derecognised. 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 (i.e. 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 net selling price 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 its recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed through profit or loss. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognised in profit or loss.

An impairment loss in respect of goodwill is not reversed. 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.

Notes to the consolidated financial statements continued

1. Accounting policies continued

(m) Share capital

(i) Ordinary share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of Ordinary shares and share options are recognised as a deduction from 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. Own shares held by the ESOP trust are classified as treasury shares. 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. The Group recognises all contractual gains and losses arising from defined benefit plans directly in equity immediately.

(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 fair value of awards made and options granted is recognised as an employee expense with a corresponding increase in equity. 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.

1. Accounting policies 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	Dividend Discount method
Executive Share Option Scheme 2004	Monte Carlo model
Executive Share Option Scheme 1995	Binomial Lattice option pricing model
Employee Sharesave Scheme 1995	Black-Scholes Merton model
Employee Sharesave Scheme 2004	Black-Scholes Merton model
Employee Sharesave Scheme 2004 (Germany)	Black-Scholes Merton model

The choice of model takes into account the terms and conditions upon which the awards were made and 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.

(o) Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. 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 stated at their fair value.

(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 when there is reasonable assurance that it will be received and that the Group will comply with the conditions attaching to it. 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.

Notes to the consolidated financial statements continued

1. Accounting policies continued

(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.

(ii) Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction in 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 equity, in which case it is recognised in equity.

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

A segment is a distinguishable component of the Group that is engaged in providing products in a particular line of business (business segment) or in providing products within a particular economic environment (geographic segment), which is subject to risks and rewards that are different from those of other segments. The Group's primary business segments are its Divisions.

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 revenue, loans and borrowings and related expenses, corporate assets (primarily the Group'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 (i.e. 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 the issue are classified as a financial liability. Where an 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.

1. Accounting policies 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 equity (in the fair value reserve), except for impairment losses and 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.

(z) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective for the year ended 4 January 2009, 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) IFRIC 14 IAS 19 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*
- (ii) IFRIC 13 *Customer Loyalty Programmes*
- (iii) IFRS 8 *Operating Segments*

IFRS 8 Operating Segments will increase the level of disclosures for segment reporting for the period ending 3 January 2010.

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

- (i) IAS 1 *Presentation of Financial Statements*
- (ii) IAS 23 *Borrowing Costs*
- (iii) IAS 27 *Consolidated and Separate Financial Statements*
- (iv) IAS 32 *Financial Instruments: Presentation*
- (v) IFRS 2 *Share-based Payment*
- (vi) IFRS 3 *Business Combinations*

The Group does not expect the above amendments to have any significant impact on the financial statements for the period commencing 5 January 2009.

Notes to the consolidated financial statements continued

2. Segment reporting

The Group's primary business segments are its Divisions:

- Carbon – the Carbon Division produces a wide variety of technological solutions from carbon, graphite and silicon carbide.
- Technical Ceramics – the Technical Ceramics Division makes an extensive range of industrial ceramics products for a wide variety of applications.
- Insulating Ceramics (comprising Thermal Ceramics and Molten Metal Systems) – the Insulating Ceramics Division designs and manufactures a wide variety of heat insulation products.

The Group's secondary business segments are the geographical regions in which the Group operates.

	2008 £m	Carbon 2007 £m	Technical Ceramics 2008 £m	Technical Ceramics 2007 £m	Thermal Ceramics 2008 £m	Thermal Ceramics 2007 £m	Molten Metal Systems 2008 £m	Molten Metal Systems 2007 £m	Consolidated 2008 £m	Consolidated 2007 £m
Revenue from external customers	239.9	216.6	212.2	152.6	347.4	291.9	35.5	32.1	835.0	693.2
Segment profit	34.2	31.7	24.9	14.7	40.4	33.2	0.5	2.1	100.0	81.7
Unallocated costs									(5.0)	(4.4)
Operating profit									95.0	77.3
Net financing costs									(12.7)	(5.5)
Loss on disposal of business									(0.7)	(0.3)
Share of profit of associate (net of income tax)	1.2	0.2	–	–	–	–	–	–	1.2	0.2
Income tax expense									(20.1)	(15.2)
Profit for the period									62.7	56.5
Segment operating profit before restructuring costs, other one-off items and amortisation of intangible assets	36.3	35.2	31.6	20.0	41.4	33.5	4.2	4.0	113.5	92.7
Unallocated costs									(4.7)	(4.6)
Restructuring costs and other one-off items									(10.6)	(9.2)
Operating profit before amortisation of intangible assets*									98.2	78.9

* This measure of profit is shown because the Directors use it to measure the underlying performance of the business.

Technical Ceramics' segment profit includes impairment losses of £2.0 million and £0.3 million respectively for the write down of plant and equipment and working capital as a result of the closure and rationalisation of sites in the UK and China (2007: £0.2 million plant and equipment write down). Insulating Ceramics' segment profit includes impairment losses of £1.6 million, £0.2 million and £0.1 million respectively for the write down of land to net realisable value, the write down of plant and equipment and write down of working capital following the termination of manufacturing at the UK Molten Metal Systems site (2007: £nil).

	2008 £m	Europe 2007 £m	2008 £m	Americas 2007 £m	Far East & Australia 2008 £m	2007 £m	Middle East & Africa 2008 £m	2007 £m	Consolidated 2008 £m	2007 £m
Revenue from external customers	328.0	280.7	359.6	291.7	135.1	108.6	12.3	12.2	835.0	693.2
Segment assets	357.5	291.2	332.4	221.4	235.7	109.3	6.9	6.1	932.5	628.0
Unallocated assets									146.2	109.2
Total assets									1,078.7	737.2
Capital expenditure	13.1	13.4	14.6	13.6	4.8	7.4	0.4	0.2	32.9	34.6
Unallocated capital expenditure									0.5	0.3
Total capital expenditure									33.4	34.9

Notes to the consolidated financial statements continued

3. Acquisitions

Acquisitions in 2008

On 31 March 2008 the Group acquired 100% of the shares in the Technical Ceramics businesses of Carpenter Technology Corporation known as Certech and Carpenter Advanced Ceramics for £74.6 million. The principal activity of Certech is the manufacture of complex injection moulded ceramic components. The principal activity of Carpenter Advanced Ceramics is the manufacture of engineered ceramic products. In the nine months to 4 January 2009 these subsidiaries contributed profit from operations before amortisation of intangible assets of £6.6 million to the consolidated net profit for the period. The Group revenue and profit from operations before amortisation of intangible assets, had the acquisition taken place at the beginning of the period, is £849.2 million and £100.4 million respectively.

Effect of acquisitions

The acquisitions had the following effect on the assets and liabilities of the Group:

	Carrying values before acquisition 2008 £m	Provisional fair values 2008 £m
Certech and Carpenter Advanced Ceramics		
Intangible assets	3.2	32.2
Property, plant and equipment	8.3	9.0
Other working capital	11.9	11.3
Provisions	–	(1.7)
Deferred taxation	–	(11.3)
Net identifiable assets and liabilities	23.4	39.5
Goodwill on acquisition		38.6
Consideration payable, excluding acquisition costs, satisfied in cash		74.6
Acquisition costs		3.5
Net cash outflow		78.1

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

Provisional fair values have been attributed to the assets and liabilities acquired and those values will be finalised prior to the first anniversary of the acquisition. Management does not expect any adjustments to the provisional fair values to be material.

During the year the Company acquired a further 6.392% of the Ordinary share capital and voting rights of Carbo San Luis S.A. for £0.7 million, resulting in a shareholding of 75.6%.

3. Acquisitions continued

Acquisitions in 2007

On 31 July 2007 the Company acquired a 49% stake in Clearpower Limited, a company that via two other intermediary holding companies owns 100% of NP Aerospace Limited. 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. Our 49% share of the revenue and profit in 2007 of this acquisition, had this acquisition taken place at the beginning 2007, was £26.1 million and £1.1 million respectively.

Effect of acquisition

	Carrying value before acquisition 2007 £m	Fair values 2007 £m
Intangible assets		24.7
Property, plant and equipment	1.8	1.8
Other working capital	5.7	5.7
Interest bearing borrowings	(25.0)	(25.0)
Loan from Morgan Crucible		(36.0)
Deferred taxation		(6.9)
		(35.7)
Morgan Crucible's 49% share		(17.5)
Goodwill		22.5
Morgan Crucible's equity investment in NP Aerospace Limited		5.0

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

4. Subsequent events

On 6 January 2009 the Company announced the acquisition of a further 11% of the Ordinary share capital and voting rights of Clearpower Limited, a company that via two other intermediary holding companies owns 100% of NP Aerospace Limited, for £12.2 million. The total assets and total liabilities of the Clearpower group, as at 4 January 2009, are shown in note 13. From 5 January 2009 Clearpower Limited will be accounted for as a subsidiary. The disclosure requirements of IFRS 3 *Business Combinations* are not provided on the basis that disclosure of this information is not practical due to the proximity of this transaction to the date of approval of these financial statements.

Notes to the consolidated financial statements

continued

5. Operating costs

	2008 £m	2007 £m
Change in stocks of finished goods and work in progress	4.8	4.7
Raw materials and consumables	204.6	167.1
Other external charges	143.2	124.7
Employee costs:		
Wages and salaries	209.7	169.0
Share-based payments	2.5	2.7
Social security costs	41.1	34.8
Pension costs	8.9	8.6
Total	262.2	215.1
Depreciation:		
Owned assets	27.3	23.5
Assets held under finance leases	0.3	0.2
Total	27.6	23.7
Rentals under operating leases:		
Hire of plant and machinery	1.9	1.5
Other operating leases	5.0	5.5
Total	6.9	7.0
Other operating charges and income:		
Foreign exchange losses	2.2	2.1
Other operating charges	87.0	67.1
Foreign exchange gains	(8.7)	(2.8)
Other operating income	(3.6)	(3.6)
Total	76.9	62.8
Total operating costs before restructuring costs, other one-off items and amortisation of intangible assets	726.2	605.1
Restructuring costs and other one-off items:		
Employment termination costs	1.0	4.1
Non-cash write-off of assets	4.2	0.2
Other site rationalisation and closure costs	5.3	5.5
Costs associated with settlement of prior period anti-trust litigation	0.9	(0.8)
(Profit)/loss on disposal of property	(0.8)	0.2
Total	10.6	9.2
Amortisation of intangible assets	3.2	1.6
Total operating costs	740.0	615.9

The Group recognised £9.8 million in the income statement in respect of research and development (2007: £8.7 million).

A summary of the audit and non-audit fees in respect of services provided by KPMG and charged to operating profit in the year ended 4 January 2009 is set out below:

	2008 £m	2007 £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	1.4	1.0
Tax services	0.1	0.1
Other services	–	0.1
	1.9	1.6

In addition, KPMG was paid £0.1 million (2007: £0.3 million) in respect of the acquisition of Certech and Carpenter Advanced Ceramics.

6. Staff numbers

The average number of persons employed by the Group (including Directors) during the year, analysed by category, was as follows:

	Number of employees 2008	2007
United Kingdom	1,394	1,293
Rest of Europe	1,868	1,841
The Americas	3,376	3,301
Far East and Australia	3,739	2,896
Middle East and Africa	244	276
	10,621	9,607
Carbon	3,868	3,811
Technical Ceramics	2,843	2,035
Thermal Ceramics	3,354	3,215
Molten Metal Systems	548	539
Corporate	8	7
	10,621	9,607

7. Net finance income and expense

	2008 £m	2007 £m
Recognised in profit or loss		
Interest income on bank deposits	3.0	2.4
Interest income from associate	4.1	1.5
Expected return on IAS 19 scheme assets	25.7	24.9
Foreign exchange gains recognised on net investment hedge	1.5	–
Finance income	34.3	28.8
Interest expense on financial liabilities measured at amortised cost	(21.4)	(11.1)
Interest on IAS 19 obligations	(25.6)	(23.2)
Finance expense	(47.0)	(34.3)
Net financing costs recognised in profit or loss	(12.7)	(5.5)
The above finance income and expense include the following in respect of assets/(liabilities) not at fair value through profit or loss:		
Total interest income on financial assets	7.1	3.9
Total interest expense on financial liabilities	(21.4)	(11.1)
Recognised directly in equity		
Net change in fair value of available-for-sale financial assets	(3.8)	0.3
Effective portion of changes in fair value of cash flow hedge	(3.4)	(1.2)
Effective portion of change in fair value of net investment hedge	(42.8)	(6.9)
Foreign currency translation differences for foreign operations	61.6	14.8
	11.6	7.0
Recognised in:		
Fair value reserve	(3.8)	0.3
Translation reserve	18.8	7.9
Hedging reserve	(3.4)	(1.2)
	11.6	7.0

Notes to the consolidated financial statements continued

8. Taxation – income tax expense

Recognised in the income statement

	2008 £m	2007 £m
Current tax expense		
Current year	15.7	19.0
Adjustments for prior years	(1.7)	1.6
	14.0	20.6
Deferred tax expense		
Origination and reversal of temporary differences	4.8	(12.1)
Benefit of losses recognised	1.3	6.7
	6.1	(5.4)
Total income tax expense in income statement	20.1	15.2

Included in the current tax charge is £3.0 million which relates to businesses disposed of in previous periods.

Reconciliation of effective tax rate

	2008 £m	2008 %	2007 £m	2007 %
Profit before tax	82.8		71.7	
Income tax using the domestic corporation tax rate	23.2	28.0	21.4	30.0
Non-deductible expenses	0.8	1.0	1.1	1.5
Prior year tax losses and other assets not previously recognised for deferred tax	(10.6)	(12.8)	(12.0)	(16.7)
Under provided in prior years	2.3	2.8	1.6	2.2
Other (including the impact of overseas tax rates)	4.4	5.3	3.1	4.3
	20.1	24.3	15.2	21.2
Income tax recognised directly in equity				
Actuarial gains and losses	5.4		0.5	
Total income tax recognised directly in equity	5.4		0.5	

9. Restructuring costs and costs associated with settlement of anti-trust litigation

Costs of restructuring were £10.5 million (2007: £9.8 million) and net legal costs associated with settlement of anti-trust litigation were £0.9 million (2007: £0.8 million recoverable).

10. Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 4 January 2009 was based on the profit attributable to equity holders of The Morgan Crucible Company plc of £59.2 million (4 January 2008: £52.6 million) and a weighted average number of Ordinary shares outstanding during the period ended 4 January 2009 of 266,882,370 (4 January 2008: 275,659,262) calculated as follows:

	2008 £m	2007 £m
Profit attributable to equity holders of The Morgan Crucible Company plc	59.2	52.6
Weighted average number of Ordinary shares:		
Issued Ordinary shares at 5 January	276,414,074	293,225,142
Effect of shares issued in period and treasury shares held by the Company	(9,531,704)	(17,565,880)
Weighted average number of Ordinary shares during the period	266,882,370	275,659,262
Basic earnings per share (pence)	22.2p	19.1p

10. Earnings per share continued

Diluted earnings per share

The calculation of diluted earnings per share at 4 January 2009 was based on the profit attributable to equity holders of The Morgan Crucible Company plc of £59.2 million (4 January 2008: £52.6 million) and a weighted average number of Ordinary shares outstanding during the period ended 4 January 2009 of 274,229,467 (4 January 2008: 283,598,328), calculated as follows:

	2008 £m	2007 £m
Profit attributable to equity holders of The Morgan Crucible Company plc	59.2	52.6
Weighted average number of Ordinary shares:		
Weighted average number of Ordinary shares during the period	266,882,370	275,659,262
Effect of share options/incentive schemes	7,347,097	7,939,066
Diluted weighted average number of Ordinary shares	274,229,467	283,598,328
Diluted earnings per share (pence)	21.6p	18.5p

Earnings per share before amortisation of intangible assets

The calculation of earnings per share before amortisation of intangible assets at 4 January 2009 was based on the profit attributable to equity holders of The Morgan Crucible Company plc before amortisation of intangible assets of £62.4 million (4 January 2008: £54.2 million) and a weighted average number of Ordinary shares outstanding during the period ended 4 January 2009 of 266,882,370 (4 January 2008: 275,659,262) calculated as follows:

	2008 £m	2007 £m
Profit attributable to equity holders of The Morgan Crucible Company plc before amortisation of intangible assets	62.4	54.2
Weighted average number of Ordinary shares during the period	266,882,370	275,659,262
Earnings per share before amortisation of intangible assets (pence)	23.4p	19.7p

Diluted earnings per share before amortisation of intangible assets

The calculation of diluted earnings per share at 4 January 2009 was based on the profit attributable to equity holders of The Morgan Crucible Company plc before amortisation of intangible assets of £62.4 million (4 January 2008: £54.2 million) and a weighted average number of Ordinary shares outstanding during the period ended 4 January 2009 of 274,229,467 (4 January 2008: 283,598,328), calculated as follows:

	2008 £m	2007 £m
Profit attributable to equity holders of The Morgan Crucible Company plc before amortisation of intangible assets	62.4	54.2
Diluted weighted average number of Ordinary shares during the period	274,229,467	283,598,328
Diluted earnings per share before amortisation of intangible assets (pence)	22.8p	19.1p

Notes to the consolidated financial statements

continued

11. Property, plant and equipment

	Note	Land and buildings £m	Plant, equipment and fixtures £m	Total £m
Cost				
Balance at 5 January 2007		129.1	375.2	504.3
Acquisitions through business combinations		—	0.7	0.7
Additions		3.8	32.1	35.9
Disposals		(3.5)	(12.9)	(16.4)
Effect of movement in foreign exchange		6.5	12.4	18.9
Balance at 4 January 2008		135.9	407.5	543.4
Balance at 5 January 2008		135.9	407.5	543.4
Acquisitions through business combinations		2.0	9.0	11.0
Additions		6.5	30.9	37.4
Disposals		(1.5)	(18.2)	(19.7)
Effect of movement in foreign exchange		38.5	100.1	138.6
Balance at 4 January 2009		181.4	529.3	710.7
Depreciation and impairment losses				
Balance at 5 January 2007		34.2	239.9	274.1
Depreciation charge for the year		3.2	20.5	23.7
Disposals		(1.2)	(10.2)	(11.4)
Effect of movement in foreign exchange		2.2	8.2	10.4
Balance at 4 January 2008		38.4	258.4	296.8
Balance at 5 January 2008		38.4	258.4	296.8
Depreciation charge for the year		3.9	23.7	27.6
Impairment loss	2	1.6	2.2	3.8
Disposals		(0.7)	(15.0)	(15.7)
Effect of movement in foreign exchange		13.2	65.4	78.6
Balance at 4 January 2009		56.4	334.7	391.1
Carrying amounts				
At 5 January 2007		94.9	135.3	230.2
At 4 January 2008		97.5	149.1	246.6
At 4 January 2009		125.0	194.6	319.6

Assets pledged as security for liabilities

At 4 January 2009 properties with a carrying amount of £4.2 million (2008: £4.0 million) are subject to registered debentures to secure bank loans (see note 19).

12. Intangible assets

	Goodwill £m	Operating intangibles £m	Computer software £m	Total £m
Cost				
Balance at 5 January 2007	54.0	10.1	8.1	72.2
Acquisitions through business combinations	1.1	–	–	1.1
Additions – externally purchased	–	–	1.2	1.2
Disposals	–	–	(0.2)	(0.2)
Effect of movement in foreign exchange	2.0	0.7	0.4	3.1
Balance at 4 January 2008	57.1	10.8	9.5	77.4
Balance at 5 January 2008	57.1	10.8	9.5	77.4
Acquisitions through business combinations	38.6	32.2	–	70.8
Additions – externally purchased	–	1.6	0.9	2.5
Disposals	(1.2)	–	(0.1)	(1.3)
Effect of movement in foreign exchange	23.9	14.9	2.1	40.9
Balance at 4 January 2009	118.4	59.5	12.4	190.3
Amortisation and impairment losses				
Balance at 5 January 2007	–	0.4	5.4	5.8
Amortisation charge for the year	–	0.8	0.8	1.6
Disposals	–	–	(0.2)	(0.2)
Effect of movement in foreign exchange	–	0.1	0.3	0.4
Balance at 4 January 2008	–	1.3	6.3	7.6
Balance at 5 January 2008	–	1.3	6.3	7.6
Amortisation charge for the year	–	2.3	0.9	3.2
Disposals	–	–	(0.1)	(0.1)
Effect of movement in foreign exchange	–	1.0	1.6	2.6
Balance at 4 January 2009	–	4.6	8.7	13.3
Carrying amounts				
At 5 January 2007	54.0	9.7	2.7	66.4
At 4 January 2008	57.1	9.5	3.2	69.8
At 4 January 2009	118.4	54.9	3.7	177.0

Operating intangibles include customer relationships, patents and trademarks and capitalised development costs.

Impairment test for cash-generating units containing goodwill

For the purpose of impairment testing, goodwill is allocated to the Group's operating Divisions which represent the lowest level within the Group at which the goodwill is monitored for internal management purposes. Goodwill attributed to each Division is as follows:

	2008 £m	2007 £m
Carbon	21.5	17.4
Technical Ceramics	72.1	20.1
Thermal Ceramics	22.5	17.5
Molten Metal Systems	2.3	2.1
	118.4	57.1

Notes to the consolidated financial statements continued

12. Intangible assets continued

Goodwill has been tested for impairment during 2008 on the following basis:

The carrying value of goodwill has been assessed by reference to value in use. Values in use have been estimated using cash flow projections based on budgeted operating results for the forthcoming year. Cash flows for a further four year period are extrapolated using growth rates specific to each operating Division, ranging from 4.4% to 6.9%. These growth rates reflect the products, industries and countries in which the Divisions operate. Given the similar risk profiles of each of the operating Divisions, together with common funding from the central Group treasury function, a standard pre-tax discount rate of 13.0% 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.

13. Other investments

	2008 £m	2007 £m
Non-current investments		
Investment in associate	6.4	5.2
Equity securities available-for-sale	5.2	7.5
	11.6	12.7

Investment in associate

The Group's share of profit after tax in its associate for the year was £1.2 million (2007: £0.2 million).

Summary financial information for the associate, not adjusted for the 49% ownership held by the Group:

	2008 £m	2007 £m
Current assets	41.0	22.1
Non-current assets	62.9	65.3
Total assets	103.9	87.4
Current liabilities	27.6	16.4
Non-current liabilities	70.8	61.0
Total liabilities	98.4	77.4
Revenues	72.0	24.7
Profit	3.1	0.4

Equity securities available-for-sale

The equity securities available-for-sale represent an investment in a Mutual Fund. A 10% increase/(decrease) in the unit price would increase/(decrease) the fair value of the investments by £0.4 million.

14. Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	2008 £m	Assets 2007 £m	2008 £m	Liabilities 2007 £m	2008 £m	Net 2007 £m
Property, plant and equipment	–	–	23.5	18.4	23.5	18.4
Intangible assets	(0.7)	–	16.8	0.5	16.1	0.5
Employee benefits	(24.1)	(12.9)	–	0.3	(24.1)	(12.6)
Provisions	(6.6)	(6.0)	–	–	(6.6)	(6.0)
Tax value of loss carried forward recognised	(3.2)	(6.3)	–	–	(3.2)	(6.3)
Other items	(2.0)	(0.6)	0.5	–	(1.5)	(0.6)
	(36.6)	(25.8)	40.8	19.2	4.2	(6.6)

14. Recognised deferred tax assets and liabilities continued

Unrecognised deferred tax assets

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

	2008 £m	2007 £m
Deductible temporary differences	(11.2)	(6.2)
Tax losses	(9.4)	(10.2)
	(20.6)	(16.4)

Movements in temporary differences during the year

	Balance 4 January 2007	Recognised in income	Acquired in business combinations	Recognised directly in equity	Balance 4 January 2008	Recognised in income	Acquired in business combinations	Recognised directly in equity	Balance 4 January 2009
Property, plant and equipment	24.7	(6.3)	–	–	18.4	5.1	–	–	23.5
Intangible assets	0.4	0.1	–	–	0.5	5.9	9.7	–	16.1
Employee benefits	(9.9)	(2.2)	–	(0.5)	(12.6)	(6.1)	–	(5.4)	(24.1)
Provisions	(2.4)	(3.6)	–	–	(6.0)	(0.6)	–	–	(6.6)
Tax value of loss carried forward utilised	(13.0)	6.7	–	–	(6.3)	3.1	–	–	(3.2)
Others	(0.2)	(0.1)	–	(0.3)	(0.6)	(0.9)	–	–	(1.5)
	(0.4)	(5.4)	–	(0.8)	(6.6)	6.5	9.7	(5.4)	4.2

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.

15. Inventories

	2008 £m	2007 £m
Raw materials and consumables	43.9	30.3
Work in progress	36.0	24.1
Finished goods	64.0	43.3
	143.9	97.7
Inventories stated at fair value less costs to sell	1.9	5.7
Carrying amount of inventories subject to retention of title clauses	2.3	8.6

The Group holds consignment inventory amounting to £13.0 million (2007: £9.6 million) which is not reflected in the balance sheet. The majority of this balance is for precious metals which are held on consignment by a subsidiary and for which it is invoiced only when the material is required.

During the year provisions of £4.6 million were made against inventories and recognised in operating expenses (2007: £4.5 million). The Group reversed £nil of provisions against inventory during the year (2007: £0.2 million).

Notes to the consolidated financial statements

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16. Trade and other receivables

	2008 £m	2007 £m
Non-current		
Loan to associate	36.0	36.0
Non-trade receivables and prepayments	3.0	0.8
	39.0	36.8
Current		
Trade receivables due from associate	0.3	0.1
Other trade receivables	164.2	114.7
Loans and receivables	164.5	114.8
Non-trade receivables due from associate	5.7	1.5
Other non-trade receivables and prepayments	26.1	23.5
	196.3	139.8

The Group's exposure to credit and currency risks related to trade and other receivables is disclosed in note 20.

17. Cash and cash equivalents/bank overdrafts

	2008 £m	2007 £m
Bank balances	100.4	81.0
Cash deposits	54.1	27.0
Cash and cash equivalents per balance sheet	154.5	108.0
Bank overdrafts subject to cash pooling arrangements	(15.1)	(17.9)
Cash and cash equivalents per cash flow statement	139.4	90.1
Bank overdrafts subject to cash pooling arrangements	(15.1)	(17.9)
Other bank overdrafts	(2.2)	(2.9)
Total bank overdrafts	(17.3)	(20.8)

In accordance with IAS 32, bank overdrafts subject to cash pooling arrangements are not offset against cash and cash equivalents as the Company does not intend to settle on a net basis.

Reconciliation of cash and cash equivalents to net borrowings*

	2008 £m	2007 £m
Opening borrowings	(209.8)	(107.6)
New borrowings	(127.2)	(102.5)
Payment of finance lease liabilities	0.3	0.3
Effect of movements in foreign exchange on borrowings	(93.1)	—
Closing borrowings	(429.8)	(209.8)
Cash and cash equivalents per cash flow statement	139.4	90.1
Closing net borrowings	(290.4)	(119.7)

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

18. Capital and reserves

Reconciliation of movement in capital and reserves

	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	Minority interest £m	Total equity £m
Balance at 5 January 2007	73.7	85.2	(16.8)	–	0.8	6.0	29.9	1.4	6.5	186.7	16.4	203.1
Total recognised income and expense	–	–	7.9	(1.2)	0.3	–	–	–	43.2	50.2	3.9	54.1
Own shares acquired for share buy-back programme	(4.2)	–	–	–	–	–	4.2	–	(47.5)	(47.5)	–	(47.5)
Other movements	–	–	–	–	–	–	–	–	–	–	(0.2)	(0.2)
Share options exercised by employees	–	0.1	–	–	–	–	–	–	–	0.1	–	0.1
Equity-settled share-based payment transactions, net of tax	–	–	–	–	–	–	–	–	2.7	2.7	–	2.7
Own shares acquired for share incentive schemes	–	–	–	–	–	–	–	–	(1.5)	(1.5)	–	(1.5)
Dividends	–	–	–	–	–	–	–	–	(14.5)	(14.5)	–	(14.5)
Balance at 4 January 2008	69.5	85.3	(8.9)	(1.2)	1.1	6.0	34.1	1.4	(11.1)	176.2	20.1	196.3
Balance at 5 January 2008	69.5	85.3	(8.9)	(1.2)	1.1	6.0	34.1	1.4	(11.1)	176.2	20.1	196.3
Total recognised income and expense	–	–	18.8	(3.4)	(3.8)	–	–	–	17.6	29.2	3.5	32.7
Own shares acquired for share buy-back programme	(1.6)	–	–	–	–	–	1.6	–	(12.1)	(12.1)	–	(12.1)
Other movements	–	–	–	–	–	–	–	(0.4)	–	(0.4)	8.1	7.7
Equity-settled share-based payment transactions, net of tax	–	–	–	–	–	–	–	–	3.2	3.2	–	3.2
Own shares acquired for share incentive schemes	–	–	–	–	–	–	–	–	0.4	0.4	–	0.4
Dividends	–	–	–	–	–	–	–	–	(18.7)	(18.7)	(1.5)	(20.2)
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

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.

Notes to the consolidated financial statements continued

18. Capital and reserves continued

Capital redemption reserve

The capital redemption reserve arose when the Company redeemed Preference shares wholly out of distributable profits. The movements in 2008 and 2007 relate to the cancellation of Ordinary shares as a result of the share buy-back programme.

Retained earnings

The Company has acquired own shares under a share buy-back programme. The Company has also 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 2,593,799 (2007: 6,196,880); 2,593,799 shares were held by The Morgan General Employee Benefit Trust (2007: 5,876,880) and nil shares were held by the Company (2007: 320,000). All rights conferred by those shares are suspended until they are reissued.

Dividends

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

	2008 Pence	Per share 2007 Pence	2008 £m	Total 2007 £m
2006 interim	–	1.50	–	4.3
2006 final	–	3.00	–	8.4
2007 interim	–	2.25	–	6.1
2007 final	4.50	–	12.1	–
2008 interim	2.50	–	6.7	–
Total	7.00	6.75	18.8	18.8

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 4 January 2009 the following dividends were proposed by the Directors for 2008. These dividends have not been provided for and there are no income tax consequences.

	£m
4.5 pence per qualifying Ordinary share	12.2
5.5% Cumulative First Preference shares (see note 31)	–
5.0% Cumulative Second Preference shares (see note 31)	–
	12.2

Called up share capital

	2008 £m	Authorised 2007 £m	2008 £m	Issued 2007 £m
Equity share capital				
434,650,876 (2007: 434,650,876) Ordinary shares of 25 pence each	108.7	108.7		
Fully paid: 270,206,256 (2007: 276,414,074) Ordinary shares of 25 pence each			67.5	69.1
	108.7	108.7	67.5	69.1
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	67.9	69.5

18. Capital and reserves continued

Number of shares in issue

	2008	Ordinary shares 2007	Preference shares 2008	Preference shares 2007
In issue at 5 January	276,414,074	293,225,142	437,281	437,281
Exercise of options under the various Morgan share option schemes	42,182	128,217	–	–
Cancelled as a result of share buy-back programme	(6,250,000)	(16,939,285)	–	–
In issue at 4 January	270,206,256	276,414,074	437,281	437,281

As at the date of this report 270,206,256 Ordinary shares have been issued (2007: 270,164,074).

The holders of Ordinary shares are entitled to receive dividends as declared from time to time and entitled to one vote per share at meetings of the Company.

The following options were outstanding in respect of Ordinary shares:

Number of shares		Exercise price(s)	Normal exercise dates ranging from	
355,144	The Morgan Executive Share Option Scheme 1995	180.08p – 208.12p	19 June 2003	22 November 2011
2,333,676	The Morgan Crucible Sharesave Scheme 2004	168.00p – 249.00p	1 December 2008	31 May 2012
278,451	The Morgan Crucible Savings Related Share Options Scheme for Employees in Germany	EUR 1.64	1 December 2011	31 May 2012
2,051,347	The Morgan Crucible Executive Share Option Scheme 2004	129.05p – 256.00p	22 June 2007	20 December 2016
2,835,485	The Morgan Crucible Bonus Deferral Share Matching Plan	0.00p – 197.62p	10 March 2011	10 March 2011
4,601,401	The Morgan Crucible Long Term Incentive Plan 2004	0.00p	23 May 2009	25 March 2011
1,000,000	The Morgan Crucible Directors' Share Option Plan 2006	256.00p	20 December 2009	20 December 2016

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% per annum.

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% per annum.

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

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

Notes to the consolidated financial statements continued

19. Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings which are measured at amortised cost. For more information about the Group's exposure to interest rate and foreign currency risk, see note 20.

	2008 £m	2007 £m
Non-current liabilities		
US Dollar Senior Notes	273.2	116.1
Bank Syndication	136.1	74.8
Bank and other loans	0.1	0.7
Obligations under finance leases	1.5	1.5
	410.9	193.1
Current liabilities		
US Dollar Senior Notes	12.0	8.8
Bank and other loans	3.9	4.4
Obligations under finance leases	0.8	0.6
	16.7	13.8

Terms and debt repayment schedule

The terms and conditions of outstanding loans were as follows:

	Currency	2008 Nominal interest rate	Year of maturity	Carrying amount 2008 £m	2007 £m
6.84% US Dollar Senior Notes 2013	USD	6.84%	2013	31.6	27.8
6.23% US Dollar Senior Notes 2010	USD	6.23%	2010	11.4	12.5
5.70% US Dollar Senior Notes 2014	USD	5.70%	2014	69.2	38.0
6.12% US Dollar Senior Notes 2017	USD	6.12%	2017	121.1	46.6
6.26% US Dollar Senior Notes 2019	USD	6.26%	2019	51.9	–
Bank Syndication	EUR	3.13%	2010	96.1	74.8
Bank Syndication	GBP	2.64%	2010	40.0	–
Bank and other loans	Various	4.00%-8.00%	up to 2010	4.0	5.1
Obligations under finance leases	Various	6.00%	up to 2014	2.3	2.1
Total interest-bearing loans and borrowings				427.6	206.9

Finance lease liabilities

Finance lease liabilities are payable as follows:

	Minimum lease payments 2008 £m	Interest 2008 £m	Principal 2008 £m	Minimum lease payments 2007 £m	Interest 2007 £m	Principal 2007 £m
Less than one year	0.9	0.1	0.8	0.7	0.1	0.6
Between one and five years	1.4	0.1	1.3	1.3	0.1	1.2
More than five years	0.2	–	0.2	0.3	–	0.3
	2.5	0.2	2.3	2.3	0.2	2.1

Bank and other loans include £0.9 million of loans secured on the assets of the Group.

Included within banks and other loans are short-term drawings of £136.1 million (2007: £74.8 million). These were repayable on 12 January 2009, but have been classified as long-term loans as they are drawn under the Bank Syndication which extends to March 2010 and the Company has elected to roll these forward in accordance with the terms and conditions of the loan agreement.

As at 4 January 2009 the Group had available headroom under the Bank Syndication of £154.5 million (2007: £137.9 million).

The 6.84% US Dollar Senior Notes 2013 are repayable in five yearly instalments from 6 March 2009 to 6 March 2013. The 6.23% US Dollar Senior Notes 2010 are repayable in two yearly instalments from 6 March 2009 to 6 March 2010. The 5.70% US Dollar Senior Notes 2014 are repayable in one instalment on 19 December 2014. The 6.12% US Dollar Senior Notes 2017 are repayable in one instalment on 19 December 2017. The 6.26% US Dollar Senior Notes 2019 are repayable in one instalment on 19 December 2019.

20. 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. As at 4 January 2009 the Group had no intention to settle these balances either simultaneously or on a net basis and hence the financial assets and liabilities within the notional cash pool are not presented on a net basis in the financial statements.

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 supply. The Group's level of customer retention is very high, particularly with its major accounts and although the top 20 ranking will alter year to year, many of the same 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 collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective 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 2008 £m	2007 £m
Available-for-sale financial assets	5.2	7.5
Loan to associate	36.0	36.0
Loans and receivables	164.5	114.8
Cash and cash equivalents	154.5	108.0
	360.2	266.3

Notes to the consolidated financial statements continued

20. Financial risk management continued

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

	Carrying amount 2008 £m	2007 £m
Carbon	44.0	33.7
Technical Ceramics	33.5	19.3
Thermal Ceramics	81.3	55.7
Molten Metal Systems	5.7	6.1
	164.5	114.8

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

	Carrying amount 2008 £m	2007 £m
Europe	68.3	51.8
Americas	60.5	39.0
Far East & Australasia	34.3	22.5
Middle East & Africa	1.4	1.5
	164.5	114.8

Impairment losses

The aging of trade receivables at the reporting date was:

	2008 £m	2007 £m
Not past due	127.2	92.5
Past due 0-30 days	28.7	15.3
Past due 31-60 days	7.0	3.4
Past due 61-90 days	3.0	2.2
Past due more than 90 days	9.1	5.8
	175.0	119.2
Impairment allowance	(10.5)	(4.4)
	164.5	114.8

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2008 £m	2007 £m
Balance at 5 January	4.4	4.8
Increase/(decrease) in allowance for impairment	6.1	(0.4)
Balance at 4 January	10.5	4.4

Based on past experience, the Group believes that no impairment allowance is necessary in respect of trade receivables not past due. A specific impairment allowance may be created in respect of an individual trade receivable for which full recovery is doubtful. As at 4 January 2009 and 4 January 2008 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.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group seeks a balance between certainty of funding and a flexible, cost-effective borrowing structure. The policy is to ensure that the Group has sufficient liquidity available to meet all foreseeable needs.

20. Financial risk management continued

Effective interest rates and repricing analysis

The following are the undiscounted contracted maturities of financial liabilities, including interest payments and excluding the impact of netting agreements:

	Effective interest rate	Carrying amount £m	Contractual cash flows £m	Less than one year £m	One-two years £m	Two-five years £m	2008 More than five years £m
Non-derivative financial liabilities							
6.84% US Dollar Senior Notes 2013	6.84%	31.6	37.0	8.3	7.8	20.9	–
6.23% US Dollar Senior Notes 2010	6.23%	11.4	12.1	6.2	5.9	–	–
5.70% US Dollar Senior Notes 2014	5.70%	69.2	92.7	3.9	3.9	11.8	73.1
6.12% US Dollar Senior Notes 2017	6.12%	121.1	187.7	7.4	7.4	22.2	150.7
6.26% US Dollar Senior Notes 2019	6.26%	51.9	87.5	3.2	3.2	9.7	71.4
Bank Syndication	2.64%-3.13%	136.1	136.2	136.2	–	–	–
Bank and other loans	4.00%-8.00%	4.0	4.3	4.3	–	–	–
Bank overdrafts	6.75%	17.3	18.4	18.4	–	–	–
Obligations under finance leases	6.00%	2.3	2.5	0.9	0.7	0.7	0.2
Derivative financial liabilities							
Forward exchange contracts used for hedging:							
Outflow		16.0	77.7	72.9	4.8	–	–
Inflow		–	(61.7)	(57.7)	(4.0)	–	–
		460.9	594.4	204.0	29.7	65.3	295.4

	Effective interest rate	Carrying amount £m	Contractual cash flows £m	Less than one year £m	One-two years £m	Two-five years £m	2007 More than five years £m
Non-derivative financial liabilities							
6.84% US Dollar Senior Notes 2013	6.84%	27.8	33.6	6.4	6.1	16.3	4.8
6.23% US Dollar Senior Notes 2010	6.23%	12.5	13.6	4.8	4.5	4.3	–
5.70% US Dollar Senior Notes 2014	5.70%	38.0	53.2	2.2	2.2	6.5	42.3
6.12% US Dollar Senior Notes 2017	6.12%	46.6	75.3	2.9	2.9	8.6	60.9
Bank Syndication	4.94%	74.8	75.2	75.2	–	–	–
Bank and other loans	4.00%-8.00%	5.1	5.4	4.7	0.4	0.3	–
Bank overdrafts	6.75%	20.8	22.2	22.2	–	–	–
Obligations under finance leases	6.00%	2.1	2.3	0.7	0.6	0.7	0.3
Derivative financial liabilities							
Forward exchange contracts used for hedging:							
Outflow		1.2	19.0	15.3	3.7	–	–
Inflow		–	(18.0)	(14.4)	(3.6)	–	–
		228.9	281.8	120.0	16.8	36.7	108.3

As at 4 January 2009 the Group had drawn £136.1 million under the USD 420 million Bank Syndication. This drawing has been shown as due within one year as the loan matures on 12 January 2009. The Bank Syndication extends to March 2010 and the Company has elected to roll these forward in accordance with the terms and conditions of the loan agreement.

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.

Notes to the consolidated financial statements continued

20. Financial risk management continued

Interest rate risk profile

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

	Carrying amount 2008 £m	2007 £m
Fixed rate instruments		
Financial liabilities	(287.5)	(127.0)
Variable rate instruments		
Financial assets	154.4	108.0
Financial liabilities	(157.3)	(100.7)
	(2.9)	7.3

The Group adopts a policy of ensuring that between 30% and 70% of its exposure to changes in interest rates on borrowings is on a fixed rate basis.

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 outstanding Bank Syndication 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 2007.

	100 bp increase £m	Profit or loss 100 bp decrease £m
4 January 2009		
Variable rate instruments	1.4	(1.4)
Cash flow sensitivity (net)	1.4	(1.4)
4 January 2008		
Variable rate instruments	0.7	(0.7)
Cash flow sensitivity (net)	0.7	(0.7)

Foreign currency risk

The Group is exposed to foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than the currency of the reporting unit. The currencies giving rise to this risk are primarily GBP, USD and Euro.

The Group's exposure to foreign currency risk was as follows based on notional amounts:

Functional currency of Group operations	GBP £m	USD £m	2008 Euro £m	GBP £m	USD £m	2007 Euro £m
Trade receivables	0.9	11.9	7.3	1.1	7.5	7.6
Cash and cash equivalents	0.6	21.4	12.0	0.3	15.5	14.5
Borrowings	–	–	(96.1)	–	–	(74.8)
Trade payables	(5.3)	(7.5)	(3.3)	(4.5)	(6.2)	(3.5)
Net balance sheet exposure	(3.8)	25.8	(80.1)	(3.1)	16.8	(56.2)

The following significant exchange rates applied during the year:

	2008	Average rate 2007	2008	Year end rate 2007
USD	1.8552	2.0003	1.4450	1.9742
Euro	1.2582	1.4615	1.0408	1.3363

20. Financial risk management continued

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 used to hedge 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 4 January 2009 was £4.6 million (2007: £1.2 million), comprising assets of £0.2 million (2007: £nil) and liabilities of £4.8 million (2007: £1.2 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.

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 US\$ 420 million Bank Syndication as a hedge of the Group's investment in subsidiaries in Europe. Euro drawdowns during the year amounted to €100 million (2007: €100 million).

Sensitivity analysis

A 10% strengthening of pounds sterling against the following currency net assets at the reporting date would have increased/(decreased) equity by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2007.

	2008 £m	Equity 2007 £m
USD	1.8	(0.5)
Euro	(1.4)	1.4

The impact of a one cent movement in the USD exchange rate on results that are reported in USD (including those currencies that track the USD) would be c.£1.7 million of revenue and £0.3 million of underlying operating profit.

Other market price risk

Equity price risk arises from available-for-sale equity securities held for partially meeting 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. Another KPI, the economic value-added ratio (EVA), compares the returns made by our Divisions with the notional cost of investing in them. The Group uses this ratio to ascertain where to make capital investments within the Group. The basic calculation deducts the cost of capital from the net operating profit after allowing for a notional medium-term tax charge.

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 has also acquired its own shares under a share buy-back programme.

Notes to the consolidated financial statements continued

20. Financial risk management continued

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 2008 £m	Fair value 2008 £m	Carrying amount 2007 £m	Fair value 2007 £m
Financial assets and liabilities at amortised cost				
6.84% US Dollar Senior Notes 2013	(31.6)	(34.3)	(27.8)	(29.7)
6.23% US Dollar Senior Notes 2010	(11.4)	(11.7)	(12.5)	(12.9)
5.70% US Dollar Senior Notes 2014	(69.2)	(79.5)	(38.0)	(38.0)
6.12% US Dollar Senior Notes 2017	(121.1)	(147.6)	(46.6)	(46.6)
6.26% US Dollar Senior Notes 2019	(51.9)	(65.0)	–	–
Bank Syndication	(136.1)	(136.1)	(74.8)	(74.8)
Bank and other loans	(4.0)	(4.0)	(5.1)	(5.1)
Bank overdrafts	(17.3)	(17.3)	(20.8)	(20.8)
Obligations under finance leases	(2.3)	(2.3)	(2.1)	(2.1)
Trade and other payables	(93.9)	(93.9)	(71.2)	(71.2)
Loan to associate	36.0	36.0	36.0	36.0
Loans and receivables	164.5	164.5	114.8	114.8
Cash and cash equivalents	154.5	154.5	108.0	108.0
	(183.8)	(236.7)	(40.1)	(42.4)
Available-for-sale financial instruments				
Available-for-sale financial assets	5.2	5.2	7.5	7.5
Derivatives and other items at fair value				
Forward exchange contracts used for hedging:				
Assets	0.2	0.2	–	–
Liabilities	(16.0)	(16.0)	(1.2)	(1.2)
	(15.8)	(15.8)	(1.2)	(1.2)
	(194.4)	(247.3)	(33.8)	(36.1)
Unrecognised loss		(52.9)		(2.3)

Estimation of fair values

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

Equity securities

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

Derivatives

Forward exchange contracts are either marked to market 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.

20. Financial risk management continued

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:

	2008	2007
Loans and borrowings	2.0-4.0%	3.0-5.0%
Finance leases	6.0%	6.0%

21. 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, US and Europe and predominately provide pensions based on service and career average pay. In addition post-retirement medical plans are operated in the US.

	2008 UK £m	2008 USA £m	2008 Europe £m	2008 Rest of World £m	2008 Total £m
Pension plans and employee benefits					
Present value of unfunded defined benefit obligations	–	(10.1)	(23.9)	(2.1)	(36.1)
Present value of funded defined benefit obligations	(278.5)	(121.5)	(1.1)	(9.1)	(410.2)
Fair value of plan assets	265.4	70.2	0.6	8.3	344.5
Net obligations	(13.1)	(61.4)	(24.4)	(2.9)	(101.8)
Movements in present value of defined benefit obligation					
At 5 January 2008	(325.1)	(95.0)	(20.1)	(10.5)	(450.7)
Current service cost	(2.6)	(1.9)	(0.5)	(1.5)	(6.5)
Interest cost	(18.4)	(5.9)	(1.0)	(0.3)	(25.6)
Actuarial gains	55.2	1.1	1.2	0.2	57.7
Benefits paid	14.3	5.6	1.3	1.2	22.4
Contributions by members	(1.7)	–	–	–	(1.7)
Past service costs	(0.2)	–	–	–	(0.2)
Exchange adjustments	–	(35.5)	(5.9)	(0.3)	(41.7)
At 4 January 2009	(278.5)	(131.6)	(25.0)	(11.2)	(446.3)
Movements in fair value of plan assets					
At 5 January 2008	322.6	71.2	0.5	8.7	403.0
Expected return on plan assets	20.1	5.3	–	0.3	25.7
Actuarial losses	(71.1)	(33.1)	–	(0.5)	(104.7)
Contributions by employer	6.4	5.0	1.3	1.0	13.7
Contributions by members	1.7	–	–	–	1.7
Benefits paid	(14.3)	(5.6)	(1.3)	(1.2)	(22.4)
Exchange adjustments	–	27.4	0.1	–	27.5
At 4 January 2009	265.4	70.2	0.6	8.3	344.5
Actual return on assets	(51.0)	(27.8)	–	(0.2)	(79.0)

	2008 UK £m	2008 USA £m	2008 Europe £m	2008 Rest of World £m	2008 Total £m
Pension plans and employee benefits					
Expense recognised in the consolidated income statement					
Current service cost and past service cost	(2.8)	(1.9)	(0.5)	(1.5)	(6.7)
Interest on defined benefit pension plan obligation	(18.4)	(5.9)	(1.0)	(0.3)	(25.6)
Expected return on defined benefit pension plan assets	20.1	5.3	–	0.3	25.7
Total expense	(1.1)	(2.5)	(1.5)	(1.5)	(6.6)

Notes to the consolidated financial statements continued

21. Employee benefits continued

The expense is recognised in the following line items in the consolidated income statement:

	2008 £m	2007 £m
Operating costs	(6.7)	(5.8)
Finance income	25.7	24.9
Finance expense	(25.6)	(23.2)
One-off items	–	(0.2)
	(6.6)	(4.3)

The Group has adopted the policy of recognising actuarial gains and losses immediately in the balance sheet through the statement of recognised income and expense. Cumulative actuarial losses recorded in the statement of recognised income and expense since 5 January 2004, the date of transition to adopted IFRSs, are £77.1 million.

The fair value of the plan assets were as follows:

	2008 UK £m	2008 USA £m	2008 Europe £m	2008 Rest of World £m	2008 Total £m
Equities	97.8	35.3	–	–	133.1
Bonds	7.1	34.5	–	–	41.6
Matching insurance policies	153.3	–	0.6	1.6	155.5
Other	7.2	0.4	–	6.7	14.3
Total	265.4	70.2	0.6	8.3	344.5

Principal actuarial assumptions were:

	%	%	%
Discount rate	6.50	6.10	5.60
Expected rate of return on plan assets			
– Equities	8.00	8.00	n/a
– Bonds	5.00	4.70	n/a
– Matching insurance	6.50	n/a	5.60
Salary increase	n/a	2.50	2.50
Inflation	2.80	2.00	2.00
Pensions increase	2.60/3.15	n/a	2.00
Mortality – post-retirement:			
Life expectancy of a male retiring at age 60 in 2008	25.7 years	21.2 years	22.5 years
Life expectancy of a male retiring at age 60 in 2028	27.1 years	21.2 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.

	2008 £m	2007 £m	2006 £m	2005 £m
Balance sheet				
Present value of defined benefit obligation	(446.3)	(450.7)	(446.1)	(466.3)
Fair value of plan assets	344.5	403.0	403.4	342.1
Deficit	(101.8)	(47.7)	(42.7)	(124.2)

	2008 £m	2007 £m	2006 £m	2005 £m
Experience gains/(losses)				
Experience gains/(losses) on defined benefit obligation	1.7	(0.2)	(2.0)	(8.6)
Experience (losses)/gains on plan assets	(104.7)	(17.5)	7.2	26.0

21. Employee benefits continued

Buy-in of UK pensioner liabilities

On 17 March 2008 the Trustees of the Morgan Pension Scheme and the Morgan Group Senior Staff Pension and Life Assurance Scheme agreed to the buy-in of the pensioner liabilities by Lucida plc, an insurance company regulated by the UK's Financial Services Authority. The consideration paid by the Trustees for the annuity policies was £160 million. The annuity policies are retained by the Trustees as investments of the schemes. The Company made a one-off contribution of £4.2 million to the schemes to facilitate the transaction. This risk transfer has contributed a £5 million improvement to the Group's UK net IAS 19 balance sheet position as at 4 January 2009 and had a corresponding effect on the overall IAS 19 balance sheet position for the Group. The Company continues to offer its defined benefit pension schemes to its current and deferred employees.

	2007 UK £m	2007 USA £m	2007 Europe £m	2007 Rest of World £m	2007 Total £m
Pension plans and employee benefits					
Present value of unfunded defined benefit obligations	–	(7.5)	(19.2)	(0.3)	(27.0)
Present value of funded defined benefit obligations	(325.1)	(87.5)	(0.9)	(10.2)	(423.7)
Fair value of plan assets	322.6	71.2	0.5	8.7	403.0
Net obligations	(2.5)	(23.8)	(19.6)	(1.8)	(47.7)
Movements in present value of defined benefit obligation					
At 5 January 2007	(323.4)	(92.8)	(20.7)	(9.2)	(446.1)
Current service cost	(3.0)	(1.7)	(0.7)	(1.1)	(6.5)
Interest cost	(16.8)	(5.4)	(0.9)	(0.3)	(23.4)
Actuarial gains/(losses)	7.3	(1.6)	2.5	(0.6)	7.6
Benefits paid	12.7	5.1	1.4	0.9	20.1
Contributions by members	(1.7)	–	–	–	(1.7)
Curtailments and settlements	(0.2)	–	0.7	–	0.5
Exchange adjustments	–	1.4	(2.4)	(0.2)	(1.2)
At 4 January 2008	(325.1)	(95.0)	(20.1)	(10.5)	(450.7)
Movements in fair value of plan assets					
At 5 January 2007	326.5	69.1	0.5	7.3	403.4
Expected return on plan assets	19.6	5.0	–	0.3	24.9
Actuarial gains	(16.3)	(2.3)	–	1.1	(17.5)
Contributions by employer	3.8	5.4	1.3	0.9	11.4
Contributions by members	1.7	–	–	–	1.7
Benefits paid	(12.7)	(5.1)	(1.4)	(0.9)	(20.1)
Exchange adjustments	–	(0.9)	0.1	–	(0.8)
At 4 January 2008	322.6	71.2	0.5	8.7	403.0
Actual return on assets	3.3	2.7	–	1.4	7.4

	2007 UK £m	2007 USA £m	2007 Europe £m	2007 Rest of World £m	2007 Total £m
Expense recognised in the consolidated income statement					
Current service costs	(3.0)	(1.7)	(0.7)	(1.1)	(6.5)
Interest on defined benefit pension plan obligation	(16.8)	(5.4)	(0.9)	(0.3)	(23.4)
Expected return on defined benefit pension plan assets	19.6	5.0	–	0.3	24.9
Gain on curtailments of United Kingdom employee benefit schemes	(0.2)	–	0.7	–	0.5
Total expense/(income)	(0.4)	(2.1)	(0.9)	(1.1)	(4.5)

Notes to the consolidated financial statements continued

21. Employee benefits continued

The fair value of the plan assets were as follows:

	2007 UK £m	2007 USA £m	2007 Europe £m	2007 Rest of World £m	2007 Total £m
Equities	131.5	45.6	–	–	177.1
Bonds	170.3	25.4	–	–	195.7
Other	20.8	0.2	0.5	8.7	30.2
Total	322.6	71.2	0.5	8.7	403.0

The curtailment loss of £0.2 million in the United Kingdom in 2007 arose due to a redundancy exercise in the UK. The curtailment gain in Italy of £0.7 million occurred due to a change in legislation covering Italian pension plans.

Principal actuarial assumptions were:

	%	%	%
Discount rate	5.75	6.00	5.50
Expected rate of return on plan assets			
– Equities	7.75	8.00	n/a
– Bonds	5.00	5.25	n/a
Salary increase	n/a	3.00	2.75
Inflation	3.25	2.50	2.25
Pensions increase	3.25/3.40	n/a	2.25
Mortality – post-retirement	PA 92 YOB 1958/1938 (The Morgan Pension Scheme)	83 GAM	Heubeck 2005G
	PA92 YOB 1956/1936 (The Morgan Senior Staff Pension and Life Assurance Scheme)		

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 £2.6 million (2007: £2.1 million).

Share-based payments

During 2004, the Group established a new Long Term Incentive Plan and a new Share Option Scheme. Grants were also made out of the existing Morgan Executive Share Option Scheme 1995. During 2004, the Company also renewed its all-Employee Sharesave Scheme and took the opportunity to extend a similar scheme to employees in Germany. In 2006, the Group established a new Directors' Share Option Plan.

During 2005, 2006, 2007 and 2008 the Group made additional awards out of the 2004 Long Term Incentive Plan. During 2005 and 2006 the Group made additional awards out of the 2004 Executive Share Option Scheme and during 2006 an award was made out of the Directors' Share Option Plan 2006. Also in 2005, 2007 and 2008 the Company granted options under the UK all-Employee Sharesave Scheme and in 2008 the Company granted options under the Germany 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.

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.

21. 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 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 2008 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

Performance criteria for Long Term Incentive Plan 2004, Directors' Share Option Plan 2006 and Executive Share Option Scheme 2004

The extent to which awards will vest will depend 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 places it at the median, then 30% of the awards will vest on the third anniversary of the date of the grant.

If the Company's TSR places it at the upper quartile, then 100% of the option will vest on the third anniversary of the date of grant. Between the median and upper quartile, the option will vest on a straight-line basis. Below the median, none of the shares will vest.

Notes to the consolidated financial statements continued

21. Employee benefits continued

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 the 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% per annum. If the Company's EPS increases by more than the sum of the annual RPI increase and between 4% and 10% per annum 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% per annum then 15% of the awards will vest. If the Company's EPS increases by less than the sum of the RPI increase and 4% per annum 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 to awards made in 2008 and onwards. For all participants excluding executive Directors the TSR performance criteria referred to above now only relates to 33.3% of awards made. The extent to which the other 66.7% of these awards vest will depend on the Company's Earnings per share ('EPS') compared with the Retail Price Index ('RPI'). The full 67% 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% per annum. If the Company's EPS increases by more than the sum of the annual RPI increase and between 4% and 10% per annum 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% per annum then 15% of the awards will vest. If the Company's EPS increases by less than the sum of the RPI increase and 4% per annum then 0% of the awards will vest. For executive Director participants the conditions remain unchanged from 2007.

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 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% per annum 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% per annum 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% per annum 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% per annum 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% per annum in excess of retail price inflation 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 the accounting policy note m. In the case of the Binomial Lattice option pricing model, Dividend Discount method 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.

Directors' Share Option Plan 2006

There were no awards during 2008.

Long Term Incentive Plan 2004

	2008 awards
Fair value at measurement date	91.90p-183.70p
Share price	203.00p
Exercise price	n/a
Expected volatility (expressed as weighted average volatility used in the model)	40%
Option life (expressed as weighted average life used in the modelling)	3 years
Expected dividends	3.3%
Risk-free interest rate	4.0%

21. Employee benefits continued

The Morgan Crucible Bonus Deferral Share Matching Plan

	2008 awards
Fair value at measurement date	178.40p
Share Price	197.75p
Exercise price	n/a
Expected volatility (expressed as weighted average volatility used in the model)	40%
Option life (expressed as weighted average life used in the modelling)	3 years
Expected dividends	3.3%
Risk-free interest rate	n/a

Executive Share Option Scheme 2004

There were no awards during 2008.

Employee Sharesave Schemes UK

	2008 awards
Fair value at measurement date	57.54p
Share price	211.10p
Exercise Price	169.00p
Expected volatility (expressed as weighted average volatility used in the model)	40%
Option life (expressed as weighted average life used in the modelling)	3 years
Expected dividends	2.5%
Risk-free interest rate	4.3%

The Morgan Crucible Savings Related Share Options Scheme for Employees in Germany

	2008 awards
Fair value at measurement date	59.34p
Share price	EUR 2.03
Exercise Price	EUR 1.64
Expected volatility (expressed as weighted average volatility used in the model)	40%
Option life (expressed as weighted average life used in the modelling)	3 years
Expected dividends	2.5%
Risk-free interest rate	4.3%

Employee Share Option Scheme 1995

There were no awards during 2008.

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 4 January 2009	Number of options 4 January 2009	Weighted average exercise price 4 January 2008	Number of options 4 January 2008
Outstanding at the beginning of the period	99.86p	11,803,800	81.55p	15,207,260
Granted during the period	51.24p	6,947,362	78.28p	2,396,885
Forfeited during the period	153.89p	(895,840)	104.13p	(218,492)
Exercised during the period	27.09p	(4,160,580)	57.18p	(5,558,123)
Lapsed during the period	76.34p	(239,237)	42.12p	(23,730)
Outstanding at the end of the period	94.08p	13,455,505	99.86p	11,803,800
Exercisable at the end of the period	157.39p	2,449,879	101.54p	1,610,919

The weighted average share price at the date of share options exercised during the period was 216.52 pence (2007: 252.69 pence).

Notes to the consolidated financial statements

continued

21. Employee benefits continued

The options outstanding at the year end have an exercise price in the range 0.00p to 256.00p and a weighted average contractual life of 1.8 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 Dividend Discount method, 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 IFRS 2 fair value charge expensed to the income statement was £2.2 million (2007: £2.7 million).

22. Provisions

	Closure and restructuring provisions £m	Other provisions £m	Environmental provisions £m	Total £m
Balance at 5 January 2008	8.3	5.8	3.4	17.5
Provisions made during the year	1.3	7.6	2.4	11.3
Provisions used during the year	(4.7)	(3.2)	(2.2)	(10.1)
Provisions reversed during the year	(0.3)	(0.5)	(0.1)	(0.9)
Effect of movements in foreign exchange	0.5	0.6	0.8	1.9
Balance at 4 January 2009	5.1	10.3	4.3	19.7
Current	2.1	8.0	2.4	12.5
Non-current	3.0	2.3	1.9	7.2
	5.1	10.3	4.3	19.7

Closure and restructuring provisions are based on the Group's restructuring programmes and represent committed expenditure at the balance sheet date. The amounts provided are based on the costs of terminating relevant contracts, under the contract terms, and management's best estimate of other associated restructuring costs including professional fees, 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 the US and European class actions, together with the associated legal costs, and the possible future legal defence costs of the Group's former Chief Executive, Ian Norris. 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 the next year.

Environmental provisions are for known environmental issues which the Group will rectify over the next few years. In a number of jurisdictions companies have a constructive obligation to remedy any known environmental problems. The estimated costs are based on management's best estimate of the costs required to remedy these problems. The Group expects to incur most of the liability over the next five years.

23. Trade and other payables

	2008 £m	2007 £m
Non-current		
Other trade payables	0.4	—
Non-trade payables	3.6	3.7
	4.0	3.7
Current		
Other trade payables	93.9	71.2
Non-trade payables and accrued expenses	127.0	137.3
	220.9	208.5

24. Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	2008 £m	2007 £m
Less than one year	6.1	4.9
Between one and five years	18.2	16.7
More than five years	34.6	37.6
	58.9	59.2

Leases as lessor

The total of future minimum sub-lease income under non-cancellable sub-leases is £5.3 million (2007: £6.4 million).

25. Capital commitments

Commitments for property, plant and equipment and computer software expenditure for which no provision has been made in these accounts amounts to £3.8 million (2007: £3.8 million) for the Group.

26. Contingencies

There are contingent liabilities on bills discounted by the Group amounting to £0.8 million (2007: £0.4 million).

The Group has been subject to legal claims in the US and Canada. Settlements for the majority of these have been agreed and provided for at the amount of £2.3 million (2007: £1.2 million). The Board, having taken legal advice, are of the opinion that the remainder of these actions will not have a material impact on the Group's financial position.

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.

27. Related parties

Identification of related parties

The Group has related party relationships with its subsidiaries (a list of Principal subsidiary undertakings is shown in note 44), its associates (see note 13) and with its Directors and executive officers.

Transactions with key management personnel

The Company has written service contracts or letters of appointment with each of its Directors, under which the Directors receive a salary or a fee and other emoluments.

The key management of the Group and parent Company consist of the Board of Directors and members of the Chief Executive Officer's Committee.

Their compensation charged in the year was:

	2008 £m	2007 £m
Short term employee benefits	3.1	3.8
Pension and other post-employment costs	0.3	0.4
Share based payments	0.8	1.1
Termination payments	0.4	0.4
Non-executive Directors' fees and benefits	0.3	0.3
Total compensation of key management personnel	4.9	6.0

Information on executive Directors' remuneration is given in the Remuneration Report on pages 59 to 67.

Notes to the consolidated financial statements continued

27. Related parties continued

Transactions in connection with former Directors

During the year the Group made payments on behalf of the former Chief Executive Ian Norris of £1.0 million (2007: £0.8 million) to cover the costs of his legal defence against extradition to stand trial in the United States. The Group also made payments to the former Chief Executive Warren Knowlton to reimburse him for US employer social costs in respect of his time with the Group (see page 65).

Other related party transactions

	2008 £m	2007 £m
Sales to associate	3.6	0.3
Interest income from associate	4.1	1.5

The balances with our associate are shown in note 16.

28. Accounting estimates and judgments

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 and judgments are subject to significant uncertainty.

Provisions

Note 22 contains information about provisions. Provisions for closure and restructuring costs, environmental issues and settlement of litigation are judgmental by their nature. Amounts provided are the Group's best estimate of exposure based on currently available information.

Recognition of identifiable intangible assets and goodwill

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

Impairment of goodwill

Note 12 contains information about the assumptions relating to goodwill impairment tests.

Credit risk

Note 20 contains information about the Group's exposure to credit risk. The Group establishes both specific and collective allowances for impairment losses against receivables. The collective loss allowance is estimated based on historical data of payment statistics for similar financial assets.

Foreign currency exposure

Note 20 contains information about the foreign currency exposure of the Group and risks in relation to foreign exchange movements.

Pension assumptions

The principal actuarial assumptions applied to pensions are shown in note 21. The actuarial evaluation of pension assets and liabilities is based on assumptions in respect of inflation, future salary increases, discount rates, returns on investments and mortality rates. Relatively small changes in the assumptions underlying the actuarial valuations of pension schemes can have a significant impact on the net pension liability included in the balance sheet.

Taxation

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

Company balance sheet

as at 4 January 2009

	Note	2008 £m	2007 £m
Fixed assets			
Tangible assets	32	2.2	2.0
Investment in subsidiary undertakings	33	693.8	709.1
Other investments	34	5.1	5.1
		701.1	716.2
Current assets			
Debtors – due within one year	35	63.2	56.1
– due after one year	35	37.3	36.2
Total debtors		100.5	92.3
Cash at bank and in hand		27.6	36.0
		128.1	128.3
Creditors – amounts falling due within one year	36	42.5	28.4
Net current assets		85.6	99.9
Total assets less current liabilities		786.7	816.1
Creditors – amounts falling due after more than one year			
Amounts payable to subsidiary undertakings		196.0	234.5
Derivative financial liabilities		0.8	0.2
Borrowings	37	136.1	74.8
		332.9	309.5
Provisions for liabilities and charges	38	4.7	6.8
		337.6	316.3
Net assets		449.1	499.8
Capital and reserves			
Equity shareholders' funds			
Called up share capital	18	67.5	69.1
Share premium account	39	85.3	85.3
Merger reserve	39	17.0	17.0
Capital redemption reserve	39	35.7	34.1
Profit and loss account	39	243.2	293.9
		448.7	499.4
Non-equity shareholders' funds			
Called up share capital		0.4	0.4
Shareholders' funds		449.1	499.8

The financial statements were approved by the Board of Directors on 19 February 2009 and were signed on its behalf by:

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

Notes to the Company balance sheet

29. Accounting policies

The accounting policies are set out below.

Basis of preparation

The parent Company financial statements have been prepared in accordance with UK Accounting Standards (UK Generally Accepted Accounting Practice), and under the historical cost accounting rules.

Under section 230(4) of the Companies Act 1985 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.

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

Foreign currency

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. 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 41 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*.

Classification of financial instruments issued by the Company

Following the adoption of FRS 25, financial instruments issued by the Company are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

- They include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and
- where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

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

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholders' funds (see dividend policy), are dealt with as appropriations in the reconciliation of movements in shareholders' funds.

29. Accounting policies continued

Hedging instruments and hedged items are accounted for separately in the balance sheet. Gains and losses on both are included in profit for the year when they arise (fair value hedges) or when the hedged transaction occurs having first recorded those on the hedging instrument in equity (cash flow hedges, to the extent effective).

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. Changes in the fair value of such instruments during the year were recognised immediately in the profit and loss account.

Own shares held by ESOP trust

The Group-sponsored ESOP trust's purchase of shares in the Company are debited directly to equity.

Share-based payments

The share option program 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 21.

Where the Company grants options over its shares to the employees of its subsidiary undertakings, these awards are accounted for by the Company as an additional investment in its subsidiary. The costs are determined in accordance with FRS 20 (IFRS 2) *Share-based Payment*. Any payments made by the subsidiary undertaking in respect of these arrangements are treated as a return of this investment.

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.

30. Staff numbers and costs

The average number of persons employed by the Company (including Directors) during the year, analysed by category, was as follows:

	Number of employees	
	2008	2007
Directors and head office staff	21	21
Divisional staff	14	15
	35	36

The majority of the Directors and head office staff devote a proportion of their time to Divisional duties. Of the 21 Directors and head office staff, the average number who spent all or a proportion of their time on corporate duties was eight (2007: seven) as shown in note 6.

The aggregate payroll costs of these persons were as follows:

	2008 £m	2007 £m
Wages and salaries	6.0	7.4
Share-based payments (see note 21)	2.2	2.7
Social security costs	1.4	0.6
Other pension costs	1.3	1.1
Total overhead employee cost	10.9	11.8

Notes to the Company balance sheet continued

31. Dividends

Dividends payable for the First and Second Preference shares were £22,491 (2007: £22,491) of which £11,244 (2007: £11,244) was outstanding at the balance sheet date.

For proposed Ordinary dividends see the consolidated income statement on page 70.

32. Tangible assets

	Plant, equipment and fixtures £m
Cost	
At 5 January 2008	3.3
Additions	0.7
At 4 January 2009	4.0
Aggregate depreciation	
At 5 January 2008	1.3
Amount provided for in the year	0.5
At 4 January 2009	1.8
Net book amounts at 4 January 2009	2.2
Net book amounts at 4 January 2008	2.0

33. Investment in subsidiary undertakings

	Shares £m	Loans £m	Total £m
Cost			
At 5 January 2008	534.5	222.3	756.8
Additions	53.6	31.3	84.9
Less: disposals/loan repayments/liquidations	(0.3)	(98.2)	(98.5)
At 4 January 2009	587.8	155.4	743.2
Amounts provided			
At 5 January 2008	44.0	3.7	47.7
Provided in the year	1.7	–	1.7
At 4 January 2009	45.7	3.7	49.4
Net book amounts at 4 January 2009	542.1	151.7	693.8
Net book amounts at 4 January 2008	490.5	218.6	709.1

A list of principal subsidiary undertakings is shown in note 44.

34. Other investments

	£m
At 5 January 2008 and 4 January 2009	5.1

35. Debtors

	2008 £m	2007 £m
Due within one year:		
Other debtors	0.6	1.0
Interest receivable from associate	5.6	1.5
Derivative financial assets	4.2	1.0
Prepayments and accrued income	0.7	1.4
Amounts receivable from subsidiary undertakings	52.1	51.2
	63.2	56.1
Due after one year:		
Loan to associate	36.0	36.0
Prepayments and accrued income	0.5	–
Derivative financial assets	0.8	0.2
	37.3	36.2

36. Creditors – amounts falling due within one year

	2008 £m	2007 £m
Due within one year:		
Bank overdrafts	8.6	5.7
Trade creditors	1.9	3.5
Amounts payable to subsidiary undertakings	8.1	5.3
Other creditors, including social security	0.6	1.7
Accruals and deferred income	7.9	11.2
Derivative financial liabilities	15.4	1.0
	42.5	28.4

37. Borrowings

	2008 £m	2007 £m
Bank and other loans	136.1	74.8
Bank overdrafts	8.6	5.7
	144.7	80.5
Less: amount repayable within one year included within current liabilities	(8.6)	(5.7)
Total repayable after more than one year	136.1	74.8

Notes to the Company balance sheet continued

38. Provisions for liabilities and charges

	Closure and restructuring provisions £m	Other provisions £m	Environmental provisions £m	Total £m
At 5 January 2008	2.9	2.3	1.6	6.8
Provided in the year	–	1.3	0.2	1.5
Utilised in the year	(0.5)	(2.7)	(0.4)	(3.6)
At 4 January 2009	2.4	0.9	1.4	4.7

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 the US and European class actions, together with the associated legal costs, and the possible future legal defence costs of the Group's former Chief Executive, Ian Norris.

Environmental provisions are for known environmental issues which the Company will rectify over the next few years. The Company has a constructive obligation to remedy any known environmental problems.

39. Share premium and reserves

	Share premium £m	Merger reserve £m	Capital redemption reserve £m	Profit and loss account £m
At 5 January 2008	85.3	17.0	34.1	293.9
Charges in relation to share-based payments for the year	–	–	–	3.2
Purchase of shares for share incentive schemes	–	–	–	0.4
Share buy-back	–	–	1.6	(12.1)
Retained loss for the year	–	–	–	(42.2)
At 4 January 2009	85.3	17.0	35.7	243.2

In prior years the increase in equity that corresponds to the share-based payments charge for the Group's various share option incentive schemes was recognised as a separate component of equity in the share-based payment reserve. In 2007 the share-based payment reserve was combined with the profit and loss account.

During the year shares with a nominal value of £0.1 million were purchased to satisfy awards granted under the Company's employee share plans. These have been recognised as a deduction from shareholders' funds. The shares are held in a trust administered by HSBC Trustee (C.I.) Limited and are distributed by them in a 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 4 January 2009 is 2,593,799 (2007: 5,876,880) and at that date had a market value of £3,157,950 (2007: £11,724,376).

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.

The amount of reserves of The Morgan Crucible Company plc that may not be distributed under Section 264(3) of the Companies Act 1985 is £139.7 million (2007: £138.1 million).

40. Leasing commitments

Operating lease commitments during the next year, for which no provision has been made in these accounts, are:

	Land and buildings 2008 £m	2007 £m
Less than one year	0.1	–
Between one and five years	0.2	0.2
More than five years	0.5	0.8
	0.8	1.0

41. 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 2006 and 1 April 2006 respectively, and updated for FRS 17 purposes to 31 December 2008 by a qualified independent actuary. The results for these schemes in respect of the Group are shown below:

	2008 %	2007 %
Assumptions:		
RPI inflation	2.80	3.25
Discount rate	6.50	5.75
Pension increases in payment	2.60/3.15	3.25/3.40
General salary increases	n/a	n/a

The assets in the scheme and the expected rates of return were:

	2008 Expected return %	2008 £m	2007 Expected return %	2007 £m
Asset distribution and balance sheet reconciliation:				
Equities	8.0	97.8	7.8	132.2
Bonds	5.0	7.1	5.8	171.2
Property	5.8	4.9	6.3	17.0
Other	3.8	155.6	4.3/4.7	4.0
Total market value of assets		265.4		324.4
Present value of liability		(278.5)		(324.9)
Deficit in the scheme		(13.1)		(0.5)
Employer contributions due within one year		(0.1)		(0.2)

Other assets include an insurance policy as described in note 21.

The contribution for the year was £6.4 million (2007: £3.8 million).

42. 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 4 January 2009.

Notes to the Company balance sheet continued

43. Related parties

The Directors have reviewed transactions with related parties (as defined in FRS 8 *Related Party Disclosures*) and have concluded that there are no material transactions which require disclosure which have not been acknowledged elsewhere in the Annual Report and Accounts.

44. Principal subsidiary undertakings

	Country of incorporation and principal place of business
Carbon Companies	
Shanghai Morgan Carbon Co. Limited	China
Shanghai Morganite Electrical Carbon Co. Limited	China
Morganite Electrical Carbon Limited	England
* Morgan Rekofa GmbH	Germany
* Morgan Materials Hungary Kft.	Hungary
* Assam Carbon Products Limited	India
* Morgan Carbon Italia s.r.l.	Italy
* Morganite Luxembourg S.A.	Luxembourg
* National Electrical Carbon B.V.	Netherlands
* Morganite South Africa Pty. Limited	South Africa
* Morgan Advanced Materials and Technology Inc.	USA
* National Electrical Carbon Products Inc.	USA
* Graphite Die Mold Inc.	USA
Insulating Ceramics companies	
* Carbo San Luis S.A.	Argentina
* Beijing Yingtelai Morgan Thermal Ceramics Textiles Co. Limited	China
Dalian Morgan Refractories Limited	China
Morgan Kailong (Jingmen) Thermal Ceramics Co. Limited	China
Morgan Molten Metal Systems (Suzhou) Co. Limited	China
Morgan Thermal Ceramics International Trading (Shanghai) Co. Limited	China
Morgan Thermal Ceramics Shanghai Limited	China
Yixing Morgan Thermal Ceramics Co. Limited	China
Morganite Crucible Limited	England
Thermal Ceramics UK Limited	England
* Thermal Ceramics de France S.A.S.	France
* Carl Nolte Söhne GmbH	Germany
* Thermal Ceramics Deutschland GmbH & Co. K.G.	Germany
* Ciria India Limited	India
* Morganite Crucible (India) Limited	India
Murugappa Morgan Thermal Ceramics Limited	India
* Thermal Ceramics Italiana s.r.l.	Italy
Shinnikka Thermal Ceramics Corporation	Japan
* Limited Liability Company Morgan Thermal Ceramics Sukhoy Log	Russia
Thermal Ceramics Asia Pte. Limited	Singapore
* Thermal Ceramics South Africa Pty. Limited	South Africa
* Thermal Ceramics Espana S.L.	Spain
* Morganite Crucible Inc.	USA
* Thermal Ceramics Inc.	USA
Technical Ceramics companies	
* Morgan Technical Ceramics Australia Pty. Limited	Australia
* Yixing Haldenwanger Fine Ceramic Co. Limited	China
Certech International Limited	England
Morgan Advanced Ceramics Limited	England
Morgan Electro Ceramics Limited	England
* W. Haldenwanger Technische Keramik GmbH & Co. K.G.	Germany
Wesgo Ceramics GmbH	Germany
* Morgan Technical Ceramics S.A. de C.V.	Mexico
* Certech Inc.	USA
* Morgan Advanced Ceramics Inc.	USA
* Morgan Technical Ceramics Auburn Inc.	USA

44. Principal subsidiary undertakings continued

	Country of incorporation and principal place of business
Other subsidiary undertakings	
* Morganite Australia Pty Limited	Australia
* Morganite Brasil Limitada	Brazil
* Morganite Canada Corporation	Canada
Grupo Industrial Morgan S.A. de C.V.	Mexico
Morgan Korea Company Limited	South Korea
Morganite Industries Inc.	USA

* Denotes companies some or all of whose shares are owned by a subsidiary.

In 2006, 2007 and 2008 the following German subsidiaries, which are included in the Group consolidated accounts, utilised article 264b 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.

45. Company reconciliation of movements in shareholders' funds

For the year ended 4 January 2009

	2008 £m	2007 £m
Retained (loss)/profit for the financial year	(42.2)	172.5
Purchase of shares for share incentive schemes	0.4	(1.5)
Charge in relation to share-based payments	3.2	2.7
New share capital subscribed (net of issue costs)	–	0.1
Share buy-back	(12.1)	(47.5)
Net (decrease)/increase in shareholders' funds	(50.7)	126.3
Opening shareholders' funds	499.8	373.5
Closing shareholders' funds	449.1	499.8

Group statistical information

Under adopted IFRSs

	2004 £m	2005 £m	2006 £m	2007 £m	2008 £m
Revenue	795.9	745.7	677.8	693.2	835.0
Profit from operations before restructuring costs, other one-off items and amortisation of intangible assets	57.2	67.3	74.9	88.1	108.8
Restructuring costs and other one-off items:					
Restructuring costs and costs associated with settlement of prior period anti-trust litigation	(58.7)	(32.0)	(27.7)	(9.0)	(11.4)
Gain on curtailment of United Kingdom employee benefit schemes	–	–	11.0	–	–
Terminated bid approach costs	–	–	(2.1)	–	–
Profit/(loss) on disposal of property	(3.8)	(0.4)	0.3	(0.2)	0.8
Profit/(loss) from operations before amortisation of intangible assets	(5.3)	34.9	56.4	78.9	98.2
Amortisation of intangible assets	(1.4)	(1.3)	(1.2)	(1.6)	(3.2)
Operating profit/(loss)	(6.7)	33.6	55.2	77.3	95.0
Net financing costs	(16.1)	(13.1)	(3.4)	(5.5)	(12.7)
Loss on disposal of businesses	(8.2)	(0.1)	(1.5)	(0.3)	(0.7)
Share of profit of associate (net of income tax)	–	–	–	0.2	1.2
Profit/(loss) before taxation	(31.0)	20.4	50.3	71.7	82.8
Income tax expense	(2.5)	(8.8)	(10.6)	(15.2)	(20.1)
Profit/(loss) after taxation but before gain/(loss) on sale of discontinued operations	(33.5)	11.6	39.7	56.5	62.7
Gain/(loss) on sale of discontinued operations, net of tax	(26.7)	42.6	–	–	–
Profit/(loss) for the period	(60.2)	54.2	39.7	56.5	62.7
Assets employed					
Property, plant and equipment	319.8	235.3	230.2	246.6	319.6
Intangible assets	107.1	46.6	66.4	69.8	177.0
Investments and other receivables	9.1	6.4	8.4	49.5	50.6
Deferred tax assets	31.2	27.4	28.8	25.8	36.6
Net current assets	54.3	94.2	44.0	74.4	189.9
Total assets less current liabilities	521.5	409.9	377.8	466.1	773.7
Employee benefits	183.0	124.2	42.7	47.7	101.8
Provisions and other items	143.3	61.9	103.6	202.9	423.1
Deferred tax liabilities	42.1	28.1	28.4	19.2	40.8
	153.1	195.7	203.1	196.3	208.0
Equity					
Total equity attributable to equity holders of the parent company	142.4	182.3	186.7	176.2	177.8
Minority interest	10.7	13.4	16.4	20.1	30.2
Total equity	153.1	195.7	203.1	196.3	208.0
Ordinary dividends per share	–	2.5p	4.5p	6.75p	7.0p
Earnings/(loss) per share					
– basic	(22.2p)	18.1p	12.9p	19.1p	22.2p
– diluted	(22.2p)	17.2p	12.3p	18.5p	21.6p
– basic before amortisation of intangible assets	(21.7p)	18.6p	13.3p	19.7p	23.4p
– diluted before amortisation of intangible assets	(21.2p)	17.7p	12.7p	19.1p	22.8p



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