



Another year of substantial and positive progress

Andrew Hosty CEO - Morgan Ceramics

I am very pleased to be writing about another year of substantial and positive progress. 2011 was a watershed year for Morgan Crucible and the Ceramics Division, which both produced a record set of results. These record results, which I cover in more detail below, are a reward for the hard work invested in all parts of our business. As an increasingly well regarded business, the challenge for Morgan Ceramics and its staff has developed as the expectations of our shareholders and customers have increased. Our focus is to continue to find ways to grow the business profitably. I talk more about these opportunities in the business development section later, but, first let's look back at the numbers for 2011.

Business Performance

Revenue in the Morgan Ceramics Division was £685.2 million (2010: £609.1 million), representing an increase at reported rates of 12.5%. At constant currency the increase in revenue was 13.7%.

Revenue for the Technical Ceramics Business in 2011 was £285.1 million (2010: £250.1 million), an increase of 14.0% at reported rates.

Revenue was up by 16.1% on a like-for-like constant currency basis with all regions showing strong improvement. Thermal Ceramics' revenue increased by 11.1% to £400.1 million in 2011 (2010: £359.0 million). On a constant currency basis, the year-on-year increase was 12.2%.

Divisional EBITA for the Morgan Ceramics Division was £92.7 million (2010: £68.8 million), a margin of 13.5% (2010: 11.3%).

For Technical Ceramics, Divisional EBITA was £43.1 million (2010: £34.0 million), reflecting a year-on-year increase of 26.8% at reported rates. Technical Ceramics raised its Divisional EBITA margin by 1.5 percentage points, reaching 15.1% for the year (2010: 13.6%).

Thermal Ceramics' Divisional EBITA also increased in the year to £49.6 million (2010: £34.8 million), an increase of 42.5% at reported rates. The Divisional EBITA margin also showed good improvement to 12.4% (2010: 9.7%).

Business developments

In 2011 major investments and decisions concentrated on opportunities to develop the Division's footprint in the dynamic Asian and South American markets. Capital was invested in Moti Bhojan, India, for a line

to produce high-performance thin-fibre-based laminates for thermal insulation. The Division approved the expansion of its fibre capacity in Brazil and in its facility in Yixing, China for fused silica production. It also established a Superwool® fibre line in Kailong, China.

In North America and Malaysia the Division continued to invest in additional capacity for next-generation hard disc drive components.

The merger of the former Technical and Thermal Ceramics Divisions was completed to time and the expected benefits were delivered, helping to improve profit and Operating ROCE. The new Division now has greater resources to establish a significant Technical Ceramics business in Asia and South America.

These were strengthened by the addition of management and sales personnel who will be able to define and develop the opportunities that exist in these regions.

During the year, the Technical Ceramics Business continued to make progress towards its declared target of positive mix shift, increasing the number of new business projects in higher margin, higher value-added end-markets such as medical and aerospace, whilst continuing to reduce exposure to more commoditised and economically cyclical product areas. Continuous operational improvement programmes, cost reduction initiatives and emphasis on positive price pass-through are all helping to support margin growth.

The Thermal Ceramics Business continued its growth from the low of 2009, with the majority of end-markets returning to pre-recessionary levels. This growth was most notable in North America. It has also been a period of continued cost control and consolidation in the face of challenging global economic conditions. During 2011 the Division completed the process of reducing costs in mainland Europe, principally by reducing overheads.

New product development in the Thermal Ceramics Business remains concentrated in the field of low bio-persistent fibre with the continued roll-out of Superwool® Plus™ and the higher temperature Superwool® HT™.

These products offer significantly improved insulation performance and position the Business as the global technology leader in the production of low bio-persistence products.

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The 'Operational Excellence' programme, first established in 2010 with targets based on a benchmarking programme that have accountability and responsibility at plant level, delivered the improvements that were expected. These locally based and managed initiatives continue to be co-ordinated and supported by engineering and R&D personnel to optimise manufacturing processes. These now constitute a normal business activity.

Outlook

Overall, market demand strengthened in 2011, as shown by the Division's order books and improved new business pipeline. The North American business traded strongly throughout the year, as did Asia. Europe showed positive signs of improvement in most markets, with the possible exception of construction, which remains weak. This principally affects sales of Haldenwanger™ products, manufactured in Germany, for industrial applications involving thermal processing. The South American business is looking particularly strong, driven by the significant investments that are being seen in the petrochemical sector. Despite these encouraging signals the Division continues to watch recessionary indicators and for any signs of inflation.

Weakness in the industrial gas turbine sector and medical device markets continued in 2011 but these are being offset by improvements in demand from sectors within the electronics market. The production ramp-up to meet demand for the next generation of HDD products remains on plan. Towards the end of the year some weakness was noted for products supplied to the solar market.

The medium-term outlook for the Thermal Ceramics Business remains encouraging, driven by the growth in global population and the continuing industrialisation of dynamic growth economies. These factors, combined with the need to reduce energy expenditure and the increasingly stringent environmental legislation that favours low bio-persistent fibres such as Superwool®, will continue to drive demand for heat management solutions.

Methodology transferred from the Technical Ceramics Business is encouraging further differentiation of the Division's fibre products and will allow it to leverage the strength of its worldwide management team. This will be helped by a new management focus being applied to the global business streams - Fibre, Insulating Fire Bricks and Engineering projects.

The Business continues to look carefully at potential bolt-on acquisition opportunities that would enhance the offering in key markets, which together with a strong new business pipeline leaves the Division well-placed for the future.

Looking ahead to 2012 and 2013, I remain optimistic that through the training we are undertaking with current staff, the skills arriving with the new people we have recruited and continued hard work, we are well placed to meet the rising expectations that are held for the Division.

During 2012 I will continue to work with my team to identify where best to invest for future growth. I will be taking a personal interest in the training programmes we have for existing staff, as well as the recruitment of new talent, with the intention of making sure the business is able to take its full role in delivering the Morgan Group's key objectives.

As a reminder, these are:

- 1. To double underlying PBT by 2013**
- 2. To have mid teen operating profit margins**
- 3. To improve ROCE (Return on Capital Employed) from 25% in 2010 to 35% in 2013**

I hope that all of you are now clear what these terms mean and what our respective roles are, as individuals and team members, in meeting these targets. If you are unclear, then please talk to your local management to find out how you can take part.

Thank you once again for all your hard work and dedication to the Morgan Ceramics Division

Andrew Hosty
CEO Morgan Ceramics