Improving life.

The Morgan Crucible Company plc Interim Statement 2005

Morgan

Delivering on our promises

Summary

	2005	2004
Revenue £m	**391.7**	406.2
Underlying operating profit* £m	**33.2**	25.2
Profit/(Loss) before taxation £m	**15.1**	(5.6)
Net debt £m	**165.0**	160.0
Underlying EPS ** pence	**6.3**	4.1

* Defined as operating profit of £22.2 million (2004: £3.7 million) before financing costs of £6.7 million (2004: £8.8 million), restructuring costs of £9.8 million (2004: £14.8 million), costs associated with the settlement of prior period litigation of £1.2 million (2004: £2.7 million) and property disposals of £nil million (2004: £4.0 million). This measure of earnings is shown because the Directors consider that it gives a better indication of underlying performance.

** Basic earnings/(loss) per share of 2.8 pence (2004: loss 12.7 pence) adjusted to exclude the after tax impact of restructuring costs, costs of settlement of prior period litigation and disposal of businesses and property of 3.5 pence (2004: 16.8 pence).

- Total revenue £391.7 million (2004: £406.2 million). Turnover from continuing operations up 5.5% to £391.7 million (2004: £371.4 million) which included a favourable currency translation impact of £1.9 million.
- Underlying operating profit up 31.7% to £33.2 million (2004: £25.2 million) which included a favourable currency translation impact of £0.3 million.
- Underlying operating margins for continuing business improved from 6.8% to 8.5%.
- Underlying EPS improved by 53.7% to 6.3 pence (2004: 4.1 pence).
- Net debt, which is predominantly dollar denominated and therefore impacted by recent dollar strengthening, broadly in line with the comparative period at £165.0 million (2004: £160.0 million).
- Restructuring costs of £9.8 million (2004: £14.8 million) as part of profit improvement initiatives and £1.2 million (2004: £2.7 million) on costs associated with the settlement of prior period litigation.
- Profit improvement plan announced in February 2004 remains on track.

Commenting on the results, Chief Executive Officer, Warren Knowlton said:

"We are delivering on our promises and have shown good progress toward our commitment of achieving double digit operating margins by the end of 2006. In addition to improved financial performance, we are now also seeing the benefits of our strategic repositioning both of the Group overall and of each of the individual businesses. Our firm expectation is that this ongoing repositioning creates a strong platform for profitable growth and future shareholder value creation."

Strategy on track

Strategy

The profit improvement plan, as announced in February 2004, remains on track to deliver £50 million of annualised profit improvement by the end of 2006 at a total cash cost of c. £70 million. For the first half of 2005, we incurred a cash spend of £10.6 million on the plan and we are forecasting to spend a broadly similar level of cash in the remainder of the year.

The profit improvement plan contained a number of commitments on our shareholders and we are pleased to report that we are sticking to and delivering on these commitments. The cost base continues to be managed downwards with our employee headcount mix being moved away from high cost regions such as the Americas and Western Europe toward lower cost geographies. At the end of the first half of 2005, approximately 45% of our employees (including subcontractors in Asia) are now situated in lower cost countries. This compares to less than 40% at the end of 2004 and c.24% in 2002. This, combined with ongoing reductions in overheads, is driving down our total employment costs as a percentage of sales from c.40% in 2003 to 36.8% in the first half of 2005.

In addition to our intense focus on rigorous cost base management, we recognise that long-term shareholder value creation must also be driven by successful top line growth. As a result, we continue systematically to reposition our portfolio of businesses to focus on attractive market segments with less cyclicality and less price commoditisation. Within these targeted segments, our goal is to achieve a leadership position of number one or number two market share. We are also aiming to increase the value-added component of our offering via technological leadership and a higher level of product customisation. As a result of this repositioning we are pleased to report that Group revenue in the first half of the year has grown at 5% on a constant currency basis which is approximately double the weighted GDP of our end geographic markets, and that this volume growth has been achieved without adversely impacting pricing. Encouragingly, as a result of the combination of cost rationalisation and profitable top-line growth, every one of our four major business units has continued to deliver improved operating profits and operating profit margins in the first half of 2005.

These improving operating results continue to enhance Morgan Crucible's financial health with an increase both in our banking headroom in the first half of the year and our interest cover which now stands at 7.4 times EBITD compared to 5.0 times in the first half of 2004. In the early part of 2005 we successfully refinanced our syndicated bank debt giving us both an extended maturity from three to five years and a lower ongoing cost of funding.

In summary, the markets in which we operate remain highly competitive and we expect that the macro-economic environment for Europe will continue to show weak levels of GDP growth. Nevertheless, Morgan Crucible continues to make good progress toward our target commitment of double digit operating profit margins by the end of 2006. As a result of our strategic repositioning, we are also increasingly well placed for sustained shareholder value creation for the medium to longer term.

Financial review

Note: The financial statements have been produced under "International Financial Reporting Standards"(IFRS). All the numbers below are quoted on an IFRS basis except where references are made to changes from UK GAAP to IFRS.

Under transitional requirements for the move from UK GAAP to IFRS a comprehensive review of the changes which have been made are shown on the Morgan website. These include the Group's new accounting policies under IFRS and the transitional disclosures for the 2004 comparative data showing reconciliations between UK GAAP and IFRS both for the balance sheet and the income statement.

Reference is made to underlying operating profit and underlying EPS below both of which are defined in note 5 to these financial statements. These measures of earnings are shown because the Directors consider that they give a better indication of underlying performance.

Group underlying operating profit for continuing businesses increased by 32% to £33.2 million (2004: £25.1 million). Underlying operating profit margins from continuing businesses for the first six months were 8.5%. This compares to 6.8% in the equivalent period last year and 7.9% for the second half of 2004. All four of our major business units contributed to this increase in margin.

The Group has continued to implement its "Profit improvement programme" in the first half with restructuring charges being £9.8 million (2004: £14.8 million) and cash outlay being £10.6 million (2004: £14.8 million). We have also incurred costs associated with settlement of prior period litigation in 2005 that were £1.2 million (2004: £2.7 million).

The Group disposed of one Carbon operation in Australia for £0.7 million in the first half of 2005 with the loss on sale being £0.4 million. The two principal disposals in the comparative period in 2004 were the Auto and Consumer business, the loss on sale being £27.7 million, and the US and UK soft coatings operations for a profit on sale of £2.1 million.

The net finance charge was £6.7 million (2004: £8.8 million). Net bank interest and similar charges were £5.3 million (2004: £6.9 million) the improvement of £1.6 million reflecting the decrease in average net debt levels compared to the first half of 2004 and the beneficial affects of the refinancing initiatives that we announced in April. Part of the finance charge under IFRS is the net IAS 19 (Employee Benefits) interest charge on pension scheme net liabilities which was £1.8 million (2004: £1.9 million). Fair value movements on interest rate swaps was a net income of £0.4 million (2004: £nil).

The tax charge for the period was £5.5 million (2004: £2.9 million). The effective tax rate before restructuring costs, costs associated with settlement of prior period litigation and disposal of business and property was 28% (2004: 27%).

Underlying earnings per share was 6.3 pence (2004: 4.1 pence).

The net cash inflow from operating activities was £2.7 million (2004: £10.6 million) which included an adverse cash impact from restructuring costs and costs associated with antitrust litigation of £14.6 million (2004: £15.0 million). There was a working capital outflow of £22.1 million (2004: £10.1 million). This increase arose partly from strong sales growth, particularly in the second quarter, which drove increased receivables and also from increased costs of raw material and energy supplies that led to higher values of inventory holdings. As a consequence free cash flow was adversely impacted and showed a net outflow of £8.7 million (2004: £7.8 million inflow). The second half of 2005 is forecast to show an improvement in working capital levels as price falls in certain raw materials (e.g. cobalt) feed through into inventory valuations.

	Unaudited Six months 2005 £m	Unaudited Six months 2004 £m	Unaudited Year 2004 £m
Cash flows from operating activities	**2.7**	10.6	50.2
Interest received	**0.9**	0.7	1.5
Net capital expenditure	**(12.3)**	(3.5)	(28.1)
Free cash flow*	**(8.7)**	7.8	23.6
Cash flows from other investing activities	**(4.2)**	26.1	23.3
Cash flows from financing activities	**(3.4)**	54.1	50.5
Exchange movement	**(0.8)**	2.0	4.7
Opening net debt*	**(147.9)**	(250.0)	(250.0)
Closing net debt	**(165.0)**	(160.0)	(147.9)

* Note: The free cash flow is on a different basis from the previously reported numbers, the principle change being the reclassification of operating leases to finance leases. Net debt has changed due to the recognition of additional finance leases as debt under IFRS.

Interim dividend

The Board intends to resume the payment of dividends once the Company is achieving a level of sustained profitability and cash generation. However, at this time an interim dividend has not been proposed given the need to complete successful delivery of the profit improvement plan.

Operating review

Carbon

Sales in the first half were up by 6.7% compared to the same period last year at £100.9 million (2004: £94.6 million). Underlying operating profit for the period was up 34.8% to £12.4 million (2004: £9.2 million) driven by a combination of the healthy top-line growth and ongoing cost rationalisation.

Performance has been strong in the traditional brush and seals and bearings markets, particularly in the Americas. The improved sales performance relative to 2004 was despite a decline in armor sales, due to changes in the specifications set by the US military. Material developments to meet the new specifications have now been completed although production will be somewhat capacity constrained until new equipment is brought on line towards the end of the year. Trading conditions have been difficult in Europe, although some sales growth has been generated. The Asian business, particularly in China, has taken advantage of the organic growth in the region and our ongoing investment. The division is benefiting from the recent restructuring plans, including the rationalisation of a number of smaller sites, continuing overhead reduction and an ongoing move to low cost manufacturing countries.

Magnetics

Sales in the first half were up by 4.3% compared to the same period last year at £90.7 million (2004: £87.0 million). Underlying operating profit for the period was £7.6 million (2004: £7.2 million). The first half of the year was adversely impacted by the spike in raw material prices, and by cobalt in particular. The second half of the year is expected to be much stronger as price falls in cobalt are reflected in the income statement and cost rationalisation initiatives continue to benefit the bottom line.

The materials and parts division performed well driven by strong demand in the electronic article surveillance segment. The sales of the cores and components division outperformed against the prior year, growing especially in the installation market and with a strong order book for the second half of the year. The permanent magnets division traded below expectations due to reduced demand for semiconductor applications and customers' loss of their business to Asian competitors. The new permanent magnet joint venture with San Huan in China started trading in May and this will enable us to target these customers going forward.

Technical Ceramics

Sales in the first half increased by 1.4% to £71.1 million (2004: £70.1 million). This net increase included significant growth areas partly offset by planned exits from less attractive lower margin business compared to the same period last year. Underlying operating profit grew 38.6% to £6.1 million (2004: £4.4 million), with gross margins strengthened. The first half trading of the Technical Ceramics business continued the positive momentum generated in 2004. Of particular note was the strong growth in the USA in sales of electro ceramic components for the new generation of computer hard disk drives. This was complemented by significant sales growth into the medical market, as well as continued demand for laser and power tube products. The move to lower cost manufacturing areas took a further step with the purchase of the minority shareholding in our joint venture in Yixing, China, coupled with the continued transfer of selected additional manufacturing operations from Europe. Operating profit improvements from the cost reduction plans are continuing to come through, including the successful relocation of a major UK manufacturing site, and the rationalisation of a US distribution site.

Insulating Ceramics

Insulating Ceramics sales in the first half were up by 7.8% compared to the same period last year at £129.0 million (2004: £119.7 million). Underlying operating profit for the period was £9.9 million (2004: £7.8 million) despite input price pressures from cost increases in raw materials and energy. The Thermal Ceramics business has continued to expand its geographic presence with the formation of a 70% joint venture with Hubei Kailong in China. This, along with expansion and modernisation of facilities in China, India, Australia and Korea, has enabled the division's growth momentum in Asia to continue in double digits: up 17% on 2004 after allowing for currency. As a result, the business is well advanced in its goal of balancing its turnover between the trading blocks of Europe, Americas and Asia. In addition the launch of a new high temperature bio-soluble fibre (Superwool 607HT) is enabling Thermal Ceramics to be at the forefront of developing new products adapted to the changing needs and environmental demands of the European and American markets.

Overall trading conditions for the Crucibles business worsened against a background of generally poorer economic forecasts and falling demand in Europe. This was exacerbated by rapid rises in raw material and fuel/energy costs, which put pressure on margins and dented confidence in the prospects for recovery of the foundry sector and its supply chain. This extended also to North America, where capital equipment sales faltered and some destocking by distributors was evident. Asia and South America appeared unaffected by this trend and here good progress continues to be made.

Outlook

From a geographical perspective, we expect that our European markets will remain weak for the foreseeable future; however we forecast that the effect of this will be offset by stronger demand in our North American and Asian markets. Overall, through the strategic repositioning of our portfolio, we believe that we are well positioned to continue our improved trading performance and are confident in our prospects for the year as a whole.

Lars Kylberg Chairman

Warren Knowlton Chief Executive Officer

Consolidated income statement

for the six months ended 4 July 2005

	Note	Unaudited Six months Continuing operations 2005 £m	Unaudited Six months Discontinued operations 2005 £m	Unaudited Six months Total 2005 £m	Unaudited Six months Continuing operations 2004 £m	Unaudited Six months Discontinued operations 2004 £m	Unaudited Six months Total 2004 £m	Unaudited Year Continuing operations 2004 £m	Unaudited Year Discontinued operations 2004 £m	Unaudited Year Total 2004 £m
Revenue	1	**391.7**	**-**	**391.7**	371.4	34.8	406.2	762.8	33.1	795.9
Operating costs before restructuring costs, costs associated with settlement of prior period anti-trust litigation and property disposals		**(358.5)**	**-**	**(358.5)**	(346.3)	(34.7)	(381.0)	(706.9)	(33.2)	(740.1)
Profit from operations before restructuring costs, costs associated with settlement of prior period anti-trust litigation and property disposals	1	**33.2**	**-**	**33.2**	25.1	0.1	25.2	55.9	(0.1)	55.8
Restructuring costs and costs associated with settlement of prior period anti-trust litigation	4	**(11.0)**	**-**	**(11.0)**	(15.3)	(2.2)	(17.5)	(52.5)	(6.2)	(58.7)
Loss on disposal of property		**-**	**-**	**-**	(4.0)	–	(4.0)	(3.8)	–	(3.8)
Operating profit/(loss) before financing costs	1	**22.2**	**-**	**22.2**	5.8	(2.1)	3.7	(0.4)	(6.3)	(6.7)
Finance income		**11.9**	**-**	**11.9**	10.8	–	10.8	20.9	–	20.9
Finance expenses		**(18.6)**	**-**	**(18.6)**	(19.6)	–	(19.6)	(37.0)	–	(37.0)
Net financing costs	2	**(6.7)**	**-**	**(6.7)**	(8.8)	–	(8.8)	(16.1)	–	(16.1)
Loss on partial disposal of businesses		**(0.4)**	**-**	**(0.4)**	(0.5)	–	(0.5)	(8.2)	–	(8.2)
Profit/(loss) before taxation		**15.1**	**-**	**15.1**	(3.5)	(2.1)	(5.6)	(24.7)	(6.3)	(31.0)
Income tax expense	3	**(5.5)**	**-**	**(5.5)**	(2.9)	–	(2.9)	(2.5)	–	(2.5)
Profit/(loss) after taxation but before loss on sale of discontinued operations		**9.6**	**-**	**9.6**	(6.4)	(2.1)	(8.5)	(27.2)	(6.3)	(33.5)
Loss on sale of discontinued operations, net of tax		**-**	**(0.6)**	**(0.6)**	–	(25.3)	(25.3)	–	(26.7)	(26.7)
Profit/(loss) for the period		**9.6**	**(0.6)**	**9.0**	(6.4)	(27.4)	(33.8)	(27.2)	(33.0)	(60.2)
Profit/(loss) for the period attributable to:										
Equity holders of the Morgan Crucible Company plc		**8.8**	**(0.6)**	**8.2**	(7.2)	(27.4)	(34.6)	(29.0)	(33.0)	(62.0)
Minority interest		**0.8**	**-**	**0.8**	0.8	–	0.8	1.8	–	1.8
		9.6	**(0.6)**	**9.0**	(6.4)	(27.4)	(33.8)	(27.2)	(33.0)	(60.2)
Earnings/(loss) per share	5									
Basic		**3.0p**	**(0.2p)**	**2.8p**	(2.6p)	(10.1p)	(12.7p)	(10.3p)	(11.7p)	(22.0p)
Diluted		**2.9p**	**(0.2p)**	**2.7p**	(2.6p)	(10.1p)	(12.7p)	(10.3p)	(11.7p)	(22.0p)

Consolidated balance sheet

as at 4 July 2005

	Unaudited Six months 2005 £m	Unaudited Six months 2004 £m	Unaudited Year 2004 £m
Assets			
Property, plant and equipment	**321.9**	316.3	319.8
Intangible assets	**107.0**	106.1	107.1
Other investments	**6.0**	5.4	5.6
Other receivables	**3.5**	11.2	3.5
Deferred tax assets	**31.2**	34.9	31.2
Total non-current assets	**469.6**	473.9	467.2
Inventories	**133.1**	130.3	121.3
Trade and other receivables	**176.7**	165.7	165.3
Cash and cash equivalents	**55.8**	51.3	56.3
Total current assets	**365.6**	347.3	342.9
Total assets	**835.2**	821.2	810.1
Liabilities			
Interest-bearing loans and borrowings	**181.1**	149.9	137.9
Employee benefits	**185.0**	173.3	183.0
Grants for capital expenditure	**0.6**	0.7	0.4
Provisions	**5.2**	3.9	5.0
Deferred tax liabilities	**42.1**	49.5	42.1
Total non-current liabilities	**414.0**	377.3	368.4
Bank overdraft	**0.3**	0.6	0.8
Interest-bearing loans and borrowings	**39.4**	60.8	65.5
Trade and other payables	**192.3**	173.8	184.0
Provisions	**34.1**	25.9	38.3
Total current liabilities	**266.1**	261.1	288.6
Total liabilities	**680.1**	638.4	657.0
Total net assets	**155.1**	182.8	153.1
Equity			
Issued capital	**74.8**	74.8	74.8
Share premium	**84.1**	84.1	84.0
Reserves	**36.5**	26.0	36.2
Retained earnings	**(52.3)**	(10.9)	(52.6)
Total equity attributable to equity holders of the parent company	**143.1**	174.0	142.4
Minority interest	**12.0**	8.8	10.7
Total equity	**155.1**	182.8	153.1

Consolidated statement of cash flows

for the six months ended 4 July 2005

	Unaudited Six months 2005 £m	Unaudited Six months 2004 £m	Unaudited Year 2004 £m
Operating activities			
Net profit/(loss) from ordinary activities	**9.0**	(33.8)	(60.2)
Adjustments for:			
Depreciation	**16.3**	18.1	34.4
Amortisation	**0.7**	0.7	1.4
Interest expense	**6.7**	8.8	16.1
Loss on sale of property, plant and equipment	**0.1**	4.5	4.3
Income tax expense	**5.5**	2.9	2.5
Equity settled share-based payment expenses	**1.5**	0.8	1.7
Operating profit before changes in working capital and provisions	**39.8**	2.0	0.2
(Increase)/decrease in trade and other receivables	**(13.1)**	(9.2)	(11.5)
(Increase)/decrease in inventories	**(11.3)**	(13.8)	(3.1)
Increase/(decrease) in trade and other payables	**2.3**	12.9	21.6
Non-cash operating costs relating to restructuring	**1.6**	0.2	12.4
Increase/(decrease) in provisions and employee benefits	**(6.8)**	0.8	12.8
Cash generated from the operations	**12.5**	(7.1)	32.4
Interest paid	**(6.7)**	(9.3)	(14.8)
Taxation	**(4.1)**	1.2	(2.3)
Loss on partial disposal of businesses	**0.4**	0.5	8.2
Loss on sale of discontinued operations	**0.6**	25.3	26.7
Net cash flows from operating activities	**2.7**	10.6	50.2
Investing activities			
Purchase of property, plant and equipment	**(17.3)**	(11.9)	(38.3)
Proceeds from sale of property, plant and equipment	**5.0**	8.4	10.2
Purchase of investments	**(0.6)**	(0.3)	(1.0)
Proceeds from sale of investments	**–**	0.2	0.4
Interest received	**0.9**	0.7	1.5
Acquisitions of subsidiaries	**(2.6)**	–	–
Disposal of subsidiaries	**(1.0)**	26.2	23.9
Net cash flows from investing activities	**(15.6)**	23.3	(3.3)
Financing activities			
Proceeds from the issue of share capital	**0.1**	54.2	54.1
Purchase of shares for LTIP	**(3.5)**	–	(3.3)
Increase/(repayment) of borrowings	**14.7**	(93.3)	(97.6)
Payment of finance lease liabilities	**–**	(0.5)	(1.0)
Net cash flows from financing activities	**11.3**	(39.6)	(47.8)
Net decrease in cash and cash equivalents	**(1.6)**	(5.7)	(0.9)
Cash and cash equivalents at start of period	**56.3**	57.9	57.9
Effect of exchange rate fluctuations on cash held	**1.1**	(0.9)	(0.7)
Cash and cash equivalents at period end	**55.8**	51.3	56.3

Consolidated statement of recognised income and expense

for the six months ended 4 July 2005

	Unaudited Six months 2005 £m	Unaudited Six months 2004 £m	Unaudited Year 2004 £m
Foreign exchange translation differences	**(0.4)**	(13.6)	(2.5)
Actuarial losses on defined benefit plans	**(4.1)**	(25.9)	(39.0)
Net gain/(loss) on hedge of net investment in foreign subsidiary	**0.6**	–	–
Cash flow hedges:			
Effective portion of changes in fair value	**(1.2)**	–	–
Change in fair value of equity securities available-for-sale	**–**	(0.2)	0.2
Income and expense recognised directly in equity	**(5.1)**	(39.7)	(41.3)
Profit/(loss) for the period	**9.0**	(33.8)	(60.2)
Total recognised income and expense for the period	**3.9**	(73.5)	(101.5)
Attributable to:			
Equity holders of the parent	**3.1**	(74.3)	(103.3)
Minority interest	**0.8**	0.8	1.8
Total recognised income and expense for the period	**3.9**	(73.5)	(101.5)

Consolidated statement of changes in equity

for the six months ended 4 July 2005

	Unaudited Six months 2005 £m	Unaudited Six months 2004 £m	Unaudited Year 2004 £m
At 5 January	**142.4**	249.5*	249.5*
Adjustments on adoption of IFRS from 5 January 2004	**–**	(56.2)	(56.2)
Adjustments relating to adoption of IAS 32 and IAS 39 from 5 January 2005	**(0.5)**	–	–
At 5 January (restated)	**141.9**	193.3	193.3
Recognised income and expense for the period	**3.1**	(74.3)	(103.3)
New ordinary share capital issued (net of expenses)	**0.1**	54.2	54.1
Relating to own shares	**(3.5)**	–	(3.4)
Share-based payment adjustment	**1.5**	0.8	1.7
At period end	**143.1**	174.0	142.4

* As previously reported under UK GAAP.

Notes to the consolidated financial statements

Basis of preparation
The Morgan Crucible Company plc (the "Company") is a company domiciled in the United Kingdom. The consolidated financial statements of the Company for the period ended 4 July 2005 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and jointly controlled entities.

As allowed by IFRS 1 "First-time adoption of IFRS", the Group adopted IAS 32 "Financial instruments: disclosure and presentation" and IAS 39 "Financial instruments: recognition and measurement", prospectively from 5 January 2005. Consequently, until 4 January 2005, the Group continued to hedge account for forecast foreign exchange transactions and commodity exposures in accordance with UK GAAP, and hence the comparative financial statements exclude the impact of these standards.

On 8 July 2005, the Group published a comprehensive analysis of the impact of adopting IFRS from 5 January 2004 – available from the Company's website at www.morganplc.com. This included income statement and balance sheet reconciliations, as well as details of the accounting policies applied in restating its financial statements for the year ended 4 January 2005 and as at 5 January 2004.

These financial statements have been prepared in accordance with accounting policies the Group expects to follow at the year end. EU law (IAS Regulation EC 1606/2002) requires that the next annual consolidated financial statements of the Company, for the year ending 4 January 2006, be prepared in accordance with International Financial Reporting Standards (IFRS) adopted for use in the EU ("adopted IFRS").

This interim financial information has been prepared on the basis of the recognition and measurement requirements of IFRS in issue that either are endorsed by the EU and effective or available for early adoption at 4 January 2006 or are expected to be endorsed and effective or available for early adoption at 4 January 2006, the Group's first annual reporting date at which it is required to use adopted IFRS. Based on these adopted and unadopted IFRS, the Directors have made assumptions about the accounting policies expected to be applied when the first annual IFRS financial statements are prepared for the year ending 4 January 2006.

In particular, the Directors have assumed that the IASB's amendment to IAS 19 will be adopted by the EU in sufficient time that they will be available for use in the annual IFRS financial statements for the year ending 4 January 2006.

In addition, the adopted IFRS that will be effective or available for early adoption in the annual financial statements for the year ending 4 January 2006 are still subject to change and to additional interpretations and therefore cannot be determined with certainty. Accordingly, the accounting policies for that annual period will be determined finally only when the annual financial statements are prepared for the year ending 4 January 2006.

The interim financial statements are presented in £ sterling. They 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 classified as available-for-sale.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Section 240 statement
The comparative figures for the financial year ended 4 January 2005 are not the Company's statutory accounts for that financial year. Those accounts, which were prepared under UK Generally Accepted Accounting Practices, have been reported on by the Company's auditors and delivered to the registrar of companies. The report of the auditors was unqualified and did not contain statements under Section 237(2) or (3) of the Companies Act 1985. The interim financial statements for the six months ended 4 July 2005 were authorised for issue by the Board on 2 August 2005.

1 Segment reporting

Business segments

	Carbon		Magnetics		Technical Ceramics		Thermal Ceramics		Crucibles		Discontinued		Consolidated	
	Six months 2005 £m	Six months 2004 £m	Six months 2005 £m	Six months 2004 £m	Six months 2005 £m	Six months 2004 £m	Six months 2005 £m	Six months 2004 £m	Six months 2005 £m	Six months 2004 £m	Six months 2005 £m	Six months 2004 £m	Six months 2005 £m	Six months 2004 £m
Revenue from external customers	**100.9**	94.6	**90.7**	87.0	**71.1**	70.1	**114.8**	104.6	**14.2**	15.1	**-**	34.8	**391.7**	406.2
Segment profit/(loss)	**8.6**	2.4	**6.5**	3.4	**4.7**	(1.4)	**6.6**	2.8	**0.8**	2.1	**-**	(2.1)	**27.2**	7.2
Unallocated costs													**(5.0)**	(3.5)
Operating profit													**22.2**	3.7
Segment underlying operating profit*	**12.4**	9.2	**7.6**	7.2	**6.1**	4.4	**9.0**	6.0	**0.9**	1.8	**-**	0.1	**36.0**	28.7
Unallocated costs													**(2.8)**	(3.5)
Underlying operating profit													**33.2**	25.2

	Carbon	Magnetics	Technical Ceramics	Thermal Ceramics	Crucibles	Discontinued	Consolidated
	Year 2004 £m	Year 2004 £m	Year 2004 £m	Year 2004 £m	Year 2004 £m	Year 2004 £m	Year 2004 £m
Revenue from external customers	196.1	181.2	135.7	220.3	29.5	33.1	795.9
Segment profit/(loss)	0.2	7.4	1.1	8.0	3.2	(6.3)	13.6
Unallocated costs							(20.3)
Operating loss							(6.7)
Segment underlying operating profit*	20.9	14.2	7.4	15.9	2.9	(0.1)	61.2
Unallocated costs							(5.4)
Underlying operating profit							55.8

* This measure of profit (before all restructuring costs, costs associated with settlement of anti-trust litigation and property disposals) is shown because the Directors consider that it gives a better indication of underlying performance.

2 Net financing costs

	Six months 2005 £m	Six months 2004 £m	Year 2004 £m
Interest expense	**(6.2)**	(7.6)	(13.8)
Interest income	**0.9**	0.7	1.5
Interest on IAS 19 obligations	**(12.4)**	(12.0)	(23.2)
Expected return on IAS 19 scheme assets	**10.6**	10.1	19.4
Fair value charge on interest rate swaps	**0.4**	–	–
	(6.7)	(8.8)	(16.1)

3 Taxation

	Six months 2005 £m	Six months 2004 £m	Year 2004 £m
United Kingdom taxes	**0.2**	(1.0)	(2.1)
Overseas taxes	**5.3**	3.9	4.6
Total taxation	**5.5**	2.9	2.5

The total taxation charge for the six months to 4 July 2005 of £5.5 million (2004: £2.9 million) includes a tax credit of £1.9 million (2004: £1.6 million) in connection with restructuring costs, costs associated with settlement of anti-trust litigation, property disposals and sale of businesses.

The interim taxation charge is calculated by applying the Directors' best estimate of the annual tax rate to the taxable profit for the period.

The restated deferred tax position at 4 January 2005 under IAS 12 is a creditor of £10.9 million (4 January 2004: creditor of £14.8 million, 4 July 2004: creditor of £14.6 million).

The decrease in the deferred tax liability by £10.4 million at 4 January 2005 (£10.0 million at 4 January 2004 and 4 July 2004) arises as a result of the restatement of pension prepayments and creditors under IAS 19 (decrease of £15.2 million for 2005 and £15.6 million for 2004) and recognition of deferred tax on prior year fair value adjustments on acquisitions (increase of £4.8 million for 2005 and £5.6 million for 2004).

4 Restructuring costs and costs associated with settlement of anti-trust litigation

Costs of restructuring were £9.8 million (2004: £14.8 million) and legal costs associated with settlement of anti-trust litigation were £1.2 million (2004: £2.7 million).

5 Earnings per share

Basic earnings per share
The calculations of basic earnings per share at 4 July 2005 was based on the net profit/(loss) attributable to Equity holders of the Morgan Crucible Company plc of £8.2 million (2004: £34.6 million loss) and a weighted average number of Ordinary shares outstanding during the period ended 4 July 2005 of 290,279,006 (2004: 272,919,621) calculated as follows:

	Six months 2005 £m	Six months 2004 £m	Year 2004 £m
Net profit/(loss) attributable to Equity holders of the Morgan Crucible Company plc	**8.2**	(34.6)	(62.0)
Weighted average number of Ordinary shares			
Issued Ordinary shares at 5 January	**290,200,179**	232,050,876	232,050,876
Effect of shares issued in period	**78,827**	40,868,745	49,320,103
Weighted average number of Ordinary shares at period end	**290,279,006**	272,919,621	281,370,979

Diluted earnings per share
The calculation of diluted earnings per share at 4 July 2005 was based on net profit/(loss) attributable to Equity holders of the Morgan Crucible Company plc of £8.2 million (2004: £34.6 million loss) and a weighted average number of Ordinary shares outstanding during the period ended 4 July 2005 of 301,688,291 (2004: 277,207,084), calculated as follows:

	Six months 2005 £m	Six months 2004 £m	Year 2004 £m
Net profit/(loss) attributable to Equity holders of the Morgan Crucible Company plc	**8.2**	(34.6)	(62.0)
Weighted average number of Ordinary shares	**290,279,006**	272,919,621	281,370,979
Effect of share options/incentive schemes	**11,409,285**	4,287,463	6,652,880
Diluted weighted average number of Ordinary shares	**301,688,291**	277,207,084	288,023,859

Underlying earnings per share
The calculations of underlying earnings per share at 4 July 2005 was based on profit from operations before restructuring costs, costs associated with settlement of anti-trust litigation and property disposals less, net finance costs, income tax expense (excluding tax credit arising from restructuring, anti-trust litigation and property disposals) and minority interest of £18.3 million (2004: £11.1 million) and a weighted average number of Ordinary shares outstanding during the period ended 4 July 2005 of 290,279,006 (2004: 272,919,621) calculated as follows:

	Six months 2005 £m	Six months 2004 £m	Year 2004 £m
Profit from operations before restructuring costs and costs associated with settlement of anti-trust litigation, less net finance charge costs, income tax expense and minority interest	**18.3**	11.1	27.9
Weighted average number of Ordinary shares			
Issued Ordinary shares at 5 January	**290,200,179**	232,050,876	232,050,876
Effect of shares issued in period	**78,827**	40,868,745	49,320,103
Weighted average number of Ordinary shares at period end	**290,279,006**	272,919,621	281,370,979
Underlying earnings per share (pence)	**6.3p**	4.1p	9.9p

5 Earnings per share (continued)

Underlying diluted earnings per share
The calculations of underlying diluted earnings per share at 4 July 2005 was based on profit from operations before restructuring costs, costs associated with settlement of anti-trust litigation and property disposals less, net finance costs, income tax expense (excluding tax credit arising from restructuring, anti-trust litigation and property disposals) and minority interest of £18.3 million (2004: £11.1 million) and a weighted average number of Ordinary shares outstanding during the period ended 4 July 2005 of 301,688,291 (2004: 277,207,084) calculated as follows:

	Six months 2005 £m	Six months 2004 £m	Year 2004 £m
Profit from operations before restructuring costs and costs associated with settlement of anti-trust litigation, less net finance charge costs, income tax expense and minority interest	**18.3**	11.1	27.9
Weighted average number of Ordinary shares	**290,279,006**	272,919,621	281,370,979
Effect of share options/incentive schemes	**11,409,285**	4,287,463	6,652,880
Diluted weighted average number of Ordinary shares	**301,688,291**	277,207,084	288,023,859
Underlying diluted earnings per share (pence)	**6.1p**	4.0p	9.7p

This Interim Statement will be dispatched to all registered holders of Ordinary shares. Copies of this statement may be obtained from the Secretary at the Registered Office of the Company, Quadrant, 55-57 High Street, Windsor, Berkshire SL4 1LP (Registered in England No. 286773).

Designed by Radley Yeldar (London)

The Morgan Crucible
Company plc
Quadrant
55–57 High Street
Windsor
Berkshire SL4 1LP

Morgan