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2002 Interim Results

10 September 2002

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Introduction

Interim results summary

First Half		2002	2001
Turnover +	£m	449.5	520.7
Operating profit + *	£m	16.0	45.4
Net finance charge	£m	(6.6)	(9.9)
Profit before taxation **	£m	9.1	37.6
Underlying EPS **	p	2.2p	10.9p
Dividend per share	p	-	7.4p

+ On a continuing basis

*Before goodwill amortisation of £3.9m (2001 - £3.7m) and operating exceptionals of £28.3m (2001 - £nil)

**Before the above items and corporate exceptional losses of £9.7m (2001 - £2.3m)

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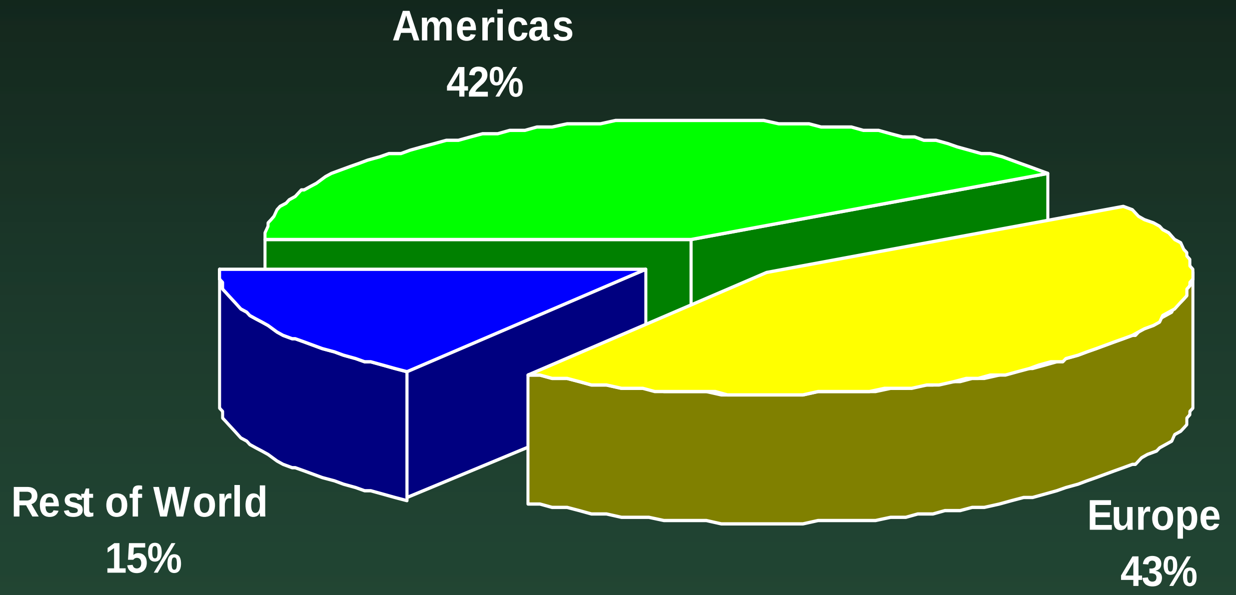
1st Half 2002 geographic sales



Morgan's broad geographic spread

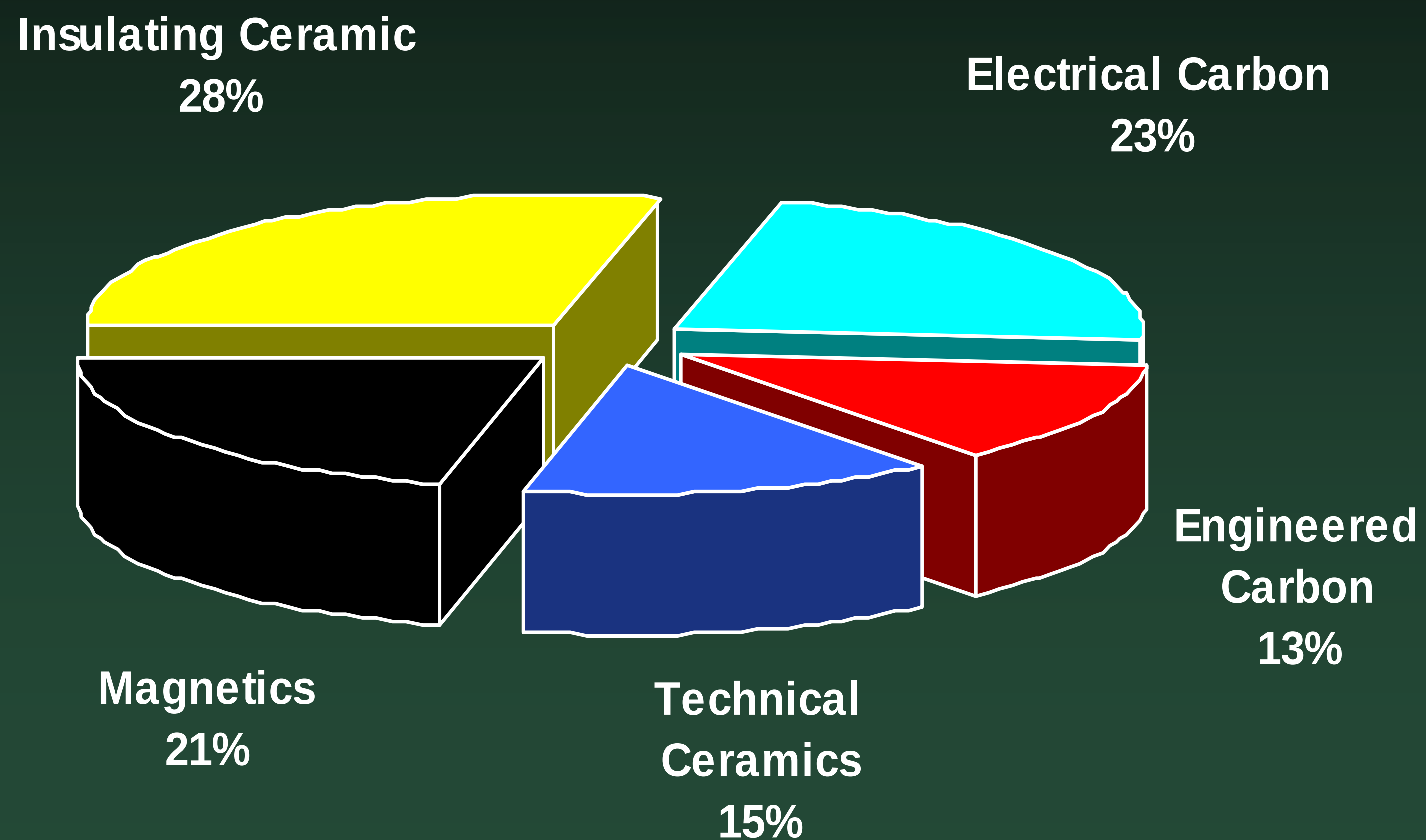
Organisation

5 Businesses

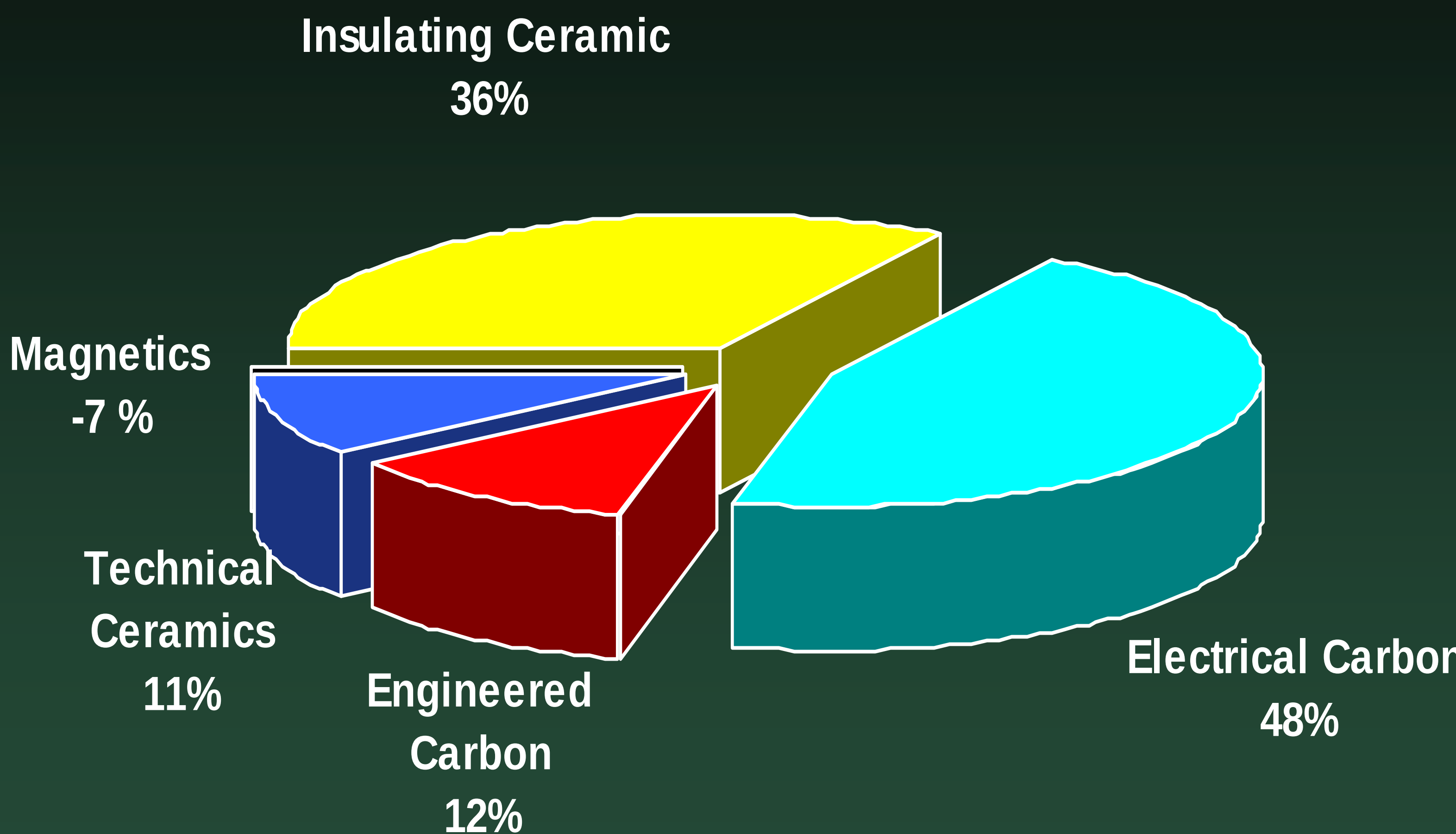
- Electrical Carbon
- Engineered Carbon
- Magnetics
- Technical Ceramics
- Insulating Ceramics

Combined strength - Global strength

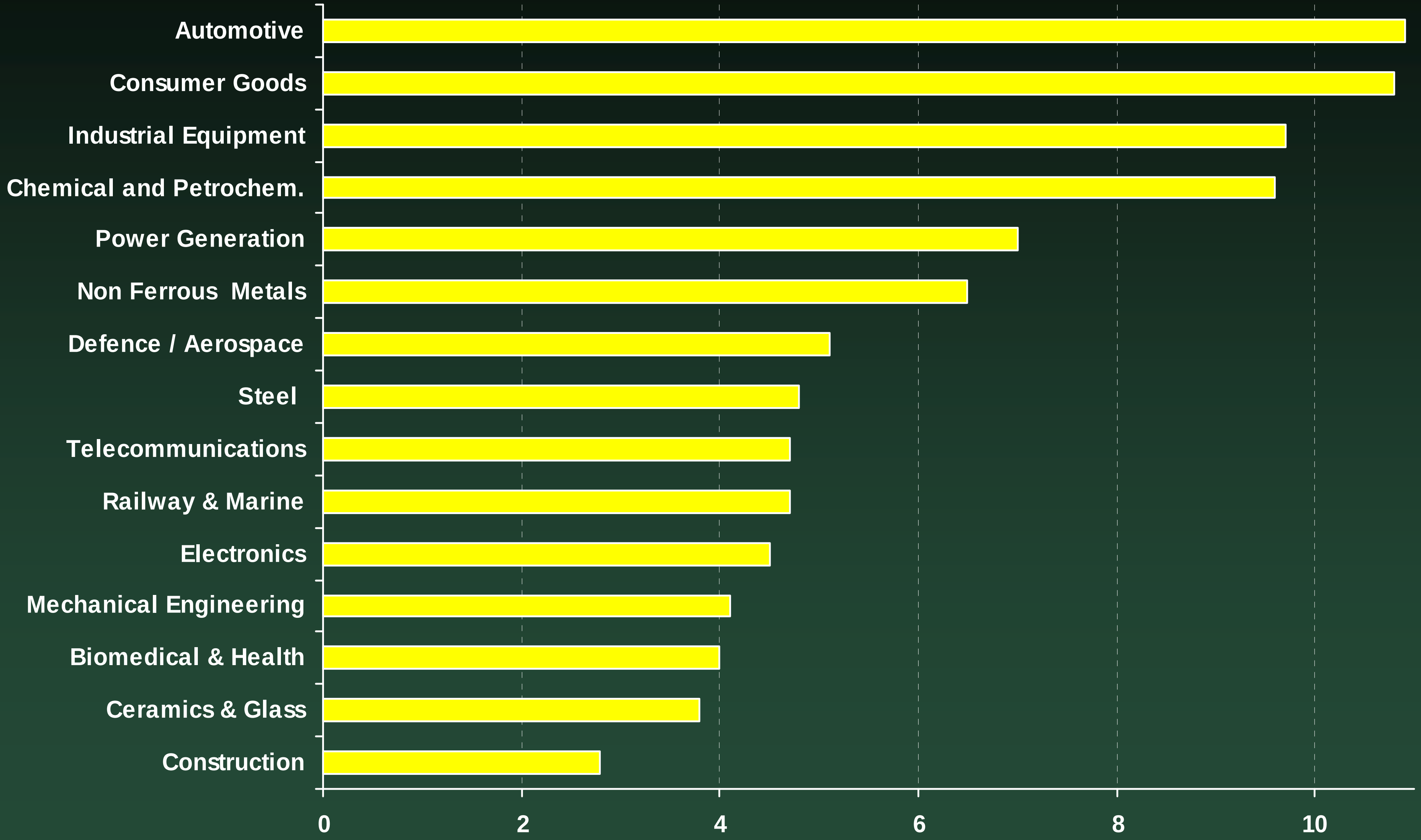
1st Half 2002 sales by business



1st Half 2002 operating profit by business



1st Half 2002 market sector sales



Strong sector spread

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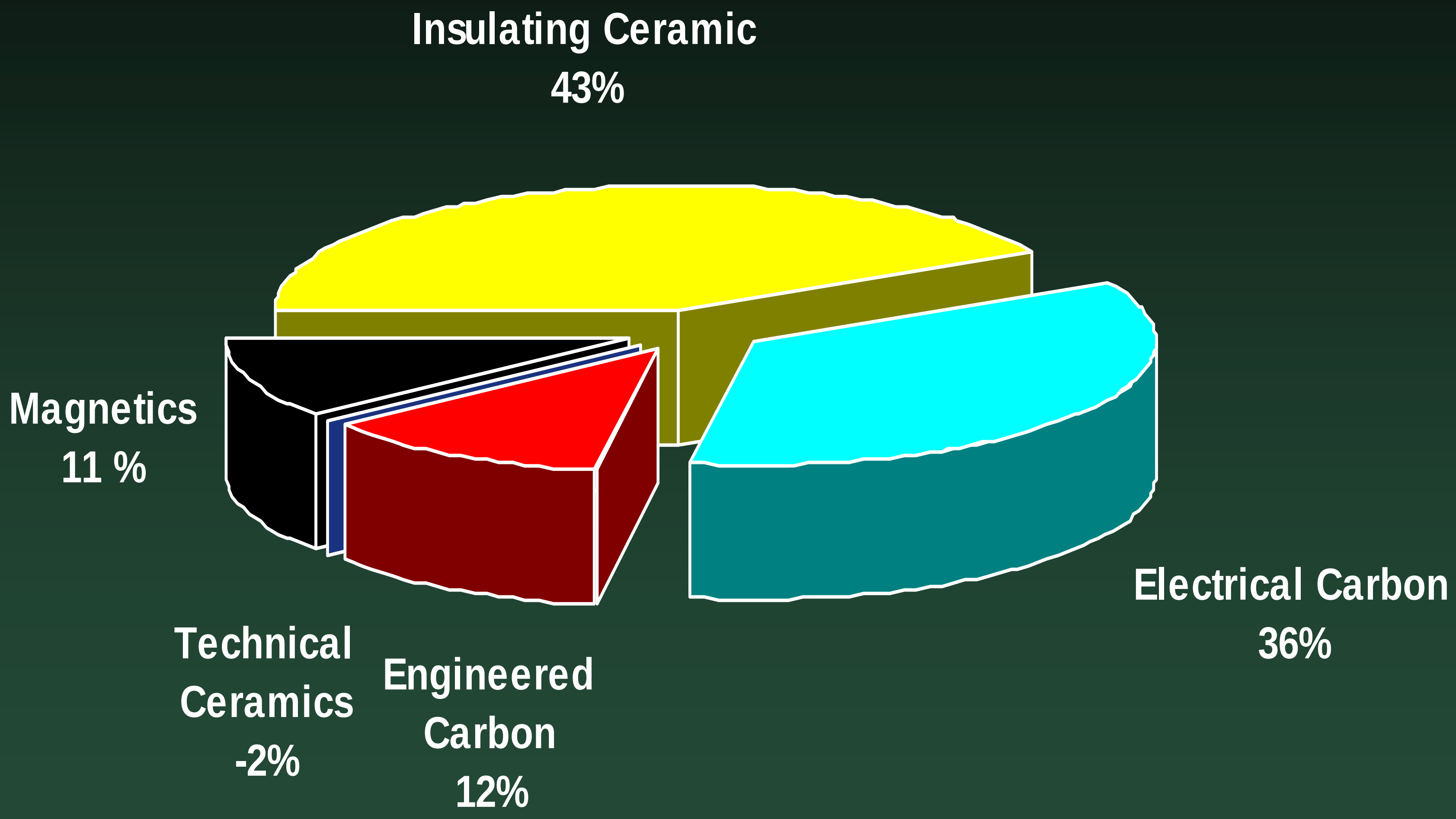
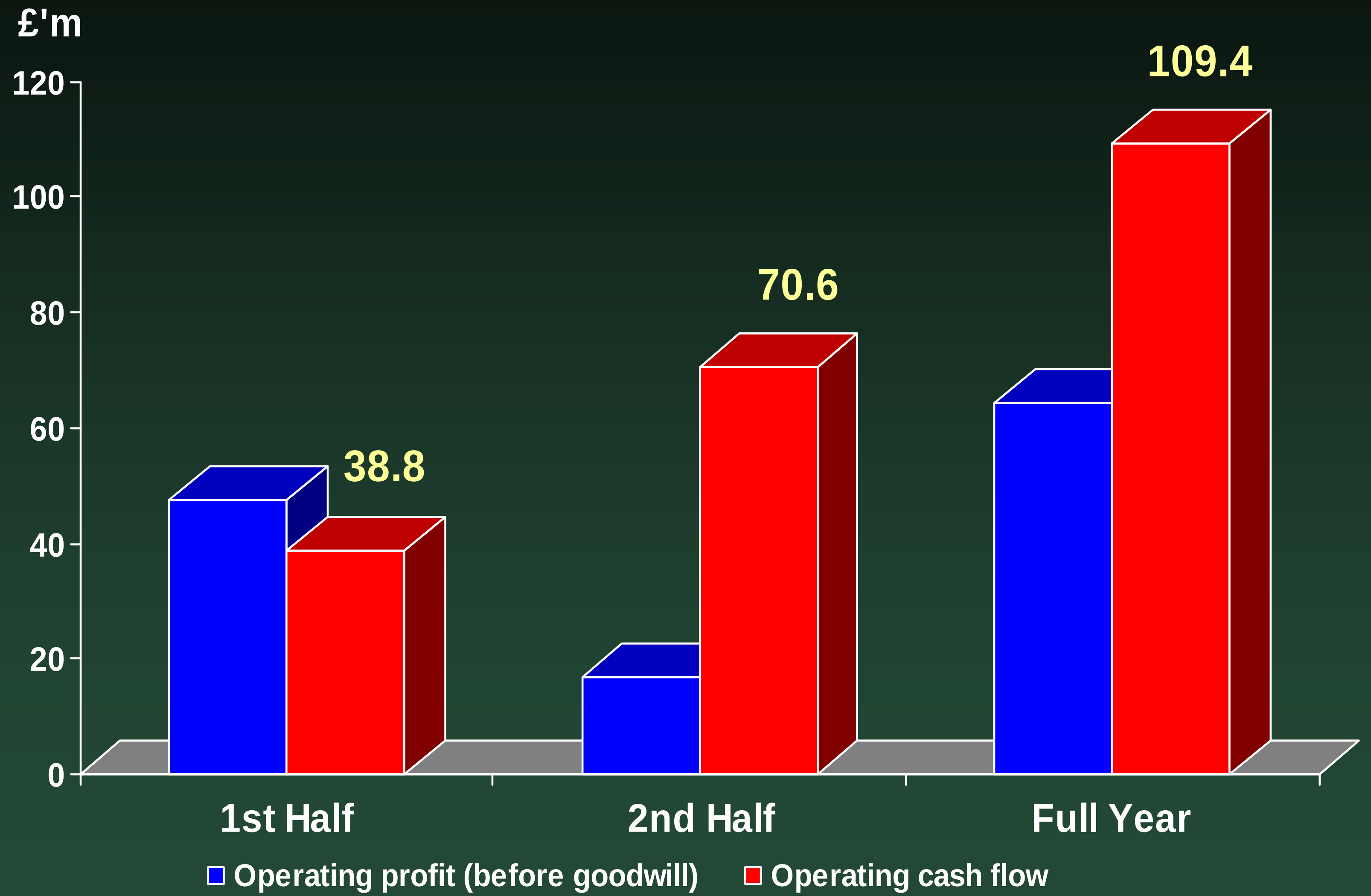
1st Half 2002 operating cash flow by business

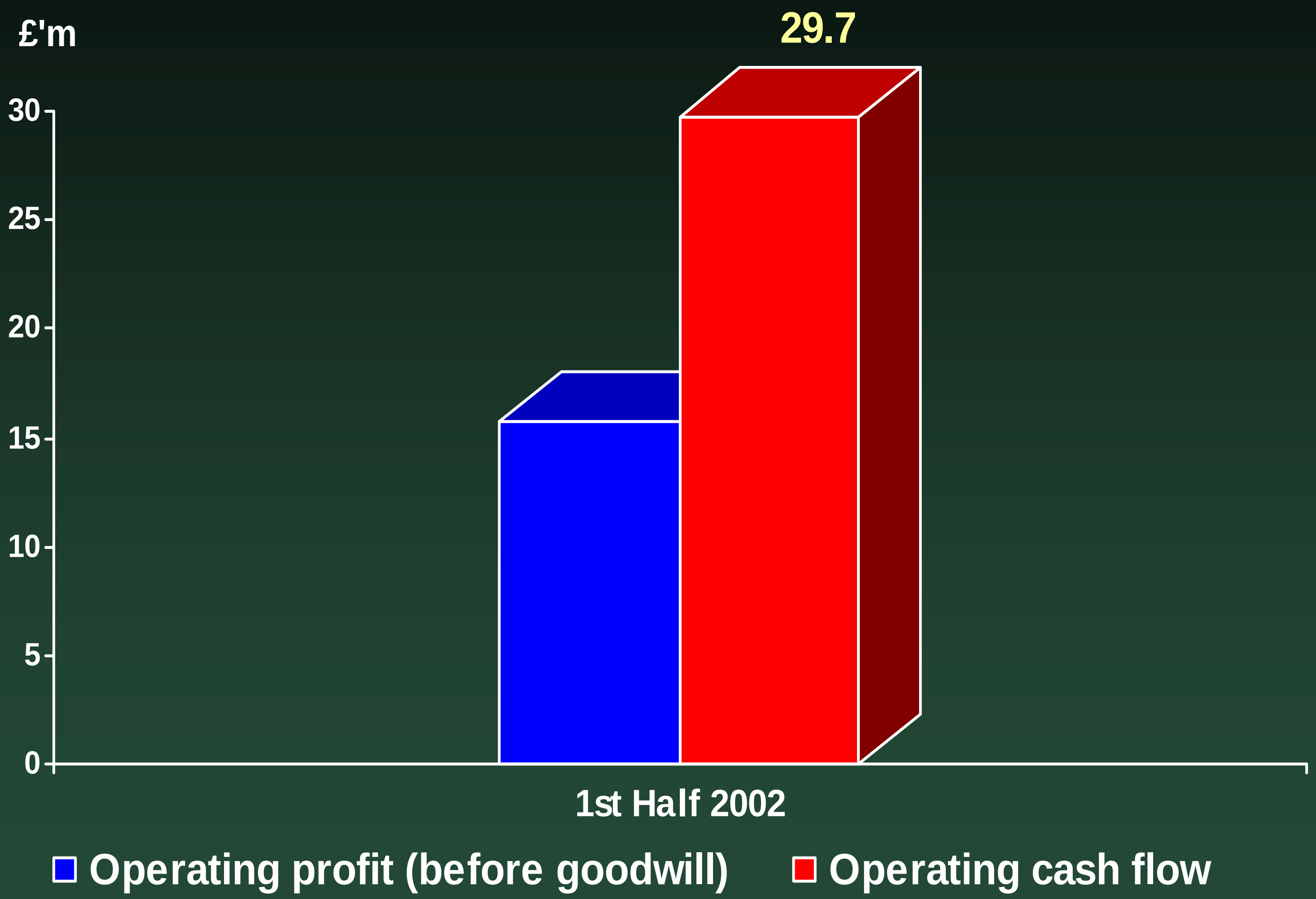


Cash generation profile 2001



Profit Impact high… but cash achievement excellent

Cash generation profile



Continued emphasis on cash generation

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Financial Review

Nigel Young

Summary Profit and Loss Account

First Half £m	2002	2001
Turnover (continuing)	449.5	520.7
Underlying operating profit (continuing)	16.0	45.4
(discontinued)	(0.3)	2.1
Goodwill amortisation	(3.9)	(3.7)
Exceptional items	(38.0)	(2.3)
Net finance charge	(6.6)	(9.9)
Pre-tax (loss)/profit	(32.8)	31.6
Tax charge	(2.3)	(10.3)
(Loss)/Profit after tax	(35.1)	21.3

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EPS and order book outlook

First Half		2002	2001**
Underlying EPS*	p	2.2	10.9
Dividend per share	p	-	7.4

*Before goodwill amortisation of £3.9m (2001 - £3.7m) and operating and corporate exceptional costs of £38.0m (2001:£2.3m loss) - **2001 figures are restated

Cost reduction programme

- Increased efficiency & simplicity of operating structure
- Original overall plan
- Current overall position
- Annualised improvement in costs within 2 years

Operating cash flow

First half £m Inflow/(outflow)	2002	2001
Operating profit	(16.5)	43.8
Depreciation and amortisation	28.3	29.3
Reorganisation costs/ write offs	13.7	(0.1)
Increase in working capital	(3.6)	(35.5)
Other	7.8	1.3
Operating cash flow	29.7	38.8

Free cash flow

First Half £m Inflow/(outflow)	2002	2001
Operating cash flow	29.7	38.8
Net interest	(7.0)	(9.4)
Taxation	(3.7)	(9.0)
Cash earnings	19.0	20.4
Dividends	(18.2)	(18.2)
Net cash flow before capex	0.8	2.2
Net capital spend	(17.4)	(29.3)
Free cash flow	(16.6)	(27.1)

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Borrowings and gearing

Half year £m *Inflow/(outflow)*	2002	2001
Opening net borrowings	(276.1)	(220.0)
Free cash flow	(16.6)	(27.1)
Acquisitions/disposals	(3.4)	(47.1)
Other	1.0	(2.0)
Closing net borrowings	(295.1)	(296.2)
Net assets	379.0	444.9
Gearing	78.0%	67.0%

Funding

- Strong banking relationships
- Reduce predominance of bank finance
- Increase proportion of alternative funding sources
- Targeted net debt reduction to £200m
  - commitment to non-core corporate disposals (T/O £70m+)
  - disposal of surplus property (proceeds c£20m over years 02-04)
  - tight control of working capital and capex
  - invest in cost reduction programme

Increasing competitiveness and reducing net debt

- Cost reduction programme is on track
- Strong cash management in place
- Good first half free cash flow performance
- Substantial reduction in net debt targeted through portfolio adjustment and disposals
- Interim dividend “reinvested” in the cost reduction programme
- Disposals programme for surplus land and buildings through to 2004 well underway

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First half key areas

Cost reduction programme

- Significant reduction in total employee cost.
- Headcount reduction of 1,000 employees.
- Transfer of an additional 1,000 jobs to low cost countries.
- Announced impact
  - Operating cost base reduced by £30m per annum from 2004
  - Exceptional costs of £70m during 2002 – 2004
  - Net cash cost of redundancy and reorganisations £40m
  - Total number of projects + 70

Cost reduction programme – current position

Of the total of 71 projects

26 completed

Est. £10m annualised saving by end of 2002.

Total Costs	£70m
Total Cash effect	£40m
Full year savings (mid 2004)	£33m

2002 Costs	£45m
2002 Cash Outflow	£19m

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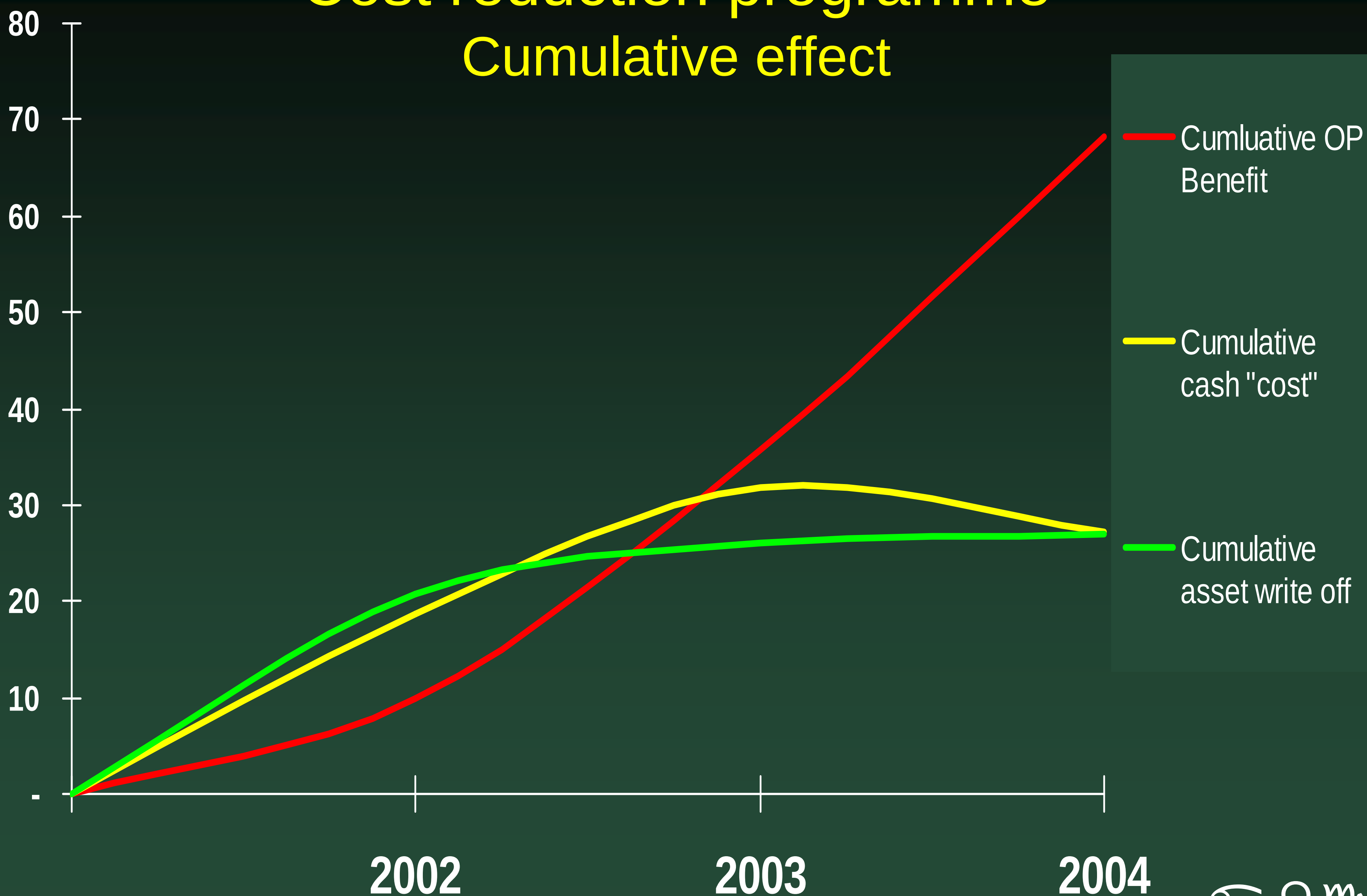
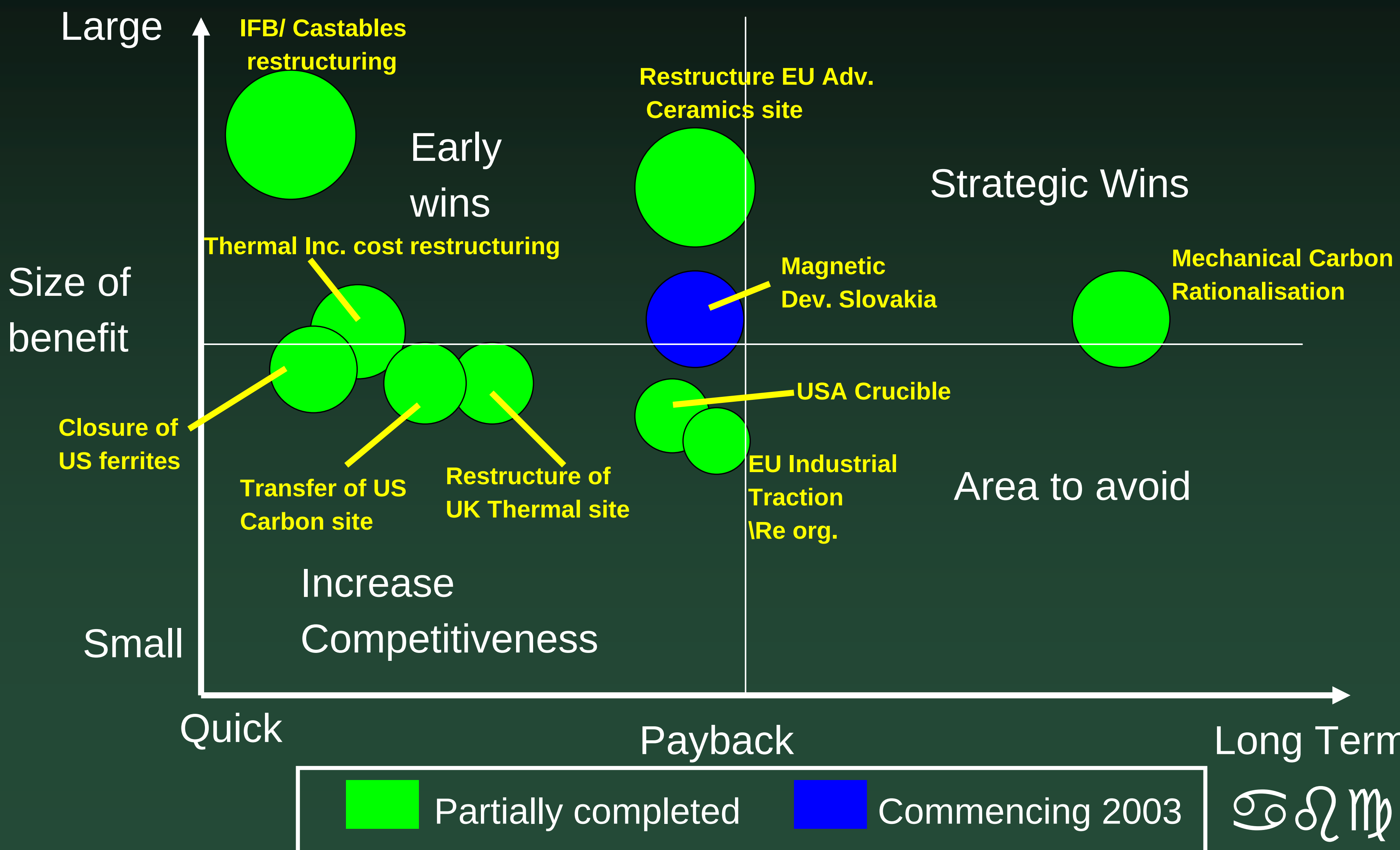
Cost reduction programme
Cumulative effect



Restructuring – progress

Major Priorities



Business analysis

First Half £m	Turnover		Operating profit before goodwill	
	2002	2001	2002	2001
Magnetics	95.7	117.7	(1.2)	7.6
Electrical	102.9	105.9	7.6	11.4
Engineered	56.7	68.3	2.0	6.6
Technical	65.7	81.8	1.8	8.6
Insulating	128.5	147.0	5.8	11.2
Continuing businesses	449.5	520.7	16.0	45.4
Discontinued	0.9	19.6	(0.3)	2.1
Total	450.4	540.3	15.7	47.5

Business Highlights

First Half £m	Turnover		Operating profit before goodwill	
	2002	2001	2002	2001
Electrical Carbon	102.9	105.9	7.6	11.4

- Industrial replacement market strengthening
- Industrial and Automotive Gross Margin recovering
- Automotive - record new business contracts won
- Opportunities in Fuel injection systems
- Consolidation of our Auto manufacturing facilities in progress

Business Highlights

First Half £m	Turnover		Operating profit before goodwill	
	2002	2001	2002	2001
Magnetics	95.7	117.7	(1.2)	7.6

- Sales down 18.7% on first half 2001
- Major fixed cost reduction programme on target
- Focus on working capital reduction
- Good growth in sales and profit in Superconductors
- Detailed product analysis completed
- Article surveillance market recovering well
- Disc drive orders in place for Q4
- No immediate recovery anticipated in Telecom
- Organisational changes in progress

Business Highlights

First Half £m	Turnover		Operating profit before goodwill	
	2002	2001	2002	2001
Engineered Carbon	56.7	68.3	2.0	6.6

- US and Asian markets for OEM's are weak
- Commercial aero weakness over last 12 months
- Business focusing on cost and cash control
- Specialty Margins increased despite lower sales
- Fuel cell development progress excellent
- Coatings overheads significantly reduced
- Closure of UK site announced

Business Highlights

First Half £m	Turnover		Operating profit before goodwill	
	2002	2001	2002	2001
Technical Ceramics	65.7	81.8	1.8	8.6

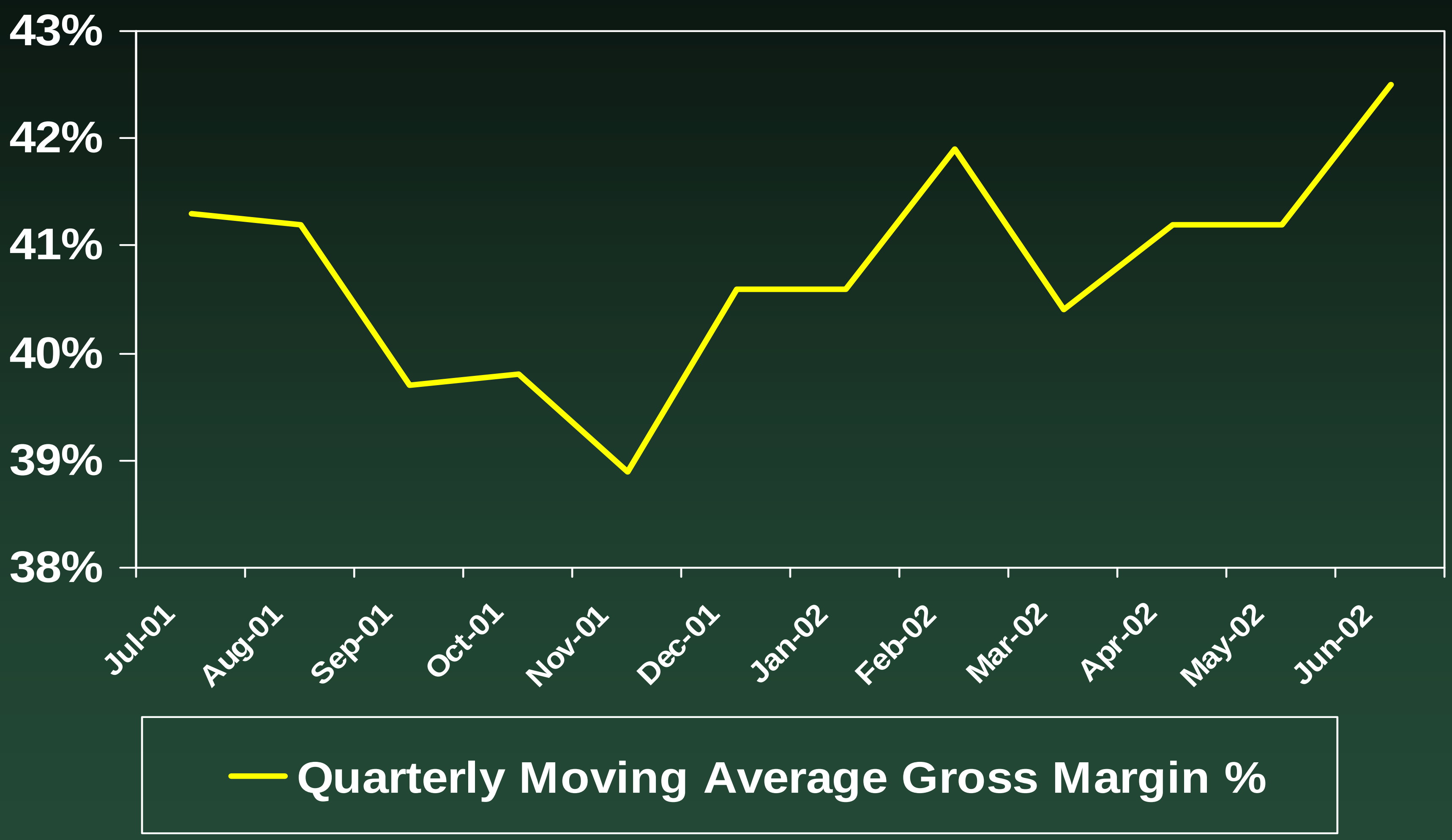
- Consolidation of US Advanced Ceramic sites
- Move to low cost countries progressing
- Consolidation proposals within Europe nearing completion
- Further approvals gained at Applied Materials
- Electro Ceramics weaker in short term but exciting pipeline of major growth opportunities established
- Transfer of labour intensive manufacture on certain new products to Magnetics site in Slovakia

Business Highlights

First Half £m	Turnover		Operating profit before goodwill	
	2002	2001	2002	2001
Insulating Ceramics	128.5	147.0	5.8	11.2

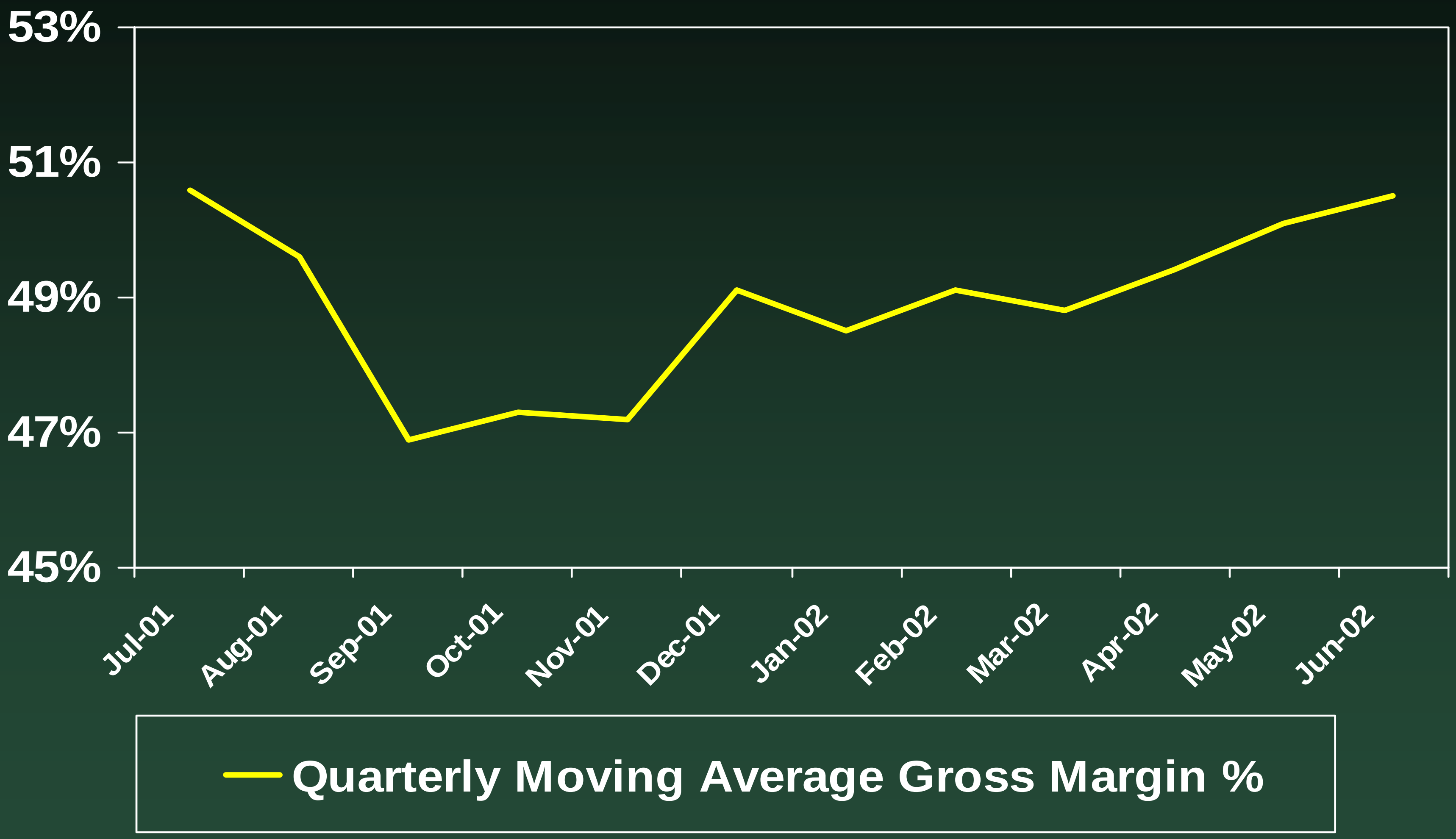
- US Crucible site closure in progress and on target
- UK site consolidation delivering cost and efficiency target
- Increasing demand for soluble Superwool
- All Insulating restructuring programmes on plan
- Good order input on after-market products
- Insulating portfolio rationalisation continuing

Morgan Group



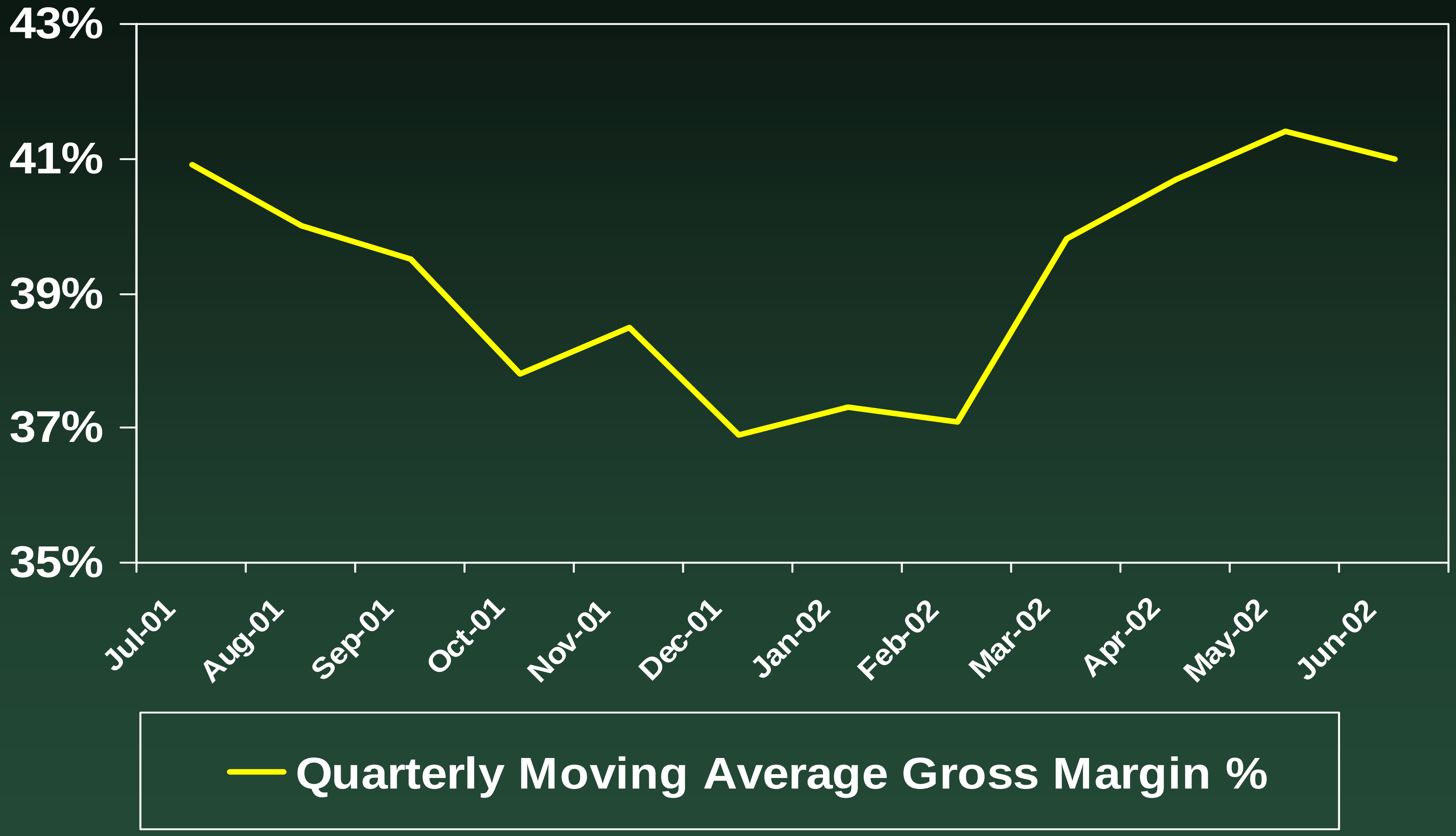
Note: Information extracted from management accounts

Industrial Railway Traction



Note: Information extracted from management accounts

Thermal Ceramics



Note: Information extracted from management accounts

Trading Environment

- General manufacturing environment:
  - Order visibility has shortened
  - Variability of customer delivery schedules increased
  - Rapid lead time requirement is a norm
- Morgan response
  - Rapid delivery units established
  - Focus on working capital reduction
  - Cost cutting initiatives (6 sigma) now ongoing
  - From a much more competitive base – With…
    - Less sites
    - Increased facilities in emerging economies
    - Lower cost manufacture
    - Considerable advancements in our technical product capability

Continued drive for lowest cost manufacture

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Trading Environment

- Need to strategically transform ourselves from -
  - an acquisition led company
  - to a company capable of self funded organic growth
- Never an easy task in good market conditions -
  - Investment in your product development is required
  - order books are developed
  - Pipelines of future products have to be established
- This has been achieved -
  - The portfolio has changed
  - Customer approvals increased on enhanced technical capability
  - Pipelines of future products are established
- In 2000 we saw organic growth in every business

Trading recovery will be built
on an increasingly competitive base

Applied Technology

- Investment has continued in our technology
- Customers have also been focussing on new innovations during the downturn
- They demand materials and products which are :-
  - Stronger
  - Lighter
  - Smaller
  - Smarter
  - And of the highest purity.
- We continue to meet that requirement
- Developing opportunities utilising cross Morgan expertise to provide some unique solutions

Applied Technology

- Technology only makes return when properly applied to our markets

- Our market development focus now expanded by Bill Macfarlane to cover all 5 Morgan businesses provides
  - Cross business market data (e.g. Medical, Aerospace, Defence.Automotive,e.t.c.)
  - Merging of materials & products to provide innovative systems
  - Powerful joint customer approaches
  - Design partnership with customers

- Bill Macfarlane and Alan Begg are identifying considerable additional opportunities

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Debt reduction

- Disposals –
  - The detailed analysis which we are conducting within all 5 businesses, identified further portfolio rationalisation
  - Turnover approx. £70 Million
- Working capital reduction
  - Real focus and continuing reductions anticipated
- Property disposals –
  - Site reduction and consolidation will continue
  - Those currently available are valued at circa £20 Million
- Cost Reductions –
  - Clear cash generating opportunities

Debt will reduce substantially

Outlook

Timing of significant recovery remains uncertain

Improved demand in second quarter

Given normal seasonal order patterns, the strength of our replacement and after-sales demand positions us to achieve progress during the remainder of the year

Positioned to resume profitable organic growth ♋♌♍


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