



The Morgan Crucible Company plc

2004 Interim Results

4 August 2004

Introduction

Warren Knowlton

Agenda

- Introduction
- Interim 2004 Results
- Strategy and Operations
 - Introduction to Magnetics Division
 - Introduction to Carbon Division
- Outlook

2004 Interim Financial Results

Nigel Young

Summary - Profit and Loss Account

33% improvement in continuing UOP from last year

Half Year £m	2004	2003
Turnover (continuing)	<u>371.4</u>	<u>379.2</u>
Underlying Operating Profit - Continuing	25.2	19.0
- Discontinued	(0.3)	2.4
Goodwill amortisation	(3.3)	(3.9)
Exceptional items - Operating	(17.5)	(15.3)
- Corporate	(42.3)	(15.6)
Net finance charge	<u>(6.9)</u>	<u>(7.6)</u>
Pre – tax loss	(45.1)	(21.0)
Tax charge	<u>(2.9)</u>	<u>(4.1)</u>
Loss after tax	<u>(48.0)</u>	<u>(25.1)</u>
Underlying EPS	4.7p	3.4p

Operating cash flow

Half Year £m	Inflow/(outflow)	2004	2003
Operating profit/loss		4.1	2.2
Depreciation and amortisation		22.0	26.8
Loss on sale of plant and machinery		0.5	-
Exceptional non-cash operating costs		0.2	0.6
Increase in working capital		(9.9)	(21.5)
Increase in provisions		<u>1.7</u>	<u>0.3</u>
Operating cash inflow		<u><u>18.6</u></u>	<u><u>8.4</u></u>

Borrowings and gearing

Half Year £m	2004	2003
Opening net borrowings	(249.3)	(251.6)
Free cash inflow/(outflow)	7.7	(12.6)
Disposals	26.3	26.9
Other	<u>56.0</u>	<u>0.8</u>
Closing net borrowings	<u>(159.3)</u>	<u>(236.5)</u>
Net assets	268.8	338.1
Gearing	59.3%	69.9%

Divisional Performance

Half Year £m	Turnover		Operating Profit/(Loss)	
	2004	2003	2004	2003
Carbon	94.6	95.6	9.1	9.2
Magnetics	87.0	87.9	4.7	0.9
Technical Ceramics	70.1	65.0	4.2	1.1
Insulating Ceramics	119.7	130.7	7.2	7.8
	<u>371.4</u>	<u>379.2</u>	<u>25.2</u>	<u>19.0</u>
Discontinued	34.8	63.4	(0.3)	2.4

Strategy & Operations

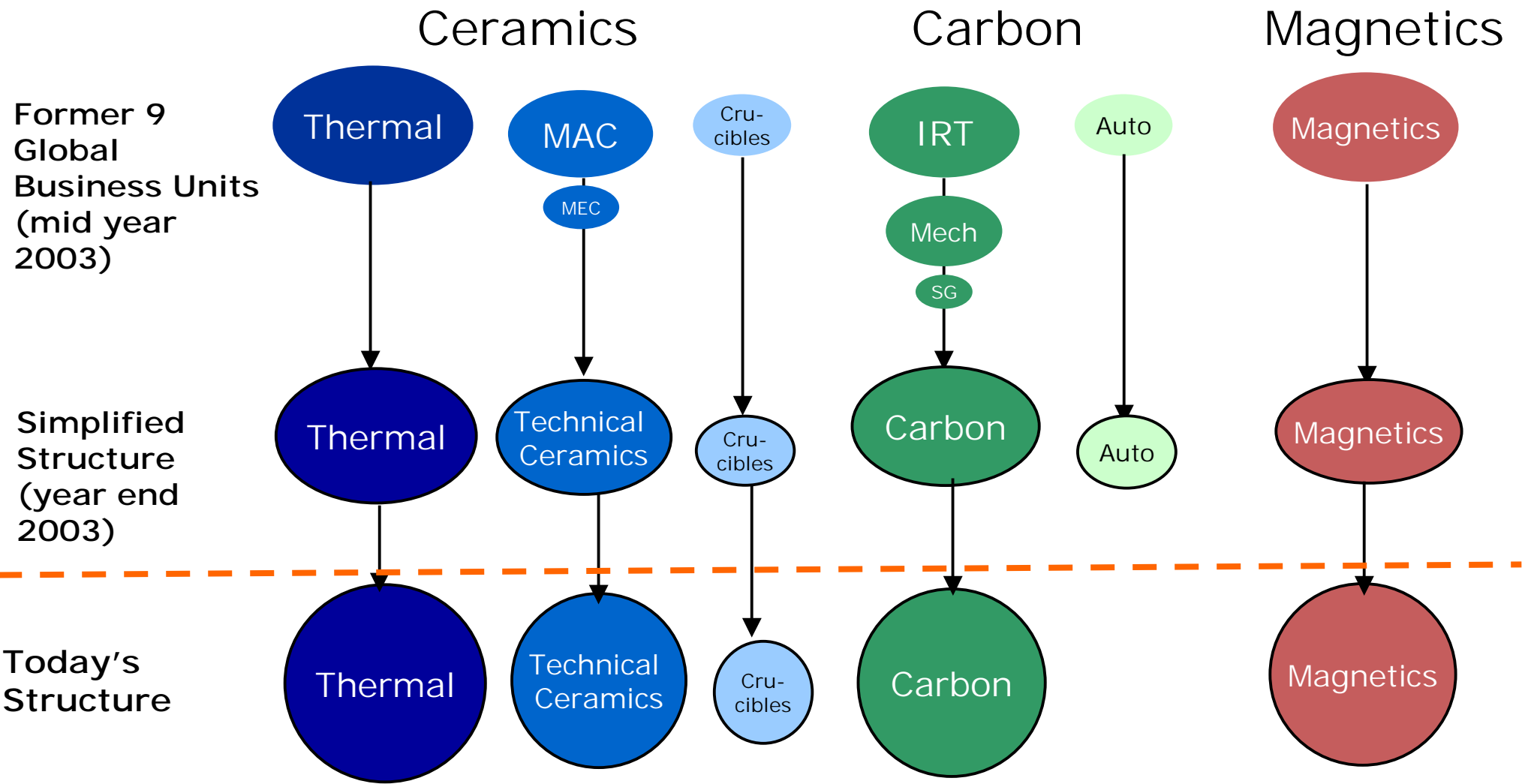
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Priorities

- Simplify business structure
- Instil performance based culture across GBUs
- Accelerate and extend restructuring
- Turn around under-performing businesses
- Dispose of operations that fail to meet core criteria

Same priorities since January 2003

Combination Of Businesses



Simplify business structure

What is Morgan's competitive advantage?

- Excellent technology
- Strong market position in many segments/niches
- Ability to support customers needs in global markets
- High quality products; blue chip customer base
- A dedicated motivated team

Cultural Changes at Morgan

1. Accountability reinforced at all levels in the organisation
2. Refocus of Executive committee on operations
3. New Business Unit management and structure
4. Focus on achieving targets - Business Units aligned with shareholder focus
5. Regular review of results by business
6. Different mix of Board directors
7. R & D simplified – focused on commercialisation
8. Sharing of best practices encouraged – silos broken down

Restructuring Update

1. Consolidate 9GBU structure

- Organisation complex and inefficient
- Not driven by customers or operations



- Organisation simplified to 5 GBUs
- Centre significantly reduced. R&D complexity reduced / focus on winners

2. Exit non-core facilities and products

- GBUs had over-extended into non-core product and business lines



- Each GBU now focused on core markets with strong positions

3. Rationalise facilities and overheads

- Legacy of poorly integrated acquisitions



- GBUs implementing detailed overhead and site reduction plans

4. Improve productivity

- Opportunity to take advantage of low cost markets



- Production shift to low cost locations

5. Selectively expand capacity

- Number of investment opportunities around core market positions



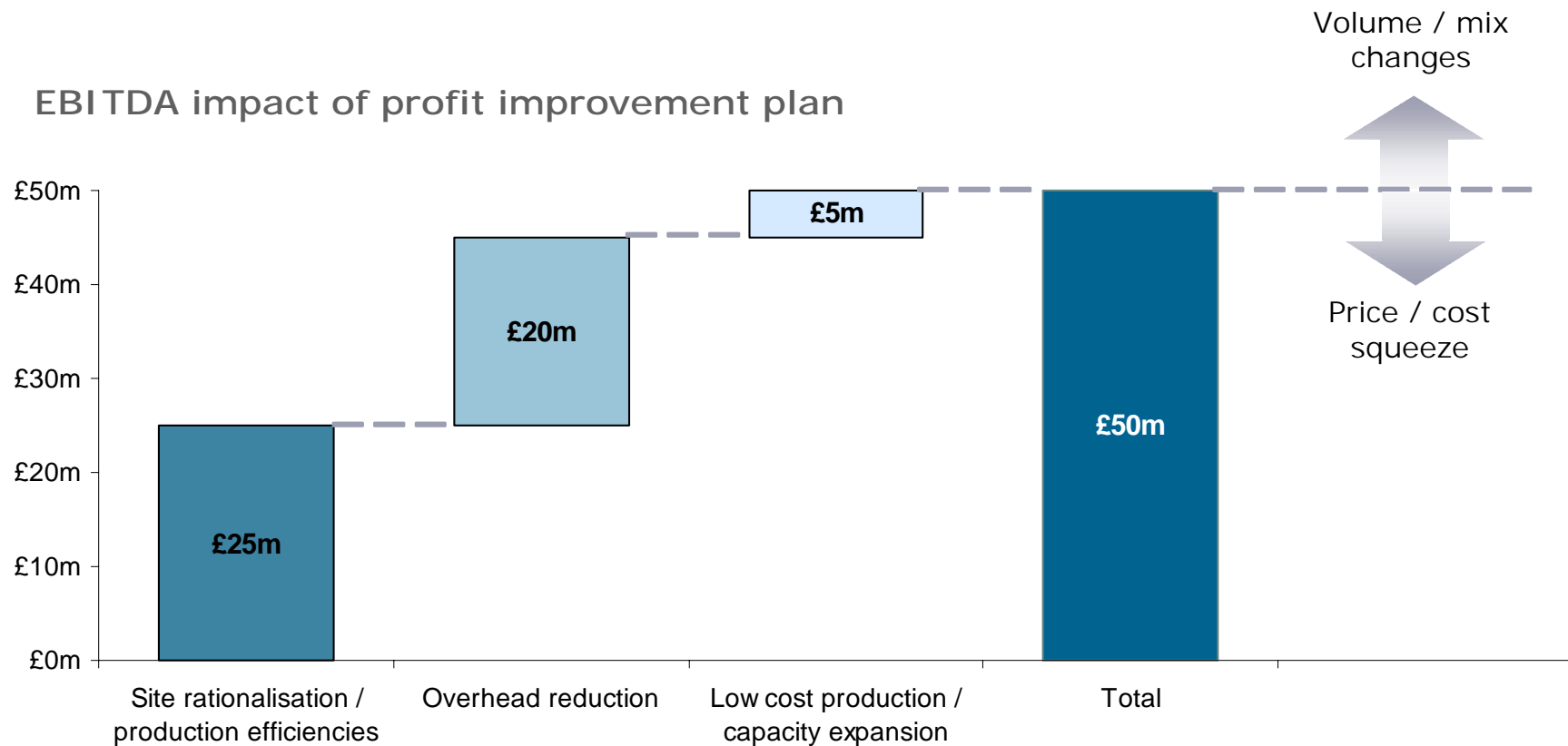
- Investment ONLY to reinforce core businesses

Reduction of Business Unit overheads

- Dedicated Project Office
- Regular Business Unit progress reviews
- Working Capital special focus
 - Phase I diagnostic being completed
- All projects on track
- Reduction of Business Unit overheads
 - HQ rationalisation
 - R & D focus
 - IT rationalisation
 - Procurement initiatives and reduction of insurance premiums

EBITDA improvement by 2006 – on track

Targeted cost savings and profit improvement opportunities of up to £50m per annum by the end of 2006



Cash cost of up to £70m

Business Disposals – 4 major disposals in last 18 months

		£m
Auto and Consumer Business Unit (11 sites globally, 7 being multi-mission)	June 04	33.0
Graflon (1 site in US, 1 in UK)	Sept 03	6.6
Superconductors (1 site in Germany)	Apr 03	19.4
Soft Coatings (6 sites in US)	Mar 03	13.5
		<hr/>
		72.5
		<hr/> <hr/>

Many more disposals and closures have taken place...

Details of Business Disposals and Closures

Reducing the cost of complexity...

Other Sites

Peachtree City, USA

Ural Morgan Carbon, Russia

Schrobenhausen, Germany

Evesham, UK

Puerto Rico

Graficarbo, Italy

Canyon City, USA

Matroc, Paris

Disposals/Closures/Partial Closures

North Haven, USA (Crucibles)

Sheffield, UK (Carbon)

Birmingham, USA (Carbon)

Elizabethtown, USA (Magnetics)

Paramount, USA (Carbon)

Pontian, Malaysia (Magnetics)

Kotka, Finland (Carbon)

Canada (Carbon)

Alexandria, Australia fibrelines (Thermal)

Barcelona, Spain (Carbon)

Granville, Australia (Carbon)

Ilgin, USA (Thermal)

Marsta, Sweden (Carbon)

Alexandria, Australia (Carbon)

Canyon City, USA (Thermal) ^{2/3 exit}

Canada Fibrelines (Thermal)

Berlin (MTC)

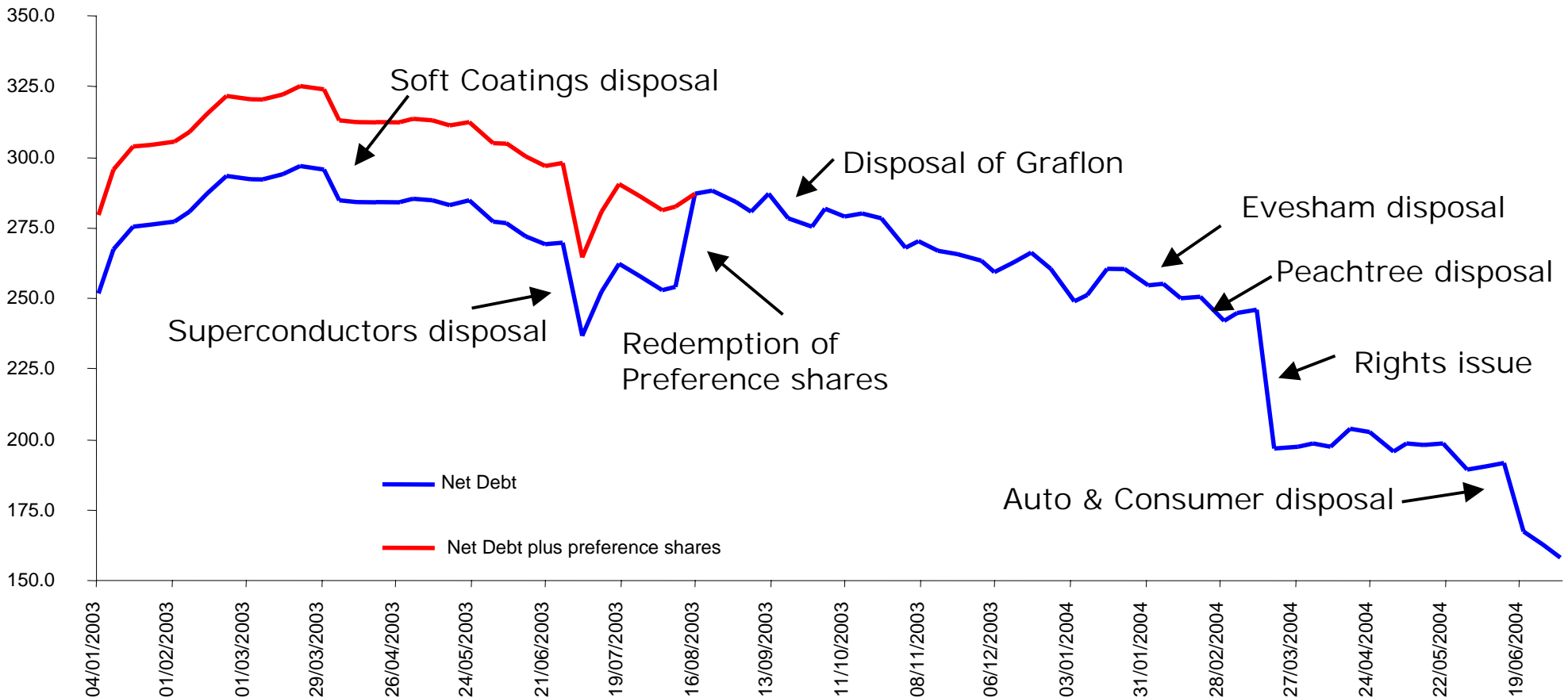
Plus Elimination of Magnetics Hard Disc Drive Line

Details of Business Disposals and Closures



Net Debt Decrease

£m Debt more than halved in past 18 months



Turn around under-performing businesses

The Changing Face of Morgan

Hartmut Eisele

- ❖ International experience of growing business in Asia and Europe

Mark Lejman

- ❖ Outstanding track record of developing and running global businesses

Dr Wang

- ❖ Well respected industrial and academic background

Andrew Hosty

- ❖ "Fast Track" Graduate who has progressed through Carbon and Ceramics businesses

Gareth Rowlands

- ❖ Reputation for implementing change programmes and high manufacturing performance

A number of other excellent executives within our businesses have also been recruited

Business Update

Insulating Ceramics

Thermal Ceramics

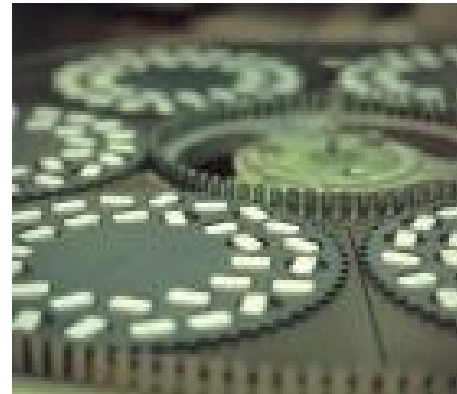
1. Sustained growth in Asia; recovery in Americas; a slower Europe
2. Current fibre demand high in USA and Asia
3. Investments in modernising/upgrading fibre facilities
4. Continued headcount reductions across Europe and Americas
5. Cost increase in alumina and energy
6. Currency translation and product disintermediation could impact results

Crucibles

1. Asian and US markets showing growth. Europe remains flat
2. Vigorous cost reduction continue to improve margins
3. Distribution JV established in Japan to strengthen our position in Asian markets

Technical Ceramics

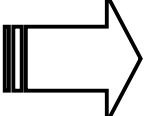
1. Extensive restructuring – being executed to plan
2. Integration completed – new management structure in place
3. New divisional and regional strategies for profitable growth
4. Hayward plant returned to profit
5. Sales of Hard Disc Drive product running above expectations
6. Order book encouraging

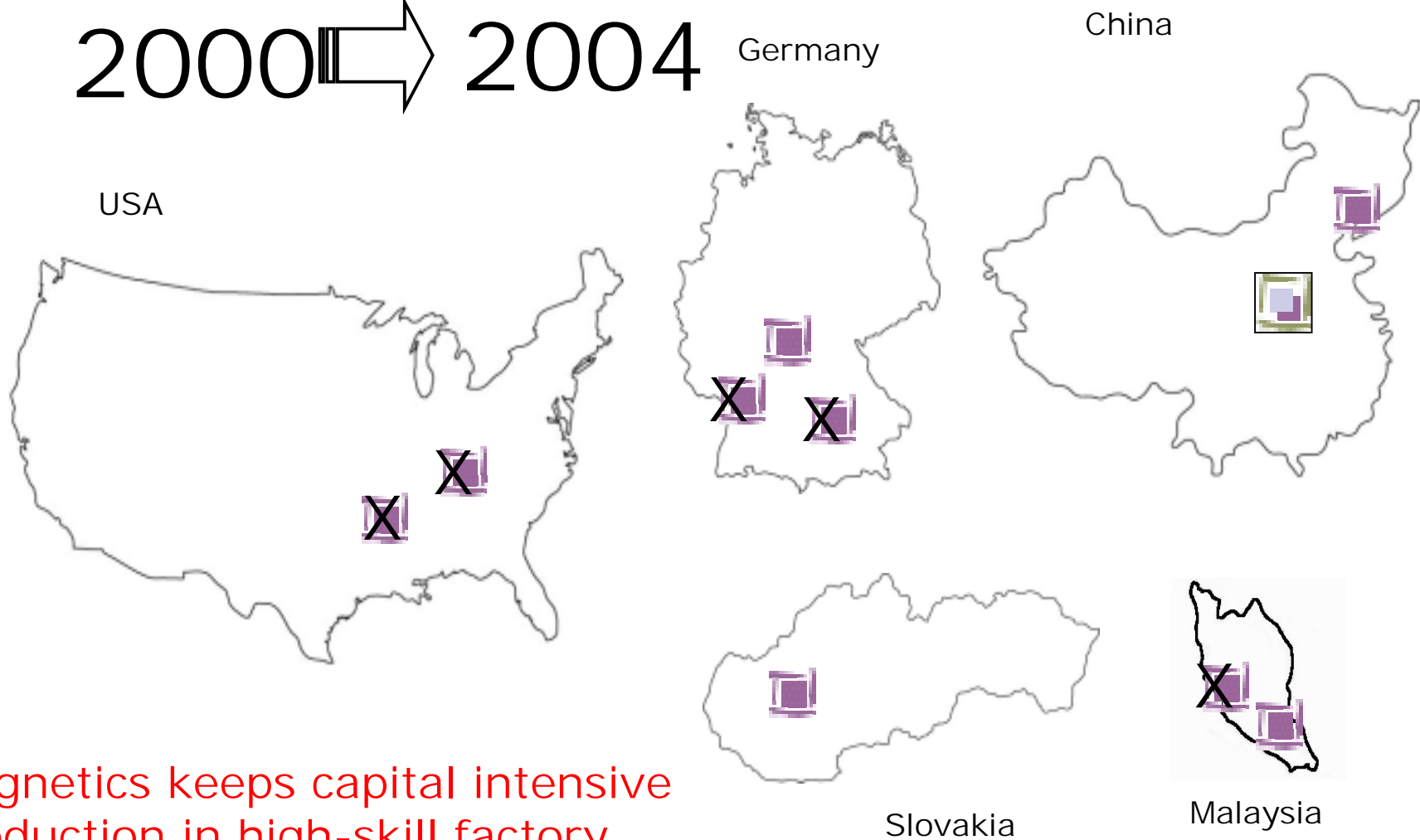


Magnetics

Dr Hartmut Eisele

Magnetics Strategy

2000  2004

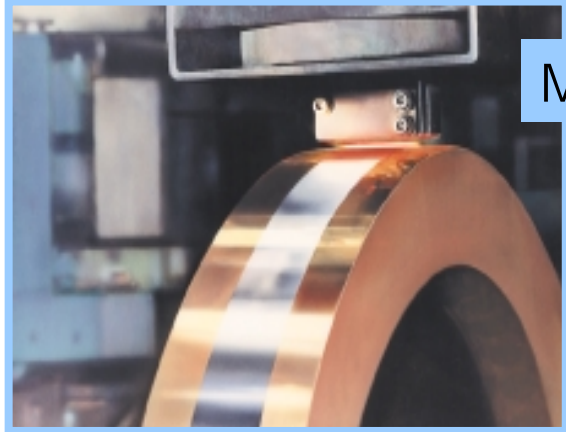


Magnetics keeps capital intensive production in high-skill factory

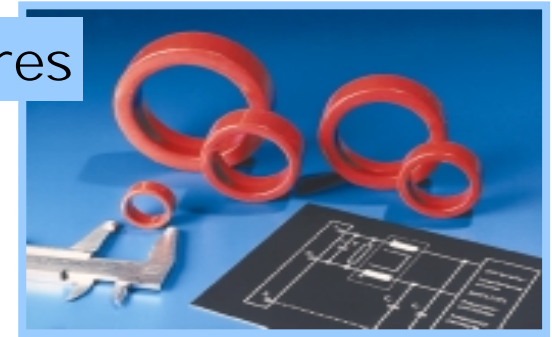
Magnetics continues to move labour-intensive production to low-wage-countries

Magnetics Products

Material/Strips



Magnetic Cores



Magnets for Servo-
/Linear-/Stepper
motors



Inductive Components



Components Assemblies



Magnet assemblies for MRI *



Magnetics Financial History

£'m	2004	2003	2003
	HY	HY	FY
Turnover	87.0	100.8	185.0
Continuing Business	87.0	87.9	172.1
Discontinued Business	0.0	12.9	12.9
Operating Profit (continuing)	4.7	0.9	3.0

Effect from currency conversion (€/£) of – 4 % over-compensated by
 > 10 % additional sales volume (HY 2004 vs. HY 2003 w/o Disk Drive)
 Significant improvement in Operating Profit compared to HY 2003 + 420 %
 Operating Profit Half year 2004 already 60 % higher than full year 2003

Strategic Review

1. New management team/culture
2. Maximise production efficiency by transferring labour intensive production to low cost countries and retaining capital intensive production in high skill countries
3. Concentrate on selected businesses with market leading positions
4. Strengthen Sales organisation to improve market share
5. Growing market share in SEA and USA
6. Continuous improvement by using Six Sigma methods
7. Supply chain optimisation

Vision For The Future

- Focus on growth opportunities
- **JV China:**
 - Production of sintered Permanent Magnets
 - Magnetics share 50%
 - Additional sales volume
 - Access to raw material
- Strengthen leading market positions / growth in new markets
- Ongoing focus on cost reductions

FOCUS on further profitability improvement

Carbon Division

Mark Lejman

Single Carbon Division

Former 3
Global
Business Units

Rail
Traction

2003
Sales £106.4m

Mech
Carbon

Sales £60.0m

Specialty

Sales £18.4m

1 Simplified
Business
Unit

Carbon

Sales £187.7m;
Operating profit
£18.3m

Benefits of Consolidation:

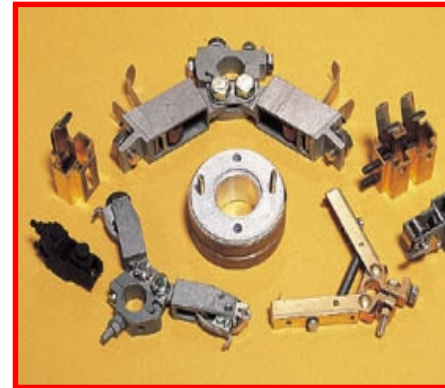
- Sites
- Processes
- Technology
- Benefits of scale
- Improved sales coverage

Product Range



Brushes to rail and industrial, OEM and aftermarket
£75m turnover (2003)

No 1 - Global

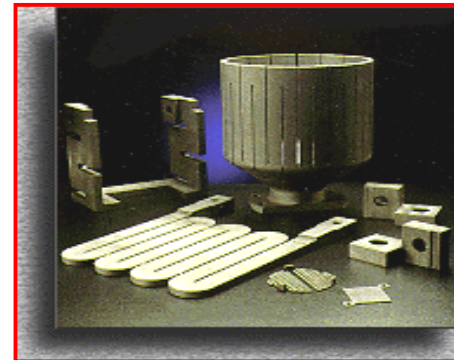


Brush holders
£8m turnover (2003)

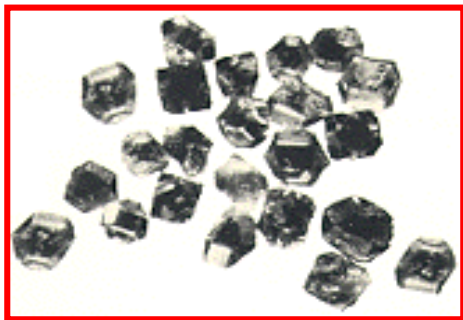


Mechanical seals to fluid handling and aerospace, mainly OEM; Carbon and Sic
£30m turnover (2003)

No 1 - US



Semiconductor
£4m turnover (2003)



Industrial diamonds
£6m turnover (2003)

No 1 - Global



Protective Armour
£10m turnover (2003)

Carbon Financials

£m	2004	2003	2003
	H1	H1	FY
Turnover	94.6	95.6	187.7
Operating Profit	9.1	9.2	18.3

- Operating profit up 11% versus 2003 on constant currency basis (adverse impact £1.1million)
- Strong performance in Body Armor business
- Upturn in Semiconductors markets
- Cost savings from rationalisation programmes

36% of continuing group profit in H1 04

Strategic Review

1. Benefits of combined business in procurement, systems etc.
2. Product rationalisation improving efficiency including best practices.
3. Product development programme to support markets.
4. Top 10 global customer focus. Separation of core and non-core businesses i.e. Auto and consumer.
5. Rationalise manufacturing footprint in Europe and Americas.
6. Increased use of low cost manufacturing operations – Mexico (Americas), East Europe/India (Europe) and China (Asia).
7. Strong Health and Safety/ Environment culture

Strategy Restructuring

To date:

Consolidation of manufacturing

Closure of 10 sites:

- 6 Europe (UK-3, Spain, Sweden, Belgium);
- 1 USA (Birmingham, Al);
- 3 Asia Pacific (Japan, Singapore, Australia).
- Manpower reduction (100)

Auto and Consumer disposal – UK/Italy/Korea/China/Brazil

EBITDA improvement on target from the 2006 business plan – on projects undertaken to date

Future plans:

Acceleration of consolidation process in US/Europe involving a number of closures and upgrading of existing facilities to be best in class

Whilst

Strengthening global market focus – Asia development

Maintaining/Growing market share

Recognising strength of competition

Carbon Strategy – Growing the Carbon Business

- 5 areas of focus for market growth:
 - **Rail and Traction** – leverage of marketing leading position; growth potential in Continental and Eastern Europe and China; complimentary products – commutators and integrated systems
 - **Armour** – extremely strong at present, but cyclical market – focus on extending product offering and growing geographically
 - **Semiconductors** – working with other divisions to extend product offering
 - **Industrial diamonds** – exploiting technical leadership in high growth market
Supply out of Fostoria, US – future in China
 - **Developing markets** – invest resource and technology in China and India to take advantage of growth

Vision by 2007

- Maintain a leading position in core markets
- Successfully exploit growth opportunities
- Remove complexity from the business
- Reduce number of manufacturing sites
- Enhance low cost manufacturing capability

**FOCUS on further profitability
improvement**

Conclusion

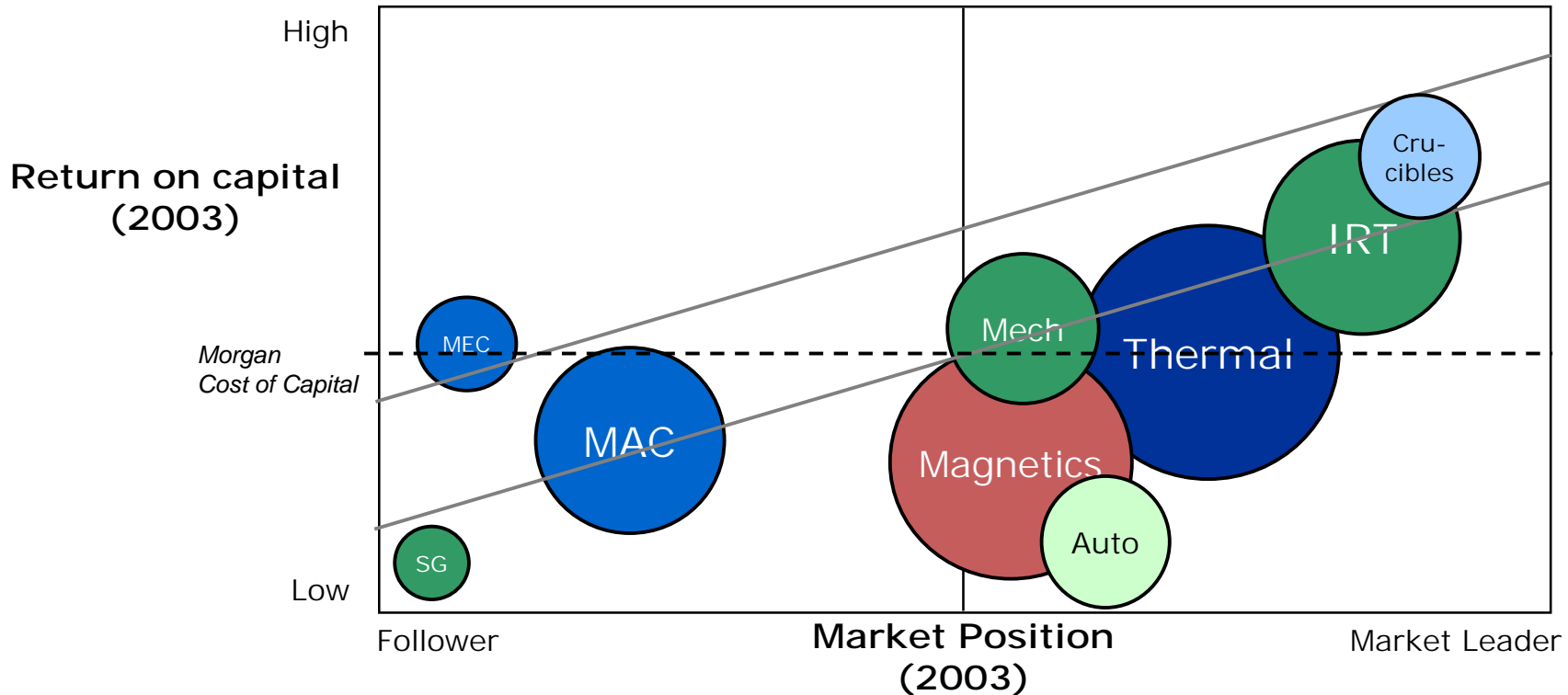
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Conclusion: How is Morgan changing?

- Alignment of businesses/individuals
- Development of commercial skills
- Cycle time reduction
- R & D focused on commercialisation
- Balance sheet review
- Six Sigma skills
- Change of Executive Committee
- "One Morgan"

Overall Picture of Group Performance

PRIOR TO BUSINESS UNIT CONSOLIDATION



Low overhead to sales %



Ability to exceed cost of capital

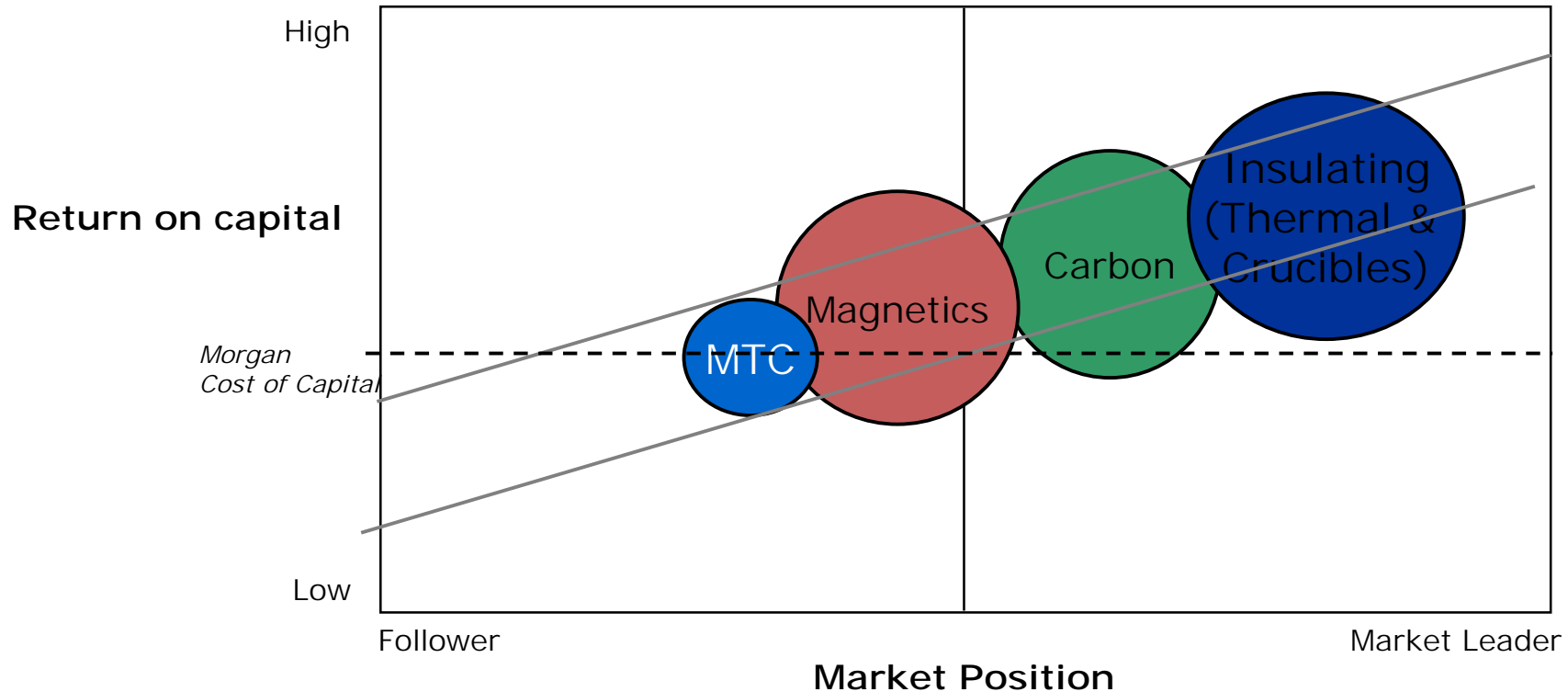


Sustainable regional market position



'Core' criteria

Future aspiration of the group performance



Overhead costs optimised/corporate costs slashed



All business exceed return on capital



'Core' criteria

Choice investments to reinforce core businesses



Financial Targets

Sales focused on strongest market positions

In mediocre markets, achieve a double-digit EBITA/Sales

In more buoyant markets, achieve “mid-teens” EBITA/Sales

For all businesses...ROCE above Morgan cost of capital

Make working capital work for us

Current Trading / Outlook

- Markets largely stabilised or stabilising – noted improvements in Americas
- Strong Asia - need to build on current presence
- Shift of production to lower cost countries ... accelerating
- Restructuring efforts and some further disposals will drive profits and cash flow
- External factors
 - Currency effects
 - Raw materials price increases
 - Fuel prices



The Morgan Crucible Company plc

2004 Interim Results

4th August 2004

Appendix

Pensions

- Morgan operates a number of pension schemes of both a funded and unfunded type.
- Principally located in UK, US and Germany
- B/S provisions for unfunded schemes rose in 2003 by £7m to £94m - c£6m was caused by forex translation
- B/S SSAP 24 prepayments c£21.1 m
- Under FRS 17 the total deficit for all defined benefit schemes fell in 2003 by c£39m to 43.2m
- Smaller UK scheme actuarially valued as at April 2003.
- Shortfall identified by valuation has caused the annual company contributions to increase by c£0.3 m for 2004 and beyond

Divisional Performance – Key points

- **Carbon**

- Markets challenging in Europe, particularly in Germany but showing improvement elsewhere
- Upturn in semicon market and demand for body and vehicle armour
- Profit improvement initiatives on track
- Auto and Consumer business was sold in June to Energy Conversion Systems

- **Magnetics**

- Restructuring and profit improvement initiatives continuing
- Some improvement in market conditions, particularly outside Germany and pressure upon raw material costs
- Established a Chinese joint venture in August with a leading producer of permanent magnets

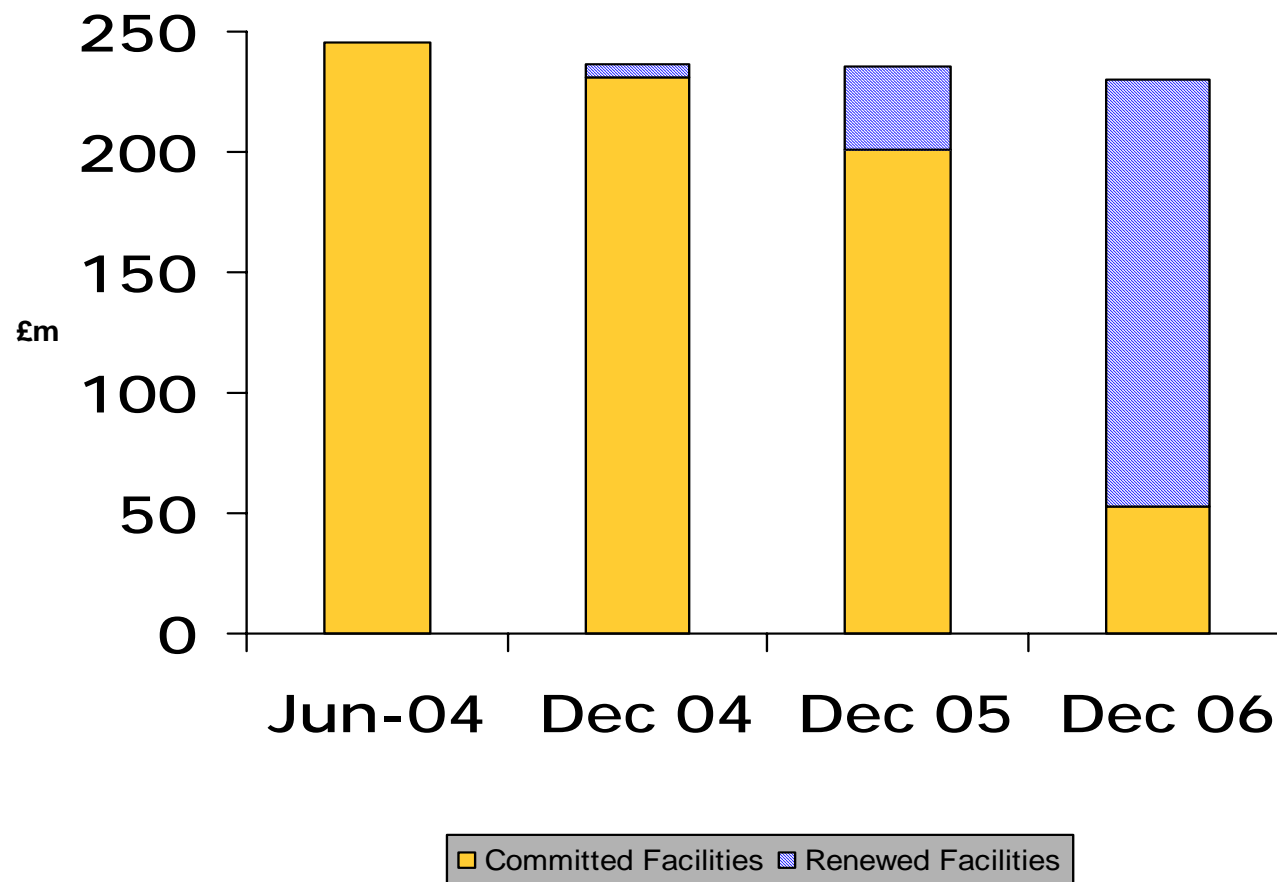
- **Technical Ceramics**

- Upturn in aerospace market and continuing demand from healthcare
- Start of supply to disk drive manufacturers for micro movement piezo

- **Insulating Ceramics**

- Upward pressure on raw material and energy prices
- Increasing demand for Superwool products

Maturity Profile of Committed Bank & Private Placement Note Facilities



It is anticipated that the USD 240m Syndication and Bank Bilaterals will be renewed at their existing levels