

The Morgan Crucible Company plc 2003 Interim Results

9 September 2003

Introduction

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Financial Review

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Summary Profit and Loss Account

Half Year £m	2003	2002
Turnover (continuing)	425.8	429.1
Underlying operating profit - continuing	20.6	14.9
- discontinued	0.8	0.8
Goodwill amortisation	(3.9)	(3.9)
Exceptional items - Operating	(15.3)	(28.3)
- Corporate	(15.6)	(9.7)
Net finance charge	(7.6)	(6.6)
Pre-tax (loss)	(21.0)	(32.8)
Tax charge	(4.1)	(2.3)
(Loss) after tax	(25.1)	(35.1)
Underlying EPS p	3.4p	2.2p

Divisional performance

<i>Half Year £m</i>	Turnover		Operating profit	
	2003	2002	2003	2002
Carbon - Electrical	93.8	102.9	5.8	7.6
- Engineered	45.0	42.2	3.8	2.2
Magnetics	87.9	84.3	1.2	(1.2)
Ceramics - Technical	68.4	71.2	1.6	0.5
- Insulating	130.7	128.5	8.2	5.8
	<u>425.8</u>	<u>429.1</u>	<u>20.6</u>	<u>14.9</u>
Discontinued	16.8	21.3	0.8	0.8

Note: Operating Profit is stated before goodwill amortisation and exceptional costs

See Appendix for Business detail

Cost Reduction Programme

- Announced February 2002
 - 2002 charge of £45m
 - 2003 First Half charge in line with expectation
 - Performance on track
- Additional future opportunities from 2003 Strategic Review

Operating cash flow

<i>Half Year</i> £m <i>Inflow / (outflow)</i>	2003	2002
Operating profit/(loss)	2.2	(16.5)
Depreciation and amortisation	26.8	28.3
Loss on sale of plant and machinery	-	0.4
Exceptional operating costs	0.6	13.3
(Increase) in working capital	(21.5)	(3.6)
Increase in provisions	<u>0.3</u>	<u>7.8</u>
Operating cash inflow	<u>8.4</u>	<u>29.7</u>

Free cash flow

<i>Half Year</i> £m <i>Inflow / (outflow)</i>	2003	2002
Operating cash flow	8.4	29.7
Net interest	(5.7)	(7.0)
Taxation	(1.1)	(3.7)
Cash flow pre dividend	1.6	19.0
Dividends	(1.1)	(18.2)
Net cash flow before capex	0.5	0.8
Net capital spend	(13.1)	(17.4)
Free cash flow	(12.6)	(16.6)

Borrowings and gearing

<i>Half Year</i> £m	<i>Inflow / (outflow)</i>	2003	2002
Opening net borrowings		(251.6)	(276.1)
Free cash flow		(12.6)	(16.6)
Disposals / (acquisitions)		26.9	(0.1)
Other		0.8	(2.3)
Closing net borrowings		<u>(236.5)</u>	<u>(295.1)</u>
Net assets		338.1	379.0
Gearing		69.9%	77.9%

Funding

- Debt and facilities profile improved
- Financing from banking arrangements and private placement in place
- Debt reduction programme continuing
 - non-core corporate disposals
 - surplus property disposals

Pensions

- SSAP 24 basis
 - Unfunded defined benefit provisions unchanged
 - Funded defined benefit prepayment unchanged
- UK Defined Benefits Schemes MFR exceeded at last valuation
- Valuation of UK main scheme due later in the year

Strategy & Operations

Warren Knowlton

Initial Observations – March 2003

- **People are passionate about their businesses**
- **Many businesses are market leaders**

however...

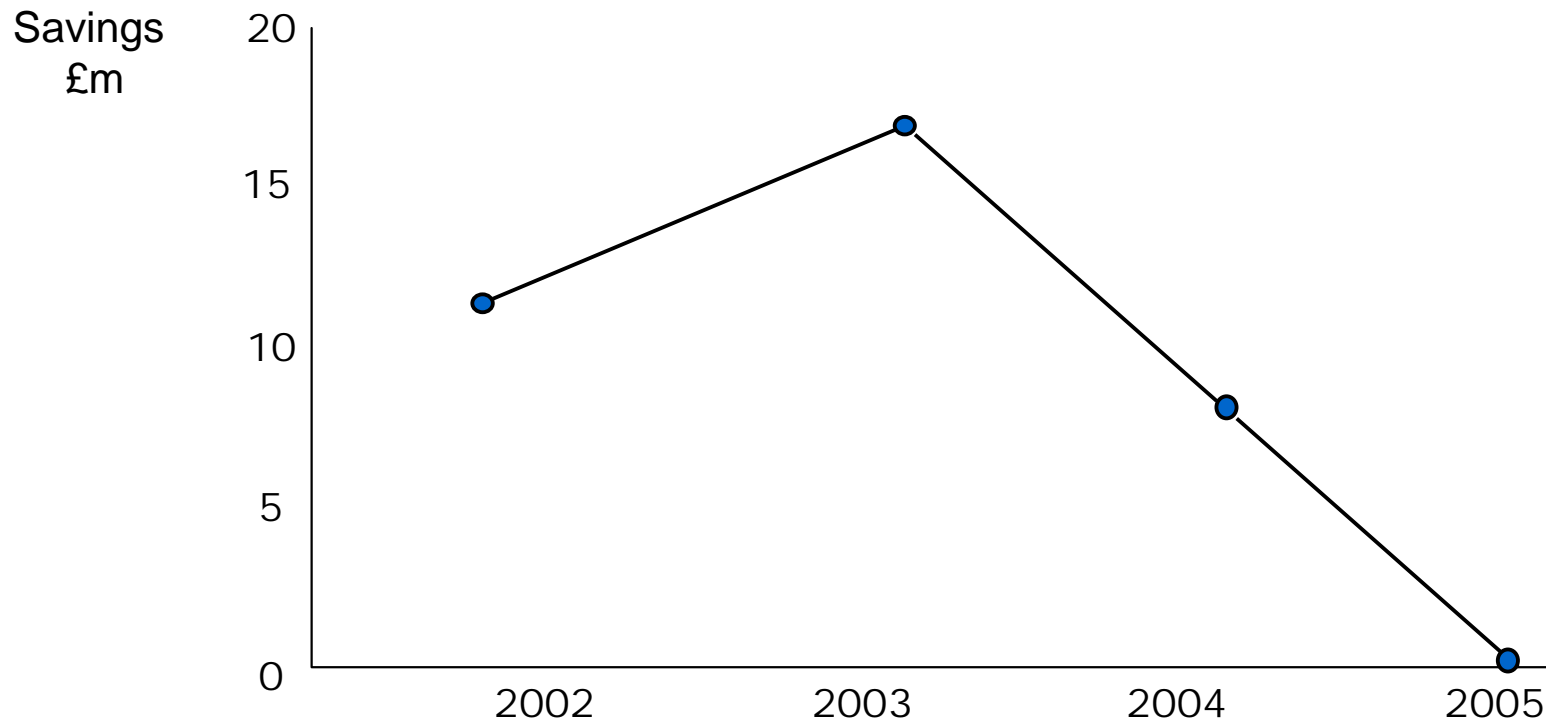
- **Lack of credible track record - need for performance based culture**
- **Need for greater speed and simplicity - reduced cycle time is critical**
- **Synergies often left unexploited - purchasing/distribution/"best practices"/benchmarking**
- **Silo mentality - lack of communication between companies**
- **Little evidence of clear performance standards to drive accountability**
- **High overheads**

Priorities

- **Reduce complexity of businesses and operations**
- **Aggressively redirect resources to areas of advantage**
- **Turnaround performance of under-performing businesses**
- **Accelerate and extend current restructuring programme**
- **Sale of businesses with no role in Group**

2002 Restructuring Programme

2002 Restructuring runs out of steam in late 2003



Disposals of Non-Core Activities

Disposals completed during the first half:

- Vacuumschmelze's Superconductor business for an initial £19.4m in cash with potential future performance based payout
- Six US based Engineered Soft Coatings facilities for £12.8m
- £32m already delivered, further disposals planned

Disposal of Graflon business since period end for £6.6m

Proceeds used to reduce Group debt

Position Today

'Bottom up' analysis of internal projections shows deeper restructuring can significantly enhance shareholder value



**Analysis of
GBUs and
Role of
Centre/R&D**



**Immediate
disposal of
non-core
activities**



**Pursuit of
'Initial Low
Cost Projects'**



**Development
of strategy to
realise 'Full
Potential'**

2003 Time Line of Events

JAN

Strategic Review
of all GBUs

FEB

Overhead targets set

Boston senior
management meeting

MAR

Sale of 6 Coatings sites
New bank financing /
Private placement
Shareholders met

APR

Magnetics President appointed
Rationalisation of HQ
Sale of Superconductors business
Board changes announced

MAY

Expansion into Eastern Europe reviewed
Programme Office set up
Slovakian plant building commissioned
Refocus/rationalisation of R+D

JUN

Non-Executive Board
member resigns.
Chairman announces
retirement in 2003.

JUL

Closure of 2 sites announced
Consolidation of two Ceramics GBUs
into single business (Advanced
Ceramics)

AUG

Carbon integration
announced (three GBUs
consolidated into one)
Repayment of £28m
preference shares.

SEPT

Exit of Hard Disk Drive
announced by Magnetics
Graflon sale

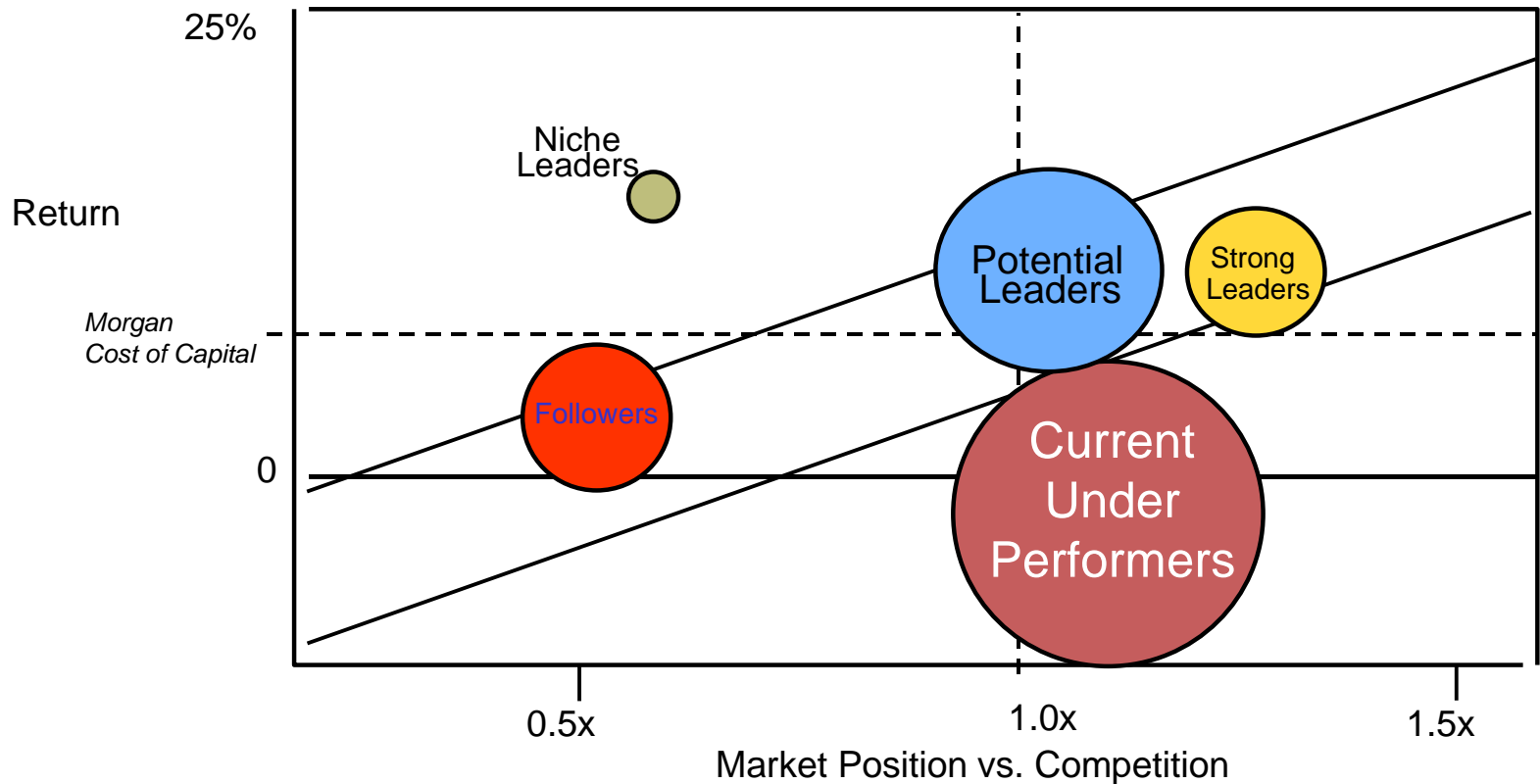
Analysis of Global Business Units

- Assessment of relative contribution to value creation
- Recognition of market/competition/performance issues
- Evaluation of potential



Inclusion on merit

Overall Picture of Group Performance



Low overhead to sales %



Ability to exceed cost of capital



'Core' criteria



Sustainable weighted regional market shares



Implementing 'Initial Low Cost Projects'

Culturally important

- Quick and valuable actions which signal change to organisation

High impact, low cash

- Quick to implement and low investment required

High ROI in 03

- Significant benefits in 03, requires some investment

Longer term benefits

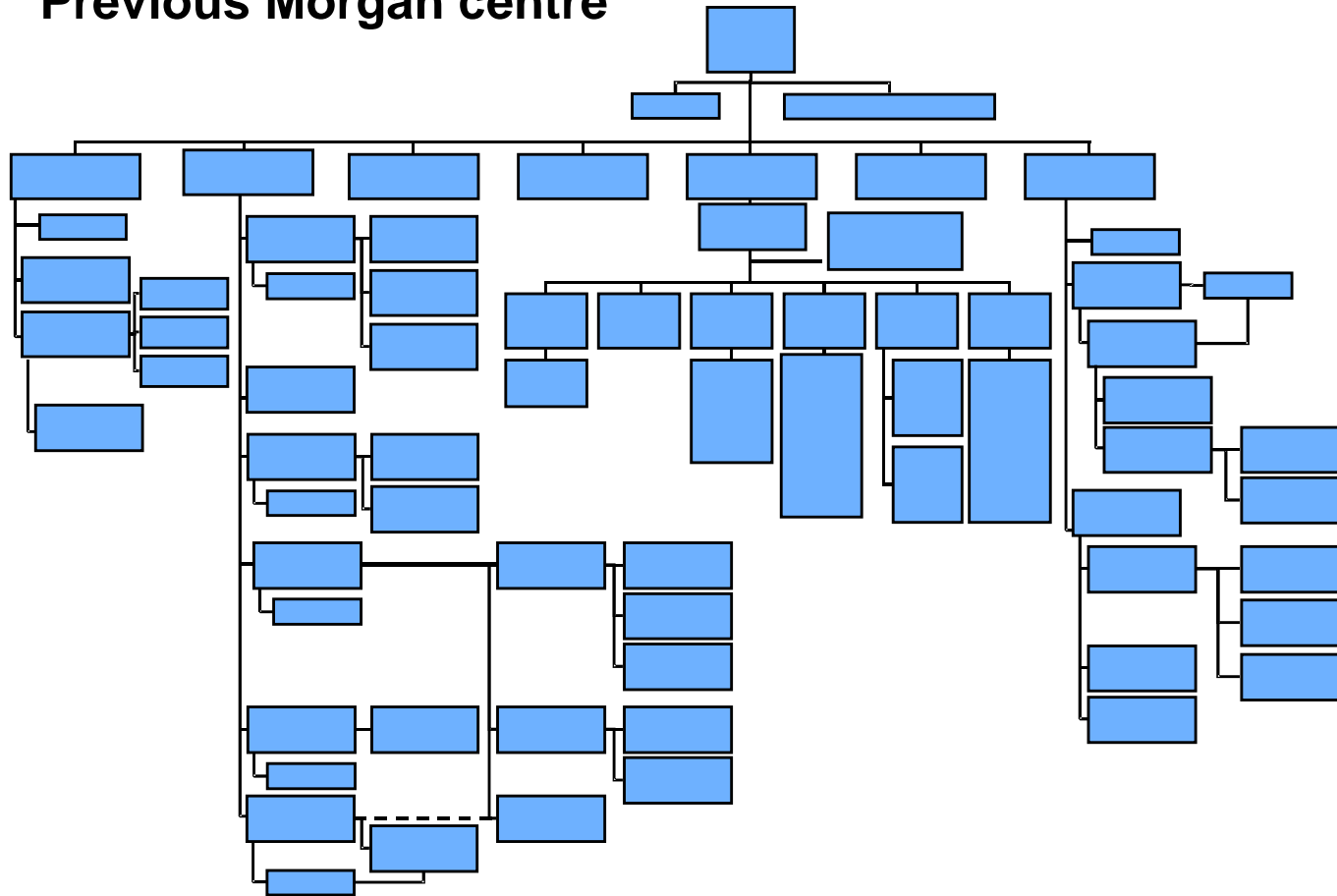
- Significant benefits in future but will take time and cash to implement

Focus of 'Initial Projects'

Full Potential

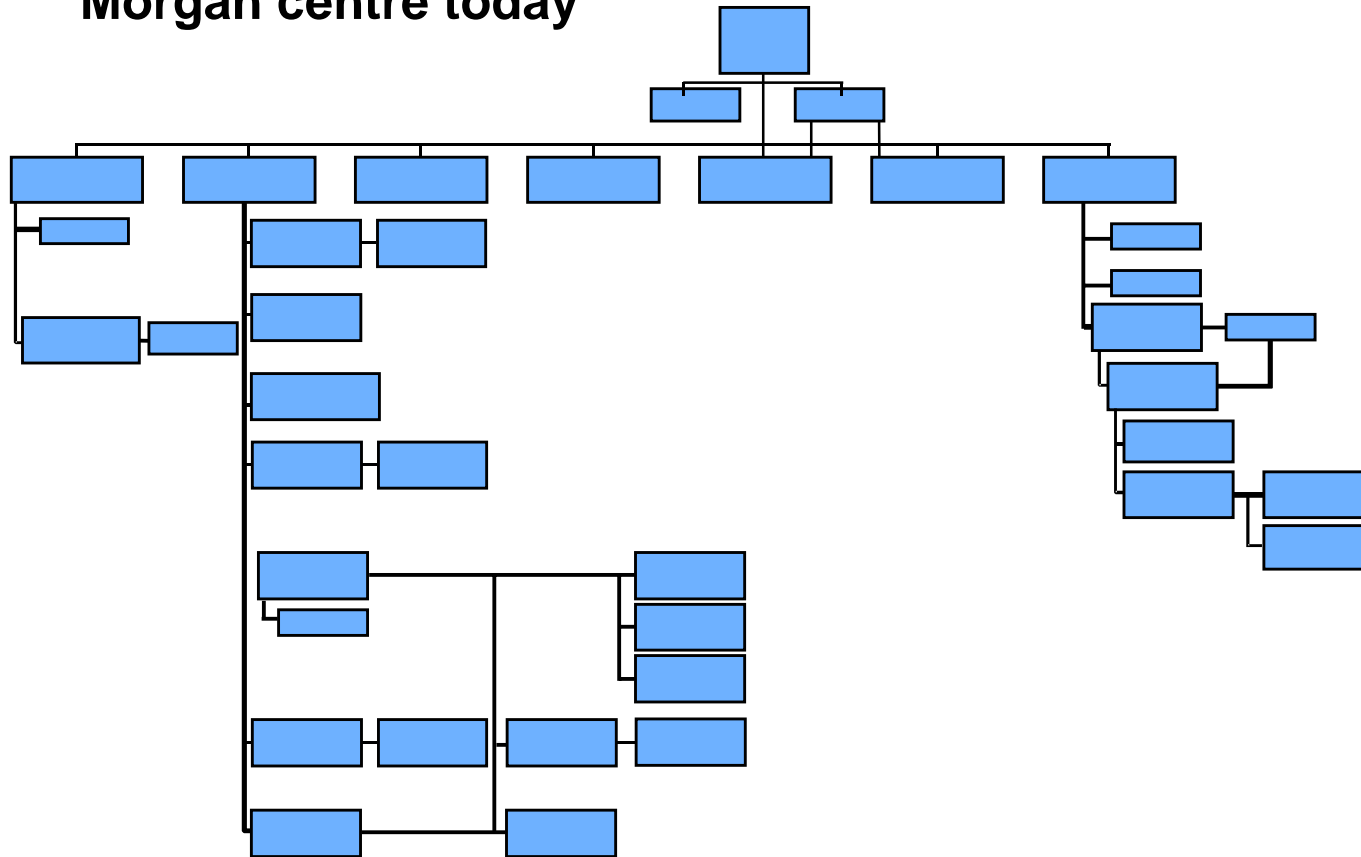
Initial Low Cost Actions - Rationalise the Centre

Previous Morgan centre

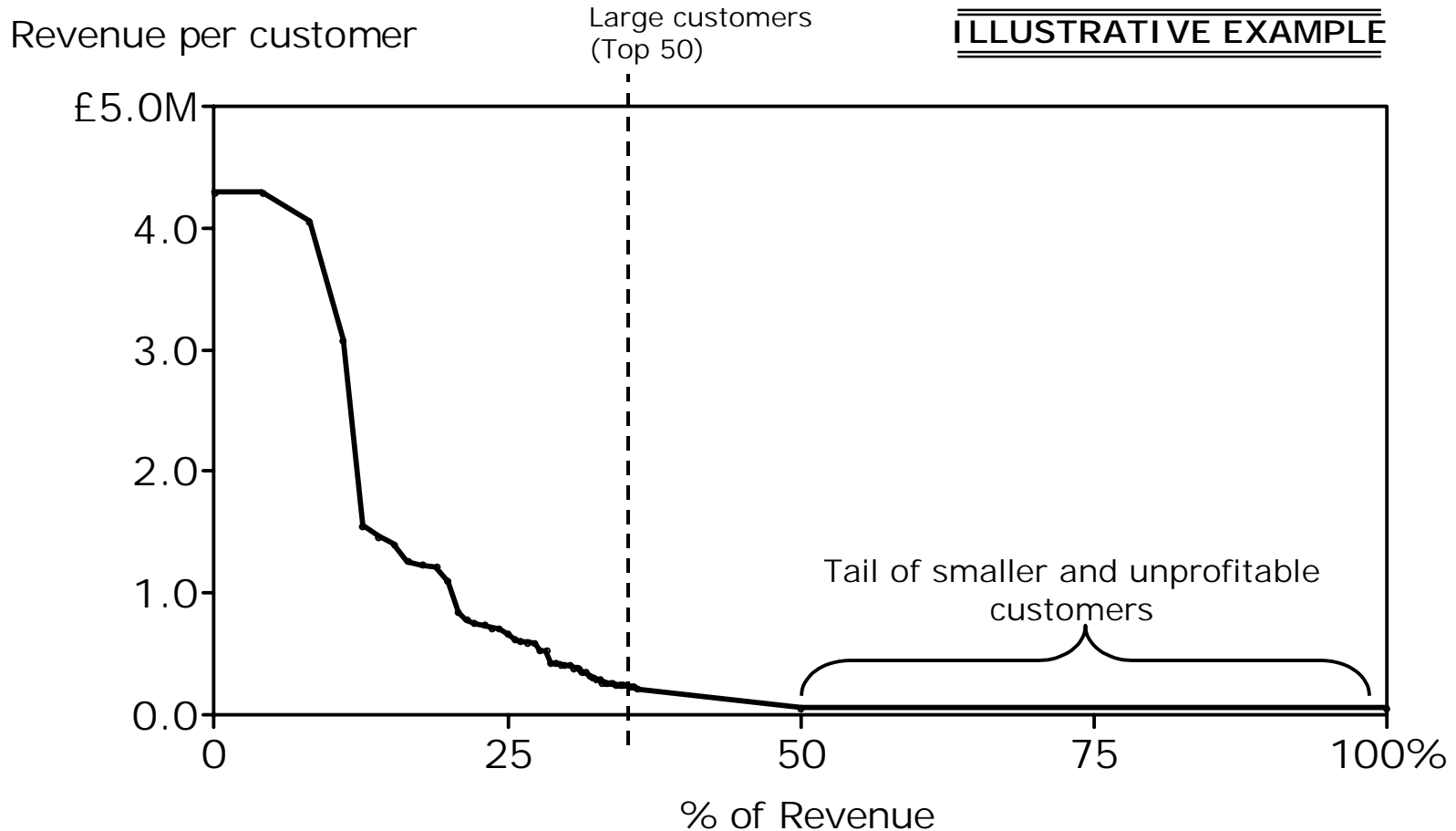


Initial Low Cost Actions - Rationalise the Centre

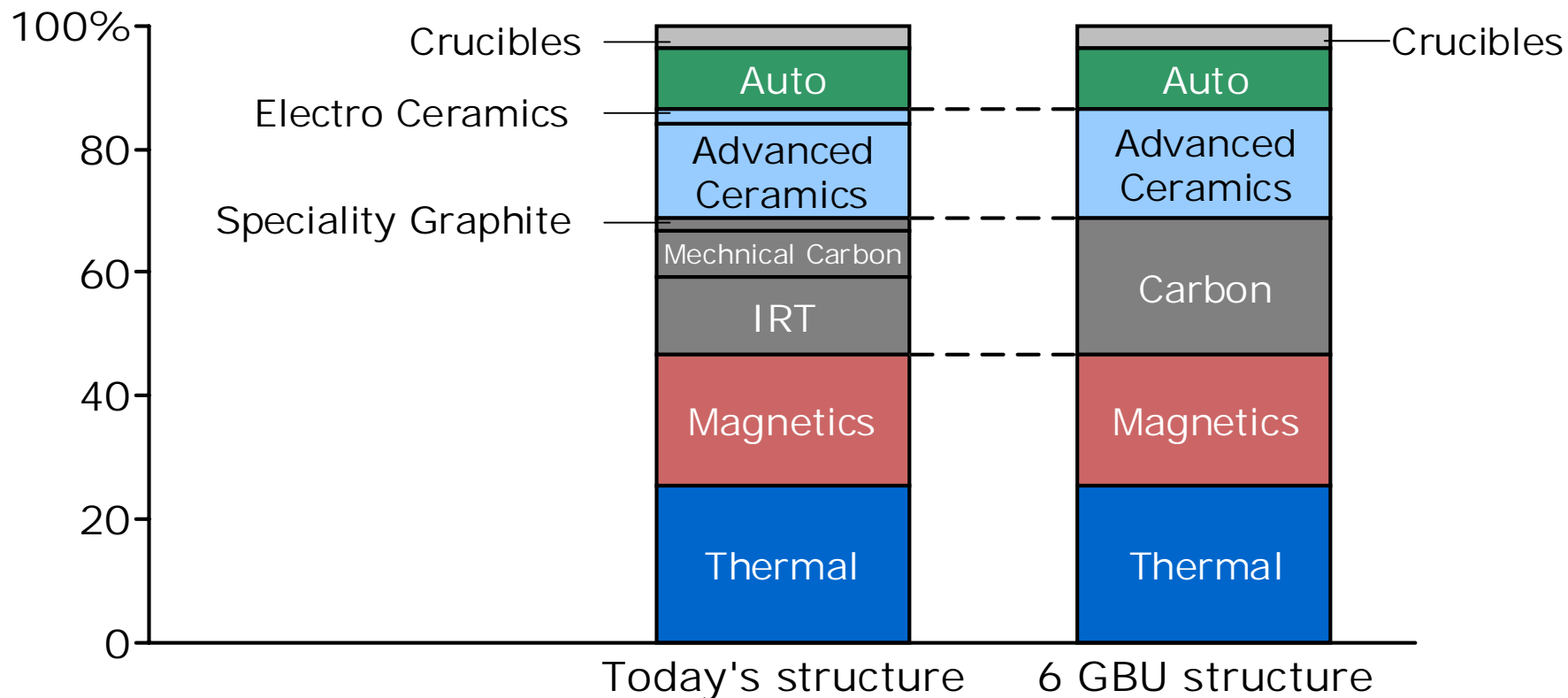
Morgan centre today



Initial Low Cost Actions – Strategic Price Increases



Actions are underway to reduce from 9 to 6 GBUs and will reduce overhead costs



Realising 'Full Potential' – Overall Plan

Thermal:
Invest for growth

Magnetics: Focused
improvement

Carbon:
Leverage leadership

Ceramics:
Focus on regional
leadership

Auto/Consumer:
Stabilise and grow

Crucibles:
Maintain

- Invest to drive top-line growth in core fibre and IFB business; exit non-core businesses
- Focus on cores, components and permanent magnets; convert segment leadership positions into pricing and market advantage; attack overhead and conversion costs. Exit unprofitable segments and North American manufacturing
- Drive top and bottom-line growth by leveraging leadership in the core carbon business; integrate the carbon businesses to increase accountability, reduce overheads and focus sales and marketing activity
- Drive to regional leadership in high value-added components; launch major rationalisation and exit unprofitable and sub-scale businesses. Clarify our position on “bare” ceramics and on value added
- Continue stabilising the core auto and consumer brush and brushcard business; target growth in higher value energy conversion market, look for partnership opportunities
- Continue current course; majority of restructuring has been completed

Realising 'Full Potential' – Progress to Date

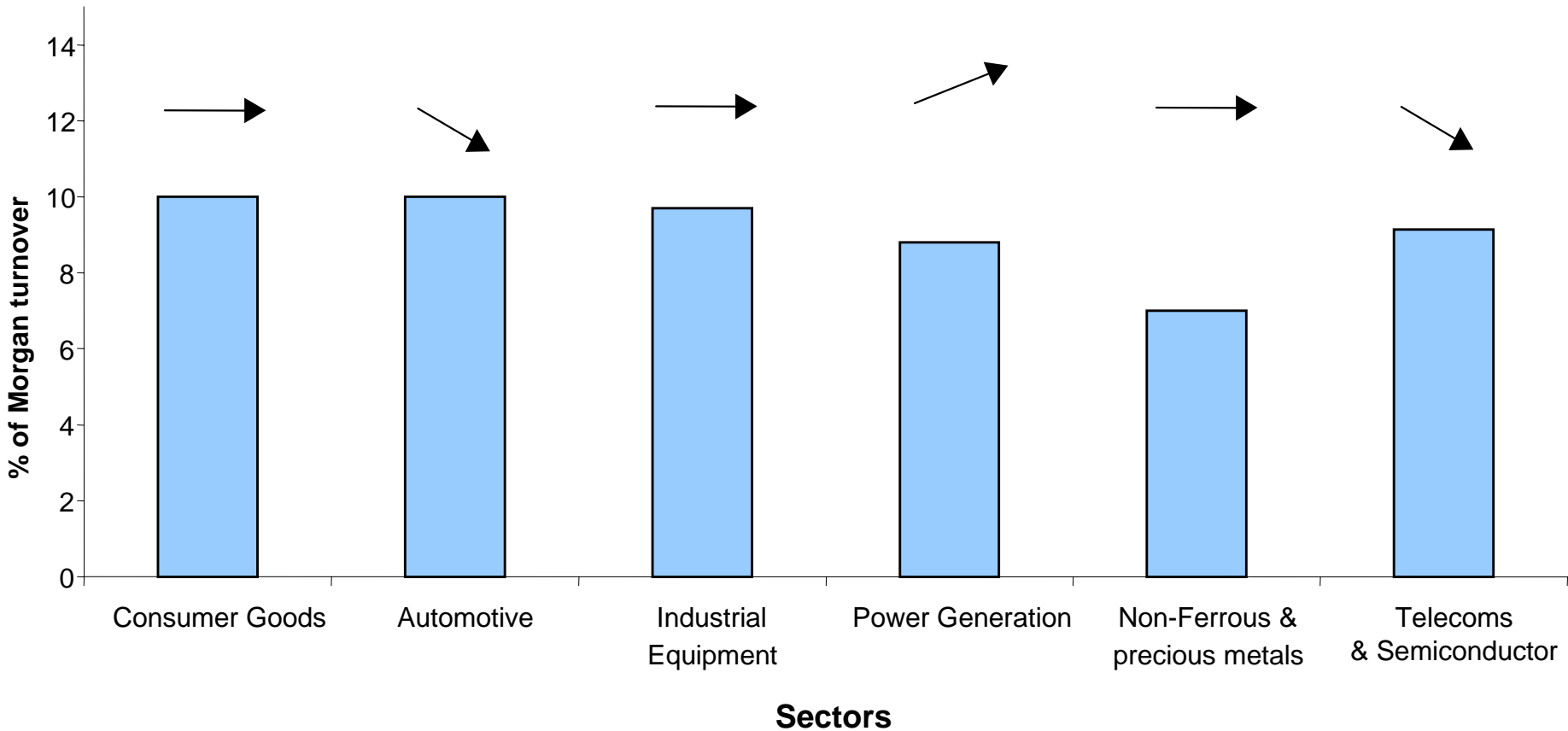
- Overhead reduction focus
 - all business units given targets for 2003 and beyond
 - targets on track to be met
- R&D restructuring
 - central R&D facility in Stourport closed
 - business units accountable for developing solutions at operations' sites
- Site closures
 - Closure of Magnetics facility in Elizabethtown announced; operations transferred to Europe
 - Closure and relocation of Advanced Ceramics facility in Rugby announced.
- Prudent expansion
 - expansion of Magnetics site in Slovakia commissioned
 - Eastern European/Asia countries under review as potential relocation destinations

Financial Benefits

	Cash Cost	Annual Benefits
'Initial Projects'	£15m	£10-20m
'Full Potential'	£40-55m	£25-30m
	<u>£55-70m</u>	<u>£35-50m</u>

Annualised savings by mid 2006 of £35-50m

Market Sector Outlook



Group Transformation

Requires...

Committed senior management team

- select and engage the 'keepers'
- bring in outside talent as required

Clear and distinctive strategy for each business

- ensure each GBU focuses 100% on driving towards identified full potential
- limit deviation from core activity
- modify Centre to adopt structure of active investor

Unsentimental approach to business ownership

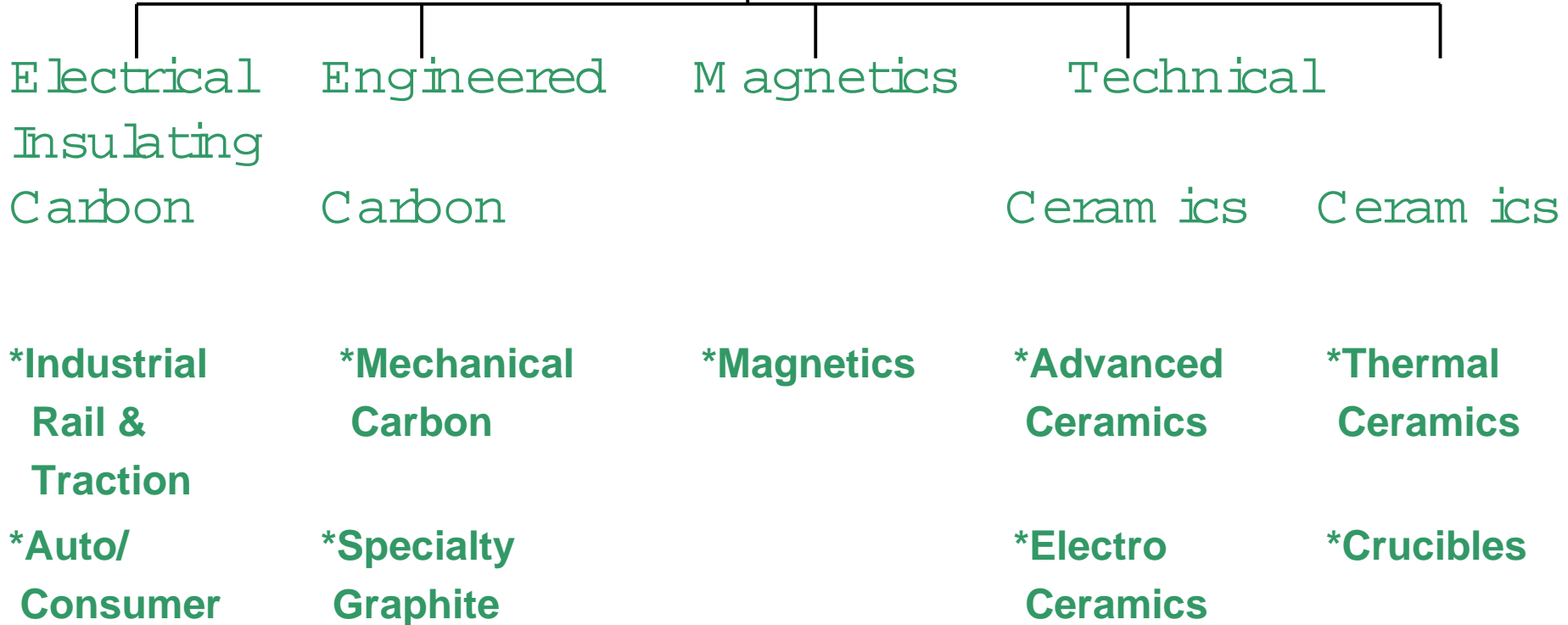
- continually evaluate GBU exit opportunities
- recognise that certain operations may be worth more to other owners

Cash

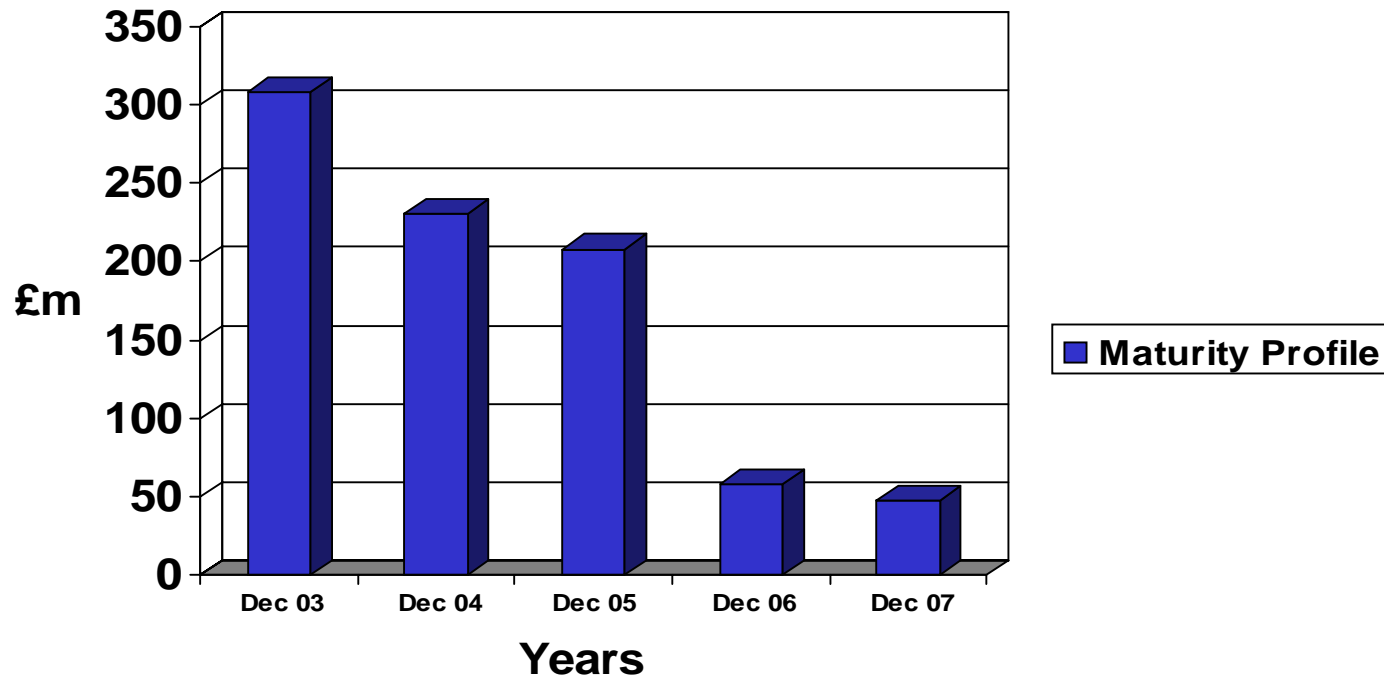
- examine capital allocation requirements of each GBU
- drive cash generation to reduce debt
- Treasury strategy to support financing requirements

Appendix – Nine Global Business Units

Morgan Crucible



Maturity Profile of Committed Bank & Private Placement Note Facilities



Excludes US Receivables Programme \$50m