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2003 Preliminary Results and Rights Issue

Agenda

- Introduction
- 2003 Preliminary Results
- Strategy and operations
- Financing
- Outlook and conclusions

Objectives

- Accelerate and extend the Group’s profit improvement programme
- Reduce complexity of businesses and operations
- Turn around under-performing businesses
- Aggressively redirect resources to areas of advantage
- Sell businesses which fail to meet performance criteria

The equity issue is key to ensuring the rapid pace of the Group’s transformation is maintained

Rights Issue

- Achieve target cost savings and profit improvement opportunities of up to £50 million p.a. by end of 2006
- Estimated future cash cost of up to £70 million
- Not reliant on future disposals or increase of debt
- In addition to the profit improvement programme:-
  - volume and product mix opportunities help to mitigate the negative effects of cost inflation and price pressure

2003 Preliminary Results

Summary Profit and Loss Account

Full Year £m		2003	2002
Turnover (continuing)		827.3	830.5
Underlying operating profit	- continuing	41.5	29.9
	- discontinued	1.1	4.2
Goodwill amortisation		(7.5)	(7.7)
Exceptional items	- operating	(67.3)	(57.3)
	- corporate	(30.1)	(15.0)
Net finance charge		(15.7)	(12.8)
Pre-tax loss		(78.0)	(58.7)
Tax charge		2.4	0.5
Loss after tax		(75.6)	(58.2)
Underlying EPS		9.6p	5.0p

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Operating cash flow

Full Year £m Inflow/(outflow)	2003	2002
Operating (loss)	(32.2)	(30.9)
Depreciation and amortisation	50.9	54.4
Loss on sale of plant and machinery	0.6	0.4
Exceptional operating costs	17.6	17.2
Decrease in working capital	1.2	18.7
Increase in provisions	7.2	15.4
Operating cash inflow	45.3	75.2

Free cash flow

Full Year £m Inflow/(outflow)	2003	2002
Operating cash flow	45.3	75.2
Net interest	(13.5)	(13.4)
Taxation	(6.0)	(10.8)
Cash flow pre dividend	25.8	51.0
Dividends	(2.3)	(19.3)
Net cash flow before capex	23.5	31.7
Net capital spend	(32.3)	(26.6)
Free cash flow	(8.8)	5.1

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Borrowings and gearing

Full Year £m	2003	2002
Opening net borrowings	(251.6)	(276.1)
Free cash inflow/(outflow)	(8.8)	5.1
Disposals / (acquisitions)	32.4	(4.2)
Other	(21.3)	23.6
Closing net borrowings	(249.3)	(251.6)
Net assets	260.5	350.4
Gearing (%)	95.7%	71.8%
Unutilised committed bank facilities *(Note 1)*	22.3	54.9
Interest cover (EBITDA / Net finance charge)	5.5	6.3

Note 1: As at 4 July 2003 unutilised committed facilities were £40m

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Strategy & Operations

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**

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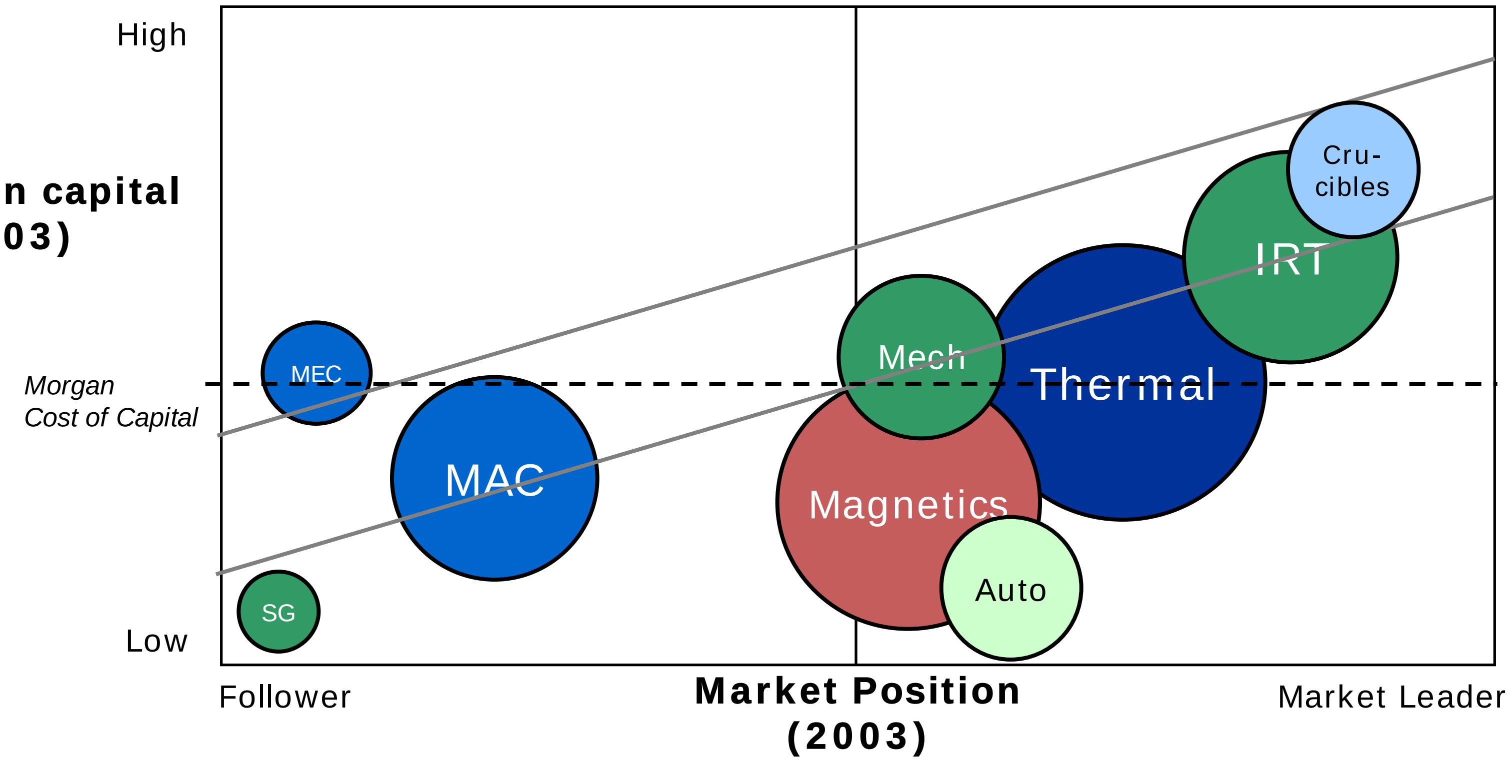
Overall Picture of Group Performance

PRIOR TO BUSINESS UNIT CONSOLIDATION



Low overhead to sales %

Ability to exceed cost of capital

Sustainable regional market position

'Core' criteria

Detailed strategic and operational review identified significant improvement potential

1. Consolidate 9GBU structure

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

↓

- Organisation simplified to 6 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

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Detailed strategic and operational review identified significant improvement potential

1. Consolidate 9GBU structure	2. Exit non-core facilities and products	3. Rationalise facilities and overheads	4. Improve productivity	5. Selectively expand capacity
• Organisation complex and inefficient • Not driven by customers or operations	• GBUs had over-extended into non-core product and business lines	• Legacy of poorly integrated acquisitions	• Opportunity to take advantage of low cost markets	• Number of investment opportunities around core market positions
↓	↓	↓	↓	↓
• Organisation simplified to 6 GBUs • Centre significantly reduced. R&D complexity reduced / focus on winners	• Each GBU now focused on core markets with strong positions	• GBUs implementing detailed overhead and site reduction plans	• Production shift to low cost locations	• Investment ONLY to reinforce core businesses

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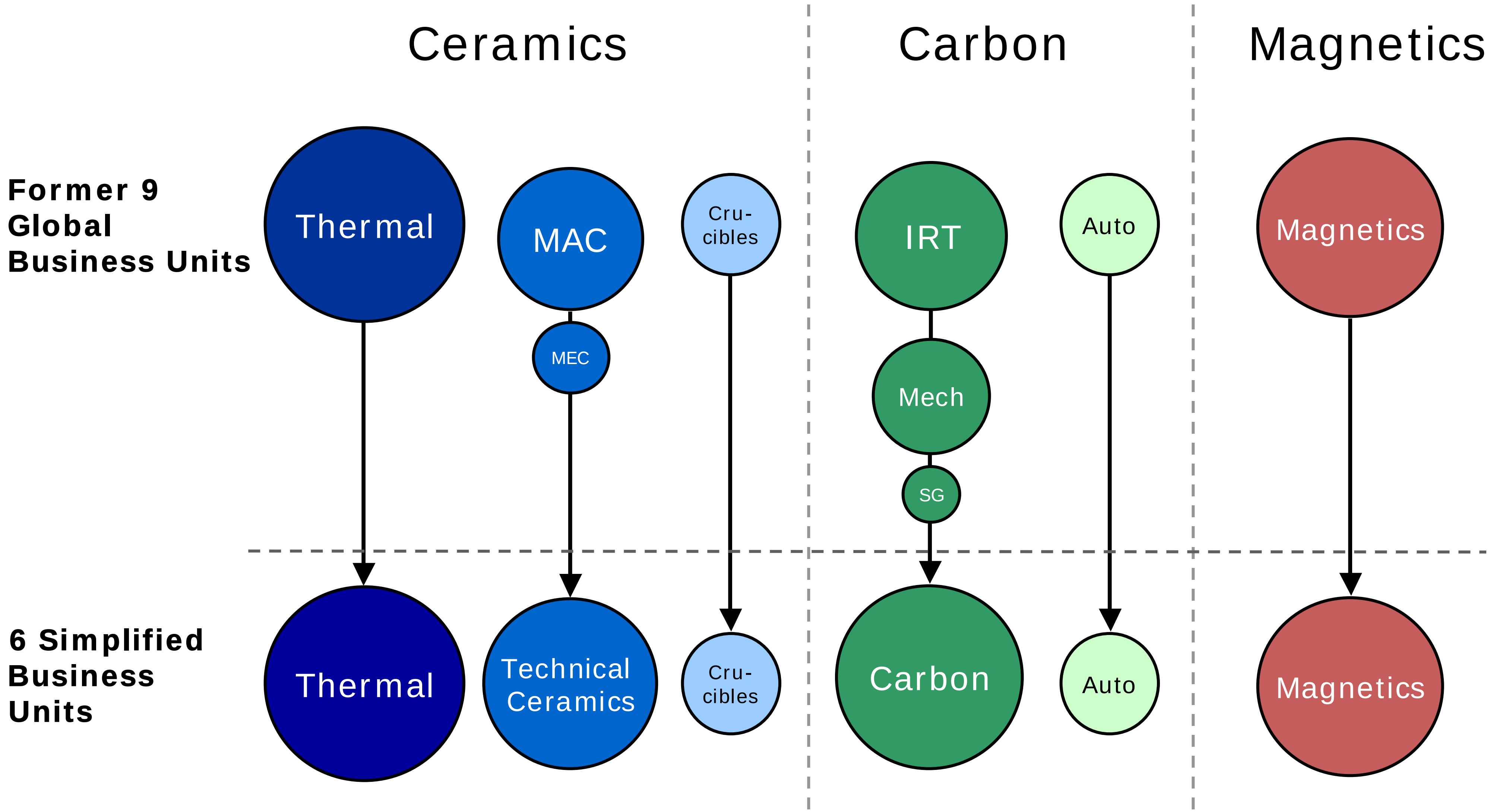
Restructure and simplify operations



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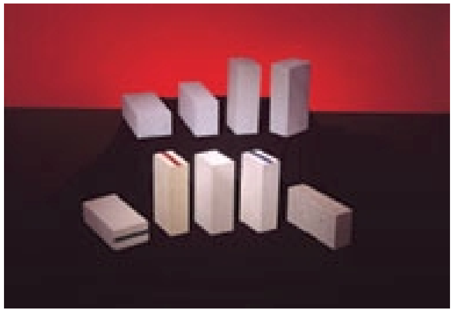
Thermal can build on strong market position in Americas and Europe

Main products:	Insulating Fibre, Converted Fibre, Fire Brick, and Castables; High temperature Reinforcement materials
Competitive position:	Leadership in Americas and Europe
2003 Performance:	£226.9m Sales; 12.3% EBITDA Margin
Group perspective today:	Potential to grow core business but need to reduce costs and exit non-core product lines



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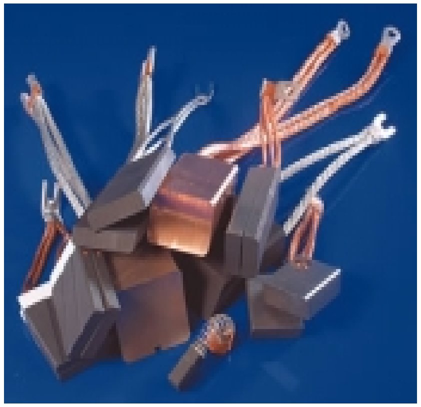
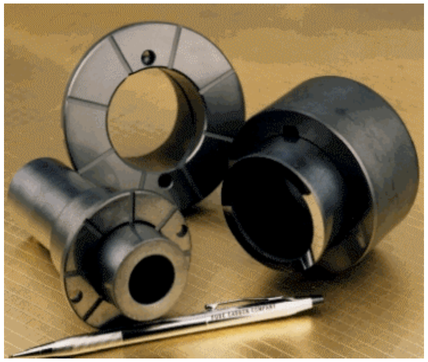
Technical Ceramics will focus on niche application leadership

Main products:	Custom-engineered ceramic components and assemblies consisting of bare, metallised, or electro ceramics manufactured for a wide variety of industry applications
Competitive position:	Leadership in some niche applications but a follower in the overall market
2003 Performance:	£132.5m Sales; 10.1% EBITDA Margin
Group perspective today:	Business has strong technical capabilities and potential for growth, but must exit unprofitable product lines where engineering competence has lower value and focus on niche application leadership

Carbon is focused on core brush and mechanical component business

Main products:	Industrial and Rail Motor brushes and electric contacts; Seal and bearing components; Custom machined carbon material
Competitive position:	Leadership in key markets and products
2003 Performance:	£191.1m Sales; 17.2% EBITDA Margin
Group perspective today:	Stable cash flow generator with opportunity to achieve stronger performance





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Magnetics has been re-focused around strong market positions in Europe

Main products: Crystalline and amorphous nano-crystalline metal alloys and formed parts; Inductive components; Permanent magnets

Competitive position: Leadership in some European markets with potential to strengthen in other markets

2003 Performance: £172.1m Sales; 10.3% EBITDA Margin

Group perspective today: Mixed performance across product line with opportunities to reduce costs and pursue growth

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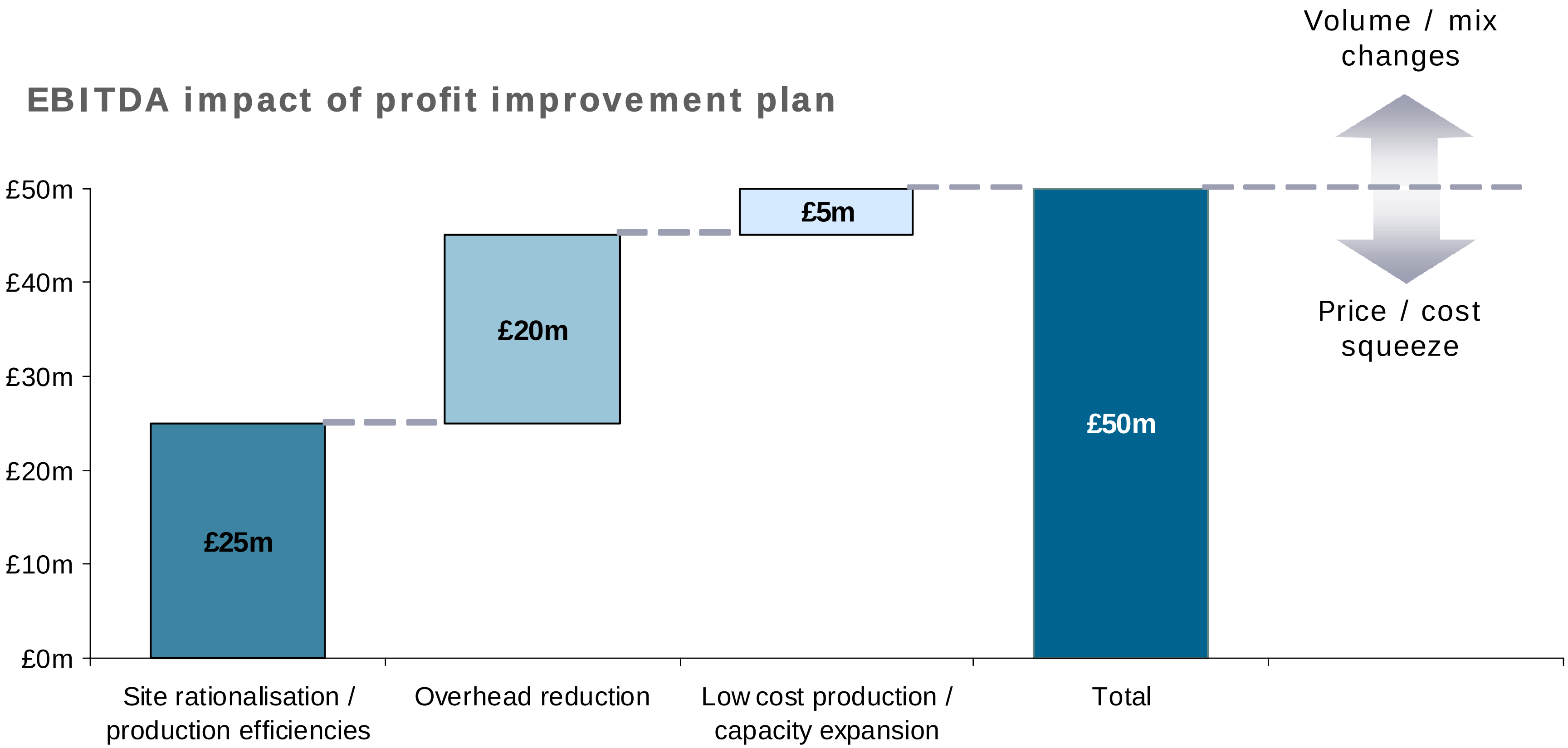
Target £50M EBITDA improvement by 2006

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



Cash cost of up to £70m

Thermal Ceramics initiatives

Exit non-core businesses	Focus on core fibre and IFB business
Reduce overheads and headcount	In Europe and Americas
Growth plans	Pursue top line fibre and IFB growth throughout the global market, particularly taking advantage of increasing demand and favourable markets in Asia and Middle East
Take advantage of low cost manufacturing	Pursue European, Middle East and China low cost manufacturing and targeted capacity expansion to achieve profit improvement

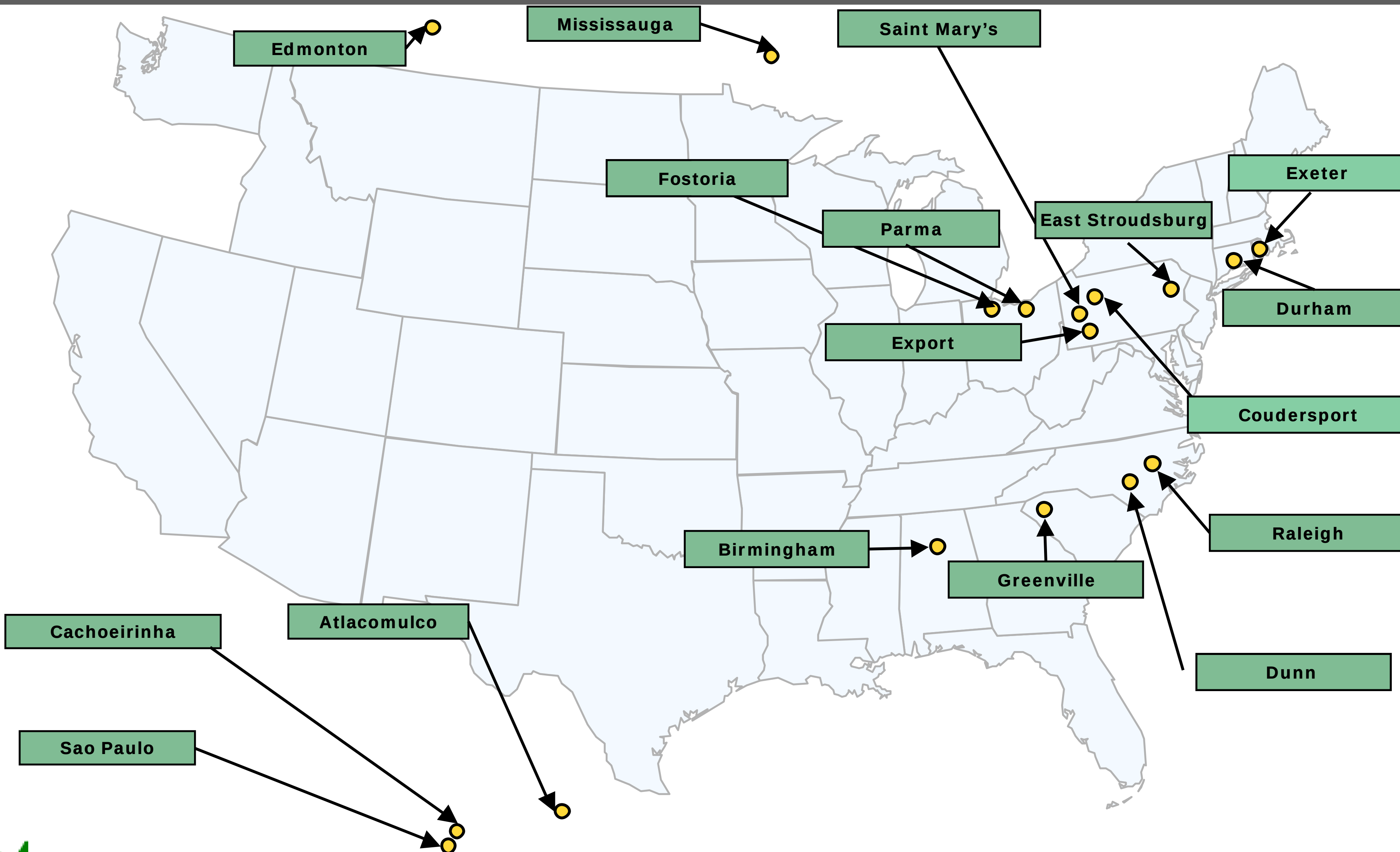
Technical Ceramics initiatives

Integration of former Ceramics business	Extensive senior management changes including appointment of new Managing Director
Focus on higher value - added market segments	E.g. Medical, aerospace and laser power tubes
Resolve manufacturing issues	Corrective action in California and Germany
Improve pricing decision making	Pricing initiatives to maximise top and bottom line benefits
Exit non-core businesses	E.g. Coatings

Carbon initiatives

Integration of former carbon businesses	Extensive senior management changes including newly appointed Managing Director
Reduce overheads and headcount	Significant headcount reductions in Europe and Americas as the combined business sheds duplicate activities
Site rationalisation	Significant site rationalisation opportunities
Take advantage of low cost manufacturing	Transfer production to low cost countries, concentrate on the development of the Far East, and invest in low cost supply e.g. Mexico and India
Improve pricing decision making	Strategic pricing initiatives to maximise top line benefits

Carbon Americas site footprint



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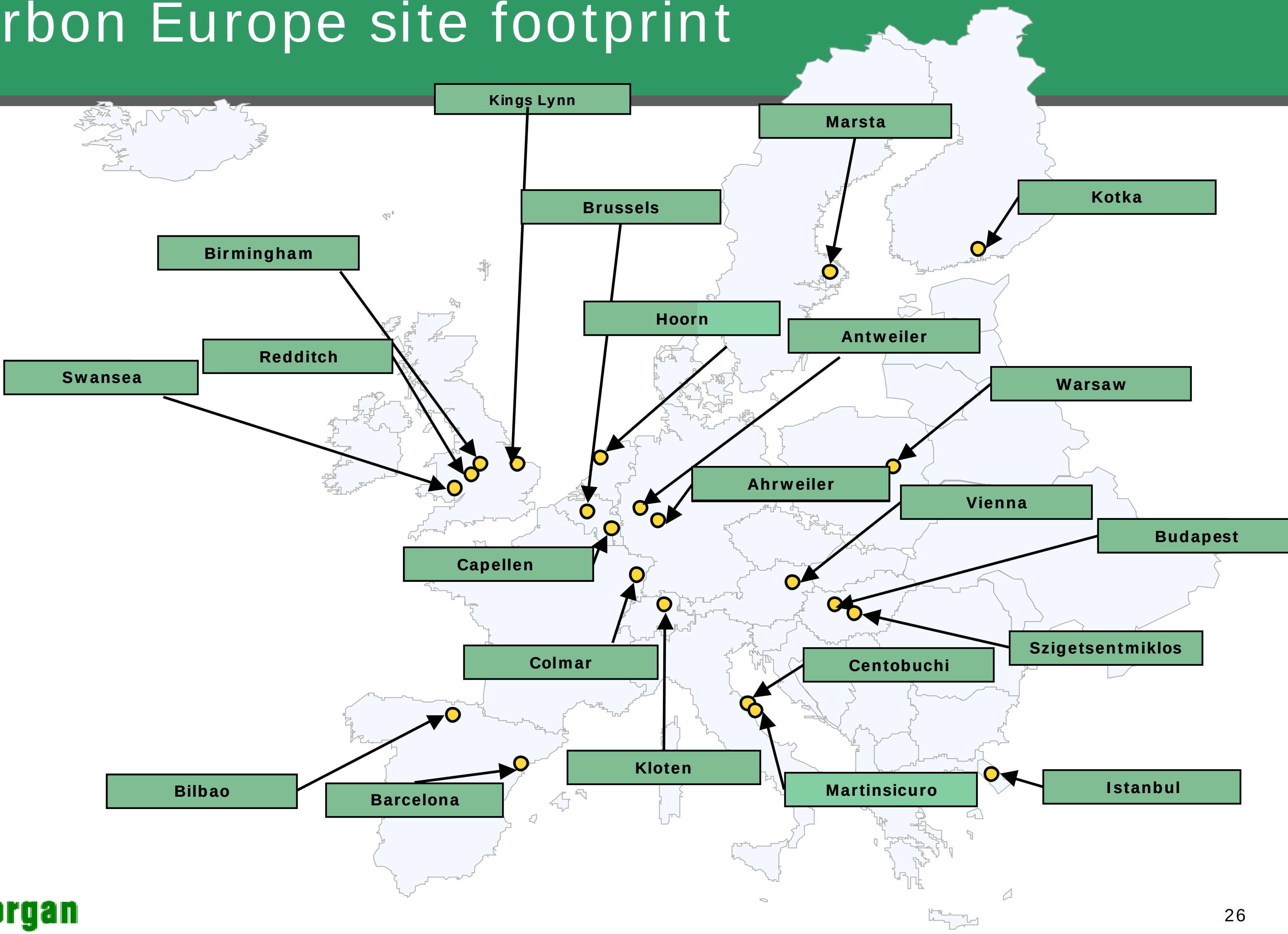
Carbon Europe site footprint



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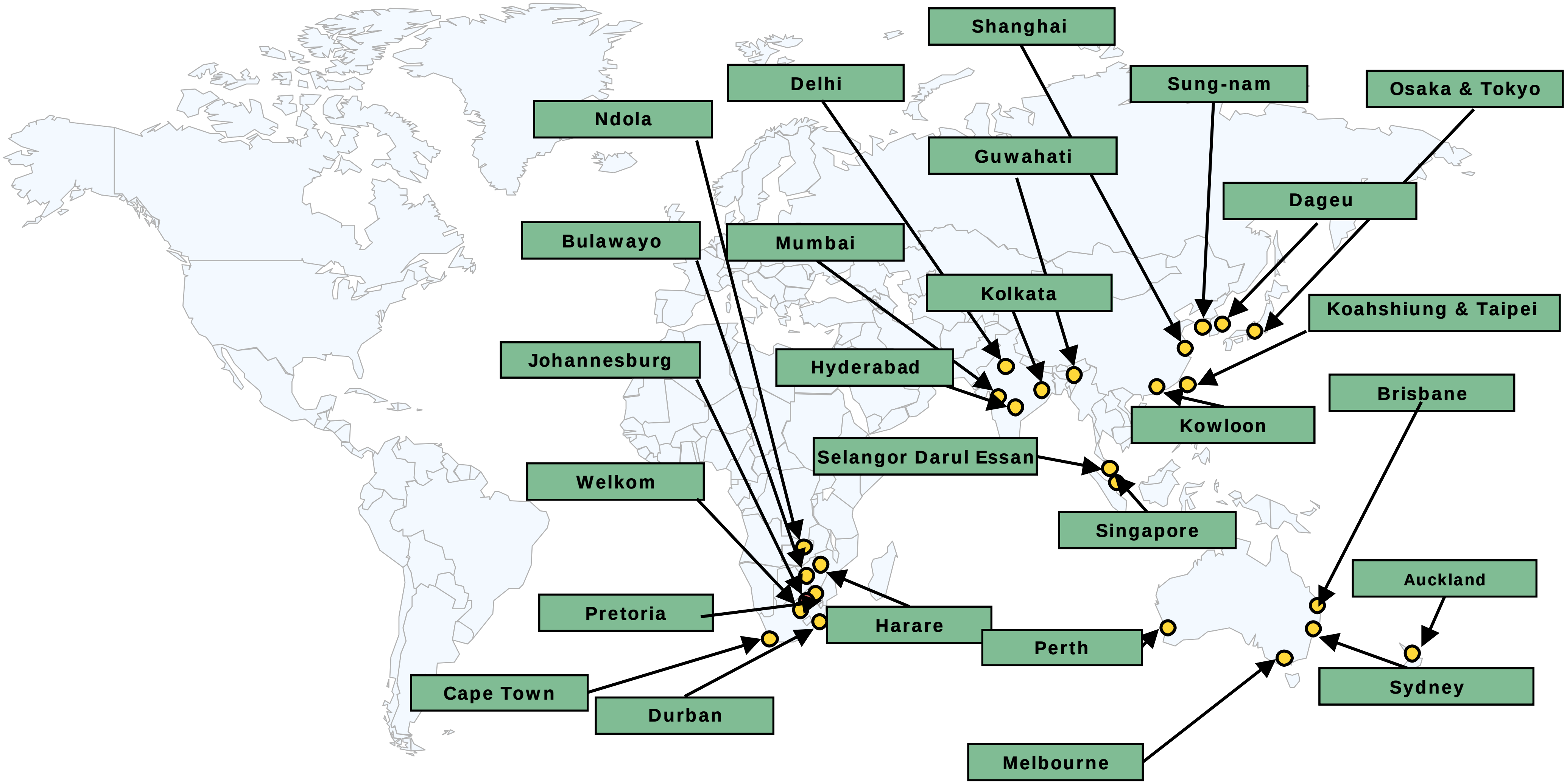
Carbon Asia, Australia, rest of world site footprint



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Magnetics initiatives

Management changes	New Managing Director
Focus on core, high margin businesses	Focus on cores, components and permanent magnets in Europe
Reduce overheads and headcounts	Significant reduction in Europe
Take advantage of low cost manufacturing	Capitalise on market opportunities in growth regions (e.g. the Far East) as well as securing a low cost source of supply of certain products
Improve pricing decision making	Pursue top line improvement – extensive market and pricing initiatives

Financing

Funding and Disposals

- Refinancing in early 2003
  - Year end net debt of £249m; gearing 96%; unutilised committed bank facilities of £22m

- Sell businesses which fail to meet required performance criteria
  - proceeds can not be relied upon to fund the restructuring at required pace

→ New equity required to complete restructuring as quickly as possible

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Terms of the fully underwritten Rights Issue

- An offer of 1 new share for every 4 ordinary shares already held to raise £54 million (net of expenses)
- Issue price represents a discount of 24.8% to yesterday's closing Morgan share price of 133 pence
- Fully underwritten by Cazenove

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Timetable

• Announcement / Despatch of PALs	19 February 2004
• Dealings in Nil Paids commence	20 February 2004
• Last date for splitting	10 March 2004
• Last date for acceptance / payment in full	12 March 2004
• New Ordinary Shares credited to CREST	15 March 2004

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Conclusions

Current trading / outlook

- Most markets stabilised in 2003
- Timing of recovery uncertain
- Demand steadying in Europe and America, strong in Asia
- Not relying on market upturn
- Restructuring to drive profits and cash flow

Priorities for 2004

- Continue to drive disciplined implementation of restructuring
- Continue migration to low cost countries
- Invest in targeted growth opportunities
- Complete and stretch senior management team / assess results
- Sell businesses which fail to meet performance criteria

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2003 Preliminary Results

and Rights Issue

Appendices

Divisional performance

Full Year £m	Turnover 2003	Turnover 2002	Operating profit 2003	Operating profit 2002
Carbon - Electrical	186.0	199.9	13.4	14.6
- Engineered	78.4	74.6	6.2	2.5
Magnetics	172.1	163.5	3.3	(4.3)
Ceramics- Technical	132.5	135.7	1.4	3.2
- Insulating	258.3	256.8	17.2	13.9
Discontinued	22.3	49.8	1.1	4.2

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

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Divisional Performance – Key points

- **Electrical Carbon**

  -Industrial and traction markets challenging in Europe, particularly in Germany

  -Weak automotive demand in the key North American market

- **Engineered Carbon**

  -Markets stabilised but OEM demand still weak. Increase in turnover due to strong demand for silicon carbide plates for body armour

- **Magnetics**

  -Impact from restructuring actions beginning to show

  -Transfer of more production to Slovakia / withdrawal from hard disc drive market

- **Technical Ceramics**

  -Markets for aerospace, telecom and semicon still weak

  -No pick up yet in piezo demand

- **Insulating Ceramics**

  -Performance above expectation. Cost saving & rationalisation continuing

  -Site closures in both Crucibles and Thermal completed in the year

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 year by £7m to £94m – c.£6m was caused by forex translation
- B/S SSAP 24 prepayments c.£22m
- Under FRS 17 the total deficit for all defined benefit schemes fell by c.£39m to £43m
- Smaller UK scheme actuarially valued as at April 2003
- Shortfall identified by valuation has caused the future annual company contributions to increase by c£0.3m

Appendix – Reporting Structure

Morgan Crucible

Electrical Carbon	Engineered Carbon	Magnetics	Technical Ceramics	Insulating Ceramics
* Industrial Rail & Traction	* Mechanical Carbon	*Magnetics	* Advanced Ceramics	* Thermal Ceramics
* Auto / Consumer	*Specialty Graphite		* Electro Ceramics	*Crucibles

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