



As you will all be aware the first half of 2012 has proved to be a real challenge, particularly following on from such a successful 2011. The economic outlook matched the early summer weather in the UK, gloomy, overcast with plenty of rain about. These conditions are not new though and that is why our first half results are encouraging. Despite the economy we grew our business, albeit only marginally over the same period last year and we became significantly more profitable.

Revenue for the first half of 2012 in the Ceramics Division was £344.3 million (2011: £343.7 million), representing an increase of 0.2% at reported rates. At constant currency this increase in revenue was 0.8%.

Divisional EBITA for the first half was £51.0 million (2011: £44.7 million), reflecting good progress in margins, Superwool® rollout and our continued focus on moving the product mix towards more attractive and non-economically cyclical end markets. The EBITA margin for the division continued its improvement to 14.8% (2011: 13.0%).

The Division is achieving good progress from the work undertaken in the key business performance drivers which include positive mix shift towards higher margin, more attractive end products and markets, new business wins, and ongoing operational efficiency programmes, despite softer trading conditions, particularly in solar and also in geographies such as China and Continental Europe.

The Technical Ceramics business has made a steady start to 2012. The aerospace and general industrial markets have been robust and business from the industrial gas turbines market has also improved since the low levels of 2011. There has been a good level of new opportunities that are coming through from attractive market areas such as healthcare, that are expected to yield new business over the coming years. The lack of global demand for solar products is impacting some of our businesses, particularly our Haldenwanger™ business in China and Europe where precision rollers are manufactured. At present the business does not expect any recovery in this solar market for our products during the second half of the year. Hard Disk Drive (HDD) product revenue in the first half has been broadly in line with the equivalent period last year but are forecast to be lower in the second half driven by customer de-stocking. The outlook for the aerospace business in North America remains strong and is a focus for our new business development efforts. Similarly, the business continues to add further resources in South America and Asia to target new opportunities as part of our strategic expansion into these regions.

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The Thermal Ceramics business has continued to see positive momentum overall with continuing growth and investment in Superwool® Fibre capabilities across the globe. In China work has begun on a new greenfield Ceramics facility in Dalian into which the existing facility will be relocated later this year and which will have sufficient space to allow us to establish new technical ceramics manufacturing capacity in China. The Thermal business continues to win multi-million US dollar contracts for fire protection of offshore oil platforms that will provide revenue over the next two years and which will support the continued growth of this business. Additionally the chemical processing sector in North America is strong and is expected to remain so in the foreseeable future. Offsetting this we have seen a significant slowing of business in China during the first half of 2012, with reduced construction activity leading to lower demand for our insulating fire bricks and other Thermal Ceramics products.

Work on reducing our cost base from the merger of the Thermal and Technical businesses continues to go well and we remain on track to deliver the £8 million of benefits in 2012 that we have signalled in previous announcements.

With a mix of trading conditions across the end markets served by the Division, expectation for the second half of the year is for a similar performance.

I am sure the results we have achieved came as a direct result of the investment we have continued to make in training existing staff and the skills our new recruits bring with them. It is also a testament to the hard work all our staff do in delivering differentiated products to our customers.

In the second half of 2012 I am particularly looking forward to welcoming a new intake of graduates, around 25 will be joining us to begin their careers. I am also eagerly anticipating the start of the recruitment cycle again as we look for more new talent for 2013. I am sure you will all join me in welcoming our new colleagues.

As I look forward to the second half of 2012 unfortunately I can see few signs of economic improvement. So it is vital that we continue to help ourselves. We can do this by choosing end markets wisely and continuing to watch for changing opportunities.

Thank you for all your hard work and the dedication to the Morgan Ceramics Division and our customers.

Andrew Hosty CEO