

Morganite Electrical Carbon Limited
Directors' report and financial
statements

Registered number

01034653

For the
year ended 2 January 2011

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Contents

Directors' report	2
Statement of directors' responsibilities in respect of the directors' report and the financial statements	4
Independent auditors' report to the members of Morganite Electrical Carbon Limited	5
Profit and loss account	6
Balance sheet	7
Reconciliation of movements in shareholders' funds	8
Notes	9

Directors' report

The directors present their annual report and audited financial statements for the year ended 2 January 2011

Principal activities and review of the business

The Company is a wholly-owned subsidiary of The Morgan Crucible Company plc (Morgan Group) and operates as part of the Morgan Engineered Materials division

The Company's principal activities are the manufacture and sale of specialist ceramic components for a variety of demanding markets including medical, defence, electronics and fluid handling. Around 53% of production is exported from the UK to customers in Europe, The Americas and the Far East. There have not been any significant changes in the Company's principal activities in the year under review. The directors are not, at the date of this report, aware of any likely major changes in the Company's activities in the next year.

The Morgan Engineered Materials division of which the Company is a part, invests in research and development activities appropriate to the nature and size of its operations with the aim of supporting the future development of the Company as a part of the division, in the medium to long-term future. This research and development activity has resulted in a number of updates to existing products.

As shown in the Company's profit and loss account on page 6, the Company's turnover has increased by 27.2% over the prior year and loss after tax has decreased by £1,188,000. The major factors resulting in the decrease in loss after tax are increase in turnover and decrease in restructuring costs which were £796,000 in the year (2009: £1,287,000) (note 6).

The balance sheet on page 7 of the financial statements shows the Company's financial position at the year end and is consistent with the prior year.

There have been no significant events since the balance sheet date which should be considered for a proper understanding of these financial statements.

Morgan Group manages its operations on a divisional basis. For this reason, the Company's directors believe that further key performance indicators for the Company are not necessary or appropriate for an understanding of the development, performance or position of the business. The performance of the Morgan Engineered Materials division of Morgan Group, which includes the Company, is discussed in Morgan Group's Annual Report which does not form part of this Report.

Principal risks and uncertainties

Competitive pressure in low cost countries is a continuing risk for the Company, which could result in it losing sales to its key competitors. To manage this risk, the Company strives to provide added-value products and services to its customers, respond promptly in the supply of products and services and in the handling of customer queries and maintain strong relationships with customers.

The Company sells products into international markets and it is therefore exposed to currency movements on such sales. Where appropriate, the Company manages this risk in accordance with Morgan Group treasury policies.

The Company's businesses may be affected by fluctuations in the price and supply of key raw materials, although purchasing policies and practices seek to mitigate, where practicable, such risks.

The Company is a member of Morgan Group's multi-employer UK defined benefit pension plan which is currently in deficit. The funding level of this pension plan is subject to adverse change resulting from movements in the actuarial assumptions underlying the calculation of plan liabilities, including decreasing discount rates and increasing longevity of plan members, as well as declines in the market value of plan investments. Significant adverse changes in the actuarial assumptions underlying the UK plan valuation and the Company's share of any deficit-reduction contributions made into the plan could materially impact the Company's trading results.

Research and development

The Company will continue its programme of research and development, including projects to develop armour products. Expenditure incurred on research and development in the year was £895,000 (2009: £1,509,000).

Directors

The directors who held office during the year were as follows

RA Mamo

J Harvey

(resigned 17 May 2010)

CJ Spacie

DS Eldridge

SM Chittock

(resigned 9 June 2010)

AP Gallagher

(appointed 17 May 2010)

Morgan Group purchases directors' and officers' insurance cover on behalf of all Group companies in the UK

Employees

Details of the number of employees and related costs can be found in note 5 to the financial statements

Applications for employment by disabled persons are considered fully, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Company continues and that appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

The Company participates in Morgan Group's policies and practices to keep employees informed on matters relevant to them as employees through appropriate means, such as employee meetings and newsletters.

Environment

The Company recognises the importance of its environmental responsibilities, monitors its impact on the environment and designs and implements policies to mitigate any adverse impact that might be caused by its activities. The Company operates in accordance with Morgan Group policies, as noted in Morgan Group's Annual Report, which does not form part of this Report. Initiatives aimed at minimising the Company's impact on the environment include safe disposal of manufacturing waste, recycling and reducing energy consumption.

Political and charitable contributions

During the course of the year, the Company made charitable donations amounting to £815 (2009: £2,307) and no political donations (2009: £Nil).

Supplier payment policy

The Company agrees payment terms with all its major suppliers and abides by these terms, subject to satisfactory performance by the supplier. Amounts owed to other suppliers are settled on or before the end of the month following receipt of a valid invoice. The Company's average creditor period at 2 January 2011 was 55 days (2009: 46).

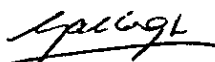
Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

Pursuant to section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and will therefore continue in office.

By order of the board



AP Gallagher

Secretary/Director

Upper Fforest Way

Morrison

Swansea

SA6 8PP

08-Apr-11

Statement of directors' responsibilities in respect of the directors' report and the financial statements

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements the directors are required to

- select suitable accounting policies and then apply them consistently
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



KPMG Audit Plc
3 Assembly Square
Britannia Quay
Cardiff
CF10 4AX

Independent auditor's report to the members of Morganite Electrical Carbon Limited

We have audited the financial statements of Morganite Electrical Carbon Limited for the year ended 2 January 2011 set out on pages 6 to 31. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 2 January 2011 and of its loss for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.

E Holiday (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants

15/12 April 2011

Profit and loss account
for the year ended 2 January 2011

	<i>Note</i>	2010	2009
		£000	£000
Turnover	2		
Continuing operations		28,933	22,749
Change in stocks of finished goods and work in progress		522	118
Raw materials and consumables		(8,203)	(7,993)
Other external charges		(3,632)	(2,226)
Staff costs	3	(10,779)	(10,385)
Depreciation and other amounts written off tangible and intangible fixed assets	10	(1,055)	(1,020)
Other operating charges		(8,110)	(5,746)
		<u>(31,257)</u>	<u>(27,252)</u>
Operating loss			
Continuing operations	3	(2,324)	(4,503)
Other interest receivable and similar income	7	137	13
Interest payable and similar charges	8	(2)	(9)
		<u>(2,189)</u>	<u>(4,499)</u>
Loss on ordinary activities before taxation			
Tax on loss on ordinary activities	9	272	1,394
		<u>(1,917)</u>	<u>(3,105)</u>
Loss for the financial year	16		

There are no recognised gains and losses for the current and preceding financial year other than the loss of £1.9 million (2009: £3.1 million) shown above. Accordingly, no note of historical costs losses is presented.

The amounts presented for the current and preceding financial years are derived from continuing operations.

Balance sheet
at 2 January 2011

	<i>Note</i>	2010 £000	2009 £000	£000
Fixed assets				
Tangible assets	10	8,417		8,348
		<u>8,417</u>		<u>8,348</u>
Current assets				
Stocks	11	5,097	4,443	
Debtors	12	10,502	9,471	
		<u>15,599</u>	<u>13,914</u>	
Creditors amounts falling due within one year	13	(9,829)	(6,036)	
Net current assets		<u>5,770</u>	<u>7,878</u>	
Total assets less current liabilities		<u>14,187</u>	<u>16,226</u>	
Provisions for liabilities	14	(57)	(190)	
Net assets		<u>14,130</u>	<u>16,036</u>	
Capital and reserves				
Called up share capital	15	43,837	43,837	
Share premium account	16	37	37	
Other reserves	16	15	4	
Profit and loss account	16	(29,759)	(27,842)	
Shareholders' funds		<u>14,130</u>	<u>16,036</u>	

These financial statements were approved by the board of directors on 8 April 2011 and were signed on its behalf by



AP Gallagher
 Director
 8 April 2011

Reconciliation of movements in shareholders' funds
for the year ended 2 January 2011

	2010	2009
	£000	£000
Loss for the financial year	(1,917)	(3,105)
Retained loss	<u>(1,917)</u>	<u>(3,105)</u>
Credit in relation to share based payments	11	4
Net reduction in shareholders' funds	<u>(1,906)</u>	<u>(3,101)</u>
Opening shareholders' funds	16,036	19,137
Closing shareholders' funds	<u><u>14,130</u></u>	<u><u>16,036</u></u>

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards, and under the historical cost accounting rules

The balance sheets for the current year and the comparative period have been drawn up as at 2 January 2011 and 3 January 2010 respectively. The profit and loss account, reconciliation of movements in shareholder's funds and statement of historical costs profits and losses are for the years ended 2 January 2011 and 3 January 2010. For convenience, these years and balance sheet dates are referred to in the body of the financial statements as 2010 and 2009 respectively.

Under FRS 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the Company in its own published consolidated financial statements.

As the Company is a wholly owned subsidiary of The Morgan Crucible Company plc, the Company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties). The consolidated financial statements of The Morgan Crucible Company plc, within which this Company is included, can be obtained from the address given in note 21.

Tangible fixed assets and depreciation

Depreciation is provided to write-off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Freehold buildings	- 2% per annum
Leasehold land and buildings	- life of lease
Plant and machinery	- 5% and 10%
Computer equipment	- 20% and 33%
Motor vehicles	- 33%
Fixtures and fittings	- 5% and 10%
No depreciation is provided on freehold land	

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Related Party Transactions

As the Company is a wholly-owned subsidiary of The Morgan Crucible Company plc, the Company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with wholly owned subsidiaries which form part of the group.

Leases

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Post-retirement benefits

The Company participates in two group wide pension schemes providing benefits based on career-average re-valued earnings (CARE) basis. The assets of the schemes are held separately from those of the Company. The Company is unable to identify its share of the underlying assets and liabilities of these schemes on a consistent and reasonable basis and therefore, as required by FRS 17 'Retirement benefits', accounts for these schemes as if they were defined contribution schemes. As a result, the amount charged to the profit and loss account represents the contributions payable to the schemes in respect of the accounting period.

Research and development expenditure

Expenditure on research and development is written-off to the profit and loss account in the year in which it is incurred.

Stocks

Stocks are stated at the lower of cost and net realisable value. In determining the cost of raw materials, consumables and goods purchased for resale, the weighted average purchase price is used. For work in progress and finished goods cost is taken as production cost, which includes an appropriate proportion of attributable overheads.

Taxation

The charge for taxation is based on the loss for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods to customers. Turnover is recognised when substantially all of the risks and rewards of ownership have been passed to the customer, generally being at the point at which goods are despatched to the customer.

Share based payments

The share option programme allows employees to acquire shares of the Company. The fair value of options granted after 7 November 2002 and those not yet vested as at the effective date of FRS 20 is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share

For cash settled share based payment transactions, the fair value of the amount payable to the employee is recognised as an expense with a corresponding increase in liabilities. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to payment. The fair value is measured based on an option pricing model taking into account the terms and conditions upon which the instruments were granted. The liability is revalued at each balance sheet date and settlement date with any changes to fair value being recognised in the profit and loss account.

Dividends on shares presented within shareholders' funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

Going Concern

The Company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Company is able to operate within the level of its available facilities. The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements for the year ended 2 January 2011.

2 Analysis of turnover

	Turnover	
	2010	2009
	£000	£000
<i>Goods sold by geographical market</i>		
United Kingdom	13,517	9,236
Continental Europe	9,989	9,223
The Americas	1,547	1,500
Other	3,880	2,790
	<u>28,933</u>	<u>22,749</u>

3 Notes to the profit and loss account

	2010	2009
	£000	£000
<i>Loss on ordinary activities before taxation is stated</i>		
<i>after charging</i>		
Depreciation and other amounts written off tangible fixed assets		
Owned	1,048	998
Leased	7	7
<i>Auditors remuneration</i>		
Audit of these financial statements	28	28
Research and development expenditure	895	1,509
Operating lease rentals		
Land and buildings	698	675
Plant and machinery	103	112

Amounts receivable by the Company's auditors and their associates in respect of services to the company and its associates, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis in the consolidated financial statements of the Company's immediate and ultimate parent, The Morgan Crucible Company plc

4 Remuneration of directors

	2010	2009
	£000	£000
Directors' emoluments	421	410
Compensation for loss of office	76	157

The aggregate of emoluments and amounts receivable under long-term incentive schemes of the highest paid director was £163,000 (2009: £162,000). He is a member of a defined benefit scheme, under which his accrued pension at the year end was £72,576 (2009: £71,719). During the year the highest paid director received shares under a long-term incentive scheme.

	Number of directors	
	2010	2009
Retirement benefits are accruing to the following number of directors under		
Defined benefit schemes	4	4

The number of directors who exercised share options was	-	-
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The number of directors in respect of whose services shares were received or receivable under long term incentive schemes was	3	-
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5 Staff numbers and costs

The average number of persons employed by the Company (including directors) during the year, analysed by category, was as follows

	Number of	
	2010	2009
Sales and marketing	15	16
Logistics	31	32
Manufacturing	188	204
Administration	49	56
	<u>283</u>	<u>308</u>

The aggregate payroll costs of these persons were as follows

	£000	£000
Wages and salaries	9 271	8,843
Social security costs	801	714
Other pension costs	707	328
	<u>10,779</u>	<u>10,385</u>

6 Exceptional items

	2010	2009
	£000	£000
Redundancy and re-organisation	796	1,287
	<u>796</u>	<u>1,287</u>

7 Income from other fixed asset investments

	2010	2009
	£000	£000
Income from loans to Group undertakings	137	13
	137	13

8 Interest payable and similar charges

	2010	2009
	£000	£000
Finance charges payable in respect of finance leases and hire purchase contracts	<u>2</u>	<u>9</u>

9 Taxation

Analysis of credit in period

	2010		2009	
	£000	£000	£000	£000
<i>UK corporation tax</i>				
Current tax on income for the period	(323)		(942)	
Adjustments in respect of prior periods	51		(452)	
Total current tax		(272)		(1,394)
Tax on loss on ordinary activities		(272)		(1,394)

Factors affecting the tax charge for the current period

The current tax credit for the period is lower (2009 higher) than the standard rate of corporation tax in the UK (28%, 2009 28%). The differences are explained below

	2010	2009
	£000	£000
<i>Current tax reconciliation</i>		
Loss on ordinary activities before tax	(2,189)	(4,499)
	(2,189)	(4,499)
Current tax at 28% (2009 28%)	(613)	(1,260)
<i>Effects of</i>		
Expenses not deductible for tax purposes	63	87
Depreciation for period in excess of capital allowances	283	287
Adjustments to tax charge in respect of previous periods	51	(452)
Additional deduction for research and development	(56)	(56)
Total current tax charge (see above)	(272)	(1,394)

The Budget on 23 March 2011 announced that the UK corporation tax rate will reduce from 28% to 23% over a period of 4 years from 2011. The first reduction in the UK corporation tax rate from 28% to 26% was substantively enacted when the Budget resolution was passed on 29 March 2011 and was effective from 1 April 2011.

10 Tangible fixed assets

	Freehold Land and buildings	Plant and machinery	Fixtures, fittings, tools and equipment	Payments on account and assets in course of construction	Total
	£000	£000	£000	£000	£000
<i>Cost</i>					
At beginning of year	1,995	14,385	207	1,055	17,642
Additions	-	8	-	1,116	1,124
Disposals	-	(3)	-	-	(3)
Transfers between items	-	1,055	-	(1,055)	-
At end of year	1,995	15,445	207	1,116	18,763
<i>Depreciation</i>					
At beginning of year	457	8,635	202	-	9,294
Charge for year	48	1,007	-	-	1,055
On disposals	-	(3)	-	-	(3)
At end of year	505	9,639	202	-	10,346
<i>Net book value</i>					
At 2 January 2011	1,490	5,806	5	1,116	8,417
At 3 January 2010	1,538	5,750	5	1,055	8,348

Included in the total net book value of Plant and Machinery is £41,000 (2009: £48,000) in respect of assets held under finance leases.
 Depreciation for the year on these assets was £7,495 (2009: £7,495).

11 Stocks

	2010	2009
	£000	£000
Raw materials and consumables	1,500	1,848
Work in progress	2,420	1,553
Finished goods and goods for resale	1,177	1,042
	<u>5,097</u>	<u>4,443</u>

12 Debtors

	2010	2009
	£000	£000
Trade debtors	1,515	2,960
Amounts owed by Group undertakings	8,059	5,983
Other debtors	586	235
Prepayments and accrued income	342	293
	<u>10,502</u>	<u>9,471</u>

13 Creditors: amounts falling due within one year

	2010	2009
	£000	£000
Bank loans and overdrafts	2,900	724
Obligations under finance leases and hire purchase contracts	74	74
Trade creditors	2,926	2,332
Amounts owed to group undertakings	2,942	2,135
Taxation and social security	609	548
Accruals and deferred income	378	223
	<u>9,829</u>	<u>6,036</u>

14 Provisions for liabilities

	Restructuring provision £000
At beginning of year	190
Utilised during year	(217)
Additional amounts provided	100
Amounts released unused	(16)
At end of year	<u>57</u>

In 2007 Morgan Crucible announced a Group profit improvement plan. The closing restructuring provision above of £57,000 relates to the costs involved in continuing this improvement plan and are expected to be incurred in the next twelve months.

Deferred taxation

At 2 January there are trading losses carried forward in the company of approximately £10.3 million (2009: £10.8 million). No deferred tax asset has been recognised in respect of these losses on the grounds that there is sufficient evidence that the associated asset of £2.92 million (2009: £3.02 million) will be recoverable. In addition, there are unrecognised deferred tax assets in respect of unclaimed capital allowances on plant and machinery of £1.95 million (2009: £1.76 million).

15 Called up share capital

	2010	2009
	£000	£000
<i>Authorised</i>		
43,837,000 (2009: 43,837,000) Ordinary shares of £1 each	43,837	43,837
	<u>43,837</u>	<u>43,837</u>
<i>Allotted, called up and fully paid</i>		
43,837,000 (2009: 43,837,000) Ordinary shares of £1 each	43,837	43,837
	<u>43,837</u>	<u>43,837</u>

Morganite Electrical Carbon Limited
 Directors' report and financial statements
 Registered Number 01034653
 For the year ended 2 January 2011

16 Share premium and reserves

	Share premium account £000	Other Reserves £000	Profit and loss account £000
At beginning of year	37	4	(27,842)
Loss for the year	-	11	(1,917)
At end of year	37	15	(29,759)

17 Commitments and contingent liabilities

Annual commitments under non-cancellable operating leases are as follows

	2010		2009	
	Land and buildings	Other	Land and buildings	Other
	£000	£000	£000	£000
Operating leases which expire				
Within one year	53	5	-	32
In the second to fifth years inclusive	-	116	53	94
Over five years	645	-	622	-
	<u>698</u>	<u>121</u>	<u>675</u>	<u>126</u>

The Company, together with a number of other group companies, has provided guarantees to support the liabilities of The Morgan Crucible Company plc pursuant to the Group's revolving credit facility agreement entered into in 2009 (RCF) and to support the liabilities of Morganite Industries Inc under the terms of private placement notes raised in 2003 and 2007 (PP). The Group's RCF and PP are disclosed in the Annual Report of The Morgan Crucible Company plc.

18 Pensions

The Company is a participating employer in The Morgan Pension Scheme and The Morgan Group Senior Staff Pension and Life Assurance Scheme. Both pension schemes provide benefits on a career-average re-valued earnings (CARE) basis. As the Company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis, as permitted by FRS 17 'Retirement benefits', the schemes have been accounted for in these financial statements as if they were defined contribution schemes.

The latest full actuarial valuations were carried out at 6 April 2009 and 1 April 2009 respectively by a qualified independent actuary. Updated actuarial valuations are expected as at 6 April 2011 and 1 April 2011 respectively.

Details of these schemes and actuarial valuations are included in the accounts of the immediate and ultimate parent undertaking, The Morgan Crucible Company plc.

The pension cost charged to the profit and loss account in the year was £707,000 (2009: £828,000). Total pension contributions outstanding at the year end amounted to £11,000 (2009: £14,000).

19 Employee share schemes

Share based payments

In 2007, 2008, 2009 and 2010 the employees of the Company were granted options to purchase shares of its parent, The Morgan Crucible Company plc ("Morgan Crucible") under its Long Term Incentive Plan, Bonus Deferral Share Matching Plan and UK Employee Sharesave Scheme.

The terms and conditions of grants are as follows:

Grant date/employees entitled/nature of scheme	Method of settlement accounting	Number of instruments	Vesting conditions	Contractual life of options
Awards granted to senior employees in 2010 under The Morgan Crucible Bonus Deferral Share Matching Plan	Equity	827,311	Three years of service plus 3 years satisfaction of performance conditions	3 years
Options granted to UK employees in 2010 under the UK Employee Sharesave Scheme 2004	Equity	484,069	Three years of service	3 years
Awards granted to senior employees in 2010 under the Long Term Incentive Plan 2004	Equity	2,331,758	Three years of service plus 3 years satisfaction of performance conditions	3 years
Awards granted to senior employees in 2009 under The Morgan Crucible Bonus Deferral Share Matching Plan	Equity	3,426,473	Three years of service plus 3 years satisfaction of performance conditions	3 years
Options granted to UK employees in 2009 under the UK Employee Sharesave Scheme 2004	Equity	1,937,568	Three years of service	3 years
Awards granted to senior employees in 2009 under the Long Term Incentive Plan 2004	Equity	5,085,721	Three years of service plus 3 years satisfaction of performance conditions	3 years
Awards granted to senior employees in 2008 under The Morgan Crucible Bonus Deferral Share Matching Plan	Equity	2,889,005	Three years of service plus 3 years satisfaction of performance conditions	3 years
Options granted to UK employees in 2008 under the UK Employee Sharesave Scheme 2004	Equity	1,089,783	Three years of service	3 years
Awards granted to senior employees in 2008 under the Long Term Incentive Plan 2004	Equity	2,691,123	Three years of service plus 3 years satisfaction of performance conditions	3 years
Options granted to UK employees in 2007 under the UK Employee Sharesave Scheme 2004	Equity	856,885	Three years of service	3 years
Awards granted to senior employees in 2007 under the Long Term Incentive Plan 2004	Equity	1,540,000	Three years of service plus 3 years satisfaction of performance conditions	3 years

Performance criteria for Long Term Incentive Plan 2004

For awards granted in 2007 the extent to which 50% of the awards vest will depend on Morgan Crucible's Total Shareholder Return ('TSR') ranking against the TSR of the other companies in the FTSE 350 measured over the performance period.

If the Company's TSR placed it at the median, then 30% of the awards would vest on the third anniversary of the date of the grant.

If the Company's TSR placed it at the upper quartile, then 100% of the option would vest on the third anniversary of the date of grant. Between the median and upper quartile, the option would vest on a straight line basis. Below the median, none of the shares would vest.

The extent to which the other 50% of these awards vest will depend on Morgan Crucible's earnings per share ('EPS') compared with the Retail Price Index ('RPI'). The full 50% will vest if, over the three-year performance period, the Company's EPS increases by more than the sum of the annual RPI increase and 10% per annum. If Morgan Crucible's EPS increases by more than the sum of the annual RPI increase and between 4% and 10% per annum then the proportion of awards vesting will be interpolated between 15% and 50%. If Morgan Crucible's EPS increases by more than the sum of the annual RPI increase and 4% per annum then 15% of the awards will vest. If Morgan Crucible's EPS increases by less than the sum of the RPI increase and 4% per annum then 0% of the awards will vest.

In 2008 further changes were made to the performance criteria attached to the Long Term Incentive Plan 2004 for awards made in 2008 and onwards. For all participants excluding executive Directors the TSR performance criteria referred to above now only relate to 33.3% of awards made. The extent to which the other 66.7% of these awards vest will depend on the Company's EPS compared with the RPI. The full 66.7% will vest if, over the three-year performance period, the Company's EPS increases by more than the sum of the annual RPI increase and 10% per annum. If the Company's EPS increases by more than the sum of the annual RPI increase and between 4% and 10% per annum then the proportion of awards vesting will be interpolated between 15% and 50%. If the Company's EPS increases by more than the sum of the annual RPI increase and 4% per annum then 15% of the awards will vest. If the Company's EPS increases by less than the sum of the RPI increase and 4% per annum then 0% of the awards will vest. For executive Director participants the conditions remain unchanged from 2007.

In 2009 further changes were made to the performance criteria attached to the Long Term Incentive Plan 2004. For all participants the TSR performance criteria referred to above now relate to 100.0% of awards made.

In 2010 the performance criteria attached to the awards granted pursuant to the Long Term Incentive Plan 2004 reverted to a TSR/EPS split. The TSR performance criteria relate to 50% of awards made. The extent to which the other 50% of these awards vest will depend on the Company's earnings per share ('EPS') compared with the Retail Price Index ('RPI'). The full 50% will vest if, over the three-year performance period, the Company's EPS increases by more than the sum of the annual RPI increase and 10% per annum. If the Company's EPS increases by more than the sum of the annual RPI increase and between 4% and 10% per annum then the proportion of awards vesting will be interpolated between 15% and 50%. If the Company's EPS increases by more than the sum of the annual RPI increase and 4% per annum then 15% of the awards will vest. If the Company's EPS increases by less than the sum of the RPI increase and 4% per annum then 0% of the awards will vest. In addition, the 2010 LTIP awards were restructured to include an HMRC approved element as part of the overall LTIP award.

In addition, an improvement must be shown in the Company's underlying financial performance.

Performance criteria for The Morgan Crucible Bonus Deferral Share Matching Plan

The extent to which awards will vest will depend on the Company's EPS compared with the RPI. Participants are able to defer up to 75% of their annual bonus into Company shares, subject to approval by the Remuneration Committee. Under the 2008 grant, the Remuneration Committee allowed participants to defer up to 50% of their annual bonus into Company shares. Participants must hold the deferred shares for three years to be eligible for a matching award. Matching shares may be earned at the end of three years in the event that a stretching EPS target has been met. If the Company's EPS increases by more than the sum of the annual RPI increase and 15% per annum then matching shares equal to three times the deferred shares will be earned. If the Company's EPS increases by more than the sum of the annual RPI increase and between 4% and 10% per annum then the proportion of awards will be interpolated between 0.25x deferred shares and 1.75x deferred shares. If the Company's EPS increases by more than the sum of the annual RPI increase and 4% per annum then matching shares equal to 0.25x deferred shares will be earned. If the Company's EPS increases by less than the sum of the RPI increase and 4% per annum then 0% of the awards will vest.

In 2009 additional criteria were attached to the Bonus Deferral Share Matching Plan. Under the 2009 grant, the Remuneration Committee allowed participants to defer up to 50% of their annual bonus into Company shares. Participants must hold the deferred shares for three years to be eligible for a matching award. Matching shares may be earned at the end of three years in the event that a stretching EPS target has been met. If the Company's EPS increases by more than 15% per annum then matching shares equal to three times the deferred shares will be earned. If the Company's EPS increases by between 4% and 10% per annum then the proportion of awards will be interpolated between 0.25x deferred shares and 1.75x deferred shares. If the Company's EPS increases by more than 4% per annum then matching shares equal to 0.25x deferred shares will be earned. If the Company's EPS increases by less than 4% per annum then 0% of the awards will vest.

In 2010 the Remuneration Committee allowed participants to defer up to 75% of their annual bonus into Company shares. Participants must hold the deferred shares for three years to be eligible for a matching award. Matching shares may be earned at the end of three years in the event that a stretching EPS target has been met. If the Company's EPS increases by more than the sum of the annual RPI increase and 15% per annum then matching shares equal to three times the deferred shares will be earned. If the Company's EPS increases by more than the sum of the annual RPI increase and between 4% and 10% per annum then the proportion of awards will be interpolated between 0.25x deferred shares and 1.75x deferred shares. If the Company's EPS increases by more than the sum of the annual RPI increase and 4% per annum then matching shares equal to 0.25x deferred shares will be earned. If the Company's EPS increases by less than the sum of the RPI increase and 4% per annum then 0% of the awards will vest.

Long Term Incentive Plan 2004	2010 awards
Fair value at measurement date	117.91 / 174.96p
Share Price	205.10p
Exercise Price	n/a
Expected volatility (expressed as weighted average volatility used in the model)	45%
Option life (expressed as weighted average life used in the model)	3 years
Expected dividends	3.6%
Risk free interest rate	1.8%
The Morgan Crucible Bonus Deferral Share Matching Plan	2010 awards
Fair value at measurement date	133.70p
Share price	133.70p
Exercise price	n/a
Expected volatility (expressed as weighted average volatility used in the model)	n/a
Option life (expressed as weighted average life used in the model)	3 years
Expected dividends	n/a
Risk free interest rate	n/a
Employee Shareave Scheme 2004	2010 awards
Fair value at measurement date	70.33p
Share Price	206.25p
Exercise Price	165.00p
Expected volatility (expressed as weighted average volatility used in the model)	40%
Option life (expressed as weighted average life used in the model)	3 years
Expected dividends	2.5%
Risk free interest rate	1.2%

The number and weighted average exercise prices of share options issued by Morgan Crucible are as follows

	2010 Weighted average exercise price	2010 Number of options	2009 Weighted average exercise price	2009 Number of options
Outstanding at the beginning of the year	45.53p	20,119,192	94.08p	12,455,305
Granted during the year	40.41p	4,005,075	28.33p	10,449,762
Forfeited during the year	79.43p	(716,976)	149.95p	(1,283,019)
Exercised during the year	165.26p	(200,440)	0.00p	-
Lapsed during the year	33.13p	(2,411,001)	131.21p	(2,302,056)
Outstanding at the end of the year	37.36p	20,795,850	45.53p	20,119,192
Exercisable at the end of the year	162.69p	1,373,554	153.71p	1,625,391

The weighted average share price at the date of share options exercised during the period was 233.20 pence (2009: nil pence)

The options outstanding at the year end have an exercise price in the range nil to 249.00 pence and a weighted average contractual life of 0.5 years

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimates of the fair value of the services received is measured based on either a Monte Carlo model, a Binomial Lattice option pricing model or a Black Scholes Merton model. The choice of model takes into account the terms and conditions upon which the options were granted.

20 Related Party Transactions

During the year, the Company carried out a number of transactions with related parties in the normal course of business and on an arm's length basis. The names of the related parties, the nature of these transactions and their total value is shown below -

	2010	2010	2009	2009
	Value of	Receivable/	Value of	Receivable/
	Transactions	(payable) at	Transactions	(payable) at
		year end		year end
	£000	£000	£000	£000
<i>Purchase of production materials from</i>				
NP Aerospace Limited	4,624	-	744	(1,095)
Assam Carbon Products Limited	483	(79)	383	(32)
<i>Sale of production materials to</i>				
NP Aerospace Limited	314	26	245	137
Assam Carbon Products Limited	1,048	1,012	415	717

21 Ultimate parent company and parent undertaking of larger group of which the company is a member

The directors regard The Morgan Crucible Company plc, incorporated in England and Wales, as being the Company's immediate and ultimate parent undertaking. The Annual Report and Accounts may be obtained from its registered office situated at Quadrant 55-57 High Street Windsor, Berkshire SL4 1LP.