

MORGANITE SPECIAL CARBONS LIMITED

REGISTRATION NUMBER 1034654

REPORT AND ACCOUNTS

FOR THE YEAR ENDED

4TH JANUARY 2000



MORGANITE SPECIAL CARBONS LIMITED

DIRECTORS

MR J.J. BOURNE	
DR L.M. BRYCE	
MR J.N. STUBBS	Resigned 8 th February 2000
MR E. THEIN	
MR R.A. WALDHEGER	Resigned 28 th September 1999
MR W.E.MACFARLANE	Appointed 28 th September 1999
	Resigned 8 th February 2000
MR J.D.QUINN	Appointed 28 th September 1999
MR F.S.BROWN	Appointed 28 th September 1999
MR G.A.ADESSO	Appointed 28 th September 1999
MR S.HUSSEY	Appointed 8 th February 2000
MR W.MANCINI	Appointed 8 th February 2000

SECRETARY AND REGISTERED OFFICE

L.H. Cook
Quay Lane
Gosport
Hants
PO12 4LJ

MORGANITE SPECIAL CARBONS LIMITED
REPORT OF THE DIRECTORS

1. The Directors submit their Report and the Accounts for the year ended 4th January 2000.

2. **PRINCIPAL ACTIVITIES AND BUSINESS REVIEW**

The Company currently manufactures and sells from three separate locations within the UK, namely Gosport, Redditch and Morriston.

The principal activities of these sites continues to be the production of carbon, carbon composite, silicon carbide, filled PTFE, graphite and metal components for electrical, mechanical, aerospace, metallurgical and nuclear engineering applications. These products include bearings, sealing rings, piston rings, pump vanes, valve seats, gland rings, billet and strip dies, degassing rotors, furnace trays and heating elements.

The Company is part of a globally managed team, Morgan Advanced Materials and Technology, incorporating other subsidiaries of the Morgan Crucible Company Plc from Europe, Asia Pacific and the Americas.

During the year the Company continued to offer a diversified range of products throughout the World to other Morgan Crucible Company Plc subsidiaries and third party customers alike.

3. **RESULTS FOR THE YEAR**

The profit for the year after taxation is £51,000, which will be transferred to reserves.

The Directors do not recommend the payment of a dividend.

4. **DIRECTORS AND DIRECTORS INTERESTS**

- a. The names of the Directors as at the date of the Report are shown on page 1, together with details of appointments and resignations made during the financial year under review.

- b. None of the Directors had any interests in shares of the Company. Directors' interests in the Company's ultimate holding company, The Morgan Crucible Company Plc, are as follows:

	<u>04.01.00</u>	<u>04.01.99</u>
<u>Ordinary shares of 25p each</u>		
Dr L M Bryce	4,639	2,005
Mr J N Stubbs	370	268
Mr E Thein	12,926	12,587
Mr R A Waldheger	-	5,000
Mr J J Bourne	2	-
Mr W E MacFarlane	2,000	2,000

MORGANITE SPECIAL CARBONS LIMITED
REPORT OF THE DIRECTORS

4. DIRECTORS AND DIRECTORS INTERESTS (CONTINUED)

	<u>04.01.00</u>	<u>04.01.99</u>
<u>Morgan Share Participation Scheme</u>		
Mr J J Bourne	75	75
Dr L M Bryce	150	225
Mr J N Stubbs	150	225
Mr W E MacFarlane	75	75
	<u>04.01.00</u>	<u>04.01.99</u>
<u>Ordinary Shares held under option</u>		
Mr J J Bourne	1,093	1,093
Dr L M Bryce	21,866	21,866
Mr J N Stubbs	13,110	19,595
Mr E Thein	5,000	5,000
Mr W E MacFarlane	31,866	31,866
	<u>04.01.00</u>	<u>04.01.99</u>
<u>Ordinary Shares held under the Long Term Incentive Plan</u>		
Mr J J Bourne	3,500	3,500
Dr L M Bryce	5,000	5,000
Mr W E MacFarlane	30,300	30,300

The above options were held under and The Morgan Sharesave Scheme (1995), The Morgan Executive Share Option Scheme (1984) and The Morgan Executive Share Option Scheme (1995) and may be exercised between 24th October 1996 and 16th October 2006 at prices between 211.68p and 478.00p.

During the period under review Messrs Bourne, Bryce, Stubbs and Thein have purchased a further 2, 2,634, 102 and 339 Ordinary shares respectively.

During the period under review Mr Stubbs released 6,485 shares under the Morgan Executive Share Option Scheme.

5. RESEARCH AND DEVELOPMENT

The Company continues its investment in research and development to retain its position as a market leader in materials technology.

6. EMPLOYEE INVOLVEMENT

Communication with employees through both formal and informal channels has been maintained during the year and their involvement in the Company's performance encouraged by means of incentive and other schemes.

MORGANITE SPECIAL CARBONS LIMITED
REPORT OF THE DIRECTORS

7. PAYMENTS TO SUPPLIERS

The Company agrees the terms and conditions under which business transactions with its suppliers are conducted when it enters into binding purchase contracts. It is Company policy to abide by the payment terms agreed with suppliers, provided that the supplier has performed its obligations under the contract. Given the nature and diversity of the Company's purchasing arrangements, it is not Company policy to follow any code or standard which deals with the payment of suppliers.

At 4th January 2000, the Company had an average of 46 days purchases outstanding in trade creditors.

8. YEAR 2000 COMPLIANCE

As is well known, many computer and digital storage systems express dates using only the last two digits of the year and thus required modification or replacement to accommodate the year 2000 and beyond in order to avoid malfunctions and resulting widespread commercial disruption.

During the period, our own internal business system was replaced and is fully functional at the date of signing these accounts. An ongoing review of the impact of the Year 2000 and beyond on our own business remains in progress.

Given the complexity of the problem, it is not possible for any organisation to guarantee that no Year 2000 and beyond problems will remain, because at least some level of failure may occur. The Company does not consider that its additional costs of addressing the impact of Year 2000 and beyond will be significant.

9. AUDITORS

Ernst & Young have expressed their willingness to continue in office as auditors and a resolution proposing their re-appointment will be submitted at the forthcoming Annual General Meeting.

BY ORDER OF THE BOARD

 L.H. Cook

25/9/00

L.H. Cook
Company Secretary
Quay Lane
Gosport
Hants
PO12 4LJ

MORGANITE SPECIAL CARBONS LIMITED
 PROFIT AND LOSS ACCOUNT
 FOR THE YEAR ENDED 4TH JANUARY 2000

	NOTES	1999 £000's	1998 £000's
Turnover : Ongoing	2	13,477	15,290
Other operating income		128	131
		<u>13,605</u>	<u>15,421</u>
Operating costs	3	13,313	13,136
Operating Profit : Ongoing		<u>292</u>	<u>2,285</u>
Interest receivable	6	(32)	(58)
Interest payable	6	-	45
Profit on ordinary activities before taxation		<u>324</u>	<u>2,298</u>
Taxation on Profit on ordinary activities	7	273	721
Profit for the year	16	<u><u>51</u></u>	<u><u>1,577</u></u>

There are no gains or losses arising other than those reported in the profit and loss account.

MORGANITE SPECIAL CARBONS LIMITED
BALANCE SHEET
AS AT 4TH JANUARY 2000

	NOTES	1999 £000's	1998 £000's
FIXED ASSETS			
Tangible Assets	8	5,819	5,909
Investments in subsidiary undertakings	9	1,213	1,213
		<u>7,032</u>	<u>7,122</u>
CURRENT ASSETS			
Stocks	11	2,441	2,081
Debtors:			
Amounts due within one year	12	2,852	3,400
Amounts due after more than one year	12	993	973
Cash at bank and in hand		140	1,211
		<u>6,426</u>	<u>7,665</u>
Creditors - amounts falling due within one year	13	1,762	3,137
NET CURRENT ASSETS / (LIABILITIES)		4,664	4,528
TOTAL ASSETS LESS CURRENT LIABILITIES		11,696	11,650
Creditors - amounts falling due after one year	10	3,492	3,492
Deferred taxation	14	308	313
		<u>7,896</u>	<u>7,845</u>
CAPITAL AND RESERVES			
Called up share capital	15	13,000	13,000
Revaluation reserve	16	1	1
Profit and loss account	16	(5,105)	(5,156)
Shareholders' Funds - Equity Interests		<u>7,896</u>	<u>7,845</u>

S. Hussey

S.Hussey
Director

25/9/00

MORGANITE SPECIAL CARBONS LIMITED
NOTES RELATING TO THE ACCOUNTS 1999

1. ACCOUNTING POLICIES

Accounting Convention

The accounts have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets, and in accordance with applicable accounting standards.

Basis of Presentation

The Company is exempt from the requirement to prepare group accounts by virtue of Section 228 of the Companies Act 1985. These accounts therefore present information about the Company as an individual undertaking and not about its group.

Cash Flow Statement

The Company is exempt from the requirement to publish a Cash Flow Statement as it is a wholly owned subsidiary of The Morgan Crucible Company Plc which publishes a Cash Flow Statement which meets the requirements of Financial Reporting Standard No. 1.

Related Party Transactions

The Company has taken advantage of the exemption in Financial Reporting Standard No. 8 from disclosing transactions with related parties that are part of the Morgan Crucible Group or Investees of the Group.

Reorganisation Costs

The cost of rationalising continuing businesses are charged against operating profit.

Depreciation

Depreciation is based on gross values and is provided in equal annual instalments over the expected life of fixed assets in use during the year.

The rates of depreciation provided during the year are as follows:-

Buildings	2%			
Plant and Machinery	10%	or	20%	
Fixtures and Fittings	5%	10%	or	20%
Motor Vehicles	33 1/3%			

Deferred Taxation

Deferred taxation is provided using the liability method on all timing differences, including those relating to pensions, which are expected to reverse in the future without being replaced, calculated at the rate at which it is anticipated the timing difference will reverse.

Stocks

Stocks and work in progress have been valued at the lower of cost and net realisable value. For this purpose 'cost' means direct cost and direct expenses including applicable overheads less provisions for obsolescence.

MORGANITE SPECIAL CARBONS LIMITED
NOTES RELATING TO THE ACCOUNTS 1999

1. ACCOUNTING POLICIES (CONTINUED)

Long Term Contracts

Profit on long-term contracts is taken as the work is carried out if the final outcome can be assessed with reasonable certainty. The profit included is calculated on a prudent basis to reflect the proportion of the work carried out at the year end, by recording turnover and related costs (as defined in Stocks above) as contract activity progresses. Turnover is calculated as that proportion of total contract value which costs incurred to date bear to total expected costs for that contract. Revenues derived from variations on contracts are recognised only when they have been accepted by the customer. Full provision is made for losses on all contracts in the year in which they are first foreseen.

Foreign Currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All differences are taken to the profit and loss account.

Leased Assets

Rental under operating leases are charged to the profit and loss account as incurred.

Research and Development

Expenditure on research and development is written off in the year in which it is incurred.

Pensions

Contributions are made to the pension schemes in accordance with actuarial advice and are charged to profit and loss account so as to spread the pension cost over the anticipated period of service of the Pension Scheme members.

2. TURNOVER

Turnover, which is stated net of value added tax, represents the invoiced value of sales to third parties and fellow subsidiaries less returns and allowances given in the normal course of trade.

The turnover and operating profit is attributable to one continuing activity the manufacture and sale of carbon and graphite components.

An analysis of turnover by geographical market is as follows:-

	1999	1998
	£000's	£000's
United Kingdom	6,389	7,021
Rest of Europe	5,018	6,074
The Americas	1,326	1,291
The Far East and Australasia	514	557
The Middle East and Africa	230	347
	<u>13,477</u>	<u>15,290</u>

MORGANITE SPECIAL CARBONS LIMITED
NOTES RELATING TO THE ACCOUNTS 1999

3. OPERATING COSTS

	Ongoing 1999 £000's	Ongoing 1998 £000's
<i>Operating Costs included:-</i>		
<i>Labour Costs:-</i>		
(i) wages and salaries	3,926	3,734
(ii) social security costs	311	331
(iii) other pension costs	176	104
<i>Depreciation</i>		
Owned assets	792	739
<i>Rentals under operating leases</i>		
Hire of plant and machinery	106	95
<i>Auditors' remuneration: Audit services</i>	20	24
<i>Research and Development</i>	137	73

4. DIRECTORS' REMUNERATION

	1999 £000's	1998 £000's
Emoluments (excluding pension contributions)	331	284
Pension contributions	42	32
	<u>373</u>	<u>316</u>

Only one of the directors is a member of The Morgan Pension Scheme, a defined benefit scheme.

The emoluments and pension contributions of the highest paid Director are as follows :-

	1999 £000's	1998 £000's
Emoluments (excluding pension contributions)	137	170
Pension Contributions	1	1
	<u>138</u>	<u>171</u>

Amount of Company contribution paid to Money Purchase schemes during the year was £703.

MORGANITE SPECIAL CARBONS LIMITED
NOTES RELATING TO THE ACCOUNTS 1999

5. STAFF NUMBERS

The average weekly number of persons employed by the company, including Directors, during the year was as follows:-

	1999	1998
Manufacturing	132	129
Management and Administration	61	69
	<u>193</u>	<u>198</u>

6. INTEREST PAYABLE AND RECEIVABLE

	1999 £000's	1998 £000's
Interest payable to group undertakings	-	45
Interest receivable on bank deposits	<u>(32)</u>	<u>(58)</u>

7. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	1999 £000's	1998 £000's
Based on profit for the year		
Corporation Tax at 30%(1998 – 31%)	278	680
Deferred Tax	(5)	41
	<u>273</u>	<u>721</u>

MORGANITE SPECIAL CARBONS LIMITED
NOTES RELATING TO THE ACCOUNTS 1999

8. TANGIBLE FIXED ASSETS

	Freehold Land and Buildings £000's	Fixtures Fittings Plant and Machinery £000's	Total £000's
<i>Cost or valuation</i>			
At 4 th January 1999	2,433	11,197	13,630
Additions	-	702	702
	<u>2,433</u>	<u>11,899</u>	<u>14,332</u>
Disposals	-	(352)	(352)
At 4 th January 2000	<u>2,433</u>	<u>11,547</u>	<u>13,980</u>
<i>Aggregate depreciation:</i>			
At 4 th January 1999	606	7,115	7,721
Amount provided for year	18	774	792
	<u>624</u>	<u>7,889</u>	<u>8,513</u>
Disposals	-	(352)	(352)
At 4 th January 2000	<u>624</u>	<u>7,537</u>	<u>8,161</u>
<i>Net book amounts:</i>			
At 4 th January 2000	1,809	4,010	5,819
At 4 th January 1999	<u>1,827</u>	<u>4,082</u>	<u>5,909</u>
<i>Historical cost to the Group</i>			
At 4 th January 2000	1,907		
Accumulated historical depreciation	600		
Net historical cost at 4 th January 2000	<u>1,307</u>		

Land and Buildings were transferred from the ultimate Parent Undertaking Company at a written Down value of £408,000. The land and buildings had previously been revalued in 1989.

MORGANITE SPECIAL CARBONS LIMITED
NOTES RELATING TO THE ACCOUNTS 1999

9. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

	SHARES £000's
<i>Cost:</i>	
At 4 th January 1999	1,213
At 4 th January 2000	<u>1,213</u>
<i>Net Book Value:</i>	
At 4 th January 1999	1,213
At 4 th January 2000	<u>1,213</u>

	Issued Shares and Proportion held by the Company	
<i>Subsidiary Company</i>	<i>Shares</i>	<i>%</i>
Southern Graphite Services Limited	19,100 Ordinary Shares £1 each Fully paid	100
International Graphite Services Limited	500 Ordinary Shares £1 each Fully paid	100

Both of the companies are registered in England and Wales. In the opinion of the Directors the aggregate value of the investment in subsidiary undertakings is not less than the amount at which they are stated in the Accounts.

Group accounts have not been prepared as the Company is itself a wholly owned subsidiary of a company incorporated in the UK.

10. CREDITORS - AMOUNTS FALLING DUE AFTER ONE YEAR

Inter Company Loans arose as a result of the acquisition of the trade and net assets of Southern Graphite Services Limited and of Pure Industries Limited on 30th August 1996, and 4th January 1997 respectively.

	1999 £000's	1998 £000's
Southern Graphite Services Limited	2,587	2,587
Pure Industries Limited	905	905
	<u>3,492</u>	<u>3,492</u>

MORGANITE SPECIAL CARBONS LIMITED
NOTES RELATING TO THE ACCOUNTS 1999

11. STOCKS

	1999	1998
	£000's	£000's
Raw materials and consumables	463	412
Work in progress	1,094	1,013
Finished goods and goods for resale	884	656
	<u>2,441</u>	<u>2,081</u>

The difference between purchase price or production cost of stocks and their replacement cost is not material.

12. DEBTORS

	1999	1998
	£000's	£000's
Trade debtors	2,117	2,211
Amounts owed by fellow subsidiary undertakings	545	960
Other debtors	110	95
Prepayments and accrued income	80	134
	<u>2,852</u>	<u>3,400</u>

Amounts due after more than one year

Prepaid pension contributions	(Note 19) 993	973
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13. CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR

	1999	1998
	£000's	£000's
Amounts owed to fellow subsidiary undertakings	213	181
Trade creditors	989	1,450
Corporation Tax	(69)	672
Other taxes and social security costs	140	171
Other creditors	97	126
Accruals	392	537
	<u>1,762</u>	<u>3,137</u>

MORGANITE SPECIAL CARBONS LIMITED
NOTES RELATING TO THE ACCOUNTS 1999

14. DEFERRED TAXATION

An analysis of deferred tax provided and unprovided is as follows:-

	1999		1998	
	Provided	Unprovided	Provided	Unprovided
	£000's	£000's	£000's	£000's
Accelerated capital Allowances	-	324	-	329
Other timing differences	308	-	313	-
	<u>308</u>	<u>324</u>	<u>313</u>	<u>329</u>

15. CALLED UP SHARE CAPITAL

	1999	1998
	£000's	£000's
Authorised:		
Ordinary Shares of £1 each	<u>14,000</u>	<u>14,000</u>
Allotted, called up and fully paid Ordinary Shares of £1 each	<u>13,000</u>	<u>13,000</u>

16. STATEMENT OF MOVEMENT ON RESERVES AND SHAREHOLDERS' FUNDS

	Share Capital	Revaluation Reserve	Profit and Loss	Total
	£000's	£000's	£000's	£000's
At 4 th January 1998	13,000	1	(6,733)	6,268
Profit for the year	-	-	1,577	1,577
At 4 th January 1999	<u>13,000</u>	<u>1</u>	<u>(5,156)</u>	<u>7,845</u>
Profit for the year	-	-	51	51
At 4 th January 2000	<u>13,000</u>	<u>1</u>	<u>(5,105)</u>	<u>7,896</u>

17. COMMITMENTS FOR CAPITAL EXPENDITURE

Commitments for capital expenditure for which no provision has been made in these accounts amount to Nil (1998 Nil).

MORGANITE SPECIAL CARBONS LIMITED
NOTES RELATING TO THE ACCOUNTS 1999

18. LEASING COMMITMENTS

At 4th January 2000 the Company had annual commitments in relation to plant, machinery and land and buildings under non - cancellable operating leases as set out below:-

	Plant and Machinery 1999 £000's	Land and Buildings 1999 £000's	Plant and Machinery 1998 £000's	Land and Buildings 1998 £000's
Operating leases which expire within one year	53	35	80	-
		-		-
Within two to five years	86		103	
	<u>139</u>	<u>35</u>	<u>183</u>	<u>-</u>

19. PENSION COMMITMENTS

The Company is a member of The Morgan Pension Scheme and The Morgan Group Senior Staff Pension and Life Assurance Scheme. The contributions paid are based on pension costs across member companies.

Both schemes are of the defined benefit type. The latest actuarial valuations of The Morgan Pension Scheme and The Morgan Group Senior Staff Pension and Life Assurance Scheme were made by an independent qualified actuary on 6th April 1998 and 1st April 1997 respectively.

The pension cost charged to the profit and loss account was £20,581 (1998 £67,000).

Details of the actuarial valuations are included in the accounts of The Morgan Crucible Company Plc, the ultimate holding company.

20. ULTIMATE PARENT UNDERTAKING

The Parent Company of the Group of undertakings for which Group Accounts are drawn up and of which the Company is a member is The Morgan Crucible Company Plc, registered in England and Wales. Copies of the Accounts can be obtained from Morgan House, Madeira Walk, Windsor, Berks. SL4 1EP.

MORGANITE SPECIAL CARBONS LIMITED
NOTES RELATING TO THE ACCOUNTS 1999

Company Law requires the Directors to prepare accounts for each financial year which 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 those accounts, the Directors are required to:-

- ❖ select suitable accounting policies and then apply them consistently;
- ❖ make judgements and estimates that are reasonable and prudent;
- ❖ state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts;
- ❖ prepare the accounts on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By Order Of the Board

A handwritten signature in black ink, appearing to read 'L.H. Cook', with a stylized flourish at the end.

L.H. Cook
Company Secretary

MORGANITE SPECIAL CARBONS LIMITED
REPORT OF THE AUDITORS
TO THE MEMBERS OF MORGANITE SPECIAL CARBONS LIMITED

We have audited the accounts on Pages 6 – 15 which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and on the basis of the accounting policies set out on Pages 8 and 9.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on Page 16 the Company's Directors are responsible for the preparation of the accounts in accordance with applicable United Kingdom law and accounting standards. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

BASIS OF OPINION

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatements, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

OPINION

In our opinion the accounts give a true and fair view of the state of affairs of the Company as at 4th January 2000 and of the profit of the Company for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young

ERNST & YOUNG
Registered Auditor
Southampton

25 September 2000