

Morgan Technical Ceramics Limited

Annual report and financial statements

Registered number

00262938

For the

year ended 31 December 2021



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Annual report and financial statements
Registered Number 00262938
For the year ended 31 December 2021

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Strategic report

Overview

As shown in the Company's profit and loss account and other comprehensive income on page 11, the Company's turnover has increased by 11.2% over the prior year in the context of a strong recovery in demand from the impact of the Covid-19 pandemic seen in the prior year. Continuing operations profit before tax has increased by £3,599,000 resulting in a profit before tax of £4,769,000.

The balance sheet on page 12 of the financial statements shows the Company's financial position at the year end.

Strategy

The Company 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 in the medium to long-term. This research and development activity has resulted in a number of updates to existing products.

The Company is a member of the Morgan Advanced Materials plc group (Morgan Group), which, from March 2016, manages its operations on a global business unit 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 Seals & Bearings and Technical Ceramics global business units of Morgan Group, which include the Company, is discussed in Morgan Group's Annual Report which does not form part of this Report.

The Company acquired trade and assets of Delamin Ltd on 1 March 2021, which produced revenue of £670,000 and associated net income of £219,000 for the year.

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 value-added 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.

2021 continued to be a challenging year with the COVID-19 pandemic driving various restrictions and disruption on the day to day operation of the business, however the Company saw a strong recovery in demand throughout 2021. The aerospace sector continues to have subdued demand; however this is offset in increased demand in other sectors.

The Company sells products into international markets and it is therefore exposed to currency movements on such sales. The Company works closely with the Group's treasury function who operate on a risk-averse basis. Required controls over selection of banks, cash management and other treasury practices and payments globally are documented in Morgan's Treasury Policy and related procedures. The Group treasury team manages the Company's funding, liquidity, cash management, interest rate, foreign exchange, counterparty credit and other treasury-related risks. Treasury matters are regularly reviewed by the Group's Board and Audit Committee. Further detail on the Group's Treasury Policy is set out in the Group Financial Review, which can be found on pages 50 to 52 of the Group's Annual Report.

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 has seen much higher inflation in 2022 than anticipated, the Company is working closely with suppliers of key materials to ensure a continued supply at reasonable cost, and Customer price negotiations are ongoing.

The Company operates in a range of markets and geographies around the world and could be affected by political, economic, social or regulatory developments or instability, for example an economic slowdown or issues stemming from oil and natural resource price shocks. The conflict in Ukraine is good example of this, oil and gas prices have increased significantly as a result, however the business has in place contracts with direct suppliers at a fixed price until the end of the following financial year. The conflict has minimally impacted the supply chain but the business is able to manage this risk, and pass on increased costs where possible.

Whilst a 'no-deal' Brexit was avoided and new tariffs have not currently been introduced, the UK's exit from the EU impacts border controls, product standards, and controls around the flow of data. The current value of Company's UK exports to the EU is approximately £18.1 million.

Strategic report (continued)

The Company's broad market and geographic spread helps to mitigate the effects of political and economic changes. Budgets and forecasts are used to monitor delivery against expectations and anticipate potential external risks to performance. These are subject to regular review by the management. The overall macro-economic environment had strengthened in 2021 compared with the previous year and the Company's order intake has remained strong, and the Company has sustained a strong balance sheet.

Global issues considered by the Board this year included the continuing impact and uncertainty relating to supply chain issues, increasing inflation, the risk of recession in the UK or wider and the Russia/Ukraine conflict, the Company is working closely with suppliers of key materials to ensure a continued supply at reasonable cost, and Customer price negotiations are ongoing to mitigate inflationary pressure. The Russia/Ukraine conflict has had no significant impact on the business.

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.

The Group risks to which Morgan Group is exposed are discussed in Morgan Group's Annual Report which does not form part of this report.

Environment, Social and Governance

Morgan is an energy intensive business, but our products benefit the environment by making the operations of our customers significantly more energy efficient. Over the last five years we have made steady reductions to our own CO2 emissions and water consumption. Building on these improvements, the Board has now set an aspiration to align with the UK Government's commitment as a signatory to the Paris Agreement and achieve net zero carbon emissions by 2050, and has set an intermediate target of reducing our absolute scope 1 and 2 CO2 emissions by 50% by 2030. This will require intense energy efficiency work across our business, and process change by progressively moving away from fossil fuels and adopting new technologies.

In addition to this, alongside the Group, the Company has the following ESG priorities, to:

- Provide a Safe, Fair and Inclusive workplace
- Protect the environment

Details of these priorities, the aspirations and goals to which the Company is committed, can be found in the Morgan Group's Annual Report which does not form part of this Report.

The conflict in Ukraine does not affect our energy priorities.

Outlook

We have seen a strong recovery in 2021 from the sharp decline experienced in 2020. The majority of our markets have seen demand recover and in some instances increase and our order book remains strong into 2022 and beyond.

Morgan's strategy implementation and investment in research and development for new products and processes continue.

We have seen higher inflation in 2022, along with other macro-economic challenges including the possibility of a recession, and continue to seek opportunities in higher pricing and continuous improvement to mitigate this.

Statement by the directors in performance of their statutory duties in accordance with s172(1) of the Companies Act 2006 ("the Act")

The Board of Morgan Technical Ceramics Limited considers that it is comprised of appropriate individuals with suitable skills and experience and the directors consider that they have acted, both individually and together, in ways which would most likely promote the success of the company for the benefit of its members as a whole, having regard to stakeholders and matters set out in s172 (1) (a-f) of the Act.

The Board has implemented policies and processes to inform and assist its strategic planning, management and decision-making in line with culture and values.

How the Board Takes Stakeholders Interests and Other Matters into Account

All decisions and business conducted by the Board are considered in the context of Morgan's overriding purpose to ensure alignment with the broader Morgan Group. During 2021 the Board reviewed the Group's key stakeholders and confirmed that they continue to be its investors, customers, employees, suppliers, pensioners and pension trustees and communities. The key stakeholders, why they are significant, the main methods used to engage with them, and the issues of interest to the stakeholders are set below.

Strategic report (continued)

Investors - those who own shares in the Company: The Directors regard Morgan Europe Holding Limited, incorporated in England and Wales, as being the Company's immediate parent undertaking and Morgan Advanced Materials plc, incorporated in England and Wales, the ultimate parent undertaking. It is these companies (the Group) that the Directors regard as our investors as well as those individuals and organisations that own shares, or may wish to own shares, in the ultimate parent undertaking.

Our investors provide capital for our business. We value this commitment and want to ensure investors have a deep understanding of our business, our strategy, the market environment and our governance arrangements. It is important to us that we foster an open and transparent relationship to enable investors to make effective investment decisions.

What is important to our investors:

- Capital return via dividends
- Profitability and business growth potential
- Quality of governance
- Responsibility and fairness
- Environmental, social and governance factors (ESG Factors)

We engage with our investors directly through the formal presentation of results and we use these opportunities to talk about the future and the longer-term plans for our business. The Group also provide a dedicated section on their website which offers timely information on how we are performing and provides guidance on ESG factors.

Customers - Those who have purchased our products or will do so in the future: We aim to deliver great service so that our customers feel valued and choose us as their 'go to' supplier. To do this effectively we need to listen and engage with them. We develop relationships with our customers based on mutual trust and constructive dialogue. We are seeing growing demand for advanced materials as customers push the boundaries of technology. We have been working closely with our customers to develop new solutions for their next generation of products and processes. We are providing products that are differentiated from those of our competitors.

What is important to our Customers:

- Reliable and consistent service
- Quality products
- Product and process innovation
- Ability to solve complex problems
- Application engineering capabilities
- How we source our raw materials
- Environmental impact of the products we produce

The relationship with our customers starts from the moment they look to find out about our products. We keep customers updated on the progress of our innovation and new product applications through digital channels. Our sales and service colleagues also keep customers updated on the progress of manufacturing; sometimes working alongside the customer to fine-tune the application engineering process. We also gather key feedback from customers about the service we provide and use this to help improve relationships and secure future business. During 2021 our technology teams continued to make progress in the development of new materials and products. Despite the pandemic, we carried on working with our customers, providing new materials samples, supporting product qualification, cooperating with strong application engineering and introducing new products.

Employees - Anyone directly employed by Morgan: Having people who bring a diverse range of talents and perspectives, and who feel engaged in their role, is of paramount importance to our long-term success. Our employees have been instrumental in making Morgan the company it is today. They are key to driving the brand forward and ensuring it remains relevant in the future. We work to attract, develop and retain the right people and ensure they are in the right roles.

What is important to our Employees:

- Meaningful roles linked to our purpose
- Flexible working
- Focus on wellbeing
- Career development
- A diverse and inclusive culture

The Board is committed to fostering a safe, ethical and inclusive workplace and spends time engaging with a diverse cross-section of employees, as well as monitoring and assessing the Group's culture. These insights help inform the Board's discussions on health, safety and environmental matters, in monitoring progress in relation to embedding ethical conduct and implementation of the Morgan Code, and in strengthening the capabilities of the current and future potential leadership team. At a local level, leadership teams use feedback from 'pulse' surveys, focus groups, pilot groups, manager one-to-one conversations and employee communications to shape engagement activities with employees.

Strategic report (continued)

Suppliers - Those who have a direct or contractual relationship with us: We believe in an open and collaborative business approach and seek opportunities for innovation. This collaborative approach is particularly important to ensure a more sustainable supply chain. We aim to use all our resources as efficiently as possible, minimising the impact on ourselves, our suppliers, our customers and the world around us.

What is important to our Suppliers:

- Human rights
- Environmental and climate impact
- Quality management
- Cost-efficiency
- Ethical trading policies and sustainable sourcing
- Developing long-term relationships

We treat our suppliers as an extension of our business and therefore expect them to uphold the same high standards we set for ourselves. To achieve this, we are in constant dialogue with our suppliers to address any issues and maintain productive relationships.

Pensioners and Trustees: After more than 160 years in business, we would not be as strong as we are today without the combined efforts of all those who went before. By keeping our pension commitments, we honour the hard work and dedication of both current and past employees. The commitment of the Company to ensure the pension scheme is fully funded and any deficit reduction plan is maintained.

We engage both with current pensioners and those yet to retire through regular pension communications in conjunction with our pension trustees. New employees receive communications about our pension schemes in a bid to promote financial wellbeing.

Communities - Those who live in areas where we work – for example residents, businesses and charities: Our people live and work within wider communities and relationships with these communities are key in supporting our business for the future. Our relationship with local communities is mutually beneficial, offering us the ideal place to find the talent of tomorrow, while enabling our people to get involved in activities which directly benefit these communities. We seek to build trust by understanding the issues core to our communities, operating responsibly and addressing concerns that are material to them. We aim to create long-term partnerships that drive positive change and help build a more sustainable future.

What is important to our Communities:

- Our commitment to the local environment
- Our conduct as a socially responsible organisation
- The positive impact we can have on the community living and working around us
- Employment opportunities

Our aim is to have a positive impact on the communities we serve, from supporting job creation and skills advancement, to reducing energy and water consumption at our plants. All our efforts and engagements are governed by the Morgan Code, our purpose and our policies on the environment. We pride ourselves on engaging at a local level and look to understand each community's priorities and concerns. We also support our employees' involvement in their local community, from charity giving to local fundraising, and from volunteering to health and wellbeing initiatives.

Approved by the Board and signed on its behalf by



S. A. Kent

Director

Morgan Drive

Stourport-on-Severn

Worcestershire

DY13 8DW

05/10/2022

Morgan Technical Ceramics Limited
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Registered Number 00262938
For the year ended 31 December 2021

Directors' report

The directors present their annual report on the affairs of Morgan Technical Ceramics Limited ('the Company'), together with the financial statements and auditor's report, for the year ended 31 December 2021.

Principal activities

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 across 4 UK based sites. Around 74% of production is exported from the UK to customers in Europe, the Americas and the Far East.

Dividend

No dividend has been paid in the year (2020: £nil).

Directors

Directors who held office at the year end and up to the date of sign off are:

G.A. Brown

S.A Kent (appointed 16 May 2022)

M.N.C. Parker (Resigned 30 April 2022)

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

Directors' liabilities

The ultimate parent undertaking had indemnified one or more Directors of the Company against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision was in force throughout the year and at the date of this report.

Energy and Carbon Reporting

The Company complies with the Streamlined Energy and Carbon Reporting (SECR) requirements. We also support the recommendations of the Financial Stability Boards Taskforce on Climate related Financial Disclosures (TCFD) and will be taking action to implement these. Our energy use and associated GHG emissions from fuel and electricity in the UK for the 2018, 2019, 2020 and 2021 reporting years, in compliance with the mandatory reporting requirements by the UK Government's SECR policy, is shown on pages 20 to 27 of the Group's Annual Report. The scope of this data includes six manufacturing sites and two non-manufacturing sites based in the UK. In 2021, the UK accounted for 3% of our global total Scope 1 and 2 emissions, as outlined in the Group's mandatory GHG reporting. Our absolute GHG emissions (Scopes 1 and 2) for our UK operations were down by 34% compared to 2020 levels.

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.

Political and charitable contributions

During the course of the year, the Company made charitable donations amounting to £nil (2020: £16) and no political donations

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Directors' report (cont.)

Research and development

The Company will continue its programme of research and development within the sphere of the manufacturing and applications of technical ceramics. Expenditure incurred in the year was £1,981,000 (2020: £2,115,000), none of which is capitalised.

Going Concern

The Directors have prepared cash flow forecasts for a period of 12 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides, the company will have sufficient funds, through funding from its ultimate parent company Morgan Advanced Materials plc, to meet its liabilities as they fall due for that period. Morgan Advanced Materials plc has indicated its intention to continue to make available such funds as are needed by The Board and Executive Committee have regular reporting and review processes in place in order to closely monitor the ongoing operational and financial performance of the Group.

The Board, after making enquiries, and in the absence of any material uncertainties have a reasonable expectation that the Company has adequate resources to continue in operational existence for a period of 12 months from the date of signing this Annual Report and Accounts. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

Other Information

An indication of likely future developments in the business and particulars of significant events which have occurred since the end of the financial year has been included in the Strategic Report on pages 1-4.

Auditor

Each of the persons who is a director at the date of approval of this report confirms, in accordance with section 418 of the Companies Act 2006, that:

- So far as the director is aware, there is no relevant audit information of which the Company's auditors is unaware; and
- The directors have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as auditor and appropriate arrangements are being made for them to be deemed reappointed as auditors in the absence of an Annual General Meeting.

Approved by the Board and signed on its behalf by:



S. A. Kent

Director

Morgan Drive, Stourport-on-Severn

Worcestershire

DY13 8DW

05/10/2022

Statement of Directors' responsibilities in respect of the Strategic report, the Directors' report and the financial statements

The directors are responsible for preparing 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 the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework". The financial statements are required by law to 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; 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 proper 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 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.

Independent auditor's report to the member of Morgan Technical Ceramics Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Morgan Technical Ceramics Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practise, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account and other comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the realted notes 1 to 23.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other Information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Independent auditor's report to the member of Morgan Technical Ceramics Limited (continued)

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory framework that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act, pensions legislation, tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid material penalty.

We discussed among the audit engagement team regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud in revenue recognition as a result of manual adjustments and/or fictitious invoices. Our specific procedures performed to address it are described below:

- obtained an understanding of relevant controls the company has established in relation to revenue recognition;
- tested a sample of revenue transactions recognised in the year by agreeing to supporting documentation such as invoice, purchase order, dispatch note and cash collection (where appropriate); and
- tested a sample of manual adjustments to revenue by obtaining an understanding of the nature of the adjustment and agreeing to supporting evidence.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance and reviewing internal audit reports.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Independent auditor's report to the member of Morgan Technical Ceramics Limited (continued)

Matters on which we are required to report by exception


Under the Companies Act 2006 we are required to report in respect of the following matters 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.

We have nothing to report in these respects.

Use of our report

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.

DocuSigned by:

B4617666CC78470...

Rebecca Drew (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
Birmingham, UK
05/10/2022

Profit and loss account and other comprehensive income

For the year ended 31 December 2021

	Note	2021 £000	2020 £000
Turnover	2	42,650	38,341
Other Income		-	373
Change in stocks of finished goods and work in progress		(21)	(176)
Raw materials and consumables		(10,276)	(9,534)
Other external expenses		(3,965)	(3,349)
Staff costs	5	(18,089)	(18,343)
Exceptional income/(costs)	6, 11	159	(3,562)
Depreciation and other amounts written off tangible and intangible fixed assets	3	(1,783)	(1,661)
Depreciation - Right of use assets	12	(383)	(419)
Other operating expenses		(4,501)	(1,494)
		<u>(38,859)</u>	<u>(38,538)</u>
Operating Profit		3,791	176
Interest receivable and similar income	7	1,599	1,788
Interest payable and similar expense	8	(621)	(794)
Profit before taxation		<u>4,769</u>	<u>1,170</u>
Tax on Profit	9	(131)	(406)
Profit for the financial year		<u>4,638</u>	<u>764</u>
Other comprehensive income			
<i>Items that are or may be recycled subsequently to profit or loss:</i>			
Net change in fair value of cash flow hedges recycled to profit or loss		(245)	(492)
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Remeasurement gain/(loss) on defined benefit plans		16,650	(10,363)
Other comprehensive profit/(loss) for the year, net of income tax		<u>16,405</u>	<u>(10,855)</u>
Total comprehensive profit/(loss) for the year		<u>21,043</u>	<u>(10,091)</u>

Turnover and operating profit are all derived from continuing operations.

The notes on pages 14 to 43 form part of these financial statements.

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Balance sheet
 at 31 December 2021

	<i>Note</i>	2021 £000	2020 £000
Fixed assets			
Intangible assets	10	1,777	249
Tangible assets	11	10,610	11,214
Right of use Assets	12	<u>2,109</u>	<u>2,343</u>
		14,496	13,806
Current assets			
Stocks	13	5,259	4,598
Debtors (including £58,500,000 (2020: £56,759,000) due after more than one year)	14	67,585	65,781
Cash at bank and in hand		2,353	5,800
		<u>75,197</u>	<u>76,179</u>
Creditors: amounts falling due within one year	15	(9,903)	(10,555)
Net current assets		<u>65,294</u>	<u>65,624</u>
Total assets less current liabilities		<u>79,790</u>	<u>79,430</u>
Creditors: amounts falling due after more than one year			
Amounts owed to Group undertakings	15	(800)	-
Lease Liabilities	12	(2,814)	(3,128)
Provisions for liabilities			
Pension Liability	18	(15,902)	(37,071)
Net assets		<u>60,274</u>	<u>39,231</u>
Capital and reserves			
Called up share capital	16	27,500	27,500
Revaluation reserve		687	687
Other reserves		699	944
Profit and loss account		31,388	10,100
Shareholder's funds		<u>60,274</u>	<u>39,231</u>

The notes on pages 14 to 45 form part of these financial statements.

The financial statements of Morgan Technical Ceramics Limited (registered number 00262938) were approved by the board of directors and authorised for issue on 5 October 2022. They were signed on its behalf by:



S.A. Kent
 Director
 05/10/2022

Morgan Technical Ceramics Limited
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 For the year ended 31 December 2021

Statement of Changes in Equity

For the year ended 31 December 2021

	Called up share capital	Revaluation reserve	Other reserves	Profit and loss account	Total equity
<i>Note</i>					
Balance at 1 January 2020	27,500	687	1,436	19,699	49,322
Total comprehensive income for the year					
Profit for the year	-	-	-	764	764
Other comprehensive loss	-	-	(492)	(10,363)	(10,855)
Total comprehensive loss for the year	-	-	(492)	(9,599)	(10,091)
Balance at 31 December 2020	27,500	687	944	10,100	39,231
Balance at 1 January 2021	27,500	687	944	10,100	39,231
Total comprehensive income for the year					
Profit for the year	-	-	-	4,638	4,638
Other comprehensive income	-	-	(245)	16,650	16,405
Total comprehensive income for the year	-	-	(245)	21,288	21,043
Transfers between reserves	-	-	-	-	-
Balance at 31 December 2021	27,500	687	699	31,388	60,274

The notes on pages 14 to 45 form part of these financial statements.

Notes

(forming part of the financial statements)

1 Accounting policies

Morgan Technical Ceramics Limited is a private company incorporated and domiciled in the UK. These financial statements are presented in pounds sterling which is the currency of the primary economic environment in which the Company operates. These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101').

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ('Adopted IFRSs'), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The Company's ultimate parent undertaking, Morgan Advanced Materials plc, includes the Company in its consolidated financial statements. The consolidated financial statements of Morgan Advanced Materials plc are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from York House, Sheet Street, Windsor, Berkshire, SL4 1DD.

In these financial statements, the company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- a Cash Flow Statement and related notes;
- comparative period reconciliations for share capital, tangible fixed assets and intangible assets;
- the effects of new but not yet effective IFRSs;
- disclosures in respect of the compensation of Key Management Personnel and the services provided to them;
- disclosures in respect of capital management;
- disclosures in respect of the restatement of opening balances;
- the requirements of IFRS 7 Financial Instruments: Disclosures.
- the requirement to present a third balance sheet for a prior year error under FRS 101

As the consolidated financial statements of Morgan Advanced Materials plc include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 Share Based Payments in respect of group settled share based payments;
- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures.

The accounting policies set out below have, unless otherwise stated, been applied consistently to the period presented in these financial statements.

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value - derivative financial instruments classified as fair value through the profit and loss account.

Going concern

The Directors have prepared cash flow forecasts for a period of 12 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides, the company will have sufficient funds, through funding from its ultimate parent company Morgan Advanced Materials plc, to meet its liabilities as they fall due for that period.

1 Accounting policies (continued)

Going concern (cont.)

Those forecasts are dependent on Morgan Advanced Materials plc providing additional financial support during that period. Morgan Advanced Materials plc has indicated its intention to continue to make available such funds as are needed by the company for the period covered by the forecasts.

The Board fully recognises the challenges that lie ahead but, after making enquiries, and in the absence of any material uncertainties, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for a period of 12 months from the date of signing this Annual Report and Accounts. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

Business Combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred by the Company, liabilities incurred by the Company to the former owners of the acquiree and the equity interest issued by the Company in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 and IAS 19 respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Company entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 at the acquisition date (see below); and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

When the consideration transferred by the Company in a business combination includes a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Other contingent consideration is remeasured to fair value at subsequent reporting dates with changes in fair value recognised in profit or loss.

When a business combination is achieved in stages, the Company's previously held interests (including joint operations) in the acquired entity are remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognised in profit or loss.

Goodwill

Goodwill is stated at cost less any accumulated impairment losses and amortisation made under UK GAAP and was fully amortised prior to conversion to FRS101. Goodwill is allocated to cash-generating units. Any future goodwill would not be amortised but tested annually for impairment.

Intangible assets acquired Separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful economic lives. The estimated useful lives are as follows:

Customer list - 5 years

Trademarks and Intellectual Property Rights - 5 years

1 Accounting policies (continued)

Other intangible assets

Technology related operating intangible fixed assets purchased by the Company are amortised to nil by equal annual instalments over their useful economic lives of 10 years.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is charged to the profit and loss account on a straight line basis over the estimated useful lives of each part of an item of tangible fixed assets. Freehold land is not depreciated. The estimated useful lives are 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%

Fixtures and fittings - 5% and 10%

Leasing

The Company assesses whether a contract is or contains a lease, at inception of the contract. The Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a term of 12 months or less) and leases of low value (defined as leases of a value less than £5,000 at lease commencement). For these leases the Company recognises the lease payments as an operating expense on a straight-line basis over the lease term.

Lease Liabilities

The lease liability is initially measured at the present value of future lease payments, discounted by using the rate implicit in the lease or, where cannot be readily determined, an incremental borrowing rate. The lease liability is subsequently measured by using the effective interest method and by reducing the carrying amount to reflect the lease payments made.

Right-of use assets

The right-of-use-assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date, less any lease incentives received and initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses. Right-of-use assets are depreciated over the shorter period of the lease term and useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

Depreciation

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

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. The Company's functional currency is the British pound.

Related Party Transactions

As the Company is a wholly-owned subsidiary of Morgan Europe Holding Limited, part of Morgan Advanced Materials plc, the Company has taken advantage of the exemption contained under paragraph 8(k) of FRS101 and has therefore not disclosed transactions or balances with wholly-owned subsidiaries which form part of the Group.

1 Accounting policies (continued)

Derivative financial instruments and hedging

Derivative financial instruments

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see below).

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the hedging reserve. Any ineffective portion of the hedge is recognised immediately in the income statement.

Fair value hedges

Where a derivative financial instrument is designated as a hedge of the variability in fair value of a recognised asset or liability or an unrecognised firm commitment, all changes in the fair value of the derivative are recognised immediately in the income statement. The carrying value of the hedged item is adjusted by the change in fair value that is attributable to the risk being hedged (even if it is normally carried at cost or amortised cost) and any gains or losses on remeasurement are recognised immediately in the income statement (even if those gains would normally be recognised directly in reserves).

Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other debtors, cash and cash equivalents, loans and borrowings, and trade and other creditors.

Trade and other debtors

Trade and other debtors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other creditors

Trade and other creditors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Expenses

Research and development expenditure

Expenditure on research activities is recognised in the income statement as an expense as incurred.

Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Company intends and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the Company can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve a plan or design for the production of new or substantially improved products or processes. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads and capitalised borrowing costs. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and less accumulated impairment losses.

The majority of the expenditure that the company classifies as research and development relates to a gradual evolution of materials, products and processes over time through the activities of the company's technology and application engineering teams, and can be characterised as incremental in nature, and is therefore not capitalised.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost is based on the weighted average principle and includes expenditure incurred in acquiring the stocks, production or conversion costs and other costs in bringing them to their existing location and condition. In the case of manufactured stocks and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

1 Accounting policies (continued)

Taxation

Tax on the profit or loss for the period comprises current tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

Turnover

Turnover represents the invoiced value of services to fellow subsidiary undertakings and sales to third parties exclusive of value added tax, less returns and allowances given in the normal course of trade. Turnover is recognised when or as the Company satisfies a performance obligation by transferring a promised good or service to a customer. The Company's principal performance obligation is the provision of specialist ceramic components, is satisfied at a point in time and subject to standard payment terms. Products and components are transferred when the customer obtains control of the goods. For goods that are collected by the customer, turnover is recognised at the point the customer has taken physical possession of the goods. For contracts that include delivery of goods, the delivery element of the contract constitutes a separate performance obligation because it is distinct. For these contracts, control of the goods does not transfer to the customer until the goods have been delivered and therefore both performance obligations are satisfied simultaneously. Turnover for these contracts is therefore recognised on delivery.

Other Income

The Company recognises other income where income is received outside the normal course of trade whether from fellow subsidiary undertaking or third parties.

Exceptional Items

In the income statement the Company presents exceptional items separately. In the judgement of the Directors, due to the nature and value of these items they should be disclosed separately from the underlying results of the Company to provide the reader with a clear understanding of the financial information and an indication of the underlying performance of the Company.

Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement in the periods during which services are rendered by employees.

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets (at bid price) and any unrecognised past service costs are deducted. The liability discount rate is the yield at the balance sheet date on AA credit rated bonds denominated in the currency of, and having maturity dates approximating to the terms of the Company's obligations. The calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, the recognised asset is limited to the total of any unrecognised past service costs and the present value of benefits available in the form of any future refunds from the plan, reductions in future contributions to the plan or on settlement of the plan and takes into account the adverse effect of any minimum funding requirements.

1 Accounting policies (continued)

Defined benefit plans (continued)

The Company participates in two defined benefit schemes in the UK. The assets of these schemes are held in separate trustee-administered funds, The Morgan Pension Scheme (MPS) and the Morgan Group Senior Staff Pension and Life Assurance Scheme (SSS). These schemes were closed to new entrants on 1 August 2011, with any new employees receiving benefits through the Morgan Group Personal Pension Plan, a defined contribution arrangement. The Morgan Group Senior Staff Pension and Life Assurance Scheme was closed to the future accrual of benefits on and with effect from 6 April 2016. The Morgan Pension Scheme was closed to the future accrual of benefits on and with effect from 6 April 2018. Employees active in both Scheme(s) as at that date were enrolled in The Morgan Group Personal Pension Plan, with the option to opt out under relevant UK legislation. During 2016 the Company adopted a new Morgan-Group policy to allocate costs associated with the UK pension schemes between the various Participating Employers, based on an evaluation of each entity's share of overall Scheme liabilities. This ensures that the pension liability is reflected in the entity that employed the participant. This resulted in a reallocation of £61,600,000 of the Schemes' net liabilities into the Company. Previously none of the scheme assets and liabilities were recognised on the balance sheet of the Company.

Share based payments

The share option programme allows employees to acquire shares of the ultimate parent company. The Company took advantage of the option available in IFRS 1 to apply IFRS 2 only to equity instruments that were granted after 7 November 2002 and that had not vested by 1 January 2015. The fair value of these options are 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 prices not achieving the threshold for vesting.

For cash-settled share based payment transactions, with the exception of those awards settled before the transition date, 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 in to 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.

Share based payments (cont.)

Where the Company's ultimate parent grants rights to its equity instruments to the Company's employees, which are accounted for as equity-settled in the consolidated accounts of the parent, the Company accounts for these share-based payments as equity-settled.

Significant accounting estimates and judgements

The preparation of financial statements in conformity with FRS 101 requires the directors to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. The most significant judgements and estimates made in applying the Company accounting policies relate to:

1 Accounting policies (continued)

Accounting estimates

Measurement of defined benefit scheme liabilities

The company recognises and measures costs relating to defined benefit schemes in accordance with IAS 19 (Revised) *Employee Benefits* ("IAS 19 (Revised)"). In applying IAS 19 (Revised) the costs are assessed in accordance with the advice of independent qualified actuaries. This requires the exercise of judgement in relation to the estimation of future changes in salaries and inflation, as well as mortality rates, expected return on plan assets and the selection of suitable discount rates. Further detail is provided in note 18.

Impairment

Assets, other than those held at fair value, are assessed for indicators of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised in the profit or loss as described below.

A non-financial asset is impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated recoverable value of the asset has been reduced. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. Value in use is the present value of the future cash flows expected to be derived from the asset or cash generating unit.

The present value calculation involves estimating the future cash inflows and outflows to be derived from continuing use of the asset, and from its ultimate disposal, applying an appropriate discount rate to those future cash flows.

Recognition of intangible assets relating to Delamin Ltd acquisition

The value of the intangible assets recognised for Customer Relationships and Brand Intangibles was obtained using expertise from the ultimate Parent company, Morgan Advanced Materials Plc.

Customer list has been calculated based on the incremental margin expected to be generated over the next twenty years, and growth rates are in line with Group long-term growth rates.

Brand Intangibles acquired with the purchase of Delamin have been valued using the 'relief-from-royalty' method, using a royalty rate of 9% applied to the tax adjusted forecast revenue.

Accounting Judgements

The directors made no significant accounts judgements in the year.

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2 Analysis of turnover

	Turnover	
	2021	2020
	£000	£000
<i>By activity</i>		
Sales of specialist ceramic components and materials	42,650	38,341
	42,650	38,341
	Turnover	
	2021	2020
	£000	£000
<i>By geographical market</i>		
United Kingdom	11,282	10,282
Continental Europe	18,128	16,123
The Americas	9,043	8,580
Other	4,197	3,356
	42,650	38,341

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3 Notes to the profit and loss account

	2021	2020
	£000	£000
<i>Profit/(Loss) before taxation is stated after charging</i>		
Depreciation, amortisation and other amounts written off tangible and intangible fixed assets	1,783	1,661
Depreciation - Right of use assets	383	419
<i>Auditor remuneration</i>		
Audit of these financial statements	76	64
Research and development expenditure	1,981	2,115

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4 Remuneration of Directors

	2021 £000	2020 £000
Directors' emoluments	123	198
Aggregate amount of money paid to directors on the exercise of share options	-	7
Company contributions to defined benefit pension schemes	-	-
Company contributions to money purchase pension schemes	8	11
	<u>131</u>	<u>217</u>

The aggregate of emoluments and amounts receivable under long-term incentive schemes of the highest paid Director was £131,000 (2020: £119,000).

Numbers of Directors

	2021	2020
Retirement benefits accrued to the following number of directors under:		
Money purchase schemes	1	2
	<u>1</u>	<u>2</u>

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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 employees	
	2021	2020
Sales and marketing	20	20
Administration	48	60
Manufacturing	467	502
	535	582

The aggregate payroll costs of these persons were as follows:

	£000	£000
Wages and salaries	14,942	15,244
Social security costs	1,430	1,436
Other pension costs	1,717	1,663
	18,089	18,343

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6 Exceptional costs

	2021	2020
	£000	£000
Redundancy / Other Staff Costs	-	541
Relocation (income)/costs	(282)	512
Impairment - Property, Plant & Equipment	123	2,395
Impairment - Right-of-use assets (IFRS 16)	-	114
	<u>(159)</u>	<u>3,562</u>

The savings recognised of £282,000 relate to the release of provisions relating to the closure of the Derby site, which actual costs realised were below original expectation.

The assets relating to these businesses have been impaired to align their recoverable value to their value in use, the impairment recognised in 2021 is £123,000.

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7 Interest receivable and similar income

	2021	2020
	£000	£000
Interest receivable from third parties	-	3
Interest receivable from Group undertakings	1,599	1,785
	<u>1,599</u>	<u>1,788</u>

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8 Interest payable and similar expense

	2021	2020
	£000	£000
Interest payable to third parties	(17)	(11)
Interest payable to Group undertakings	(81)	(52)
Interest payable on lease liabilities	(108)	(131)
Net interest on defined benefit liabilities	(415)	(600)
	(621)	(794)

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9 Taxation

Analysis of charge in year

	2021	2020
	£000	£000
<i>UK corporation tax</i>		
Current tax on profit for the year	314	111
Adjustments in respect of prior years	(183)	295
	<u>131</u>	<u>406</u>
Tax on profit	<u>131</u>	<u>406</u>

Deferred tax assets of £10,358,725 (capital allowances £3,365,260, pensions £6,993,465) have not been recognised due to the inherent uncertainty within the UK group over the use of the potential asset against future profits.

Factors affecting the tax charge for the current year:

The current tax charge for the year is higher (2020: higher) than the standard rate of corporation tax in the UK of 19.0% (2020: 19.00%). The differences are explained below.

	2021	2020
	£000	£000
<i>Total tax reconciliation</i>		
Profit before tax	4,769	1,170
	<u>4,769</u>	<u>1,170</u>
Current tax at 19.00% (2020: 19.00%)	906	222
<i>Effects of:</i>		
Expenses not deductible for tax purposes	69	172
Fixed asset differences	-	-
Foreign tax credit	-	-
Adjustment in respect of prior years	(183)	295
Deferred tax not recognised	(661)	(283)
Total tax charge (see above)	<u>131</u>	<u>406</u>

On 23 September 2022, the Chancellor of the Exchequer announced that the planned tax rate change to 25% would no longer be implemented and that the main rate would remain at 19%. This change does not have a material impact on the Company, and the Company has not recognised any deferred tax.

10 Intangible fixed assets

	Technology related intangible assets £000	Trademarks & Intellectual Property assets £000	Customer Relationships £000	Goodwill £000	Total £000
<i>Cost</i>					
At beginning of year	909	-	-	6,129	7,038
Additions	107	-	-	-	107
Acquisitions of business (note 22)	-	654	1,086	99	1,839
At end of year	1,016	654	1,086	6,228	8,984
<i>Amortisation</i>					
At beginning of year	660	-	-	6,129	6,789
Charged in year	128	109	181	-	418
At end of year	788	109	181	6,129	7,207
<i>Net book value</i>					
At 31 December 2021	228	545	905	99	1,777
At 31 December 2020	249	-	-	-	249

Amortisation charge

The amortisation charge is recognised in the following line item in the income statement:

	2021 £000	2020 £000
Depreciation, amortisation and other amounts written off tangible and intangible fixed assets	418	134

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11 Tangible fixed assets

	Land and buildings	Plant and machinery	Total
	£000	£000	£000
<i>Cost</i>			
At beginning of year	5,139	41,976	47,115
Additions	-	834	834
Acquisitions of business	-	13	13
Disposals	-	(1,452)	(1,452)
At end of year	5,139	41,371	46,510
<i>Depreciation</i>			
At beginning of year	2,133	33,768	35,901
Charge for year	21	1,344	1,365
Disposals	-	(1,489)	(1,489)
Impairment	-	123	123
At end of year	2,154	33,746	35,900
<i>Net book value</i>			
At 31 December 2021	2,985	7,625	10,610
At 31 December 2020	3,006	8,208	11,214

The net book value of land and buildings comprises:

	2021	2020
	£000	£000
Freehold	2,985	3,006

12 Leases under which the Company acts as lessee

The Company leases assets including land and Property, Plant and Equipment. Information about leases for which the Company is a lessee is presented below.

Right of use assets

	Land and Buildings	Property, Plant and Equipment	Total
	£'000	£'000	£'000
Cost			
At the beginning of the year	5,873	393	6,266
Additions	-	119	119
Disposals	-	30	30
At end of year	5,873	542	6,415
Depreciation and impairment			
At the beginning of the year	(3,617)	(306)	(3,923)
Depreciation charge for the year	(293)	(90)	(383)
At end of year	(3,910)	(396)	(4,306)

Net book value

At 1 Jan 2021	2,256	87	2,343
At 31 December 2021	1,963	146	2,109

Lease liabilities

	Total
	£'000
Balance at 1 January 2021	3,568
Additions	119
Payments made	(569)
Interest charge	108
Balance at 31 December 2021	3,226
Amounts falling due after more than one year	2,814
Amounts falling due before one year	412

The maturity analysis of contractual undiscounted cash flows relating to lease liabilities is presented below:

	2021
	£'000
Less than one year	(562)
Between one and five years	(2,161)
Greater than five years	(667)
	(3,390)

Amounts recognised in profit or loss

	2021
	£'000
Depreciation on the right of use assets	(383)
Interest on lease liabilities	(108)
Expenses on short term leases not capitalised	-
Expenses on low value asset leases not capitalised	-

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13 Stocks

	2021	2020
	£000	£000
Raw materials and consumables	2,596	1,985
Work in progress	1,706	1,430
Finished goods and goods for resale	957	1,183
	5,259	4,598

Included within finished goods are £151,000 (2020: £338,000) of stocks held on consignment.

The amount of stocks expensed to the profit and loss account in the year was £21,511,500. (2020: £19,440,100)

The value of stocks written down and expensed in the profit and loss account amounted to £28,000. (2020: £30,000)

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14 Debtors

	2021	2020
	£000	£000
Trade debtors	4,835	3,963
Amounts owed by Group undertakings	62,233	60,248
Other debtors	185	256
Corporation tax	-	514
Derivative financial instruments	174	330
Prepayments and accrued income	158	470
	<u>67,585</u>	<u>65,781</u>
Due within one year	9,085	9,022
Due after more than one year	<u>58,500</u>	<u>56,759</u>

Debtors include unsecured Loan amounts owed by Group undertakings of £nil (2020: £nil) due within one year; and £58,500,000 (2020: £56,759,000) due after more than one year. Interest has been charged on this balance at libor plus 0.65% during the year. (2020: libor plus 0.65%). Management have reviewed the debt position of the company and consider the credit risk to be negligible given the financial position of the group.

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15 Creditors

Creditors: amounts falling due within one year

	2021	2020
	£000	£000
Trade creditors	3,914	3,197
Amounts owed to Group undertakings	2,009	235
Corporation tax	242	-
Derivative financial instruments	86	85
Other creditors	3,240	2,177
Lease liabilities (Note 12)	412	440
Bank overdrafts	-	4,421
	<u>9,903</u>	<u>10,555</u>

Creditors: amounts falling due after more than one year

	2021	2020
	£000	£000
Amounts owed to Group undertakings	800	-
Lease liabilities (Note 12)	2,814	3,128
	<u>3,614</u>	<u>3,128</u>

Amounts owed to group undertakings are unsecured and carry no interest.

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16 Capital and reserves

Share capital

**Ordinary shares
2021**

In thousands of shares

On issue at 1 January 2021 and 31 December 2021

27,500

2021

2020

£000

£000

Allotted, called up and fully paid

Ordinary shares of £1 each

27,500

27,500

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17 Contingent liabilities

The Company participates in a cash pooling arrangement provided by Lloyds Bank plc with other UK Group companies. As part of that pooling arrangement, the Company has provided a Guarantee for any liabilities of the other participating companies to the bank, limited to the lower of:

- a) an amount equal to the base currency amount of the total liabilities in the cash pool; and
- b) an amount equal to the base currency amount of such guarantor's own net credit balance in the cash pool.

At the balance sheet date, the guaranteed amount was £50,000 (2020: £1,400,000)

The Company, together with a number of other Group companies, has provided guarantees to support the liabilities of Morgan Advanced Materials plc in respect of the revolving credit facility agreement entered into in September 2018 (RCF), the private placement notes (PP) raised in October 2016 and drawings under private placement shelf agreements signed March 2017. The Group's RCF and PP are disclosed in the Annual Report of Morgan Advanced Materials plc.

The Group's revolving credit facility was not drawn at the year end. The Company have not pledged any assets against the guarantee.

18 Employee benefits: pensions**The Morgan Pension Scheme and the Morgan Group Senior Staff Pension and Life Assurance Scheme**

The Company participates in two defined benefit schemes in the UK. The assets of these schemes are held in separate trustee-administered funds, The Morgan Pension Scheme (MPS) and the Morgan Group Senior Staff Pension and Life Assurance Scheme (SSS). These schemes were closed to new entrants on 1 August 2011, with any new employees receiving benefits through the Morgan Group Personal Pension Plan, a defined contribution arrangement. The Morgan Group Senior Staff Pension and Life Assurance Scheme was closed to the future accrual of benefits on and with effect from 6 April 2016. Employees active in the Scheme as at that date were enrolled in The Morgan Group Personal Pension Plan, with the option to opt out under relevant UK legislation.

The Company sponsors a defined benefit pension arrangement (the Scheme), whose liabilities are subject to fluctuating interest rates, investment values and inflation. This coupled with the increased longevity of members and a tougher regulatory funding regime will result in increased funding burdens on the Company in the future. The deficit in Company's defined benefit pension scheme is calculated on the basis required for IAS 19 accounting disclosures decreased from £37.1 million as at 31 December 2020 to £15.9 million as at 31 December 2021.

The Company's primary means of mitigating pensions funding risk is proactive management of the pension scheme assets and liabilities through an integrated pension strategy focusing on funding, investment and benefit risk. This involves both internal management within the Morgan Group and also external management through the Schemes' trustees, corporate actuaries and professional advisers. The scheme is closed to the future accrual of benefits. In consultation with the Company, the trustees have adopted a proactive approach to the management of risk in the Scheme's investment portfolios, significantly reducing their unhedged interest and inflation rate exposure. Company contributions increased to £4.9 million pa from 2020 (further increasing by 2.75% pa) for the length of the current recovery plans (2025 and 2027). The impact of the evolving regulatory environment for UK occupational pensions, and in particular the likely passing of the Pensions Bill in Parliament, will continue to be monitored closely in 2022.

	2021	2020
	£000	£000
Pension plans and employee benefits		
Present value of funded defined benefit obligations	(159,786)	(176,997)
Fair value of plan assets	143,884	139,926
Net obligations	(15,902)	(37,071)
Movements in present value of defined benefit obligation		
At 1 January 2021	(176,997)	(155,941)
Current service cost	-	-
Past service cost	-	(6)
Interest cost	(2,137)	(3,175)
Remeasurement (losses)/gains:		
Changes in financial assumptions	12,558	600
Changes in demographic assumptions	2,293	(24,841)
Experience adjustments on benefit obligations	(1,562)	-
Benefits paid	6,059	6,366
Contributions by members	-	-
At 31 December 2021	(159,786)	(176,997)
Movements in fair value of plan assets		
At 1 January 2021	139,926	124,993
Reallocation of fair value of plan assets	-	-
Interest on plan assets	1,722	2,575
Remeasurement of gains/(losses):	3,361	13,878
Contributions by employer	4,934	4,846
Contributions by members	-	-
Benefits paid	(6,059)	(6,366)
Administrative expenses	-	-
At 31 December 2021	143,884	139,926
Pension plans and employee benefits	£000	£000
Expense recognised in the consolidated income statement		
Current service cost	-	-
Administrative expenses	-	-
Net interest on defined benefit liability	(415)	(600)
Total expense	(415)	(600)

18 Employee benefits: pensions (continued)

The fair values of the plan assets were as follows:

	£000	£000
Equities and growth assets	13,150	17,783
Liability Driven Investments ("LDI")	33,351	28,754
Bonds	27,705	19,752
Diversified growth funds	26,295	25,691
Matching insurance policies	37,028	42,167
Other	6,355	5,779
Total	143,884	139,926

The assumptions used are best estimate assumptions chosen from a range of possible actuarial assumptions which may not be borne out in practice. The principal assumptions are the discount rate and inflation assumptions which are long-term and measured on external factors, based upon each plan's duration. In addition to these, the mortality assumption in the UK is material to the cost of the promised benefits. The assumed increases in salaries and pensions in payment are derived from assumed future inflation.

Principal actuarial assumptions at the year end were as follows:

	2021	2020
	%	%
Assumptions:		
Inflation (RPI & CPI)	3.40/2.61%	2.88/2.03%
Discount rate	1.92	1.23
Pensions increase	3.00/3.22/3.75%	3.00/2.80/3.56%
Salary increase	n/a	n/a
Mortality - post-retirement:		
Life expectancy of a male aged 60 in accounting year	26.0 years	26.3 years
Life expectancy of a male aged 60 in accounting year + 20	27.4 years	27.8 years

History of the plans

The history of the plans are as follows:

	2021	2020
	£000	£000
<i>Balance Sheet</i>		
Present value of the defined benefit obligation	(159,786)	(176,997)
Fair value of plan assets	143,884	139,926
Deficit	(15,902)	(37,071)

Funding:

The most recent full actuarial valuations of the Schemes were undertaken as at March 2019 and resulted in combined assessed deficits of £120.3 million. On the basis of these full valuations, the Trustees of the UK Schemes, having consulted with the Group, agreed past service deficit recovery payments totaling £16.5 million a year from January 2020 (Company: £4.9 million), increasing by 2.75% pa until 2025, with further payments to Morgan Pension Scheme for 2026 and 2027. This recovery plan is subject to approval from the UK Pensions Regulator. New full valuations are due with effective dates of March 2022 and the outcome of those consultations will determine the Group's future contribution requirements, with any new deficit arising needing to be met through the payment of additional contributions.

Sensitivity analysis

The sensitivities of the Company's net balance sheet to the principal assumptions are:

		2021	2020
		Increase effect	Increase effect
	Change in assumption	£000	£000
Discount rate	Decrease by 0.1%	2,260	2,677
Inflation	Increase by 0.1%	918	1,312
Mortality - post retirement	Pensioners live 1 year longer	5,443	6,217

These sensitivities have been calculated to show the movement in the net balance sheet in isolation, and assuming no other changes in market conditions at the accounting date. This is unlikely in practice - for example, a change in discount rate is unlikely to occur without any movement in the value of the assets held by the Company's schemes.

18 Employee benefits: pensions (continued)

Risks

The balance sheet net pension liability is a snapshot view which can be significantly influenced by short-term market factors. The calculation of the surplus or deficit depends, therefore, on factors which are beyond the control of the Company – principally the value at the balance sheet date of equity shares in which the Scheme has invested and long-term interest rates which are used to discount future liabilities. The funding of the Scheme is based on long-term trends and assumptions relating to market growth, as advised by qualified actuaries and investment advisers. The most significant risks to which the Group is exposed are:

- Investment returns: The Company's net balance sheet and contribution requirements are heavily dependent upon the return on the assets invested in by the scheme.
- Longevity: The cost to the Company of the pensions promised to members is dependent upon the expected term of these payments. To the extent that members live longer than expected this will increase the cost of these arrangements.
- Inflation rate risk: In the UK, the pension promises are, in the main, linked to inflation, and higher inflation will lead to higher liabilities.

The above risks have been mitigated for the majority of the UK Scheme's pensioner population through the purchase of an insurance policy, the payments from which exactly match the promises made to employees. Remaining investment risks have also been mitigated to some extent by diversification of the return-seeking assets and backing uninsured pensioner liabilities via bonds and various hedging instruments. In the UK, the bonds and LDI mandates target an interest rate hedge against movements in government bond yields for an amount equal to approximately 100% of the invested assets. In addition, the IAS 19 defined benefit obligation is linked to yields on AA-rated corporate bonds; however some of the Company's arrangements invest in a number of other assets which will move in a different manner from these bonds. Therefore, changes in market conditions may lead to volatility in the net pension liability on the Company's balance sheet and in other comprehensive income, and to a lesser extent in the IAS 19 pension expense in the Company's profit and loss account.

Defined contribution plans

The Company operates a defined contribution pension plan (the Morgan Group Personal Pension Plan). The total Company expense relating to this plan in 2021 was £1,717,000 (2020: £1,663,000).

Total pension contributions outstanding at the year end amounted to £nil (2020: £1,000).

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19 Employee share schemes

Share-based payments

Certain employees of the Company participate in various share option programmes that allow Morgan Group employees to acquire shares in the ultimate parent company. Under the Morgan Advanced Materials plc Long-Term Incentive Plan ('LTIP') awards of shares are made or have been made to various key executives. The ultimate parent company also maintains a UK all-employee Sharesave scheme ('Employee Sharesave Scheme 2004'). The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options for which the related service and non-market vesting conditions are met.

Note 24 to the consolidated financial statements of Morgan Advanced Materials plc gives full information on the terms and conditions applying to share options outstanding at 31 December 2021.

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20 Derivative financial assets and liabilities

	2021	2020
	£000	£000
Derivative financial assets		
Forward foreign exchange contracts designated as cash flow hedges	174	330
Derivative financial liabilities		
Forward foreign exchange contracts designated as cash flow hedges	(86)	(85)
	88	245

Derivative financial assets and liabilities are held with other group companies

Fair values are measured using a hierarchy where the inputs are:

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities,

Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly,

Level 3 - inputs for the assets or liability that are not based on observable market data (unobservable inputs).

The derivative financial assets and liabilities are all measured using Level 2 inputs. The fair value of forward foreign exchange contracts is estimated by discounting the future cash flows using appropriate market sourced data at the balance sheet date.

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

The Directors regard Morgan Europe Holding Limited, incorporated in England and Wales, as being the Company's immediate parent undertaking and Morgan Advanced Materials plc, incorporated in England and Wales, the ultimate parent undertaking. The smallest and largest group in which the results of the Company are consolidated is that headed by Morgan Advanced Materials plc. The Consolidated accounts of Morgan Advanced Materials plc are available to the public and may be obtained from its registered office situated at York House, Sheet Street, Windsor, Berkshire SL4 1DD.

22 Acquisitions

The Company completed a Business Purchase Agreement with Delamin Ltd on 1 March 2021 for the acquisition of its Magnesium Oxide trading business and the related tangible and intangible assets for £1,894,000. The acquisition secures the provision of high quality Magnesium Oxide material for the Company's existing business and adds a small amount of complementary new business.

The acquisition produced revenue of £670,000 and associated net income of £219,000 for the year ended 31 December 2021.

The following table summarises the consideration paid for Delamin Ltd and the amounts of the assets and liabilities assumed recognised at the acquisition date.

At 1 March 2021

	£'000
Consideration	
Cash	1,894
Total Consideration Paid	<u>1,894</u>
Recognised amounts of identifiable assets acquired and liabilities assumed	
Fixed Assets	13
Inventory	42
Customer Relationships	1,086
Technology and trademarks	654
Total identifiable assets acquired	<u>1,795</u>
Goodwill	99
Total Consideration	<u>1,894</u>

22 Acquisitions (continued)

Sensitivity Analysis on main acquisition assumptions

The following table summarises the sensitivities in the valuation of the acquisition of Delamin Ltd.

	Valuation technique(s)	Significant unobservable input(s)	Sensitivity
Delamin Customer Relationships Valuation	Future forecast revenue	Discount Rate, a weighted average cost of capital (WACC) has been used in the valuation of the assets acquired.	A single percentage point increase in the WACC used would result in a 6% (£61k) reduction in the valuation attributed to the customer relationships, and vice versa.
		Forecast revenue, a reasonable estimate of the future forecast revenues has been used in the valuation.	A two percentage point decrease in the revenue forecast would result in a 2% (£25k) reduction in the valuation attributed to the customer relationships, and vice versa.
Delamin Technology and Trademarks Valuation	Relief-from-royalty method, future forecast revenue	Discount Rate, a weighted average cost of capital (WACC) has been used in the valuation of the assets acquired.	A single percentage point increase in the WACC used would result in a 7% (£45k) reduction in the valuation attributed to the customer relationships, and vice versa.
		Forecast revenue, a reasonable estimate of the future forecast revenues has been used in the valuation.	A two percentage point decrease in the revenue forecast would result in a 2% (£13k) reduction in the valuation attributed to the technology and trademarks, and vice versa.

23 Subsequent events

The invasion of Ukraine by Russia is an event with macro-economic impact. However the Company is minimally affected by this event.

There is no trade between the Company and either Ukraine or Russia. There has been no impairment recognised in 2022 as a result of the conflict. The Company will inevitably experience price inflation as a result of some of our suppliers reliance on gas in Europe, however we are taking mitigating action by seeking price increases with our customers to offset this.

There are no other subsequent events to report.