

Morgan Technical Ceramics Limited

Annual report and financial statements

Registered number

00262938

For the

year ended 31 December 2019



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Strategic report

Overview

As shown in the Company's profit and loss account on page 7, the Company's turnover has decreased by 2.77% over the prior year with a decrease in the Company's aerospace related business, partly offset with increases in the medical and other sectors. Continuing operations profit before tax has decreased by £8,466,000 resulting in a loss before tax of £780,000. This is partly commensurate with the reduction in turnover, the timing of some specific charges and credits both in 2018 and 2019.

With the advent of the Covid-19 crisis in 2020, we anticipate a further decrease in our aerospace related business as well as some limited decreases in some other industrial sectors. However, we anticipate growth opportunities in our medical and some other sectors.

The balance sheet on page 8 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, Specialty Ceramics & Advanced Ceramic & Metals 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.

Principal risks and uncertainties

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

The Company, in common with all its competitors, faced a sharp decrease in activities in the second Quarter of 2020 with the advent of the Covid-19 crisis. The company also anticipates a prolonged period of subdued activity in certain markets. In order to combat this and to ensure that the Company maintains good financial health throughout the downturn, we will take some selective cost reduction measures in operating costs including personnel, after consultation with the relevant parties. We anticipate these actions to be limited with the exception of the aerospace related sector. As concerns the aerospace segment, the Company announced the merger of the operations of its Corby and Derby sites with the closure of the Derby facility. We anticipate the charge of this action to be approximately £1m.

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

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

The Company has reviewed the potential impact of the UK's exit from the EU, particularly in regard to material supplies and the movement of labour. It has taken action accordingly to manage the risk, including maintaining levels of raw material inventory to service orders, should delays occur and ensure labour levels are maintained.

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

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

Strategic report (continued)

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.

In particular, we have:

- Engaged regularly with our employees.
- Adopted the Morgan Group's values and distributed the Morgan Code of Ethics to all employees.
- Operated an ethics helpline that is available to all employees.
- Provided regular training to our employees throughout the year.

- Engaged with suppliers and customers.
- Met with major customers and suppliers on a regular basis.
- Maintained regular contact with our suppliers.
- Taken action to ensure no involvement in modern slavery, corruption or bribery.

- Engaged with others in a business relationship with the Company.
- Considered the risks with external stakeholders and adopted appropriate procedures to mitigate these risks.
- Complied with environmental legislation and pursued opportunities to operate in an environmentally sustainable manner.

By order of the board



M.N.C. Parker

Director

Morgan Drive

Stourport-on-Severn

Worcestershire

DY13 8DW

29/09/2020

Directors' report

The Directors present their annual report and audited financial statements for the year ended 31 December 2019.

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. Around 68% 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 (2018: nil).

Directors

The Directors who held office during the year were as follows:

M.N.C. Parker

M.G. Thomas

G.A. Brown (appointed 04 December 2019)

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

Employees

Details of the number of employees and related costs can be found in note 6 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 £200 (2018: £967) and no political donations (2018: £nil).

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 £2,889,000 (2018: £3,098,000).

Disclosure of information to auditor

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

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 page 1.

Auditor

The external audit for the year ending 31 December 2020 has been tendered during the year, as detailed in the Group's Audit Committee Report on pages 61 to 62 of the Group's Annual Report. KPMG LLP will resign as the Company's auditor after completing the audit of this Annual report and financial statements. In accordance with the recommendation of the Group Audit Committee, the Board intends to appoint Deloitte LLP to fill the casual vacancy created. The Group Audit Committee have recommended resolutions to appoint Deloitte LLP as the Company's auditor at the Group's 2020 Annual General Meeting.

By order of the board



M.N.C. Parker

Director

Morgan Drive

Stourport-on-Severn

Worcestershire

DY13 8DW

29/09/2020

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

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

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

Opinion

We have audited the financial statements of Morgan Technical Ceramics Limited ("the company") for the year ended 31 December 2019 which comprise the Profit and loss account and other comprehensive income, Balance sheet, Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 4, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; 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 they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

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

The purpose of our audit work and to whom we owe our responsibilities

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.



Nicola Davies (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
KPMG LLP
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH
29/09/2020

Profit and loss account and other comprehensive income
for the year ended 31 December 2019

	Note	2019 £000	2018 £000
Turnover	2	43,171	44,402
Change in stocks of finished goods and work in progress		(203)	520
Raw materials and consumables		(10,289)	(9,408)
Other external expenses		(4,120)	(4,490)
Staff costs	5	(20,077)	(19,699)
Pension Scheme Past Service Credit	6	-	2,000
Depreciation and other amounts written off tangible and intangible fixed assets	3	(1,814)	(1,739)
Depreciation - Right of use assets	12	(554)	-
Other operating expenses		(7,793)	(4,759)
		(44,850)	(37,575)
Operating (Loss)/profit		(1,679)	6,827
Interest receivable and similar income	7	2,133	2,059
Interest payable and similar expense	8	(1,234)	(1,200)
(Loss)/Profit before taxation		(780)	7,686
Tax on (Loss)/Profit	9	878	(1,050)
Profit for the financial year		98	6,636
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		761	(503)
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Remeasurement gain on defined benefit plans		8,400	3,800
Other comprehensive income for the year, net of income tax		9,161	3,297
Total comprehensive income for the year		9,259	9,933

The notes on pages 10 to 36 form part of these financial statements.

Balance sheet
at 31 December 2019

	<i>Note</i>	2019	2018
		£000	£000
Fixed assets			
Intangible assets	10	369	50
Tangible assets	11	14,234	13,850
Right of use Assets	12	2,831	-
		<u>17,434</u>	<u>13,900</u>
Current assets			
Stocks	13	5,993	6,299
Debtors (including £56,759,000 (2018: £56,761,000) due after more than one year)	14	64,597	63,676
Cash at bank and in hand		3,219	9,159
		<u>73,809</u>	<u>79,134</u>
Creditors: amounts falling due within one year	15	(7,453)	(10,585)
Net current assets		<u>66,356</u>	<u>68,549</u>
Total assets less current liabilities		<u>83,790</u>	<u>82,449</u>
Creditors: amounts falling due after more than one year			
Lease Liabilities	12	(3,520)	-
Provisions for liabilities			
Pension Liability	19	(30,948)	(41,768)
Net assets		<u>49,322</u>	<u>40,681</u>
Capital and reserves			
Called up share capital	16	27,500	27,500
Revaluation reserve		687	687
Other reserves		1,436	1,719
Profit and loss account		19,699	10,775
Shareholder's funds		<u>49,322</u>	<u>40,681</u>

The notes on pages 10 to 36 form part of these financial statements.

These financial statements were approved by the board of directors on 29th September 2020 and were signed on its behalf by:



M.N.C. Parker
Director
29/09/2020

Statement of Changes in Equity
for the year ended 31 December 2019

	Called up share capital	Revaluation reserve	Other reserves	Profit and loss account	Total equity
<i>Note</i>					
Balance at 1 January 2018	27,500	687	2,222	339	30,748
Total comprehensive income for the year	-	-	-	6,636	6,636
Profit for the year	-	-	(503)	3,800	3,297
Other comprehensive income	-	-	(503)	10,436	9,933
Total comprehensive income for the year	-	-	(503)	10,436	9,933
Balance at 31 December 2018	27,500	687	1,719	10,775	40,681
Balance at 1 January 2019	27,500	687	1,719	10,775	40,681
Impact of adoption of IFRS 16 Leases	-	-	-	(618)	(618)
Adjusted balance at 1 January 2019	27,500	687	1,719	10,157	40,063
Total comprehensive income for the year	-	-	-	98	98
Profit for the year	-	-	761	8,400	9,161
Other comprehensive income	-	-	761	8,498	9,259
Total comprehensive income for the year	-	-	761	8,498	9,259
Transfers between reserves	-	-	(1,044)	1,044	-
Balance at 31 December 2019	27,500	687	1,436	19,699	49,322

The notes on pages 10 to 36 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 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 Quadrant, 55-57 High Street, Windsor, Berkshire, SL4 1LP.

In 2019 the following new standard had been endorsed by the EU, became effective and therefore was adopted by the company:

- IFRS 16 Leases

The Company adopted IFRS 16 Leases with effect from 1 January 2019. IFRS 16 introduced a single, on-balance sheet accounting model that is similar to previous finance lease accounting. Under the standard, from 1 January 2019 the Company recognises right-of-use assets and lease liabilities (including those previously assessed as operating leases) on the balance sheet at the present value of future lease payments; and recognises depreciation relating to the right-of-use asset and interest charge on the lease liability in the profit and loss account and other comprehensive income.

Under IFRS 16, right-of-use assets are tested annually for impairment in accordance with IAS 36 Impairment of Assets, replacing the previous requirement to recognise a provision for onerous lease contracts.

For leases in existence at 31 December 2018, the Company applied a modified retrospective approach. Comparative periods are not restated.

The modified retrospective approach has two available options, under both options the calculation of the lease liability considered future lease payments only and current discount rates.

In the calculation of the right-of-use assets for material land and buildings leases, the Company adopted a modified retrospective approach using historical payment data as if IFRS 16 had always existed but with the benefit of hindsight for actual events. This calculation led to an equity adjustment of £1,161,000 before tax, a reduction to retained earnings.

In the calculation of right-of-use assets for its remaining lease portfolio (non-material land, buildings, plant and equipment), the Company used the alternative modified retrospective approach, whereby the asset is equal to the liability (with the exception of any transition balance sheet adjustments such as rent-free periods). There is no equity adjustment arising from this calculation.

In total, on 1 January 2019, the Company recognised right-of-use assets of £3,261,000, lease liabilities of £4,422,000 and an equity adjustment of £1,161,000 before tax.

The Company utilised the option available on transition to IFRS 16 to grandfather assessments on whether an existing contract contains a lease. From 1 January 2019, the Company applies the definition of a lease as outlined in IFRS 16, which examines whether the Company has the right to control the use of an asset in exchange for consideration. The difference in definition would not have had a material impact on the Company's financial statements on transition.

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.

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 (continued)

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. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

The impact of Covid-19 continues to have an impact on the Group, its customers and its suppliers. Morgan Advanced Materials plc's principal and emerging risks and uncertainties have been reviewed in depth by its Board together with related mitigations, and identified a range of potential economic scenarios, including severe but plausible decreases in revenue of between 20% and 30% compared to 2019, followed by an extended recovery period. Morgan Advanced Materials plc has headroom against its available facilities under all scenarios, and considers there are sufficient controllable actions it can take, even if the severe downside case were to materialise, to operate within its financial covenants, and thus its Directors continue to adopt the going concern basis.

Consequently, the Directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

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.

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

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 USD 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.

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.

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.

1 Accounting policies (continued)

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.

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.

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

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.

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)

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.

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:

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 20.

2 Analysis of turnover

	Turnover	
	2019	2018
	£000	£000
<i>By activity</i>		
Sales of specialist ceramic components and materials	43,171	44,402
	<u>43,171</u>	<u>44,402</u>
<i>By geographical market</i>		
United Kingdom	13,935	14,007
Continental Europe	15,805	18,009
The Americas	9,182	7,698
Other	4,249	4,688
	<u>43,171</u>	<u>44,402</u>

3 Notes to the profit and loss account

	2019 £000	2018 £000
<i>(Loss)/ Profit before taxation is stated after charging</i>		
Depreciation and other amounts written off tangible and intangible fixed assets	1,814	1,739
Depreciation - Right of use assets	554	
<i>Auditor remuneration</i>		
Audit of these financial statements	48	46
Research and development expenditure	2,889	3,098
Operating lease rentals:		
Land and buildings	-	499
Plant and machinery	-	104

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

4 Remuneration of Directors

	2019 £000	2018 £000
Directors' emoluments	183	174
Aggregate amount of money paid to directors on the exercise of share options	9	6
Company contributions to defined benefit pension schemes	-	-
Company contributions to money purchase pension schemes	9	9
	<u>201</u>	<u>189</u>

The aggregate of emoluments and amounts receivable under long-term incentive schemes of the highest paid Director was £201,000 (2018: £189,000).

Numbers of Directors

	2019	2018
Retirement benefits are accruing to the following number of directors under:		
Defined benefit schemes	-	-
Money purchase schemes	1	1
	<u>1</u>	<u>1</u>

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	
	2019	2018
Sales and marketing	23	24
Administration	67	67
Manufacturing	519	521
	<u>609</u>	<u>612</u>

The aggregate payroll costs of these persons were as follows:

	£000	£000
Wages and salaries	17,002	16,578
Social security costs	1,553	1,569
Other pension costs	1,522	1,552
	<u>20,077</u>	<u>19,699</u>

6 Pension Scheme Past Service Credit

	2019	2018
	£000	£000
IAS 19 - Early and Late Retirement Adjustment	-	(2,667)
IAS 19 - Impact of Removing GMP Inequalities	-	667
	<u>-</u>	<u>(2,000)</u>

Early and Late Retirement Adjustment

During 2018, the Group reviewed with the Trustees of Morgan Pension Scheme the factors applied on early and late retirement, and clarified the practice regarding the calculation of pension payments with members who elected to retire other than at the normal date of retirement. This was effected via a Deed of Amendment. This change resulted in a net gain of £2.7 million in the income statement.

Adjustment for Guaranteed Minimum Pensions (GMPs)

On 26 October 2018, the High Court ruled that the Trustee of the Lloyds Banking Group pension schemes needed to remove the inequalities in pension scheme benefits that arise from unequal GMPs. We have included a charge of £0.7 million to reflect the potential cost of removing the GMP inequalities for the Group's UK defined benefit pension schemes in the income statement.

The net impact of these pension adjustments is a credit to the income statement of £2.0 million.

7 Interest receivable and similar income

	2019	2018
	£000	£000
Interest receivable from third parties	-	13
Interest receivable from Group undertakings	2,133	2,046
	<u>2,133</u>	<u>2,059</u>

8 Interest payable and similar expense

	2019 £000	2018 £000
Interest payable on lease liabilities	(134)	-
Net interest on defined benefit liabilities	(1,100)	(1,200)
	<u>(1,234)</u>	<u>(1,200)</u>

9 Taxation
Analysis of charge in year

	2019	2019
	£000	£000
<i>UK corporation tax</i>		
Current tax on profit for the year	(920)	(42)
Adjustments in respect of prior years	42	1,092
Tax on (loss)/ profit	(878)	1,050

Deferred tax assets of £7,390,834 (capital allowances £1,858,944, pensions £5,531,890) 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 lower (2018: lower) than the standard rate of corporation tax in the UK of 19.0% (2018: 19.00%).
The differences are explained below.

	2019	2018
	£000	£000
<i>Total tax reconciliation</i>		
(Loss)/profit before tax	(780)	7,686
	(780)	7,686
Current tax at 19.00% (2018: 19.00%)	(148)	1,460
<i>Effects of:</i>		
Expenses not deductible for tax purposes	106	8
Fixed asset differences	-	6
Foreign tax credit	-	3
Adjustment in respect of prior years	42	1,092
Deferred tax not recognised	(878)	(1,519)
Total tax (credit)/charge (see above)	(878)	1,050

A reduction in the UK corporation tax rate from 19% to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016.
The March 2020 Budget announced that a rate of 19% would continue to apply with effect from 1 April 2020, and this change was substantively enacted on 17 March 2020. This will increase the company's future current tax charge accordingly.

10 Intangible fixed assets

	Technology related intangible assets	Goodwill	Total
	£000	£000	£000
<i>Cost</i>			
At beginning of year	527	6,129	6,656
Additions	368	-	368
At end of year	895	6,129	7,024
<i>Amortisation</i>			
At beginning of year	477	6,129	6,606
Charged in year	49	-	49
At end of year	526	6,129	6,655
<i>Net book value</i>			
At 31 December 2019	369	-	369
At 31 December 2018	50	-	50

Amortisation charge

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

	2019 £000	2018 £000
Depreciation and other amounts written off tangible and intangible fixed assets	49	59

11 Tangible fixed assets

	Land and buildings	Plant and machinery	Total
	£000	£000	£000
Cost			
At beginning of year	4,723	23,935	28,658
Additions	-	2,149	2,149
Disposals	-	(371)	(371)
At end of year	<u>4,723</u>	<u>25,713</u>	<u>30,436</u>
Depreciation			
At beginning of year	1,463	13,345	14,808
Charge for year	164	1,601	1,765
Disposals		(371)	(371)
At end of year	<u>1,627</u>	<u>14,575</u>	<u>16,202</u>
Net book value			
At 31 December 2019	<u>3,096</u>	<u>11,138</u>	<u>14,234</u>
At 31 December 2018	<u>3,260</u>	<u>10,590</u>	<u>13,850</u>

The net book value of land and buildings comprises:

	2019 £000	2018 £000
Freehold	<u>3,096</u>	<u>3,260</u>

12 Leases under which the Company acts as lessee

The Company leases assets including land and buildings, vehicles and machinery. 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			
Balance on adoption of IFRS 16 at 1 Jan 2019	5,919	372	6,291
Additions	-	124	124
Disposals	(45)	(4)	(49)
Balance at 31 December 2019	5,874	492	6,366
Depreciation and impairment			
Balance on adoption of IFRS 16 at 1 Jan 2019	(3,030)	-	(3,030)
Depreciation charge for the year	(338)	(216)	(554)
Disposals	45	4	49
Balance at 31 December 2019	(3,323)	(212)	(3,535)

Net book value

At 1 Jan 2019	2,889	372	3,261
At 31 December 2019	2,551	280	2,831

Lease liabilities

	Total
	£'000
Balance on adoption of IFRS 16 at 1 Jan 2019	4,422
Additions	124
Payments made	(666)
Interest charge	134
Balance at 31 December 2019	4,014
Amounts falling due after more than one year	3,520
Amounts falling due before one year	494

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

	2019
	£'000
Less than one year	(615)
Between one and five years	(2,567)
Greater than five years	(1,493)
	(4,675)

Amounts recognised in profit or loss

	2019
	£'000
Depreciation on the right of use assets	(554)
Interest on lease liabilities	(134)
Expenses on short term leases not capitalised	(6)
Expenses on low value asset leases not capitalised	0

13 Stocks

	2019	2018
	£000	£000
Raw materials and consumables	2,862	2,778
Work in progress	1,898	2,163
Finished goods and goods for resale	1,233	1,358
	<u>5,993</u>	<u>6,299</u>

Included within finished goods are £267,000 (2018: £471,000) of stocks held on consignment.

The amount of stocks expensed to the profit and loss account in the year was £32,443,000. (2018 : £22,872,000)

The value of stocks written down and expensed in the profit and loss account amounted to £145,000. (2018:£116,000)

14 Debtors

	2019 £000	2018 £000
Trade debtors	4,454	4,924
Amounts owed by Group undertakings	57,376	57,520
Other debtors	223	174
Corporation tax	918	-
Derivative financial instruments	999	173
Prepayments and accrued income	627	885
	<u>64,597</u>	<u>63,676</u>
Due within one year	7,678	6,915
Due after more than one year	<u>56,919</u>	<u>56,761</u>

Debtors include amounts owed by Group undertakings of £56,919,000 (2018: £56,761,000) due after more than one year.
Interest has been charged on this loan at libor plus 0.65% during the year. (2018: libor plus 0.65%).

15 Creditors

Creditors: amounts falling due within one year

	2019	2018
	£000	£000
Trade creditors	4,643	4,906
Amounts owed to Group undertakings	714	416
Corporation tax	-	3,621
Derivative financial instruments	-	47
Other creditors	1,602	1,595
Lease liabilities (Note 12)	494	-
	<u>7,453</u>	<u>10,585</u>

Amounts owed to group undertakings are repayable on demand and no interest is charged.

Creditors: amounts falling due after more than one year

	2019	2018
	£000	£000
Lease liabilities (Note 12)	3,520	-
	<u>3,520</u>	<u>-</u>

16 Capital and reserves

Share capital

Ordinary shares

2019

In thousands of shares

On issue at 1 January 2019 and 31 December 2019

27,500

2019

£000

2018

£000

Allotted, called up and fully paid

Ordinary shares of £1 each

27,500

27,500

17 Contingent liabilities

The Company participates in a cash pooling arrangement provided by Barclays 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 credit balance in the cash pool.

At the balance sheet date, the guaranteed amount was £NIL (2018: £46.9m)

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) the aggregate of all Debit Balances of all Participants; and
- b) the Credit Balance of that Participant.

At the balance sheet date, the guaranteed amount was £4,900,000 (2018: £NIL)

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 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 drawn at the year end (Dec 2019: £50m).

18 Operating leases

Non-cancellable operating leases are payable as follows:

	2019		2018	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Total Operating leases commitments:				
Less than one year	-	-	466	112
In the second to fifth years inclusive	-	-	1,722	209
Over five years	-	-	2,076	-
	-	-	4,264	321

During the year £nil (2018: £603,000) was recognised as an expense in the income statement in respect of operating leases.

19 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.

	2019 £000	2018 £000
Pension plans and employee benefits		
Present value of funded defined benefit obligations	(155,941)	(152,041)
Fair value of plan assets	124,993	110,273
Net obligations	(30,948)	(41,768)
Movements in present value of defined benefit obligation		
At 1 January 2019	(152,041)	(165,641)
Current service cost	-	(300)
Past service cost	-	2,000
Interest cost	(4,200)	(3,900)
Remeasurement (losses)/gains:		
Changes in financial assumptions	(5,300)	8,900
Changes in demographic assumptions	(13,700)	1,300
Experience adjustments on benefit obligations	11,900	(300)
Benefits paid	7,400	6,000
Contributions by members	-	(100)
At 31 December 2019	(155,941)	(152,041)
Movements in fair value of plan assets		
At 1 January 2019	110,273	115,996
Reallocation of fair value of plan assets	-	-
Interest on plan assets	3,100	2,700
Remeasurement of gains/(losses):	15,500	(6,100)
Contributions by employer	3,520	3,577
Contributions by members	-	100
Benefits paid	(7,400)	(6,000)
Administrative expenses	-	-
At 31 December 2019	124,993	110,273
Actual return on assets	18,600	(3,400)
Pension plans and employee benefits	£000	£000
Expense recognised in the consolidated income statement		
Current service cost	-	(300)
Administrative expenses	-	-
Net interest on defined benefit liability	(1,100)	(1,200)
Total expense	(1,100)	(1,500)
The fair values of the plan assets were as follows:		
	£000	£000
Equities and growth assets	15,100	25,100
Liability Driven Investments ("LDI")	21,400	-
Bonds	17,200	38,400
Diversified growth funds	24,800	-
Matching insurance policies	41,200	41,100
Other	5,293	5,696
Total	124,993	110,296

19 Employee benefits: pensions (continued)

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:

Assumptions:	2019 %	2018 %
Inflation (RPI & CPI)	2.73/1.88	3.20/2.10
Discount rate	2.06	2.70
Pensions increase	3.00/2.70/3.50	3.00/3.10/3.70
Salary increase	n/a	n/a
Mortality - post-retirement:		
Life expectancy of a male aged 60 in accounting year	26.2 years	26.5 years
Life expectancy of a male aged 60 in accounting year + 20	27.7 years	28.0 years

History of the plans

The history of the plans are as follows:

Balance Sheet

	2019 £000	2018 £000
Present value of the defined benefit obligation	(155,941)	(152,041)
Fair value of plan assets	124,993	110,273
Deficit	(30,948)	(41,768)

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:

	2019 Increase effect £000	2018 Increase effect £000
Change in assumption		
Discount rate	Decrease by 0.1%	2,100
Inflation	Increase by 0.1%	1,100
Mortality - post retirement	Pensioners live 1 year longer	4,600

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.

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 2019 was £1,967,000 (2018: £1,252,000). Total pension contributions outstanding at the year end amounted to £144,000 (2018: £118,000).

20 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 2019.

21 Derivative financial assets and liabilities

	2019 £000	2018 £000
Derivative financial assets		
Forward foreign exchange contracts designated as cash flow hedges	999	173
Derivative financial liabilities		
Forward foreign exchange contracts designated as cash flow hedges		(47)
	<u>999</u>	<u>126</u>

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.

22 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 Quadrant, 55-57 High Street, Windsor, Berkshire SL4 1LP.

23 Subsequent events

The Company, in common with all its competitors, faced a sharp decrease in activities in the second Quarter of 2020 with the advent of the Covid-19 crisis. The company also anticipates a prolonged period of subdued activity in certain markets. In order to combat this and to ensure that the Company maintains good financial health throughout the downturn, the Company decided to take some selective cost reduction measures in operating costs including personnel, after consultation with the relevant parties. These actions are relatively limited with the exception of the aerospace related sector for which the Company announced the merger of the operations of its Corby and Derby sites with the closure of the Derby facility. We anticipate the charge of these actions to be approximately £1m.