Morgan North America Holding Limited

Directors' report and financial statements

Registered number

08789720

For the

year ended 31 December 2016

Contents

Strategic report

The Directors present their strategic report for the year ended 31 December 2016.

Business review

The Company is a wholly-owned subsidiary of Morgan Advanced Materials plc (Morgan Group) and operates as an investment holding company. Its investment activities during the year are detailed in note 5. There were no additions to investments in the year. The Directors do not envisage any change to the business of the Company in the foreseeable future.

Results

The profit before tax for the year was £7,393,000 (2015: loss £224,000). Dividends of £8,576,000 were received from subsidiaries in the year (2015: £2,934,000). An impairment loss of £1,000,000 recorded in 2015 has been reversed out in 2016 .

Risks and uncertainties

The management of the business and the execution of the Company's strategy are subject to a number of risks. The principal risk to the Company is the permanent diminution in the value of its investments. Investments are tested for impairment at each balance sheet date.

A secondary risk relates to the Company's treasury operations. These are monitored and co-ordinated by the central treasury department at Morgan Advanced Materials plc on behalf of the entire Morgan Group. This includes the risk of potential failure by counterparties holding cash deposits on behalf of group companies.

By order of the board

C R Collins
Director
8 September 2017

Directors' report

The Directors present their annual report and audited financial statements for the year ended 31 December 2016.

The Company is a member of the Morgan Advanced Materials plc group (Morgan Group), which, from March 2016 , managed 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.

Dividends

An interim dividend, in the respect of the year ended 31 December 2016 was paid during the year, of 6.5194p per share, total £5.051 million (2015: £nil). The Directors do not recommend the payment of a final dividend (2015: £nil).

Directors

The Directors who held office during the year and at the date of this report were as follows:

KJ Dangerfield - resigned 31 March 2016

AC Riley - resigned 19 October 2016

CR Collins - appointed 19 October 2016

PA Boulton - appointed 18 April 2016

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

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 aware, there is no relevant audit information of which the Company's auditor is unaware; and they have taken all the steps that they ought to have taken as directors to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

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

By order of the board

C R Collins
Director

55-57 High Street
Windsor
Berkshire
SL4 1LP
8 September 2017

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

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

KPMG

KPMG LLP
15 Canada Square
London E14 5GL
United Kingdom

Independent auditor's report to the members of Morgan North America Holding Limited

We have audited the financial statements of Morgan North America Holding Limited for the period ended 31 December 2016 set out on pages 5 to 11. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

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

Respective responsibilities of director and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its profit for the period then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Based soley on the work required to be undertaken in the course of the audit of the financial statements and from reading the Directors' report:

- we have not identified material misstatements in that report; and
- in our opinion, that report has been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

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

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

AJ Sy

Anthony Sykes
(Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
United Kingdom
14/9/ 2017

Profit and Loss Account and Other Comprehensive Income
for the year ended 31 December 2016

	Note	2016	2015
		£000	£000
Income from shares in group undertakings		**8,576**	2,934
Amounts written back/(off) investments	*5*	**1,000**	(1,000)
Interest payable and similar expenses	*3*	**(2,183)**	(2,158)
Profit/(loss) on ordinary activities before taxation		7,393	(224)
Tax on profit	*4*	**346**	285
Profit and total comprehensive income for the financial year		7,739	61

All of the above figures relate wholly to continuing operations.

The notes on pages 8 to 11 form part of these accounts.

Balance sheet
at 31 December 2016

	Note		2016		2015
		£000	£000	£000	£000
Fixed assets					
Investments	5		131,470		130,470
Current assets					
Debtors	6	873		878	
Cash at bank		-		-	
		873		878	
Creditors: amounts falling due within one year	7	(53,848)		(55,541)	
Net current liabilities			(52,975)		(54,663)
Net assets			78,495		75,807
Capital and reserves					
Called up share capital	8		77,470		77,470
Profit and loss account	8		1,025		(1,663)
Shareholders' funds			78,495		75,807

The notes on pages 8 to 11 form part of these accounts.

The financial statements were approved by the board of Directors on 8 September 2017 and were signed on its behalf by:

CR Collins
Director
8 September 2017

Statement of Changes in Equity
at 31 December 2016

	Called up share capital £000	Profit and loss account £000	Total equity £000
Issued in the period	77,470	(1,724)	75,746
Profit for the period	-	61	61
Balance at 31 December 2015	**77,470**	**(1,663)**	**75,807**
Profit for the year	-	7,739	7,739
Dividend	-	(5,051)	(5,051)
Balance at 31 December 2016	77,470	1,025	78,495

The notes on pages 8 to 11 form part of these accounts.

Notes

(forming part of the financial statements)

1 Accounting policies

Morgan North America Holding Limited is a company incorporated and domiciled in the UK.

The Company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare group financial statements. The financial statements present information about the Company as an individual undertaking and not about its group.

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.

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 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; or
- 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;
- 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.
There are no significant estimates or judgements made in the preparation of these financial statements.

Measurement convention

The financial statements are prepared on the historical cost basis.

Functional and presentation currency

The Companys' financial statements are presented in pounds sterling, which is also the Companys' functional currency.

Going concern

The Company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Company is able to operate within the level of its available facilities. The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements for the year ended 31 December 2016.

The financial statements for the year ended 31 December 2016 have been prepared on a going concern basis as Morgan Advanced Materials plc has indicated that it will continue to support the Company such that it can continue to settle its liabilities as they fall due.

Foreign currencies

Transactions in foreign currencies are translated to the Company's functional currencies at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

Investments

Fixed asset investments are stated at cost less provision for impairment. Impairment provisions are determined by comparing the carrying value of the investment with its recoverable amount. The recoverable amount is the value of expected discounted cash flows arising from owning the investment. In assessing value in use, the expected future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the rate of return expected on an equally risky investment. Impairment losses are recognised in the profit and loss account.

Taxation

Tax on the profit or loss for the year comprises current tax. Tax is recognised in the profit and loss account 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 year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Related Party Transactions

As the Company is a wholly owned subsidiary of Morgan Advanced Materials plc, the Company has taken advantage of the exemption contained in IAS 24 and has therefore not disclosed transactions or balances with wholly owned subsidiaries which form part of the group.

2 Directors' emoluments, audit fees and employees

The directors performed no qualifying services for the company in respect of the current or preceding periods and therefore received no emoluments.

In the year ended 31 December 2016, an amount of £2,000 receivable by the auditor and its associates in respect of audit services has been paid by another group company (2015: £2,000).

There are no employees in this Company (2015: nil).

3 Interest payable and similar expenses

	2016	2015
	£000	£000
Interest expense on financial liabilities measured at amortised cost	2,183	2,158

4 Taxation

	2016	2015
Recognised in income statement	£000	£000
UK corporation tax		
Current tax on income/(loss) for the year/(period)	346	283
Prior period adjustment	-	2
Total current tax	346	285
Tax on profit/(loss)	346	285

Reconciliation of effective tax rate

The current tax charge for the year is lower (2015: lower) than the standard rate of corporation tax in the UK of 20% (2015: 20.25%). The differences are explained below:

	2016	2015
	£000	£000
Profit/(loss)	7,393	(224)
Tax using the UK corporation tax rate of 20% (2015: 20.25%).	1,479	(45)
Expenses/(income) not deductible for tax purposes	(200)	202
Withholding taxes	90	154
Non-taxable income	(1,715)	(594)
Prior year adjustment	-	(2)
Total tax credit	(346)	(285)

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly.

5 Investments

	Shares in group undertakings
	£000
Cost	
At 1 January 2016 and 31 December 2016	131,470
Provisions	
At 1 January 2016	(1,000)
Impairment written back	1,000
At 31 December 2016	-
Net book value	
At 31 December 2016	131,470
At 31 December 2015	130,470

The companies in which the Company's interest at the year end is 20% or more (in ordinary shares unless otherwise stated) are as follows:

	Country of incorporation	Registered office address	Principal activity	% of shares held at 2016 and 2015
Subsidiary undertakings - directly owned				
Morgan Advanced Materials Canada Inc[1]	Canada	1185 Walkers Line, Burlington ON L7M 1L1, Canada	Manufacturing	100%
Morgan Advanced Materials Inc[2]	USA	4000 WestChase Boulevard, Suite 170, Raleigh, North Carolina, 27607, USA	Holding Company	100%
Subsidiary undertakings - indirectly owned				
D Brown Carbon (Pty) Limited	Australia	Unit 4,92-100 Belmore Road, Riverwood NSW 2210, Australia	Manufacturing	100%
Morganite Brasil Ltda[3]	Brazil	Avenida do Taboao 3265, Taboao, Sao Bernardo do Campo, Sao Paulo, CEP 09656-000, Brazil	Manufacturing	27%
Refractarios Multiples SA	Guatemala	Km. 34.5 Carretera al Pacifico, Palin, Escuintla, Guatemala	Manufacturing	100%
Refractarios Nacionales SA	Guatemala	Km. 34.5 Carretera al Pacifico, Palin, Escuintla, Guatemala	Manufacturing	100%
Ceramicas Termicas SA	Guatemala	20 cale 18-60 Apartamento 2, Zona 10, Guatemala City, Guatemala	Manufacturing	100%
Morgan Donald Brown Limited	New Zealand	C/- KPMG, 18 Viaduct Harbour Avenue, Maritime Square, Auckland, 1010, New Zealand	Manufacturing	100%
Certech Inc[2]	USA	1 Park Place West, Wood-Ridge NJ 07075, USA	Manufacturing	100%
Graphite Die Mold Inc[2]	USA	18 Air Line Park, Durham, Connecticut, 06422-1000, USA	Manufacturing	100%
Morgan Advanced Materials and Technology Inc[2]	USA	441 Hall Avenue, St. Marys, Pennsylvania, 15857, USA	Manufacturing	100%
Morganite Crucible Inc[4]	USA	22 N. Plains Industrial Road, Suite 1, Wallingford, Connecticut, 06492, USA	Manufacturing	100%
Morganite Industries Inc[5]	USA	4000 WestChase Boulevard, Suite 170, Raleigh, North Carolina, 27607, USA	Manufacturing	100%
National Electrical Carbon Products Inc[1]	USA	PO Box 1056, 251 Forrester Drive, Greenville, South Carolina, 29602, USA	Manufacturing	100%
NP Aerospace Inc[2]	USA	4000 WestChase Boulevard, Suite 170, Raleigh, North Carolina, 27607, USA	Manufacturing	100%
Thermal Ceramics Inc[2]	USA	PO Box 923, 2102 Old Savannah Road, Augusta, Georgia, 30906, USA	Manufacturing	100%
Morgan Advanced Ceramics Inc[2]	USA	2425 Whipple Road, Hayward, CA , 94544, USA	Manufacturing	100%
Morganite Inc[2]	USA	4000 West Chase Blvd, Suite 170, Raleigh North Carolina 27607, USA	Manufacturing	100%
Thermal Ceramics Venezuela CA[6]	Venezuela	Zona Ind. El Recreo , Av.87 N° 105-121 Flor Amarillo, Valencia Edo.Carabobo. Zona Postal 2003, Venezuela	Manufacturing	100%

[1] Ownership held in common stock or no par value
[2] Ownership held in common stock
[3] Ownership held in quotas
[4] Ownership held in preferred stock and no par common stock
[5] Ownership held in Class A, Class B and Class C common stock
[6] Ownership held in registered capital

6 Debtors

	2016	2015
	£000	£000
Other debtors	873	878

7 Creditors: amounts falling due within one year

	2016	2015
	£000	£000
Bank overdraft	-	171
Amounts owed to group undertakings	53,848	55,370
	53,848	55,541

8 Capital and reserves

	Ordinary shares
	2016
In thousands of shares	
On issue at 1 January 2016 and 31 December 2016	**77,470**

	2016
	£000
Allotted, called up and fully paid	
77,470,072 ordinary shares of £1 each	**77,470**
Shares classified in shareholders' funds	**77,470**

Other comprehensive income

	Profit and loss account
	£000
At 1 January 2015	(1,724)
Profit for the year	61
At 31 December 2015	**(1,663)**
Profit for the year	7,739
Dividend	(5,051)
At 31 December 2016	**1,025**

9 Ultimate parent company

The Directors regard Morgan Advanced Materials plc, incorporated in England and Wales, as being the Company's 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.

10 Events occuring after balance sheet date

On 30th June 2017, Morgan Advanced Materials Plc ceased to be the significant share holder and member of the Company as it sold its' shareholding in the Company to its' wholly owned subsidiary Morgan International Holding Limited, thereby making Morgan International Holding Limited significant shareholder of the Company. All the issued and called up shares of the Company are held by Morgan International Holding Limited since 30th June 2017.