

Morganite Electrical Carbon Limited
Directors' report and financial
statements

Registered number

01034653

For the
year ended 31 December 2012



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Contents

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

Directors' report

The directors present their annual report and audited financial statements for the year ended 31 December 2012

Principal activities and review of the business

The Company is a wholly-owned subsidiary of Morgan Advanced Materials plc (Morgan Group) and during 2012 operated as part of the Morgan Engineered Materials division

The Company's principal activities are the manufacture and sale of a wide range of carbon and ceramic sub-components for the electrical and mechanical engineering industries including carbon brushes, current collectors and seals and bearings. Around 68% of production is exported from the UK to customers in Europe, The Americas and the Far East. There have not been any significant changes in the Company's principal activities in the year under review. The directors are not, at the date of this report, aware of any likely major changes in the Company's activities in the next year.

During 2012, the Morgan Engineered Materials division, invested in research and development activities appropriate to the nature and size of its operations with the aim of supporting the future development of the Company, as a part of the division, in the medium to long-term future. This research and development activity has resulted in a number of updates to existing products.

As shown in the Company's profit and loss account on page 6, the Company's turnover has decreased by 9.1% over the prior year and loss after tax has increased by £1,984,000. The major factors resulting in the increase in loss after tax are the continuing pressure of the economic recession particularly in Europe and an increase in restructuring costs which were £2,694,000 in the year (2011: £469,000) (note 6). Restructuring costs incurred in the year were primarily to right size the company's labour to meet current sales demands and for the disposal and removal of Armour assets from the Swansea site.

The balance sheet on page 7 of the financial statements shows the Company's financial position at the year end and is consistent with the prior year. There have been no significant events since the balance sheet date which should be considered for a proper understanding of these financial statements.

During 2012 the Morgan Group managed its operations on a divisional basis. For this reason, the Company's directors believe that further key performance indicators for the Company are not necessary or appropriate for an understanding of the development, performance or position of the business. The performance of the Morgan Engineered Materials division of Morgan Group, which includes the Company, is discussed in Morgan Group's Annual Report which does not form part of this Report.

Principal risks and uncertainties

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

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

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

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

Research and development

The Company will continue its programme of research and development. Expenditure incurred on research and development in the year was £963,000 (2011: £850,000).

Directors

The directors who held office during the year were as follows

RA Marno

CJ Spacie (resigned 31 December 2012)

DS Eldridge (resigned 11 July 2012)

JAD Maxwell (appointed 27 September 2012) (resigned 30 April 2013)

RAE Wallace (appointed 27 September 2012)

S Cummings (appointed 27 September 2012)

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

Employees

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

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

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

Environment

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

Political and charitable contributions

During the course of the year, the Company made charitable donations amounting to £2,451 (2011: £2,247) and no political donations (2011: £Nil).

Supplier payment policy

The Company agrees payment terms with all its major suppliers and abides by these terms, subject to satisfactory performance by the supplier. Amounts owed to other suppliers are settled on or before the end of the month following receipt of a valid invoice. The Company's average creditor period at 31 December 2012 was 55 days (2011: 72).

Disclosure of information to auditors

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

Dividend

The directors do not recommend the payment of a dividend (2011: £nil).

Auditors

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

By order of the board



RA Marno

Director

Upper Fforest Way

Morrison

Swansea

SA6 8PP

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

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

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

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

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

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



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

We have audited the financial statements of Morganite Electrical Carbon Limited for the year ended 31 December 2012 set out on pages 6 to 36. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's 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 2012 and of its loss for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

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

KPMG Audit Plc
3 Assembly Square
Britannia Quay
Cardiff
CF10 4PL
United Kingdom

Date *9th August*

Profit and loss account

for the year ended 31 December 2012

	Note	2012 £000	2011 £000
Turnover	2	22,909	25,182
Change in stocks of finished goods and work in progress		399	443
Raw materials and consumables		(6,802)	(9,787)
Other external charges		(3,418)	(3,431)
Staff costs	5	(10,515)	(10,659)
Depreciation and other amounts written off tangible and intangible fixed assets	9	(1,172)	(1,139)
Other operating charges		(8,170)	(4,689)
		<u>(29,678)</u>	<u>(29,262)</u>
Operating loss	3	(6,769)	(4,080)
Other interest receivable and similar income	7	109	109
Loss on ordinary activities before taxation		<u>(6,660)</u>	<u>(3,971)</u>
Tax on loss on ordinary activities	8	1,676	971
Loss for the financial year	15	<u><u>(4,984)</u></u>	<u><u>(3,000)</u></u>

There are no recognised gains and losses for the current and preceding financial year other than the loss of £5 0 million (2011 £3 0 million) shown above

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

Balance sheet
at 31 December 2012

	<i>Note</i>	2012		2011	
		£000	£000	£000	£000
Fixed assets					
Tangible assets	9		7,073		8,657
			<u>7,073</u>		<u>8,657</u>
Current assets					
Stocks	10	5,787		5,408	
Debtors	11	9,902		8,318	
		<u>15,689</u>		<u>13,726</u>	
Creditors amounts falling due within one year	12	(16,097)		(11,114)	
Net current (liabilities)/assets			<u>(408)</u>		<u>2,612</u>
Total assets less current liabilities			<u>6,665</u>		<u>11,269</u>
Provisions for liabilities and charges	13		(519)		(139)
Net assets			<u><u>6,146</u></u>		<u><u>11,130</u></u>
Capital and reserves					
Called up share capital	14		43,837		43,837
Share premium account	15		37		37
Other reserves	15		15		15
Profit and loss account	15		(37,743)		(32,759)
Shareholders' funds			<u><u>6,146</u></u>		<u><u>11,130</u></u>

These financial statements were approved by the board of directors on 30th July 2013 and were signed on its behalf by



RA Marno
 Director

Reconciliation of movements in shareholders' funds
for the year ended 31 December 2012

	2012	2011
	£000	£000
Loss for the financial year	(4,984)	(3,000)
Net reduction in shareholders' funds	(4,984)	(3,000)
Opening shareholders' funds	11,130	14,130
Closing shareholders' funds	6,146	11,130

Notes

(forming part of the financial statements)

1 Accounting policies

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

Basis of preparation

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

The balance sheets for the current year and the comparative period have been drawn up as at 31 December 2012 and 1 January 2012 respectively. The profit and loss account and the reconciliation of movements in shareholder's funds are for the years ended 31 December 2012 and 1 January 2012. For convenience, these years and balance sheet dates are referred to in the body of the financial statements as 2012 and 2011 respectively.

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

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 2012.

Tangible fixed assets and depreciation

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

Freehold buildings	2% per annum
Plant and machinery	5% and 10%
Fixtures and fittings	5% and 10%
No depreciation is provided on freehold land	

Foreign currencies

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

Related Party transactions

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

Leases

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors.

Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Post-retirement benefits

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

Research and development expenditure

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

Notes (continued)

Stocks

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

Taxation

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

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

Turnover

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

Share based payments

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

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

Dividends on shares presented within shareholders' funds

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

2 Analysis of turnover

	Turnover	
	2012	2011
	£000	£000
<i>Goods sold by geographical market</i>		
United Kingdom	7,307	8,185
Continental Europe	10,461	10,755
The Americas	1,220	1,556
Other	3,921	4,686
	22,909	25,182

3 Notes to the profit and loss account

	2012	2011
	£000	£000
<i>Loss on ordinary activities before taxation is stated</i>		
<i>after charging/(crediting)</i>		
Depreciation and other amounts written off tangible fixed assets		
Owned	1,165	1,132
Leased	7	7
<i>Auditor's remuneration</i>		
Audit of these financial statements	30	30
Research and development expenditure	963	850
Operating lease rentals		
Land and buildings	780	728
Plant and machinery	97	116
Loss/(profit) on sale of fixed assets	23	(25)
Foreign exchange gains (gains)/losses	(12)	20

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

4 Remuneration of directors

	2012	2011
	£000	£000
Directors' emoluments	230	235
Compensation for loss of office	87	80

The aggregate of emoluments and amounts receivable under long-term incentive schemes of the highest paid director was £173,000 (2011 £227,000). He is a member of a defined benefit scheme, under which his accrued pension at the year end was £26,684 (2011 £2,129). During the year, the highest paid director did not receive any shares under a long-term incentive scheme.

	Number of directors	
	2012	2011
Retirement benefits are accruing to the following number of directors under		
Defined benefit schemes	2	3
Group Personal Pension Plan	1	-

The number of directors who exercised share options was	4	-
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The number of directors in respect of whose services shares were received or receivable under long-term incentive schemes was	5	2
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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	
	2012	2011
Sales and marketing	18	16
Logistics	34	32
Manufacturing	195	187
Administration	49	50
	296	285

The aggregate payroll costs of these persons were as follows

	£000	£000
Wages and salaries	9,051	9,186
Social security costs	792	815
Other pension costs	672	658
	10,515	10,659

6 Exceptional items

	2012	2011
	£000	£000
Redundancy and re-organisation	2,694	469
	<u>2,694</u>	<u>469</u>

7 Income from other fixed asset investments

	2012	2011
	£000	£000
Group income re bank guarantees	109	109
	109	109

8 Taxation

Analysis of credit in period

	2012		2011	
	£000	£000	£000	£000
<i>UK corporation tax</i>				
Current tax on income for the period	(971)		(704)	
Adjustments in respect of prior periods	(705)		(267)	
Total current tax		(1,676)		(971)
Tax credit on loss on ordinary activities		(1,676)		(971)

Factors affecting the tax credit for the period

The tax credit for the period is higher (2011: lower) than the effective standard rate of corporation tax in the UK of 24.5% (2011: 26.5%). The differences are explained below:

	2012	2011
	£000	£000
<i>Tax reconciliation</i>		
Loss on ordinary activities before tax	(6,660)	(3,971)
Current tax at 24.5% (2011: 26.5%)	(1,632)	(1,052)
<i>Effects of</i>		
Expenses not deductible for tax purposes	437	93
Depreciation for period in excess of capital allowances	(13)	274
Other timing differences	-	34
Adjustments to tax charge in respect of previous periods	(705)	(267)
Non-deductible cost of sales	237	-
Additional deduction for research and development	-	(53)
Total tax credit (see above)	(1,676)	(971)

Finance Act 2012 legislated the reduction in the UK corporation tax rate from 26% to 24% with effect from 1 April 2012 and then to 23% with effect from 1 April 2013. The Finance Act 2013 has now received Royal Assent and legislated for a reduction in the rate to 21% to be effective from 1 April 2014. The Budget on 20 March 2013 announced the intention to reduce the UK corporation tax rate to 20% from 1 April 2015.

9 Tangible fixed assets

	Freehold Land and buildings	Plant and machinery	Fixtures, fittings, tools and equipment	Payments on account and assets in course of construction	Total
	£000	£000	£000	£000	£000
<i>Cost</i>					
At beginning of year	1,995	16,597	207	1,175	19,974
Additions	-	790	-	562	1,352
Disposals	-	(2,749)	-	-	(2,749)
Transfers between items	-	1,175	-	(1,175)	-
At end of year	1,995	15,813	207	562	18,577
<i>Depreciation</i>					
At beginning of year	553	10,562	202	-	11,317
Charge for year	48	1,124	-	-	1,172
On disposals	-	(985)	-	-	(985)
At end of year	601	10,701	202	-	11,504
<i>Net book value</i>					
At 31 December 2012	1,394	5,112	5	562	7,073
At 1 January 2012	1,442	6,035	5	1,175	8,657

Included in the total net book value of plant and machinery is £26 000 (2011: £33 000) in respect of assets held under finance leases

Depreciation for the year on these assets was £7,495 (2011: £7,495)

10 Stocks

	2012	2011
	£000	£000
Raw materials and consumables	1,660	1,642
Work in progress	2,603	2,358
Finished goods and goods for resale	1,524	1,408
	<u>5,787</u>	<u>5,408</u>

11 Debtors

	2012	2011
	£000	£000
Trade debtors	1,404	1,441
Amounts owed by Group undertakings	8,011	6,202
Other debtors	91	298
Prepayments and accrued income	396	377
	9,902	8,318

Morganite Electrical Carbon Limited
 Directors' report and financial statements
 Registered Number 01034653
 For the year ended 31 December 2012

12 Creditors: amounts falling due within one year

	2012	2011
	£000	£000
Bank loans and overdrafts	10,507	4,884
Obligations under finance leases and hire purchase contracts	75	74
Trade creditors	1,933	3,144
Amounts owed to Group undertakings	2,038	1,625
Taxation and social security	1,355	1,054
Accruals and deferred income	189	333
	16,097	11,114

13 Provisions for liabilities and charges

	Restructuring provision £000
At beginning of year	139
Utilised during year	(139)
Additional amounts provided	519
At end of year	<u><u>519</u></u>

The Morgan Advanced Materials Group continues a program of profit improvement plans. The closing restructuring provision above of £519,000 relates to the costs involved in continuing this improvement plan and is expected to be incurred in the next twelve months.

Deferred taxation

At 31 December 2012 there are trading losses carried forward in the company of approximately £10.5 million (2011: £10.8 million). No deferred tax asset has been recognised in respect of these losses on the grounds that there is insufficient evidence that the associated asset of £2.40 million (2011: £2.80 million) will be recoverable. In addition, there are unrecognised deferred tax assets in respect of unclaimed capital allowances on plant and machinery of £1.1M (2011: £1.90 million).

14 Called up share capital

	2012	2011
	£000	£000
<i>Allotted, called up and fully paid</i>		
43,837,000 (2011: 43,837,000) ordinary shares of £1 each	43,837	43,837
	43,837	43,837

15 Share premium and reserves

	Share premium	Other reserves	Profit and loss account
	£000	£000	£000
At beginning of year	37	15	(32,759)
Loss for the year	-	-	(4,984)
At end of year	37	15	(37,743)

16 Commitments and contingent liabilities

Annual commitments under non-cancellable operating leases are as follows

	2012		2011	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Operating leases which expire				
Within one year	-	18	-	8
In the second to fifth years inclusive	31	94	31	81
Over five years	752	-	722	-
	783	112	753	89

The Company participates in a cash pooling arrangement provided by The Royal Bank of Scotland 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.

The Company, together with a number of other group companies, has provided guarantees to support the liabilities of Morgan Advanced Materials plc pursuant to the Group's revolving credit facility agreement entered into in 2010 (RCF) and to support the liabilities of Morganite Industries Inc under the terms of private placement notes raised in 2003 and 2007 (PP). The Group's RCF and PP are disclosed in the Annual Report of Morgan Advanced Materials plc.

17 Pensions

The Company is a participating employer in The Morgan Pension Scheme and The Morgan Group Senior Staff Pension and Life Assurance Scheme. Both pension schemes provide benefits on a career-average re-valued earnings (CARE) basis. As the Company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis, as permitted by FRS 17 'Retirement benefits', the schemes have been accounted for in these financial statements as if they were defined contribution schemes. These schemes were closed to new members on 31 July 2011 from which time membership of a defined contribution plan is available.

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

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

The pension cost charged to the profit and loss account in the year was £648,000 (2011: £657,000). Total pension contributions outstanding at the year end amounted to £20,000 (2011: £11,000).

The Company is a participating employer in The Morgan Group Personal Pension Plan, a defined contribution scheme. The pension cost charged to the profit and loss account in the year was £24,000 (2011: £1,000). Total pension contributions outstanding at the year end amounted to £4,000 (2011: £nil).

18 Employee share schemes

Share based payments

The Morgan Group operates various share option programmes that allow Morgan Group employees to acquire shares in the parent company. Under The Morgan Advanced Materials plc Long Term Incentive Plan (LTIP) awards of shares are made to various key executives. The parent company also maintains an all-employee sharesave scheme available to employees in the UK ('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.

The fair value of the options and awards under each scheme have been measured using the following models

LTIP 2004 and BDSMP	Monte Carlo model
Employee Sharesave Scheme 2004	Black-Scholes Merton model

The terms and conditions of grants are as follows

Grant date/Employees entitled	Number of instruments	Vesting conditions	Contractual life of options
Options granted to UK employees in 2012 Under the Employee Sharesave Scheme 2004	1,071,868	Three years of service	3 years
Awards granted to senior employees in 2012 Under the LTIP	1,251,358	Three years of service plus satisfaction of performance criteria	3 years
Options granted to UK employees in 2011 under the Employee Sharesave Scheme 2004	471,732	Three years of service	3 years
Awards granted to senior employees in 2011 under the LTIP 2004	1,500,775	Three years of service plus satisfaction of performance conditions	3 years
Options granted to UK employees in 2010 under the Employee Sharesave Scheme 2004	484,069	Three years of service	3 years
Awards granted to senior employees in 2010 under the LTIP 2004	2,331,758	Three years of service plus satisfaction of performance conditions	3 years

18 Employee share schemes (continued)

Grant date/Employees entitled/nature of scheme	Number of instruments	Vesting conditions	Contractual life of options
Options granted to UK employees in 2009 under the Employee Sharesave Scheme 2004	1,937,568	Three years of service	3 years
Awards granted to senior employees in 2009 under the LTIP 2004	5,085,721	Three years of service plus satisfaction of performance conditions	3 years

Performance criteria for LTIP 2004

The key metrics used in the plans are

Total Shareholder Return ('TSR') - the return (expressed as a percentage) on a notional investment in one share in the parent company expressed as follows

- (a) The average share price over the last 12 months of the performance period, plus
- (b) The net dividends per share paid during the performance period reinvested in parent company shares at the ex-dividend date, divided by
- (c) The average share price over the three months preceding the performance period

Earnings Per Share ('EPS') - (for the LTIP) profit before taxation less the charge for non-controlling interests in any financial year of the parent company, adjusted by the Remuneration Committee of the parent company to exclude the effect of amortisation of intangible assets, charges related to IAS39 Financial Instruments Recognition and Measurement and the effect of any other special items which the Remuneration Committee of the parent company does not, in its discretion, consider to reflect underlying operation performance, divided by the weighted average number of shares in issue during the relevant financial years (defined on a pre-taxation basis)

Group average Earnings Before Interest, Tax and Amortisation ('EBITA') - the Morgan Group's revenue for any financial year less operating expenses, but measured before the impact of taxation, net financing costs and the effect of amortisation of intangible assets. The Remuneration Committee of the parent company may also make further adjustments to exclude items which it does not, in its discretion, consider to reflect the underlying operating performance of the Morgan Group during the relevant financial years

Group average Return on Capital Employed ('ROCE') - EBITA, divided by the average of the capital employed at the end of the relevant financial years

Divisional EBITA for the LTIP calculations - Divisional revenue for the relevant financial years less operating costs (including restructuring costs and one-off items), but measured before the impact of taxation, net financing

18 Employee share schemes (continued)

costs and the effect of amortisation of intangible assets at reported exchange rates. The Remuneration Committee of the parent company may also make further adjustments to exclude items which it does not, in its discretion, consider to reflect the underlying operating performance of the Division during the relevant financial years.

Divisional average ROCE – Divisional Earnings before net financing costs, taxation and amortisation of intangible assets (EBITA), divided by the average of the Capital Employed by the Division at the end of the relevant financial years.

For the TSR elements of the plans, for performance between median and upper quartile awards are made on a straight-line, pro-rata basis.

The performance criteria for LTIP awards are set annually. The parent company has given an undertaking to shareholders that awards will only vest if there is also an improvement in the parent company's and/or Division's underlying financial performance. Awards will only vest therefore if the Remuneration Committee of the parent company is satisfied that the parent company's and/or Division's underlying financial performance over the performance period justifies vesting.

2009 LTIP Awards

For LTIP awards granted to all participants in 2009, the extent to which 100% of the awards vested depended on the parent company's TSR ranking against an appropriate comparator group from 5 January 2009 to 1 January 2012.

TSR Performance against the comparator group companies	% of award that vests
Upper quartile	100%
Median	30%
Below median	Nil

2010 LTIP Awards

For LTIP awards granted to all participants in 2010, the extent to which 50% of the awards vest depends on the parent company's TSR ranking against an appropriate comparator group over the period from 4 January 2010 to 31 December 2012. The extent to which the other 50% of these awards vest depends on the growth in the parent company's EPS compared with RPI between the 2009 base financial year and the 2012 financial year.

TSR Element		EPS Element	
TSR Performance against the comparator group companies	% of award that vests	EPS growth	% of award that vests
Upper quartile	50%	RPI+10% pa	50%
Median	15%	RPI+4% pa	15%
Below median	Nil	RPI+<4% pa	Nil

In addition, the LTIP awards granted in 2010 were reconstructed to include an HMRC approved element as part of the overall LTIP awards.

18 Employee share schemes (continued)

2011 LTIP Awards

For LTIP awards granted to the CEO, CFO and Morgan Group employees in 2011, the extent to which 50% of the awards vest depends on the parent company's TSR ranking against an appropriate comparator group over the period from 3 January 2011 to 31 December 2013. The extent to which the other 50% of these awards vest depends on the growth in the parent company's EPS compared with RPI between the 2010 base financial year and the 2013 financial year.

TSR Element		EPS Element	
TSR against FTSE All-Share Industrials Index	% of award that vests	EPS growth	% of award that vests
Upper quartile	50%	15% pa	50%
Median	15%	8% pa	15%
Below median	Nil	<8% pa	Nil

To support the two-Divisional structure introduced in July 2010, the 2011 LTIP awards for senior Divisional executives were tailored to the value creation of each Division. Under these awards, the Divisional element is split into Divisional EBITA growth and Divisional average ROCE. Vesting under the Divisional element only occurs when Divisional performance exceeds the threshold performance target under both measures. Once the Divisional performance targets exceed the threshold, the two elements are then measured independently.

For the LTIP award granted to the CEO Morgan Ceramics in 2011, TSR ranking (as for CEO, CFO and Group employees) and Divisional performance between the 2010 base financial year and the 2013 financial year, were awarded on an equal basis.

TSR Element			Divisional Element		
TSR against FTSE All-Share Industrials Index	% of award that vests	Divisional EBITA growth	% of award that vests	Divisional average ROCE	% of award that vests
Upper quartile	50%	18% pa	25%	40.70%	25%
Median	15%	12% pa	7.5%	35.70%	7.5%
Below median	Nil	<12% pa	Nil	<35.7%	Nil

For LTIP awards granted to Morgan Ceramics executives in 2011, 100% of awards are based on Morgan Ceramics Divisional performance between the 2010 base financial year and the 2013 financial year.

Divisional EBITA growth	% of award that vests	Divisional average ROCE	% of award that vests
18% pa	50%	40.70%	50%
12% pa	15%	35.70%	15%
<12% pa	Nil	<35.7%	Nil

18 Employee share schemes (continued)

For the LTIP awards granted to the CEO Morgan Engineered Materials in 2011, TSR ranking (as for CEO, CFO and Group employees) and Divisional performance between the 2010 base financial year and the 2013 financial year, were awarded on an equal basis

TSR Element		Divisional Element			
TSR against FTSE All-Share Industrials Index	% of award that vests	Divisional EBITA growth	% of award that vests	Divisional average ROCE	% of award that vests
Upper quartile	50%	15% pa	25%	36 10%	25%
Median	15%	10% pa	7 5%	33 70%	7 5%
Below median	Nil	<10% pa	Nil	<33 7%	Nil

For LTIP awards granted to Morgan Engineered Materials executives in 2011, 100% of awards are based on Morgan Engineered Materials Divisional performance, between the 2010 base financial year and the 2013 financial year

Divisional EBITA growth	% of award that vests	Divisional average ROCE	% of award that vests
15% pa	50%	36 10%	50%
10% pa	15%	33 70%	15%
<10% pa	Nil	<33 7%	Nil

2012 LTIP Awards

For LTIP awards granted to the CEO CFO and Morgan Group employees in 2012, the extent to which 33% of the awards vested depended on the parent company's TSR ranking against an appropriate comparator group over the period from 2 January 2012 to 31 December 2014. The extent to which 33% of these awards vest depends on the growth in the parent company's EPS between the 2011 base financial year and the 2014 financial year. The extent to which 33% vest depends on the Morgan Group's average ROCE for the financial years ending 31 December 2012, 2013 and 2014.

TSR against FTSE All-Share Industrials Index	% of award that vests	EPS growth	% of award that vests	Group average ROCE	% of award that vests
Upper quartile	33 33%	15% pa	33 33%	37%	33 33%
Median	10%	8% pa	10%	33%	10%
Below median	Nil	<8% pa	Nil	<33%	Nil

As in 2011, to support the two-Divisional structure, the 2012 LTIP awards for senior Divisional executives were tailored to the value of the creation of each Division. Under these awards, the Divisional element is split into Divisional EBITA growth and Divisional average ROCE. Vesting under the Divisional element only occurs when Divisional performance exceeds the threshold performance target under both measures. Once the Divisional performance targets exceed the threshold, the two elements are then measured independently.

18 Employee share schemes (continued)

For LTIP awards granted to the Divisional CEOs in 2012, a third of the award is linked to the parent company's TSR ranking and two thirds is based on the relevant Divisional performance, between the 2011 base financial year and the 2014 financial year

CEO Morgan Ceramics

TSR Element		Divisional EBITA	Divisional Element		% of award that vests
TSR against FTSE All-Share Industrials Index	% of award that vests		% of award that vests	Divisional average ROCE	
Upper quartile	33 33%	15% pa	33 33%	43 50%	33 33%
Median	10%	6% pa	10%	41%	10%
Below median	Nil	<6% pa	Nil	<41%	Nil

CEO Morgan Engineered Materials

TSR Element		Divisional EBITA	Divisional Element		% of award that vests
TSR against FTSE All-Share Industrials Index	% of award that vests		% of award that vests	Divisional average ROCE	
Upper quartile	33 33%	15% pa	33 33%	37 10%	33 33%
Median	10%	5% pa	10%	34 70%	10%
Below median	Nil	<5% pa	Nil	<34 7%	Nil

For LTIP awards granted to Morgan Ceramics executives in 2012, 100% of awards are based on Morgan Ceramics Divisional performance, between the 2011 base financial year and the 2014 financial year

Divisional EBITDA	% of award that vests	Divisional average ROCE	% of award that vests
15% pa	50%	43 50%	50%
6% pa	15%	41%	15%
<6% pa	Nil	<41%	Nil

For LTIP awards granted to Morgan Engineered Materials executives in 2012, 100% of awards are based on Morgan Engineered Materials Divisional performance, between the 2011 base financial year and the 2014 financial year

Divisional EBITDA	% of award that vests	Divisional average ROCE	% of award that vests
15% pa	50%	37 10%	50%
6% pa	15%	34 70%	15%
<6% pa	Nil	<34 7%	Nil

18 Employee share schemes (continued)

The fair values of services received are in return for awards made and share options granted. The estimate of the fair value of the services received is measured based on an appropriate model. In the case of the Binomial Lattice model and Monte Carlo model the contractual life of the options and awards are used as input. Expectations of early exercise are incorporated into both of these models.

	Awards made in 2012	
	Employee Sharesave Schemes	LTIP 2004
	2004	
Fair value at measurement date	98.17p	260.49p-333.11p
Share price	281.00p	360.00p
Exercise price	214.00p	n/a
Expected volatility (expressed as weighted average volatility used in the model)	45%	45%
Option life (expressed as weighted average life used in the model)	3 years	3 years
Expected dividends	2.5%	2.6%
Risk-free interest rate	0.4%	0.5%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options) adjusted for any expected changes to future volatility due to publicly available information.

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

	Weighted average exercise price 31 December 2012	Number of options 31 December 2012	Weighted average exercise price 1 January 2012	Number of options 1 January 2012
Outstanding at the beginning of the year	40.61p	17,999,603	37.86p	20,795,850
Granted during the year	89.90p	4,045,797	59.88p	3,457,140
Forfeited during the year	51.30p	(519,561)	114.49p	(364,934)
Exercised during the year	34.59p	(9,009,111)	172.06p	(1,265,605)
Lapsed during the year	2.30p	(1,129,682)	0.82p	(4,622,848)
Outstanding at the end of the year	66.20p	11,387,046	40.61p	17,999,603
Exercisable at the end of the year	136.40p	889,085	154.42p	1,123,641

The weighted average share price at the date of share options exercised during the period was 319.85 pence (2011: 283.42 pence).

18 Employee share schemes (continued)

The options outstanding at the year end have an exercise price in the range nil to 214.00 pence and a weighted average contractual life of 0.5 years.

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted.

19 Related Party Transactions

During the year, the Company carried out a number of transactions with related parties in the normal course of business. The names of the related parties, the nature of these transactions and their total value is shown below.

	2012	2012	2011	2011
	Value of	Receivable	Value of	Receivable
	transactions	at year end	transactions	/(payable)
				at year end
	£000	£000	£000	£000
<i>Purchase of production materials from:</i>				
NP Aerospace Limited	-	-	5	-
Assam Carbon Products Limited	153	-	460	(1)
<i>Sale of production materials to:</i>				
NP Aerospace Limited	147	62	139	25
Assam Carbon Products Limited	1,921	100	1,117	1,101

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

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