Morganite Electrical Carbon Limited

Annual report and financial statements

Registered number 01034653

31st December 2016

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Strategic report

Principal activities

The Company is a wholly-owned subsidiary of Morgan Advanced Materials plc ("Morgan Group").

The Company's principal activities are the manufacture and sale of a wide range of carbon and silicon carbide sub-components for the electrical and mechanical engineering industries including carbon brushes, current collectors and seals and bearings. Around 65% 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.

Business model

During 2013, Morgan Advanced Materials plc announced the launch of One Morgan, a plan to unify the Group under a cohesive brand identity. The strategic direction that was outlined was to build sustainable competitive advantage in attractive markets and secure long term viability. During 2014, the Company began a review of the Electrical business in the UK. As a result of the review, the Company began restructuring to remove manufacture of some Electrical products and Seals and Bearings products from the Swansea site to other Group sites. In 2015, the Company began a major restructuring of the Swansea manufacturing facility which is expected to be completed in 2017.

On 1st January 2017 the Seals & Bearings business of Morgan Electrical Carbon Limited which was based in Redditch, was transferred to Morgan Technical Ceramics Limited, a fellow Group subsidiary.

During 2016, the Company 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, in the medium to long-term. This research and development activity has resulted in a number of updates to existing products.

Financial performance

As shown in the Company's profit and loss account and other comprehensive income on page 6, the Company's turnover has decreased by 4.7% over the prior year and loss after tax has decreased by £1.24m The major factor resulting in the reduction of sales is due to the restructuring of the business under the One Morgan unification plan whereby certain products have been transferred to be manufactured in fellow Morgan Group companies.

The balance sheet on page 7 of the financial statements shows the Company's financial position at the year end and shows an increase in fixed assets due to capital investment in plant and equipment and a pension liability which has been transferred into the Company from the parent company (see note 17).

The Company's results are incorporated into the Morgan Group's Annual Report and it is for this reason that the 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.

Strategic report (continued)

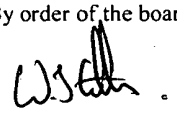
Competitive pressure in low cost countries is a continuing risk for the Company, which could result in it losing sales to its key competitors. To manage this risk, the Company strives to provide added-value products and services to its customers; respond promptly in the supply of products and services 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-reducing contributions made into the plan could materially impact the Company's trading results.

By order of the board



WJ Griffiths
Director
Upper Fforest Way
Morriston
Swansea SA6 8PP
19TH September 2017

Directors' report

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

Research and development

The Company will continue its programme of research and development. Expenditure incurred on research and development in the year was £103,000 (2015: £937,000).

Directors

The Directors who held office during the year and at the date of this report were as follows:
WJ Griffiths
KA Hoffmann (resigned 5/4/17)
GM Simpson (resigned 6/4/17)
JR Dun (appointed 6/4/17)
NP Hoyland (appointed 5/4/17)

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.

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 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.

Dividend

The Directors do not recommend the payment of a dividend (2015: £nil).

Auditors

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

By order of the board

WJ Griffiths
Director
Upper Fforest Way
Morriston
Swansea
SA6 8PP
19TH September 2017

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; 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

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 2016 set out on pages 6 to 23. 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 member, 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 member 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 member, 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 2016 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 matters prescribed by the Companies Act 2006

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

Based solely on the work required to be undertaken and from reading the Strategic Report and the Directors' report:

- we have not identified material misstatements in those reports; 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

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 LLP, Statutory Auditor
Chartered Accountants
3 Assembly Square
Britannia Quay
Cardiff
CF10 4AX
United Kingdom
26th September 2017

Profit and loss account and other comprehensive income

for the year ended 31 December 2016

	Note		2016		2015
		£000	£000	£000	£000
Turnover	2		19,431		20,383
Change in stocks of finished goods and work in progress		(234)		(1,739)	
Raw materials and consumables		(3,746)		(4,534)	
Other external charges		(1,824)		(2,020)	
Staff costs	5	(6,935)		(7,597)	
Depreciation and other amounts written off tangible and intangible fixed assets	8,9	(878)		(752)	
Other operating expenses		(5,959)		(5,213)	
			(19,576)		(21,855)
Operating loss	3		(145)		(1,472)
Interest payable and other similar expenses	6		(707)		(291)
Loss before taxation			(852)		(1,763)
Tax on loss	7		566		237
Loss for the financial year			(286)		(1,526)
Other comprehensive income					
Items that are or may be recycled subsequently to profit or loss:					
Net change in fair value of cash flow hedges recycled to profit or loss	14		(30)		(86)
Items that will not be reclassified subsequently to profit or loss:					
Reallocation of Defined Benefit obligation			(66,000)		-
Remeasurement gain on Defined Benefit plan			9,500		-
Other comprehensive loss for the year, net of income tax			(56,530)		(86)
Total comprehensive loss for the year			(56,816)		(1,612)

The amounts presented for the current and preceding financial years are derived from continuing operations.
The notes on pages 9 to 23 form an integral part of these financial statements

Balance sheet

at 31 December 2016

	Note	£000	2016 £000	£000	2015 £000
Fixed assets					
Intangible assets	8		10		24
Tangible assets	9		7,620		4,198
			7,630		4,222
Current assets					
Stocks	10	3,623		4,061	
Debtors	11	4,710		4,364	
Cash at bank		-		154	
		8,333		8,579	
Creditors: amounts falling due within one year	12	(19,876)		(15,265)	
Net current liabilities			(11,543)		(6,686)
Total assets less current liabilities			(3,913)		(2,464)
Non-current liabilities					
Deferred revenue	16		(651)		-
Employee benefits: pensions	17		(56,315)		-
Provisions for liabilities and charges	13		(7,604)		(9,203)
Net liabilities			(68,483)		(11,667)
Capital and reserves					
Called up share capital	14		43,837		43,837
Share premium account			37		37
Other reserves			(19)		11
Profit and loss account			(112,338)		(55,552)
Shareholders' deficit			(68,483)		(11,667)

The notes on pages 9 to 23 form an integral part of these financial statements.

These financial statements were approved by the board of Directors on 19th September 2017 and were signed on its behalf by:

WSGriffiths

WJ Griffiths
Director

Statement of changes in equity

for the year ended 31 December 2016

	Called up share capital £000	Share premium account £000	Other reserves £000	Profit and loss account £000	Total equity £000
Balance at 1 January 2015	43,837	37	97	(54,026)	(10,055)
Total comprehensive income for the year					
Loss for the year	-	-	-	(1,526)	(1,526)
Other comprehensive income (see note 14)	-	-	(86)	-	(86)
Total comprehensive income/(loss) for the year	-	-	(86)	(1,526)	(1,612)
Balance at 31 December 2015	**43,837**	**37**	**11**	**(55,552)**	**(11,667)**
Balance at 1 January 2016	**43,837**	**37**	**11**	**(55,552)**	**(11,667)**
Total comprehensive income for the year					
Loss for the year	-	-	-	(286)	(286)
Other comprehensive income (see note 14)	-	-	(30)	(56,500)	(56,530)
Total comprehensive loss for the year	-	-	(30)	(56,786)	(56,816)
Balance at 31 December 2016	**43,837**	**37**	**(19)**	**(112,338)**	**(68,483)**

The notes on pages 9 to 23 form part of these financial statements.

Notes

(forming part of the financial statements)

1 Accounting policies

Morganite Electrical Carbon Limited is a company incorporated, registered and domiciled in England and Wales 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 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;
- 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.

Measurement convention

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 and other comprehensive income.

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. The ultimate parent company, Morgan Advanced Materials plc has endorsed this view and issued a letter of support to the Directors of Morganite Electrical Carbon Limited. Accordingly, they continue to adopt the going concern basis in preparing the financial statements for the period ended 31 December 2016.

Intangible fixed assets and depreciation

Technology related operating intangible fixed assets purchased by the Company are amortised to nil by equal annual instalments over their useful economic lives of 3 years and 10 years.

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 - 50 years
Plant and machinery - 10 and 20 years
Fixtures and fittings - 10 and 20 years
No depreciation is provided on freehold land.

Foreign currencies

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. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign exchange differences arising on translation are recognised in the profit and loss account except for differences arising on the retranslation of qualifying cash flow hedges, which are recognised in other comprehensive income.

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.

Notes (continued)

Derivative financial instruments and hedging

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

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

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

Leases
Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability.

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

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.

Government Grants
Capital based government grants are included within accruals and deferred income in the balance sheet and credited to the profit and loss account over the estimated useful economic lives of the assets to which they relate.

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
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.

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 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 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.

Provisions
A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions for closure and restructuring and onerous lease are judgemental by their nature. Amounts provided are the Company's best estimate of expense based on currently available information. See Note 13 for further information about these provisions.

Notes (continued)

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.

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.

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 £66,000,000 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 17.

2 Analysis of turnover

	Turnover	
	2016	2015
	£000	£000
Goods sold by geographical market		
United Kingdom	**6,838**	7,675
Continental Europe	**9,428**	9,985
The Americas	**1,278**	755
Other	**1,887**	1,968
	19,431	20,383

3 Notes to the profit and loss account

	2016	2015
	£000	£000
Loss before taxation is stated after charging/(crediting) the following:		
Depreciation and other amounts written off tangible and intangible fixed assets:		
Owned	**875**	745
Leased	**3**	7
Auditor's remuneration:		
Audit of these financial statements	**30**	29
Research and development expenditure	**103**	937
Operating lease rentals:		
Land and buildings	**859**	847
Plant and machinery	**96**	102
Income from government grants	**(231)**	-
Loss/(profit) on sale of fixed assets	**54**	(21)
Foreign exchange (gains)/losses	**(126)**	122

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 immediate parent undertaking, Morgan Europe Holding Limited and ultimate parent undertaking, Morgan Advanced Materials plc.

4 Remuneration of directors

	2016 £000	2015 £000
Directors' emoluments	99	184

The emoluments of Klaus Hoffman were paid by another Group company.

	Number of directors 2016	2015
Retirement benefits are accruing to the following number of directors under:		
Defined benefit schemes	1	1
Group Personal Pension Plan	1	1
The number of Directors who exercised share options was	1	1

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 2016	2015
Sales and marketing	13	13
Logistics	2	2
Manufacturing	123	151
Administration	24	25
	162	191

The aggregate payroll costs of these persons were as follows:

	£000	£000
Wages and salaries	5,766	6,430
Social security costs	609	555
Other pension costs	560	612
	6,935	7,597

6 Interest payable and similar charges

	2016 £000	2015 £000
Interest payable to Group undertakings	407	291
Net interest on defined benefit liabilities	300	-
	707	291

7 Taxation

Analysis of credit in the year

	£000	2016 £000	£000	2015 £000
UK corporation tax				
Current tax on loss for the year	**(934)**		(472)	
Adjustments in respect of prior years	**368**		235	
Total current tax		**(566)**		(237)
Tax credit on loss		**(566)**		(237)

Reconciliation of effective tax rate:

The tax credit for the year is higher (2015: lower) than the effective standard rate of corporation tax in the UK of 20.00% (2015: 20.25%). The differences are explained below.

	2016 £000	2015 £000
Tax reconciliation		
Loss before tax	**(852)**	(1,763)
Current tax at 20.00% (2015: 20.25%)	**(170)**	(357)
Effects of:		
Expenses not deductible for tax purposes	**(105)**	(18)
Depreciation for period in excess of capital allowances	**(659)**	(97)
Adjustments to tax charge in respect of previous years	**368**	235
Total tax credit (see above)	**(566)**	(237)

A reduction in the UK Corporation tax rate from 21% to 20% (effective from 1 April 2015) was substansively 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.

8 Intangible fixed assets

	Software £000
Cost	
At beginning of year	944
At end of year	**944**
Amortisation	
At beginning of year	920
Charged in year	14
At end of year	**934**
Net book value	
At 31 December 2016	**10**
At 31 December 2015	24
Amortisation charge	
The amortisation charge is recognised in the following line item in the income	
Depreciation and other amounts written off tangible and intangible fixed assets	**878**

9 Tangible fixed assets

	Freehold Land and buildings £000	Plant and equipment £000	Payments on account and assets in course of construction £000	Total £000
Cost				
At beginning of year	1,995	10,752	598	13,345
Additions	1,020	185	3,140	4,345
Disposals	-	(3,137)	-	(3,137)
Transfers between items	-	103	(103)	-
At end of year	**3,015**	**7,903**	**3,635**	**14,553**
Depreciation				
At beginning of year	1,665	7,482	-	9,147
Charge for year	16	599	-	615
Impairment	-	249	-	249
On disposals	-	(3,078)	-	(3,078)
At end of year	**1,681**	**5,252**	**-**	**6,933**
Net book value				
At 31 December 2016	**1,334**	**2,651**	**3,635**	**7,620**
At 31 December 2015	330	3,270	598	4,198

Included in the total net book value of plant and machinery is £NIL (2015 £4,000) in respect of assets held under finance leases. Depreciation for the year on these assets was £4,000 (2015: £7,495).

10 Stocks

	2016 £000	2015 £000
Raw materials and consumables	**1,106**	1,602
Work in progress	**1,586**	2,079
Finished goods and goods for resale	**931**	380
	3,623	4,061

11 Debtors

	2016 £000	2015 £000
Trade debtors	**1,681**	1,741
Amounts owed by Group undertakings	**2,816**	2,162
Other debtors	**19**	35
Derivative financial instruments	**25**	36
Prepayments and accrued income	**169**	390
	4,710	4,364

12 Creditors: amounts falling due within one year

	2016 £000	2015 £000
Bank loans and overdrafts	**5,340**	-
Obligations under finance leases and hire purchase contracts	**75**	75
Trade creditors	**2,515**	2,597
Amounts owed to Group undertakings	**10,572**	11,264
Taxation and social security	**666**	793
Derivative financial instruments	**48**	18
Accruals and deferred income	**660**	518
	19,876	15,265

Amounts owed to Group undertakings includes a loan from Morgan Advanced Materials Plc. Interest on the loan is charged at 0.9% (2015: 0.9%). The loan is repayable on demand.

13 Provisions for liabilities and charges

	Restructuring provisions	Onerous lease provision	Total
	£000	£000	£000
At beginning of year	2,019	7,184	9,203
Provided during the year	596	-	596
Released during the year	(50)	(379)	(429)
Utilised during the year	(1,766)	-	(1,766)
At end of year	**799**	**6,805**	**7,604**

Restructuring provisions
At 31 December 2015 a £2.0 million provision was held for the costs relating to restructuring the Company and rationalisation under the One Morgan restructuring plan and included redundancy costs and other related costs. During 2016, a further £164,000 was provided towards the completion of the restructuring. Included in the closing provision of £799,000 is an additional £398,000 of rationalisation costs to be incurred during 2017 as a result of implementation of new processes and equipment.

Onerous lease provision
At 31 December 2014 a £7.5 million provision was set up relating to an onerous lease on the manufacturing site at Swansea. The provision represents the under occupancy of the site following the restructuring of the business. The movement in the year relates to charging of the 2016 rent paid relating to the unoccupied areas to the profit and loss account

Deferred taxation
At 31 December 2016 there are trading losses carried forward in the Company of approximately £11.7 million (2015: £9.7 million). No deferred tax has been recognised in respect of these losses on the grounds that there is insufficient evidence that the associated asset of £2.2 million (2015: £1.7 million) will be recoverable. In addition, there are unrecognised deferred tax assets in respect of unclaimed capital allowances on plant and machinery of £1.5 million (2015: £1.8 million), and £9.6m in respect of the defined benefit pension scheme liability.

14 Capital and reserves

Share capital	Ordinary shares 2016
In thousands of shares	
On issue at 1 January 2016 and 31 December 2016	43,837

	2016 £000	2015 £000
Allotted, called up and fully paid		
Ordinary shares of £1 each	**43,837**	43,837

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Other comprehensive income

2016	Other reserves £000	Profit and loss account £000	Total other comprehensive income £000
Net change in fair value of cash flow hedges recycled to profit and loss	(30)		(30)
Reallocation of defined benefit obligation		(66,000)	(66,000)
Remeasurement gain on defined benefit plan		9,500	9,500
Total other comprehensive income	(30)	(56,500)	(56,530)
2015			
Net change in fair value of cash flow hedges recycled to profit and loss	(86)	-	(86)
Total other comprehensive income	(86)	-	(86)

15 Commitments and contingent liabilities

Non-cancellable operating lease rentals are payable as follows:

	2016		2015	
	Land and buildings £000	**Other £000**	Land and buildings £000	Other £000
Less than one year	**-**	**41**	31	24
Between one and five years	**88**	**53**	-	78
More than five years	**747**	**-**	816	-
	835	**94**	847	102

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 (2015: £154k)

16 Deferred revenue

	2016 £000	2015 £000
Government Grants	**719**	-
Current	**68**	-
Non-current	**651**	-
	719	-

The deferred revenue arises as a result of the benefit received from Government grants received in the year for capital expendure on site restructuring and strategic purchases of plant and equipment. The total amount received in the year was £950,000 of which £231,000 has been released to the profit and loss account in the year (see note 3). The £719,000 above relates to capital purchases and will be released over the life of the assets (see note 1).

17 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.

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 £66,000,000 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.

	2016	2015
Pension plans and employee benefits	**£000**	£000
Present value of funded defined benefit obligations	**(173,165)**	-
Fair value of plan assets	**116,850**	-
Net obligations	**(56,315)**	-
Movements in present value of defined benefit obligation		
At 1 January	**-**	-
Reallocation of defined benefit obligation	**(186,100)**	-
Current service cost	**(100)**	-
Interest cost	**(1,200)**	-
Remeasurement (losses)/gains:		-
Changes in financial assumptions	**(32,000)**	-
Changes in demographic assumptions	**1,200**	-
Experience adjustments on benefit obligations	**43,835**	-
Benefits paid	**1,400**	-
Contributions by members	**(200)**	-
At 31 December	**(173,165)**	-
Movements in fair value of plan assets		
At 1 January	**-**	-
Reallocation of fair value of plan assets	**120,100**	-
Interest on plan assets	**900**	-
Remeasurement losses	**(3,500)**	-
Contributions by employer	**600**	-
Contributions by members	**200**	-
Benefits paid	**(1,400)**	-
Administrative expenses	**(50)**	-
At 31 December	**116,850**	-
Actual return on assets	**(2,600)**	-

Pension plans and employee benefits	**£000**	£000
Expense recognised in the consolidated income statement		
Current service cost	**(100)**	-
Administrative expenses	**(50)**	-
Net interest on net defined benefit liability	**(300)**	-
Total expense	**(450)**	-

The fair values of the plan assets were as follows:

	£000	£000
Equities and growth assets	**51,300**	-
Bonds	**12,600**	-
Matching insurance policies	**49,100**	-
Other	**3,850**	-
Total	**116,850**	-

17 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:

	2016
Assumptions:	**%**
Inflation (RPI & CPI)	**3.20/2.10**
Discount rate	**2.62**
Pensions increase	**3.00/3.10/3.70**
Salary increase	**n/a**
Mortality - post-retirement:	
Life expectancy of a male aged 60 in accounting year	**26.8 years**
Life expectancy of a male aged 60 in accounting year + 20	**28.7 years**

History of the plans

The history of the plans are as follows:

Balance Sheet	**2016**	2015
	£000	£000
Present value of the defined benefit obligation	**(173,165)**	-
Fair value of plan assets	**116,850**	-
Deficit	**(56,315)**	-

Funding:

The most recent full actuarial valuation of the UK Schemes were undertaken as at March 2013 and resulted in combined assessed deficits of £82 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 totalling £7 million a year in 2016/17, across all employers, increasing with 2.75% pa until 2023 and contributions in respect of future service as accrued. New full valuations are due with effective dates of March 2016 and the outcome of those consultations, which are underway, will determine the Group's future contribution requirements, with any new deficit arising needing to be met through the payment of additional contributions. The Group expects these valuations to have been completed by June 2017.

Sensitivity analysis

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

		2016	2015
		Increase effect	Increase effect
	Change in assumption	**£000**	£000
Discount rate	Decrease by 0.1%	**2,700**	-
Inflation	Increase by 0.1%	**1,300**	-
Mortality - post retirement	Pensioners live 1 year longer	**5,400**	-

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 Group operates a defined contribution pension plan (the Morgan Group Personal Pension Plan). The total Company expense relating to this plan in 2016 was £79,000 (2015: £71,000).

Total pension contributions outstanding at the year end amounted to £NIL (2015: £10,000).

18 Employee share schemes

Share-based payments

Certain employees of the Company participate in various share option programmes that allows Morgan Group employees to acquire shares in the ultimate parent company. Under the Morgan Advanced Materials plc Long-Term Incentive Plan (LTIP) and The Morgan Advanced Materials Bonus Deferral Share Matching Plan (BDSMP) 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 21 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 2016.

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.

	2016 Value of transactions	**2016 Receivable/ (payable) at year end**	2015 Value of transactions	2015 Receivable/ (payable) at year end
	£000	**£000**	£000	£000
Purchase of production materials from:				
Assam Carbon Products Limited	-	-	13	(295)
Magma Ceramics (Jemmtec Limited)	**86**	**(24)**	72	(21)
Sale of production materials to:				
Assam Carbon Products Limited	**78**	-	83	-

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

The Directors regard Morgan Europe Holding Limited, whose registered office is Quadrant, 55-57 High Street, Windsor, Berkshire, SL4 1LP, as being the Company's immediate parent undertaking and 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.

21 Derivative financial assets and liabilities

	2016 £000	2015 £000
Derivative financial assets		
Forward foreign exchange contracts designated as cash flow hedges	**25**	36
Derivative financial liabilities		
Forward foreign exchange contracts designated as cash flow hedges	**(48)**	(18)
	(23)	18

Fair values are measured using a hierachy 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.