Governance

GOVERNANCE

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Chairman's letter to shareholders

> "The guiding principle of the Board is to **'do the right thing'** with respect to all our stakeholders and the environment."

Douglas Caster CBE FIET
Chairman

This image was taken pre-COVID-19.

DEAR SHAREHOLDER

I am pleased to report that Morgan's governance framework served the Company well during 2020. Despite the backdrop of an unprecedented, challenging year my fellow Directors and I continued to support and guide executive management. The report which follows explains the governance framework and the workings of the Board and Committees and demonstrates how the Board continued to perform effectively.

Apart from the priorities I discussed in my introductory statement to this report the key governance priorities for the Board during 2020 were:

INFORMATION FLOW TO THE BOARD

The spread of COVID-19 across the globe meant that different parts of the business were impacted at different times and it was imperative to keep abreast of developments. The Board received regular reports from the CEO on the impact of COVID-19 on operations, trading performance and, not least, employee health, safety and well-being. In addition to receiving regular briefings from the CEO between Board meetings, the Board met more frequently and received commentary on the impact of the pandemic directly from the divisional and global business unit senior managers as well as representatives of the workforce at all levels in the organisation.

SUPPORT AND CHALLENGE OF EXECUTIVE MANAGEMENT

The role of a non-executive director is to support executive management but also to challenge proposals put forward for consideration by the Board. In this respect, a diverse board membership assists in ensuring that the assessments made and conclusions drawn have been fully considered and take the long-term sustainability of the business into account. My fellow non-executive directors and I drew on our individual areas of expertise, experience and different personal perspectives to probe and test to ensure that decisions taken in light of the impact of the pandemic on the business were robustly debated, balanced short and longer term considerations and will support the long-term performance of the Group.

CULTURE AND VALUES

The Board sets the tone from the top and ensures that the Group's culture is aligned with the values and behaviours which are underpinned by the Morgan Code. The Board has continued to monitor and assess Group culture during 2020 using a range of mechanisms. The Board was keen to ensure that the Group's focus on working safely and ethically was not compromised as a result of the pandemic.

ENGAGEMENT WITH KEY STAKEHOLDERS

This report explains how the Board engaged with key stakeholders. The Board was not able to fulfil the programme of site visits planned for 2020. However, as referred to in my statement at the start of this Annual Report, I was pleased that the non-executive Directors were able to speak directly to a diverse cross-section of employees in different locations across the world using video conferencing. The Directors heard first-hand employee accounts of the impact of COVID-19 on their site, the COVID-19 protocols and safety measures put in place, as well as broader issues, such as their views on investment and the future of Morgan. We have plans in place to continue to participate in 'virtual' employee engagement sessions during 2021. The CEO and CFO engaged with shareholders through meetings at the half and full year to discuss Company performance and provide explanation of the Company results where necessary. All of these meetings were on a 'virtual' basis.

BOARD EFFECTIVENESS

All Board meetings have been held 'virtually' since March 2020. I am pleased to say that the virtual model has worked very effectively and has not compromised Board effectiveness in any way. To assure this, in November the Board conducted an evaluation of its own performance. Despite the remote method of working throughout the year the outcome of the evaluation was very positive.

In conducting Morgan's business, the guiding principle will always be to 'do the right thing' within a framework of strong corporate governance. We will trade ethically within a culture that develops and values our people while looking for ways to support long term sustainability by minimizing the Company's environmental impact.

Douglas Caster CBE FIET
Chairman

Board of Directors

1. DOUGLAS CASTER CBE FIET
Non-executive Chairman

Appointed: Non-executive Director in February 2014. Non-executive Chairman and Nomination Committee Chairman on 1 January 2019.

Skills and contribution: Douglas is an experienced Chairman with leadership and governance experience and a strong track record of managing and driving growth within electronics businesses.

Career and experience: Douglas began his career as an electronics design engineer with the Racal Electronics Group in 1975, before moving to Schlumberger in 1986 and then to Dowty as Engineering Director of Sonar & Communication Systems in 1988. In 1992, he became Managing Director of that business and, after participating in the management buy-out that formed Ultra Electronics, joined the Board in October 1993. In April 2000, he became Managing Director of Ultra's Information & Power Systems division. In April 2004 he was appointed Chief Operating Officer and became Chief Executive in April 2005. He was appointed Deputy Chairman in April 2010 and was Chairman of Ultra from April 2011 until 28 January 2019. Douglas was non-executive Chairman of Metalysis Limited from January 2015 until June 2019. Douglas was Morgan Advanced Materials plc's Senior Independent Director from January 2015 until December 2017. He was appointed to the role of Chairman in January 2019.

Additional appointments: None

Committees: N R

2. PETE RABY
Chief Executive Officer

Appointed: August 2015.

Skills and contribution: Pete has a strong technical background and extensive experience in planning and executing business strategy across global technology and manufacturing operations.

Career and experience: Pete joined Morgan Advanced Materials in August 2015 as Chief Executive Officer. Before joining Morgan Advanced Materials, Pete was President of the Communications and Connectivity sector of Cobham plc. Pete demonstrated strong leadership across a range of senior strategy, technology and operational positions at Cobham over a nine-year period. Prior to Cobham, Pete was a partner at McKinsey & Company in London, specialising in strategy and operations in the aerospace, defence and power and gas sectors. He has a PhD in satellite navigation and an M.Eng. from the Department of Electronic and Electrical Engineering at the University of Leeds.

Additional appointments: Non-executive Director, Hill & Smith Holdings PLC.

3. PETER TURNER
Chief Financial Officer

Appointed: April 2016.

Skills and contribution: Peter has significant financial experience combined with a strong track record of driving improved business performance in multiple large-scale and complex organisations.

Career and experience: Peter joined Morgan Advanced Materials in April 2016 as Chief Financial Officer. Before this, Peter was Finance Director at Smiths Group plc from 2010 to 2015. During this time, he was responsible for driving restructuring programmes across the Group to enhance operating margins, with a strong focus on improving operating cash flow. Prior to Smiths, Peter was Finance Director from 2007 to 2009 at Venture Production plc, before it was acquired by Centrica plc in 2009. From 1995 to 2006, Peter held several senior positions at The BOC Group plc, including Finance Director of the Industrial and Special Products division. Peter started his career as an auditor at Price Waterhouse. He holds a degree in chemistry from Oxford University.

Additional appointments: None.

4. JANE AIKMAN
Independent Non-executive Director

Appointed: Non-executive Director and Audit Committee Chair in July 2017.

Skills and contribution: Jane brings to the Board significant financial experience and knowledge of growing manufacturing and technology businesses gained in a variety of senior executive positions. Jane brings a valuable perspective from her current executive role in the technology marketing and advertising sector.

Career and experience: Jane has been Group Director and Group Chief Operating Officer of Inside Ideas Group Limited since July 2020. Up until May 2019, Jane was Chief Financial Officer of Arqiva Group Limited, a communications infrastructure company. Prior to this, she was the Chief Financial Officer of KCOM Group plc, a listed communications services and IT solutions provider. She was Chief Financial Officer and Chief Operating Officer of Phoenix IT Group plc until its acquisition by Daisy Group in 2015. Jane has also held Chief Financial Officer positions at Infinis plc, Wilson Bowden plc and Pressac plc and a senior finance position at Asia Pulp and

The image was taken pre-COVID.

Paper in south-east Asia. Jane was a non-executive Director of Halma plc from 2007 and chaired its audit committee from 2009 until her departure in July 2016. Jane holds a civil engineering degree and qualified as a Chartered Accountant with Ernst & Young.

Additional appointments: Group Director and Group Chief Operating Officer of Inside Ideas Group Limited.

Committees: A N R

5. HELEN BUNCH

Independent Non-executive Director

Appointed: Non-executive Director in February 2016. Remuneration Committee Chair on 1 January 2019.

Skills and contribution: Helen has significant experience of driving business performance and building businesses in new markets. Helen also brings to the Board a valuable perspective from her current executive role leading a business in the construction sector.

Career and experience: At the start of her career, Helen spent 17 years working in global businesses serving a wide variety of industries from automotive to household products, including 11 years with ICI and the remainder with a successor company, Lucite International Ltd. In 2006, Helen joined Wates Group, the privately-owned construction and property services company, as Group Strategy Director and became Managing Director of Wates Retail Limited in January 2011. From 2015 to July 2020 Helen was Managing Director of Wates Smartspace Limited, the enlarged property services business following a merger with another Wates company and the acquisition of a facilities management business. In July 2020, Helen became Executive Managing Director of Wates Residential.

Additional appointments: Executive Managing Director of Wates Residential.

Committees: A N R

6. LAURENCE MULLIEZ

Senior Independent Director

Appointed: Non-executive Director in May 2016. Senior Independent Director in December 2017.

Skills and contribution: Laurence has significant experience in growing, simplifying and unifying complex international and industrial manufacturing businesses, and brings valuable knowledge of the energy (including renewables), steel and infrastructure industries, and insight into some of Morgan's key markets.

Career and experience: Laurence joined Banque Nationale de Paris in 1988 followed by M&M Mars Inc. in 1992 and then Amoco Chemical Inc. in 1993, which was acquired by BP p.l.c. in 1998. She spent a further 11 years at BP in a variety of roles including Chief Executive of Castrol Industrial Lubricants and Services. Laurence was Chief Executive of independent power producer Eoxis UK Limited from 2010 to 2013. Laurence is currently Chair of Voltalia S.A. and Globeleq Ltd, and a member of the supervisory boards of SBM Offshore N.V. and Siemens Energy AG.

Additional appointments: Chairman of Voltalia S.A., Chairman of Globeleq Ltd, member of the supervisory board of SBM Offshore N.V. and member of the supervisory board of Siemens Energy AG.

Committees: A N R

7. CLEMENT WOON

Independent Non-executive Director

Appointed: May 2019.

Skills and contribution: Clement has broad managerial experience in globally operating technology and consumer-related industries. He has a strong track record of renewing traditional industries and revitalising growth through strategic interventions, and in-depth experience and knowledge of markets within the Asia Pacific region.

Career and experience: From August 2016 to March 2020, Clement was Group CEO of Saurer Intelligent Technology Co. Ltd, a €1 billion textile machinery and components business listed on the Shanghai Stock Exchange. Clement continues to serve on the board of Saurer in the capacity of non-executive director. Prior to this, from April 2014 to July 2016, Clement was Advisor and Co-CEO of Jinsheng Industry Co Ltd, an industrial company in China with diverse interests including biotech, automotive and textiles. Previously Clement held various senior positions at companies based in Switzerland and Singapore including Division CEO of Leica Geosystems AG, President & CEO of SATS Ltd, and CEO Textile Division of OC Oerlikon AG. Clement has an MBA in Technology Management from Nanyang Technological University, Singapore, an MSc in Industrial Engineering and a BEng in Electrical Engineering from the National University of Singapore.

Additional appointments: Non-executive Director of Saurer AG and Chairman of PFI Foods Industries Pte. Ltd.

Committees: A N R

COMMITTEES

- Committee Chairman
- A Audit
- N Nomination
- R Remuneration

THE UK CORPORATE GOVERNANCE CODE

In July 2018 the Financial Reporting Council published the most recent version of the UK Corporate Governance Code (the Code), which is available on its website **www.frc.org.uk**.

Listed below are the Code Principles, and details of where we have addressed them in this Annual Report.

APPLICATION OF CODE PRINCIPLES:

Code Principle	Summary	Page(s)
A	Board Leadership and Company Purpose Principles A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society.	51
B	The board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture.	8 to 23
C	The board should ensure that the necessary resources are in place for the company to meet its objectives, and measure performance against them. The board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed.	26 to 31
D	In order for the company to meet its responsibilities to shareholders and stakeholders, the board should ensure effective engagement with, and encourage participation from, these parties.	4, 5, 20, 51, 52
E	The board should ensure that workforce policies and practices are consistent with the company's values and support its long-term sustainable success. The workforce should be able to raise any matters of concern.	16, 17, 20 to 23 and 61
F	Division of Responsibilities Principles The chair leads the board and is responsible for its overall effectiveness in directing the company. He or she should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the chair facilitates constructive board relations and the effective contribution of all non-executive directors, and ensures that directors receive accurate, timely and clear information.	54 to 56
G	The board should include an appropriate combination of executive and non-executive (and in particular, independent non-executive) directors, such that no one individual or small group of individuals dominates the board's decision-making. There should be a clear division of responsibilities between the leadership of the board and the executive leadership of the company's business.	48, 49, 53, 54
H	Non-executive directors should have sufficient time to meet their board responsibilities. They should provide constructive challenge and strategic guidance, offer specialist advice, and hold management to account.	55
I	The board, supported by the company secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently.	56
J	Composition, Succession and Evaluation Principles Appointments to the board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan should be maintained for board and senior management. Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, and cognitive and personal strengths.	63 to 65
K	The board and its committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of service of the board as a whole and membership regularly refreshed.	48, 49, 54, 63 to 65
L	Annual evaluation of the board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively.	56 to 57
M	Audit, Risk and Internal Control Principles The board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself of the integrity of financial and narrative statements.	60 to 62
N	The board should present a fair, balanced and understandable assessment of the company's position and prospects.	60
O	The board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objectives.	26 to 31
P	Remuneration Principles Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success. Executive remuneration should be aligned to company purpose and values and be clearly linked to the successful delivery of the company's long-term strategy.	66 to 76
Q	A formal and transparent procedure for developing policy on executive remuneration and determining director and senior management remuneration should be established. No director should be involved in deciding their own remuneration outcome.	66 to 86
R	Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances.	66 to 86

STATEMENT OF COMPLIANCE WITH THE CODE PROVISIONS

The Board confirms that during the year ended 31 December 2020, the Company has fully complied with the provisions of the Code.

BOARD'S MONITORING AND ASSESSMENT OF CULTURE AND WORKFORCE ENGAGEMENT

As set out in greater detail on pages 18 to 23 in the sustainability and responsibility section, Morgan's cultural objective is to build an organisation where collaboration and empowered decision-making at all levels of management (rather than in isolation locally) is more prevalent, and where the right outcomes are reached, in the right way (ethically, safely and inclusively). The Morgan Leadership Behaviours support the ethos that 'it is not just what you do, but how you do it that counts.'

The Board has monitored and assessed the development of Morgan's culture through the methods used for employee engagement as described below, supplemented by other resources to help assess the culture and which include:

- Employee insight gathered from site visits, virtual engagement sessions, and employee events
- Employee engagement survey metrics and verbatim employee comments
- Areas of culture highlighted in ethics reporting
- Safety updates and metrics – presented directly to the Board on a regular basis
- Additional insights with a focus on diversity and inclusion.

Workforce engagement

For the purposes of workforce engagement, the Board defines the workforce as all employees directly employed by the Group. The Board considers that the most appropriate mechanism for workforce engagement is a combination of methods, (as permitted by the Code), involving all Board members. This approach recognises the Group's global reach with facilities located in over 30 countries, and the fact that many employees are in operational and manufacturing roles without internet access in the workplace.

The mechanisms selected by the Board to engage with the workforce primarily comprise a number of meetings between the non-executive Directors with employees, (without senior management present), supplemented by other methods, to provide insight into employee views, which are summarised below. Due to the global COVID-19 pandemic which severely limited travel, most employee engagement that took place in 2020 was virtual, rather than via in-person meetings at the Group's manufacturing sites or offices.

Board attendee(s)	Date	Type of engagement	Location(s)	Who met
Helen Bunch and Clement Woon	Jan 2020	Site visit	Luxembourg (Seals & Bearings site)	Site visit, met local employees and management
Clement Woon	Oct 2020	Site visit	Singapore office	Site visit, met local and regional finance managers
All NEDs	Nov 2020	Virtual employee engagement session	Johannesburg, South Africa (Electrical Carbon facility)	Met local employees and management
All NEDs	Nov 2020	Virtual governance session	Johannesburg, South Africa	Met non-executive directors of Morganite South Africa
All NEDs	Nov 2020	Virtual employee engagement session	New Bedford, United States (Technical Ceramics facility)	Met local employees and management
Douglas Caster and Clement Woon	Dec 2020	Virtual employee engagement session	Bromborough, United Kingdom (Thermal Products – Thermal Centre of Excellence, warehouse and sales office)	Met local employees and management

During the engagement sessions, employees were encouraged to express their views on working on site during the pandemic, safety, culture, leadership, investment in the future of the site and any other matters they wished to raise, and the output from the discussion was reported back to the next Board meeting, which created greater awareness of employee views. In addition, follow up discussions were held to share employee feedback with managers, to address any concerns and to foster a positive culture.

The meetings between non-executive Directors and small groups of employees from one site creates an atmosphere of trust which encourages employees to speak openly and honestly about the issues they care about most. The Board is satisfied that the combination of (i) dedicated engagement sessions with diverse groups of employees which encourages meaningful discussion and frank feedback; (ii) meeting employees in their place of work during Board visits to Morgan facilities and non-executive Director site visits; and (iii) the varied encounters with employees during other Morgan events provide a range of effective ways to engage with employees. Feedback from employees indicates that they appreciate these interactions, and that employees would like engagement to continue. During 2020, the inability to travel and visit sites prevented the anticipated level of engagement in person, and the Board instead held a number of virtual engagement sessions. This approach continues to evolve, and the Board will monitor its effectiveness and develop its approach during 2021.

Corporate governance

Engagement with Shareholders

The Chairman and the executive Directors meet institutional investors and potential institutional investors.

The Company's brokers present to the Board annually, including reporting insights from investors and the market.

The Board also review the feedback provided by investors and potential investors following annual and half-year results presentations which sets out the issues that investors are interested in and whether they believe their expectations have been met.

Ordinarily, the Annual General Meeting (AGM) provides shareholders with the opportunity to ask questions of the Directors in person and to meet them informally after the meeting. This was not possible during 2020 due to COVID-19 and the UK Government's 'stay at home' measures. Instead, shareholders were asked to submit questions ahead of the Company's AGM for the Board to respond to, by contacting the Company Secretary.

The Investors section of the Company's website includes details of regulatory announcements, press releases, presentations, webcasts and other relevant Company and shareholder information.

Relations with customers and suppliers

The Board keeps abreast of relations with customers through regular reports from the Chief Executive Officer as well as insights provided by the Presidents of the divisions and global business units as part of their business presentations to the Board. During 2020, as a result of the Group's restructuring project, additional engagement and partnering with customers was required where site closures meant that manufacturing of products moved from sites in one country to another, with the need for additional quality control measures as a result.

Morgan ensures its interactions with suppliers, customers and competitors are always ethical, through the Morgan Code and specific Group policies, supported by risk assessment and due diligence. The Company seeks to ensure that suppliers and customers operate in a similarly responsible manner, by fostering long-term relationships built on trust, being truthful in communications, and meeting agreed payment terms. Morgan seeks to ensure that new suppliers operate in a responsible way, that their workers are safe and treated fairly, and ensures that environmental and social impacts are taken into consideration during its process for sourcing new suppliers.

Morgan publishes its Modern Slavery Act transparency statement annually, explaining steps taken by the Group to seek to ensure that there are no incidents of modern slavery within the business and its supply chain, in accordance with the UK Modern Slavery Act 2015. The Board reviews the Group's operational, legal and compliance framework to prevent modern slavery in its supply chain, which includes employee training, contractual terms and conditions and due diligence processes.

Engagement with pension trustees on behalf of pensioners

The Board met the Chair of the UK defined benefit pension scheme trustees in February 2020 and February 2021 and had the opportunity to ask questions. The Director of Pensions and the Chief Financial Officer also provide regular updates to the Board on pension issues and funding and regulatory developments affecting the Company's main defined benefit schemes around the world, including those in the US where, as in the UK, there are a significant number of pensioner members.

THE BOARD

The role of the Board

The Board is collectively and ultimately responsible to the Company's shareholders and oversees how the organisation generates and preserves the long-term success of the Company. The Board supervises and monitors progress against the key execution priorities, whilst ensuring that there is a robust framework of prudent and effective controls, which enables risks and emerging risks to be fully considered, assessed and managed.

The Board sets the tone from the top and monitors the Company's compliance with the Morgan Code (referred to on page 23 of the Sustainability and responsibility section of this Report), and in doing so all the Directors fulfil their duties under section 172 of the Companies Act 2006.

Matters reserved for the Board

- Overall leadership, culture, strategic aims, long-term objectives and risk appetite of the Group.
- Alignment of Group's culture with purpose and values.
- Any changes relating to Group capital structure.
- Oversight and approval of full-year and half-year financial results, including approval of the Annual Report and ensuring a 'fair, balanced and understandable' presentation of the Group's financial position.
- Approval of contracts and expenditure as specified in the Limits of Authority schedule.
- Stakeholder communication and engagement.
- Changes to Board membership following recommendations from the Nomination Committee.
- Determining remuneration policy for the Directors, Company Secretary and other senior executives following recommendations from the Remuneration Committee.
- Delegation of authority, approving levels of authority including for the principal committees, and approving their terms of reference.
- Corporate governance matters, including a review of its own performance, determining non-executive Director independence, and review of overall governance arrangements and authorising any conflicts of interest.
- Other specific matters.

THE COMMITTEES OF THE BOARD

(and key responsibilities)

Audit Committee

- Financial reporting
- External audit
- Internal audit
- Oversight of principal risks
- Oversight of ethics and compliance

Remuneration Committee

- Executive and senior management remuneration
- Incentive structure and target setting
- Setting remuneration policy
- Reviewing and considering wider workforce remuneration

Nomination Committee

- Succession planning (Board and senior management)
- Board and Committee composition
- Board recruitment/ appointments
- Diversity and inclusion

Executive Committee

- Strategy implementation
- Delivery of operational and financial performance
- Approval of policies
- Assessment and control of risk
- Prioritisation and allocation of resources
- Monitoring of competitive forces in each area of operation

Disclosure Committee

- Assistance and information to the Board concerning the identification of inside information
- Recommendations as to how and when the Company should disclose such information
- Ensuring any such information is managed and disclosed in accordance with all applicable legal and regulatory requirements and the Company's procedures on controlling inside information

General Purposes Committee

- Approve opening of/changes to bank accounts
- Approve arrangements with financial institutions
- Approve guarantees and indemnities
- Approve substantive intra-Group loans
- Intra-Group dividends and capital restructuring
- Grant options/ make awards under Company's share schemes (after Remuneration Committee approval) and any Employee Benefit Trust-related loans

Corporate governance

The Company's governance framework is formally delivered through the following mechanisms: the Company's Articles of Association, the clearly defined role of the Board and the matters reserved for the Board, and the principal Committees of the Board (Audit, Remuneration and Nomination Committees) and their clearly defined terms of reference. The memberships, roles and activities of the principal Committees are described in their respective reports. The full terms of reference of the principal Committees are available on the Company's website.

The Board delegates the day-to-day management of the Group and operational matters to the Chief Executive Officer and the Chief Financial Officer. The two executive Directors together with the Group Human Resources Director, the Group General Counsel, the Group IT Director, and the divisional or global business unit Presidents form the Executive Committee. The Company Secretary acts as Secretary to the Committee and attends all meetings.

The Board has delegated authority for certain other specific matters including approvals to a General Purposes Committee at which a non-executive Director must be present. The General Purposes Committee meets as required.

The Disclosure Committee meets on an ad-hoc basis during the year to assess whether information which directly concerns the Group is inside information (as defined by the UK (formerly EU) Market Abuse Regulation), and to discharge other responsibilities relating to the control and disclosure of inside information. The membership of the Disclosure Committee comprises the Directors and the Company Secretary, but meetings are generally attended by the executive Directors and the Company Secretary.

Board – roles and responsibilities

In 2020 the Board comprised five non-executive Directors (including the Chairman) and two executive Directors. This is considered to be the appropriate number of members for the Board, given the scale of the Group's operations at this time. Biographies of the Directors in post at the date of this Report, including details of their skills, career and experience and any other significant external commitments, are set out on pages 48 and 49.

There is a clear division of responsibilities between the Chairman and Chief Executive Officer, and each role is clearly defined.

The Chairman

Responsible for:

- Leading and ensuring the effectiveness of the Board and the individual Directors;
- Shaping boardroom culture;
- Ensuring the Board has effective decision-making processes and applies sufficient challenge to major proposals;
- Setting the Board's agenda;
- Ensuring sufficient time is available for all agenda items;
- Promoting a culture of open debate and constructive challenge which results in sound decision-making;
- Encouraging all Directors' effective contributions, drawing on their skills, experience and knowledge; and
- Ensuring constructive relationships between executive and non-executive Directors.

Chief Executive Officer

Responsible for:

- Management of the Group;
- Delivery of the Group's business plan;
- Formulation and implementation of Group strategy;
- Chairing the meetings of the Executive Committee; and
- Ensuring the implementation of the Group's policies, all within the authorities delegated by the Board.

The Chairman and Chief Executive Officer maintain a strong working relationship and open dialogue, which ensures cogent leadership of the Group.

Chief Financial Officer

- Supports the Chief Executive Officer in the development and delivery of the Group strategy;
- Leads the Group's finance functions;
- Oversees effective financial reporting and ensures suitable processes and controls are in place; and
- In conjunction with the Chief Executive Officer, recommends the annual budget and long-term financial plans of the Group.

Senior Independent Director

- Meets with the non-executive Directors (without the Chairman present) at least once a year to consider the Chairman's performance during the year and communicates the outcomes to the Chairman; and
- Acts as a trusted sounding board for the Chairman and as an intermediary for the other non-executive Directors.

Non-executive Directors

- Provide independent monitoring and review of management's performance;
- Provide alternative insight, expertise and assist with the development and review of the strategy;
- Engage with stakeholders and employees in relation to Morgan's culture; and
- Chair/attend meetings of and contribute to the work of the principal committees of the Board, reviewing remuneration, financial performance, internal audit and succession planning of senior management.

Company Secretary

- Supports the Board by ensuring information is made available in a timely manner;
- Supports the Board by facilitating induction, training and performance evaluations;
- Supports the Chairman in designing the annual Board programme; and
- Provides advice on corporate governance matters.

Board balance, experience, diversity and independence

The size, structure and composition of the Board were reviewed during the year, taking into account succession planning and the need to progressively refresh the membership and update the knowledge and range of skills and experience of the Board, which are themselves regularly reviewed. The Board wishes to ensure that it maintains a blend of views and skills as well as a cohesive and informed decision-making process. The Board comprises members with a breadth and depth of professional and sector experience, and with varied and relevant backgrounds; it has Directors with skills in strategy, finance and technology, as well as global commercial experience, and working knowledge of other boards or executive roles.

Throughout the year, the Company complied with the requirement of the Code that at least half the Board, excluding the Chairman, should comprise non-executive Directors determined by the Board to be independent. In addition to considering the factors set out in the Code, the Board's assessment of a non-executive Director's independence and effectiveness covers their total number of commitments, and any relationships with major suppliers or with charities receiving material support from the Company.

During the year, the Chairman and the non-executive Directors met on a number of occasions without the executive Directors present. The Senior Independent Director and the other non-executive Directors also met without the Chairman present.

Time commitment

Prior to undertaking an additional external role or appointment, the Chairman and the non-executive Directors are asked to confirm that they will continue to have sufficient time to fulfil their commitments to the Company. In accordance with the Code, Directors are asked to seek Board approval prior to accepting any additional external appointments.

Conflicts of interest

The Board has procedures in place to address the requirements of the Companies Act 2006 concerning the duty of the Directors to avoid conflicts of interest. Accordingly, the Directors are required to:

- Disclose proposed outside commitments and to seek Board approval before accepting any additional external appointments, in order to enable a prior assessment of any actual or potential conflict.
- Disclose without delay any situation which gives rise to an actual or potential conflict.

The Board reviews the outside interests of the Directors annually, including any disclosed conflicts and authorisations. Should an actual or potential conflict be identified, the Board considers whether to authorise the situation in accordance with the Company's Articles of Association and, if so, the terms of any authorisation. In the event of an actual conflict arising, the Director concerned must notify the Chairman (the Chairman would notify the Senior Independent Director) and the Director would be denied access to the relevant information and excluded from any associated debate and decision.

The 2020 review confirmed that no potential or actual conflicts had occurred during the year under review.

Should a Director have concerns about the running of the Company, or about a proposed action, which are not resolved, their concerns would be recorded in the Board minutes. An appropriate Directors' and Officers' liability insurance policy is in place.

Board meetings

In 2020, the Board met formally on 11 occasions, with a summary of the matters addressed in these meetings set out on pages 56 to 57. Meetings which took place from March 2020 onwards were held by video conference.

During the year, the Board considered the Company's response to the emerging global pandemic, with regular reports on the impact of COVID-19 on the Group's trading performance and operations. The Board was kept apprised of how employees were safeguarded through new site working practices and how customers' needs were met despite interruptions to manufacturing processes. The Board also received regular updates on the restructuring programme and separate reviews on culture, diversity, talent, technology and safety.

Attendance at meetings

The attendance of each Director at Board, Audit, Remuneration and Nomination Committee meetings is set out below:

Director	Board (maximum 11)	Audit Committee (maximum 4)	Nomination Committee (maximum 2)	Remuneration Committee (maximum 6)
Douglas Caster	11/11	4/4[1]	2/2	6/6
Pete Raby	11/11	4/4[1]	2/2[1]	6/6[1]
Peter Turner	11/11	4/4[1]	–	–
Jane Aikman	11/11	4/4	2/2	6/6
Helen Bunch	10[2]/11	4/4	2/2	6/6
Laurence Mulliez	11/11	4/4	2/2	6/6
Clement Woon	11/11	4/4	2/2	6/6

1. Attended by invitation.
2. Helen Bunch was unable to attend a meeting convened specifically to approve a new precious metals facility agreement due to a last-minute emergency.

Summary of the Board's work and key decisions taken during the year

Strategy

- Monitored ongoing performance in relation to the strategic priorities
- Reviewed the progress of key technology projects and considered potential opportunities for growth
- Reviewed the Group's talent strategy, succession planning and potential future leadership capability and how best to retain and promote talent to support the business
- Received an update on implementation of the Group's IT strategy and how this had been adapted to working conditions under COVID-19
- Approved a small number of specific requests for capital expenditure above a certain threshold to invest and grow the business

Performance

- Received updates on health and safety of employees
- Monitored the impact of the pandemic on operations and ability to service customers
- Reviewed Group financial performance including actions to preserve cash, reduce costs, and improve liquidity
- Approved a Group restructuring programme and received updates on its implementation
- Conducted post-implementation reviews of capital expenditure projects
- Reviewed the dividend policy; recommended withdrawal of the 2019 final dividend and approved the 2020 interim dividend
- Approved the 2021 budget
- Considered reports from the Chief Executive Officer and the Chief Financial Officer at each Board meeting
- Received updates from each of the Presidents of the divisions and global business units

Culture and stakeholder engagement

- Monitored the Group's culture
- Reviewed progress to date of the action plan to promote diversity and inclusion across the Group
- Performed annual review of progress in relation to fostering a safe, ethical and diverse culture
- Monitored implementation of 'thinkSAFE', the Group's behavioural safety programme
- Through reports from the Audit Committee, monitored progress against implementation of the Morgan Code and reviewed reports made to the ethics hotline
- Conducted engagement sessions with employees
- Reviewed feedback from investors following full-year and half-year results roadshows, and met the Company's joint brokers

Governance and risk

- Monitored environmental, health and safety performance at every Board meeting and set targets for the forthcoming year
- Twice-yearly, reviewed the Group's principal risks and approach to risk management
- Reviewed the Group's risk appetite, including potential level of exposure for emerging and principal risks
- Approved a new precious metals financing facility
- Approved the Group's tax strategy
- Approved matters relating to the pension strategy, and approach to discussions with the pension trustees on funding strategy
- Reviewed legal matters including material litigation
- Reviewed the outcomes of the annual Board performance evaluation and agreed actions for further improvement as well as monitored progress against actions arising from the 2019 performance evaluation
- Considered the Board's response to the requirements of the Code and related legislation
- Reviewed reports from the Chairs of the Audit, Nomination and Remuneration Committees
- Reviewed and approved the Group's half-year results and preliminary announcement of the 2020 final results
- Considered whether the Annual Report and Accounts are 'fair, balanced and understandable'

Board support and access to information

The Company Secretary, with the Chairman, is responsible for ensuring the Board has full and timely access to all appropriate information to enable it to fully discharge its duties. Board papers are generally made available electronically at least five working days prior to each meeting. Non-executive Directors also receive information and updates between formal Board meetings. The Company Secretary attends all Board meetings and all Directors have access to her advice and, if necessary, to independent professional advice at the Company's expense to assist them in fulfilling their duties as Directors.

New Directors receive a full, formal and tailored induction on joining the Board. A new Director's experience and background is taken into account in developing a tailored induction programme, which will usually include: an information pack with pertinent documents; meetings with external advisers, senior executives and functional heads; and a number of site visits. All non-executive Directors have access to management and employees at all levels and are encouraged to visit operational sites.

The Chairman considers the individual training and development needs of each Director. The Company Secretary keeps the suitability of external courses under review and facilitates the continuing training and development of all Directors as necessary. Training may be provided via presentations at Board meetings as well as through online learning. During 2020, the Board received briefings on UK pension legislative developments, the UN Sustainable Development Goals and accounting for the impact of COVID and undertook online training on cybersecurity and elements of the Morgan Code and Morgan's policies in relation to ethical behaviour.

Board performance evaluation

An internal Board performance evaluation led by the Chairman, and facilitated by Jack Telfer of Auxesis Consulting, took place in 2020. Jack Telfer is not involved in any other business relationship with the Company and is independent.

The process for the evaluation of the Board and its Committees was as follows:

1. All Board members completed online questionnaires. The questionnaires comprised a number of questions on general Board effectiveness (including a selection of questions repeated from last year's questionnaire to allow year-on-year comparison), one question on the performance of each of the principal Committees, and additional questions on the performance of the Chairman.
2. Auxesis Consulting reviewed Directors' responses and spoke to each Director individually by telephone to clarify points of feedback.

3. Auxesis Consulting produced a report summarising the results of the questionnaires and highlighting any significant changes from last year, discussing the findings with the Chairman initially.
4. The report on general Board effectiveness was made available to the Board and the Chairman presented his conclusion and recommendations at the December Board meeting.
5. The Board subsequently agreed an action plan.
6. In addition, Auxesis Consulting provided a separate summary for the Senior Independent Director on the Chairman's performance, and the Senior Independent Director provided feedback to the Chairman on his effectiveness in chairing the Board.

The overall outcome of the 2020 performance evaluation was that the Board is operating effectively, that the membership was sufficiently diverse, with individual Directors' skills and experience and thoughts complementing each other, and that the Directors work well together, including in the virtual meetings which were prevalent during 2020. Proposed actions arising from the 2020 evaluation which will be carried out in 2021 include the following:

- → Monitoring implementation of strategy – the specific impact of COVID-19 meant that the Board focused more on short-term considerations during 2020. The Board intends to increase its focus on strategy during 2021.
- → Oversight of the Group's restructuring programme – the Board agreed to continue to oversee the implementation of the restructuring programme. The Board will monitor the senior leadership's capacity to maintain balance between short-term execution priorities and the longer-term development of the business.
- → Executive team bandwidth and wellbeing – the Board will seek to strongly support Morgan's people given the heavy and challenging workload arising from the pandemic.
- → Employee engagement and site visits – whilst travel restrictions continue options for virtual Board engagement opportunities will be developed until physical visits and meetings can resume.
- → Board engagement – non-executive Directors meet without executive management after each Board meeting (currently meeting virtually).

An externally facilitated Board performance evaluation process will be carried out in 2021.

Actions were taken during the year to track and implement the recommendations made following the 2019 Board performance review:

Recommendations from 2019	Action taken/progress made during 2020
Monitoring implementation of strategy – In the context of assessing future strategic direction, the Board agreed to consider further whether it should spend more time considering external economic and/or political developments that might affect the Group.	→ Reviewed large growth opportunities in target market sectors → Received briefings on the short- and long-term prognosis for Morgan's target markets → Kept abreast of the economic, political and societal trends which might impact the strategic direction in the long term, including climate change and barriers to trade in particular in relation to the US, China and the EU.
Assessing the risk profile of the Group – To assist the Board in understanding the appetite for risk within the Group and to assist executive management in formalising the level of risk which is appropriate for the business, the Board should continue to review whether sufficient information is provided to the Board to assess the Group's risk profile.	→ Although no dedicated assessment of risk appetite took place during 2020, the Board has addressed the Group's risk profile in relation to the key decisions made by the Board during the year → The Board reviewed the Group's principal and emerging risks half-way through, and at the end of, 2020.
Developing leadership capability and succession planning – In order to support executive management in the development of leaders within the organisation, the Board will continue to take advantage of opportunities to meet senior leaders within the business, in particular for more informal interactions with Executive Committee members, and with site-based individuals who are part of the senior leadership team.	→ All members of the Executive Committee and a good number of their direct reports presented to the Board during meetings in 2020 → The Board met site leaders to give feedback following the virtual employee engagement sessions → More will be done during 2021 to ensure engagement and interaction continue.
Board development – Recognising that the current Board has a good mix of skills and experience which complement each other, and that no current recruitment needs have been identified, the Board will continue to strengthen itself through specific training and development, with the selection of particular topics to be supported by the Company Secretary.	→ The Board received briefings on a number of specific topics and undertook online training as described above.

ACCOUNTABILITY

Financial reporting

A summary of the statement of Directors' responsibilities in respect of the Annual Report and the consolidated financial statements is set out on page 89, and the going concern and viability statements are set out in the Strategic Report on pages 41 and 42.

Business model and strategy

Details of the Group's business model, how it is working to generate and sustain long-term value, and details of the Board's strategy for ensuring the Group meets its objectives are set out in the Strategic Report on pages 7 to 9.

Environmental, Social and Governance

The Board has overall responsibility for the Group's ESG strategy and priorities and for monitoring the implementation of the strategy.

Internal control

The Board has overall responsibility for establishing and maintaining a sound system of internal control to safeguard shareholders' investment and the Group's assets, and for reviewing the effectiveness of this system.

The system of internal control, and the role of the Audit Committee in ensuring its effectiveness, are set out in the Report of the Audit Committee on pages 60 to 62.

Information on share capital and other matters

The information about share capital required to be included in this statement can be found on pages 87 to 89 in the Other disclosures section.

Report of the Audit Committee

This Report gives an insight into the responsibilities, activities and workings of the Audit Committee (the Committee) and how it discharged its duties during 2020.

COMMITTEE MEMBERS

Jane Aikman (Chair)
Helen Bunch
Laurence Mulliez
Clement Woon

Jane Aikman has chaired the Committee since July 2017 and has recent and relevant financial experience and competence in accounting and auditing gained from her current executive role and various prior Chief Financial Officer roles.

The Committee as a whole has competence in the sectors in which the Group operates. All Committee members are independent non-executive Directors. Biographies of the Committee members including details of relevant sector experience are set out on pages 48 to 49.

DEAR SHAREHOLDER

I am pleased to present the Audit Committee's report for 2020. This has been an exceptional year for the Group, and the Committee's primary function to ensure the integrity of the Group's financial reporting and external audit processes and the maintenance of sound internal control and risk management procedures have been more pertinent than ever.

The Audit Committee reports to the Board of Directors on whether the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy. The Audit Committee's role is to ensure that management's disclosures reflect the supporting detail or to challenge them to explain and justify their interpretation and, if necessary, re-present the information.

The Committee has provided assurance to the Board that the Group's financial statements have faithfully represented the impact of COVID-19 on the Group's financial performance, and the accounting judgements required to report the various activities which are being undertaken as part of the Group's restructuring programme. This assurance has supported the Board with the key decisions taken during 2020 and has provided assurance to the Board when reviewing the going concern and longer-term viability assessment of the Group.

In addition, the Committee monitored the systems of internal control to ensure that these continued to operate effectively. In particular, the Committee reviewed the progress of the internal audit plan and the effectiveness of the internal audit function, despite the limitations placed on the team due to the restrictions on travelling to Morgan sites.

The Committee has overseen the transition following the change of external auditor from KPMG to Deloitte LLP, who were appointed following the audit tender process which concluded in 2019. This is the first Annual Report to be audited by Deloitte LLP. The Committee has monitored the successful transition to a new audit approach and has scrutinised the performance and effectiveness of the external audit.

The Committee has monitored the reports raised through the ethics hotline and ensured that executive management have responded to these quickly and appropriately. The Committee reviews the key themes and trends in the number, type and source of these reports to gain an understanding of how effectively the Morgan Code of Conduct is embedded.

The Committee continues to monitor and address any changes in governance and reporting requirements. The landscape in which audit services are provided is likely to change in the near future. In particular, the Committee will monitor developments following the publication of the Brydon Report and developments in relation to the audit profession.

As a Committee, we are also following developments in the wake of the Kingman Review and how we can address the Kingman recommendation to promote greater 'brevity, comprehensibility and usefulness' in the Company's own reporting in the coming year.

COMMITTEE EVALUATION

The Committee's performance was reviewed as part of the main Board performance evaluation aimed at identifying areas for improvement. I am pleased to report that the Committee is continuing to work well and is fully discharging its responsibilities, whilst contributing effectively to the Group's overall governance framework.

Jane Aikman
Committee Chair

MEETINGS

The Committee met four times during the year, with the timing and the agendas of the meetings closely linked to key points in the annual reporting cycle.

The Chairman of the Board, the executive Directors and key members of senior management attend the meetings by invitation, as do senior representatives of the external auditor.

At the end of each meeting, Committee members meet the external auditor, the Head of Internal Audit and the Director of Ethics and Compliance without the executive Directors or other members of management present.

Between meetings, the Chair of the Audit Committee keeps in contact with the Chairman of the Board, the Chief Executive Officer, the Chief Financial Officer, the Group Financial Controller, the external auditor, the Head of Internal Audit and the Director of Ethics and Compliance as necessary.

INFORMATION AND SUPPORT

The Committee may request the attendance at meetings of any Director or employee as may be considered appropriate by the Committee.

Committee members receive appropriate and timely information on all matters needed to enable the Committee to fulfil its responsibilities. Training and development information is made available to Committee members as appropriate.

AUDIT COMMITTEE TERMS OF REFERENCE

The Committee supports the Board in its responsibilities in relation to corporate reporting, risk management and internal controls, and manages the relationship with the Group's external auditor. The Committee provides regular reports to the Board. The Committee's terms of reference, reviewed during the year, are available on the Company's website.

KEY ACTIVITIES DURING 2020

During 2020 the key areas of focus for the Committee were:

- Receiving reports on progress in relation to the internal audit plan, providing guidance and ensuring continuous improvement of the function;
- Conducting a robust review of the scope, remit and effectiveness of the internal control environment and ensuring risk management procedures are appropriate and effective;
- Overseeing the Group's ethics and compliance programme and monitoring progress in compliance with the Morgan Code across the Group;
- Reviewing the management of all reports made to the 'Speak Up' hotline, or to management on ethics and compliance matters, considering the findings and recommending actions, including whether the Board should be notified of any investigations;
- Reviewing the trends arising from the ethics and compliance investigations to draw conclusions on control areas for improvement;
- Assessing the key areas of significant judgement in relation to the 2020 consolidated financial statements, which were: pensions, provisions and contingent liabilities and tax balances and the presentation of specific adjusting items;
- Considering the appropriateness of management's assessment of going concern and the viability statement;
- Reviewing the Company's draft 2020 Annual Report and Accounts and recommending to the Board that the document be approved. The review included specific consideration of whether the document was fair, balanced and understandable;
- Reviewing the effectiveness of the external audit process;
- Receiving annual risk presentations from the Thermal Products division, the Technical Ceramics global business unit, the Electrical Carbon global business unit and the Seals and Bearings global business unit;
- Receiving an update from the Director of Group Tax on taxation issues; and
- Recommending the tax strategy for Board approval.

The Committee has an annual cycle of business which is designed to ensure it discharges in full its responsibilities over the course of each reporting year. This plan includes a number of standing agenda items, such as:

- Scheduled financial reporting updates which enable the Committee to monitor the integrity of the consolidated financial statements, agree the content of the full-year and half-year announcements relating to the Company's financial performance, and review all significant financial reporting judgements;
- Review of the FRC's most recent Annual Review and Year-end Letter and consideration of the proposed focus areas;
- Reports from the external auditor covering their views on key judgements and accounting estimates, and progress against the agreed audit plan;
- Review and discussion of the external audit plan and strategy for the 2020 year-end;
- Approval of the audit engagement letter, audit fee and confirmation of auditor independence;
- Updates presented by the Head of Internal Audit covering progress against the internal audit annual plan, management reports on internal financial control and risk management systems, and the implementation of management actions to address any control weaknesses that have been identified;
- Review the internal audit plan for the coming year;
- Annual review of the effectiveness of the internal audit function;
- Ethics and compliance updates, including reports on whistleblowing and investigations;
- On behalf of the Board, review annually the effectiveness of the whistleblowing reporting line; and
- Review of the Committee's terms of reference.

Report of the Audit Committee

PUBLIC REPORTING

The Committee, as requested by the Board, considered the Code requirement for the Board to make a statement on whether the Annual Report and Accounts taken as a whole is fair, balanced and understandable. The Committee approached this as follows, and:

- Considered the questions which need to be answered in order to evaluate whether the Annual Report and Accounts meets the fair, balanced and understandable test;
- Reviewed the methodology used to construct the narrative sections of the Annual Report;
- Reviewed the disclosure judgements made by the authors of each section and considered the overall balance and consistency of the Annual Report;
- Received confirmation from external advisers that all regulatory requirements are satisfied;
- Received confirmation of verification of content from the authors of each section;
- Received confirmation from the Chief Financial Officer that the narrative reports and consolidated financial statements are consistent; and
- Made a recommendation to the Board to assist it in determining whether it is able to make the statement that the Annual Report and Accounts taken as a whole is fair, balanced and understandable.

The significant areas of judgement considered by the Committee in relation to the 2020 consolidated financial statements, and how these were addressed, were as follows:

Specific adjusting items

In the consolidated income statement, the Group presents specific adjusting items separately. In the judgement of the Directors, as a result of the nature and value of these items they should be disclosed separately from the underlying results of the Group. The Group believes that these APMs, which are not considered to be a substitute for, or superior to, IFRS measures, provide stakeholders with additional helpful information on the performance of the business.

Details of specific adjusting items arising during the year and the comparative period are given in note 6 to the consolidated financial statements. Specific adjusting items in relation to discontinued operations are disclosed in note 9 to the consolidated financial statements.

Pensions and other post retirement employee benefits

The Group operates a number of defined benefit arrangements as well as defined contribution plans. The defined benefit plans primarily related to the UK, US and Europe and predominantly provide pensions based on service and career-average pay.

Accounting assumptions given in note 23, are used to calculate the year-end net pension liability in accordance with the relevant accounting Standard, IAS 19 (revised) Employee Benefits.

The Committee reviewed the key assumptions underpinning the accounting for these defined benefit arrangements for the interim and full year results, including receiving presentations from Deloitte LLP on this matter.

Provisions and contingent liabilities

The level of provisioning for known and contingent liabilities, including those arising from trading, environmental issues and litigation, is an issue where management and third-party judgements are important. These are addressed by the Committee and the Board discussing with various members of senior management the key judgements made, supported, where appropriate, by relevant external advice. Deloitte LLP also regularly present their view on all material provisions and contingent liabilities. During the year the Group recorded redundancy and restructuring provisions in the ordinary course of business, which are disclosed separately in note 25 to the consolidated financial statements to provide investors with additional information to assist in their assessment of the Group's performance.

Impairment of intangible assets and goodwill

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement.

The impairment charge in the year relates primarily to the impairment of customer relationship intangible assets recognised upon the acquisition of the Carpenter business in 2008 and in relation to Porextherm in Germany in 2014.

The Committee reviewed the key assumptions and forecasts that underpin the value in use calculations, including receiving the views from Deloitte LLP on these matters.

Credit Risk

The Group is exposed to credit risk on financial instruments such as liquid assets, derivative assets and trade receivables. The carrying amount of financial assets represents the maximum credit exposure.

The Group limits its exposure to credit risk by only investing in liquid securities and only with counterparties that have a sound credit rating. The Group has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

The Group establishes a provision that represents its estimate of expected credit losses in respect of trade and other receivables and investments. At the point the amount is considered irrecoverable it is written off.

The Committee reviewed the recoverability of receivables as part of its key activities during the period.

Tax balances

Accounting for current and deferred tax involves a range of judgements. The Committee and the Board address these issues through reporting from the Chief Financial Officer and the Director of Group Tax, supported as necessary by external professional advice.

Public reporting Statement

The Committee reviewed the content of the Annual Report and Accounts and advised the Board that, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

INTERNAL FINANCIAL CONTROL AND RISK MANAGEMENT SYSTEMS

The Committee assists the Board in fulfilling its responsibilities relating to the adequacy and effectiveness of the control environment and risk management systems. The Group's system of internal control has been in place for the year under review and up to the date of approval of the Annual Report.

The Committee, on behalf of the Board, undertakes an annual review of the effectiveness of the Group's system of internal control and did so again for the year under review. This system is consistent with the FRC's guidance on the internal control requirements of the Code. The review covered all material controls, including financial, operational and compliance controls, and risk management systems. The Committee and Board receive regular risk management reports and together they ensure that there are adequate internal controls in place and that these are functioning effectively.

The Directors consider that the Group's system of internal financial control provides reasonable, but not absolute, assurance in the following areas: that the assets of the Group are safeguarded; that transactions are authorised and recorded in a correct and timely manner; and that such controls would prevent or detect, within a timely period, material errors or irregularities. The system is designed to mitigate and manage risk, rather than eliminate it, and to address key business and financial risks.

The main features of the Group's system of internal control and for assessing the potential risks to which the Group is exposed are summarised as follows:

Control environment

The Group's control environment is underpinned by the Morgan Code and its associated policies and guidelines. The Group policies cover financial procedures, environmental, health and safety practice, ethics and compliance (e.g. anti-bribery and anti-corruption, anti-trust and anti-competitive behaviour and trade compliance) and other areas such as IT and HR. There is a Limits of Authority Policy, which describes the matters reserved for the Board and the delegations granted to the Chief Executive Officer and other executives. The Group operates various programmes to improve the control environment and management of risk. These include the Group's ethics and compliance programme and the Group internal audit function, which present updates to the Committee at each meeting. In addition, the Committee receives reports from the Presidents and Finance Directors of each of the divisions and global business units on key risks, how these risks are managed and an assessment of the control environment, on an annual basis.

Part of the ethics and compliance programme is the provision of an externally managed, independent whistleblower ('Speak Up') hotline which is made available to workers to raise concerns. Any reports made to the hotline are investigated by senior management, with reports made to the Committee at each meeting. The Committee oversees the progress and outcome of any investigations arising from reports made to the hotline or directly to management, where there is a concern regarding ethical conduct. The reports investigated have varied in their nature and materiality, with certain matters requiring the support of external advisers and giving rise to disciplinary action against employees for breaches of Group policies.

The divisional and business unit Presidents and other senior operational and functional management make an annual statement of compliance to the Board confirming that, for each of the businesses for which they are responsible, the consolidated financial statements are fairly presented in all material respects, appropriate systems of internal controls have been developed and maintained, and the businesses comply with Group policies and procedures or have escalated known exceptions to an appropriate level of management.

Financial reporting

Risk management systems and internal controls are in place in relation to the Group's financial reporting processes and the process for preparing consolidated accounts. These include policies and procedures which require the maintenance of records which accurately and fairly reflect transactions and disposal of assets, provide reasonable assurance that transactions are recorded as necessary to allow the preparation of consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), and the review and reconciliation of reported data. Representatives of the businesses are required to certify that their reported information gives a true and fair view of the state of affairs of the business and its results for the period. The Audit Committee is responsible for monitoring these risk management systems and internal controls.

Performance monitoring

The Board and the Executive Committee hold regular, scheduled meetings, at which they monitor performance and consider a comparison of forecast and actual results, including cash flows and comparisons against budget and the prior year. Divisional and global business unit management teams also meet regularly to review performance. Executive Committee members also visit sites on a regular basis.

Risk management

The Board undertakes a formal assessment of the Group's principal and emerging risks at least twice a year. The identification, assessment and reporting of risks is a continuous process carried out in conjunction with operational management. Appropriate steps are taken to mitigate and manage all material risks including those relating to the Group's business model, solvency and liquidity. The Board, either directly or through the Committee, receives updates on risks, internal controls and future actions from both divisional and Group perspectives. The Executive Committee collectively reviews risk management and internal controls for all principal Group risks. The Group's risk management system, which is described in more detail in the 'Risk management' section of the Strategic Report on pages 26 to 31, supports the Directors' statements on going concern and viability on pages 41 and 42.

Risk factors

The Group's businesses are affected by a number of factors, many of which are influenced by macro-economic trends beyond Morgan's control; although, as described above and in the Strategic Report, the identification and mitigation of such risks are regularly reviewed by the Executive Committee and the Board. These are further discussed in the 'Risk management' section on pages 26 to 31.

Internal audit

The Group's internal audit function reviews internal control and risk management processes. The Audit Committee approves the annual internal audit plan and ensures that there are adequate resources in place for the function to carry out the plan. The Committee receives reports showing the ratings and key findings from each audit. The Committee challenges management over the key findings, discusses key themes identified by the internal audits and guides management in identifying areas of focus to continuously improve controls. Actions arising from internal audit reviews are agreed with management and the Committee monitors progress on any outstanding actions. The Head of Internal Audit has direct access to the Committee's Chair and meets separately with Committee members without executive management at least twice a year.

Report of the Audit Committee

During 2020, travel to sites was limited, but the members of the internal audit team continued to perform audits according to the planned programme, using remote procedures.

In 2020, the Committee reviewed the effectiveness of the Group's internal audit function by way of surveys completed by Committee members and key management personnel. This is the approach taken in those years that the review is not externally facilitated. The last externally facilitated review was in 2018. The Committee considers the internal audit function to be effective, with the quality, experience and expertise appropriate to the business.

External auditor, including independence and non-audit services policy

The external auditor, Deloitte LLP, has processes in place to safeguard its independence and objectivity, including specific safeguards where it is providing permissible non-audit services, and has confirmed in writing to the Committee that, in its opinion, it is independent.

In addition, the Company has a policy on the provision of non-audit services by the external auditor which was revised in 2019 and is in line with the revised Ethical Standard 2019 which took effect on 15 March 2020:

- Certain non-audit services may not be provided. The external auditor may not: review their own work; make any management decisions; create a mutuality of interest; and/or put themselves in the position of advocate.
- Any permissible non-audit work proposed to be placed with the external auditor with a total fee between £50,000 and £200,000 must be approved in advance by the Chairman of the Audit Committee. Projects in excess of £200,000, must be approved in advance by the Audit Committee, with any such proposal being submitted in writing to the Chief Financial Officer, who would in turn seek approval from the Audit Committee. All permissible non-audit work, regardless of value, must be approved by the Group Financial Controller. Work which includes multiple phases is treated as a single project for approval purposes.
- The prior approval of the Audit Committee is required for any non-audit work which, when added to the fees paid for other non-audit work, would total more than 60% (previously 80%) of the audit fee.
- The value of non-audit fees must not under any circumstances exceed 70% of the average Group statutory audit fee incurred in the last three consecutive financial years.

To safeguard the objectivity and independence of the external auditor, the Company ensures that any non-audit services to be provided by the auditor are given prior approval by the Audit Committee where required under the Policy.

In the opinion of the Committee the auditor's objectivity and independence were safeguarded despite the provision of a limited number of non-audit services by Deloitte LLP during 2020.

In 2020, the proportion of the auditor's fees for non-audit work relative to the audit fee was 8.0% (2019: 8.0%).

Auditor effectiveness

The Committee discussed the quality of the audit during the year and considered the performance of the external auditor as a separate agenda item at the meeting in February 2021. The Committee considered all aspects of the auditor's performance including the following four areas as recommended by the FRC's Audit Quality Practice Aid (December 2019): (i) mindset and culture of the audit firm; (ii) skills, character and knowledge; (iii) quality control; and (iv) judgement. The Committee also considered Deloitte's approach and preparation to the transition of the audit from KPMG LLP.

The Committee confirmed Deloitte's independence before recommending their reappointment for approval by shareholders at the Annual General Meeting (AGM). As the audit of the FY2020 results is Deloitte's first for the Group, the Committee will conduct a full review post year end to gather feedback and look for continuous improvement opportunities.

External audit rotation

Deloitte LLP were appointed as auditor at the AGM in May 2020. The appointment followed a formal external audit tender process which commenced in 2018 and concluded in June 2019, when the Board confirmed the Audit Committee's recommendation that Deloitte LLP be appointed as auditor to take over from KPMG LLP and its predecessor firms. A detailed description of the audit tender process was included in the Report of the Audit Committee in the 2019 Annual Report.

The Company has complied with the provisions of the Competition and Markets Authority's Order on statutory audit services.

Report of the Nomination Committee

The Nomination Committee continued to evaluate the blend of skills, diversity and experience of the Board during the year.

COMMITTEE MEMBERS

Douglas Caster (Chairman)
Jane Aikman
Helen Bunch
Laurence Mulliez
Clement Woon

The Committee is composed solely of non-executive Directors and is chaired by the Chairman of the Board. Biographies of the Committee members can be found on pages 48 to 49. The Company Secretary is secretary to the Committee. Other attendees may join the Committee by invitation and currently the Chief Executive Officer and Group Human Resources Director attend scheduled meetings.

On behalf of the Nomination Committee, I present our report for 2020. The Committee performs a vital role in reviewing the composition and balance of skills and experience on the Board, enabling it to lead the process for appointments to the Board, keep under review the leadership needs of the Group, and ensure plans are in place for orderly succession to Board and senior management positions. During 2020, the Committee reviewed Board succession and formalised its Board Inclusion & Diversity Policy in the context of the Group's diversity and inclusion aspirations. More work will be done during 2021 to review succession planning and talent strategy for the Executive Committee as well as start the search process for my own successor as Chair, and identify future Board candidates.

During the past year, which has seen unprecedented change and disruption globally, Morgan has recognised the crucial need to source, attract, engage and retain talented individuals who can drive Morgan's purpose and values, and deliver our strategy responsibly, for the future.

Douglas Caster CBE FIET
Committee Chair

MEETINGS

The Committee met twice during 2020 and members' attendance is set out in the table on page 55.

NOMINATION COMMITTEE ROLE AND TERMS OF REFERENCE

The Nomination Committee is responsible for keeping under review the composition of the Board and its succession, and monitors and regularly reviews the balance of skills, knowledge, experience, independence and diversity of the Board and its Committees. It reviews succession planning for the Executive Committee and overall talent strategy for senior leadership positions, by reference to Morgan's Board Inclusion & Diversity Policy, which sets the overall tone for the Group's approach to diversity.

The Committee's formal role is set out in its terms of reference, which are available to view on the Company's website.

Report of the Nomination Committee

MAIN AREAS OF WORK DURING 2020

During 2020, the Committee's key activities included:

- Considering the skills mix on the Board, including diversity of gender, ethnicity and geographical representation.
- Reviewing and updating the Board's Inclusion & Diversity Policy and monitoring its effectiveness.
- Reviewing the structure, size and composition of the Board and its Committees, ensuring that they remain appropriate.
- Reviewing the results of the annual performance evaluation of the Committee.
- Considering whether each Director continued to be able to allocate sufficient time to discharge their responsibilities effectively.
- Considering the Directors' annual re-election at the 2020 Annual General Meeting (AGM).
- Reviewing the Committee's terms of reference.

SKILLS, SIZE AND COMPOSITION OF THE BOARD

The Committee reviews the Board's composition, including the length of tenure of non-executive Directors, to ensure that it has the correct balance of skills, experience, knowledge and diversity required for the leadership of the Group, to support the delivery of the Group's strategy, and to comply with the UK Corporate Governance Code.

During the year, the Committee reviewed and agreed that the overall size of the Board and its Committees, including the Non-executive Director/Executive Director split, was appropriate for Morgan. It agreed that the current Board and Committee structure remained appropriate, and all Non-Executive Directors should continue to be members of the main committees (with the exception of the Chair of the Audit Committee). The Committee considers that the members of the Board and Committees have the appropriate mix of skills, experience, diversity and knowledge of the Company, and that undue reliance was not placed on any particular individual(s). In the next couple of years, as the Chairman and other Non-Executive directors' tenures extend into a third three-year term, the Committee will actively start the process of identifying a new Chair and other Board members and will more proactively identify candidates from a diverse range, ahead of Board vacancies arising.

DIVERSITY AND INCLUSION

The Board recognises the benefits that diversity and inclusion bring at all levels of the Company, and firmly believes diversity is an important factor in enabling good decision-making at Board level.

Morgan continues to foster greater diversity and inclusion and remains committed to, and ambitious about, making Morgan a more diverse place to work. During the year, the Committee reviewed the diversity principles set out in Morgan's 2019 Annual Report applicable to the Board and developed them into a formal Board Inclusion & Diversity Policy, to reflect the Group's aspirations more closely, to set specific objectives, and to monitor progress against objectives The Nomination Committee annually reviews the composition of the Board and considers the balance of competencies to ensure alignment with the Company's purpose and strategic priorities and the environment in which it operates. The Nomination Committee reviews the characteristics, perspectives, independence and diversity of Board members; how the Board works together; and other factors relevant to its effectiveness.

When monitoring the development of leadership and considering the succession planning for executive management, the Board looks for talented leaders from a diverse pool who have the skills to lead a global company.

Currently, three of the seven Board Directors are female, equating to 43% female representation on the Board, and the Board currently has one Director of colour and Morgan's intention is to at least maintain that level of diversity, in order that the Board's composition can more closely reflect Morgan's workforce and society more generally. The percentage of women on the Group's Executive Committee increased to 44% during 2020. At 31 December 2020, 25% (2019: 29% and 2018: 23%) of senior management (defined in accordance with the Code as the members of the Executive Committee including the Company Secretary) and their direct reports were female. The Committee takes diversity into account in broader discussions on succession planning and talent development and supports management in their wider commitment to promoting diversity.

The Board has agreed objectives for achieving gender, ethnic and cultural diversity on the Board, and places high emphasis on ensuring the development of diversity both in senior management roles and the workforce in general within the Company.

To promote diversity and inclusion the Board will:

- Consider all aspects of diversity when reviewing the composition and effectiveness of the Board.
- Only engage with executive search firms who are accredited under the Enhanced Code of Conduct for Executive Search Firms when seeking to make new appointments or have a proven track record in sourcing diverse candidates.
- Ensure that candidate lists include individuals from a broad and diverse range of backgrounds and that all candidates with the requisite skills and capability are considered, including those with less traditional track records than the corporate mainstream.
- Agree new Board appointments based on merit against the objective criteria set, taking account of the unique benefits each candidate can bring.
- Recommend that the Board reviews senior executive succession planning annually and monitors the development of a diverse pipeline of future senior leaders, reflecting the composition of Morgan's workforce.
- Set the tone and provide visible support for the Group's diversity and inclusion objectives, including the fostering of an inclusive culture which allows individuals to bring their whole selves to work, promoting inclusive leadership and reducing unconscious bias.
- Support a zero tolerance approach to any unfair discrimination on the basis of sex, ethnicity or other protected characteristics.

The Board's Inclusion & Diversity Policy can be viewed on the Company's website **www.morganadvancedmaterials.com**

SUCCESSION PLANNING

The Committee regularly reviews the Board's composition, including the length of tenure of non-executive Directors, to ensure that it has the correct balance of skills, experience, knowledge and diversity required for the leadership of the Group, to support the delivery of the Group's strategy, and to comply with the UK Corporate Governance Code.

The Committee did not actively consider the talent pipeline for potential new appointments to the Board during 2020. In 2021 and beyond, the Committee will continue to support the Group's work on culture, people and succession as part of the Group's strategic execution, in line with the findings of the Board's 2019 performance evaluation. Morgan is keen to develop and retain talented people throughout the Group to support its long-term sustainable success.

The Committee will commence preparations for an external search for a new Chair during 2021, with the search process likely to start in 2022, and expected to conclude by the end of that year.

The usual process for selection of a non-executive Director is described below. For 2021 and future years, the Committee will re-evaluate and update Morgan's processes for Board and senior management appointments by reference to the aims and objectives of the Board Diversity and Inclusion Policy, as well as report on progress in future annual reports.

- The Committee formulates a candidate specification for the role taking into account the balance of skills, knowledge, experience, diversity and geographical representation on the Board, and considering the desired skills and experience required to complement the existing membership and to support the implementation of the Group's strategy.
- The external search agent produces a long-list of candidates for the role, taking the identified requirements into consideration.
- Interviews with members of the Nomination Committee take place with short-listed candidates.
- Interviews with other Board members take place with the final three candidates.
- The Committee makes a recommendation for the appointment to the Board considering the views of the Board members.
- Any new Directors appointed to the Board must be elected at the next AGM to continue in office. All existing Directors retire by rotation every year.

Non-executive Directors, including the Chairman, are asked to confirm that they will allocate sufficient time to meet their commitments to the Company and that their other appointments and significant time obligations are disclosed to the Board prior to appointment, with an indication of the level of time commitment involved. The Board is informed of any subsequent changes, and additional commitments must be disclosed before they are accepted.

COMMITTEE PERFORMANCE EVALUATION

The Committee's performance was reviewed as part of the Board evaluation (see page 56 to 57 for details) and it was concluded that it continued to improve and had operated effectively during the period under review.

TIME COMMITMENT

The time commitment of each of the Chairman, Chairs of Board Committees and Non-Executive Directors are set out in their respective letters of appointments. Non-Executive Directors are expected to spend at least two days per month, more if they act as Chair of a Board Committee and the Chairman is expected to spend at least 50 days per annum on Company business. During the year, the Committee considered that each Board member fulfilled their respective commitment, both in respect of board and committee meetings (like many other companies, additional ad-hoc meetings were held as a result of the pandemic) and for employee engagement sessions. Details of meeting attendance by Board members are set out on page 55.

ANNUAL RE-ELECTION OF DIRECTORS

All Directors are subject to annual re-election under the UK Corporate Governance Code (the Code).

Clement Woon is serving his first three-year term as Director, and Douglas Caster, Jane Aikman, Helen Bunch and Laurence Mulliez are all in their second three-year term. In line with Provision 18 of the Code , the specific reasons why each Director's contribution is, and continues to be, important to the company's long-term sustainable success have been set out in this year's Notice of Annual General Meeting, to accompany the formal re-election resolutions.

During the year, the Chairman reviewed the performance of each Director and has confirmed their continued effectiveness. A formal review of each individual Director's performance was conducted as part of Morgan's board evaluation process in 2019, concluding with individual meetings between the Chairman and each Non-Executive Director. The Senior Independent Director hosted a meeting of the Non-Executive Directors without the Chairman present in December 2020 to discuss the Chairman's performance.

Remuneration report

A statement to shareholders from the Chair of the Remuneration Committee.

COMMITTEE MEMBERS

Helen Bunch (Chair)
Jane Aikman
Douglas Caster
Laurence Mulliez
Clement Woon

I am pleased to present the Remuneration Report for the year ended 31 December 2020.

The health, safety and wellbeing of our employees remains a top priority, and in the light of the COVID-19 pandemic we have implemented heightened safety measures to protect our employees. There has been further focus on the 'thinkSAFE' programme, the Morgan Code of Ethics, as well as the continuation of the global Sales Effectiveness Programme.

The COVID-19 pandemic has made 2020 an extremely challenging year, with a significant impact observed across the global economy. Morgan has seen an 11.4% decline in organic revenue* for the 2020 financial year due to the pandemic, however the order trajectory began to improve in the second half of the year, with a return to organic constant currency sales growth anticipated from the second quarter of 2021. We have taken appropriate action to reduce costs, improve cash flow and increase liquidity, which along with continued further investment in the wider business to support sustainable long-term growth, helps to position Morgan to emerge stronger from the crisis.

Due to the impact of the pandemic on business results, Morgan, like many companies, has needed to review, and in many cases make changes to, remuneration plans and actions to control costs and cash flow. A key priority has been to balance the impact on remuneration equitably across the executives, wider employee population and other stakeholders. The 2019 final dividend was withdrawn and furloughs were used (UK government Job Retention Scheme funding having been reimbursed). In addition, a global restructuring programme was implemented. In light of the impact of the pandemic on employees and shareholders, the Board agreed that their own salaries should be reduced by 30% from 1 April to 31 December, extending beyond the typical salary reduction period in other companies and also beyond the date Morgan stopped utilising government job retention schemes. The Executive Team also agreed that their salaries should be reduced by 20% from 1 April to 30 September. The 2020 LTIP and DBP grants were also delayed until later in the year and the personal performance element of the 2020 bonus was cancelled for the executive Directors. It is of note, that despite the personal performance element being restored for employees, the executive Directors requested that their personal performance element not be reinstated. In making our remuneration decisions, we have therefore carefully taken into account the impacts across all stakeholders to ensure equity.

During 2020, we have continued to focus on the reporting requirements within the 2018 UK Corporate Governance Code. Within this context, the Committee conducted a review of the implementation of the current Remuneration Policy (approved by 97% of shareholders at the 2019 AGM) to ensure it remains fit for purpose. This review concluded that the current framework continues to support Group strategy and culture, as well as providing strong alignment of executive Director and shareholder interests.

2020 COMMITTEE ACTIVITY

During the year, the Committee met six times compared to the usual four, the additional meetings being necessary to review changes required as a result of the pandemic. Its activities included:

- Determination of whether the 2019 bonus and 2017 LTIP were achieved, and, if so, to what extent (pre-COVID-19).
- A review of external benchmarking of executive Directors' remuneration packages (pre-COVID-19).
- Having reviewed the remuneration of the wider workforce, determination of the remuneration packages for the executive Directors and other senior executives, applying consistent guiding principles (pre-COVID-19).
- Determination of any changes required to 2020 share grants in response to the COVID-19 pandemic (post start of COVID-19).
- A review of whether the measures and structure for the bonus and share incentive schemes remain appropriate (post start of COVID-19).

- Determination of appropriate performance targets for the 2021 bonus and share incentive schemes (post start of COVID-19).
- A review of how we implemented the Group's Remuneration Policy, such that it supports the Group's business strategy and performance-based culture (post start of COVID-19).

2020 REMUNERATION OUTCOMES

In reviewing performance in 2020, the Committee determined that payouts of 9% of the 2020 annual bonus opportunity for the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), were appropriate, reflecting the impact of the pandemic on financial results and the voluntary removal of the personal performance bonus element. The 2018 LTIP award will partially vest, resulting in a 21.8% achievement of the maximum. These outcomes are consistent with the Group's performance in the light of the pandemic, details of which are summarised later in this Report. The Committee has not felt it appropriate to adjust performance targets during the year and felt that no discretion needed to be applied for 2020 remuneration outcomes.

IMPLEMENTATION OF POLICY IN 2021

The Remuneration Committee decided that, taking into account the performance of the Group in 2020 within the overall economic context, the improved business trajectory in the second half, labour market conditions, and average range of salary increases in the wider workforce, the appropriate level of salary increase for the CEO would be 2.5% and for the CFO it would be 2%. The process for reviewing executive Director salaries takes into account individual and Group performance, demonstration of the defined Leadership Behaviours and salary position relative to the relevant market, which is consistent with the approach taken for the entire professional population. There will also be an increase to the fees for the Chairman and non-executive Directors of 2% for 2021 as determined by the Committee (for the Chairman) and the Chairman and executive Directors (for the non-executive Directors).

The Committee also reviewed the structure of the annual bonus and LTIP plans and concluded that the existing framework remains appropriately aligned with our strategic aims and culture, motivates and rewards management for delivering sustainable performance, and supports retention. Accordingly, no changes are proposed to the performance linkage of the annual bonus or LTIP for 2021. For the LTIP, it is proposed to increase the EPS targets from 4% – 11% to 15% – 22% p.a. to take into account the reduced base level resulting from the impact of the pandemic on financials; the Committee considers this to be appropriately challenging in the context of the Group's strategic plan, external market factors and broker forecasts. No changes are proposed to the TSR benchmarks and relative TSR performance range (median-upper quartile). It is proposed to modify the ROIC* definition to include the right-of-use assets arising from IFRS-16 leases in the invested capital (which is anticipated to be an addition of around £35m to the invested capital in 2021) and to maintain the ROIC* range for that element of the executive Directors 2021 LTIP (at 17%-20%), to reflect our latest expectations for performance over the three-year performance period. For annual bonus, the target ranges have been widened from ±4.5% to ±10% of target to reflect the ongoing uncertainty of the pandemic and potential impact on performance outcomes. Annual bonus targets are considered to be commercially sensitive at this time but will ordinarily be disclosed in next year's Remuneration Report.

I would like to thank the Leadership team not only for the exceptional contribution they have made in this challenging period, but also for the personal remuneration reductions they agreed to in support of the Business.

This Report is consistent with the current reporting regulations for executive remuneration and, as in prior years, includes an 'At a glance' section summarising the key elements of executive Director remuneration. I hope we have been successful in continuing to achieve the clarity and transparency that will be of help to our shareholders.

Helen Bunch
Committee Chair

REMUNERATION AT A GLANCE

Components of remuneration

Salary + Pension and Benefits = Fixed total

Annual Bonus + LTIP = Variable total

Fixed total + Variable total = Total remuneration

Key features of how our executive remuneration policy will be implemented in 2021

Fixed components

Base salary

Pete Raby (CEO)	£581,175
Peter Turner (CFO)	£426,160

Policy

Executive Directors' salaries are generally reviewed each January, with reference to individual and Group performance, experience and salary levels at companies of similar sector, size and complexity.

Pension and other benefits

Pension

Pete Raby (CEO)	fixed at £104,000
Peter Turner (CFO)	fixed at £80,120

Benefits

Pete Raby (CEO)	£13,885
Peter Turner (CFO)	£12,230

Policy

Executive Directors may receive defined contributions (and/or cash in lieu thereof) up to 20% of salary. Policy change approved at the 2019 AGM aligns pension contribution for new executive Directors with that available to the wider workforce. Other benefits can include company car/car allowance, health insurance and, where appropriate, relocation allowances and other expenses.

Implementation

The monetary value of the pension allowance for the current executive Directors was fixed at the 2018 value from 2019 onwards, to help align executive Director pensions with those of the wider workforce over time. The Company commits to review this as part of the next Remuneration Policy review in 2021.

Variable components, annual bonuses

Maximum opportunities for 2021 (no change)

Pete Raby (CEO)	150% of salary
Peter Turner (CFO)	150% of salary

Performance measures weighting

Operating profit*	40%
Cash generation*	40%
Strategic personal objectives	20%

Policy

Maximum award opportunity: 150% of base salary

Performance measures are set by the Committee at the start of the year and are weighted to reflect a balance of financial and strategic objectives. 67% of any annual bonus paid is delivered in cash with the remainder deferred into shares and released after a further period of three years. 50% of the bonus opportunity is paid for on-target performance.

LTIP

Maximum opportunities for 2021 (no change)

Pete Raby (CEO)	150% of salary
Peter Turner (CFO)	150% of salary

Performance measures weighting

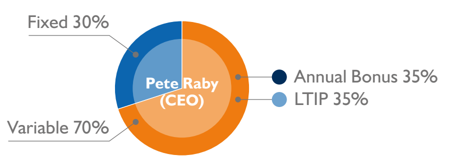
TSR vs. FTSE All-Share Industrials Index	1/6
TSR vs. peer group	1/6
EPS growth	1/3
Group ROIC*	1/3

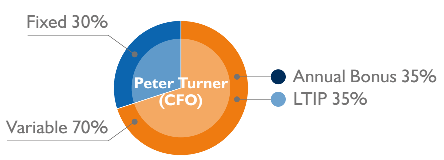
Policy

Maximum award opportunity: 250% of base salary

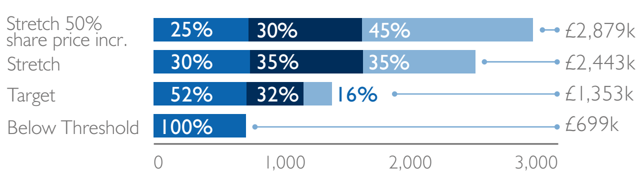
The award levels and performance conditions on which vesting depend are reviewed prior to the start of each award cycle to ensure they remain appropriate. Vested shares are subject to a post-vesting holding period of two years. The vesting of awards is usually subject to continued employment and to the Group's performance over a three-year performance period. 25% of an award vests for achievement of the threshold level of performance.

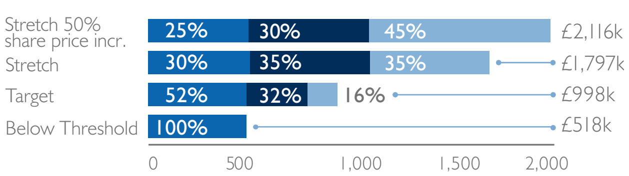
Pay at risk





Pay scenarios





Variable · Fixed total (base salary, pension and benefits) · Annual Bonus · LTIP

Shareholding requirements

Pete Raby (CEO) 200% of salary

Peter Turner (CFO) 200% of salary

COMPLIANCE STATEMENT

During the year under review, the Company has complied with the principles and provisions relating to Directors' remuneration in the UK Corporate Governance Code and this Remuneration Report has been prepared in accordance with the Companies Act 2006 (as amended) and Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended). In accordance with Section 439A of the Companies Act 2006 an advisory resolution to approve the Annual Report on Remuneration will be proposed at the Annual General Meeting (AGM) on 6 May 2021.

This Report covers the period 1 January 2020 to 31 December 2020 and provides details of the Remuneration Committee and how the Remuneration Policy, approved by shareholders at the 2019 AGM, has been implemented for the year under review. The proposed implementation of this Policy for the 2021 financial year is summarised in the section of the Annual Report on Remuneration titled 'Implementation of Remuneration Policy for 2021'.

REMUNERATION COMMITTEE

The Remuneration Committee determines and agrees with the Board the framework and Policy for the remuneration, including pension rights and any compensation payments, of the Group's executive Directors and the Chairman. The Committee also reviews the remuneration in relation to other senior executives and is kept fully informed of remuneration policy decisions impacting the wider workforce.

The Committee's terms of reference are available on the Group's website.

The Remuneration Committee consults the Chief Executive Officer and invites him to attend meetings when appropriate. The Group Human Resources Director and Group Head of Reward as well as our independent advisors attend meetings of the Committee by invitation.

The Committee also has access to advice from the Chief Financial Officer. The Company Secretary acts as secretary to the Committee. No executive Director or other attendee is present when his or her own remuneration is being discussed.

Membership of the Committee is shown on pages 48 to 49.

1. POLICY REPORT

KEY PRINCIPLES OF THE REMUNERATION POLICY

The Remuneration Committee aims to ensure that all executive remuneration packages offered by Morgan are competitive and designed to promote the long-term success of the Company by ensuring that Morgan are able to attract, retain and motivate executive Directors and senior executives of the right calibre to create value for shareholders.

The Committee ensures that a significant proportion of the total remuneration opportunity is performance-related, with an appropriate balance between short-term and long-term performance, and is based on the achievement of measurable targets that are relevant to, and support, the business strategy through the execution of the policy.

The Remuneration Committee will keep the Remuneration Policy under periodic review to ensure it remains aligned with the Group's strategy, reinforces the Group's culture, and is in line with the principles set out in the UK Corporate Governance Code in relation to Directors' remuneration. This includes ensuring that performance-related elements are transparent, stretching and rigorously applied, as well as reflecting the views and guidance of institutional investors and their representative bodies.

SUMMARY OF MORGAN ADVANCED MATERIALS PLC'S REMUNERATION POLICY

This section of the Report sets out the current Remuneration Policy for executive Directors and non-executive Directors. This Policy remains unchanged from that which was approved by shareholders at the 2019 AGM and which is effective for a period of up to three years from that date. The only amendments to the Policy Report published in the 2020 annual report are:

→ To update remuneration figures in the pay for performance scenario analysis.

Purpose and link to strategy	Operation	Opportunity	Performance metrics
Fixed pay			
Base salary Provides the fixed element of the remuneration package. Set at competitive levels against the market.	Base salaries are generally reviewed each January, with reference to an individual's performance (and that of the Group as a whole), their experience, and the range of salary increases applying across the Group. The Committee also considers salary levels at companies of similar sector, size and complexity when determining increases.	Our policy is to pay salaries that are broadly market-aligned with increases applied in line with the outcome of the annual review. Salaries in respect of the year under review (and for the following year) are disclosed in the Annual Report on Remuneration. Salary increases for executive Directors will normally be within the range of increases for the general employee population over the period of this Policy. Where increases are awarded in excess of those for the wider employee population, for example in instances of sustained strong individual performance, if there is a material change in the responsibility, size or complexity of the role, or if an individual was intentionally appointed on a below-market salary, the Committee will provide the rationale in the relevant year's Annual Report on Remuneration.	An executive Director's performance (and that of the Group as a whole) and also their demonstration of the defined Leadership Behaviours, are taken into account when making decisions in relation to base salary.
Pension Provides post-retirement benefits for participants in a cost-efficient manner.	Defined contribution scheme (and/or a cash allowance in lieu thereof).	For executive Directors appointed from 1 January 2019 onwards, contributions (or cash in lieu thereof) will be aligned with the level of contribution available to the wider workforce at that time. For current executive Directors already in role, the Policy limit will remain up to 20% of salary.	Not applicable.
Benefits Designed to be competitive in the market in which the individual is employed.	Can include company car/car allowance, health insurance and, where appropriate, relocation allowances and other expenses.	Benefits values vary by role and are reviewed periodically relative to the market. It is not anticipated that the cost of benefits provided will change materially year on year over the period for which this Policy will apply. The Committee retains the discretion to approve a higher cost in exceptional circumstances (e.g. relocation expenses, expatriate allowances etc.) or in circumstances where factors outside the Group's control have changed materially (e.g. market increases in insurance costs).Benefits in respect of the year under review are disclosed in the Annual Report on Remuneration.	Not applicable.

Purpose and link to strategy	Operation	Opportunity	Performance metrics
Variable pay			
Annual bonus Provides a direct link between annual performance and reward. Incentivises the achievement of key specific goals over the short term that are also aligned to the long-term business strategy. Deferred bonus supports retention and provides additional alignment with the interests of shareholders.	Performance measures are set by the Committee at the start of the year and are weighted to reflect a balance of financial and strategic objectives. At the end of the year, the Remuneration Committee determines the extent to which these have been achieved. To the extent that the performance criteria have been met, up to 67% of the resulting annual bonus is paid in cash. The remaining balance is deferred into shares and released after a further period of three years, subject to continued employment only. Cash and deferred share bonuses awarded for performance will be subject to malus and clawback until the end of the deferral period. Further details of our Malus and Clawback Policy are set out at the end of this table. Dividends may accrue over the deferral period on deferred shares that vest. Any dividends that accrue will be paid in shares at the end of the vesting period.	Up to 150% of salary. The payout for threshold performance may vary year on year but will not exceed 25% of the maximum opportunity.	Bonuses for the executive Directors may be based on a combination of financial and non-financial measures. The weighting of non-financial performance will be capped at 30% of the maximum opportunity. The Committee retains discretion to adjust the bonus outcome if it considers that the payout is inconsistent with the Company's underlying performance when taking into account any factors it considers relevant. Further details are set out in the Annual Report on Remuneration on pages 66 to 86.
Long-Term Incentive Plan (LTIP) Aligns the interests of executives and shareholders with sustained long-term value creation. Incentivises participants to manage the business for the long term and deliver the Company's strategy.	The Remuneration Committee has the authority each year to grant an award under the LTIP. The award levels and performance conditions on which vesting depends are reviewed prior to the start of each award cycle to ensure they remain appropriate. Vested shares will be subject to a post-vesting holding period of two years. Awards are subject to malus and/or clawback for a period of five years from the date of grant. Further details of our Malus and Clawback Policy are set out at the end of this table. Dividends may accrue on vested shares during the holding period.	The LTIP provides for a conditional award of shares up to an annual limit of 250% of salary. 25% of an award vests for achievement of the threshold level of performance.	The vesting of awards is usually subject to continued employment and the Group's performance over a three-year performance period. This is currently based on a combination of TSR, EPS and ROIC* measures. The Committee has discretion to extend the performance period and adjust the measures, their weighting, and performance targets prior to the start of each cycle to ensure they continue to align with the Group's strategy. The Committee also retains discretion to adjust the vesting outcome if it considers that the level of vesting is inconsistent with the Company's underlying performance when taking into account any factors it considers relevant. Further details of the measures attached to the LTIP awarded in the year under review (and the coming year) are set out in the Annual Report on Remuneration on pages 76 to 86.
Sharesave A voluntary scheme, open to all UK employees which aligns the interests of participants with those of shareholders through any growth in the value of shares.	An HMRC-approved scheme where employees may save up to a monthly savings limit out of their own pay towards options granted at up to a 20% discount. Options may not be exercised for three years.	Up to the savings limit as determined by HMRC from time to time, across all Sharesave schemes in which an individual has enrolled.	None.

Malus and Clawback Policy

Malus and clawback will apply to the annual bonus and LTIP (as set out on page 71) in cases of misconduct or material misstatement in the published results of the Group or where, as a result of an appropriate review of accountability, a participant has been deemed to have caused in full or in part a material loss for the Group as a result of reckless, negligent or wilful actions or inappropriate values or behaviour, including (but not limited to) significant breaches of EHS codes, fraud, or other events which may cause serious reputational damage. Cash bonuses will be subject to clawback, with deferred shares subject to malus over the deferral period. LTIP awards are subject to malus over the vesting period and clawback from the vesting date to the fifth anniversary of grant.

Payments under existing awards

The Company will honour any commitment entered into, and Directors will be eligible to receive payment from any award granted, prior to the approval and implementation of the Remuneration Policy detailed in this Report (i.e. before 10 May 2019), even if these commitments and/or awards fall outside the above Policy. The Company will also honour any commitment entered into at a time prior to an individual becoming a Director if, in the opinion of the Committee, the payment was not in consideration of the individual becoming a Director of the Company. Details of these awards will be disclosed in the Annual Report on Remuneration.

Difference in policy between executive Directors and other employees

The Remuneration Policy for other employees is based on principles broadly consistent with those described in this Report for the executive Directors' remuneration. Annual salary reviews across the Group take into account individual and business performance, demonstration of the defined Leadership Behaviours, experience, local pay and market conditions, and salary levels for similar roles in comparable companies. All executives are eligible to participate in an annual bonus scheme. Opportunities and performance measures vary by organisational level, geographical region and an individual's role. Other senior executives participate in the LTIP on similar terms to the executive Directors, although award sizes and performance measures may vary according to each individual, and by organisational level. Below this level, executives are eligible to participate in the LTIP and other share-based incentives by annual invitation.

Use of discretion

To ensure fairness and align executive Director remuneration with underlying individual and Group performance, the Committee may exercise its discretion to adjust, upwards or downwards, the outcome of any short- or long-term incentive plan payment (within the limits of the relevant Plan Rules) for corporate or exceptional events including, but not limited to: corporate transactions, changes in the Group's accounting policies, minor or administrative matters, internal promotions, external recruitment, and terminations. Any adjustments in light of corporate events will be made on a neutral basis, meaning that they will not be to the benefit or detriment of participants.

Any use of discretion by the Committee during the financial year under review will be detailed in the relevant Annual Report on Remuneration.

Performance measure selection

The Committee considers carefully the selection of performance measures at the start of each performance cycle, taking into consideration the macro-economic environment as well as specific Group strategic objectives.

Annual bonus measures are selected to closely reinforce the Group's short-term KPIs. Because these can change from year to year (in line with the Remuneration Policy), information on the rationale for the selection of bonus measures for each year will be detailed in the relevant year's Annual Report on Remuneration.

LTIP performance measures are reviewed periodically to ensure they continue to align with the Company's strategy, as well as provide an appropriate balance between growth and returns, internal and external performance, and absolute and relative performance.

For 2021 awards, the TSR element of the LTIP award will continue to comprise two parts. One half of the TSR element will vest subject to the Group's performance relative to a TSR benchmark comprising the 103 constituents of the FTSE All-Share Industrials Index.

This benchmark is robust to merger and acquisition activity and comprises companies that are subject to the same market influences as Morgan Advanced Materials plc. The remaining half of the TSR element will vest subject to Morgan's performance relative to a TSR benchmark comprising 15 listed international carbon, ceramics and other materials companies. This benchmark was selected to complement the FTSE All-Share Industrials Index with a group of companies that better reflect Morgan's business, the markets in which Morgan operates and the geographical footprint of the Group. For each part of the TSR award, the vesting performance range is calibrated to be stretching and in line with common market practice for FTSE TSR-based long-term incentives.

EPS targets are set taking account of multiple relevant reference points, including internal forecasts, external expectations for future EPS performance at both Morgan Advanced Materials plc and its closest sector peers, and typical EPS performance ranges at other FTSE 350 companies. LTIP EPS performance ranges are set to represent demanding and challenging performance targets over the three-year performance period.

ROIC* targets are set using a similar approach to the EPS targets, after consideration of external reference points and reflecting the returns required to meet and exceed the Group's internal strategic plan. For the 2021 LTIP cycle, ROIC* will continue to be calculated as follows:

$$\frac{\text{Group headline operating profit* (pre-specific adjusting items)}}{\text{12-month average (third-party working capital + total fixed assets + total intangible fixed assets)}}$$

Share ownership guidelines

In order to encourage alignment with shareholders, executive Directors are encouraged to build and maintain an individual shareholding in the Company equivalent to at least 200% of base salary. The required level of shareholding is expected to be achieved within five years from an executive Director's appointment. Executive Directors' shareholdings are reviewed annually by the Committee to ensure progress is being made towards achievement of the guideline level of shareholding. However, if it becomes apparent to the Committee that the guideline is unlikely to be met within the timeframe, then the Committee will discuss with the Director a plan to ensure that the guideline is met over an acceptable timeframe.

From 2019, executive Directors have also been subject to a post-employment shareholding requirement. Executive Directors are required to hold shares at a level equal to the lower of the share ownership requirement or the actual shareholding on departure for a period of one year from departure date. The Committee retains the discretion to modify the post-employment shareholding requirement in certain, extraordinary circumstances; for example, on a change of control during the period or if a conflict of interest arises with an executive Director's next appointment.

Current executive Director shareholdings are set out in the Annual Report on Remuneration on page 85.

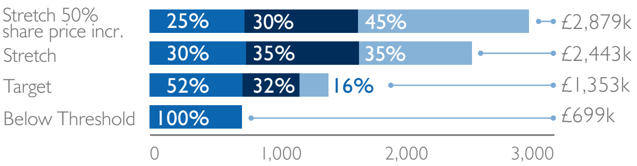
External appointments

With the approval of the Board in each case, and subject to the overriding requirements of the Group, executive Directors may accept external appointments as non-executive Directors of other companies and retain any fees received. Details of external directorships held by executive Directors along with fees retained are provided in the Annual Report on Remuneration on pages 76 to 86.

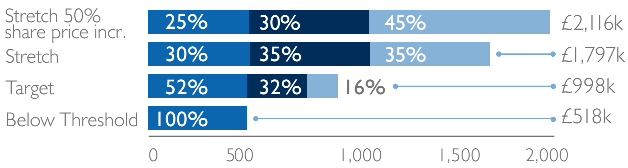
Pay-for-performance: scenario analysis

The graphs below provide detailed illustrations of the potential future reward opportunity for executive Directors, and the potential mix between the different elements of remuneration under four different performance scenarios; 'Below threshold', 'Target', 'Stretch' and 'Stretch with 50% share price appreciation'. These have been updated to illustrate the potential opportunity under the 2021 packages proposed for executive Directors.

Pete Raby (CEO)



Peter Turner (CFO)



Fixed total (base salary, pension and benefits) Annual Bonus LTIP

Potential reward opportunities illustrated above are based on the Policy, which was approved at the 2019 AGM, applied to the annual base salary in effect at 1 January 2021. For the annual bonus, the amounts illustrated are those potentially receivable in respect of performance for 2021 (before mandatory deferral into shares). The LTIP is based on the face value of awards to be granted in 2021 (150% of salary). It should be noted that any awards granted under the LTIP in a year do not normally vest until the third anniversary of the date of grant. This illustration is intended to provide further information to shareholders on the relationship between executive pay and performance. The value of the LTIP assumes no change in the underlying value of the shares once an award is made, apart from in the 'stretch with hypothetical 50% share price appreciation' scenario. The following assumptions have been made in compiling the above charts:

Scenario	Annual bonus	LTIP	Fixed pay
Stretch with 50% share price appreciation	Maximum annual bonus.	Performance warrants full vesting (100% of the award). LTIP award value has additionally been uplifted by 50%.	Latest disclosed base salary, pension and benefits.
Stretch	Maximum annual bonus.	Performance warrants full vesting (100% of the award).	
Target	On-target annual bonus.	Performance warrants threshold vesting (25% of the award).	
Below threshold	No annual bonus payable.	Nil vesting.	

Details of executive Directors' service contracts

The executive Directors are employed under contracts of employment with Morgan Advanced Materials plc. Contracts may be terminated on 12 months' notice given by the Company or on six months' notice given by the executive Director concerned. The following table shows the date of the contract for each executive Director who served during the year:

				Notice period	
Executive Director	Position	Date of appointment	Date of service agreement	From employer	From employee
Pete Raby	CEO	1 August 2015	30 January 2015	12 months	6 months
Peter Turner	CFO	11 April 2016	30 March 2016	12 months	6 months

Exit Payments Policy

The Group's policy on exit payments is to limit severance payments on termination to pre-established contractual arrangements comprising base salary and any other statutory payments only. In the event that the employment of an executive Director is terminated, any compensation payable will be determined in accordance with the terms of the service contract between the Company and the employee, as well as the rules of any incentive plans.

The Group may terminate the employment of an executive Director by making a payment in lieu of notice equal to base salary, together with the fair value of any other benefits to which the executive is contractually entitled under his or her service agreement, for the duration of the notice period.

The Remuneration Committee will exercise discretion in making appropriate payments in the context of outplacement or the settling of legal claims or potential legal claims by the departing executive Director, including any other amounts reasonably owing to the executive Director, for example, to meet the legal fees incurred by the executive Director in connection with the termination of employment, where the Company wishes to enter into a settlement agreement and the individual must seek independent legal advice.

On termination of an executive Director's service contract, the Remuneration Committee will consider the departing Director's duty to mitigate his or her loss when determining the timing of when any payment in lieu of notice will be made. There is no automatic entitlement to bonus or the vesting of long-term incentives on termination. However, the table that follows summarises the Policy on how awards under the annual bonus, LTIP and deferred bonus plan will normally be treated in specific circumstances, with the final treatment remaining subject to Committee discretion:

Treatment of awards on cessation of employment and a change of control

Reason for cessation	Calculation of vesting/payment	Time of vesting
	Annual bonus	
All reasons	The Committee may determine that a bonus is payable on cessation of employment, and the Committee retains discretion to determine that the bonus should be paid wholly in cash. The amount of bonus payable will be determined in the context of the time served during the performance year, the performance of the Group and of the individual over the relevant period, and the circumstances of the Director's loss of office. If Group or individual performance has been poor, or if the individual's employment has been terminated in circumstances amounting to misconduct, no bonus will be payable.	
	Mandatory deferred bonus share awards	
Injury, disability, death, redundancy, retirement, or other such event as the Committee determines	Awards will normally vest in full (i.e. not pro-rated for time).	At the normal vesting date, unless the Committee decides that awards should vest earlier (e.g. in the event of death).
Change of control	Awards will normally vest in full (i.e. not pro-rated for time). Awards may alternatively be exchanged for equivalent replacement awards, where appropriate.	On change of control.
All other reasons	Awards normally lapse.	Not applicable.
	LTIP awards	
Injury, disability, death, redundancy, retirement, or other such event as the Committee determines	Awards will normally be pro-rated for time and will vest based on performance over the original performance period (unless the Committee decides to measure performance to the date of cessation).	At the normal vesting date, unless the Committee decides that awards should vest earlier (e.g. in the event of death).
Change of control	LTIP awards will be pro-rated for time and will vest subject to performance over the performance period to the change of control. LTIP awards may alternatively be exchanged for equivalent replacement awards, where appropriate.	On change of control.
All other reasons	Awards normally lapse.	Not applicable.

The Remuneration Committee retains discretion, where permitted by the plan rules, to alter these default provisions on a case-by-case basis, following a review of circumstances and to ensure fairness for both shareholders and participants.

Approach to recruitment remuneration

External appointment

In cases of hiring or appointing a new executive Director from outside the Group, the Committee may make use of all existing components of remuneration, as follows:

Pay element	Policy on recruitment	Maximum
Salary	Based on: the size and nature of the responsibilities of the proposed role; current market pay levels for comparable roles; the candidate's experience; implications for total remuneration; internal relativities; and the candidate's current salary.	–
Pension	Option to join the defined contribution scheme available to the wider workforce. If the executive Director is ineligible to join the standard defined contribution scheme, the company may grant a cash allowance of equivalent value.	In line with Policy limits.
Benefits	As described in the Policy table and may include, but are not limited to, car, medical insurance, and relocation expenses and/or allowances.	–
Sharesave	New appointees will be eligible to participate on identical terms to all other UK employees.	Up to HMRC limits.
Annual bonus	As described in the Policy table and typically pro-rated for the proportion of the year served; performance measures may include strategic and operational objectives tailored to the individual in the financial year of joining.	Up to 150% of salary.
LTIP	New appointees may be granted awards under the LTIP on similar terms to other executives.	Up to 250% of salary.
Other	The Remuneration Committee may make an award under a different structure under the relevant Listing Rule to replace incentive arrangements forfeited on leaving a previous employer. Any such award would have a fair value no higher than that of the awards forfeited, taking into account relevant factors including performance conditions, the likelihood of those conditions being met and the proportion of the vesting period remaining. Details of any such award will be disclosed in the first Annual Report on Remuneration following its grant.	–

Internal promotion to the Board

In cases of appointing a new executive Director via internal promotion, the Policy will be consistent with that for external appointees detailed above. Where an individual has contractual commitments made prior to their promotion to executive Director, the Company will continue to honour these arrangements even if there are instances where they would not otherwise be consistent with the prevailing executive Director Remuneration Policy at the time of promotion.

Chairman and non-executive Directors' Remuneration Policy

Purpose and link to strategy	Operation	Opportunity	Performance metrics
Annual fee[1] To attract and retain high-calibre non-executive Directors.	Annual fees paid to the Chairman and non-executive Directors are reviewed periodically. An additional fee is payable to the Senior Independent Director, and also in respect of chairing a Board Committee. Currently paid 100% in cash.	Annual fees are applied in line with the outcome of each periodic review.	None.

1. The maximum aggregate annual fee for all non-executive Directors (including the Chairman) as provided in the company's Articles of Association is £750,000.

None of the non-executive Directors has a service contract with the Company. They do have letters of appointment. The non-executive Directors do not participate in any of the incentive, share or share option plans. The dates relating to the appointments of the Chairman and non-executive Directors who served during the reporting period are as follows:

Non-executive Director	Position	Date of appointment	Date of letter of appointment	Date of election/re-election
Douglas Caster	Chairman	14 February 2014	15 January 2014[1]	7 May 2020
Helen Bunch	Non-executive Director	24 February 2016	19 January 2016	7 May 2020
Laurence Mulliez	Senior Independent Director	6 May 2016	4 April 2016	7 May 2020
Jane Aikman	Non-executive Director	31 July 2017	27 April 2017	7 May 2020
Clement Woon	Non-executive Director	10 May 2019	7 May 2019	7 May 2020

1. Douglas Caster received a subsequent letter of appointment on 18 December 2018.

CONSIDERATION OF STAKEHOLDER VIEWS

The Group seeks to promote and maintain good relations with employee representative bodies – including trade unions and works councils – as part of its broader employee engagement strategy and consults on matters affecting employees and business performance as required in each case by law and regulation in the jurisdictions in which the Group operates. In making decisions, the Committee also considers the pay and employment conditions elsewhere in the Group, but the Committee does not currently consult with employees specifically on the executive Remuneration Policy and framework. Prior to the annual salary review, the Remuneration Committee is briefed by the Group Human Resources Director about pay increase data that individual business units will consider when deciding local pay awards for their specific businesses and countries. The Committee is also kept fully informed of remuneration policy and implementation decisions affecting the wider workforce. This important context forms part of the Committee's considerations for determining executive Director remuneration. See also 'People section' pages 18 to 21.

The Committee considers shareholder views received during the year and at the AGM each year, as well as guidance from investor representative bodies more broadly, in shaping its Remuneration Policy. The Committee keeps the Remuneration Policy under regular review, to ensure it continues to reinforce the Group's long-term strategy and aligns executive Directors' interests with those of shareholders. It is the Committee's policy to consult with major shareholders prior to any major changes to its executive Remuneration Policy.

2. ANNUAL REPORT ON REMUNERATION

The following section provides details of how the Remuneration Policy was implemented during the year.

REMUNERATION COMMITTEE MEMBERSHIP IN 2020

The Remuneration Committee is currently composed of five non-executive Directors. Each of the non-executive Directors is regarded by the Board as independent, except the Chairman of the Company who was considered independent upon appointment. The Remuneration Committee met six times during the year. Attendance at meetings by individual members is detailed in the Corporate Governance Report on page 55.

SUMMARY OF SHAREHOLDER VOTING AT THE 2020 AGM

The following table shows the results of the latest binding vote on the Remuneration Policy (at the 2019 AGM) and advisory vote on the 2019 Annual Report on Remuneration (at the 2020 AGM).

Resolution	For	Against	Withheld[1]
Remuneration Policy (at the 2019 AGM)	97.17%	2.83%	100,712
Annual Report on Remuneration (at the 2020 AGM)	96.83%	3.17%	19,187,217

1. Votes 'withheld' are not votes in law and, therefore, have not been included in the calculation of the proportion of votes 'for' or 'against' the resolution.

SINGLE TOTAL FIGURE OF REMUNERATION FOR EXECUTIVE DIRECTORS

The auditor is required to report on the information in this table.

The table below sets out a single figure for the total remuneration received by each executive Director for the year ended 31 December 2020 and the prior year. For 2020, the table reflects the position with and without the 30% salary reduction volunteered by the executive Directors from 1 April to the end of December, in response to the pandemic.

	Pete Raby			Peter Turner		
	2020 (actual with reduction)	2020	2019	2020 (actual with reduction)	2020	2019
1. Salary	£439,425	£567,000	£545,000	£323,797	£417,800	£408,600
2. Pension	£104,000	£104,000	£104,000	£80,120	£80,120	£80,120
3. Benefits	£13,711	£13,711	£13,456	£12,168	£12,168	£12,030
Fixed Pay Subtotal	£557,136	£684,711	£662,456	£416,085	£510,088	£500,750
4. Bonus	£74,878	£74,878	£688,989	£55,175	£55,175	£516,552
5. LTIP	£140,111	£140,111	£265,360	£107,939	£107,939	£210,518
6. Other	–	–	£1,800	–	–	£1,800
Variable Pay Subtotal	£214,989	£214,989	£956,149	£163,114	£163,114	£728,870
Total	£772,125	£899,700	£1,618,605	£579,199	£673,202	£1,229,620

The figures have been calculated as follows:

1. Base salary: amount earned for the year. For 2020, figures in the '2020 (actual with reduction)' columns reflect actual salary earned.
2. Pension: the figure is a cash allowance in lieu of pension.
3. Benefits: the taxable value of benefits received in the year. Includes private medical insurance and a company car (or car allowance).
4. Annual bonus: the total bonus earned on performance during the year (before mandatory deferral into shares).
5. LTIP: the estimated value on 31 December 2020 of 2018 LTIP shares vesting in 2021 subject to performance over the three-year period ended 31 December 2020. Figure based on the average share price for the three months to 31 December 2020 of 274.69p. The figure for 2019 has been trued up from that disclosed in last year's Remuneration Report to reflect the share price on the vesting date (1 April 2020) of 183.37p. The impact of share price movement on the vesting value of the CEO's 2018 LTIP award is as follows:

Value of awards vesting using share price at award (233,981 shares x 21.8% x 333.36p)	£170,036
Value of awards vesting using 3 month average share price at 31 December 2020: (233,981 shares x 21.8% x 274.69p)	£140,111
Impact of share price movements on vesting values	–£29,925

6. Other: comprises the value of Sharesave options granted in the year, based on the embedded value at grant (20% of the grant-date share price multiplied by the number of options granted).

INCENTIVE OUTCOMES FOR THE YEAR ENDED 31 DECEMBER 2020

Annual bonus in respect of 2020 performance

Targets for the annual bonus are set by the Remuneration Committee, taking into account the short- and long-term requirements of the Group. Challenging goals are set, which must be met before any bonus is paid. This approach is intended to align executive reward with shareholder returns by rewarding the achievement of 'stretch' targets.

For 2020, the bonus targets for the executive Directors were split between Group adjusted operating profit* before restructuring (weighted 40%), cash generation* (weighted 40%) and individual strategic personal objectives (weighted 20% – subsequently cancelled). The targets were set to incentivise the executive Directors to deliver stretching profit and cash performance for the Group. Performance in line with target results in a payout of 50% of maximum.

In addition to the achievement of the targets set, in considering any awards to be made, the Committee also takes into account the quality of the overall performance of the Group.

The table that follows sets out retrospectively the assessment of performance relative to the 2020 bonus targets for the executive Directors. Actual bonus payments are shown in the single total figure of remuneration table on page 76. Bonus outcomes are reflective of the impact of the COVID-19 pandemic on business results.

		Performance range				
Performance measure	% of maximum bonus element	Threshold (0% payout)	Maximum (100% payout)	Actual performance outcome	% payout of element	% salary earned
Group headline operating profit*	40%	£121.6m	£133.0m	£94.0m	0%	0%
Cash generation*[1]	40%	£165.0m	£180.6m	£170.8m	22%	13.2%
Personal objectives						
Pete Raby	20%	Please see narrative below for further details on objectives and performance against these			n/a	n/a
Peter Turner	20%				n/a	n/a

		% of salary earned				
Overall outcome	Maximum bonus (% salary)	Group adjusted operating profit	Cash generation*[1]	Personal objectives	Total outcome	Total payable
Pete Raby	150%	0%	13.2%	n/a	13.2%	£74,878
Peter Turner	150%	0%	13.2%	n/a	13.2%	£55,175

1. For the cash generation metric there was a straight-line payout between the threshold and maximum figures. All figures were calculated using 2020 budgeted exchange rates.

Pete Raby's personal objectives for 2020 were: (1) Develop a safe, ethical and inclusive culture across the business, role modelling our leadership behaviours and actively engaging our employees, (2) Update the strategy for the group and define the execution commitments for the next 3 years, (3) Develop the leadership capability across the group driving the empowerment and engagement of employees in the strategy, priorities and progress of the business, (4) Enhance the IT capability of the group through the execution of the IT strategy, (5) Develop an end-market focused investor narrative. Performance of our leaders is assessed against all expectations of the role, specific personal objectives that are set and how outcomes are delivered with reference to our defined Leadership Behaviours. Despite difficult trading conditions, under Pete's leadership Morgan managed cost and cash, and implemented a restructuring programme which contained the profit drop-through on the revenue decline to the Company's goal of 30%, as well as delivering an improved free cash flow. New technology and product developments were also progressed, with new products in early-stage trials with a number of customers. Further improvements were made to operational performance and operating costs through the deployment of lean production techniques, and procurement improvements. Pete has also role modelled the Leadership Behaviours. The personal performance element of the 2020 bonus was cancelled for the executive Directors in response to the impact of the pandemic on business results, and despite it being restored for employees the CEO requested that his personal performance element not be reinstated.

Peter Turner's personal objectives for 2020 were: (1) Develop a safe, ethical and inclusive culture across the business, role modelling our leadership behaviours and actively engaging our employees, (2) Update the strategy for the group and define the execution commitments for the next 3 years, (3) Develop the leadership capability across the group driving the empowerment and engagement of employees in the strategy, priorities and progress of the business, (4) Enhance the IT capability of the group through the execution of the IT strategy, (5) Develop an end-market focused investor narrative. Peter's performance has been excellent against these objectives; in this challenging year he has driven cost and cash management programmes to improve the Company's cash position, whilst exhibiting the Leadership Behaviours. The personal performance element of the 2020 bonus was cancelled for the executive Directors in response to the impact of the pandemic on business results, and despite it being restored for employees the CFO requested that his personal performance element not be reinstated.

Performance against the above objectives is referred to in the Chairman's statement and elsewhere within the Annual Report.

2017 Deferred Bonus Plan vesting

In 2017, 33% of the annual bonus results for Pete Raby and Peter Turner (for performance in the 2016 financial year) were deferred into shares under the Deferred Bonus Plan (DBP), in line with Morgan's Remuneration Policy. Dividends accrued over the deferral period on the deferred shares that vested, and the dividends were paid in shares at the end of the vesting period. Details of the DBP vesting for the executive Directors are set out in the table below:

Director	Date of grant	Number of DBP shares granted	Number of dividend re-investment shares	Total number of DBP shares vested	Market value at grant £	Market value at vesting £	Date of vesting
Pete Raby	3 March 2017	21,751	2,477	24,228	3.1588	2.8800	3 March 2020
Peter Turner	3 March 2017	15,173	1,727	16,900	3.1588	2.8800	3 March 2020

2016 Sharesave options exercise

The following options granted under the Sharesave scheme were exercised by the executive Directors in 2020:

Director	Date of grant	Number of options granted	Option price £	Number of options exercised	Market value on date of exercise £	Date of exercise
Pete Raby	26 September 2016	3,862	2.3300	3,862	2.5320	10 March 2020

2018 LTIP award vesting

Awards granted to executive Directors in 2018 were subject to relative TSR performance, EPS growth and Group ROIC* over a three-year period ended 31 December 2020. The EPS target (applying to one-third of each award) required three-year EPS growth of 4% per annum for 25% of that element to vest, rising to full vesting for EPS growth of 11% pa or higher. Over the period Morgan Advanced Materials plc's actual EPS growth was -7.2% and accordingly the EPS element of the award will not vest.

The TSR element (applying to one-third of each award) required Morgan Advanced Materials plc's three-year TSR performance to rank at median against two comparator groups (equally split), the FTSE All-Share Industrials Index and a tailored comparator group comprising 15 listed international carbon, ceramics and other materials companies for 25% of that element to vest, rising to full vesting if Morgan Advanced Materials plc's TSR ranked at or above the upper quartile against these two comparators.

Morgan Advanced Materials plc's TSR was -6.2%, which was at the 52nd percentile versus the FTSE All-Share Industrials Index and the 88th percentile versus the tailored comparator group. Accordingly, this results in a 21.8% vesting for the TSR element of the award.

The Group ROIC* target (applying to the remaining one-third of each award) required three-year Group ROIC* of 16% for 25% of that element to vest, rising to full vesting for Group ROIC* of 19% or higher. Morgan Advanced Materials plc's Group ROIC* was 12.2%, and accordingly the ROIC* element of the award will not vest.

This combined performance resulted in a partial vesting of the 2018 awards based on 21.8% achievement of maximum. The vesting outcome is appropriately reflective of the impact of the COVID-19 pandemic on business results.

Details of the awards to executive Directors are set out in the table below:

Director	Maximum potential LTIP award	Maximum potential LTIP-CSOP award	LTIP award vested	LTIP-CSOP award vested	LTIP-CSOP award exercised	Date of vesting
Pete Raby	233,981	–	51,007	–	–	21 March 2021
Peter Turner	180,255	–	39,295	–	–	21 March 2021

For the purposes of the 2018 LTIP award (and consistent with the approach taken in previous years), the financial results were adjusted to neutralise the effects of divestments and closed businesses in 2018 and 2019.

PENSION

The auditor is required to report on this information.

Pete Raby and Peter Turner each receive a cash allowance in lieu of pension, which is fixed at the 2018 values of £104,000 and £80,120 respectively.

NON-EXECUTIVE DIRECTOR FEES

The auditor is required to report on the information in this table.

The table below sets out the fees received by each non-executive Director in respect of the year ended 31 December 2020 and the prior year. The 2020 figures reflect the 30% fee reduction volunteered (in response to the pandemic) from 1 April to 31 December mentioned earlier in this document, with the pre-reduction salaries shown in brackets.

	Douglas Caster		Helen Bunch		Laurence Mulliez		Jane Aikman	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019
Fee[1]	**£149,808 (£193,300)**	£189,500	**£47,448 (£58,900)**	£57,900	**£47,448 (£58,900)**	£57,900	**£47,448 (£58,900)**	£57,900

	Clement Woon	
	2020	2019
Fee	**£39,448 (£50,900)**	£32,179

1. NEDs do not receive any other fixed/variable pay, or benefits, in addition to their fee. Figures inclusive of £8,000 SID/ Committee Chair fees for Helen Bunch, Laurence Mulliez and Jane Aikman.

SCHEME INTERESTS AWARDED IN 2020

2020 LTIP awards

In 2020, Pete Raby and Peter Turner were granted awards under the LTIP as shown in the table below. As disclosed above, the 2020 LTIP grant was delayed in response to the economic impact of the pandemic. The later grant date also allowed for the share price to partially recover, therefore reducing the risk of windfall gains resulting from a material bounce back in share price when the awards vest. Vesting outcomes will continue to be assessed to ensure they reflect business performance and will be adjusted as appropriate.

		Value of awards at grant			
Executive Director	Number of LTIP shares granted[1,2]	LTIP-CSOP shares granted[1,2]	£	As % of 2020 annualised salary	Date of vesting
Pete Raby	362,377	–	850,500	150%	5 October 2023
Peter Turner	254,239	12,782	626,700	150%	5 October 2023

1. Calculated using the award price of £2.3470, being the average share price for the five dealing days prior to the award date.
2. Peter Turner's LTIP funding award of 12,782 shares: these shares are used to the extent required to pay the exercise price arising on exercise of the CSOP and are therefore not transferable to Peter Turner.

The Committee discusses and reviews the performance criteria for new three-year LTIP awards before they are granted. For the awards granted in 2020, the Committee considered the balance of measures in light of the Group's business plan and shareholder feedback and decided to maintain the equal (one-third) weighting of the three performance criteria with the TSR element continuing to be split into two parts. One-half of this element will vest based on Morgan's TSR performance relative to the constituents of the FTSE All-Share Industrials Index and one-half will vest based on Morgan's TSR performance relative to a tailored comparator group of 15 industry comparators.

The table below sets out the targets attaching to the 2020 LTIP awards:

TSR vs FTSE All-Share Industrials Index	% of award that vests	TSR performance vs peer group	% of award that vests	EPS growth	% of award that vests	Group ROIC*	% of award that vests
Upper quartile	16.67%	Upper quartile	16.67%	11% pa	33.33%	20%	33.33%
Median	4.17%	Median	4.17%	4% pa	8.33%	17%	8.33%
Below median	Nil	Below median	Nil	<4% pa	Nil	<17%	Nil

For executive Directors, there is a two-year holding period in relation to the 2020 LTIP. Dividends accrue over this holding period on any shares that vest.

2020 Deferred Bonus Plan awards

In 2020, 33% of the annual bonus results for Pete Raby and Peter Turner (for performance in the 2019 financial year) were deferred into shares under the Deferred Bonus Plan (DBP), in line with Morgan's Remuneration Policy. The 2020 DBP grant was delayed in response to the pandemic as mentioned earlier. The following DBP awards were granted:

	Value of awards at grant		
Executive Director	Number of DBP shares granted[1]	Value of award £	Date of vesting
Pete Raby	116,438	229,663	20 May 2023
Peter Turner	87,296	172,184	20 May 2023

1. Calculated using the award price of £1.9724, being the average share price for the five dealing days prior to the award date.

Exit payments made in year

The auditor is required to report on this information.

No exit payments were made to executive Directors during the 2020 financial year.

Payments to past Directors

The auditor is required to report on this information.

No payments were made to past Directors during the 2020 financial year.

External appointments

Pete Raby was appointed non-executive Director of Hill & Smith Holdings PLC in December 2019. His fee for this position in 2020 was £51,250 which he retains. No other external appointments were held by either executive Director in the 2020 financial year.

Implementation of Remuneration Policy for 2021

Base salary

In line with the Remuneration Policy, executive Directors' salaries were reviewed by the Committee and increased for 2021 consistent with the average range of increases awarded to the wider workforce. The table below shows the base salaries in 2020 (prior to any reduction implemented in response to the pandemic), and those that took effect from 1 January 2021:

	Base salary at:		
Executive Director	1 January 2021	1 January 2020	Increase
Pete Raby	£581,175	£567,000	2.5%
Peter Turner	£426,160	£417,800	2%

For the 2020 performance year, the Group maintained the formal link between performance and pay within the senior leadership population. Specifically, the process considers individual and Group performance, as well as salary relative to the relevant market.

The increases awarded to both Pete Raby and Peter Turner were calibrated in line with this. The Committee considered Pete Raby's and Peter Turner's continued strong performance in their roles as well as the market positioning of their salaries, in determining to increase their salaries in line with the average range of increases for UK based employees. The rationale for any future increases will be disclosed in the relevant Annual Report on Remuneration.

Pension

While Pete Raby and Peter Turner will continue to receive a cash allowance in lieu of pension, the monetary value remains fixed at the 2018 level disclosed in the table on page 68. The Company commits to review this as part of the next Remuneration Policy review in 2021.

Annual bonus in respect of 2021 performance

The maximum bonus opportunity remains at 150% of salary (with the payout for on-target performance continuing to be 50% of the maximum).

33% of any bonus result will ordinarily be deferred into shares for a further three-year period. The performance measures attached to the annual bonus remain unchanged from 2020, as follows:

Adjusted operating profit* – 40%

Cash generation* – 40% (measured against quarterly cumulative targets as well as over the complete financial year. For every quarterly target that is missed, the payout warranted for full-year performance under this element will be reduced by 10%)

Strategic personal objectives – 20%

The actual performance targets set at the beginning of the performance period are not disclosed as they are considered commercially sensitive at this time, given the close link between performance measures and the Group's longer-term strategy. This is particularly relevant in the context of some of the Group's close and unlisted competitors who are not required to disclose such information, and for whom the assumptions in our targets would provide valuable information in the current trading year. These targets will be disclosed retrospectively, at such time as they have become less commercially sensitive, and within three years of the end of the performance year.

2021 LTIP awards

In March 2021, Pete Raby and Peter Turner will be granted awards under the 2021 LTIP with a face value of 150% of their respective base salaries for 2021. The number of shares allocated are not being reduced as the share price recovery reduces the opportunity for significant windfall gains, however vesting outcomes will continue to be assessed to ensure they reflect business performance and will be adjusted as appropriate. The three-year performance period over which performance will be measured began on 1 January 2021 and will end on 31 December 2023. Further details of the awards will be disclosed in next year's Remuneration Report.

The performance measures are detailed below:

- Each TSR element will operate independently, with vesting determined based on Morgan's TSR rank relative to constituents of each TSR benchmark. The performance range for each element will remain median to upper quartile.
- The EPS performance range will be adjusted to 15%-22% p.a. to take into account the reduced base level resulting from the impact of the pandemic on financials
- The ROIC* range will remain unchanged at 17%-20%, but with IFRS-16 lease assets added to the invested capital. The Committee believes these ranges appropriately support the Group's strategy for sustainable long-term growth over the next three years whilst continuing to represent suitably demanding targets.
- For all three measures, awards will continue to vest on a straight-line basis between threshold and maximum, with 25% of each element vesting at threshold.
- For the 2021 LTIP cycle, executive Directors will be required to hold any vested 2021 LTIP awards for an additional two-year period. Vested awards that are subject to the holding period will remain subject to clawback in line with our Policy but will not be forfeitable on cessation of employment.

Chairman and non-executive Director fees

The Chairman's and non-executive Directors' fees were reviewed in December 2020. The table below shows the fees in 2020 (prior to any reduction volunteered in response to the pandemic), and those that will apply in 2021:

Role	2021 fee pa	2020 fee pa	Increase
Chairman	£197,166	£193,300	2.0%
Non-executive Director	£51,918	£50,900	2.0%
Committee Chair (additional fee)	£8,000	£8,000	0%
Senior Independent Director (additional fee)	£8,000	£8,000	0%

Percentage change in Directors' remuneration

The table below shows the percentage change in the executive and non-executive Directors' remuneration in 2020 compared to the average percentage change in remuneration for other employees of Morgan Advanced Materials plc over the same period, in accordance with the revised guidelines.

	% Change in Salary or Fees[1]	% Change in Benefits[3] (excluding pension)	% Change in Annual Bonus[6]
Executive Directors			
Pete Raby	-19.4%	1.9%	-89.1%
Peter Turner	-20.8%	1.1%	-89.3%
Non-Executive Directors[4]			
Douglas Caster	-20.9%	n/a	n/a
Helen Bunch	-18.1%	n/a	n/a
Laurence Mulliez	-18.1%	n/a	n/a
Jane Aikman	-18.1%	n/a	n/a
Clement Woon[2]	-20.9%	n/a	n/a
Average per employee	3.0%	-5.81%[5]	-2.11%

1. Percentages reflect the temporary Board salary/fee reductions implemented in response to the pandemic. All figures are based on full time equivalent comparisons.
2. Clement Woon joined in May 2019; his 2019 salary has therefore been annualised within the calculation, to permit appropriate comparison.
3. Benefits figures include private medical insurance and car allowance.
4. Non-Executive Directors do not receive any additional benefits or bonus payments.
5. Decrease reflects change in type of medical cover required by individual employees.
6. Executive Director bonus reflects 2020 bonus paid in 2021. Employee average bonus based on 2019 bonus paid in 2020 (data for 2020 bonus was not available at the time of publication. 2020 bonus is expected to exhibit a downward trend, but to a lesser extent than the executive Directors based on the personal performance element having been reinstated for the wider workforce).

CEO Pay Ratio

Year	Method	25th Percentile Pay Ratio	Median (50th Percentile) Pay Ratio	75th Percentile Pay Ratio
2020	**Option B**	**34:1**[1]	**24:1**[2]	**20:1**[3]
2020 (Excluding Variable)	Option B	25:1	20:1	14:1
2019	**Option B**	**74.1**[4]	**62.1**[5]	**41:1**[6]
2019 (Excluding Variable)	Option B	34:1	27:1	19:1

1. Total 25th percentile employee pay & benefits as at 31/12/20 = £22,464 (salary component = £21,000).
2. Total 50th percentile employee pay & benefits as at 31/12/20 = £31,550 (salary component = £23,960).
3. Total 75th percentile employee pay & benefits as at 31/12/20 = £38,723 (salary component = £36,900).
4. Ratio trued up from that disclosed in last year's Remuneration Report to reflect final value of LTIP vesting for CEO. Total 25th percentile employee pay & benefits as at 31/12/19 = £21,958 (salary component = £17,599).
5. Ratio trued up from that disclosed in last year's Remuneration Report to reflect final value of LTIP vesting for CEO. Total 50th percentile employee pay & benefits as at 31/12/19 = £25,927 (salary component = £24,300).
6. Ratio trued up from that disclosed in last year's Remuneration Report to reflect final value of LTIP vesting for CEO. Total 75th percentile employee pay & benefits as at 31/12/19 = £39,926 (salary component = £30,610).

In line with the CEO pay ratio regulations, the table above shows for 2020 the ratio of the CEO's single total figure of remuneration (STFR) to that of UK employees at the 25th, 50th (median) and 75th percentiles. In addition to the mandatory calculation using total remuneration, ratios have also been calculated excluding variable pay elements such as bonus and share awards.

Of the three reporting options available to companies, Morgan has applied Option B, where the most recent gender pay gap reporting data has been used to identify the 25th, 50th and 75th percentile employees. The 25th, 50th and 75th percentile pay ratios are based on the remuneration of a representative employee who falls on each of these pay percentiles. Option B has been used to calculate the CEO pay ratios, as Option A requires the ability to calculate a single total remuneration figure for each UK employee, and Morgan does not currently have the systems in place to support this methodology. The 'best equivalent' employees identified using the gender pay gap information are representative of the 25th, 50th and 75th percentiles of company remuneration since base pay constitutes a large proportion of the remuneration package for the majority of employees, so it is likely that a similar set of employees would have been identified using Option A. The calculation covers base pay, annual bonus, pension and where applicable stock awards and benefits including car allowance and private medical. Total remuneration figures used in the calculation for 25th, 50th and 75th percentile employees include annual bonus relating to 2020 performance in order to be consistent with the methodology used for the CEO's total remuneration figure.

The 2020 CEO pay ratios are significantly lower than those in 2019 as a consequence of the CEO's temporary salary reduction, cancellation of the CEO's personal performance bonus element in response to the COVID-19 pandemic, and also due to the pandemic's impact on business results (and therefore on levels of variable pay). Pay and benefits for the CEO and wider employee population are based on the same philosophies, for example driving pay for performance and alignment to external benchmarks, in order to promote consistency, fairness and equity across all levels in the organisation. As the same methodology underpins the remuneration used in the above calculations, the resulting median pay ratio is consistent with the company's wider policies on employee pay, reward and progression. Pay ratios are reduced when variable pay elements are excluded, so the gap between CEO and employee pay is largely attributable to non-fixed pay elements, some of which (e.g. share awards) the majority of the wider workforce would not typically be eligible for in the external market. The diversity of different levels and types of roles found in a manufacturing environment such as at Morgan may result in a higher CEO pay ratio than companies which have predominantly professional and/or more senior staff. It is therefore important to compare Morgan's data to companies in similar industries.

Relative importance of spend on pay

The graphs below show shareholder distributions (i.e. dividends and share buybacks) and total employee pay expenditure for the financial years ended 31 December 2019 and 31 December 2020.

Shareholder distributions
(£M)

Total employee pay expenditure
(£M)

The reduction in shareholder distributions in 2020 reflects the withdrawal of the 2019 final dividend in response to the COVID-19 pandemic, and also the impact of the pandemic on business results, affecting the 2020 interim dividend. Total employee pay across the Group has decreased by 8.6% to £334.6 million (2019: £366.0 million), also impacted by measures taken as a result of the pandemic.

Advisers

Kepler (now branded Mercer Kepler) was appointed by the Committee in 2010 as its executive remuneration adviser and was retained during the most recent financial year. In 2020 Mercer Kepler provided independent advice on performance measurement, the setting of incentive targets, TSR analysis and the structure of long-term incentives, and provided market data in respect of senior executive remuneration and non-executive Director fees. Mercer Kepler reports directly to the Chairman of the Remuneration Committee and does not provide any other material non-remuneration-related services to the Group (nor does Mercer Kepler's parent company, Mercer), and is considered to be independent.

Mercer Kepler is a signatory to the Remuneration Consultants Group's voluntary Code of Conduct.

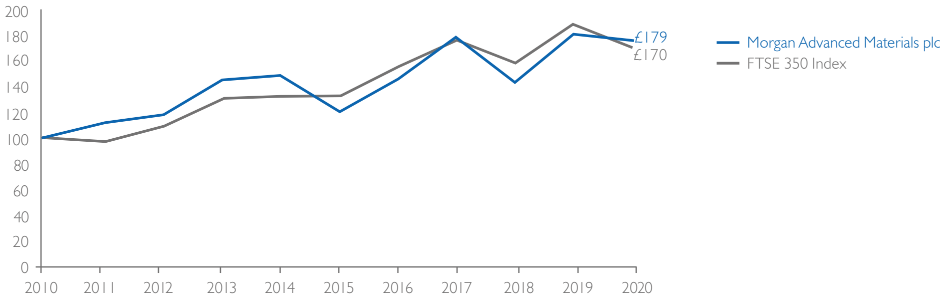
Fees paid during the year to advisers for advice to the Remuneration Committee, charged on a time and materials basis, were as follows:

Adviser	Fees (including expenses, excluding VAT)
Mercer Kepler	£32,413

On 1 January 2021, the role of executive remuneration advisor transitioned from Mercer to Ellason LLP.

Comparison of Company performance

The graph below shows the value, at 31 December 2020, of £100 invested in Morgan Advanced Materials plc's shares on 31 December 2010 compared with the current value of the same amount invested in the FTSE 350 Index. The FTSE 350 Index – of which the Company is a constituent – has been chosen because it is widely followed by the UK's investment community and easily tracked over time.



The table below details the CEO's 'single figure' of remuneration over the ten-year period to 31 December 2020.

CEO	2011 M Robertshaw	2012 M Robertshaw	2013 M Robertshaw	2014 M Robertshaw	2015 P Raby	2016 P Raby	2017 P Raby	2018 P Raby	2019 P Raby	2020 P Raby
CEO single figure	£3,371,302	£1,285,556	£648,932	£1,001,448	£788,252	£787,492	£1,210,856	£1,479,738	£1,618,605	£772,125
Annual bonus (% max)	100%	0%	0%	65%	50%	29.5%[1]	71.3%	67.4%	84.3%	9%
BDSMP vesting (% max)	60%	100%	0%	0%	n/a	n/a	n/a	n/a	n/a	n/a
LTIP vesting (% max)	100%	50%	0%	0%	n/a	n/a	15.4%	42.9%	61.3%	21.8%

1. Figure represents percentage achievement of maximum opportunity. Bonus maximum as a percentage of salary increased to 150% of base salary in 2016 compared to 100% in previous years.

Directors' interests in shares

Shares owned outright

The auditor is required to report on the information in this table.

The following table shows the number of shares held by each person who was a Director of Morgan Advanced Materials plc as at 31 December 2020 (together with shares held by their connected persons) in the Ordinary share capital of the Company:

	As at 1 January 2020 or date of joining	As at 31 December 2020	As at 3 March 2021
Executive Directors			
Pete Raby	165,332	258,945	258,945
Peter Turner	194,330	263,914	263,914
Non-executive Directors			
Douglas Caster	110,454	110,454	110,454
Laurence Mulliez	6,580	6,765	6,765
Helen Bunch	2,028	2,028	2,028
Jane Aikman	1,000	1,000	1,000
Clement Woon	45,281	45,281	45,281

As at 3 March 2021, the Directors' interests in shares had not changed since the end of the period under review, with the exception of the vesting of the 2018 Deferred Bonus Plan (DBP) on 21 March 2021, which resulted in the retention of 30,525 shares for Pete Raby and 24,216 for Peter Turner (inclusive of dividend reinvestment and net of taxes). Full details will be disclosed in the 2021 Annual Report.

Executive Directors' shareholding guidelines

The table below shows the shareholding of each executive Director against their respective shareholding guideline as at 31 December 2020.

	Shareholding guideline (% 2020 salary)	Shares owned outright	Shares subject to performance[1]	Performance-tested but unvested shares[2]	Shares subject to DBP deferral[3]	Options vested but unexercised[4]	Options granted but subject to continued employment[4]	Current shareholding (% 2020 salary)[5]	Guideline met?
Pete Raby	200%	258,945	678,466	51,007	124,417	–	4,477	213%	Yes
Peter Turner	200%	263,914	508,394	39,295	95,217	–	4,477	271%	Yes

1. 2019 and 2020 LTIP and LTIP-CSOP awards. The total shares for Pete Raby and Peter Turner include a funding award of 11,189 and 12,782 shares respectively to be used to the extent required to pay the exercise price arising on exercise of the CSOP and are therefore not transferable to Pete Raby and Peter Turner.
2. 2018 LTIP awards.
3. Estimated number of shares, net of tax (47%), deferred under the DBP.
4. Options granted under the Sharesave scheme.
5. Based on an executive Director's 2020 salary (prior to temporary reduction) and the share price at 31 December 2020 of 311.0 pence, comprising shares owned outright and shares subject to deferral.

Unless otherwise stated, figures given in the tables on pages 84 to 86 are for shares or interests in shares.

Pete Raby

The auditor is required to report on the information in this table.

LTIP

Status at 31 December 2020	Plan	As at 1 January 2020	Allocations during the year	Released during the year	Lapsed during the year	As at 31 December 2020	Market price at date of allocation	Market price at date of release	Performance period
No further performance conditions, released	2017	236,074	–	144,713	91,361	–	314.52p	183.37p	01.01.17 – 31.12.19
No further performance conditions, not yet released	2018	233,981	–	–	–	233,981	333.36p	–	01.01.18 – 31.12.20
Subject to performance conditions	2019	293,711	–	–	–	293,711	268.12p	–	01.01.19 – 31.12.21
	2019 funding	11,189	–	–	–	11,189	268.12p	–	01.01.19 – 31.12.21
	2020	–	362,377	–	–	362,377	234.70p	–	01.01.20 – 31.12.22

Share options

Status at 31 December 2020	Plan	As at 1 January 2020	Allocations during the year	Released during the year	Lapsed during the year	As at 31 December 2020	Market price at date of allocation	Market price at date of release	Performance period
Continued service met	2016 Sharesave	3,862	–	3,862	–	–	233.0p	253.20p	01.12.16 – 30.11.19
Subject to continued service	2019 Sharesave	4,477	–	–	–	4,477	201.00p	–	01.12.19 – 30.11.22
Subject to performance conditions	2019 LTIP-CSOP	11,189	–	–	–	11,189	268.12p	–	01.01.19 – 31.12.21

Total interests in share plans

As at 1 January 2020	As at 31 December 2020
934,547[1,2,3]	1,151,675[1,3,4]

1. Includes a funding award of 11,189 shares to be used to the extent required to pay the exercise price arising on exercise of the CSOP and therefore not transferable to Pete Raby.
2. Includes 2017 deferred bonus award.
3. Includes 2018 and 2019 deferred bonus award.
4. Includes 2020 deferred bonus award.

Peter Turner

The auditor is required to report on the information in this table.

LTIP

Status at 31 December 2020	Plan	As at 1 January 2020	Allocations during the year	Released during the year	Lapsed during the year	As at 31 December 2020	Market price at date of allocation	Market price at date of release	Performance period
Subject to performance conditions, released	2017	187,285	–	114,805	72,480	–	314.52p	183.37p	01.01.17 – 31.12.19
No further performance conditions, not yet released	2018	180,255	–	–	–	180,255	333.36p	–	01.01.18 – 31.12.20
Subject to performance conditions	2019	228,591	–	–	–	228,591	268.12p	–	01.01.19 – 31.12.21
	2020	–	254,239	–	–	254,239	234.70p	–	01.01.20 – 31.12.22
	2020 funding	–	12,782			12,782	234.70p		01.01.20 – 31.12.22

Peter Turner *continued*

Share options

Status at 31 December 2020	Plan	As at 1 January 2020	Allocations during the year	Released during the year	Lapsed during the year	As at 31 December 2020	Market price at date of allocation	Market price at date of release	Performance period
Subject to continued service	2019 Sharesave	4,477	–	–	–	4,477	201.00p	–	01.12.19 – 30.11.22
Subject to performance conditions	2020 LTIP-CSOP	–	12,782	–	–	12,782	234.70p	–	01.01.20 – 31.12.22

Total interests in share plans

As at 1 January 2020	As at 31 December 2020
708,143[1,2]	872,784[2,3,4]

1. Includes 2017 deferred bonus award.
2. Includes 2018 and 2019 deferred bonus award.
3. Includes 2020 deferred bonus award.
4. Includes a funding award of 12,782 shares to be used to the extent required to pay the exercise price arising on exercise of the CSOP and therefore not transferable to Peter Turner.

Details of plans

LTIP

Plan	Details
2018, 2019, 2020	The performance conditions attached to the 2018 awards are set out on page 77 to 78. The 2019 awards were on the same basis as the 2018 awards except that the ROIC*, range was amended to 17%-20%. The 2020 awards were on the same basis as the 2019 awards.

Share options

Plan	Details
LTIP – CSOP	LTIP 2018: The awards to the CEO and CFO were structured as LTIP awards in the form of a conditional award of free shares. LTIP 2019: The award to the CFO was structured as LTIP awards in the form of a conditional award of free shares. The CEO's award was structured as an Approved Performance Share Plan (APSP) and comprised three elements: (i) HMRC-approved options (CSOP) over shares to the value of up to £30,000 with an exercise price of 268.12 pence per share; (ii) an LTIP award in the form of a conditional award of free shares to the value of the remainder of the award above this limit; and (iii) a funding award, also in the form of a conditional award of free shares, over such numbers of shares whose value at exercise at the approved option equals up to £30,000. The award is also subject to malus and clawback provisions. The provisions of these CSOP options, funding awards and LTIP awards was linked so that the maximum aggregate number of shares that could be acquired on exercise of LTIP and CSOP awards (the funding award being used to pay the exercise price arising on exercise of the CSOP) was limited to that number of shares that had a market value on the date of the awards equal to 150% of Pete Raby's 2019 annual salary. Vested funding awards were not transferable to the participant. LTIP 2020: The award to the CEO was structured as LTIP awards in the form of a conditional award of free shares. The CFO's award was structured as an Approved Performance Share Plan (APSP) and comprised three elements: (i) HMRC-approved options (CSOP) over shares to the value of up to £30,000 with an exercise price of 234.70 pence per share; (ii) an LTIP award in the form of a conditional award of free shares to the value of the remainder of the award above this limit; and (iii) a funding award, also in the form of a conditional award of free shares, over such numbers of shares whose value at exercise at the approved option equals up to £30,000. The award is also subject to malus and clawback provisions. The provisions of these CSOP options, funding awards and LTIP awards was linked so that the maximum aggregate number of shares that could be acquired on exercise of LTIP and CSOP awards (the funding award being used to pay the exercise price arising on exercise of the CSOP) was limited to that number of shares that had a market value on the date of the awards equal to 150% of Peter Turner's 2020 annual salary. Vested funding awards were not transferable to the participant.
Sharesave	HMRC-approved all-employee Sharesave scheme. Exercise price set at 20% discount to share price on date of grant. Options mature after the three-year savings period and must be exercised within six months of vesting. Details of options held by Directors under Sharesave are outlined in the individual Director shareholding tables above.

Deferred Bonus Plan

Plan	Details
2018, 2019 and 2020	Mandatory deferral of one–third of gross bonus result relating to the previous year, which is provided as a conditional award of shares of the equivalent value. The award vests on the third anniversary of the award date and is subject to forfeiture if the executive Director leaves before the vesting date. The award is also subject to malus and clawback provisions.

Other transactions involving Directors are set out in note 43 (Related Parties) to the consolidated financial statements. This Report was approved by the Board on 3 March 2021.

Signed on behalf of the Board

Helen Bunch
Committee Chair

Other disclosures

The Directors' Report is required to be produced by law. The Financial Conduct Authority (FCA)'s Disclosure Guidance and Transparency Rules (DTRs) and Listing Rules (LRs) also require the Company to make certain disclosures.

Pages 46 to 89 inclusive (together with the sections of the Annual Report incorporated by reference) constitute a Directors' Report that has been drawn up and presented in accordance with applicable law, and the liabilities of the Directors in connection with that Report are subject to the limitations and restrictions provided by that law.

THE COMPANY

Legal form of the Company

Morgan Advanced Materials plc is a company incorporated in England and Wales with company number 286773.

Name change

The Company changed its name to Morgan Advanced Materials plc (from The Morgan Crucible Company plc) on 27 March 2013.

Annual General Meeting (AGM)

The Company's 2021 AGM will be held on Thursday 6 May 2021, commencing at 10:30am at York House, Sheet Street, Windsor SL4 1DD. A circular incorporating the Notice of AGM accompanies this Annual Report.

STATUTORY DISCLOSURES

Amendment of the Articles of Association

The Company's constitution, known as the Articles of Association (the Articles), is essentially a contract between the Company and its shareholders, governing many aspects of the management of the Company. It deals with matters such as the rights of shareholders, the appointment and removal of Directors, the conduct of the Board and general meetings and communications by the Company.

The Articles may be amended by special resolution of the Company's shareholders.

Appointment and replacement of Directors

The Articles provide that the Company may by ordinary resolution at a general meeting appoint any person to act as a Director, provided that notice is given of the resolution identifying the proposed person by name and that the Company receives written confirmation of that person's willingness to act as Director if he or she has not been recommended by the Board. The Articles also empower the Board to appoint as a Director any person who is willing to act as such.

The maximum possible number of Directors under the Articles is 15. The Articles provide that the Company may by special resolution, or by ordinary resolution of which special notice is given, remove any Director before the expiration of his or her period of office. The Articles also set out the circumstances in which a Director shall vacate office. The Articles require that at each AGM any Director who was appointed after the previous AGM must be proposed for election by the shareholders. Additionally, any other Director who has not been elected or re-elected at one of the previous two AGMs must be proposed for re-election by the shareholders. The Articles also allow the Board to select any other Director to be proposed for re-election. In each case, the rules apply to Directors who were acting as Directors on a specific date selected by the Board. This is a date not more than 14 days before, and no later than, the date of the Notice of AGM.

Notwithstanding the provisions of the Articles, all the Directors will stand for election or re-election on an annual basis in compliance with the provisions of the UK Corporate Governance Code (the Code). Details of the skills, experience and career history of Directors in post as at the date of this Report, and the Board Committees on which they serve, can be found on pages 48 to 49.

RESULTS AND DIVIDENDS

The total loss (attributable to owners of the parent and non-controlling interests) for the year ended 31 December 2020 was £18.0 million (2019: profit £81.3 million). The loss for the period arises principally as a result of the impairment of assets of £65.6 million and restructuring costs of £24.0 million recorded within specific adjusting items. Loss before taxation for the same period was £13.1 million (2019: profit £109.7 million). Revenue was £910.7 million (2019: £1,049.5 million) and operating loss was £1.8 million (2019: profit £126.1 million). Basic loss per share* from continuing operations was 8.6 pence (2019: earnings per share 25.2 pence). Capital and reserves at the end of the year were £240.0 million (2019 restated: £312.2 million). The total loss of £18.0 million will be transferred to equity.

The Directors recommend the payment of a final dividend at the rate of 3.5 pence per share on the Ordinary share capital of the Company, payable on 21 May 2021 to shareholders on the register at the close of business on 30 April 2021. Together with the interim dividend of 2.0 pence per share paid on 11 December 2020, this final dividend, if approved by shareholders, brings the total distribution for the year to 5.5 pence per share (2019: 4.0 pence).

DIRECTORS

All those who served as Directors at any time during the year under review are set out on pages 48 to 49.

Powers of the Directors

Subject to the Company's Articles, UK legislation and any directions given by special resolution, the business of the Company is managed by the Board, which may exercise all the powers of the Company.

Directors' interests

Details of Directors' interests (and their connected persons' beneficial interests) in the share capital of the Company are listed on page 84.

Directors' indemnities

The Company has entered into separate indemnity deeds with each Director containing qualifying indemnity provisions, as defined in Section 236 of the Companies Act 2006, under which the Company has agreed to indemnify each Director in respect of certain liabilities which may attach to each of them as a Director or as a former Director of the Company or any of its subsidiaries. The indemnity deeds were in force during the financial year to which this Directors' Report relates and are in force as at the date of approval of the Directors' Report.

Engagement with customers and suppliers

Details of the Group's engagement with customers and suppliers are set out on pages 4 to 5 of the Strategic Report and on page 52 of the Corporate Governance Report.

Information required by LR 9.8.4R

Apart from the dividend waiver which has been issued in respect of shares held by the Trust referred to in note 20 on page 130, there is no information required to be disclosed under LR 9.8.4R.

OVERSEAS BRANCHES

As at 31 December 2020, the Company had branches as follows:

- Thermal Ceramics Europe (France)
- Morganite Australia Pty Limited (New Zealand)
- Morgan AM&T BV (Sweden and Belgium)
- Carbo San Luis SA (Peru)

HUMAN RESOURCES

Details of the Group's human resources policies and employee involvement are set out on pages 18 to 21.

There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) that occurs because of a takeover bid.

Other disclosures

RESEARCH AND DEVELOPMENT

The Group recognised £28.0 million in expense in respect of research and development (2019: £34.0 million). The Group did not capitalise any development costs in 2020 (2019: £nil).

GREENHOUSE GAS EMISSIONS

Details of the Group's annual greenhouse gas emissions are shown in the Environment section on page 14.

POLITICAL DONATIONS

No political donations have been made. Morgan Advanced Materials plc has a policy of not making donations to any political party, representative or candidate in any part of the world.

FINANCIAL INSTRUMENTS

Details of the Group's use of financial instruments, together with information on policies and exposure to price, liquidity, cash flow, credit, interest rate and currency risks, can be found in note 22 on pages 132 to 140. All information detailed in this note is incorporated into the Directors' Report by reference and is deemed to form part of the Directors' Report.

SHARE CAPITAL AND RELATED MATTERS

Share capital

The Company's share capital as at 31 December 2020 is set out in note 41 on page 163. The Company's Ordinary shares represent 99.85% of the total issued share capital, with the 5.5% Cumulative First Preference shares representing 0.04% and the 5.0% Cumulative Second Preference shares representing 0.11%. The rights and obligations attaching to the Company's Ordinary shares, and restrictions on the transfer of shares in the Company, are set out in the Articles.

Shareholders' rights

The holders of Ordinary shares are entitled: to receive dividends, when declared; to receive the Company's reports and accounts; to attend and speak at general meetings of the Company; to appoint proxies; and to exercise voting rights.

Details of the structure of the Company's Preference share capital and the rights attaching to the Company's Preference shares are set out in note 20 on page 131.

No person holds securities in the Company carrying special rights with regard to control of the Company. The Company is not aware of any agreements between holders of securities that may result in restrictions on the transfer of securities or on voting rights.

Share allotment and repurchase authorities

The Directors were granted authority at the 2020 AGM to allot shares in the Company and to grant rights to subscribe for or convert any securities into shares in the Company up to (a) a nominal amount of £23,780,832 and (b) a nominal amount of £47,561,664 in connection with a rights issue (such amount to be reduced by any shares allotted under (a)). This authority is scheduled to lapse at the 2021 AGM. At the 2021 AGM, shareholders will be asked to grant a similar allotment authority.

Two separate special resolutions will also be proposed to renew the Directors' powers to make non-pre-emptive issues for cash up to an aggregate nominal amount representing approximately 5% of the issued share capital as at the last practicable date before the publication of the 2021 Notice of AGM, and an additional 5% of the issued share capital which would be for use only in connection with acquisitions and specified capital investments.

The Directors sought authority at the 2020 AGM to repurchase shares in the capital of the Company up to a maximum aggregate number of Ordinary shares of 28,536,998. The Directors will seek to renew this authority at the 2021 AGM.

Employee share and share option schemes

The Company operates a number of employee share and share option schemes. 85 employees hold awards under the Morgan Advanced Materials plc Long-Term Incentive Plan, including share options held under the Approved Performance Share Plan, seven employees hold awards under the Morgan Advanced Materials Deferred Bonus Plan, 200 employees hold awards under the Morgan Advanced Materials plc Restricted Stock Unit Plan and 341 employees participate in the Company's UK Sharesave scheme. Details of outstanding share awards and share options are given in note 24 on pages 146 to 147.

All the Company's share schemes contain provisions relating to a change of control. Outstanding options and awards would normally vest and become exercisable on a change of control, subject to being pro-rated for time and to the satisfaction of any performance conditions at that time.

The Trustees of The Morgan General Employee Benefit Trust (the Trust) have absolute and unfettered discretion in relation to voting any shares held in the Trust at any general meeting. Their policy is not to vote the shares. If any offer is made to shareholders to acquire their shares, the Trustees will have absolute and unfettered discretion as to whether to accept or reject the offer in respect of any shares held by them.

Major shareholdings

As at 31 December 2020, the Company had been notified of the following, in accordance with DTR 5, from holders of notifiable interests representing 3% or more of the issued Ordinary share capital of the Company:

	Number of Ordinary shares	Percentage of issued share capital	Date of notification of interest
Ameriprise Financial Inc., and its group	24,186,489	8.48	3 February 2017
M&G Plc	19,762,544	6.92	22 October 2019
Black Creek Investment Management Inc.	17,136,885	6.01	22 October 2018
FIL Limited	15,414,047	5.40	5 August 2020
Aberforth Partners LLP	14,338,459	5.03	3 September 2019
Harris Associates	14,119,504	4.95	24 November 2017
AXA Investment Managers SA	14,039,985	4.92	6 June 2019
Norges Bank	8,581,132	3.01	15 June 2020

As at 3 March 2021, the Company was notified by Norges Bank that its holding had decreased from 3.01% to below 3%. There are no other changes to the substantial shareholdings shown in the above table.

TRANSACTIONS, CONTRACTUAL ARRANGEMENTS AND POST-BALANCE SHEET EVENTS

Significant agreements – change of control

The Group has a number of borrowing facilities provided by various financial institutions. The facility agreements generally include change of control provisions which, in the event of a change in ownership of the Company, could result in their renegotiation or withdrawal.

The most significant of such agreements are the UK £200 million multi-currency revolving credit facility agreement, which was signed on 26 September 2018, and the privately placed Note Purchase and Guarantee Agreements signed on 27 October 2016 and 20 March 2017, for which the aggregate outstanding loan amounts are US$137 million and €85 million.

There are a number of other agreements that would take effect, alter or terminate upon a change of control of the Company following a takeover bid, such as commercial contracts and joint venture agreements. No such individual contract is considered to be significant in terms of its potential impact on the business of the Group as a whole.

Post balance-sheet events

There were no reportable subsequent events following the balance sheet date.

REPORTING, ACCOUNTABILITY AND AUDIT

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the Group and Parent company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent company financial statements for each financial year. Under that law they are required to prepare the Group consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) adopted pursuant to Regulation (EC) No1606/2002 as it applies in the European Union and applicable law and have elected to prepare the Parent company financial statements in accordance with UK Accounting Standards, 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 Group and Parent company and of their profit or loss for that period.

In preparing each of the Group and Parent company 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.
- For the Group consolidated financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU.
- Assess the Group and Parent company's ability to continue as a going concern, disclosing, as applicable, matters related to Going concern.
- For the Parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Parent company financial statements. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.
- Prepare the financial statements on the going concern basis of accounting unless they intend to liquidate the Group or the Parent company or to cease operations or have no realistic alternative but to do so.

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

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

In its reporting to shareholders, the Board is satisfied that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy as required by the Code.

The Directors as at the date of this Report, whose names and functions are set out on pages 48 to 49, confirm that, to the best of their knowledge:

- The Group's consolidated financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group.
- The management report (comprising the Directors' Report and the Strategic Report) includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

Scope of the reporting in this Annual Report

The Board has prepared a Strategic Report which provides an overview of the development and performance of the Group's business in the year ended 31 December 2020.

For the purposes of DTR 4.1.5R(2) and DTR 4.1.8, the Directors' Report on pages 46 to 89 and the Strategic Report on pages 2 to 45 comprise the management report, including the sections of the Annual Report and consolidated financial statements incorporated by reference.

Each Director holding office at the date of approval of this Directors' Report confirms that, so far as he or she is aware, there is no relevant audit information of which the Company's auditor is unaware, and that he or she has taken all steps that he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

The Strategic Report, the Directors' Report and the Remuneration Report were approved by the Board on 3 March 2021.

For and on behalf of the Board

Stephanie Mackie
Company Secretary

3 March 2021

Morgan Advanced Materials plc
York House
Sheet Street
Windsor
Berkshire SL4 1DD

Registered in England and Wales, No. 286773

Independent auditor's report

to the members of Morgan Advanced Materials plc

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

1. OPINION

In our opinion:

- the financial statements of Morgan Advanced Materials plc (the 'Parent company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the Parent company's affairs as at 31 December 2020 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and the International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Consolidated income statement;
- the Consolidated statement of comprehensive income;
- the Consolidated and Parent company balance sheets;
- the Consolidated and Parent company statements of changes in equity;
- the Consolidated statement of cash flows; and
- the related Notes 1 to 45.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law, international accounting standards in conformity with the requirements of the Companies Act 2006, and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

2. BASIS FOR OPINION

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

We are independent of the Group and the Parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the Group and Parent company for the year are disclosed in Note 4 to the financial statements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. SUMMARY OF OUR AUDIT APPROACH

Key audit matters	The key audit matters that we identified in the current year were: → Inventory valuation; → Presentation of restructuring costs as a specific adjusting item; and → Impairment of non-financial assets.
Materiality	The materiality that we used for the Group financial statements was £4.0m which was determined on the basis of considering a number of different metrics used by investors and other readers of the financial statements. These included: → profit before tax before specific adjusting items; → revenue; → earnings before interest, tax, depreciation and amortisation; and → net assets.
Scoping	Full scope audit work was performed on 18 reporting components, and specified audit procedures were undertaken on a further 14 reporting components. Our full scope and specified audit procedures covered 74% of Group revenue and 89% of absolute Group statutory loss.
Significant changes in our approach	In the prior year, the predecessor auditor identified provisions for uncertain tax positions, environmental provisions and the valuation of the defined benefit obligation in the UK and US as key audit matters. We considered and concluded as follows: → Having assessed provisions for uncertain tax positions and the assumptions used in valuing the UK and US defined benefit obligation in the current year, we do not consider the level of judgement involved to be significant or an area where significant audit effort is required. → In relation to environmental provisions, the judgement in the prior year primarily related to one site where the feasibility study was at an early stage. The feasibility study for this site is now complete and as a result, we do not consider the level of judgement involved to be significant or an area where significant audit effort is required. In the current year, we have changed the basis for determining materiality. Refer to section 6 for further details.

4. CONCLUSIONS RELATING TO GOING CONCERN

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

Our evaluation of the directors' assessment of the Group's and Parent company's ability to continue to adopt the going concern basis of accounting included:

- obtaining an understanding of the financing facilities including nature of facilities, repayment terms and covenants;
- evaluating the linkage to business model and principal risks as identified on pages 8 to 9 and 26 to 31;
- challenging the assumptions used in the Board approved forecasts by reference to historical performance and other supporting evidence such as market data;
- recalculation of the amount of headroom in the forecasts (in liquidity terms and against the relevant covenant limits);
- assessing the appropriateness of the sensitivity analysis and reverse stress tests performed by management; and
- assessing the adequacy of the disclosures made by management, in light of the COVID-19 pandemic.

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

In relation to the reporting on how the Group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

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

5. KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1. Inventory Valuation

Key audit matter description	The Group manufactures thermal, carbon and technical ceramic products for a diverse range of end markets. The Group had material inventory balances of £122.4m as at 31 December 2020 (2019: £142.3m). There is a risk that the Group's reporting components are not correctly applying the Group accounting policy to the valuation and provisioning of inventory, due to: → System limitations in certain locations, where there is significant manual intervention required to record and value inventory, which results in regular manual adjustments to inventory; and → The level of management judgement involved in determining whether a provision should be recognised and how it should be measured. Following the outbreak of COVID-19, there is also an enhanced risk in relation to the absorption of fixed cost overheads into inventory where there are low production volumes. In the Consolidated Financial Statements, Note 1 sets out the Group's accounting policy for inventory valuation and Note 16 provides further analysis of the account balance.
How the scope of our audit responded to the key audit matter	We have performed the following procedures in respect of this key audit matter: → Obtained an understanding of the relevant controls over the inventory valuation process; → Challenged the basis on which the cost of inventory has been determined, and tested the allocation of costs to inventory by comparing to actual overheads incurred; → Assessed whether the absorption of fixed cost overheads in inventory is appropriate, where production volumes are abnormally low during the year due to COVID-19; → Challenged management's key assumptions in determining inventory provisions by assessing the accuracy and completeness of the items included within the provision and also taking into account the impact of COVID-19 on future usage; → Assessed the mathematical accuracy of the inventory provision by obtaining management's analysis and performing a recalculation based on key inputs; and → Tested the net realisable value of inventory by comparing to post year-end sales invoices.
Key observations	Based on our procedures performed, we are satisfied that the valuation of inventory at 31 December 2020 is appropriate.

5.2. Presentation of restructuring costs as a specific adjusting item

Key audit matter description	Following the outbreak of COVID-19, the Group launched a significant restructuring programme to reduce its cost base in certain areas in response to the economic downturn arising from the pandemic, as communicated in the HY20 announcement. The restructuring actions are expected to position the business ahead of a period of lower demand across a number of geographies and industries. The programme is anticipated to incur cash costs of £30m and result in £23m annual savings over a three year period to December 2022. There are four types of activity undertaken as part of the project. These include the closure or idling of under-utilised assets, headcount reductions, full or partial site closures and movement of manufacturing to lower cost locations. The costs recognised in the year under these programmes have been classified as specific adjusting items within the financial statements. This is in line with Group accounting policy where in the Directors' judgement, certain items need to be disclosed separately by virtue of their size and incidence in order for users of the Consolidated Financial Statements to give an understanding of the financial information and the underlying performance of the business. There is a risk that business as usual restructuring activities are incorrectly presented as exceptional within adjusting items. During FY20 the Group has recognised £24.0m of restructuring costs which have been presented as specific adjusting items. There is significant judgement in determining whether these items meet the definition of exceptional and therefore this has been determined to be a key audit matter in the current year. Refer to Note 1 Critical accounting judgements and Note 6 specific adjusting items in the financial statements for the Group's policy on the classification and disclosure of restructuring and other specific adjusting items. The Audit Committee Report on pages 58 to 62 refers to specific adjusting items as an area considered by the Audit Committee.
How the scope of our audit responded to the key audit matter	We have performed the following procedures in respect of this key audit matter: → Obtained an understanding of the relevant key controls relating to the identification and disclosure of restructuring costs as adjusting items; → Obtained an understanding of management's accounting policy for presenting restructuring costs and the governance structure in place to oversee the restructuring program; and → Challenged the nature of restructuring costs and whether it is appropriate to classify relevant costs as exceptional, based on the Group accounting policy, ESMA and FRC guidance and relevant accounting standards.
Key observations	Based on our procedures performed, we are satisfied with the presentation of the restructuring costs as a specific adjusting item.

5.3.Impairment of non-financial assets

Key audit matter description	Following the outbreak of COVID-19 and the resulting economic downturn, the Group has made impairments of non-financial assets of £65.6m. These primarily sit within the Technical Ceramics and Thermal Ceramic global business units. We have focussed our work on impairment of non-financial assets at the ceramic cores business within Technical Ceramics, where a significant downturn in Aerospace demand has resulted in a partial impairment of that cash generating unit, with an impairment loss of £28.8m being recognised. Management have determined the recoverable amount based on a value-in-use model calculated from cash flow projections, which are based on management's assumptions and estimates of future trading performance. Estimating a value-in-use is inherently judgemental, and a range of assumptions can reasonably be applied in determining the estimates applied therein. The key judgements in assessing non-financial assets for impairment are the discount rate, long-term growth rate, and the short-term projected cash flows. The value-in-use models are sensitive to changes in these estimates, all of which must reflect a long-term view of underlying growth in the respective economy within which these businesses operate and the reasonableness of projected cash flows. We have focussed this key audit matter to the discount rate and short-term future cash flows and material judgements contained therein. This is where the highest degree of sensitivity exists in determining the value-in-use. As a result, management have provided sensitivity disclosures of the reasonable possible changes that could result in an impairment. The Audit Committee Report on pages 58 to 62 refers to impairment of non-financial assets as an area considered by the Audit Committee. Note 1 to the Consolidated Financial Statements sets out the Group's accounting policy for testing of non-financial assets for impairment and contains further details on the key source of estimation uncertainty.
How the scope of our audit responded to the key audit matter	We have performed the following procedures in respect of this key audit matter: → Obtained an understanding of the relevant key controls relating to the impairment process; → Assessed the integrity of management's impairment model through testing of the mechanical accuracy and reviewing the application of the input assumptions; → Evaluated the process management undertook to prepare the cash flow forecasts in their impairment models including agreement with the latest Board-approved plans and management approved forecasts; → Challenged the cash flow projections through assessing the accuracy of historical budgeting by comparing them with actual performance and independent evidence to support any significant expected future changes to the business; → Assessed a range of available market data and performing a peer benchmarking exercise to assess and challenge the growth rates forecasted by management in revenue and margins; → Assessed the potential impact of COVID-19 on the cash flow projections; → Assessed reasonable possible changes in assumptions to challenge the appropriateness of management's assessment of reasonable possible change scenarios; and → Involved internal valuation specialists to assess the appropriateness of the discount rates used.
Key observations	Based on our procedures performed, we consider the key assumptions taken by management to be within an acceptable range and reasonable and supportable when taken in aggregate.

6. OUR APPLICATION OF MATERIALITY

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£4.0m (2019: £4.1m)	£2.0m (2019: £3.8m)
Basis for determining materiality	The materiality that we used for the Group financial statements was £4.0m which was determined on the basis of considering a number of different metrics used by investors and other readers of the financial statements. These included: → Profit before tax before specific adjusting items; → revenue; → earnings before interest, tax, depreciation and amortisation; and → net assets As a result, the materiality equates to 5.4% of the final profit before tax before specific adjusting items, 0.4% of revenue, 3% of EBITDA and 1.7% of net assets. The predecessor auditor determined materiality based on 3.7% of profit before tax before specific adjusting items.	Materiality was determined on the basis of the Parent company's net assets (3%). This was then capped at 50% of Group materiality. The predecessor auditor determined materiality based on 0.3% of total assets.
Rationale for the benchmark applied	Profit before tax before specific adjusting items, revenue, EBITDA and net assets are key metrics for users of the financial statements and reflects the manner in which business performance is reported and assessed by external users of the financial statements.	The entity is non-trading and contains investments in all of the Group's trading components and as a result, we have determined net assets for the current year to be the appropriate basis.

6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Parent company financial statements
Performance materiality	£2.4m which is 60% of Group materiality	£1.2m which is 60% of Parent company materiality
Basis and rationale for determining performance materiality	In determining performance materiality for the Group and Parent company, we considered the following factors: → the quality of the control environment; → the degree of centralisation in the Group's financial reporting processes; → the understanding of the business given is a first year audit; → the level of corrected and uncorrected misstatements identified in the prior year audit by the predecessor auditor; → the changes in key management personnel and internal restructuring of the Group; and → the pervasive impact of COVID-19 on the Group.	

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.2m, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. AN OVERVIEW OF THE SCOPE OF OUR AUDIT

7.1. Identification and scoping of components

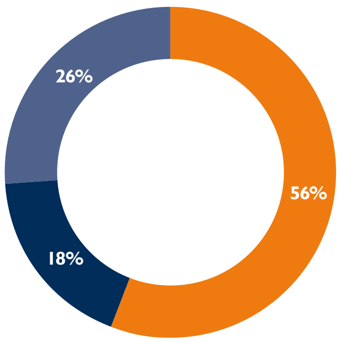
The Group operates and manufactures in 30 countries spread across five continents with the largest footprint being in North America, Asia and Europe. Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group and component level.

Based on that assessment, we focussed our Group audit scope across all five of the established business units: Thermal Ceramics, Molten Metal systems, Seals and Bearings, Technical Ceramics and Electrical Carbon.

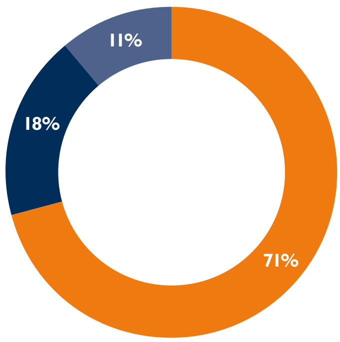
These five business units are composed of many individual reporting components, which are the lowest level at which management prepares financial information that is included in the Financial Statements. The Parent company is located in the UK and is audited directly by the Group audit team.

We have considered reporting components on the basis of their contribution to Group revenue, and profit, as well as those that require local statutory audits in their jurisdiction. Full scope audit work was completed on 18 components and specified audit procedures were undertaken on a further 14 components. Each reporting component in scope was subject to an audit materiality level between £1.0 m and £1.2m. Our full scope and specified audit procedures covered 74% of Group revenue and 89% of absolute Group statutory loss.

Revenue



Absolute Group statutory loss



7.2. Our consideration of the control environment

The Group uses a number of different IT systems across the reporting components and we worked with our IT specialists to obtain an understanding of the General IT controls for relevant systems. The control environment is decentralised and reliant on manual processes with improvements required to the IT environment in order for us to adopt a controls reliance approach to our audit.

7.3. Working with other auditors

The audit work on all components was performed by Deloitte Touche Tohmatsu Limited member firms with the exception of one component business in France which continued to be audited by the predecessor auditor. The component work was performed under the direction and supervision of the Group audit team. At a Group level, further substantive audit work was performed over the consolidation and analytical review procedures were performed over components not in scope.

The planned programme which we designed as part of our involvement in the component auditors' work was delivered over the course of the Group audit. The extent of our involvement which commenced from the planning phase included;

- → Setting the scope of the component auditor and assessment of their independence;
- → Designing the audit procedures for all significant risks to be addressed by the component auditors and issuing Group audit instructions detailing the nature and form of the reporting required by the Group engagement team;
- → Providing direction on enquiries made by the component auditors through online and telephone conversations; and
- → A review of the component auditors' engagement file by a senior member of the Group engagement team.

In response to the COVID-19 pandemic, which limited our ability to make component visits, more frequent calls were held between the Group and component teams and remote access to relevant documents was provided. Given the pandemic, the majority of our year-end audit was performed in a remote working environment. As a response to this situation, we increased the frequency of our online meetings with the component audit teams and with management.

8. OTHER INFORMATION

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

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Independent auditor's report
to the members of Morgan Advanced Materials plc

9. RESPONSIBILITIES OF DIRECTORS

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

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

10. AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

11. EXTENT TO WHICH THE AUDIT WAS CONSIDERED CAPABLE OF DETECTING IRREGULARITIES, INCLUDING FRAUD

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

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit, and the audit committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud
  - obtaining an understanding of the cases being reported through the whistleblowing hotline
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations
- the matters discussed among the audit engagement team including significant component audit teams and relevant internal specialists, including tax, valuations, pensions, and IT specialists, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: presentation of restructuring costs as adjusting items and revenue recognition. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, pensions legislation, tax legislation in all relevant jurisdictions where the Group operates.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These included the Group's environmental regulations.

11.2. Audit response to risks identified

As a result of performing the above, we identified the presentation of restructuring costs as a specific adjusting item as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter. In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing additional audit procedures where possible risks of fraud or non-compliance were identified from understanding and discussing whistleblowing cases;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC;
- in addressing the risk of fraud in relation to revenue recognition, we have obtained an understanding of relevant controls in the revenue cycle and tested a sample of sales recognised during the period by agreeing to invoice, dispatch note and cash collection (where appropriate) to assess the performance obligations have been met; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business;

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

12. OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

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

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

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

13. CORPORATE GOVERNANCE STATEMENT

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 41;
- the directors' explanation as to its assessment of the Group's prospects, the period this assessment covers and why the period is appropriate set out on pages 41 to 42;
- the directors' statement on fair, balanced and understandable set out on page 60;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 26;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on pages 26 to 31; and
- the section describing the work of the audit committee is set out on pages 58 to 62.

14. MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

14.1. Adequacy of explanations received and accounting records

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

14.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

15. OTHER MATTERS WHICH WE ARE REQUIRED TO ADDRESS

15.1. Auditor tenure

Following the recommendation of the audit committee, we were appointed in June 2019 to audit the financial statements for the year ending 31 December 2020 and subsequent financial periods. The Board's decision was approved by the shareholders at the AGM in May 2020. The period of total uninterrupted engagement of the firm is one year.

15.2 Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

16. USE OF OUR REPORT

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

Jane Makrakis, ACA
(Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Reading, United Kingdom

3 March 2021