



The image was taken during the COVID-19 pandemic.

“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

### GOVERNANCE

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### DEAR SHAREHOLDER

I reported to you last year that Morgan's governance framework served the Company well during 2020. In some ways 2021 proved even more challenging, with a bounce back in trading and resumption of growth in the business, the reintroduction of improvement initiatives that had been put on hold during 2020, and the launch of the next phase of our strategy – all whilst continuing to deal with the challenges of the COVID-19 pandemic.

My fellow Directors and I continued to support and guide executive management and worked collaboratively to navigate through competing priorities against a challenging trading and environmental backdrop.

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 2021 were:

#### BOARD'S OVERSIGHT OF STRATEGY

The Board undertook an essential role in overseeing the development of the next phase of the Group's strategy with the identification of three new execution priorities, explained in detail in the Strategic Report. When debating the strategic direction of the Group, the Board is mindful of the Company's wider role in society and our desire to conduct our business responsibly and with respect to the environment.

#### ENGAGEMENT WITH THE WORKFORCE AND OTHER KEY STAKEHOLDERS

During 2021, we held a number of engagement sessions with small groups of employees, both virtually and in person, which provided a forum for the non-executive Directors to listen to employees and hear about the issues that are important to them. These sessions have also afforded the non-executive Directors an insight into whether employees are aligned with the Group's purpose and how employees experience the Group's culture.

#### ENHANCING BOARD DISCUSSION

The Board's role in both supporting and challenging executive management has been even more important during 2021, as the Group navigated a return to robust growth. Every Board meeting reviewed the health and safety performance of the Group to ensure the continued safety of our people. The lost time accident trend increased during 2021 and the Board has been closely engaged with the development and deployment of our updated approach to safety training and management. The Board supported the completion of the restructuring programme started in 2020 and has continued to review the continuing operational challenges caused by the economic and geopolitical environment. Discussions during Board meetings have focused on the immediate challenges whilst also having regard to the future of the Group.

#### BOARD EFFECTIVENESS

During 2021, the Board undertook a thorough evaluation of its own performance with the assistance of an external facilitator. The overall conclusion of the review was that the Board is operating effectively, however, the process proved insightful and highlighted a number of recommendations which were discussed by the Board. The key areas for improvement are set out in the Corporate Governance Report.

#### BOARD CHANGES

In May 2021, Peter Turner announced his intention to retire, and he will step down from the Board in June 2022. Following a selection process conducted by the Nomination Committee, the Board has appointed Richard Armitage who will join the Board on 30 May 2022 and will take over from Peter as Chief Financial Officer.

#### SECURING OUR FUTURE

As I reflect on the role of the Board in this time of challenge and change, I believe that the governance framework that we have in place has enabled the Board to achieve the right balance between monitoring the performance of executive management, identifying the risks and opportunities that are relevant to the Group's future success, setting the strategic direction for the Group, whilst ensuring that we take care of our employees, customers and shareholders.

**Douglas Caster** CBE FIET  
Chairman

## 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, 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 MEng from the Department of Electronic and Electrical Engineering at the University of Leeds.

**ADDITIONAL APPOINTMENTS:** Non-executive Director, Hill & Smith Holdings PLC.



The image was taken pre-COVID.

## 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.

Peter will step down as Morgan's Chief Financial Officer on 30 May 2022 and from the Board in June 2022.

## 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 Chief Financial 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 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 Financial 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.

**ADDITIONAL APPOINTMENTS:** Chair of Voltalia S.A. and 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 continued to serve on the board of Saurer as non-executive director until August 2021. 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:** Chairman of PFI Foods Industries Pte. Ltd.

**COMMITTEES:** (A) (N) (R)

## COMMITTEES

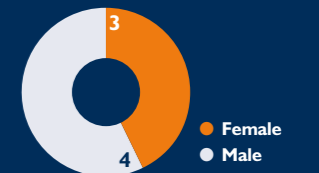
- (C) Committee Chair
- (A) Audit
- (N) Nomination
- (R) Remuneration

## BOARD COMPOSITION

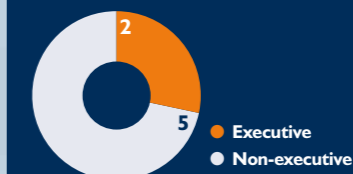
### Ethnic origin



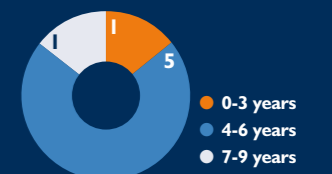
### Gender



### Board balance of roles



### Tenure on Board



## 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](http://www.frc.org.uk).

### APPLICATION OF CODE PRINCIPLES

The table below lists the Code Principles and an explanation of how the Board has applied the Principles during 2021.

Code Principle	Summary
<b>Board leadership and company purpose</b>	
A	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. <i>The role of the Board is set out on page 64. The Chairman explains the Board's approach to stewardship in his letter on page 59. The section 172 statement on pages 4 and 5 explains how the Directors carry out their duty to promote the long-term success of the Company whilst taking into account the output from their engagement with key stakeholders. The externally-facilitated evaluation of the Board concluded that the Board was effective (as reported on page 73 of the Corporate Governance Report).</i>
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. <i>The Group's purpose and strategy are described in the dedicated section on pages 10 to 13 of the Strategic Report. The Board explains how it has monitored and assessed the Group's culture on pages 69 and 70 of the Corporate Governance Report.</i>
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. <i>The methods used by the Board to monitor performance and challenge executive management are described on pages 66 to 69 of the Corporate Governance Report. The Report of the Audit Committee contains a description of the controls framework and the Risk Management section on pages 38 to 43 sets out the key risks and how these are managed.</i>
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. <i>The methods used by the Board to engage with its key stakeholders, and why the Board continues to believe these are effective, are set out in the Corporate Governance Report on pages 70 to 72.</i>
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. <i>The Board monitors implementation of the Morgan Code and the policies that are in place to support a safe and ethical business. Pages 75 and 77 of the Audit Committee Report explains how the Board has come to this conclusion.</i>
<b>Division of responsibilities</b>	
F	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. <i>The performance of the Board, the Chairman and individual Directors are reviewed annually. The externally-facilitated Board performance evaluation conducted in 2021 concluded that the Board is effective and operates in an environment of openness and trust. Further information on the Board performance evaluation can be found on page 73.</i>
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. <i>The composition of the Board is reviewed annually. Details of the composition of the Board, and the roles of Board members, are set out in the Corporate Governance Report on pages 66 and 67.</i>
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. <i>The Chairman ensures that the non-executive Directors understand their role and carry out their duties effectively, providing support and guidance where required. The time commitment expected of non-executive Directors is set out on page 81 of the Corporate Governance Report.</i>
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. <i>The externally-facilitated Board performance evaluation conducted in 2021 included a review of Board processes and concluded that these were effective, with recommended actions for improvement which are set out in the Corporate Governance Report on page 73.</i>

### Composition, succession and evaluation

J	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. <i>The process used for appointments to the Board, and other considerations related to succession planning and the Board's Inclusion and Diversity Policy, are set out in the Nomination Committee Report on pages 80 to 81.</i>
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. <i>The skills and attributes required by the Board are reviewed at least annually as part of discussion on succession planning. Further information may be found in the Nomination Committee Report on pages 79 to 80.</i>
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. <i>The individual performance of the Directors is assessed annually. The externally-facilitated Board performance evaluation conducted in 2021 concluded that the Board members work effectively together, with a small number of recommendations for improvement as set out on page 73.</i>

### Audit, risk and internal control

M	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. <i>The Board monitors the policies and processes that are in place to ensure the independence and effectiveness of the internal audit function and external auditor. Further details are set out in the Audit Committee Report on pages 77 and 78.</i>
N	The board should present a fair, balanced and understandable assessment of the company's position and prospects. <i>The process which supports the Board's confirmation that the presentation of results is fair, balanced and understandable is set out in the Audit Committee Report on page 76.</i>
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. <i>The risk management process is set out in the Risk Management section on pages 38 to 43 and the Audit Committee Report on pages 76 to 77.</i>

### Remuneration

P	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. <i>The Remuneration Committee considers the alignment of reward policies and mechanisms with the Group's strategy.</i>
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. <i>Further details of the Remuneration Committee, its composition and how it operates are set out in the Remuneration Committee Report on page 104.</i>
R	Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances. <i>The Remuneration Committee exercises discretion in relation to remuneration outcomes as it sees fit as described in the Remuneration Report. All members of the Remuneration Committee are independent non-executive Directors.</i>

### STATEMENT OF COMPLIANCE WITH THE CODE PROVISIONS

The Board confirms that during the year ended 31 December 2021, the Company complied with the provisions of the Code with the exception of Provision 38 on the alignment of pension contribution rates, or payments in lieu, for executive directors with those available to the workforce. The value of pension benefits for the current executive Directors has reduced since 2019 when the allowance was fixed at the 2018 value (20% of 2018 base salary). The current Remuneration Policy, which was approved by shareholders at the Annual General Meeting (AGM) in 2019, included a pension policy for any newly appointed executive Director which aligned their contribution rate to that of the UK workforce. Shareholders will be asked to approve a new Remuneration Policy at the AGM in 2022 which includes an amendment to the pension policy to align pension contributions for all (whether existing or newly appointed) executive Directors with that available to the UK workforce with effect from 31 December 2022. Subject to approval from shareholders for the new Remuneration Policy, the Company will be fully compliant with Provision 38 by the end of 2022. Further details of the specific pension arrangements for each executive Director are set out in the Remuneration Report on pages 84 and 95.

## OUR GOVERNANCE FRAMEWORK

A strong corporate governance framework underpins the activities of the Board.



### THE ROLE OF THE BOARD

The Board is collectively and ultimately responsible to the Company's shareholders for the long-term sustainable success of the Company, and oversees how the organisation generates and preserves value. It establishes the Group's purpose, sets the strategic direction and monitors Morgan Advanced Materials' culture to ensure this is aligned to the strategic vision.

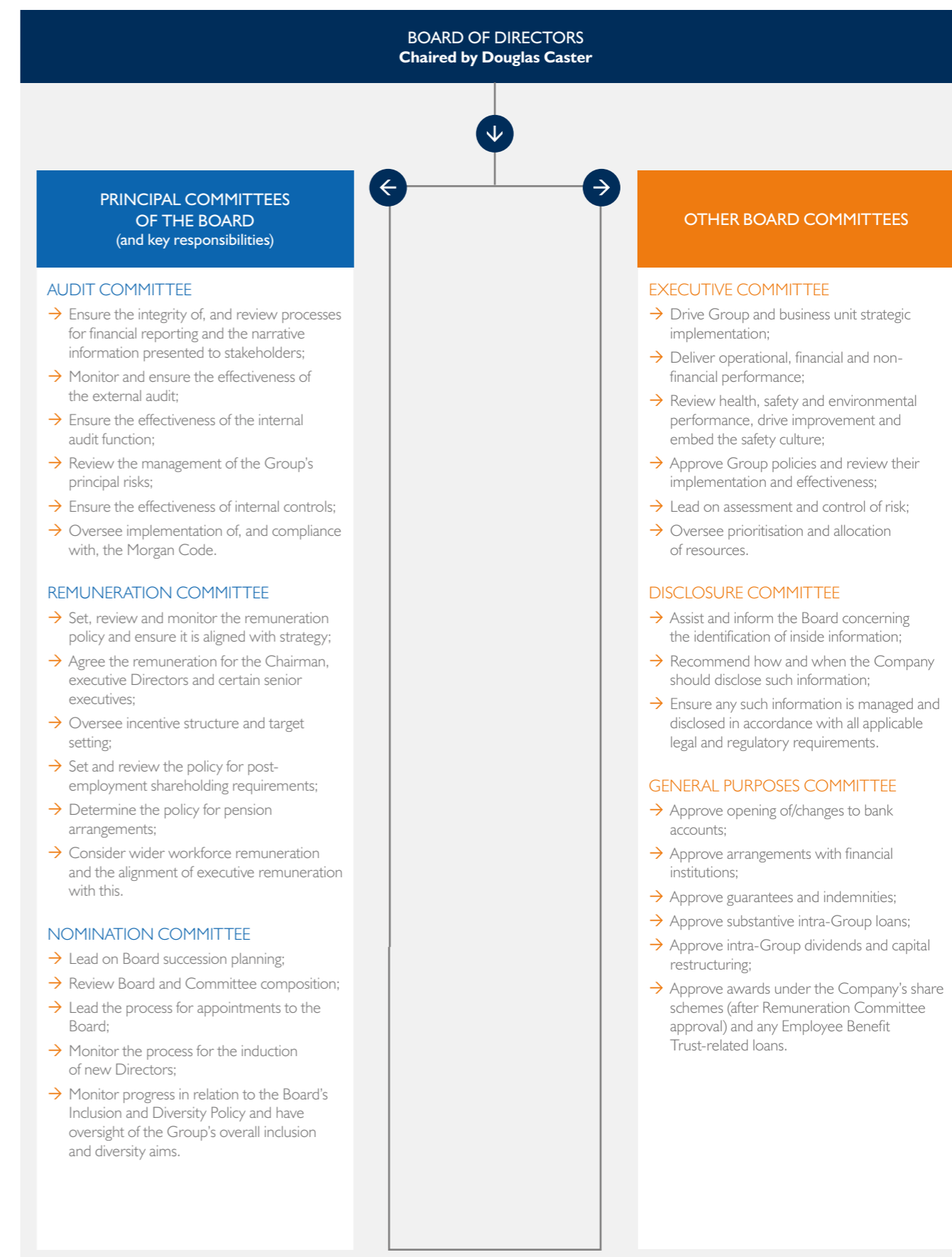
The Board engages with key stakeholders, including shareholders and employees, and sets the tone from the top by operating with the utmost integrity in decision-making and business conduct.

The Board supervises and monitors progress against execution priorities, whilst ensuring that there are robust and effective controls which enable risks and emerging risks to be identified, assessed and managed.

The Board operates within a clear framework consisting of matters reserved for the Board as well as an established structure of committees, each with distinct terms of reference and delegated authorities. The key areas of responsibility for the Board and each of its Committees are detailed on pages 64 and 65.

### MATTERS RESERVED FOR THE BOARD

- Overall leadership, purpose, strategic aims and long-term objectives and risk appetite of the Group;
- Alignment of the Group's culture with purpose and values and monitoring implementation of the Morgan Code;
- Any changes relating to Group capital and corporate 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 dividend policy and any significant changes to accounting, treasury and tax policies;
- 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, and ensuring adequate succession planning for the Board and senior leadership;
- Determining remuneration policy for the Directors and other senior executives, following recommendations from the Remuneration Committee;
- Delegation of authority, approving levels of authority including for the principal Committees, and approving the Committees' terms of reference;
- Corporate governance matters, including a review of its own performance, determining non-executive Director independence, review of overall governance arrangements and authorising any conflicts of interest;
- Other specific matters.



## HOW THE BOARD AND ITS COMMITTEES OPERATE

The Company's governance framework comprises the Articles of Association which form the Company's constitution and set out the powers of the Board and the Board's clearly defined role, which includes matters specifically reserved for the Board. The Board delegates specific responsibilities to three principal Committees of the Board, namely the Audit, Remuneration and Nomination Committees. Each Committee has terms of reference which set out its membership, duties and how it operates. The individual reports of each of the principal Committees can be found on pages 74 to 78, 79 to 81, and 104.

The Board delegates day-to-day management of the Group and operational matters to the Executive Committee. This Committee is led by the Chief Executive Officer and its membership comprises the Chief Financial Officer, the Group Human Resources Director, the Group General Counsel, the Chief Information Officer and the Presidents of each of the global or divisional business units. In 2021 the Executive Committee met at least monthly to discuss a variety of matters including: development of Morgan Advanced Materials' execution priorities, ESG performance, talent management and succession planning, diversity and inclusion, financial performance, and the review of Group policies. It also held monthly dedicated meetings on health and safety and on ethics and compliance. The Company Secretary acts as Secretary to the Committee and attends all meetings.

The Board delegates authority for certain other specific matters including routine approvals to a General Purposes Committee, at which a non-executive Director must be present. The 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 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. In 2021 the Disclosure Committee met twice.

## BOARD SIZE AND COMPOSITION

Throughout 2021 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 60 and 61.

## ROLES AND RESPONSIBILITIES OF THE BOARD

There is a clear division of responsibilities between the Chairman and Chief Executive Officer and each role is clearly defined as outlined below:



## Board meetings/activities

In 2021, the Board met formally on nine occasions. Due to the COVID-19 pandemic, Board meetings were held by a mixture of attendance in person and video conference attendance.

## Attendance at meetings

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

Director	Board (maximum 9)	Audit Committee (maximum 4)	Nomination Committee (maximum 3)	Remuneration Committee (maximum 6)
Douglas Caster	9/9	4/4 <sup>1</sup>	3/3	6/6
Pete Raby	9/9	4/4 <sup>1</sup>	3/3 <sup>1</sup>	6/6 <sup>1</sup>
Peter Turner	9/9	4/4 <sup>1</sup>	1/1 <sup>2</sup>	–
Jane Aikman	9/9	4/4	3/3	6/6
Helen Bunch	9/9	4/4	3/3	6/6
Laurence Mulliez	9/9	4/4	3/3	6/6
Clement Woon	9/9	4/4	3/3	6/6

1. Attended by invitation.

2. Peter Turner attended the December meeting of the Nomination Committee by invitation in order to participate in a discussion on succession planning.

During the year, the Board received regular updates on implementation of strategy, trading and financial performance, environmental and sustainability performance, health and safety performance, markets and customers, investors' and analysts' views, and restructuring. Throughout 2021 the Board continued to monitor the impact of the COVID-19 pandemic and its impact on the workforce and business operations.

## TIMELINE OF KEY REVIEWS AND DECISIONS TAKEN BY THE BOARD DURING THE YEAR



## The following table summarises the Board's work and key decisions taken during the year:

### Strategy

- Group and business strategies reviewed and targets agreed;
- ESG strategy strengthened and expanded with new targets and plans set;
- Health and safety strategy redeveloped with new focus, training and system implementation agreed;
- Group leadership succession planning and future talent capability programme discussed and agreed;
- Restructuring and efficiency improvement programme discussed and individual projects agreed;
- Update on IT strategy progress received;
- Digital presence and plans for development discussed;
- Certain capital expenditure proposals to assist business growth approved.

### Performance

- Impact of COVID-19 pandemic on productivity and customers monitored;
- Employee health and safety reports considered;
- Group financial performance reviewed;
- Group restructuring programme monitored and individual projects agreed;
- Post-implementation reviews of capital expenditure projects previously approved by the Board;
- Dividend policy discussed and 2021 dividend payments approved;
- 2022 budget approved;
- Chief Executive Officer and Chief Financial Officer reports discussed at each Board meeting;
- Updates from all Presidents of the divisions and global business units reviewed and discussed.

### Culture and stakeholder engagement

- Group's culture monitored;
- Mechanisms to capture and report safety, ethics and inclusion matters reviewed;
- Progress of the action plan to promote diversity and inclusion across the Group discussed;
- Further development of a safe, ethical and diverse culture discussed in depth;
- Safety performance achieved compared to safety targets reported and analysed;
- Work on identifying the core values to be embedded in the Group's culture commenced;
- Talent and leadership development considered;
- Through reports from the Audit Committee, progress against implementation of the Morgan Code monitored and reports made to the ethics hotline reviewed;
- Employment engagement sessions held with employees from a wide range of roles across the Group;
- Shareholder engagement sought, through roadshows, meetings with brokers and invitation to submit questions in advance of the AGM;
- Discussion held with the independent director of the defined benefit pension trustee board.

### Governance and risk

- Group's principal and emerging risks reviewed;
- In-depth assessment of certain key risks performed;
- Group's appetite for risk reviewed;
- Tax strategy reviewed;
- Pension strategy and funding strategy for pensions approved;
- Litigation matters discussed;
- Group's compliance with corporate governance codes and regulations considered;
- Externally-facilitated Board performance evaluation undertaken and actions arising considered;
- Following recommendation from the Nomination Committee, new CFO's appointment approved;
- Reports from the chairs of the Remuneration, Audit and Nomination Committees considered;
- Half-year and full-year financial results approved;
- Consideration given to whether the Annual Report and Accounts are fair, balanced and understandable given.

## Board's monitoring and assessment of culture and workforce engagement

As set out in greater detail on pages 28 to 35 in the Sustainability and Responsibility section, Morgan Advanced Materials' 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 continues to monitor and assess the development of the Group's culture to ensure this is aligned with Morgan's purpose and strategy.

The Board has developed its approach to the monitoring and assessment of culture by building on the work already undertaken to embed a foundation of ethics, safety and inclusion whilst enabling the Board to set the tone from the top. The Board uses a range of qualitative and quantitative measures, supplemented by opportunities for Board members to experience the culture for themselves, which include:

- Ethics reporting including the monitoring of compliance with the Morgan Code, reports on certain areas investigated and the effectiveness of the 'Speak Up' hotline;
- Regular safety performance reviews which include the "thinkSAFE" programme, and updates on safety metrics and performance against them;
- Regular discussion and monitoring of ways to achieve the objective of a zero-harm culture;
- Annual talent review of leadership development, with added focus on promoting diversity and inclusion;
- Presentations to the Board by each global business unit on strategy;
- Presentations to the Board by members of the Executive Committee, representatives from the businesses and functional leaders. Virtual meetings have enabled a wider range of presenters to take part to discuss a greater breadth of topic; and
- Insight from the results of the all-employee engagement survey, 'Your Voice', which was conducted in November 2021.

## EMBEDDING A SAFETY CULTURE

The Board considers the safety of employees to be a top priority. During 2021, the Board had oversight of a fresh approach to safety which is set out in detail on pages 18 to 19 in the Health and Safety section of the Sustainability and Responsibility report.

## HOW GOVERNANCE SUPPORTS STRATEGY

The Board approves the Group's environmental, Health & Safety Policy and in 2021, a new ESG Strategy:

THE GROUP'S ENVIRONMENTAL,  
HEALTH & SAFETY POLICY

ESG STRATEGY  
(new ESG Strategy  
approved in 2021)

## HOW THE BOARD MONITORS AND ASSESSES CULTURE

The Board receives an update in person from the EHS Director at most Board meetings which contains safety statistics, both leading and lagging indicators, progress on safety initiatives and against the plan of work for the year, as well as details of serious incidents and root cause analysis. Safety performance is also part of presentations to the Board by the Presidents of the Divisions and global business units, proposals for capital expenditure, key risks and other ad hoc presentations to the Board. The Board is able to gauge 'tone at the top'.

## HOW THE BOARD ENGAGED WITH STAKEHOLDERS

There were a number of ways in which the Board engaged with stakeholders. The reports to the Board from the EHS Director contained insights gained from workshops with a cross section of employees to gauge the current status of safety culture. The summary of reports to the Ethics Hotline presented to the Audit Committee provided an insight into the frequency and type of issue being raised by employees and whether safety was a particular concern. Finally, the non-executive Directors heard first-hand from employees during the employee engagement sessions held during 2021. The non-executive Directors asked open questions and listened to the feedback. This included comments on specific issues such as the progress of replacing old machinery, availability and adoption of personal protection equipment, housekeeping on site and adoption of COVID-19 protocols, implementation of wellbeing initiatives, as well as local leadership's approach to safety and communication of safety issues.

## WHAT WAS THE OUTCOME OF THE ENGAGEMENT?

The Board learned that senior leadership's message that safety was the top priority was communicated clearly and that this was supported through the thinkSAFE programme. At local level, site leadership took a pro-active approach to health, safety and wellbeing. However, improvement could be made to embedding a caring culture and further focus on consistent systems. This culminated in the approval of the fresh approach to health and safety which is described in the section on Health and Safety on pages 18 to 19.

A number of additional mechanisms will be employed in 2022 to promote and embed the Group's desired culture as follows:

- Voluntary employee resource groups to be established to further develop employee participation in areas they are passionate about;
- Development of a set of Group-wide core values and their communication to employees;
- Definition and reinforcement of the behaviours required in the role of the Group's leaders;
- Training for all employees on behavioural safety and the Group's safety commitments;
- Implementation of actions arising from insights gained from the all-employee engagement survey; and
- Further employee engagement sessions by the non-executive Directors within various areas of the business/groups of employees.

### Workforce engagement

For the purposes of workforce engagement, the Board defines the workforce as all employees directly employed by the Group.

The Board has reviewed the three methods suggested for employee engagement in the UK Corporate Governance Code and has concluded the most effective approach for its workforce is a combination of methods (which is also permitted under the Code). This approach has been chosen by the Board as it recognises the global reach of the Group with operations in over 25 countries, with varied working conditions and with many employees in operational and manufacturing roles without internet access in the workplace. A hybrid approach to workforce engagement enables flexibility to ensure all employees in all locations are considered.

The mechanisms selected by the Board to engage with the workforce primarily comprise a number of dedicated meetings between the non-executive Directors and small groups of employees (without senior management present), to hear the views of the workforce directly; as well as taking other opportunities for informal engagement.

Due to the COVID-19 pandemic, which restricted international travel, all the employee engagement sessions that took place in 2021 were virtual, apart from one in-person meeting at the Group's manufacturing site in Rugby, UK where Directors also had a tour of the site and met employees who demonstrated operations and explained their roles, and received a presentation from site leadership. The virtual meetings were held by video conference with all participants able to see each other, and where required a professional interpreter was employed to ensure effective communication between all participants.

The details of the employee engagement sessions with the non-executive Directors are outlined below:

Board attendee(s)	Date	Type of engagement	Team location(s)	Who the Directors met
Douglas Caster, Laurence Mulliez, Jane Aikman and Clement Woon	Jun 2021	Virtual employee engagement session and feedback session with the CIO and other senior IT leadership	Global	Members of the global IT team
All non-executive Directors	Jun 2021	Virtual employee engagement session and feedback with employees, leaders and management team from the site and Centre of Excellence	Hayward, California, USA facility and Metals & Joining Centre of Excellence, USA (Technical Ceramics facility)	Site employees and management
All non-executive Directors	Sep 2021	Virtual employee engagement session and feedback session with site management team	Kempton, Germany (Thermal Ceramics facility)	Site employees and management
All non-executive Directors	Nov 2021	Site visit	Rugby, Warwickshire, UK (Technical Ceramics facility)	Site employees and management
Douglas Caster, Laurence Mulliez, Jane Aikman and Clement Woon	Nov 2021	Virtual employee engagement session and feedback session with site management team	Aurangabad, India (Molten Metal Systems facility)	Site employees and management

The engagement sessions generally involved groups of 10-14 employees from a wide selection of roles to ensure the views expressed were from a diverse mix of the employee population. Employees were welcomed to the meeting and encouraged to express their views on a variety of matters including site practices during the COVID-19 pandemic, wider safety issues, culture, leadership, understanding of the Group strategy and execution priorities and the strategic goals of their business, investment in the future of the site and any other matters they wished to raise. The output from the discussion was fed back to the leadership team for further discussion with the Chief Executive Officer and reported back to the next Board meeting, to create a greater awareness of the views of employees amongst the whole Board. Follow-up discussions were held with site managers to convey key themes and to foster a positive culture.

The meetings between the non-executive Directors and small groups of employees give the non-executive Directors the opportunity to gain a direct insight into the issues of concern to employees, as well as areas where employees feel things are going well. The sessions have helped to foster an atmosphere of trust and a feeling of care, which encourages employees to speak openly and honestly about their working environment and the matters which mean the most to them.

The Board is satisfied that the combination of:

- (i) dedicated engagement sessions with diverse groups of employees, encouraging meaningful discussion and frank feedback;
- (ii) meetings with employees in their place of work during Board visits to Morgan facilities; and
- (iii) the varied encounters with employees during other Morgan events gives a real insight into the working conditions of employees and provides a range of effective mechanisms with which to engage with them.

Feedback from employees indicated they appreciate these interactions, which promote a feeling of being valued and listened to by the Board.

### Engagement with shareholders

The Board is responsible for and oversees Morgan Advanced Materials' dialogue and communication mechanisms with shareholders. It recognises that it is important that communication is two-way, to ensure the shareholding community is kept informed of the Company's key corporate messages and the Board is aware of shareholder views and any concerns.

Ways in which the Board engages with shareholders and listens to their views include:

<b>Results presentations and trading updates</b>	The CEO and CFO present the full-year and half-year results to the market. In addition, the Group normally publishes two trading updates during the year. The Board reviews the feedback from investors and potential investors to gauge investor sentiment and establish whether their expectations have been met.
<b>Roadshows</b>	The CEO and CFO meet institutional investors and potential institutional investors primarily via designated roadshows which are generally held twice a year, after the half-year and full-year results are published; but also via other meetings and conference calls outside the designated roadshows.
<b>Broker presentations</b>	The Company's brokers present to the Board annually, which includes the reporting of insights from investors and the market and a discussion of the key points.
<b>Annual General Meeting (AGM)</b>	Ordinarily the AGM provides shareholders with the opportunity to ask questions to the Board in person and to meet them informally after the meeting. This was not possible during 2021 due to COVID-19. In order to provide an opportunity for engagement with the Board, shareholders were asked to submit their questions ahead of the Company's AGM to the Company Secretary for the Board to consider and respond to. The questions and answers were published on the Company's website.
<b>Specific matters: 2022 Remuneration Policy</b>	On occasion, a matter is of sufficient interest to shareholders that feedback from key investors to a proposal is necessary before the proposal is put to shareholders to vote on at the AGM. During 2021 the views of key investors were sought on the proposed new Remuneration Policy. Further details of the engagement with shareholders on the proposed new Remuneration Policy are contained in the Remuneration Report on pages 82 to 83. The feedback from investors was taken into account in the final formulation of the Policy, which will be put to a shareholder vote at the 2022 AGM.
<b>Other engagement methods</b>	Other methods used to provide shareholders with up-to-date information include regulatory announcements, press releases, the Annual Report and Accounts, presentations and webcasts.
<b>Chairman and Senior Independent Director</b>	Any shareholder who has concerns which cannot be addressed in another way may contact the Chairman or the Senior Independent Director. To do so please write in the first instance to the Company Secretary. To date, no shareholder has found this method of engagement necessary.

## Relations with customers

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. The Group seeks to foster long-term relationships with customers, built on trust and openness. On occasion, the Board reviews and approves the entering into, or renewal, of long-term agreements with customers.

## Relations with suppliers

Morgan Advanced Materials ensures its interactions with suppliers are always ethical, by applying the Morgan Code and specific Group policies, supported by risk assessment and due diligence. The Company seeks to ensure that suppliers operate in a similarly responsible manner, by fostering long-term relationships built on trust, being truthful in communications, and meeting agreed payment terms. During 2021, the Board was kept informed of the publication of a new Supplier Code of Conduct, which seeks to ensure that new suppliers operate in a responsible way, and that their workers are safe and treated fairly. We ensure that environmental and social impacts are taken into consideration during our process for sourcing new suppliers.

Also in 2021, a new Conflict Minerals Policy was published which sets out Morgan's position on avoiding the sourcing of conflict minerals including tantalum, tin, tungsten and gold from areas where the revenue may aid the furtherance of human rights violations and other illegal activities. Further details of the Supplier Code of Conduct and Conflict Minerals Policy may be found on page 34 of the Responsibility and Sustainability section.

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. The Statement can be found on the website: [www.morganadvancedmaterials.com/media/8499/modern-slavery-statement-fy-ended-31-dec-2020-approved-21062021.pdf](http://www.morganadvancedmaterials.com/media/8499/modern-slavery-statement-fy-ended-31-dec-2020-approved-21062021.pdf)

## Engagement with pension trustee

The Board met the Independent Trustee of the UK defined benefit pension scheme in February 2022 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 USA where, as in the UK, there are a significant number of pensioner members.

## Informed decision-making and Board support

The Company Secretary, with the Chairman, ensures the Board has full and timely access to all necessary information, with Board papers being made electronically available at least five working days prior to each Board and Committee meeting to enable informed decision-making. 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 professional advice at the Company's expense to assist them in fulfilling their duties as Directors. Should a Director have concerns about the running of the Company or about a proposed action, such concern would be recorded in the Board minutes. In 2021 no such concerns were raised or recorded. The Company ensures that appropriate directors' and officers' liability insurance cover is in place for the Board.

## Time commitment of the Board

Before an individual joins the Board, discussions are held with them to ensure they will have sufficient availability and time to meet the needs of the Company. The number of external directorships already held is taken into account to ensure overboarding issues do not arise.

In addition, prior to undertaking any additional external roles, the Chairman and 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 and, in 2021, Clement Woon sought approval from fellow Directors before accepting the position as non-executive Director at PFI Foods Industries Pte. Ltd. The Directors are also asked to confirm, on an annual basis, whether there has been any change to the directorships they hold.

Despite the extra burdens caused by the COVID-19 pandemic, it is pleasing to note that during 2021 no availability or time commitment issues were experienced.

## Conflicts of interest

Under the 2006 Companies Act directors are required to avoid conflicts of interest and are required to:

- Disclose any outside commitments and seek Board approval before accepting any additional external appointments, to enable any actual or potential conflict to be fully and properly assessed; and
- Disclose any situation which gives rise to an actual or potential conflict without delay.

The Company has procedures in place to ensure any conflicts of interest which arise are captured, assessed and declared. If a Director declares a conflict of interest the Board will consider the matter and, if necessary, the conflict of interest will be recorded and the Director excluded from being provided with any further information or being involved in any further discussion or decision-making associated with affected topics. The Directors are also asked to review and declare any conflicts of interests and outside interests on an annual basis. The review for 2021 confirmed that no actual or potential conflicts of interest had occurred during the year.

## Board balance, experience, diversity and independence

The size, structure and composition of the Board is reviewed annually, taking into account the skills and experience of existing Board members and the requirements of the business, to ensure there is a good balance of professional, sector and global experience drawn from a variety of backgrounds. The Nomination Committee agrees that the number of Directors on the Board is appropriate for the scale of the Group's operations. The importance of having Board members from a diverse background is also recognised and succession plans are in place for key top and mid-level leadership positions to ensure the Group continues to retain and develop the necessary skills and business knowledge required.

In May 2021, Morgan announced the retirement of Peter Turner from the Company as Chief Financial Officer and a successor, Richard Armitage, has been identified. In selecting the new appointee the Nomination Committee considered the balance of skills, experience and background of current Board members as well as the business needs and strategic direction of the Company. Details of the search process implemented by the Nomination Committee for the recruitment of Richard Armitage can be found on page 80.

The Board undertakes an annual review of the independence of each non-executive Director and in 2021 continued to consider each non-executive Director to be independent. The Company therefore complied with the Corporate Governance Code requirement that at least half the Board, excluding the Chairman, should comprise non-executive Directors determined by the Board to be independent.

## Director inductions and development

On joining the Board, new Directors receive a formal and comprehensive induction programme tailored to take into account their skills, experience and background. The programme usually includes an information pack containing recent Board and Committee packs, recent investor feedback, details of all key policies and other central information. Meetings with senior executives and functional heads are set up, as are a number of site visits. A thorough, tailored induction and handover will be carried out for Richard Armitage, the new Chief Financial Officer, on his arrival.

The individual training and development needs of each Director are considered by the Chairman on an annual basis. The Board receives detailed technical updates on corporate governance and other regulatory changes, presentations from external specialists or internal managers, training via online platforms, and site visits to ensure their skills, knowledge and experience are kept up to date. During 2021, for example, the Board received briefings on the global pension landscape and the new disclosure requirements on climate change. Training on cyber security was available via an online platform.

## Board performance evaluation

An externally-facilitated review of the Board's performance was undertaken in 2021. (The previous externally-facilitated review took place in 2018.) The review was undertaken by Clare Chalmers Limited, which has no other relationship with the Company or the individual Directors and is independent.

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

1. **Appointment of selected facilitator** – The Company Secretary reviewed the suitability and approach of a range of third-party providers and interviewed short-listed providers. A final shortlist was presented to the Chairman for review prior to approval by the Board.
2. **Scoping** – Clare Chalmers met the Chairman to discuss the objectives of the review, which included how well the members of the Board work together, and any specific areas of focus. The process and scope were discussed with the Company Secretary.
3. **Review of documentation** – Clare Chalmers reviewed a comprehensive selection of papers from recent meetings of the Board and its principal Committees, as well as terms of reference and other governance documentation. In addition to facilitating an understanding of the issues that the Board had been dealing with and its decision-making process, this desk research allowed for a review of the balance of items on the agendas and feedback on how to improve the papers.

4. **Observation of Board and Committee meetings** – Clare Chalmers attended a full day of Board and Committee meetings in person and observed an engagement session between employees and non-executive Directors.
5. **Interviews** – Clare Chalmers held one-to-one interviews with all the Directors, the Company Secretary, and other regular attendees at Board and Committee meetings, namely the Group General Counsel, the Group HR Director, the Head of Internal Audit and the external audit partner. The interviews covered a broad range of topics around how the Board works and how it helps the business.
6. **Presentation of findings** – The comprehensive and descriptive report prepared by Clare Chalmers was circulated to the Board in advance and presented to the Board by Clare Chalmers at the Board meeting in December. The observations and recommendations were discussed by Board members.
7. **Approval of actions to be taken** – Following the discussion, a number of actions were agreed and will be implemented during 2022. These are discussed in outline below.

## Recommendations from the 2021 Board performance review

The overall conclusion of the 2021 Board performance evaluation was that the Board was effective. However, a number of recommendations for improvement were agreed as follows:

- Incorporation of discussions on different aspects of Group strategy during the year, which has resulted in a number of dedicated strategy discussions being included in the forthcoming Board programme for 2022;
- A review of the way risks are presented to the Board to encourage focus on the key risks and risk appetite, scheduled to take place during 2022;
- Adjustments to the scheduling of certain Committee meetings so that more time is allowed for discussion;
- Format of presentations to the Board to encourage discussion on the key points;
- Inclusion of more regular reporting on people matters by the Group HR Director, with dedicated items on three specific aspects of the Group's people strategy being included in the Board programme for 2022.

## 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 108, and the going concern and viability statements are set out in the Strategic Report on pages 53 to 54.

### 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 10 to 15.

### Environmental, social and governance issues

The Board has overall responsibility for the Group's environmental, social and governance 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' investments 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 74 to 78.

### Information on share capital and other matters

The information about share capital required to be included in this Report can be found on pages 106 to 109 in the Other Disclosures section.





## 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 60 to 61.

## This Report gives an insight into the responsibilities, activities and workings of the Audit Committee and how it discharged its duties during 2021.

### DEAR SHAREHOLDER

I am pleased to present the Audit Committee's report for 2021. Following 2020, which was an exceptional year for the Group, the Committee's work in 2021 was more routine, however, the Committee continued to challenge management and the external auditor across a number of key areas of focus, including key accounting judgements and control issues.

The Committee's primary function is 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.

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 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 faithfully represent the Group's financial performance. Where adjusted, non-statutory measures have been disclosed, the Committee is satisfied that they provide useful, additional insight into the Company's ongoing trading. They are considered to be complementary to the comparable statutory measures, without undue prominence, and their definitions and the reconciliations to statutory measures are clearly disclosed.

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 and was pleased that the function has adapted its processes to be able to operate effectively despite the continuation of some restrictions on travelling to Morgan sites.

This is the second Annual Report to be audited by Deloitte LLP, following their appointment after the audit tender process which concluded in 2019. Last year, the Committee monitored the successful transition to a new audit approach and has scrutinised the performance and effectiveness of the external audit and found it to be effective. Feedback was provided to the audit partner and the Committee reviewed the scope and content of the FY2021 audit plan.

The Committee has monitored the reports raised through the ethics hotline and ensured that executive management has responded to these quickly and appropriately. The Committee has overseen improvements in the case management of reports and has reviewed 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. This information has been used by the Board of Directors as part of its assessment of Morgan's culture.

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 and we await the recommendations following the Government's consultation on Restoring Trust in Audit and Corporate Governance.

The role of the Audit Committee will remain in sharp focus in the year ahead and we continue to be committed to meaningful disclosure of the Committee's activities.

### COMMITTEE EVALUATION

The Committee's performance was reviewed as part of the externally-facilitated 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 2021

During 2021 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 recommended 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 2021 consolidated financial statements, which were: pensions, environmental provisions and contingent liabilities, the impairment of non-financial assets (excluding goodwill), recognition of deferred tax assets 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 2021 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 and whether alternative performance measures were appropriately defined and reconciled to statutory reporting measures, and were not given undue prominence;
- Reviewing the effectiveness of the external audit process;
- Receiving annual risk presentations from the Thermal Ceramics global business unit, the Technical Ceramics global business unit, the Electrical Carbon global business unit, the Seals and Bearings global business unit and the Molten Metals Systems global business unit;
- Receiving an update from the Director of Group Tax on taxation issues;
- Recommending the tax strategy for Board approval; and
- Approving the appointments of both the Director of Ethics and Compliance and the Head of Internal Audit.

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 2022 year end;
- Approval of the audit engagement letter and 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, annual review of the effectiveness of the whistleblowing reporting line; and
- Review of the Committee's terms of reference.

## 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 by following the process below:

- 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 advisors 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 FRC included Morgan Advanced Materials plc's Annual Report and Accounts to 31 December 2020 in its Viability and Going Concern Thematic review: The FRC carried out a limited scope review of our viability and going concern disclosures and confirmed that it had no queries or concerns arising from their review. The FRC asks that companies make clear the inherent limitations of their review, and that their review is based on Morgan's Annual Report and Accounts and does not benefit from detailed knowledge of our business or an understanding of the underlying transactions entered into during the period.

The significant areas of judgement considered by the Committee in relation to the 2021 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.

The Committee reviewed the key assumptions underpinning the accounting for specific adjusting items for the half-year and full year results, including receiving presentations from Deloitte LLP on this matter.

### Recognition of deferred tax assets

Deferred tax assets are recognised when management judges it probable that future taxable profits will be available against which the temporary differences can be utilised. This relies on the use of estimates of future taxable profits which may differ from the actual results delivered. In the event future taxable profits do not materialise this would lead to a write-off of recognised deferred tax assets. 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.

### Environmental provisions and contingent liabilities

Due to the nature of its operations, the Group holds environmental provisions for its environmental obligations. Judgement is required to determine whether a contingent liability has crystallised into a provision. 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. Environmental provisions are disclosed in note 25 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 relate to the UK, US and Europe and predominantly provide pensions based on service and career-average pay.

Accounting assumptions, given in note 23 to the consolidated financial statements, are used to calculate the year-end net pension liability in accordance with the relevant accounting standard, IAS 19 (revised) Employee Benefits. Relatively small changes in the assumptions underlying the actuarial valuations of pension schemes can have a significant impact on the net pension liability included in the balance sheet.

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

### Impairment of non-financial assets

The Group monitors the performance of individual assets and cash-generating units at each balance sheet date to determine whether there is any indication of impairment. An impairment loss is recognised in the income statement where the carrying amount of an asset exceeds its recoverable amount.

The impairment charge for the year relates to the impairment of assets in Technical Ceramics, Asia, which are taking longer than anticipated to generate revenues and to assets in Electrical Carbon, Europe and North America, and Thermal Ceramics, North America which are not being utilised by the business. Additional disclosure is included in note 6 to the consolidated financial statements.

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

### 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 internal control requirements contained within the Code. The review conducted in February 2022 comprised:

- A review of the relevant Principles and Provisions in the UK Corporate Governance Code;
- A review of the Company's governance structures;
- A review of the sources of assurance and the Company's three lines of defence model, including policies, annual self-certification process, reports from specialist functions such as Ethics & Compliance, Tax, Treasury and Legal functions, and internal audit reports;
- A review of all material controls, including financial, operational and compliance controls, and risk management systems, including the improvements achieved in 2021 and identification of further areas for improvement;

- 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 majority of internal financial controls are manual; this is driven by a diverse IT landscape and the Group's geographical breadth; as such, there is a heavy reliance on central review controls. The Directors are satisfied that an appropriate amount of time and consideration is dedicated to the review and challenge of results, judgements and estimates – both by the global business units and the Group leadership team.

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, for example 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 their specific 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 advisors and giving rise to disciplinary action against employees for breaches of Group policies.

The divisional and global 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 disposals 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 38 to 43, supports the Directors' statements on going concern and viability on pages 53 to 54.

### Risk factors

The Group's businesses are affected by a number of factors, many of which are influenced by macro-economic trends beyond Morgan Advanced Materials' control; nevertheless, 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 risk factors are further discussed in the Risk Management section on pages 38 to 43.

### 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.

During 2021, 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 2021, 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.



## 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 60 to 61.

## This Report gives an insight into the responsibilities, activities and workings of the Audit Committee and how it discharged its duties during 2021.

### DEAR SHAREHOLDER

I am pleased to present the Audit Committee's report for 2021. Following 2020, which was an exceptional year for the Group, the Committee's work in 2021 was more routine, however, the Committee continued to challenge management and the external auditor across a number of key areas of focus, including key accounting judgements and control issues.

The Committee's primary function is 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.

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 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 faithfully represent the Group's financial performance. Where adjusted, non-statutory measures have been disclosed, the Committee is satisfied that they provide useful, additional insight into the Company's ongoing trading. They are considered to be complementary to the comparable statutory measures, without undue prominence, and their definitions and the reconciliations to statutory measures are clearly disclosed.

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 and was pleased that the function has adapted its processes to be able to operate effectively despite the continuation of some restrictions on travelling to Morgan sites.

This is the second Annual Report to be audited by Deloitte LLP, following their appointment after the audit tender process which concluded in 2019. Last year, the Committee monitored the successful transition to a new audit approach and has scrutinised the performance and effectiveness of the external audit and found it to be effective. Feedback was provided to the audit partner and the Committee reviewed the scope and content of the FY2021 audit plan.

The Committee has monitored the reports raised through the ethics hotline and ensured that executive management has responded to these quickly and appropriately. The Committee has overseen improvements in the case management of reports and has reviewed 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. This information has been used by the Board of Directors as part of its assessment of Morgan's culture.

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 and we await the recommendations following the Government's consultation on Restoring Trust in Audit and Corporate Governance.

The role of the Audit Committee will remain in sharp focus in the year ahead and we continue to be committed to meaningful disclosure of the Committee's activities.

### COMMITTEE EVALUATION

The Committee's performance was reviewed as part of the externally-facilitated 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 2021

During 2021 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 recommended 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 2021 consolidated financial statements, which were: pensions, environmental provisions and contingent liabilities, the impairment of non-financial assets (excluding goodwill), recognition of deferred tax assets 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 2021 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 and whether alternative performance measures were appropriately defined and reconciled to statutory reporting measures, and were not given undue prominence;
- Reviewing the effectiveness of the external audit process;
- Receiving annual risk presentations from the Thermal Ceramics global business unit, the Technical Ceramics global business unit, the Electrical Carbon global business unit, the Seals and Bearings global business unit and the Molten Metals Systems global business unit;
- Receiving an update from the Director of Group Tax on taxation issues;
- Recommending the tax strategy for Board approval; and
- Approving the appointments of both the Director of Ethics and Compliance and the Head of Internal Audit.

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 2022 year end;
- Approval of the audit engagement letter and 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, annual review of the effectiveness of the whistleblowing reporting line; and
- Review of the Committee's terms of reference.

## 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 by following the process below:

- 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 advisors 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 FRC included Morgan Advanced Materials plc's Annual Report and Accounts to 31 December 2020 in its Viability and Going Concern Thematic review: The FRC carried out a limited scope review of our viability and going concern disclosures and confirmed that it had no queries or concerns arising from their review. The FRC asks that companies make clear the inherent limitations of their review, and that their review is based on Morgan's Annual Report and Accounts and does not benefit from detailed knowledge of our business or an understanding of the underlying transactions entered into during the period.

The significant areas of judgement considered by the Committee in relation to the 2021 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.

The Committee reviewed the key assumptions underpinning the accounting for specific adjusting items for the half-year and full year results, including receiving presentations from Deloitte LLP on this matter.

### Recognition of deferred tax assets

Deferred tax assets are recognised when management judges it probable that future taxable profits will be available against which the temporary differences can be utilised. This relies on the use of estimates of future taxable profits which may differ from the actual results delivered. In the event future taxable profits do not materialise this would lead to a write-off of recognised deferred tax assets. 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.

### Environmental provisions and contingent liabilities

Due to the nature of its operations, the Group holds environmental provisions for its environmental obligations. Judgement is required to determine whether a contingent liability has crystallised into a provision. 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. Environmental provisions are disclosed in note 25 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 relate to the UK, US and Europe and predominantly provide pensions based on service and career-average pay.

Accounting assumptions, given in note 23 to the consolidated financial statements, are used to calculate the year-end net pension liability in accordance with the relevant accounting standard, IAS 19 (revised) Employee Benefits. Relatively small changes in the assumptions underlying the actuarial valuations of pension schemes can have a significant impact on the net pension liability included in the balance sheet.

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

### Impairment of non-financial assets

The Group monitors the performance of individual assets and cash-generating units at each balance sheet date to determine whether there is any indication of impairment. An impairment loss is recognised in the income statement where the carrying amount of an asset exceeds its recoverable amount.

The impairment charge for the year relates to the impairment of assets in Technical Ceramics, Asia, which are taking longer than anticipated to generate revenues and to assets in Electrical Carbon, Europe and North America, and Thermal Ceramics, North America which are not being utilised by the business. Additional disclosure is included in note 6 to the consolidated financial statements.

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

### 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 internal control requirements contained within the Code. The review conducted in February 2022 comprised:

- A review of the relevant Principles and Provisions in the UK Corporate Governance Code;
- A review of the Company's governance structures;
- A review of the sources of assurance and the Company's three lines of defence model, including policies, annual self-certification process, reports from specialist functions such as Ethics & Compliance, Tax, Treasury and Legal functions, and internal audit reports;
- A review of all material controls, including financial, operational and compliance controls, and risk management systems, including the improvements achieved in 2021 and identification of further areas for improvement;

- 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 majority of internal financial controls are manual; this is driven by a diverse IT landscape and the Group's geographical breadth; as such, there is a heavy reliance on central review controls. The Directors are satisfied that an appropriate amount of time and consideration is dedicated to the review and challenge of results, judgements and estimates – both by the global business units and the Group leadership team.

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, for example 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 their specific 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 advisors and giving rise to disciplinary action against employees for breaches of Group policies.

The divisional and global 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 disposals 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 38 to 43, supports the Directors' statements on going concern and viability on pages 53 to 54.

### Risk factors

The Group's businesses are affected by a number of factors, many of which are influenced by macro-economic trends beyond Morgan Advanced Materials' control; nevertheless, 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 risk factors are further discussed in the Risk Management section on pages 38 to 43.

### 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.

During 2021, 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 2021, 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.

# REPORT OF THE AUDIT COMMITTEE

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 FRC's 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 Chair 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 2021.

In 2021, the proportion of the auditor's fees for non-audit work relative to the audit fee was 0.0% (or £28,000), (2020: 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 2022. The Committee conducted a full review following the 2021 year end to gather feedback and look for continuous improvement opportunities. The Committee considered all aspects of the auditor's performance, based on a review of the effectiveness of the external audit process, which was conducted through a questionnaire taking into consideration relevant professional and regulatory requirements. The questionnaire was completed by each GBU finance director and nine Group functional teams. In addition to the questionnaire, the following external auditor areas were reviewed:

- Independence confirmation;
- Audit methodology, use of component auditors and audit scope and coverage;
- Assessment of materiality and areas of audit focus, consideration of appropriate audit procedures, professional scepticism, appropriate management challenge, clarity and candour in reporting; and
- The FRC's Audit Quality Review findings for Deloitte for the 2020/21 cycle of reviews and Deloitte's proposed actions to address these findings as a firm.

The Committee confirmed Deloitte's independence before recommending its reappointment for approval by shareholders at the Annual General Meeting (AGM) scheduled for May 2022.

## External audit rotation

Deloitte LLP was appointed by shareholders as the Group's statutory auditor in 2020 following a formal tender process. The external audit contract will be put out to tender at least every 10 years. The Committee considers that it would be appropriate to conduct an external audit tender by no later than 2030.

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

# REPORT OF THE NOMINATION COMMITTEE



## COMMITTEE MEMBERS

DOUGLAS CASTER (CHAIR)  
JANE AIKMAN  
HELEN BUNCH  
LAURENCE MULLIEZ  
CLEMMENT 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 60 to 61.

The Company Secretary is secretary to the Committee and attends all meetings.

The Chief Executive Officer and Group HR Director attend all scheduled meetings by invitation.

## The Nomination Committee monitors the Board's succession plans and considers appointments to the Board in support of the strategy and long-term success of the Group.

### NOMINATION COMMITTEE ROLE

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 and Diversity Policy, which sets the overall tone for the Group's approach to diversity. The Committee leads the process for appointments to the Board and ensure plans are in place for orderly succession to both the Board and senior management positions and to oversee a diverse pipeline for succession.

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

### NOMINATION COMMITTEE ACTIVITY IN 2021

On behalf of the Nomination Committee, I present our report for 2021. The Committee met three times during 2021 and members' attendance is set out in the table on page 68.

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 2021, the Committee reviewed Board succession and assessed whether the objectives of the Board's Inclusion and Diversity Policy, including how it supports Morgan's strategy, had been implemented and what progress has been achieved. During the year, the Board reviewed succession planning and talent strategy for the Executive Committee and its direct reports, with a particular lens on our aim to foster diversity within the leadership population and increase the female leadership population to 40% by 2030.

In May 2021, the Company announced Peter Turner's retirement as Chief Financial Officer. The Committee identified his successor, Richard Armitage, who will join the Board on 30 May 2022 after a thorough search process which is set out in this Report.

The Committee remains conscious that to execute on Morgan's execution priorities of Big Positive Difference, Innovate to Grow and Delight the Customer, building our talent pool with individuals whose skill sets and thinking can drive Morgan's strategy and shape our culture is critical to the Group's long-term success.

### Douglas Caster CBE FIET Committee Chair

### MAIN AREAS OF WORK DURING 2021

During 2021, the Committee's key activities included:

- Considering the skills mix on the Board, including diversity of gender, ethnicity and geographical representation;
- Recommending the appointment of a new Chief Financial Officer;
- Reviewing how the objectives of the Board's Inclusion and Diversity Policy, and its support of the Group's strategy, have been implemented, and assessing progress against the objectives;
- 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 2021 Annual General Meeting (AGM);
- Overseeing the development of a diverse succession pipeline for Executive Directors and other senior leaders;
- Considering Board succession planning, taking each non-executive Director's tenure into account; and
- 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. The Committee considers that the Board members have a range of experience in safety, customer focus, environmental sustainability, global business management and operations, strategy execution, finance, and risk management, from a variety of sectors, including engineering, global technology, manufacturing, construction, energy, and marketing which will be relevant in overseeing the delivery of Morgan's strategy and execution priorities.

# REPORT OF THE NOMINATION COMMITTEE

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 that the Chairman of the Board should not be a member 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).

The Committee will review the balance of skills and experience on the Board when considering future changes to the Board.

## 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 2021, the Board reviewed succession planning and talent strategy for the Executive Committee and its direct reports, with a particular lens on our aim to foster diversity within the leadership population and increase the female leadership population to 40% by 2030. The Board reviewed the Group's work to strengthen leadership capability and succession.

Morgan's Board Inclusion and Diversity Policy reflects the Group's inclusion and diversity aspirations and includes objectives, and the Committee monitors progress against these 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, strategy and execution 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.

Currently, three of the seven Board Directors are female, one of whom is the Senior Independent Director, equating to 43% female representation on the Board, and the Board currently has one Director of South East Asian origin. Morgan's intention is to at least maintain that level of diversity, in order that the Board's composition can more closely reflect the Group's workforce and society more generally. The appointment of a male CFO to succeed Peter Turner leaves the gender representation on the Board unchanged.

The percentage of women on the Group's Executive Committee is 40%. At 31 December 2021, 27% (2020: 25% and 2019: 29%) 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 its wider commitment to promoting diversity. The Company submitted data to both the FTSE Women Leaders Review and the Parker Review during 2021.

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 which are accredited under the Enhanced Code of Conduct for Executive Search Firms, or which have a proven track record in sourcing diverse candidates, when seeking to make new appointments;
- 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;
- Review senior executive succession planning annually and monitor 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, role modelling and promoting inclusive leadership; and
- Reviewing and challenging the goals and progress of executive management in improving inclusion and diversity.

Looking at progress achieved against the objectives set out in the Board's Inclusion and Diversity Policy during the year, the diversity of the Board's members remained unchanged with 43% women and one male Board member of South East Asian origin. Going forward, with the refreshment of the Board into future years, the Policy will inform and steer the Committee in identifying candidates and set the tone for the wider Group's diversity aspirations, in particular in the context of developing its leadership population.

### TO FIND OUT MORE

The Board's Inclusion and Diversity Policy can be viewed on the Company's website [www.morganadvancedmaterials.com/media/8349/199221-morgan-board-inclusion-diversity-policy\\_.pdf](https://www.morganadvancedmaterials.com/media/8349/199221-morgan-board-inclusion-diversity-policy_.pdf).

## EXECUTIVE DIRECTOR SUCCESSION

Richard Armitage is expected to join the Board on 30 May 2022 as Chief Financial Officer when Peter Turner retires.

When Peter informed the Board of his intention to retire, the Committee engaged Spencer Stuart to carry out a targeted external search for his successor, using a role profile which set out the desired skills of financial leadership and commercial and strategic experience. It was also crucial that a successor should be an effective business partner to the CEO, a proven communicator with investors, and align strongly with Morgan's culture and values. The search process was carried out against the criteria and the objectives of the Board's Inclusion and Diversity Policy. Spencer Stuart was given a wide brief to ensure a wide and diverse talent pool was considered and were advised that the Company would be open to consider both established listed company CFOs and 'step up' candidates.

Spencer Stuart is accredited under the Enhanced Code of Conduct for Executive Search Firms. Spencer Stuart has been used for other recent senior leader appointments within the Morgan Group but has no other connection with the Group nor its Directors.

Candidates met with the CEO, the Group HR Director, the Audit Committee Chair and the Chairman of the Board. The Committee reviewed the final short-listed candidates and, after consideration, recommended to the Board that Richard Armitage be appointed the next CFO. The recommendation was unanimously approved by the Board and announced on 15 October 2021. Richard Armitage will join the Board as an executive Director and CFO on 30 May 2022. Peter Turner will cease in his role as CFO on 30 May 2022 and will step down from the Board in June 2022 following a handover period.

## 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 Board receives reports on the development of internal talent and reviews the talent pool for senior leadership opportunities.

The usual process for selection of a non-executive Director is described below. For 2022 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 Inclusion and Diversity Policy, and will 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 candidate(s);
- The Committee makes a recommendation for the appointment to the Board, taking into account the views of the Board members;
- Any new Director appointed by the Board must be elected by shareholders at the next AGM, and all existing Directors must retire and be re-elected at the AGM to continue in office.

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 73 for details), which was externally-facilitated in 2021 by Clare Chalmers. It was concluded that the Committee 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 appointment. Non-executive Directors are expected to spend at least two days per month, more if they act as Chair of a Board Committee, on Company business; 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 his or her respective commitment, both in respect of Board and Committee meetings and for employee engagement sessions. Details of meeting attendance by Board members are set out on page 68.

## ANNUAL RE-ELECTION OF DIRECTORS

All Directors are subject to annual re-election under the Code. Peter Turner is retiring from the Board in June 2022 and will therefore stand for re-election at Morgan's 2022 AGM despite his impending retirement. His successor Richard Armitage will stand for election at the 2023 AGM following his forthcoming appointment in May 2022.

Clement Woon is serving his first three-year term as Director, and Jane Aikman, Helen Bunch and Laurence Mulliez are all in their second three-year term. Douglas Caster is serving his third three-year term on the Board. 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 AGM, 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 also hosted a meeting of the non-executive Directors without the Chairman present in December 2021 to discuss the Chairman's performance.



## 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 2021 and proposed changes to the Remuneration Policy for 2022.

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

## Statement to shareholders from the Chair of the Remuneration Committee.

COVID-19 remains a significant issue in many of the countries Morgan Advanced Materials operates in, with impacts still being observed across the global economy. Despite this Morgan has seen a robust recovery in most of its end-markets, leading to a return to growth, delivering 10.3% organic revenue\* growth for the 2021 financial year. We have continued to take appropriate actions to control costs, improve cash flow and increase liquidity, which along with continued further investment in the wider business to support sustainable long-term growth, has helped Morgan to emerge stronger from the crisis.

Within the context of the UK Corporate Governance Code, and the requirement to put the Remuneration Policy to a binding vote at the 2022 AGM, the Committee conducted a thorough review in 2021 of the current Remuneration Policy (approved by 97% of shareholders at the 2019 AGM). 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. It also highlighted the appropriateness of making several amendments to reflect changes in the external landscape and as such, I wrote to our largest shareholders in October 2021 to consult on the changes that are being proposed to the Remuneration Policy for 2022 onwards.

### 2021 COMMITTEE ACTIVITY

During the year, the Committee met six times. Its activities included determination of current incentive outcomes and 2022 incentive structure and targets, remuneration packages for the executive Directors, and a review of the Group's Remuneration Policy. Further details regarding the activities of the Committee can be found in the 'Remuneration governance' section at the end of this Report on page 104.

### 2021 REMUNERATION OUTCOMES

In reviewing performance in 2021, the Committee determined that payouts of 97% of the 2021 annual bonus opportunity for the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) were appropriate. The 2019 LTIP award will partially vest, resulting in a 52.2% achievement of the maximum. These outcomes are consistent with the Group's performance, 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 2021 remuneration outcomes as they were considered to appropriately reflect the underlying performance of the Group.

### IMPLEMENTATION OF POLICY IN 2022

The Remuneration Committee decided that, taking into account the improved performance of the Group in 2021, 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%. The current CFO will be retiring from the Company in June 2022 and as such no salary increase has been awarded for 2022. 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 2.5% for 2022 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 to ensure that the framework remains appropriately aligned with our strategic aims and culture, motivates and rewards management for delivering sustainable performance, and supports retention. No changes are proposed to the performance linkage of the annual bonus for 2022 as measures remain aligned to Morgan's key objectives, including ESG (environmental, social and governance) measures being covered in the executive Directors' personal objectives and therefore reflected in the personal performance element of bonus. For the LTIP, it is proposed to add an ESG measure (carbon reduction) to the structure, to align more closely with Morgan's strategy and priorities. The proposed ESG targets are 5% to 15% carbon reduction over the three-year performance period, reflecting our stated longer-term ambition to reduce carbon emissions by 50% by 2030 (from a 2015 baseline). The proposal is to decrease the EPS targets from 15% - 22% to 6% - 13% over the three-year performance period, the targets having been temporarily increased last year 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 maintain the ROIC\* range for that element of the executive Directors' 2022 LTIP at 17%-20%, to reflect our latest expectations for performance over the three-year performance period. For the annual bonus, the width of the performance ranges have been reduced to  $\pm 7.5\%$  of target, however they remain slightly wider than in pre-pandemic years to reflect the ongoing uncertainty of the pandemic and its 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.

### PROPOSED CHANGES TO REMUNERATION POLICY IN 2022

In line with the remuneration reporting regulations, the Directors' Remuneration Policy must be submitted for shareholder approval at least every three years. The Policy was last approved by shareholders at the 2019 AGM, and therefore is required to be put to a new binding vote at the 2022 AGM.

During 2021, the Committee reviewed the Remuneration Policy for executive Directors in the context of our remuneration philosophy, the UK Corporate Governance Code, and recent developments in remuneration governance. The Committee concluded from its review that the 2019 Policy framework continues to reinforce our strategy and culture and provides strong alignment of executive Director and shareholder interests. However, the Committee recognises that the remuneration governance landscape, and the views of some shareholders on the subject of executive remuneration, continue to evolve at pace. Accordingly, I wrote to our largest shareholders in October 2021 to consult on the changes that are being proposed to the Remuneration Policy for 2022 onwards, which are:

- Aligning pension contributions for current executive Directors with those for the UK workforce from 31 December 2022 onwards;
- Reducing the upper LTIP grant limit to 200% of salary, and increasing the CEO's annual award value to this level (to deliver a total package that is in line with relevant benchmarks); and
- Adding an ESG measure to the LTIP structure in alignment with Morgan's strategic priorities.

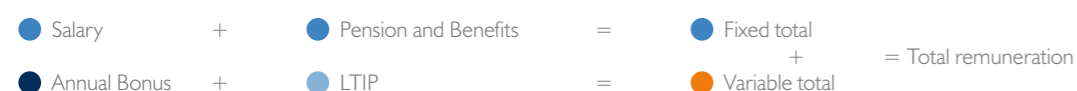
Further details on the proposed 2022 Policy are set out in the 'Policy report' section beginning on page 86 of this Remuneration Report.

This Report is consistent with the current reporting regulations for executive remuneration and, as in prior years, includes a 'Remuneration 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



### Key features of how our executive remuneration policy will be implemented in 2022

#### Fixed components

##### Base salary

Pete Raby (CEO)	£596,000
Peter Turner (CFO)	£426,160 <sup>1</sup>
Richard Armitage (CFO)	£425,000 <sup>1</sup>

##### 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 <sup>1</sup>
Richard Armitage (CFO)	£34,000 (8% of base salary) <sup>1</sup>

##### Benefits

Pete Raby (CEO)	£13,567
Peter Turner (CFO)	£12,532 <sup>1</sup>
Richard Armitage (CFO)	£11,100 <sup>1,3</sup>

##### Policy

Current executive Directors may receive defined contributions (and/or cash in lieu thereof) up to 20% of salary. Policy change approved at the 2019 AGM aligned pension contribution for new executive Directors with that available to the UK workforce. Proposed Policy change to be approved at the 2022 AGM aligns pension contribution for current executive Directors with that available to the UK workforce from 31 December 2022 onwards. 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. From 31 December 2022 executive Director pension allowances will be fully aligned to pension contribution levels available to the UK workforce (8% based on UK population). Richard Armitage's pension allowance will be aligned to that available to the workforce on appointment.

#### Variable components, annual bonuses

##### Maximum opportunities for 2022 (no change)

Pete Raby (CEO)	150% of salary
Peter Turner (CFO)	150% of salary <sup>1</sup>
Richard Armitage (CFO)	150% of salary <sup>1</sup>

##### 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 2022

Pete Raby (CEO)	200% of salary
Peter Turner (CFO)	No LTIP award
Richard Armitage (CFO)	150% of salary

##### Performance measures weighting

TSR vs. FTSE All-Share	
Industrials Index	15%
TSR vs. peer group	15%
EPS growth	27.5%
Group ROIC*	27.5%
ESG (carbon reduction)	15%

##### Policy

*Maximum award opportunity: proposed Policy change to reduce this from 250% to 200% of base salary, to be approved at the 2022 AGM*

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. Proposed Policy change to be approved at the 2022 AGM introduces an ESG measure in addition to the current measures of TSR, EPS and ROIC. 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.

##### Implementation

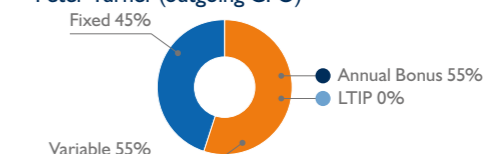
The CFO's maximum opportunity remains 150% of salary (Peter Turner will not receive an LTIP award in 2022). The CEO's maximum opportunity will be increased to 200% of salary.

## PAY AT RISK

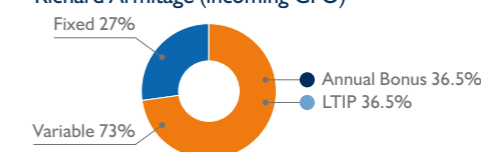
### Pete Raby (CEO)



### Peter Turner (outgoing CFO)<sup>1,2</sup>

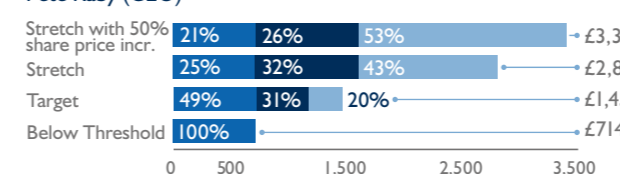


### Richard Armitage (incoming CFO)

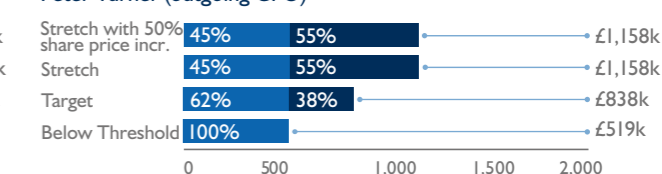


## PAY SCENARIOS

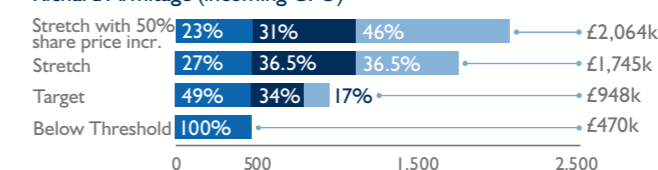
### Pete Raby (CEO)



### Peter Turner (outgoing CFO)<sup>1,2</sup>



### Richard Armitage (incoming CFO)<sup>1,3</sup>



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

## Shareholding requirements

Pete Raby (CEO) 200% of salary (current shareholding 261.7%)

Peter Turner (outgoing CFO) 200% of salary (current shareholding 328.0%)

Richard Armitage (incoming CFO) 200% of salary (current shareholding n/a)

- Peter Turner will be leaving in June 2022 and Richard Armitage will join as CFO on 30 May 2022. All figures above are annualised and will be pro-rated according to service in the year.
- Peter Turner will not receive a 2022 LTIP Award as he will be retiring from the Company in June 2022.
- Excludes health insurance – value of premium to be calculated on joining and will be disclosed in 2022 Annual Report.



This Report covers the period 1 January 2021 to 31 December 2021 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 Policy Report sets out the Policy that is proposed to apply for up to the next three years from 5 May 2022, subject to shareholder approval. The proposed implementation of this Policy for the 2022 financial year is summarised in the section of the Annual Report on Remuneration titled 'Implementation of Remuneration Policy for 2022'.

## I. POLICY REPORT

### KEY PRINCIPLES OF THE REMUNERATION POLICY

The Remuneration Committee aims to ensure that all executive remuneration packages offered by Morgan Advanced Materials are competitive and designed to promote the long-term success of the Company by ensuring that Morgan is 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 PROPOSED 2022 REMUNERATION POLICY

This section of the Report sets out the proposed Remuneration Policy for executive Directors and non-executive Directors. This Policy will be submitted for approval by shareholders at the Company's AGM on 5 May 2022. If approved, it is intended that this Policy be effective for a period of up to three years from that date.

The Committee has developed the 2022 Policy to be consistent with the six factors outlined in Provision 40 of the Code, as set out below:

**Clarity:** Our Policy is clear, and disclosures on our decision-making (in relation to policy and its implementation) are transparent. The Committee also engages regularly with shareholders and employees to facilitate a greater understanding on a range of subjects, including remuneration.

**Simplicity:** The Policy and the Committee's approach to implementation is simple and well understood. The performance measures used in the incentive plans are well aligned to the Group's strategy.

**Risk:** The Committee has ensured that remuneration arrangements do not encourage and reward excessive risk taking by setting targets to be stretching and achievable, with discretion to adjust formulaic bonus and LTIP outcomes.

**Predictability:** The range of outcomes under our Policy are quantifiable, clearly linked to defined performance outcomes, and capped.

**Proportionality:** The link of the performance measures to strategy and the setting of targets ensures outcomes are proportionate to performance, and importantly do not reward poor performance.

**Culture:** The Policy is consistent with the Group's culture, driving behaviours that promote the long-term and sustainable success of the Group for the benefit of all stakeholders.

### Proposed Remuneration Policy for executive Directors

The key changes to the proposed Remuneration Policy for executive Directors that will be submitted for approval at the 2022 AGM are:

- Align pension contributions for current executive Directors with those for the wider workforce from 31 December 2022 onwards;
- Reduce the upper LTIP grant limit to 200% of salary and increase the CEO's annual grant value to this level (to deliver a total package that is in line with relevant benchmarks); and
- Add an ESG measure to the LTIP structure in alignment with Morgan's strategic priorities.

Purpose and link to strategy	Operation	Opportunity	Performance metrics
<b>FIXED PAY</b>			
<b>Base salary</b> 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.
<b>Pension</b> Provides post-retirement benefits for participants in a cost-efficient manner.	Defined contribution scheme (and/or a cash allowance in lieu thereof).	For current executive Directors from 31 December 2022 onwards, and for new executive Directors on appointment, contributions (or cash in lieu thereof) will be aligned with the level of contribution available to the UK workforce at that time.	Not applicable.
<b>Benefits</b> 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
<b>VARIABLE PAY</b>			
<b>Annual bonus</b> 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.  Further details are set out in the Annual Report on Remuneration on pages 93 to 105.	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 93 to 105.
<b>Long-Term Incentive Plan (LTIP)</b> 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 are 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.	Under the policy, the LTIP provides for a conditional award of shares up to an annual limit of 200% of salary.  25% of an award vests for achievement of the threshold level of performance.  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 93 to 105.	The vesting of awards is usually subject to continued employment and the Group's performance over a three-year performance period. Subject to shareholder approval, this will be based on a combination of TSR, EPS, ROIC* and ESG 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 93 to 105.
<b>Sharesave</b> 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 88) in cases of error in determining performance, corporate failure, 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 and clawback over the vesting period 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 5 May 2022), 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 2022 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 87 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 2022 LTIP cycle, ROIC\* will continue to be calculated as follows:

Group headline operating profit\*  
(pre-specific adjusting items)

12-month average (third-party working capital + total fixed assets + total intangible fixed assets)

The ESG measure is based on the percentage reduction in CO<sub>2</sub> emissions, with targets aligned to Morgan's overall strategic goals.

## 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 of 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. If it becomes apparent to the Committee that the guideline is unlikely to be met within the timeframe, 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. Morgan's relatively short business cycle ensures the Board has good visibility within a 12-month period of the quality of decision-making and, in addition, unvested awards for good leavers subsist to the normal vesting date (albeit pro-rated for time), ensuring incentive outcomes remain linked to Morgan's performance beyond the date of cessation. 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.

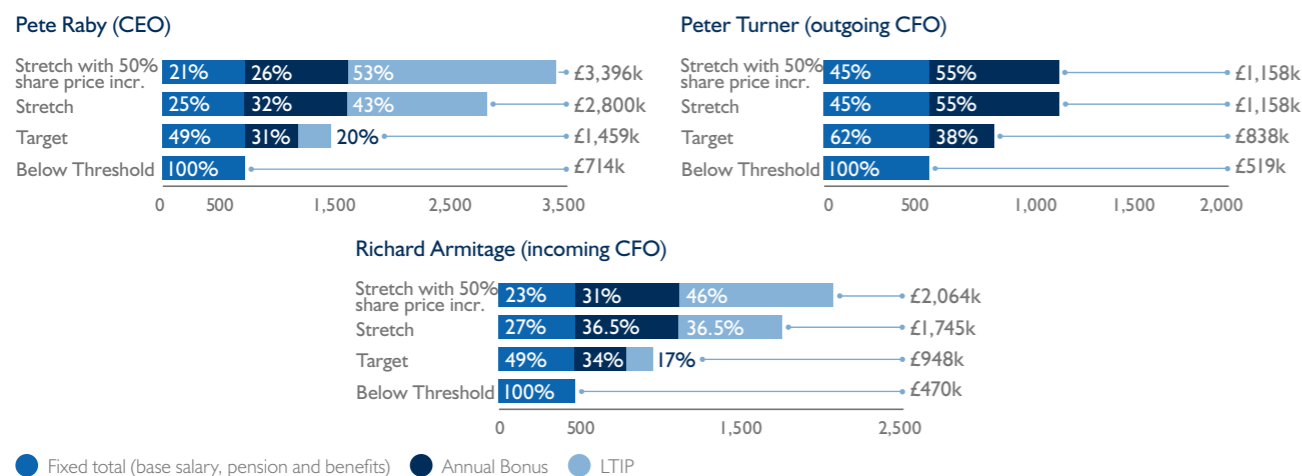
Current executive Director shareholdings are set out in the Annual Report on Remuneration on page 101.

## 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 page 96.

## 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 2022 packages proposed for executive Directors.



The potential reward opportunities illustrated above are based on the Policy, which will be submitted for approval at the 2022 AGM, applied to the annual base salary in effect at 1 January 2022. Annualised figures are shown for the incoming and outgoing CFOs; these will be pro-rated based on time served. For the annual bonus, the amounts illustrated are those potentially receivable in respect of performance for 2022 (before mandatory deferral into shares). The LTIP is based on the face value of awards to be granted in 2022 (200% of salary for the CEO and 150% for the incoming CFO; Peter Turner will not receive a 2022 LTIP award as he will be retiring from the Company in June 2022). 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 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%.	
Stretch	Maximum annual bonus.	Performance warrants full vesting (100% of the award).	Latest disclosed base salary, pension and benefits.
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:

Executive Director	Position	Date of appointment	Date of service agreement	Notice period <sup>1</sup>	
				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

1. The incoming CFO, Richard Armitage, will also have a notice period of 12 months from employer and 6 months from employee.

## 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 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 any payment in lieu of notice. 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
<b>Annual bonus</b>		
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.	
<b>Mandatory deferred bonus share awards</b>		
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.
<b>LTIP awards</b>		
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 200% 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 <sup>1</sup>	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.	Annual fees are applied in line with the outcome of each periodic review.	None.
To attract and retain high-calibre non-executive Directors.	Currently paid 100% in cash.		

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 re-election
Douglas Caster	Chairman	14 February 2014	15 January 2014 <sup>1</sup>	6 May 2021
Helen Bunch	Non-executive Director	24 February 2016	19 January 2016	6 May 2021
Laurence Mulliez	Senior Independent Director	6 May 2016	4 April 2016	6 May 2021
Jane Aikman	Non-executive Director	31 July 2017	27 April 2017	6 May 2021
Clement Woon	Non-executive Director	10 May 2019	7 May 2019	6 May 2021

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

## CONSIDERATION OF STAKEHOLDER VIEWS

The Executive Management team 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. When making decisions on executive remuneration, the Committee considers the pay and employment conditions across the Group and is considering additional methods of engaging with the workforce on remuneration matters. Engagement with employees on remuneration is currently achieved through non-executive Director employee engagement sessions where employees have the opportunity to raise issues, with pay and benefits having been discussed during the 2021 sessions. Specific remuneration-related questions are also included in the all employee engagement survey, 'Your Voice', with the intent of engaging with employees on pay and benefits and providing them with the opportunity to share feedback. In the UK, engagement is facilitated by the Sharesave programme, which enables UK employees to become shareholders and provides them with voting rights in relation to resolutions for approval at the AGM which include executive remuneration matters. Prior to the annual salary review, the Committee is provided with pay increase data that individual business units 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 the People section on pages 28 to 31.

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.

### 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 2021 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 31 December 2020, in response to the pandemic.

	Pete Raby			Peter Turner		
	2021	2020 (actual with reduction)	2020	2021	2020 (actual with reduction)	2020
1. Salary	£581,175	£439,425	£567,000	£426,160	£323,797	£417,800
2. Pension	£104,000	£104,000	£104,000	£80,120	£80,120	£80,120
3. Benefits	£13,644	£13,711	£13,711	£12,242	£12,168	£12,168
Fixed Pay Subtotal	£698,819	£557,136	£684,711	£518,522	£416,085	£510,088
4. Bonus	£845,610	£74,878	£74,878	£620,063	£55,175	£55,175
5. LTIP	£559,816	£159,224	£159,224	£419,705	£122,664	£122,664
6. Other	–	–	–	–	–	–
Variable Pay Subtotal	£1,405,426	£234,102	£234,102	£1,039,768	£177,839	£177,839
<b>Total</b>	<b>£2,104,245</b>	<b>£791,238</b>	<b>£918,813</b>	<b>£1,558,290</b>	<b>£593,924</b>	<b>£687,927</b>

The figures have been calculated as follows:

- Base salary: amount earned for the year. For 2020, figures in the '2020 (actual with reduction)' columns reflect actual salary earned.
- Pension: the figure is a cash allowance in lieu of pension.
- Benefits: the taxable value of benefits received in the year. Includes private medical insurance and a company car (or car allowance). 2021 private medical insurance has been trued up from the number included in last year's annual report, based on October policy renewal.
- Bonus: the total bonus earned on performance during the year (before any mandatory deferral into shares).
- LTIP: the estimated value on 31 December 2021 of 2019 LTIP shares vesting in 2022, subject to performance over the three-year period ended 31 December 2021. Figure based on the average share price for the three months to 31 December 2021 of 351.94p. The figure for 2020 has been trued up from that disclosed in last year's Remuneration Report to reflect the share price on the vesting date (22 March 2021) of 312.16p. The impact of share price movement on the vesting value of the CEO's and CFO's 2019 LTIP award is as follows:

	CEO	CFO
Value of awards vesting using share price at award (268.12p)	£426,487	£319,746
(304,900 shares x 52.17% x 268.12p)	(228,591 shares x 52.17% x 268.12p)	
Value of awards vesting using 3 month average share price at 31 December 2021 (351.94p)	£559,816	£419,705
(304,900 shares x 52.17% x 351.94p)	(228,591 shares x 52.17% x 351.94p)	
Impact of share price movements on vesting values	£133,329	£99,959

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 2021

### Annual bonus in respect of 2021 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 2021, the bonus targets for the executive Directors were split between Group headline operating profit\* before restructuring (weighted 40%), cash generation\* (weighted 40%) and individual strategic personal objectives (weighted 20%). 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 2021 bonus targets for the executive Directors. Actual bonus payments are shown in the single total figure of remuneration table on page 93.

Performance measure	Performance range				% payout of element	% salary earned
	% of maximum bonus element	Threshold (0% payout)	Maximum (100% payout)	Actual performance outcome		
Group headline operating profit* <sup>1</sup>	40%	£96.6m	£118.0m	£132.4m	100%	60%
Cash generation* <sup>1</sup>	40%	£121.4m	£148.4m	£164.4m	100%	60%
Personal objectives						
Pete Raby	20%	Please see narrative below for further details			85%	25.5%
Peter Turner	20%	on objectives and performance against these			85%	25.5%

Overall outcome	% of salary earned					
	Maximum bonus (% salary)	Group headline operating profit <sup>1</sup>	Cash generation* <sup>1</sup>	Personal objectives	Total outcome	Total payable
Pete Raby	150%	60%	60%	25.5%	145.5%	£845,610
Peter Turner	150%	60%	60%	25.5%	145.5%	£620,063

1. For the cash generation and profit metrics there was a straight-line payout between the threshold and maximum figures. All figures were calculated using 2021 budgeted exchange rates.

Pete Raby's personal objectives for 2021 were: (1) Continue to develop and embed the safety culture of the business (actively engaging our employees) and reinforce the importance of the environmental responsibility of the business, (2) Develop an ESG strategy and programme, with accompanying goals, that drives improvements across the key ESG dimensions: Environment, Social (health and safety, diversity and inclusion, values and culture), and Governance, and deliver improvements on key goals by the end of the year, (3) Understand our baseline and develop and start the execution of plans to create a diverse and inclusive workforce where people are excited, engaged, and can do their best work to high ethical standards, (4) Develop the 2030 ambition for the Group and develop the Group-wide execution priorities to deliver on it, (5) Develop plans to enhance the customer focus of the Group, improving the customer experience and increasing innovation to meet customers' needs, (6) Refresh our investor proposition and communications (including the ESG strategy) and deliver to investors through the year and through a specific capital markets event.

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. Taking into account all of these considerations, the personal performance element has been assessed at 85% of the maximum to reflect Pete's delivery against the agreed strategic objectives, whilst role-modelling the Leadership Behaviours. Despite ongoing challenges with trading conditions, under Pete's leadership Morgan delivered organic revenue growth, driving expansion in profitability and cash flow. COVID-19 controls were effectively maintained across the business, and a major refresh of Morgan's approach to safety was undertaken with training in the process of being deployed to all employees. Good progress was also made towards sustainability goals, with absolute CO<sub>2</sub> emissions reducing throughout the year, as well as the launch of a number of capital projects to recycle water and improve water efficiency. The Company is making enhancements to improve diversity, through changes to policies and training, and by reviewing approaches to recruitment. The first employee resource group, Women@Morgan, has also been established. Finally, work was completed to define Morgan's 2030 ambition and medium-term execution priorities and actions have been kicked off against each of those, including work to shape Morgan's product and service offerings further based on customer needs, with the overall objective of making the business more customer centric.

Peter Turner's personal objectives for 2021 were: (1) Continue to develop and embed the safety culture of the business (actively engaging our employees) and reinforce the importance of the environmental responsibility of the business, (2) Understand our baseline and develop and start the execution of plans to create a diverse and inclusive workforce where people are excited, engaged, and can do their best work to high ethical standards, (3) Develop and execute plans to further strengthen the control environment and prepare for UK 'Sox' legislation, (4) Develop the 2030 ambition for the Group and develop the Group-wide execution commitments for the first three years (2021-23) to deliver on it, (5) Improve the operational efficiency of the Group through further structural cost reductions and enhancement of CI activity. Considering Peter's performance against these objectives, for example he has driven operational efficiency programmes, delivering savings and improving robustness as a Group, as well as the Leadership Behaviours he has exhibited, the personal performance element of his bonus has been assessed at 85% of the maximum.

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

### 2018 Deferred Bonus Plan vesting

In 2018, 33% of the annual bonus results for Pete Raby and Peter Turner (for performance in the 2017 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	21 March 2018	52,955	4,640	57,595	3.3336	3.122	22 March 2021
Peter Turner	21 March 2018	42,011	3,680	45,691	3.3336	3.122	22 March 2021

### 2019 LTIP award vesting

Awards granted to executive Directors in 2019 were subject to relative TSR performance, EPS growth and Group ROIC\* over a three-year period ended 31 December 2021. The EPS target (applying to one-third of each award) required three-year EPS growth of 4% for 25% of that element to vest, rising to full vesting for EPS growth of 11% or higher. Over the period Morgan Advanced Materials plc's actual EPS growth was 0.81% 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 37.1%, which was at the 55th percentile versus the FTSE All-Share Industrials Index and the 87th percentile versus the tailored comparator group. Accordingly, this results in a 22.98% 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 17% for 25% of that element to vest, rising to full vesting for Group ROIC\* of 20% or higher. Morgan Advanced Materials plc's Group ROIC\* was 19.5%, and accordingly this results in a 29.19% vesting for the ROIC\* element of the award.

This combined performance resulted in a partial vesting of the 2019 awards based on 52.17% achievement of maximum. The vesting outcome is considered by the Committee to appropriately reflect 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 <sup>1</sup> award	LTIP award vested	LTIP-CSOP <sup>1</sup> award vested	LTIP-CSOP <sup>1</sup> award exercised	Date of vesting
Pete Raby	293,711	11,189	153,229	5,837	–	18 March 2022
Peter Turner	228,591	–	119,255	–	–	18 March 2022

1. CSOP refers to the Company Share Option Plan – further information is included in the 'Details of plans' section later on in this report.

For the purposes of the 2019 LTIP award (and consistent with the approach taken in previous years), the financial results were adjusted to neutralise the effects of closed businesses in 2020 and acquisitions in 2021.

### PENSION

The auditor is required to report on this information.

Pete Raby and Peter Turner each received a cash allowance in lieu of pension, 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 2021 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 fee levels shown in brackets.

Douglas Caster		Helen Bunch		Laurence Mulliez		Jane Aikman		Clement Woon	
2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
£197,166	£149,808 (£193,300)	£59,918	£47,448 (£58,900)	£59,918	£47,448 (£58,900)	£59,918	£47,448 (£58,900)	£51,918	£39,448 (£50,900)

Non-executive Directors do not receive any other fixed or variable pay, or benefits, in addition to their fee. Figures shown are inclusive of £8,000 Senior Independent Director fee for Laurence Mulliez and Committee Chair fees for Helen Bunch and Jane Aikman.

## SCHEME INTERESTS AWARDED IN 2021

### 2021 LTIP awards

In 2021, Pete Raby and Peter Turner were granted awards under the LTIP as shown in the table below. Vesting outcomes will continue to be assessed to ensure they reflect business performance and will be adjusted as appropriate.

Executive Director	Number of LTIP shares granted <sup>1</sup>	Value of awards at grant		Date of vesting
		£	As % of 2021 annualised salary	
Pete Raby	276,486	871,762	150%	22 March 2024
Peter Turner	202,740	639,240	150%	22 March 2024

1. Calculated using the award price of £3.153, being the average share price for the five dealing days prior to the award date (22 March 2021).

The Committee discusses and reviews the performance criteria for new three-year LTIP awards before they are granted. For the awards granted in 2021, 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 2021 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%	22% pa	33.33%	20%	33.33%
Median	4.17%	Median	4.17%	15% pa	8.33%	17%	8.33%
Below median	Nil	Below median	Nil	< 15% pa	Nil	<17%	Nil

For executive Directors, there is a two-year holding period in relation to the 2021 LTIP. Dividends accrue over this holding period on any shares that vest.

### 2021 Deferred Bonus Plan awards

In 2021, 33% of the annual bonus results for Pete Raby and Peter Turner (for performance in the 2020 financial year) were deferred into shares under the Deferred Bonus Plan (DBP), in line with Morgan's Remuneration Policy. The following DBP awards were granted:

Executive Director	Value of awards at grant		Date of vesting
	Number of DBP shares granted <sup>1</sup>	Value of award £	
Pete Raby	7,916	24,959	22 March 2024
Peter Turner	5,833	18,391	22 March 2024

1. Calculated using the award price of £3.153, being the average share price for the five dealing days prior to the award date (22 March 2021).

### Exit payments made in year

The auditor is required to report on this information.

No exit payments were made to executive Directors during the 2021 financial year.

### Payments to past Directors

The auditor is required to report on this information.

No payments were made to past Directors during the 2021 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 2021 was £52,275, which he retains. No other external appointments were held by either executive Director in the 2021 financial year.

## Implementation of Remuneration Policy for 2022

### Base salary

In line with the Remuneration Policy, executive Directors' salaries were reviewed by the Committee and the CEO's salary was increased for 2022 consistent with the average range of increases awarded to the wider workforce. The table below shows the base salaries in 2021, and those that took effect from 1 January 2022, or on appointment for the incoming CFO Richard Armitage:

Executive Director	Base salary at:		
	1 January or on appointment in 2022	1 January 2021	Increase
Pete Raby	£596,000	£581,175	2.5%
Peter Turner	£426,160	£426,160	0%
Richard Armitage	£425,000	n/a	n/a

For the 2021 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 increase awarded to Pete Raby was calibrated in line with this. The Committee considered Pete Raby's continued strong performance in his role as well as the market positioning of his salary, in determining to increase his salary in line with the average range of increases for UK based employees. Peter Turner's salary has not been increased for 2022 as he will retire in June 2022. 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 in 2022, the monetary value remains fixed at the 2018 level disclosed in the table on page 93. From 31 December 2022 all executive Director pension allowances will be fully aligned to pension contribution levels available to the wider workforce (8% based on UK population). The incoming CFO, Richard Armitage, will receive an 8% pension contribution on appointment.

### Annual bonus in respect of 2022 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 2021, as follows:

### Headline 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.

### 2022 LTIP awards

In May 2022, Pete Raby will be granted an award under the 2022 LTIP with a face value of 200% of his base salary for 2022. The incoming CFO, Richard Armitage, will also be granted a 2022 LTIP award of 150% of base salary once appointed. 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 2022 and will end on 31 December 2024. 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 decreased to 6% – 13%, last year's range having been temporarily increased to take into account the previously reduced base level resulting from the impact of the pandemic on financials. The ROIC\* range will remain unchanged at 17%-20%. 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;

→ The new ESG measure (carbon reduction) will have a performance range of 5% to 15% carbon reduction (scope 1 and 2 emissions) over the three-year performance period, to support the Group's overall sustainability goals and its stated 2030 target to reduce scope 1 and 2 CO<sub>2</sub> emissions by 50%;

→ For all four 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 2022 LTIP cycle, executive Directors will be required to hold any vested 2022 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 2021. The table below shows the fees in 2021, and those that will apply in 2022:

Role	2022 fee pa	2021 fee pa	Increase
Chairman	£202,100	£197,166	2.5%
Non-executive Director	£53,220	£51,918	2.5%
Committee Chair (additional fee)	£8,000	£8,000	n/a
Senior Independent Director (additional fee)	£8,000	£8,000	n/a

## Percentage change in Directors' remuneration

The table below shows the percentage change in the executive and non-executive Directors' remuneration in 2021 compared to the average percentage change in remuneration for other employees of Morgan Advanced Materials plc over the same period, in accordance with the guidelines.

	2021 % change in salary or fees <sup>1</sup>	2020 % change in salary or fees <sup>2</sup>	2021 % change in benefits <sup>3</sup> (excluding pension)	2020 % change in benefits <sup>3</sup> (excluding pension)	2021 % change in annual bonus <sup>4</sup>	2020 % change in annual bonus
<b>Executive Directors</b>						
Pete Raby	32.3% (2.5%)	-19.4%	-0.5%	1.9%	1029.3%	-89.1%
Peter Turner	31.6% (2.0%)	-20.8%	0.6%	1.1%	1023.8%	-89.3%
<b>Non-executive Directors<sup>4</sup></b>						
Douglas Caster	31.6% (2.0%)	-20.9%	n/a	n/a	n/a	n/a
Helen Bunch	26.3% (1.7%)	-18.1%	n/a	n/a	n/a	n/a
Laurence Mulliez	26.3% (1.7%)	-18.1%	n/a	n/a	n/a	n/a
Jane Aikman	26.3% (1.7%)	-18.1%	n/a	n/a	n/a	n/a
Clement Woon	31.6% (2.0%)	-20.9%	n/a	n/a	n/a	n/a
<b>Average per employee</b>	<b>3.6% (2.6%)</b>	<b>3.0%</b>	<b>0.9%</b>	<b>-5.81%<sup>5</sup></b>	<b>53.6%</b>	<b>-2.11%</b>

- Figures in brackets reflect percentage increase from original 2020 salary/fee prior to reductions implemented in response to the pandemic.
- Percentages reflect the temporary Board salary/fee reductions implemented in response to the pandemic. All figures are based on full-time equivalent comparisons.
- Benefits figures include private medical insurance and car allowance. Decrease in Pete Raby's benefits reflects reduction in private medical premium resulting from the Company's transition to a new provider.
- Non-executive Directors do not receive any additional benefits or bonus payments.
- Decrease reflects change in type of medical cover required by individual employees.
- Executive Director bonus reflects 2021 bonus paid in 2022. Employee average bonus based on an estimate of 2021 bonus paid in 2022 (final bonus award data was not available at the time of publication). The personal performance element of 2020 bonus was cancelled for executive Directors (as a result of the pandemic), contributing to the higher percentage increase in 2021 bonus for executive Directors compared to other employees.

## CEO pay ratio

Year	Method	25th percentile pay ratio	Median (50th percentile) pay ratio	75th percentile pay ratio
<b>2021</b>	<b>Option B</b>	<b>93:1<sup>1</sup></b>	<b>61:1<sup>2</sup></b>	<b>50:1<sup>3</sup></b>
2021 (excluding variable)	Option B	32:1	24:1	17:1
<b>2020</b>	<b>Option B</b>	<b>35:1<sup>4</sup></b>	<b>25:1<sup>5</sup></b>	<b>20:1<sup>6</sup></b>
2020 (excluding variable)	Option B	25:1	20:1	14:1
<b>2019</b>	<b>Option B</b>	<b>74:1<sup>7</sup></b>	<b>62:1<sup>8</sup></b>	<b>41:1<sup>9</sup></b>
2019 (excluding variable)	Option B	34:1	27:1	19:1

- Total 25th percentile employee pay and benefits as at 31/12/21 = £22,533 (salary component = £17,379).
- Total 50th percentile employee pay and benefits as at 31/12/21 = £34,725 (salary component = £29,129).
- Total 75th percentile employee pay and benefits as at 31/12/21 = £42,442 (salary component = £37,989).
- 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 and benefits as at 31/12/20 = £22,464 (salary component = £21,000).
- 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 and benefits as at 31/12/20 = £31,550 (salary component = £23,960).
- 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 and benefits as at 31/12/20 = £38,723 (salary component = £36,900).
- Total 25th percentile employee pay and benefits as at 31/12/19 = £21,958 (salary component = £17,599).
- Total 50th percentile employee pay and benefits as at 31/12/19 = £25,927 (salary component = £24,300).
- Total 75th percentile employee pay and 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 2021 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 share awards and benefits including car allowance and private medical insurance. Total remuneration figures used in the calculation for 25th, 50th and 75th percentile employees include annual bonus relating to 2021 performance, in order to be consistent with the methodology used for the CEO's total remuneration figure.

As disclosed in the 2020 remuneration report, 2020 CEO pay ratios were 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). As a result of the CEO's salary and personal performance element of bonus being reinstated for 2021, and based on significantly improved business (and therefore variable pay) results, (with the CEO having a higher proportion of variable pay compared to the wider workforce) the 2021 CEO pay ratios are higher than in 2020.

Notwithstanding the year-on-year change in pay ratio, 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 significantly 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.

## Termination arrangements for outgoing CFO

As announced in 2021, Peter Turner will leave the Board in June 2022. As Peter Turner is retiring, he will not receive any severance payment when he leaves the Company, however he will be treated as a 'good leaver' for variable pay purposes. Salary, bonus and outstanding incentive awards will be treated in accordance with the shareholder-approved Remuneration Policy.

Full disclosure of all payments made upon cessation will be included in the 2022 Annual Report on Remuneration.

Remuneration element	Summary of treatment
Annual bonus	2021 bonus – 67% paid in cash and the balance deferred into shares and released after a further period of three years, subject to Group and personal performance.  2022 bonus – paid wholly in cash at normal payment date, pro-rated for time, and subject to Group and personal performance.
LTIP	Awards will be pro-rated for time and will vest based on performance over the original performance period, vesting on the normal vesting date. No LTIP award will be granted in 2022.
DBP	Awards will vest in full at the normal vesting date.

Executive Directors are required to maintain a shareholding equal to the lower of the share ownership requirement (200%) or the actual shareholding on departure for a period of one year from departure. Peter Turner will be required to maintain a 200% shareholding for the defined period.

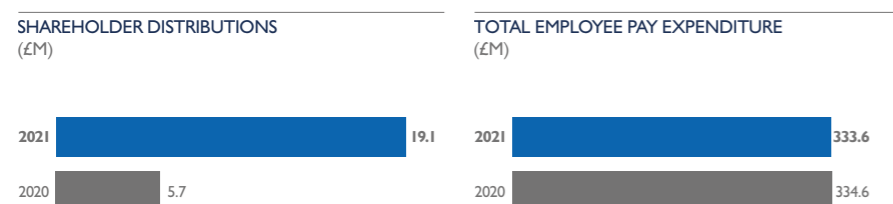
## Remuneration arrangements for incoming CFO

Richard Armitage will join Morgan Advanced Materials as Chief Financial Officer on 30 May 2022 and will be an executive Director. A summary of his remuneration is set out below:

Remuneration element	Details	Notes
Base salary	£425,000	
Pension	Contribution of 8% of base salary	Aligned to pension contribution levels of the wider UK workforce
Benefits	Car allowance £11,100 Private medical healthcare plan – value of premium to be calculated on joining and will be disclosed in 2022 Annual Report	
Annual bonus	150% of base salary	
LTIP	150% of base salary	
RSU (buyout award)	£410,000 (1 year vesting period)	One-time award to be granted in 2022 to offset forfeited bonus from prior employer

## Relative importance of spend on pay

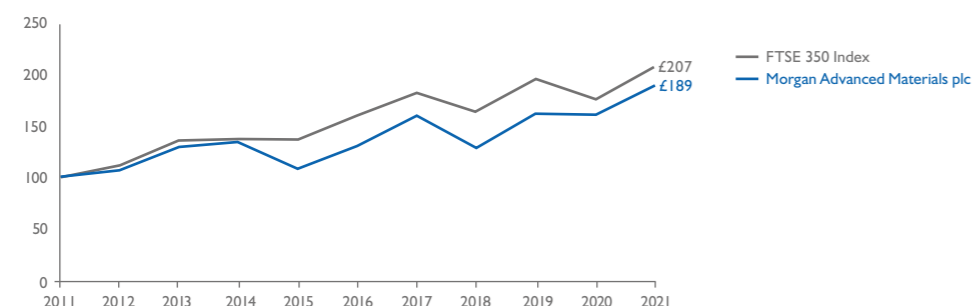
The graphs below show shareholder distributions (i.e. dividends and share buybacks) and total employee pay expenditure for the financial years ended 31 December 2020 and 31 December 2021.



Following the reduction in shareholder distributions in 2020 in response to the COVID-19 pandemic, the Company resumed dividend payments during 2021, at lower levels than those paid historically, pre-pandemic. Total employee pay across the Group has decreased by 0.3% to £333.6 million (2020: £334.6 million), continuing to be impacted by measures taken as a result of the pandemic.

## Comparison of Company performance

The graph below shows the value, at 31 December 2021, of £100 invested in Morgan Advanced Materials plc's shares on 31 December 2011 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 10-year period to 31 December 2021.

CEO	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
CEO	M Robertshaw	M Robertshaw	M Robertshaw	P Raby	P Raby	P Raby	P Raby	P Raby	P Raby	P Raby
CEO single figure	£1,285,556	£648,932	£1,001,448	£788,252	£787,492	£1,210,856	£1,479,738	£1,618,605	£791,238	£2,104,245
Annual bonus (% of maximum)	0%	0%	65%	50%	29.5% <sup>1</sup>	71.3%	67.4%	84.3%	9%	97%
BDSMP vesting (% of maximum)	100%	0%	0%	n/a	n/a	n/a	n/a	n/a	n/a	n/a
LTIP vesting (% of maximum)	50%	0%	0%	n/a	n/a	15.4%	42.9%	61.3%	21.8%	52.17%

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 2021 (together with shares held by their connected persons) in the Ordinary share capital of the Company:

	As at 1 January 2021 or date of joining	As at 31 December 2021	As at 3 March 2022
<b>Executive Directors</b>			
Pete Raby	258,945	318,637	318,637
Peter Turner	263,914	308,815	308,815
<b>Non-executive Directors</b>			
Douglas Caster	110,454	110,454	110,454
Laurence Mulliez	6,765	6,919	6,919
Helen Bunch	2,028	2,028	2,028
Jane Aikman	1,000	1,000	1,000
Clement Woon	45,281	55,000	55,000

As at 3 March 2022, the Directors' interests in shares had not changed since the end of the period under review.

## EXECUTIVE DIRECTORS' SHAREHOLDING GUIDELINES

The table below shows the shareholding of each executive Director against their respective shareholding guideline as at 31 December 2021.

	Shareholding guideline (% 2021 salary)	Shares owned outright	Shares subject to performance <sup>1</sup>	Performance-tested but unvested shares <sup>2</sup>	Shares subject to DBP deferral <sup>3</sup>	Options vested but unexercised <sup>4</sup>	Options granted but subject to continued employment <sup>4</sup>	Current shareholding (% of 2021 salary) <sup>5</sup>	Guideline met
Pete Raby	200%	318,637	638,863	159,066	100,546	–	4,477	262%	Yes
Peter Turner	200%	308,815	469,761	119,255	76,043	–	4,477	328%	Yes

1. 2020 and 2021 LTIP and LTIP-CSOP awards. The total shares for Peter Turner include 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 which are therefore not transferrable to Peter Turner.

2. The expected number of shares due to vest under the 2019 LTIP.

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 2021 salary (prior to temporary reduction) and the share price at 31 December 2021 of 359 pence, comprising shares owned outright and shares subject to deferral.

Unless otherwise stated, figures given in the tables on pages 101 to 102 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 2021	Plan	As at 1 January 2021	Allocations during the year	Vested during the year	Lapsed during the year	As at 31 December 2021	Market price at date of allocation	Market price at date of vesting	Performance period
No further performance conditions, vested (subject to 2-year post-vesting holding)	2018	233,981	–	51,007	182,974	–	333.36p	312.16p	01.01.18 – 31.12.20
No further performance conditions, not yet vested	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
Subject to performance conditions	2020	362,377	–	–	–	362,377	234.70p	–	01.01.20 – 31.12.22
	2021	–	276,486	–	–	276,486	315.3p	–	01.01.21 – 31.12.23

## Share options

Status at 31 December 2021	Plan	As at 1 January 2021	Allocations during the year	Vested during the year	Lapsed during the year	As at 31 December 2021	Market price at date of allocation	Market price at date of vesting	Performance period
No further performance conditions, not yet vested	2019 LTIP-CSOP	11,189	–	–	–	11,189	268.12p	–	01.01.19 – 31.12.21

## Total interests in share plans

	As at 1 January 2021	As at 31 December 2021
	1,151,675 <sup>1,2,3,5</sup>	1,137,952 <sup>1,3,4,5</sup>

- 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.
- Includes 2018 deferred bonus award.
- Includes 2019 and 2020 deferred bonus awards.
- Includes 2021 deferred bonus award.
- Includes 2019 Sharesave grant.

## PETER TURNER

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

LTIP									
Status at 31 December 2021	Plan	As at 1 January 2021	Allocations during the year	Vested during the year	Lapsed during the year	As at 31 December 2021	Market price at date of allocation	Market price at date of vesting	Performance period
No further performance conditions, vested (subject to 2-year post-vesting holding)	2018	180,255	–	39,295	140,960	–	333.36p	312.16p	01.01.18 – 31.12.20
No further performance conditions, not yet vested	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
Subject to performance conditions	2020 funding	12,782	–	–	–	12,782	234.70p	–	01.01.20 – 31.12.22
	2021	–	202,740	–	–	202,740	315.3p	–	01.01.21 – 31.12.23

## Share options

Status at 31 December 2021	Plan	As at 1 January 2021	Allocations during the year	Released during the year	Lapsed during the year	As at 31 December 2021	Market price at date of allocation	Market price at date of release	Performance period
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 2021	As at 31 December 2021
	872,784 <sup>1,2,4,5</sup>	846,309 <sup>2,3,4,5</sup>

- Includes 2018 deferred bonus award.
- Includes 2019 and 2020 deferred bonus awards.
- Includes 2021 deferred bonus award.
- 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.
- Includes 2019 Sharesave grant.

## Details of plans

Plan	Details
2019, 2020, 2021	The performance conditions attached to the 2019 awards are set out on page 95.  The performance conditions attached to the 2020 awards are on the same basis as the 2019 awards.  The performance conditions attached to the 2021 awards are on the same basis as the 2019 and 2020 awards except that the EPS range was amended to 15%-22%.

## Share options

Plan	Details
LTIP – CSOP	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 were 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 were 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.

LTIP 2021: The awards to the CEO and CFO were structured as LTIP awards in the form of a conditional award of free shares.

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.
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## Deferred Bonus Plan

Plan	Details
2019, 2020 and 2021	Mandatory deferral of one-third of gross bonus result relating to the previous year, which is provided as a conditional award of shares of 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 27 (Related parties) to the consolidated financial statements. This Report was approved by the Board on 3 March 2022.

## REMUNERATION GOVERNANCE

### Remuneration Committee role

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, the Group Head of Reward and Ellason LLP, the Committee's independent advisor, 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.

### Remuneration Committee membership

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 68.

### Key activities during 2021

During 2021, the key areas of focus for the Committee were:

- Reviewing the Remuneration Policy ahead of presenting it to shareholders for approval at the 2022 Annual General Meeting, including reviewing whether the Policy remains appropriate and relevant in supporting the Company's strategy and promoting long-term sustainable success;
- Consulting with shareholders on the proposed changes to the Remuneration Policy;
- Determining whether targets for the 2020 bonus and 2018 LTIP were achieved, and, if so, to what extent;
- Having reviewed the remuneration of the wider workforce, determining remuneration for executive Directors and other senior executives, applying consistent guiding principles;
- Reviewing whether the measures and structure for the bonus and share incentive schemes remain appropriate, as well as reviewing the overall effectiveness of such schemes;
- Reviewing and agreeing executive Director personal objectives for 2022;
- Receiving reports on share awards to employees, and employee participation in the Save As You Earn scheme;
- Reviewing feedback from institutional investors ahead of the Company's 2021 Annual General Meeting;
- Reviewing executive Director share ownership guidelines, and Directors' holdings against the guidelines;
- Receiving regulatory and governance updates, and receiving reports on external market remuneration practices;
- Reviewing and discussing the Company's annual Gender Pay Gap Report;
- Appraising the independent remuneration advisor's performance and reviewing the terms of engagement;
- Approving the Chairman's 2022 fees;
- Determining performance targets for the 2022 bonus and share incentive schemes;
- Approving the remuneration of the Company's incoming CFO, and reviewing the terms of the outgoing CFO's retirement; and
- Reviewing the Committee's terms of reference.

### Committee performance evaluation

The Committee's performance was reviewed as part of the Board evaluation (see page 73 for details), which was externally-facilitated in 2021 by Clare Chalmers Ltd. It was concluded that the Committee had operated effectively during the period under review.

### Committee advisor

Ellason LLP has been the Committee's executive remuneration advisor since 1 January 2021. Ellason specialises in executive remuneration advice and during 2021 provided independent advice on remuneration policy, 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. Ellason reports directly to the Chair of the Remuneration Committee and does not provide any non-remuneration-related services to the Group, and is considered to be independent.

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

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

Advisor	Fees (including expenses, excluding VAT)
Ellason	£30,938

## Summary of shareholder voting

The following table shows the results of the latest binding vote on the Remuneration Policy (at the 2019 AGM) and advisory vote on the 2020 Annual Report on Remuneration (at the 2021 AGM).

Resolution	For	Against	Withheld
Remuneration Policy (at the 2019 AGM)	97.17%	2.83%	100,712
Annual Report on Remuneration (at the 2021 AGM)	99.85%	0.15%	42,855

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.

## COMPLIANCE STATEMENT

During the year under review, the Company has complied with all of the provisions relating to Directors' remuneration in the UK Corporate Governance Code, except for provision 38 on the alignment of executive Directors' pension contributions with those available to the workforce, as set out in more detail on page 63. 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 439 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 5 May 2022, together with a mandatory resolution to approve the Directors' Remuneration Policy.

Signed on behalf of the Board

**Helen Bunch**  
Committee Chair

## 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 58 to 109 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 2022 AGM will be held on Thursday 5 May 2022, commencing at 10:30am at York House, Sheet Street, Windsor SL4 1DD. A circular incorporating the 2022 Notice of AGM is available in the investor section of [www.morganadvancedmaterials.com](http://www.morganadvancedmaterials.com)

### 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 60 to 61.

### RESULTS AND DIVIDENDS

The total profit (attributable to owners of the parent and non-controlling interests) for the year ended 31 December 2021 was £81.8 million (2020: loss £18.0 million). The profit for the period arises principally as a result of improved volumes and delivery of the benefits from the Group's restructuring programme. Profit before taxation for the same period was £104.3 million (2020: loss £13.1 million). Revenue was £950.5 million (2020: £910.7 million) and operating profit was £113.1 million (2020: loss £1.8 million). Basic earnings per share\* from continuing operations was 23.9 pence (2020: loss per share 8.6 pence). Capital and reserves at the end of the year were £349.6 million (2020: £240.0 million). The total profit of £81.8 million (2020: loss of £18.0 million) will be transferred to equity.

The Directors recommend the payment of a final dividend of 5.9 pence per share on the Ordinary share capital of the Company, payable on 20 May 2022 to shareholders on the register at the close of business on 29 April 2022. Together with the interim dividend of 3.2 pence per share paid on 10 December 2021, this final dividend, if approved by shareholders, brings the total distribution for the year to 9.1 pence per share (2020: 5.5 pence).

### DIRECTORS

All those who served as Directors at any time during the year under review are set out on pages 60 to 61.

#### 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 101.

#### 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 6 to 7 of the Strategic Report and on page 72 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 Morgan General Employee Benefit Trust referred to in note 20 on page 149, there is no information required to be disclosed under LR 9.8.4R.

### OVERSEAS BRANCHES

As at 31 December 2021, the Company had branches as follows:

- Morgan AM&T BV (Sweden and Belgium);
- Carbo San Luis SA (Peru);
- Morgan Advanced Materials Industries Ltd (UAE).

### PEOPLE

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.

#### EMPLOYMENT OF DISABLED PEOPLE

Morgan has a range of employment policies which set out the standards, processes, expectations and responsibilities of its people and the organisation. These policies are designed to ensure that everyone, including those with existing or new disabilities, are dealt with fairly and have equal opportunity. Further details of the People policies are set out on pages 28 to 31.

### RESEARCH AND DEVELOPMENT

The Group recognised £28.5 million in expense in respect of research and development (2020: £28.0 million). The Group did not capitalise any development costs in 2021 (2020: £nil). Morgan has established four Centres of Excellence (CoEs), which are dedicated to driving materials development, to exacting customer specifications, and delivering performance through materials and production process innovation. The CoEs consolidate the Group's R&D efforts around its core technologies, to increase the effectiveness of Morgan's R&D spend, accelerate key projects and increase technical differentiation. The CoEs focus on the execution priorities of the global business units and the Group.

### GREENHOUSE GAS EMISSIONS, ENERGY CONSUMPTION AND ENERGY EFFICIENCY

Details of the Group's annual greenhouse gas emissions, energy consumption and energy efficiency are shown in the Environment section on pages 20 to 24.

### 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 151 to 159. 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 2021 is set out in note 41 on page 180. The rights and obligations attaching to the Company's Ordinary shares, and restrictions on the transfer of shares in the Company (which include specific circumstances in which the Board is entitled to refuse to register the transfer of shares), 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.

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.

Additionally the Company has authorised, issued and fully paid 437,281 (2020: 437,281) cumulative preference shares classified as borrowings totalling £0.4 million (2020: £0.4 million). The preference shares comprise 125,327 of 5.5% Cumulative First Preference shares of £1 each and 311,954 issued 5.0% Cumulative Second Preference shares of £1 each. The Group's 2020 financial statements were restated to reclassify the Group's cumulative preference shares (which were previously classified as equity) to borrowings. Following a review of the substance of the shares it was determined that the cumulative preference shares do not contain an equity element.

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 150.

#### Share allotment and repurchase authorities

The Directors were granted authority at the 2021 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 an aggregate nominal amount of £23,780,832 in any circumstances. This amount represented approximately one-third of the Company's issued share capital prior to that meeting. The Directors were also authorised to allot shares and to grant rights up to an aggregate nominal amount of £47,561,664 in connection with a rights issue only (but such amount to be reduced by any allotments under made under the first limb of the authority). This amount represented approximately two-thirds of the Company's issued share capital prior to the meeting.

The Directors were also empowered at the 2021 AGM to allot shares for cash on a non-pre-emptive basis, both in connection with a rights issue or similar pre-emptive issue and, otherwise than in connection with any such issue, up to a maximum aggregate nominal amount of £3,567,124. Such amount represented approximately 5% of the Company's issued share capital as it stood prior to the meeting in line with the Pre-Emption Group's Statement of Principles on disapplying pre-emption rights. As permitted by those Principles, the Directors were also empowered to allot shares for cash on a non-pre-emptive basis up to the same amount for use only in connection with an acquisition or a specified capital investment.

The Directors were also authorised at the 2021 AGM to repurchase shares in the capital of the Company up to a maximum aggregate number of 28,536,998 shares. This represented approximately 10% of the Company's issued share capital prior to the meeting.

These share capital authorities and powers are due to lapse at the 2022 AGM, and the Board will seek their renewal on similar terms.

### EMPLOYEE SHARE AND SHARE OPTION SCHEMES

The Company operates a number of employee share and share option schemes. Details of outstanding share awards and share options are given in note 24 on page 166.

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 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 the date of this report, 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
FIL Limited	15,414,047	5.40	5 August 2020
Aberforth Partners LLP	14,338,459	5.03	3 September 2019
M&G Plc	14,251,115	4.98	7 January 2022
Black Creek Investment Management Inc.	14,269,458	5.00	13 October 2021
AXA Investment Managers SA	14,039,985	4.92	6 June 2019

## 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 United Kingdom adopted international accounting standards 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 United Kingdom adopted international accounting standards;
- 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 60 to 61, confirm that, to the best of their knowledge:

- The Group's consolidated financial statements, which have been prepared in accordance with United Kingdom adopted international accounting standards, 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 2021.

For the purposes of DTR 4.1.5R(2) and DTR 4.1.8, the Directors' Report on pages 58 to 109 and the Strategic Report on pages 2 to 57 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 2022.

For and on behalf of the Board

### Stephanie Mackie Company Secretary

3 March 2022

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

#### I. 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 2021 and of the Group's profit for the year then ended;
- The Group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB);
- 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, and United Kingdom adopted international accounting standards and IFRSs as issued by the IASB. 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 3 to the financial statements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard 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

<b>Key audit matters</b>	The key audit matters that we identified in the current year were: <ul style="list-style-type: none"> <li>→ Inventory valuation; and</li> <li>→ Impairment of non-financial assets.</li> </ul>
<b>Materiality</b>	The materiality that we used for the Group financial statements was £5.0m (FY20: £4.0m) which was determined based on 4.6% profit before tax and before specific adjusting items.
<b>Scoping</b>	Full scope audit work was performed on 17 (FY20: 18) reporting components, and specified audit procedures were undertaken on a further 13 (FY20: 14) reporting components. Our full scope and specified audit procedures covered 72% of Group revenue (FY20: 74%) and 74% of absolute Group statutory profit (FY20: 89%).
<b>Significant changes in our approach</b>	Our audit approach is consistent with the previous year except for: <ul style="list-style-type: none"> <li>→ The presentation of restructuring costs as a specific adjusting item is no longer considered to be a key audit matter. In the prior year, the Group launched a significant restructuring programme following the outbreak of COVID-19 and recognised £24.0m in restructuring costs in the FY20 financial statements. In the current year, a net gain of £0.1 million has been recognised representing £2.1 million of further redundancy and closure costs related to the Group's restructuring programme, offset by a £2.2 million release of restructuring provisions booked last year in relation to this programme. As such, there is a reduced risk that business as usual restructuring activities are incorrectly presented as exceptionals within adjusting items.</li> <li>→ In the prior year due to the forecasting uncertainty from the COVID-19 pandemic our materiality was determined considering a number of different metrics which included: <ul style="list-style-type: none"> <li>→ Profit before tax and before specific adjusting items;</li> <li>→ Revenue;</li> <li>→ Earnings before interest, tax, depreciation and amortisation; and</li> <li>→ Net assets.</li> </ul> </li> </ul> <p>We now consider this uncertainty has reduced and therefore are using profit before tax and before specific adjusting items as our materiality benchmark.</p>

#### 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;
- Obtained an understanding of the controls around the budgeting and forecasting process used in the going concern preparation process;
- Evaluating the linkage to business model and principal risks as identified on pages 14 and 15;
- 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.

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

<b>Key audit matter description</b>	The Group manufactures thermal, carbon and technical ceramic products for a diverse range of end markets. The Group had material inventory balances of £140.7m as at 31 December 2021 (2020: £122.4m). There is a risk that inventory is not valued appropriately because of local manufacturing sites not correctly applying the Group provisioning accounting policy, to appropriately write-down the net realisable value of excess and obsolescent stock due to: <ul style="list-style-type: none"> <li>→ System limitations, whereby significant manual intervention is required to record and value inventory, which requires regular manual adjustments to inventory; and</li> <li>→ The level of management judgement involved in determining whether a provision should be recognised and how it should be measured. The provision is typically determined based on ageing and expected future usage.</li> </ul> <p>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.</p>
<b>How the scope of our audit responded to the key audit matter</b>	We have performed the following audit procedures in respect of this key audit matter: <ul style="list-style-type: none"> <li>→ Obtained an understanding of the relevant controls over the inventory provisioning process;</li> <li>→ Assessed the inventory ageing and ensured that the group accounting policy of fully providing for inventory more than 12 months has been applied. For items less than 12 months understood the breakdown of the inventory by age;</li> <li>→ Challenged management's key assumptions in determining inventory provisions by assessing the accuracy and completeness of items included in the provision by taking into account the impact on future usage; and</li> <li>→ Assessed the mathematical accuracy of the inventory provision by obtaining management's analysis and performing a recalculation based on the key inputs.</li> </ul>
<b>Key observations</b>	Based on our procedures performed, we are satisfied that the valuation of inventory at 31 December 2021 is appropriate.

### 5.2. Impairment of non-financial assets

<b>Key audit matter description</b>	<p>In FY20, following the outbreak of COVID-19 and the resulting economic downturn, the Group recorded impairments of non-financial assets of £65.6m. These primarily sat within the Technical Ceramics and Thermal Ceramic global business units. In FY21, the Group has had a strong recovery despite the challenging economic environment.</p> <p>IAS 36 requires that at the end of each reporting period, an entity should assess whether there are any indicators of impairment or indicators that an impairment loss recognised in prior periods should be reversed. If such indication exists, the entity shall estimate the recoverable amount of that asset. Management's review for indicators of impairment or reversal identified sites and assets that required further consideration. Impairment indicators were identified for certain assets in Technical Ceramics Asia, Electrical Carbon UK and North America and Thermal Ceramics North America. Total impairment charges for the year were £12.4 million. This includes a partial impairment of £6.0 million for Technical Ceramics Asia where a value in use calculation was performed. We focused the majority of our work on the carrying value of this CGU and have provided further detail on the key assumptions used in management's valuation below.</p> <p>Management has 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.</p> <p>Estimating a value-in-use is inherently judgemental, and a range of assumptions can reasonably be applied in determining the estimates used 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.</p> <p>We have focused 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 has provided sensitivity disclosures of the reasonable possible changes that could result in an impairment.</p> <p>The Audit Committee Report on page 74 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.</p>
<b>How the scope of our audit responded to the key audit matter</b>	<p>We have performed the following procedures in respect of this key audit matter:</p> <ul style="list-style-type: none"> <li>→ Obtained an understanding of the relevant key controls relating to the impairment process;</li> <li>→ Challenged management's indicator assessment for impairment or reversal by performing our own independent consideration of possible indicators;</li> <li>→ Assessed the integrity of management's impairment model through testing of the mechanical accuracy and reviewing the application of the input assumptions;</li> <li>→ 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;</li> <li>→ 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;</li> <li>→ 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;</li> <li>→ Assessed reasonable possible changes in assumptions to challenge the appropriateness of management's assessment of reasonable possible change scenarios; and</li> <li>→ Involved internal valuation specialists to assess the appropriateness of the discount rates used.</li> </ul>
<b>Key observations</b>	<p>Based on our procedures performed, we consider the key assumptions taken by management to be within an acceptable range and reasonable and supportable. We identified control deficiencies relating to the review controls over the process to identify impairment indicators and the value in use models, which were reported to management and those charged with governance.</p>

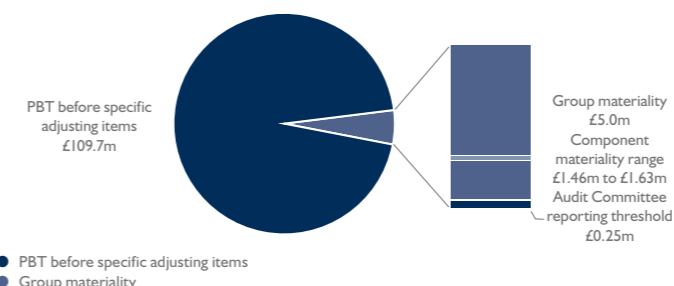
### 6. OUR APPLICATION OF MATERIALITY

#### 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
<b>Materiality</b>	£5.0m (2020: £4.0m)	£3.0m (2020: £2.0m)
<b>Basis for determining materiality</b>	<p>The materiality was determined based on 4.6% profit before tax and before specific adjusting items.</p> <p>In the prior year, due to the forecasting uncertainty and expected volatility in underlying earnings resulting from the COVID-19 pandemic our materiality was determined considering several different metrics which included:</p> <ul style="list-style-type: none"> <li>→ Profit before tax and before specific adjusting items (5.4%);</li> <li>→ Revenue (0.4%);</li> <li>→ Earnings before interest, tax, depreciation and amortisation (3%); and</li> <li>→ Net assets (1.7%).</li> </ul>	<p>Materiality was determined based on the Parent company's net assets (3%). This was then capped at 60% of Group materiality (2020: 50%).</p>
<b>Rationale for the benchmark applied</b>	<p>Profit before tax and before specific adjusting items is a key metric for users of the financial statements and reflects the way business performance is reported and assessed by external users of the financial statements.</p>	<p>The Parent company is non-trading and contains investments in all the Group's trading components and as a result, we have determined net assets for the current year to be the appropriate basis.</p>



#### 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
<b>Performance materiality</b>	65% (2020: 60%) of Group materiality	65% (2020: 60%) of Parent company materiality
<b>Basis and rationale for determining performance materiality</b>	<p>In determining performance materiality, we considered the following factors:</p> <ul style="list-style-type: none"> <li>→ Our risk assessment, including our assessment of the Group's overall control environment and our past experience of the audit;</li> <li>→ The disaggregated nature of the Group and the degree of centralisation in the Group's financial reporting processes which reduces the likelihood of an individually material error; and</li> <li>→ The level of corrected and uncorrected misstatements identified in the prior year audit.</li> </ul>	

#### 6.3 Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.25m (2020: £0.20m), 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.