

# **Tracerco Limited**

## **Directors' Report and Accounts**

**For the year ended 31 March 2012**

Registered number 4496566



# Tracerco Limited

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# Tracerco Limited

## Directors' report

The directors present their report and audited accounts for the year ended 31 March 2012

### Principal activity

The company is an industrial technology company providing specialised detection, diagnostic and measurement solutions for the oil and gas industries

### Performance during and position at the end of the year and future developments

Business performance in 2011/12 strengthened significantly across all product lines and within all of the company's markets. Capital projects instigated by oil and gas majors were back to pre-recession levels on the back of a high and sustained oil price leading to a greater market opportunity for the company's unique products and services. Market conditions remain favourable and the prospects for 2012/13 look strong.

At the end of the year the business had net assets of £37,975,000 (2011 £36,158,000) excluding funding from its parent company (note 23). As a result, the return on assets (operating profit adjusted for amortisation over average net assets excluding parent company borrowings) was 7.5% (2011 1.8%).

### Principal risks and uncertainties

Business activity varies with the price of the oil. If oil prices fall, or the global recession continues, this could have a significant effect on income streams.

The business operates globally. Changes in legislation and political conditions around the world can impact on the business due to the nature of the work carried out and the various countries in which the business operates.

### Results and dividends

The company's profit for the year ended 31 March 2012 is £1,180,000 (2011 loss of £271,000). The profit and loss account is set out on page 4.

The directors recommend payment of a final ordinary dividend of £862,000 for the year ended 31 March 2012 which will be paid during the year ending 31 March 2013 (2011 £ nil).

### Donations

The company contributed £2,000 (2011 £1,000) to charitable organisations, of which £2,000 (2011 £1,000) was in the UK. No political contributions were made (2011 £ nil).

### Directors

The directors who served during the year were S Farrant, A C Hurst (appointed 3 October 2011), R J MacLeod, G L McGregor (resigned 3 October 2011), G P Otterman (appointed 3 October 2011), M Pemberton (appointed 28 March 2012), S P Robinson, S Slattery (appointed 3 October 2011) and N Whitley (resigned 3 October 2011).

### Directors' indemnity

Under a Deed Poll dated 20 July 2005 the ultimate parent company has granted indemnities in favour of each director of its subsidiaries in respect of any liability that he may incur to a third party in relation to the affairs of any group member. Such indemnities were in force during the year ended 31 March 2012 for the benefit of all persons who were directors of the subsidiaries at any time during the year ended 31 March 2012 and remain in force for the benefit of all persons who are directors of the subsidiaries at the date when this report was approved.

### Policy on payment of commercial debts

Johnson Matthey's group policy in relation to the payment of suppliers (set out in the Group Control Manual, which is distributed to all group operations) is that payment should be made within the credit terms agreed with the supplier, subject to the supplier having performed its obligations under the relevant contract. At 31 March 2012 the company's level of creditor days was 53 days (2011 37 days), calculated by reference to amounts outstanding as trade creditors at the end of the year and amounts invoiced by suppliers during the year.

# Tracerco Limited

## Directors' report

### Disclosure of information to auditors

So far as each person currently serving as a director of the company at the date this report is approved is aware, there is no relevant audit information of which the company's auditor is unaware and each director hereby confirms that he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information

### Responsibility of the directors for preparation of the directors' report and the accounts

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

Company law requires the directors to prepare accounts for each financial year. Under that law the directors have elected to prepare the accounts in accordance with UK Accounting Standards and applicable law. Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these accounts, the directors are required to

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

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

By order of the board



**S Farrant**

*Company Secretary*

2 August 2012

# **Independent auditor's report to the members of Tracerco Limited**

We have audited the accounts of Tracerco Limited for the year ended 31 March 2012 which comprise the profit and loss account, the balance sheet, the cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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

## **Respective responsibilities of directors and auditors**

As explained more fully in the directors' responsibilities statement on page 2, the directors are responsible for the preparation of the accounts and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

## **Scope of the audit of the accounts**

A description of the scope of an audit of accounts is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm)

## **Opinion on accounts**

In our opinion the accounts

- give a true and fair view of the state of the company's affairs as at 31 March 2012 and of its profit for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

## **Opinion on other matter prescribed by the Companies Act 2006**

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

## **Matters on which we are required to report by exception**

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

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



**Nick Plumb (Senior Statutory Auditor)**

**for and on behalf of KPMG Audit Plc, Statutory Auditor**

Chartered Accountants

Quayside House 110 Quayside

Newcastle upon Tyne

NE1 3DX

2 August 2012

# Tracerco Limited

## Profit and loss account

For the year ended 31 March 2012

	Notes	2012 £'000	2011 restated £'000
<b>Turnover</b>	1	<b>30,619</b>	24,796
Cost of sales		<b>(20,125)</b>	(16,360)
<b>Gross profit</b>		<b>10,494</b>	8,436
Selling and distribution costs		<b>(6,428)</b>	(6,309)
Research and development costs		<b>(781)</b>	(841)
Administrative expenses		<b>(1,580)</b>	(1,736)
<b>Operating profit / (loss)</b>		<b>1,705</b>	(450)
Interest payable to ultimate parent company		<b>(40)</b>	(103)
<b>Profit / (loss) on ordinary activities before taxation</b>	2	<b>1,665</b>	(553)
Taxation	7	<b>(485)</b>	282
<b>Profit / (loss) for the year</b>	16	<b>1,180</b>	(271)

There were no other recognised gains or losses during the year

The accompanying notes are an integral part of the accounts

# Tracerco Limited

## Balance sheet

As at 31 March 2012

	Notes	2012 £'000	2011 £'000
<b>Fixed assets</b>			
Tangible fixed assets	8	4,521	4,101
Goodwill	9	18,548	19,629
		<u>23,069</u>	<u>23,730</u>
<b>Current assets</b>			
Stocks	10	2,209	1,359
Debtors	11	35,717	18,420
Cash at bank and in hand		274	1,427
		<u>38,200</u>	<u>21,206</u>
<b>Creditors: amounts falling due within one year</b>	12	<u>(20,407)</u>	<u>(45,254)</u>
<b>Net current assets / (liabilities)</b>		<u>17,793</u>	<u>(24,048)</u>
<b>Net assets / (liabilities)</b>		<u><u>40,862</u></u>	<u><u>(318)</u></u>
<b>Capital and reserves</b>			
Called up share capital	14	40,000	-
Profit and loss account	15	862	(318)
<b>Shareholders' funds</b>		<u><u>40,862</u></u>	<u><u>(318)</u></u>

The accounts were approved by the board on 2 August 2012 and signed on its behalf by



**R J MacLeod**  
*Director*

Company registration number 4496566

The accompanying notes are an integral part of the accounts

# Tracerco Limited

## Cash flow statement

For the year ended 31 March 2012

	Notes	2012 £'000	2011 £'000
<b>Reconciliation of operating profit / (loss) to net cash outflow from operating activities</b>			
Operating profit		1,705	(450)
Depreciation		969	829
Amortisation of goodwill		1,081	1,081
(Increase) / decrease in stocks		(850)	79
Increase in debtors		(2,850)	(3,122)
Increase / (decrease) in creditors		954	(484)
<b>Net cash inflow / (outflow) from operating activities</b>		<b>1,009</b>	<b>(2,067)</b>

## Cash flow statement

<b>Net cash inflow / (outflow) from operating activities</b>		<b>1,009</b>	<b>(2,067)</b>
<b>Returns on investments and servicing of finance</b>	20	<b>(40)</b>	<b>(103)</b>
<b>Taxation</b>		<b>(217)</b>	<b>224</b>
<b>Capital expenditure and financial investment</b>	20	<b>(1,389)</b>	<b>(1,568)</b>
<b>Net cash outflow before use of liquid resources and financing</b>		<b>(637)</b>	<b>(3,514)</b>
<b>Financing</b>	20	<b>(516)</b>	<b>4,245</b>
<b>(Decrease) / increase in cash in the year</b>	21	<b>(1,153)</b>	<b>731</b>

<b>Reconciliation of net cash flow to movement in net debt</b>			
(Decrease) / increase in cash in the year	21	<b>(1,153)</b>	731
Cash inflow / (outflow) from movement in borrowings	21	<b>40,516</b>	<b>(4,245)</b>
Change in net debt resulting from cash flows		<b>39,363</b>	<b>(3,514)</b>
Net debt at the start of year		<b>(36,476)</b>	<b>(32,962)</b>
<b>Net funds / (debt) at end of year</b>		<b>2,887</b>	<b>(36,476)</b>

The accompanying notes are an integral part of the accounts



# **Tracerco Limited**

## **Accounting policies**

### **For the year ended 31 March 2012**

#### **Accounting convention**

The accounts are prepared in accordance with applicable accounting standards under the historical cost convention

#### **Turnover**

Turnover comprises all sales of goods and services at the fair value of the right to consideration exclusive of discounts and sales taxes. Turnover is recognised when the goods are despatched or made available to the customer or by reference to the stage of completion of the service being rendered.

#### **Construction contracts**

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion. This is measured by the proportion that contract costs incurred to date bear to the estimated total contract costs.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that the total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

#### **Research and development expenditure**

Expenditure is charged to the profit and loss account in the year in which it is incurred.

#### **Goodwill**

Goodwill arising on acquisitions is capitalised and amortised on a straight line basis over the estimated useful economic life, which is considered to be 20 years.

#### **Foreign currencies**

Transactions denominated in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged, at the forward contract rate. Monetary assets and liabilities denominated in foreign currencies are translated at rates prevailing at the balance sheet date or, if appropriate, at the forward contract rate.

#### **Leases**

Rentals under operating leases are expensed as incurred.

#### **Tangible fixed assets**

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment.

Depreciation is provided at rates calculated to write off the cost, less estimated residual value, of each tangible asset on a straight line basis over its estimated useful life. The estimated useful lives vary according to the class of asset but are typically 30 years (or the life of the lease if shorter) for leasehold improvements, 5 to 10 years for plant and machinery and 3 to 10 years for fixtures, fittings and equipment.

# **Tracerco Limited**

## **Accounting policies**

### **For the year ended 31 March 2012**

#### **Stocks**

Stocks are stated at the lower of cost and net realisable value. Cost includes materials, direct labour and an attributable proportion of manufacturing overheads based on normal levels of activity. Provision is made for obsolete, slow-moving or defective items.

#### **Derivatives**

Gains and losses arising from forward currency contracts used to reduce exchange rate exposure are recognised when the relevant sale or purchase is recorded in the profit and loss account.

#### **Taxation**

Corporation tax payable is provided on taxable profits at the current rate.

Deferred tax is provided on all timing differences that have originated but not reversed by the balance sheet date and which could give rise to an obligation to pay more or less tax in the future.

#### **Share-based payments**

The fair value of outstanding shares allocated to employees under the ultimate parent company long term incentive plan is calculated by adjusting the share price on the date of allocation for the present value of the expected dividends that will not be received. The resulting cost is charged to the profit and loss account over the relevant vesting periods, adjusted to reflect actual and expected levels of vesting where appropriate.

#### **Pensions**

The company operates a defined contribution scheme and is included in the ultimate parent company's defined benefit scheme. The cost of the company's contributions to these schemes is charged to the profit and loss account as incurred.

# Tracerco Limited

## Notes to the accounts

For the year ended 31 March 2012

<b>1. Segmental information</b>	<b>2012</b>	<b>2011</b>
	<b>£'000</b>	<b>£'000</b>
<u>Turnover</u>		
United Kingdom	9,758	7,787
Continental Europe	6,925	6,525
Asia and the Middle East	4,655	3,327
Central and South America	3,094	2,716
Rest of World	6,187	4,441
	<b>30,619</b>	<b>24,796</b>
<b>2. Profit / (loss) on ordinary activities before taxation</b>	<b>2012</b>	<b>2011</b>
	<b>£'000</b>	<b>£'000</b>
Profit / (loss) on ordinary activities before taxation is arrived after charging		
Depreciation of tangible fixed assets - owned	969	829
Amortisation of goodwill	1,081	1,081
Fees payable to the company's auditor for the audit of the annual accounts	31	34
Fees payable to the company's auditor and its associates for other services		
- tax services	13	-
Operating lease rentals - land and buildings	318	207
<b>3. Employee costs and numbers</b>	<b>2012</b>	<b>2011</b>
	<b>£'000</b>	<b>£'000</b>
Aggregate remuneration comprised		
Wages and salaries	7,530	7,015
Social security costs	705	683
Pensions costs (note 22)	1,094	1,221
Share-based payments (note 19)	334	296
	<b>9,663</b>	<b>9,215</b>
	<b>2012</b>	<b>2011</b>
	<b>Number</b>	<b>Number</b>
Average monthly number of employees		
Production	79	79
Sales and distribution	11	11
Research and development	35	35
Administration	22	22
	<b>147</b>	<b>147</b>

The employee numbers and costs above include all employees who work for and are paid by the company, including certain employees whose contracts of service are with the ultimate parent company (note 23)

# Tracerco Limited

## Notes to the accounts

For the year ended 31 March 2012

### 4. Directors' remuneration

S Farrant, R J MacLeod, G L McGregor, G P Otterman, S P Robinson, S Slattery and N Whitley were remunerated by the ultimate parent company (note 23). No remuneration (2011 £ nil) was paid to these directors in respect of services to this company. The remaining directors were remunerated by the company and their remuneration was as follows

	2012 £'000	2011 £'000
Aggregate amounts of emoluments of directors (including the estimated money value of benefits in kind) in respect of managing the affairs of the company	81	-
Company contributions to defined benefit pension scheme	12	-
Number of directors who were members of the defined benefit pension scheme	2	-

During the year one of the directors (2011 one) exercised share options in the ultimate parent company and eight of the directors (2011 none) received shares under the ultimate parent company long term incentive plan

### 5. Restatement of comparative profit and loss account

The cost of sales and selling and distribution costs for the year ended 31 March 2011 have been restated by £6,095,000 following a reclassification of certain employee costs out of selling and distribution costs to better reflect the nature of the costs. The restatement has no effect on the operating loss presented.

### 6. Derivatives not included at fair value

The company uses derivatives to hedge its exposures to changes in foreign currency exchange rates. At the end of the year the company had derivatives not included in the accounts with a fair value of an asset of £79,000 (2011 £106,000).

# Tracerco Limited

## Notes to the accounts

For the year ended 31 March 2012

### 7. Taxation

Analysis of tax charge / (credit) for the year	2012 £'000	2011 £'000
<b>Current tax</b>		
UK corporation tax charge on profits for the year	239	-
Adjustment for prior years to UK corporation tax charge	(19)	28
Adjustment for prior years to foreign taxation on profits	-	(304)
Foreign taxation on profits for the year	272	179
Total current tax charge / (credit)	492	(97)
<b>Deferred tax</b>		
Origination and reversal of timing differences	(3)	(204)
Changes in tax rates and laws	4	3
Adjustment for prior years	(8)	16
Total deferred tax credit	(7)	(185)
Total taxation charge / (credit)	485	(282)
<b>Factors affecting tax charge / (credit) for the year</b>	<b>2012 £'000</b>	<b>2011 £'000</b>
Profit / (loss) on ordinary activities before taxation	1,665	(553)
Tax charge / (credit) at UK corporation tax rate of 26% (2011 28%)	433	(155)
Effects of		
Capital allowances (greater) / less than depreciation	(27)	182
Expenses not deductible for tax purposes	105	152
Adjustments for prior years	(19)	(276)
Current tax charge / (credit) for the year	492	(97)

#### Factors that may affect future tax charges

In March 2012 the UK government enacted a change in the UK corporation tax rate from 26% to 24% effective from 1 April 2012. The UK deferred tax balances at 31 March 2012 have been recalculated at the new rate.

# Tracerco Limited

## Notes to the accounts

For the year ended 31 March 2012

### 8. Tangible fixed assets

	Leasehold improvements £'000	Plant and machinery £'000	Fixtures, fittings and equipment £'000	Total £'000
<b>Cost</b>				
At beginning of year	534	3,754	1,232	5,520
Additions	86	628	675	1,389
At end of year	<u>620</u>	<u>4,382</u>	<u>1,907</u>	<u>6,909</u>
<b>Depreciation</b>				
At beginning of year	88	973	358	1,419
Charge for the year	73	638	258	969
At end of year	<u>161</u>	<u>1,611</u>	<u>616</u>	<u>2,388</u>
<b>Net book value at 31 March 2012</b>	<u><b>459</b></u>	<u><b>2,771</b></u>	<u><b>1,291</b></u>	<u><b>4,521</b></u>
Net book value at 31 March 2011	<u>446</u>	<u>2,781</u>	<u>874</u>	<u>4,101</u>

### 9. Goodwill

	Goodwill £'000
<b>Cost</b>	
At beginning and end of year	<u>21,610</u>
<b>Amortisation</b>	
At beginning of year	1,981
Charge for the year	1,081
At end of year	<u>3,062</u>
<b>Net book value at 31 March 2012</b>	<u><b>18,548</b></u>
Net book value at 31 March 2011	<u>19,629</u>

### 10. Stocks

	2012 £'000	2011 £'000
Work in progress	2,191	1,347
Finished goods	<u>18</u>	<u>12</u>
	<u><b>2,209</b></u>	<u>1,359</u>

# Tracerco Limited

## Notes to the accounts

For the year ended 31 March 2012

### 11. Debtors: amounts falling due within one year

	2012 £'000	2011 £'000
<b>Amounts falling due within one year</b>		
Trade debtors	5,563	4,096
Amounts recoverable on contracts	4,020	2,800
Loans to ultimate parent company	20,471	6,031
Amounts owed by ultimate parent company	-	3
Amounts owed by other Johnson Matthey group companies	3,700	3,115
Deferred tax asset (note 13)	51	44
Other debtors	202	132
Prepayments and accrued income	1,710	2,199
	<u>35,717</u>	<u>18,420</u>

### 12. Creditors: amounts falling due within one year

	2012 £'000	2011 £'000
Trade creditors	1,336	737
Amounts owed to other Johnson Matthey group companies	248	55
Loans from ultimate parent company	17,858	43,934
Amounts owed to ultimate parent company	54	221
Corporation tax payable	303	28
Other creditors	12	14
Accruals and deferred income	596	265
	<u>20,407</u>	<u>45,254</u>

### 13. Deferred taxation

		Deferred taxation asset £'000
At beginning of year		44
Credit for the year		7
At end of year		<u>51</u>
	2012 £'000	2011 £'000
Timing differences on fixed assets	(1)	(20)
Other	<u>(50)</u>	<u>(24)</u>
	(51)	(44)

# Tracerco Limited

## Notes to the accounts

For the year ended 31 March 2012

### 14. Called up share capital

	Number	£'000
<b>Allotted, called up and fully paid ordinary shares of £1 each</b>		
At beginning of year	2	-
Shares issued in the year	40,000,000	40,000
At beginning and end of year	<u>40,000,002</u>	<u>40,000</u>

On 28 March 2012 40,000,000 ordinary shares of £1 each were issued to Johnson Matthey Plc at par value

### 15. Reserves

	Profit and loss account £'000
At beginning of year	(318)
Share-based payments	334
Cash paid in relation to share-based payments	(334)
Profit for the year	1,180
<b>At end of year</b>	<b><u>862</u></b>

### 16. Reconciliation of movements in shareholders' funds

	2012 £'000	2011 £'000
Profit / (loss) for the year	1,180	(271)
Shares issued in the year	40,000	-
Share-based payments	334	296
Cash paid in relation to share-based payments	(334)	(296)
Movement in shareholders' funds	<u>41,180</u>	<u>(271)</u>
Opening shareholders' funds	(318)	(47)
Closing shareholders' funds	<u>40,862</u>	<u>(318)</u>

### 17. Related party transactions

As the company is a wholly owned subsidiary of Johnson Matthey Plc, it has taken advantage of the exemption contained in Financial Reporting Standard (FRS) 8 – "Related Party Disclosures" and has not disclosed transactions or balances with entities which form part of the Johnson Matthey group

There were no other related party transactions during the year



# Tracerco Limited

## Notes to the accounts

For the year ended 31 March 2012

### 18. Financial commitments

#### Capital commitments

	2012 £'000	2011 £'000
Contracted but not provided for	-	53

#### Leases

	2012 £'000	2011 £'000
Annual commitments under non-cancellable operating leases expiring		
within 2 - 5 years - land and buildings	332	145
more than 5 years - land and buildings	-	65
	<u>332</u>	<u>210</u>

### 19. Share-based payments

#### Long term incentive plan (LTIP)

Under the LTIP, shares in the ultimate parent company are allocated to directors, senior managers and middle managers based on a percentage of salary and are subject to performance targets over a three year period. At 31 March 2012, shares allocated in 2009, 2010 and 2011 (at 31 March 2011, shares allocated in 2008, 2009 and 2010) were outstanding in respect of which the performance period has not expired. The minimum release of 15% of the allocation is subject to the achievement of underlying earnings per share of the ultimate parent company (EPS) growth of 6% compound per annum over the three year performance period. For the maximum release of 100% of the allocation, EPS must have grown by at least 15% compound per annum. The number of allocated shares released will vary on a straight line basis between these points. Allocations will lapse if the EPS growth is less than 6% compound per annum over the three year performance period. For the shares allocated in 2009 only, the performance conditions have been relaxed and so the minimum release requires EPS growth of 3% compound per annum and the maximum release requires EPS growth of 10% compound per annum. Of the shares allocated in 2008, 52.42% were released and 47.58% expired during the year.

# Tracerco Limited

## Notes to the accounts

### For the year ended 31 March 2012

#### 19 Share-based payments (continued)

##### Share Options

In 2007 the LTIP was introduced and allocations of shares under this plan replaced the granting of share options. No share options have been granted since the year ended 31 March 2007. Equity settled share options in the ultimate parent company were granted to employees at the average of the market value of the ultimate parent company's shares over the three days prior to the date of grant and were subject to performance targets over a three year period and have a maximum life of ten years. The number of shares over which options were granted was based on a percentage of the employee's salary.

Options granted in 2004 to 2006 were subject to a minimum three year performance target EPS growth of UK RPI plus 3% per annum. Other performance targets were EPS growth of UK RPI plus 4% per annum and EPS growth of UK RPI plus 5% per annum. If the performance targets were not met at the end of the three year performance period, the options would lapse. The targets for options granted in 2004, 2005 and the 3% and 4% targets for options granted in 2006 have been met and so these options are exercisable. The 5% target for options granted in 2006 was not met and so these options have lapsed. Gains are capped at 100% of the grant price.

Options granted in 2002 and 2003 can only be exercised if the normalised EPS has grown by at least UK RPI 4% per annum over any three consecutive years during the life of the options. They were subject to annual retesting until they lapse on the tenth anniversary of grant. Since the targets have been met all these options are exercisable.

##### Share incentive plan (SIP)

Under the SIP, all employees with at least one year of service within the Johnson Matthey Plc group and who are employed by a participating group company are entitled to contribute up to 2.5% of basic pay each month, subject to a £125 per month limit. The SIP trustees buy shares (partnership shares) at market value each month with the employees' contributions. For each partnership share purchased, the group purchases two shares (matching shares) which are allocated to the employee. If the employee sells or transfers partnership shares within three years from the date of allocation, the linked matching shares are forfeited.

Activity relating to share options was

	2012		2011	
	Number of options	Weighted average exercise price pence	Number of options	Weighted average exercise price pence
Outstanding at the start of the year	12,176	1,173.79	12,549	1,163.77
Exercised during the year	(9,112)	1,137.40	(373)	836.80
Outstanding at the end of the year	3,064	1,282.00	12,176	1,173.79
Exercisable at the end of the year	3,064	1,282.00	12,176	1,173.79

# Tracerco Limited

## Notes to the accounts

### For the year ended 31 March 2012

#### 19. Share-based payments (continued)

Options were exercised on a regular basis throughout the year. The average share price during the year was 1,943.04 pence (2011 1,787.40 pence).

Details of share options outstanding at the end of the year are

	2012		2011	
	Number of options	Weighted average remaining life years	Number of options	Weighted average remaining life years
<b>Range of exercise price</b>				
1,000 pence to 1,100 pence	-	-	6,215	4.3
1,200 pence to 1,300 pence	3,064	4.3	5,961	5.3
	<u>3,064</u>	<u>4.3</u>	<u>12,176</u>	<u>4.8</u>

The fair value of the shares allocated during the year under the LTIP was 1,907.2 pence per share allocation (2011 1,523.6 pence per share allocation). The fair value was based on the share price at the date of allocation of 2,040.0 pence (2011 1,636.0 pence) adjusted for the present value of the expected dividends that will not be received at an expected dividend rate of 2.25% (2011 2.38%).

Activity relating to the LTIP was

	2012	2011
	Number of allocated shares	Number of allocated shares
Outstanding at the start of the year	23,961	18,977
Transferred during the year	307	-
Allocated during the year	10,657	8,707
Forfeited during the year	(1,504)	-
Released during the year	(2,172)	-
Expired during the year	(1,981)	(3,723)
Outstanding at the end of the year	<u>29,268</u>	<u>23,961</u>

10,460 (2011 10,936) matching shares under the SIP were allocated to employees during the year. They are nil cost awards on which performance conditions are substantially completed at the date of grant. Consequently the fair value of these awards is based on the market value of the shares at that date.

The total expense recognised during the year in respect of equity settled share-based payments, taking into account expected lapses due to leavers and the probability that EPS performance conditions will not be met, was £334,000 (2011 £296,000).

# Tracerco Limited

## Notes to the accounts

For the year ended 31 March 2012

### 20. Gross cash flows

	2012 £'000	2011 £'000
<b>Returns on investments and servicing of finance</b>		
Interest paid	(40)	(103)
<b>Net cash flow from returns on investments and servicing of finance</b>	<b>(40)</b>	<b>(103)</b>
	2012 £'000	2011 £'000
<b>Capital expenditure and financial investment</b>		
Purchase of tangible fixed assets	(1,389)	(1,568)
<b>Net cash flow from capital expenditure and financial investment</b>	<b>(1,389)</b>	<b>(1,568)</b>
	2012 £'000	2011 £'000
<b>Financing</b>		
Issue of ordinary share capital	40,000	-
(Decrease) / increase in net borrowings	(40,516)	4,245
<b>Net cash flow from financing</b>	<b>(516)</b>	<b>4,245</b>

### 21. Analysis of net debt

	Cash at bank and in hand £'000	Net loans due within one year £'000	Total £'000
At beginning of year	1,427	(37,903)	(36,476)
Cash flow			
From cash and overdrafts	(1,153)	-	(1,153)
From borrowings	-	40,516	40,516
At end of year	<b>274</b>	<b>2,613</b>	<b>2,887</b>

# **Tracerco Limited**

## **Notes to the accounts**

### **For the year ended 31 March 2012**

#### **22. Retirement Benefits**

The company is included in the Johnson Matthey Employees Pension Scheme which is mainly of the defined benefit type. The scheme includes employees of several companies in the Johnson Matthey Plc group. Consequently, the company is unable to identify its share of the underlying assets and liabilities and so the company accounts for its contributions to the scheme as if it were a defined contribution scheme. The cost of the company's contributions to the scheme for the year ended 31 March 2012 amounted to £955,000 (2011 £1,065,000). At 31 March 2012, under International Accounting Standard (IAS) 19 – 'Employee Benefits', the scheme had a deficit of £84.8 million (2011 £60.6 million) and contributions should continue at a similar rate. The amount recognised as an expense for defined contribution schemes amount to £139,000 (2011 £106,000).

#### **23. Ultimate parent company**

The company's immediate and ultimate parent company is Johnson Matthey Plc. The consolidated accounts of Johnson Matthey Plc are available to the public and may be obtained from 5th Floor, 25 Farringdon Street, London EC4A 4AB.