

Tracerco Limited

Directors' Report and Accounts

For the year ended 31 March 2014

Registered number: 4496566



Tracerco Limited

Contents

| | |
|------------------------------|---|
| Strategic report | 1 |
| Directors' report | 2 |
| Independent auditor's report | 3 |
| Profit and loss account | 4 |
| Balance sheet | 5 |
| Cash flow statement | 6 |
| Accounting policies | 7 |
| Notes to the accounts | 9 |

Tracerco Limited

Strategic report

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

This year has been another strong year for the company with turnover up in all of our key product and service lines. Demand for our innovative technology remains strong and is expected to grow on the back of a healthy oil price and an increasing demand for more specialist technologies as oil production becomes ever more difficult and expensive to extract. During the year, the business has invested heavily in research and development which has led to an operating loss of £131,000 (2013 profit of £506,000) but will help grow revenues in future years and has led to the market release of our new Discovery instrument – a revolutionary pipeline inspection tool. At the end of the year, the company began the exercise of relocating to its new Measurement Technology Centre headquarters which comprises of larger research and development laboratories and state of the art testing facilities for our instrumentation products.

At the end of the year the business had net assets of £46,598,000 (2013 £40,174,000) excluding funding from its parent company of £6,585,000 (2013 £380,000) (note 24). As a result, the return on assets (operating profit adjusted for amortisation over average net assets excluding parent company borrowings) was 2.2% (2013 4.1%).

Principal risks and uncertainties

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

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

By order of the board



S Farrant

Director

10 October 2014

Tracerco Limited

Directors' report

The directors present their report and audited accounts for the year ended 31 March 2014.

Results and dividends

The company's profit for the year ended 31 March 2014 is £13,000 (2013 profit of £554,000). The profit and loss account is set out on page 4. The directors do not recommend the payment of a final ordinary dividend for the year ended 31 March 2014 (2013 £554,000).

Donations

The company contributed £2,000 (2013 £5,000) to charitable organisations, of which £2,000 (2013 £5,000) was in the UK. No political contributions were made (2013 £ nil).

Directors

The directors who served during the year were S Farrant, A C Hurst, R J MacLeod (resigned 1 July 2014), G P Otterman, M Pemberton, S P Robinson and S Slattery. D G Jones was appointed on 1 July 2014.

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 or she 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 2014 for the benefit of all persons who were directors of the subsidiaries at any time during the year ended 31 March 2014 and remain in force for the benefit of all persons who are directors of the subsidiaries at the date when this report was approved.

Disclosure of information to auditor

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 or she has taken all the steps that he or she ought to have taken as a director in order to make himself or herself 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

Director

10 October 2014

Independent auditor's report to the members of Tracerco Limited

We have audited the accounts of Tracerco Limited for the year ended 31 March 2014 on pages 4 to 19. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditor

As explained more fully in the directors' responsibilities statement 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 Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

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 2014 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 Strategic report and 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 LLP, Statutory Auditor

Chartered Accountants

Quayside House 110 Quayside

Newcastle upon Tyne

NE1 3DX

10 October 2014

Tracerco Limited

Profit and loss account

For the year ended 31 March 2014

| | Notes | 2014 | 2013 restated (see note 5) |
|---|-------|-----------------|----------------------------------|
| Turnover | 1 | 37,796 | 35,035 |
| Cost of sales | | (25,387) | (23,443) |
| Gross profit | | 12,409 | 11,592 |
| Selling and distribution costs | | (6,940) | (6,643) |
| Research and development costs | | (3,707) | (1,999) |
| Administrative expenses | | (1,893) | (2,444) |
| Operating (loss) / profit | | (131) | 506 |
| Interest receivable from ultimate parent company | | 128 | 64 |
| (Loss) / profit on ordinary activities before taxation | 2 | (3) | 570 |
| Taxation | 8 | 16 | (16) |
| Profit for the year | 17 | 13 | 554 |

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 2014

| | Notes | 2014 £'000 | 2013 £'000 |
|---|-------|----------------------|----------------------|
| Fixed assets | | | |
| Tangible fixed assets | 9 | 14,596 | 5,008 |
| Goodwill | 10 | 16,386 | 17,467 |
| | | <u>30,982</u> | <u>22,475</u> |
| Current assets | | | |
| Stocks | 11 | 4,573 | 3,255 |
| Debtors | 12 | 87,091 | 57,540 |
| Cash at bank and in hand | | 6,744 | 3,824 |
| | | <u>98,408</u> | <u>64,619</u> |
| Creditors: amounts falling due within one year | 13 | <u>(89,377)</u> | <u>(46,540)</u> |
| Net current assets | | <u>9,031</u> | <u>18,079</u> |
| Net assets | | <u><u>40,013</u></u> | <u><u>40,554</u></u> |
| Capital and reserves | | | |
| Called up share capital | 15 | 40,000 | 40,000 |
| Profit and loss account | 16 | 13 | 554 |
| Shareholders' funds | | <u><u>40,013</u></u> | <u><u>40,554</u></u> |

The accounts were approved by the board on 10 October 2014 and signed on its behalf by:



D G Jones
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 2014

| | Notes | 2014 £'000 | 2013 £'000 |
|--|-------|---------------|---------------|
| Reconciliation of operating (loss) / profit to net cash outflow from operating activities | | | |
| Operating (loss) / profit | | (131) | 506 |
| Depreciation | | 1,316 | 1,148 |
| Loss on disposal of fixed assets | | - | 2 |
| Amortisation of goodwill | | 1,081 | 1,081 |
| Increase in stocks | | (1,318) | (1,046) |
| Decrease / (increase) in debtors | | 1,179 | (3,345) |
| Increase in creditors | | 1,929 | 991 |
| Net cash inflow / (outflow) from operating activities | | 4,056 | (663) |

Cash flow statement

| | | | |
|--|----|-----------------|----------------|
| Net cash inflow / (outflow) from operating activities | | 4,056 | (663) |
| Returns on investments and servicing of finance | 21 | 128 | 64 |
| Taxation | | (10) | (341) |
| Capital expenditure and financial investment | 21 | (10,904) | (1,637) |
| Equity dividends paid | | (554) | (862) |
| Net cash outflow before use of liquid resources and financing | | (7,284) | (3,439) |
| Financing | 21 | 9,885 | 6,057 |
| Increase in cash in the year | 22 | 2,601 | 2,618 |
| Reconciliation of net cash flow to movement in net debt | | | |
| Increase in cash in the year | 22 | 2,601 | 2,618 |
| Cash outflow from movement in borrowings | 22 | (9,885) | (6,057) |
| Change in net debt resulting from cash flows | | (7,284) | (3,439) |
| Net (debt) / funds at the start of year | | (552) | 2,887 |
| Net debt at end of year | | (7,836) | (552) |

The accompanying notes are an integral part of the accounts.

Tracerco Limited

Accounting policies

For the year ended 31 March 2014

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 2014

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.

Net debt

The net position on loans with other Johnson Matthey group companies is treated as net debt for the purposes of the cash flow statement on the grounds that the balances arise from funding.

Tracerco Limited

Notes to the accounts

For the year ended 31 March 2014

| | | |
|---|---------------|---------------|
| 1. Segmental information | 2014 | 2013 |
| | £'000 | £'000 |
| Turnover | | |
| United Kingdom | 13,718 | 9,706 |
| Continental Europe | 6,779 | 10,760 |
| Asia and the Middle East | 10,007 | 7,515 |
| Central and South America | 409 | 2,008 |
| Rest of World | 6,883 | 5,046 |
| | <u>37,796</u> | <u>35,035</u> |
| 2. (Loss) / profit on ordinary activities before taxation | 2014 | 2013 |
| | £'000 | £'000 |
| (Loss) / profit on ordinary activities before taxation is arrived after charging: | | |
| Depreciation of tangible fixed assets - owned | 1,316 | 1,148 |
| Loss on disposal of tangible fixed assets | - | 2 |
| Amortisation of goodwill | 1,081 | 1,081 |
| Fees payable to the company's auditor for the audit of the annual accounts | 31 | 30 |
| Operating lease rentals - land and buildings | 220 | 350 |
| | <u>220</u> | <u>350</u> |
| 3. Employee costs and numbers | 2014 | 2013 |
| | £'000 | £'000 |
| Aggregate remuneration comprised: | | |
| Wages and salaries | 10,856 | 8,272 |
| Social security costs | 854 | 697 |
| Pensions costs (note 23) | 1,499 | 1,319 |
| Share-based payments (note 20) | 401 | 266 |
| | <u>13,610</u> | <u>10,554</u> |
| | 2014 | 2013 |
| | Number | Number |
| Average monthly number of employees: | | |
| Production | 125 | 86 |
| Sales and distribution | 13 | 13 |
| Research and development | 43 | 39 |
| Administration | 20 | 23 |
| | <u>201</u> | <u>161</u> |

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 24).

Tracerco Limited

Notes to the accounts

For the year ended 31 March 2014

4. Directors' remuneration

S Farrant, R J MacLeod, G P Otterman, S P Robinson and S Slattery were remunerated by the ultimate parent company (note 24). No remuneration (2013 £ nil) was paid to these directors in respect of services to the company. The remaining directors were remunerated by the company and their remuneration was as follows:

| | 2014 £'000 | 2013 £'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 | 285 | 258 |
| Company contributions to defined benefit pension scheme | 43 | 35 |
| Number of directors who were members of the defined benefit pension scheme | <u>2</u> | <u>2</u> |

The highest paid director was paid emoluments of £179,000. Company contributions to his defined benefit pension scheme were £25,000 and he had accrued pension entitlements under the defined benefit pension scheme of £58,000 per annum.

During the year one of the directors (2013 one) exercised share options in the ultimate parent company and seven of the directors (2013 seven) received shares under the ultimate parent company long term incentive plan.

5. Restatement of comparative profit and loss account

The cost of sales and research and development costs for the year ended 31 March 2013 have been restated by £1,179,000 following a reclassification of certain research and development costs out of cost of sales to better reflect the nature of the costs. The restatement has no effect on the operating profit presented.

6. Dividends

| | 2014 £'000 | 2013 £'000 |
|---------------------------------|---------------|---------------|
| 2011/12 Final ordinary dividend | - | 862 |
| 2012/13 Final ordinary dividend | <u>554</u> | <u>-</u> |

The directors do not recommend the payment of a final ordinary dividend for the year ended 31 March 2014.

7. 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 £49,000 (2013 a liability of £166,000).

Tracerco Limited

Notes to the accounts

For the year ended 31 March 2014

8. Taxation

| Analysis of tax charge for the year | 2014 £'000 | 2013 £'000 |
|---|-----------------------|-----------------------|
| Current tax | | |
| UK corporation tax charge on profits for the year | 56 | 217 |
| Adjustment for prior years to UK corporation tax charge | (85) | (235) |
| Adjustment for prior years to foreign taxation on profits | (44) | - |
| Foreign taxation on profits for the year | 36 | 38 |
| Total current tax (credit) / charge | (37) | 20 |
| Deferred tax | | |
| Origination and reversal of timing differences | 31 | (10) |
| Changes in tax rates and laws | 4 | 2 |
| Adjustment for prior years | (14) | 4 |
| Total deferred tax charge / (credit) | 21 | (4) |
| Total taxation (credit) / charge | (16) | 16 |
| Factors affecting tax charge for the year | 2014 £'000 | 2013 £'000 |
| (Loss) / profit on ordinary activities before taxation | (3) | 570 |
| Tax charge at UK corporation tax rate of 23% (2013 24%) | (1) | 137 |
| Effects of: | | |
| Capital allowances (greater) / less than depreciation | (3) | 20 |
| Expenses not deductible for tax purposes | 96 | 98 |
| Adjustments for prior years | (129) | (235) |
| Current tax (credit) / charge for the year | (37) | 20 |

Factors that may affect future tax charges

In July 2013 the government enacted a change in the UK corporation tax rate from 23% to 21% effective from 1 April 2014 and to 20% from 1 April 2015. The UK deferred tax balances at 31 March 2014 have been recalculated at the new rate.

Tracerco Limited

Notes to the accounts

For the year ended 31 March 2014

9. Tangible fixed assets

| | Leasehold improvements £'000 | Plant and machinery £'000 | Fixtures, fittings and equipment £'000 | Total £'000 |
|--|------------------------------------|---------------------------------|---|----------------------|
| Cost | | | | |
| At beginning of year | 858 | 5,505 | 2,181 | 8,544 |
| Additions | 7,661 | 2,840 | 403 | 10,904 |
| Disposals | - | - | (67) | (67) |
| At end of year | <u>8,519</u> | <u>8,345</u> | <u>2,517</u> | <u>19,381</u> |
| Depreciation | | | | |
| At beginning of year | 242 | 2,351 | 943 | 3,536 |
| Charge for the year | 91 | 871 | 354 | 1,316 |
| Disposals | - | - | (67) | (67) |
| At end of year | <u>333</u> | <u>3,222</u> | <u>1,230</u> | <u>4,785</u> |
| Net book value at 31 March 2014 | <u>8,186</u> | <u>5,123</u> | <u>1,287</u> | <u>14,596</u> |
| Net book value at 31 March 2013 | <u>616</u> | <u>3,154</u> | <u>1,238</u> | <u>5,008</u> |

10. Goodwill

| | Goodwill £'000 |
|--|----------------------|
| Cost | |
| At beginning and end of year | <u>21,610</u> |
| Amortisation | |
| At beginning of year | 4,143 |
| Charge for the year | <u>1,081</u> |
| At end of year | <u>5,224</u> |
| Net book value at 31 March 2014 | <u>16,386</u> |
| Net book value at 31 March 2013 | <u>17,467</u> |

11. Stocks

| | 2014 £'000 | 2013 £'000 |
|------------------|---------------------|---------------------|
| Work in progress | 4,539 | 3,091 |
| Finished goods | <u>34</u> | <u>164</u> |
| | <u>4,573</u> | <u>3,255</u> |

Tracerco Limited

Notes to the accounts

For the year ended 31 March 2014

12. Debtors

| | 2014 £'000 | 2013 £'000 |
|---|---------------|---------------|
| Amounts falling due within one year | | |
| Trade debtors | 8,923 | 8,244 |
| Amounts recoverable on contracts | 2,922 | 4,059 |
| Loans owed by ultimate parent company | 69,631 | 38,927 |
| Amounts owed by ultimate parent company | 15 | 34 |
| Amounts owed by other Johnson Matthey group companies | 2,775 | 4,195 |
| Deferred tax asset (note 14) | 34 | 55 |
| Corporation tax receivable | 65 | 18 |
| Other debtors | 166 | 195 |
| Prepayments and accrued income | 2,560 | 1,813 |
| | 87,091 | 57,540 |

13. Creditors

| | 2014 £'000 | 2013 £'000 |
|---|---------------|---------------|
| Amounts falling due within one year | | |
| Bank overdrafts | 1,251 | 932 |
| Trade creditors | 2,558 | 1,334 |
| Amounts owed to other Johnson Matthey group companies | 100 | 186 |
| Loans owed to ultimate parent company | 82,960 | 42,371 |
| Amounts owed to ultimate parent company | 415 | 662 |
| Other creditors | 99 | 26 |
| Accruals and deferred income | 1,994 | 1,029 |
| | 89,377 | 46,540 |

The bank overdraft is subject to a cross-guarantee between the company and other Johnson Matthey UK companies.

14. Deferred taxation

| | Deferred taxation asset £'000 |
|----------------------|--|
| At beginning of year | 55 |
| Credit for the year | (21) |
| At end of year | 34 |

Tracerco Limited

Notes to the accounts

For the year ended 31 March 2014

14. Deferred taxation (continued)

| | 2014 £'000 | 2013 £'000 |
|------------------------------------|---------------|---------------|
| Timing differences on fixed assets | 10 | (16) |
| Other | (44) | (39) |
| | <u>(34)</u> | <u>(55)</u> |

15. Called up share capital

| | Number | £'000 |
|---|-------------------|---------------|
| Allotted, called up and fully paid ordinary shares of £1 each | | |
| At beginning and end of year | <u>40,000,002</u> | <u>40,000</u> |

16. Reserves

| | Profit and loss account £'000 |
|---|--|
| At beginning of year | 554 |
| Share-based payments | 401 |
| Cash paid in relation to share-based payments | (401) |
| Profit for the year | 13 |
| Dividends (note 6) | (554) |
| At end of year | <u>13</u> |

17. Reconciliation of movements in shareholders' funds

| | 2014 £'000 | 2013 £'000 |
|---|---------------|---------------|
| Profit for the year | 13 | 554 |
| Dividends (note 6) | (554) | (862) |
| Share-based payments | 401 | 266 |
| Cash paid in relation to share-based payments | (401) | (266) |
| Movement in shareholders' funds | <u>(541)</u> | <u>(308)</u> |
| Opening shareholders' funds | 40,554 | 40,862 |
| Closing shareholders' funds | <u>40,013</u> | <u>40,554</u> |

Tracerco Limited

Notes to the accounts

For the year ended 31 March 2014

18. 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.

19. Financial commitments

Capital commitments

| | 2014 £'000 | 2013 £'000 |
|---------------------------------|---------------|---------------|
| Contracted but not provided for | <u>1,760</u> | <u>219</u> |

Leases

| | 2014 £'000 | 2013 £'000 |
|---|---------------|---------------|
| Annual commitments under non-cancellable operating leases expiring: | | |
| within 1 year | 7 | - |
| within 2 - 5 years - land and buildings | - | 349 |
| more than 5 years - land and buildings | <u>88</u> | <u>-</u> |
| | <u>95</u> | <u>349</u> |

20. 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 2014, shares allocated in 2011, 2012 and 2013 (at 31 March 2013, shares allocated in 2010, 2011 and 2012) 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. As a result of the share consolidation in the ultimate parent company, for the shares allocated in 2010, 2011 and 2012 to executive directors of the ultimate parent company only, the performance conditions have been adjusted and so the minimum release requires EPS growth of 7% compound per annum and the maximum release requires EPS growth of 16% compound per annum. Of the shares allocated in 2010, 100% were released during the year.

Tracerco Limited

Notes to the accounts

For the year ended 31 March 2014

20. 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.

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:

| | 2014 | | 2013 | |
|--------------------------------------|-------------------|---------------------------------------|-------------------|---------------------------------------|
| | Number of options | Weighted average exercise price pence | Number of options | Weighted average exercise price pence |
| Outstanding at the start of the year | - | - | 3,064 | 1,282.0 |
| Exercised during the year | - | - | (3,064) | 1,282.2 |
| Outstanding at the end of the year | - | - | - | - |
| Exercisable at the end of the year | - | - | - | - |

Tracerco Limited

Notes to the accounts

For the year ended 31 March 2014

20. Share-based payments (continued)

The fair value of the shares allocated during the year under the LTIP was 2,717.1 pence per share allocation (2013 2,003.9 pence per share allocation). The fair value was based on the share price at the date of allocation of 2,883.0 pence (2013 2,162.0 pence) adjusted for the present value of the expected dividends that will not be received at an expected dividend rate of 1.98% (2013 2.54%).

Activity relating to the LTIP was:

| | 2014 | 2013 |
|--------------------------------------|---|---|
| | Number of allocated shares | Number of allocated shares |
| Outstanding at the start of the year | 28,054 | 29,268 |
| Transferred during the year | 248 | - |
| Allocated during the year | 10,973 | 10,254 |
| Forfeited during the year | - | (850) |
| Released during the year | (7,946) | (10,618) |
| Outstanding at the end of the year | <u>31,329</u> | <u>28,054</u> |

8,519 (2013 11,130) 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 £401,000 (2013 £266,000).

Tracerco Limited

Notes to the accounts

For the year ended 31 March 2014

21. Gross cash flows

| | 2014 £'000 | 2013 £'000 |
|---|-----------------|----------------|
| Returns on investments and servicing of finance | | |
| Interest received | 128 | 64 |
| Net cash flow from returns on investments and servicing of finance | 128 | 64 |
| | | |
| | 2014 £'000 | 2013 £'000 |
| Capital expenditure and financial investment | | |
| Purchase of tangible fixed assets | (10,904) | (1,637) |
| Net cash flow from capital expenditure and financial investment | (10,904) | (1,637) |
| | | |
| | 2014 £'000 | 2013 £'000 |
| Financing | | |
| Increase in net borrowings | 9,885 | 6,057 |
| Net cash flow from financing | 9,885 | 6,057 |

22. Analysis of net debt

| | Cash at bank and in hand £'000 | Bank overdrafts £'000 | Net loans due within one year £'000 | Total £'000 |
|--------------------------|---|-----------------------------|--|----------------|
| At beginning of year | 3,824 | (932) | (3,444) | (552) |
| Cash flow | | | | |
| From cash and overdrafts | 2,920 | (319) | - | 2,601 |
| From borrowings | - | - | (9,885) | (9,885) |
| At end of year | 6,744 | (1,251) | (13,329) | (7,836) |

Tracerco Limited

Notes to the accounts

For the year ended 31 March 2014

23. 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 2014 amounted to £1,310,000 (2013 £1,170,000). At 31 March 2014, under International Accounting Standard (IAS) 19 – 'Employee Benefits', the scheme had a deficit of £78.6 million (2013 £115.6 million) and contributions should continue at a similar rate. The amount recognised as an expense for defined contribution schemes amount to £189,000 (2013 £149,000).

24. 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.