Tracerco Limited

Annual Report and Accounts

For the year ended 31 March 2020

Registered number: 04496566

Tracerco Limited

Contents

Tracerco Limited

Strategic report

Principal activities
Tracerco Limited (the "company") is an industrial technology company providing specialised detection, diagnostic and measurement primarily solutions for the oil and gas industries.

Performance during and position at the end of the year and future developments
During the last financial year the company focused on delivering quality products and services for our customers. The trading conditions within the markets the company operate remained stable for most of the year, however the company was impacted by COVID-19 and the decline in oil price in the final quarter for the year. Alongside this we are seeing the benefits of our previous review of our internal structure to allow us to address the markets in a more efficient manner. As a result of the above two factors revenue has decreased from £35,416,000 to £33,560,000. As we move forward we expect the market and our structure to enable further revenue growth, once the impact of COVID-19 has been alleviated.

At the end of the year the business had adjusted average net assets of £36,230,000 (2019: £35,882,000) excluding cash and net funding from its parent company of £15,532,000 (2019: £13,464,000). As a result, the return on assets (operating profit adjusted for major impairment and restructuring charges over average net assets excluding cash and parent company borrowings) was positive 5.0% (2019: negative 4.5%).

Principal risks and uncertainties
Business activity varies with the price of the oil and the general health of the global economy. 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.

Section 172 statement
The directors consider that they have acted, in good faith, in a way that is most likely to promote the long-term success of the company for the benefit of its members as a whole. In doing so, the board considers the interest of a range of stakeholders impacted by the business, as well as its duties as set out in law. This statement details how the directors have discharged their duties under section 172 of the Companies Act 2006 during the year under review.

For each matter which comes before the board, stakeholders who may be affected are identified and their interest considered as part of the board's decision process. The board is mindful of the group's governance framework and ensures compliance with this as well as upholding the values and ethical standards set by the group. The board utilises some of the wider group policies and practices to ensure effective stakeholder engagement, and to ensure that the directors' obligations to its shareholder and to its stakeholders are met. Details of the group's stakeholder engagement can be found on pages 28 to 31 of Johnson Matthey Plc, the company's ultimate shareholder, 2020 Annual Report and Accounts which are available to view online at www.matthey.com/AR20.

During the year under review, the board worked closely with the company's management to mitigate the impact on the business and customers as a result of COVID-19. They continue to work closely with management to ensure the needs of customers are met and any issues are appropriately escalated.

The board recognises the importance of fostering good business relationships with suppliers, and the board continues to work with management to ensure the company treats suppliers fairly and in line with Group Procurement Policies.

The company's employee engagement practices are set out in the directors' report on page 3.

Tracerco Limited

Strategic report

Section 172 statement (continued)

The company plays an active role in the local community and the group's initiatives are designed to empower our employees to have a positive impact on their local communities. The board and management are supported by the group's corporate social responsibility committees and community ambassadors who facilitate volunteering in local communities and engagement on specific topics.

The ultimate shareholder is Johnson Matthey Plc and there is ongoing communication and engagement with the Johnson Matthey Plc board and its relevant committees.

On behalf of the board

DocuSigned by:

Paul Nicholson

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P Nicholson
Director
27 May 2021

Tracerco Limited

Directors' report

The directors present their report and audited accounts for the year ended 31 March 2020.

Results and dividends
The company's profit for the year ended 31 March 2020 is £1,280,000 (2019: £1,530,000 loss). The income statement is set out on page 7. The directors do not recommend the payment of a final ordinary dividend for the year ended 31 March 2020 (2019: £ nil).

Financial risk management
The company's activities expose it to certain financial risks including credit risk, liquidity risk and cash flow risk.

Credit risk
The company's principal financial assets are bank balances and trade and other receivables. The company's credit risk is primarily attributable to its trade receivables. Counterparties are assessed against the appropriate credit ratings, trading experience and market position. Credit limits are then defined and exposures monitored against these limits.

Liquidity risk
In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments the company uses short-term loans from group companies.

Cash flow risk
A significant portion of the company profit is earned outside the UK. In order to protect the company's sterling balance sheet, the company uses forward exchange contracts to hedge foreign exchange exposures.

Directors
The directors of the company who were in office during the year and up to the date of signing the accounts were J Tate, P Nicholson, G McGregor (resigned 31 July 2020) and S Farrant (resigned 16 September 2019).

Directors' indemnity
Under a Deed Poll dated 31 January 2017, the ultimate parent company 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 2020 for the benefit of all persons who were directors of the subsidiaries at any time during the year ended 31 March 2020 and remain in force for the benefit of all persons who are directors of the subsidiaries at the date when this report was approved.

Employee engagement statement
The JM group strives to be a truly inclusive organisation that fosters employee engagement and development within a diverse and global workforce. Throughout the year the group has engaged with the workforce through several formal and informal channels. JM's people strategy continues to develop our cultural environment and future capabilities which are key in the successful delivery of our strategy. JM seeks to ensure that we maintain high standards of business conduct, supported by our values and our culture, and JM's policies and procedures.

The JM group has country engagement focus groups in the UK, US, China and Germany, in order to engage in a two-way dialogue on key topics, gather insights on factors impacting the workforce at a local level and to obtain recommendations on ways in which engagement with the workforce can be further enhanced. These comprise a diverse group of people drawn from all sectors and functions, job type, age, tenure and gender and are sponsored by senior leaders. Initial meetings have been held in all countries and going forward, each focus group will meet twice a year. The JM Plc board and Group Management Committee receive feedback from the focus groups via the Chief HR Officer which is distilled down to the various leadership teams as appropriate.

During 2019, a 'pulse' employee engagement survey was carried out and we were pleased to see overall engagement levels continue to improve with significant upturns in company pride. Following the survey, smaller workshops were held to help provide valuable insight into how strategic and cultural change is being embedded across different business sectors.

Further information on the group's policies and employee engagement practices can be found on pages 41 and 42 of the JM Plc 2020 Annual Report and Accounts, available on matthey.com.

Independent auditors
In accordance with sections 485 and 487 of the Companies Act 2006, PricewaterhouseCoopers LLP are re-appointed as auditors of the company.

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the accounts in accordance with applicable law and regulation.

Company law requires the directors to prepare accounts for each financial year. Under that law the directors have prepared the accounts in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", 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 the accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the accounts statements;
- make judgements and accounting estimates that are reasonable and prudent; 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 also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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.

Directors' confirmations

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

On behalf of the board

DocuSigned by:
Paul Nicholson
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P Nicholson
Director
27 May 2021

Tracerco Limited

Independent auditors' report to the members of Tracerco Limited

Report on the audit of the financial statements

Opinion

In our opinion, Tracerco Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the Balance sheet as at 31 March 2020; the Income Statement, the Statement of comprehensive income and the Statement of changes in equity for the year then ended; the Accounting policies; and the notes to the financial statements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Independent auditors' report to the members of Tracerco Limited (continued)

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 March 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also 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.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Dino Blackburn.

Dino Blackburn (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle upon Tyne
27 May 2021

Tracerco Limited

Income Statement

For the year ended 31 March 2020

	Note	2020	2019
		£'000	£'000
Revenue	1	**33,560**	35,416
Cost of sales		**(20,477)**	(23,562)
Gross profit		**13,083**	11,854
Distribution costs		**(2,079)**	(2,056)
Research and development costs		**(3,561)**	(3,250)
Administrative expenses		**(5,641)**	(8,163)
Major impairment and restructuring		**100**	312
Operating profit/(loss)	3	**1,902**	(1,303)
Finance costs	2	**(604)**	(150)
Profit/(loss) before tax		**1,298**	(1,453)
Income tax expense	6	**(18)**	(77)
Profit/(loss) for the financial year		**1,280**	(1,530)

Statement of comprehensive income

For the year ended 31 March 2020

	2020	2019
	£'000	£'000
Profit/(Loss) for the financial year	**1,280**	(1,530)
Other comprehensive (expense)/income:		
Items that may be reclassified subsequently to profit or loss:		
Cash flow hedges	**(66)**	11
Tax on above items taken directly to or transferred from equity	**12**	(1)
Other comprehensive (expense)/income for the financial year	**(54)**	10
Total comprehensive income/(expense) for the financial year	**1,226**	(1,520)

The accompanying notes set out on pages 10 to 27 are an integral part of the accounts.

Tracerco Limited

Balance sheet

As at 31 March 2020

	Note	2020 £'000	2019 £'000
Assets			
Non-current assets			
Goodwill	7	**16,386**	16,386
Other intangible assets	8	**136**	84
Property, plant and equipment	9	**9,945**	10,632
Right of use assets	14	**6,561**	-
Total non-current assets		**33,028**	27,102
Current assets			
Inventories	11	**3,279**	2,594
Trade and other receivables	12	**12,071**	13,164
Cash and cash equivalents - cash and deposits		**955**	1,175
Total current assets		**16,305**	16,933
Total assets		**49,333**	44,035
Liabilities			
Current liabilities			
Trade and other payables	13	**(20,824)**	(23,318)
Lease liabilities	14	**(286)**	-
Provisions	16	**(182)**	(378)
Total current liabilities		**(21,292)**	(23,696)
Net current liabilities		**(4,987)**	(6,763)
Non-current liabilities			
Other payables	13	**-**	(812)
Deferred income tax liabilities	15	**(341)**	(55)
Lease liabilities	14	**(7,002)**	-
Total non-current liabilities		**(7,343)**	(867)
Total liabilities		**(28,635)**	(24,563)
Net assets		**20,698**	19,472
Equity			
Share capital	17	**40,000**	40,000
Hedging reserves		**(54)**	-
Accumulated losses		**(19,248)**	(20,528)
Total equity		**20,698**	19,472

The accounts were approved by the board on 27 May 2021 and signed on its behalf by:

DocuSigned by:
Paul Nicholson
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P Nicholson
Director

Company registration number: 04496566

The accompanying notes set out on pages 10 to 27 are an integral part of the accounts.

Tracerco Limited

Statement of changes in equity

For the year ended 31 March 2020

	Share capital £'000	Hedging reserve £'000	Accumulated losses £'000	Total equity £'000
At 1 April 2018	40,000	(10)	(18,998)	20,992
Loss for the year	-	-	(1,530)	(1,530)
Cash flow hedges - losses taken to equity	-	(133)	-	(133)
Cash flow hedges - transferred to income statement	-	144	-	144
Tax on items taken directly to or transferred from equity	-	(1)	-	(1)
Total comprehensive expense	-	10	(1,530)	(1,520)
At 31 March 2019	40,000	-	(20,528)	19,472
Profit for the year	-	-	1,280	1,280
Cash flow hedges - losses taken to equity	-	(66)	-	(66)
Tax on items taken directly to or transferred from equity	-	12	-	12
Total comprehensive income	-	(54)	1,280	1,226
At 31 March 2020	**40,000**	**(54)**	**(19,248)**	**20,698**

The accompanying notes are set out on pages 10 to 27 are an integral part of the accounts.

Tracerco Limited

Accounting policies

For the year ended 31 March 2020

Tracerco Limited is a private company limited by shares incorporated, domiciled and registered in England in the United Kingdom. The address of its registered office is 5th Floor, 25 Farringdon Street, London, EC4A 4AB.

Basis of preparation
The accounts are prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The accounts are prepared under the historical cost convention and derivative financial assets and financial liabilities are measured at fair value through profit or loss, and in accordance with Companies Act 2006. The accounting policies have been applied consistently, other than where new policies have been adopted (i.e. IFRS 16).

The directors consider that it is appropriate to prepare the accounts on a going concern basis. The accounts do not include any adjustments that would result if financial support were withdrawn.

The directors have prepared a cash flow forecast for a period of 12 months from the date of approval of these accounts which indicates that, taking account of reasonably possible downsides and the possible effects of the COVID-19 pandemic, the company will have sufficient funds, through its overdraft facility and funding from its ultimate parent company, Johnson Matthey Plc, to meet its liabilities as they fall due for that period. Those forecasts are dependent on Johnson Matthey Plc not seeking repayment of the loan amounts currently due to the group, which at 31 March 2020 amounted to £17,010,000 and providing additional financial support during that period. Johnson Matthey plc has indicated its intention to continue to make available such funds as are needed by the company, and that it does not intend to seek repayment of the amounts due at the balance sheet date, for the period covered by the forecasts.

The following exemptions from the requirements of IFRS have been applied in the preparation of these accounts, in accordance with FRS 101:

- the requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 Share-based Payment
- the requirements of IFRS 7 Financial Instruments: Disclosures
- the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15, Revenue from Contracts with Customers;
- the requirements of paragraphs 10(d), 38A, 111 and 134 to 136 of IAS 1 Presentation of Financial Statements
- the requirements of IAS 7 Statement of Cash Flows
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- the requirements of paragraph 17 of IAS 24 Related Party Disclosures
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member

The company has applied the exemption from consolidation under IAS 27 – 'Separate Financial Statements'. The ultimate parent company (note 21) prepares accounts that comply with IFRS and have been produced for public use.

Items included in the accounts of the company are measured using the currency of the primary economic environment in which the company operates ('the functional currency'). The accounts are presented in 'Pounds Sterling' (£), which is also the company's functional currency.

New standards effective for the current financial year
IFRS 16 became applicable to the company on 1st April 2019 and the company has changed its accounting policies as a result of adopting the new standard. The impact of the adoption of IFRS 16 is disclosed in note 22.

Critical accounting estimates and judgements
Goodwill is subject to annual impairment review and deemed a critical estimate and judgement as the impairment reviews require the use of estimates of future profit and cash generation based on financial budgets and plans approved by management, generally covering a three-year period, and the pre-tax discount rates used in discounting projected cash flows. The impact of COVID-19 on the carrying value of Goodwill has been considered. The budgets and plans used for the impairment reviews reflect management's estimate of the impact of COVID-19, which is a deep recession involving a period of lower demand followed by an extended recovery period. Whilst headroom has reduced under this scenario, no goodwill impairments have been identified as a direct result of the lower cash flow forecasts. See note 7 for further information and sensitivities.

Revenue
Revenue represents income derived from contracts for the provision of goods and services by the company to customers in exchange for consideration in the ordinary course of the company's activities.

Performance obligations
Upon approval by the parties to a contract, the contract is assessed to identify each promise to transfer either a distinct good or service or a series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer. Goods and services are distinct and accounted for as separate performance obligations in the contract if the customer can benefit from them either on their own or together with other resources that are readily available to the customer and they are separately identifiable in the contract.

The company typically sells licences to its intellectual property together with other goods and services and, since these licences are not generally distinct in the context of the contract, revenue recognition is considered at the level of the performance obligation of which the licence forms part. Revenue in respect of performance obligations containing bundles of goods and services in which a licence with a sales or usage-based royalty is the predominant item is recognised when sales or usage occur.

Transaction price
At the start of the contract, the total transaction price is estimated as the amount of consideration to which the company expects to be entitled in exchange for transferring the promised goods and services to the customer, excluding sales taxes. Variable consideration, such as trade discounts, is included based on the expected value or most likely amount only to the extent that it is highly probable that there will not be a reversal in the amount of cumulative revenue recognised. The transaction price does not include estimates of consideration resulting from contract modifications until they have been approved by the parties to the contract. The total transaction price is allocated to the performance obligations identified in the contract in proportion to their relative stand-alone selling prices. Many of the company's products and services are bespoke in nature and, therefore, stand-alone selling prices are estimated based on cost plus margin or by reference to market data for similar products and services.

Revenue recognition
Revenue is recognised as performance obligations are satisfied as control of the goods and services is transferred to the customer.

For each performance obligation within a contract, the company determines whether it is satisfied over time or at a point in time. Performance obligations are satisfied over time if one of the following criteria is satisfied:

- the customer simultaneously receives and consumes the benefits provided by the company's performance as they perform;
- the company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- the company's performance does not create an asset with an alternative use to the company and it has an enforceable right to payment for performance completed to date.

Revenue (continued)
If the over time criteria are met, revenue is recognised using an input method based on costs incurred to date as a proportion of estimated total contract costs. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised immediately as an expense.

If the over time criteria for revenue recognition are not met, revenue is recognised at the point in time that control is transferred to the customer, which is usually when legal title passes to the customer and the business has the right to payment, for example, when the goods are despatched or delivered in line with the International Chamber of Commerce's International Commercial Terms (Incoterms®) as detailed in the relevant contract or on notification that the goods have been used when they are consignment products located at customers' premises.

Consideration payable to customers
Consideration payable to customers in advance of the recognition of revenue in respect of the goods and services to which it relates is capitalised and recognised as a deduction to the revenue recognised upon transfer of the goods and services to the customer.

Costs to fulfil a contract
Contract fulfilment costs in respect of over time contracts are expensed as incurred. Contract fulfilment costs in respect of point in time contracts are accounted for under IAS 2, Inventories.

Contract receivables
Contract receivables represent amounts for which the company has an unconditional right to consideration in respect of unbilled revenue recognised at the balance sheet date. The company applies the simplified approach to measuring expected credit losses under IFRS 9, Financial Instruments, which requires lifetime expected credit losses to be recognised from initial recognition for trade and contract receivables. A provision matrix is used to calculate lifetime expected credit losses using historical loss rates based on days past due and a broad range of forward-looking information.

Contract liabilities
Contract liabilities represent the obligation to transfer goods or services to a customer for which consideration has been received, or consideration is due, from the customer.

Finance costs and finance income
Finance costs are recognised in the income statement in the year incurred. Finance costs that are directly attributable to the construction of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalised as part of the cost of that asset.

Foreign currencies
Foreign currency transactions are recorded at the rate of exchange at the date of the transaction. Foreign currency monetary assets and liabilities are retranslated at exchange rates at the balance sheet date. Foreign exchange differences arising on translation are recognised in income statement.

Grants
Grants related to assets are included in deferred income and released to the income statement in equal instalments over the expected useful lives of the related assets. Grants related to income are deducted in reporting the related expense.

Research and development
Research expenditure is charged to the income statement in the year incurred. Development expenditure is charged to the income statement in the year incurred unless it meets the recognition criteria for capitalisation. When the recognition criteria have been met, any further development expenditure is capitalised as an intangible asset.

Pensions and other retirement benefits
The company operates a defined contribution scheme and is included in the Johnson Matthey Employee Pension Scheme which is mainly of the defined benefit type. The Johnson Matthey Employee Pension Scheme includes employees of several companies in the Johnson Matthey group. There is no contractual agreement or stated policy for charging the net defined benefit cost for the scheme to the individual group entities. Information about the scheme is disclosed in the ultimate parent company's consolidated accounts (note 21). The cost of the Company's contributions to these schemes is charged to the income statement as incurred.

Derivative financial instruments
Derivative financial instruments are measured at their fair value. Derivative financial instruments may be designated at inception as cash flow hedges. Derivative financial instruments which are not designated as hedging instruments are classified under IFRS as held for trading, but are used to manage financial risk.

Changes in the fair value of any derivative financial instruments that are not designated as or are not determined to be effective hedges are recognised immediately in the income statement.

Changes in fair value of derivative financial instruments designated as cash flow hedges are recognised in other comprehensive income, to the extent that the hedges are effective. Ineffective portions are recognised in the income statement immediately. If the hedged item results in the recognition of a non-financial asset or liability, the amount previously recognised in the other comprehensive income is transferred out of equity and included in the initial carrying amount of the asset or liability. Otherwise, the amount previously recognised in the other comprehensive income is transferred to the income statement in the same period that the hedged item is recognised in the income statement.

If the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the designation is revoked, amounts previously recognised in other comprehensive income remain in equity until the forecast transaction occurs. If a forecast transaction is no longer expected to occur, the amounts previously recognised in other comprehensive income are transferred to the income statement.

Goodwill
Goodwill is not amortised but is subject to an annual impairment review. The impairment reviews require the use of estimates of future profit and cash generation based on financial budgets and plans approved by management, generally covering a three-year period, long term growth rates, terminal year and the pre-tax discount rates used in discounting projected cash flows.

Other intangible assets
Intangible assets are stated at cost less accumulated amortisation and any provisions for impairment. The intangible assets are amortised by using the straight line method over the useful lives from the time they are first available for use. The estimated useful lives vary according to the specific asset, but are typically:

- computer software – 3 to 10 years

Tracerco Limited

Accounting policies

For the year ended 31 March 2020

Property, plant and equipment
Property, plant and equipment is stated at cost less accumulated depreciation and any provisions for impairment. Depreciation is provided at rates calculated to write-off the cost less estimated residual value of each asset over its useful life. Certain freehold buildings and plant and equipment are depreciated using the units of production method as this more closely reflects their expected consumption. All other assets are depreciated using the straight-line method.

The useful lives vary according to the class of the asset, but are typically:

- leasehold improvements – the life of the lease;
- freehold buildings – 30 years; and
- plant and machinery – 4 to 10 years.
- Right-of-use assets – the life of the lease

Freehold land is not depreciated.

Leases – applied since 1st April 2019
Leases are recognised as a right-of-use asset, together with a corresponding lease liability, at the date at which the leased asset is available for use.

The right-of-use asset is initially measured at cost, which comprises the initial value of the lease liability, lease payments made (net of any incentives received from the lessor) before the commencement of the lease, initial direct costs and restoration costs. The right-of-use asset is depreciated on a straight-line basis over the shorter of the asset's useful life and the lease term in operating profit.

The lease liability is initially measured as the present value of future lease payments discounted using the interest rate implicit in the lease or, where this rate is not determinable, the company's incremental borrowing rate, which is the interest rate the company would have to pay to borrow the amount necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. Interest is charged to finance costs at a constant rate of interest on the outstanding lease liability over the lease term.

Payments in respect of short-term leases and low-value leases are charged to the income statement on a straight-line basis over the lease term in operating profit.

Leases – applied to 31st March 2019
Under IAS 17, Leases, all of the company's leases were classified as operating leases and lease payments made (net of any incentives received from the lessor) were charged to the income statement on a straight-line basis over the lease term. Leases are classified as finance leases whenever they transfer substantially all the risks and rewards of ownership to the company. The assets are included in property, plant and equipment and the capital elements of the leasing commitments are shown as obligations under finance leases. The assets are depreciated on a basis consistent with similar owned assets or the lease term if shorter. The interest element of the lease rental is included in the income statement.

All other leases are classified as operating leases and the lease costs are expensed on a straight-line basis over the lease term in operating profit.

Investments
Investment in subsidiaries are stated at cost less any provisions for impairment. If a distribution is received then the investment is assessed for an indication of impairment.

Inventories
Inventories are valued at the lower of cost, including attributable overheads, and net realisable value. Except where costs are specifically identified, the first-in, first-out cost formula is used to value inventories.

Trade and other receivables
The company applies the simplified approach to measuring expected credit losses under IFRS 9, Financial Instruments, which requires lifetime expected credit losses to be recognised from initial recognition for trade and contract receivables. A provision matrix is used to calculate lifetime expected credit losses using historical loss rates based on days past due and a broad range of forward-looking information.

Taxation
Current and deferred tax are recognised in the income statement, except when they relate to items recognised directly in equity, in which case the related tax is also recognised in equity.

Current tax is the amount of income tax expected to be paid in respect of taxable profits using the tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the balance sheet. It is provided using the tax rates that are expected to apply in the period when the asset or liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. No deferred tax asset or liability is recognised in respect of temporary differences associated with investments in subsidiaries and branches where the group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Provisions and contingencies
Provisions are recognised when the company has a present obligation as a result of a past event and a reliable estimate can be made of a probable adverse outcome. Otherwise, material contingent liabilities are disclosed unless the transfer of economic benefits is remote. Contingent assets are only disclosed if an inflow of economic benefits is probable.

Share-based payments
The fair value of shares awarded to employees under the performance share plan, restricted share plan, long term incentive plans and deferred bonus 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 income statement over the relevant performance periods, adjusted to reflect actual and expected levels of vesting where appropriate.

Cash and cash equivalents
Cash and cash equivalents comprise cash at bank and in hand, including short term deposits with a maturity date of three months or less from the date of acquisition. This includes short term bank overdraft facilities and loans between the company and its ultimate parent company, which are repayable on demand and used as an integral part of its cash management policy.

Reserves
The reserves held by the company include the hedging reserve and the fair value through other comprehensive income reserve.

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments. All amounts recorded in reserves at year end in relation to cash flow hedges relate to continuing hedge relationships.

The fair value through other comprehensive income reserve represents the equity movements on financial assets held within this category.

Tracerco Limited

Notes to the accounts

For the year ended 31 March 2020

1. Revenue

	2020 £'000	2019 £'000
By activity		
Sale of goods	**17,685**	17,604
Rendering of services	**14,745**	16,511
Licence income / royalties	**1,130**	1,301
	33,560	35,416
By geographical market		
United Kingdom	**9,486**	9,518
Continental Europe	**9,989**	10,108
Asia and the Middle East	**6,447**	8,302
Central and South America	**3,189**	119
Africa	**3,217**	705
Rest of World	**1,232**	6,664
	33,560	35,416
Revenue recognised at a point in time	6,639	4,557
Revenue recognised over time	26,921	30,859
	33,560	35,416

2. Finance costs

	2020 £'000	2019 £'000
Interest payable to ultimate parent company	**230**	150
Interest payable on lease liabilities	**374**	-
	604	150

3. Operating profit/(loss)

Operating profit/(loss) is arrived after charging / (crediting):

	2020 £'000	2019 £'000
Depreciation of property, plant and equipment	**1,520**	1,719
Depreciation of right-of-use assets	**438**	-
Amortisation of other intangible assets	**49**	167
Research charged	**3,561**	3,250
External funding received - from government grants	-	(50)
Fees payable to the company's auditors for the audit of the annual accounts	**26**	28
Operating lease rentals payable	-	726

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Notes to the accounts

For the year ended 31 March 2020

4. Employee costs and numbers

	2020 £'000	2019 £'000
Aggregate remuneration comprised:		
Wages and salaries	**12,556**	10,606
Social security costs	**1,066**	958
Other pensions costs (note 20)	**1,516**	1,677
Share-based payments (note 19)	**-**	294
	15,138	13,535

	2020 Number	2019 Number
Average monthly number of employees:		
Production	**142**	121
Sales and distribution	**12**	15
Research and development	**40**	51
Administration	**32**	34
	226	221

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 21).

5. Directors' remuneration

S Farrant, G McGregor, and S Robinson, were remunerated by the ultimate parent company (note 21). No remuneration (2019: £ 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:

	2020 £'000	2019 £'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	**231**	358
Company contributions to defined benefit pension scheme	**40**	43
Number of directors who were members of the defined benefit pension scheme	**2**	3

During the year none of the directors (2019: none) exercised share options in the ultimate parent company and three of the directors (2019: three) received shares under the ultimate parent company long term incentive plan.

6. Income tax expense

	2020	2019
	£'000	£'000
Current tax		
UK corporation tax credit on losses for the year	**-**	(707)
Adjustment for prior years to UK corporation tax charge	**(575)**	605
Foreign taxation on losses for the year	**295**	573
Total current tax (credit)/charge	**(280)**	471
Deferred tax		
Origination and reversal of timing differences	**(43)**	333
Changes in tax rates and laws	**42**	148
Adjustment for prior years	**299**	(875)
Total deferred tax charge/(credit)	**298**	(394)
Total tax charge	**18**	77

The tax expense for the year can be reconciled to the profit/(loss) per the income statement as follows:

	2020	2019
	£'000	£'000
Profit/(loss) before tax	**1,298**	(1,453)
Tax charge/(credit) at UK standard corporation tax rate of 19% (2019 19%)	**247**	(276)
Effects of:		
Group relief claimed for nil payment	**(295)**	-
Share-based payments	**5**	11
Double tax relief	**-**	(109)
Irrecoverable overseas tax suffered	**295**	573
Impact of changes in tax rates and laws	**42**	148
Adjustments for prior years	**(276)**	(270)
Total tax charge for the financial year	**18**	77

In October 2015 the UK government substantively enacted changes in the UK corporation tax rate from 19% to 18% from 1 April 2020. In September 2016 a further change to 17% from 1 April 2020 was enacted so the UK deferred tax balances at 31 March 2019 are calculated at this rate. In March 2020, the government announced that the UK corporation tax for the years starting 1 April 2020 and 2021 would remain at 19%, so the UK deferred tax balances at 31 March 2020 are calculated at this rate.

Tracerco Limited

Notes to the accounts

For the year ended 31 March 2020

7. Goodwill

	Goodwill £'000
Cost	
At 1 April 2019 and 31 March 2020	16,386
Impairment	
At 1 April 2019 and 31 March 2020	-
Carrying amount at 31 March 2019 and 2020	**16,386**

The parent company tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. The recoverable amount of the goodwill is determined using value in use calculations which generally use cash flow projections based on financial budgets and plans covering a three-year period approved by management. The budgets and plans are based on a number of assumptions, including market share, expected changes to selling prices, product profitability, and other direct input costs, based on past experience and management's expectations of future changes in the markets using external sources of information where appropriate. The budgets and plans used for the impairment reviews reflect management's estimate of the impact of COVID-19, which is a deep recession involving a period of lower demand followed by an extended recovery period. The three-year cash flows are extrapolated using the long term average growth rates for the relevant products, industries and countries in which the company operates. The value in use calculation assumes a post-tax discount rate of 7.4% (2019: 7.4%) and a long term growth rate of 1.3% (2019: 1.3%)

At March 2020, the impairment test results in the value in use providing significantly more headroom over the carrying value of the relevant assets so it is unlikely that a reasonably possible change in a key assumption would result in an impairment of goodwill.

8. Other intangible assets

	Computer Software £'000
Cost	
At 1 April 2019	933
Additions	101
At 31 March 2020	1,034
Accumulated Amortisation	
At 1 April 2019	849
Charge for the year	49
At 31 March 2020	898
Carrying amount at 31 March 2020	**136**
Carrying amount at 31 March 2019	84

9. Property, plant and equipment

	Leasehold improvements £'000	Freehold land and buildings £'000	Plant and machinery £'000	Total £'000
Cost				
At 1 April 2019	731	9,712	17,948	28,391
Additions	-	-	833	833
At 31 March 2020	731	9,712	18,781	29,224
Accumulated Depreciation				
At 1 April 2019	562	2,326	14,871	17,759
Charge for the year	32	-	1,488	1,520
At 31 March 2020	594	2,326	16,359	19,279
Carrying amount at 31 March 2020	**137**	**7,386**	**2,422**	**9,945**
Carrying amount at 31 March 2019	169	7,386	3,077	10,632

Right of use assets has been disclosed separately in note 14.

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For the year ended 31 March 2020

10. Investment in subsidiaries

	£'000
Cost	
At 1 April 2019	700
Disposal	(700)
At 31 March 2020	-
Impairment	
At 1 April 2019	700
Disposal	(700)
At 31 March 2020	-
Carrying amount at 31 March 2020 and 2019	-

During the year the company disposed of its 100% holding of the ordinary share capital of Ilumink Limited, a company incorporated in the United Kingdom at 5th Floor, 25 Farringdon Street, London, EC4A 4AB. The subsidiary was transferred at £nil consideration to Johnson Matthey Investments Limited, a company incorporated in the United Kingdom.

11. Inventories

	2020 £'000	2019 £'000
Work in progress	**3,266**	2,594
Finished goods	**13**	-
	3,279	2,594

Inventories recognised as an expense during the year were £9,321,000 (2019: £13,155,000)

12. Trade and other receivables

	2020 £'000	2019 £'000
Trade receivables	**4,140**	6,878
Contract receivables	**2,301**	2,847
Amounts receivable from other Johnson Matthey group companies	**2,522**	1,778
Current tax receivable	**1,112**	-
Other receivables	**1,643**	401
Prepayments and accrued income	**353**	1,260
	12,071	13,164

The amounts receivable from other Johnson Matthey group companies are repayable on demand and no interest rate is charged.

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Notes to the accounts

For the year ended 31 March 2020

13. Trade and other payables

	2020 £'000	2019 £'000
Current		
Trade payables	**1,262**	2,149
Contract liabilities	**129**	226
Loans payable to ultimate parent company	**16,487**	14,639
Amounts payable to ultimate parent company	**523**	2,135
Amounts owed to other Johnson Matthey companies	**83**	541
Corporation tax payable	**-**	500
Other payables	**175**	-
Accruals and deferred income	**2,101**	3,128
Forward foreign exchange contracts	**64**	-
	20,824	23,318
Non-current		
Government grant	**-**	812

Revenue recognised in the year from amounts included in contract liabilities at the beginning of the year were £226,000 (2019: £nil)

The loans payable to the ultimate parent company are repayable on demand and interest is accrued daily at one-month LIBOR plus 1.25%.

The amounts payable to ultimate parent and other Johnson Matthey companies are repayable on demand and no interest rate is charged.

Tracerco Limited

Notes to the accounts

For the year ended 31 March 2020

14. Leases

Leasing activities
The company leases some of their land and buildings which are used by the company in their operations. The impact of the company's transition to IFRS 16 is disclosed in note 22.

Right of use assets	Land and buildings £'000
At 1 April 2019 on transition to IFRS 16	6,999
Depreciation charge for the year	(438)
At 31 March 2020	**6,561**

Lease liabilities	2020 £'000
Current	(286)
Non-current	(7,002)
	(7,288)

	2020 £'000
Interest expense	374

The maturity analyses for lease liabilities showing the remaining contractual undiscounted cash flows, including future interest payments are:

At 31 March 2020	Within 1 year	1 to 2 years	2 to 5 years	After 5 years	Total
	£'000	£'000	£'000	£'000	£'000
Lease liability - principal	644	1,100	1,636	8,209	11,589
Lease liability - interest payments	(358)	(676)	(936)	(2,331)	(4,301)
Total	**286**	**424**	**700**	**5,878**	**7,288**

Tracerco Limited

Notes to the accounts

For the year ended 31 March 2020

15. Deferred income tax liabilities

	Goodwill £'000	Property, plant and equipment £'000	General Provision £'000	Tax Losses £'000	Other £'000	Total deferred tax (assets) / liabilities £'000
On 1 April 2018	1,900	(1,152)	-	(284)	(16)	448
(Credit) / charge to income	120	(223)	(299)	-	8	(394)
Tax on items taken directly to or transferred from equity	-	-	-	-	1	1
At 31 March 2019	2,020	(1,375)	(299)	(284)	(7)	55
(Credit) / charge to income	371	(226)	180	(33)	6	298
Tax on items taken directly to or transferred from equity	-	-	-	-	(12)	(12)
As at 31 March 2020	**2,391**	**(1,601)**	**(119)**	**(317)**	**(13)**	**341**

16. Provisions

	Restructuring provisions £'000
At 1 April 2019	378
Utilised	(96)
Released	(100)
At 31 March 2020	**182**

The restructuring provision is expected to be fully utilised by 31 March 2021.

17. Share capital

	Number	£'000
Issued and fully paid ordinary shares		
At beginning and end of year	40,000,002	40,000

18. Related party transactions

There were no related party transactions during the year other than between the company and other wholly owned Johnson Matthey group companies, the directors emoluments disclosed in Note 5 and the disposal of subsidiary in Note 10.

Tracerco Limited

Notes to the accounts

For the year ended 31 March 2020

19. Share-based payments

Long term incentive plan (LTIP)
Prior to 2017, shares in the ultimate parent company were awarded to certain directors, senior managers of the company under the LTIP based on a percentage of salary and were subject to performance targets over a three year period. At 31 March 2020, there were no shares outstanding (31 March 2019: shares awarded in 2016 were outstanding). For the 2016 awards, the minimum release of 15% of the award was subject to the ultimate parent company achieving underlying earnings per share (uEPS) growth of 4% compound per annum over the three-year period to 31st March 2019 and the full release is subject to uEPS growing by at least 10% compound per annum. Actual uEPS growth was 7.7%, which represented 67% of the full award. In August 2019, 67% of the outstanding shares were released. The remainder expired.

20. Retirement Benefits

The cost of the company's contributions to the scheme for the year ended 31 March 2020 amounted to £1,175,000 (2019: £1,413,000). The amount recognised as an expense for defined contribution schemes amount to £285,000 (2019: £238,000).

21. Ultimate parent company

The company's immediate and ultimate parent company is Johnson Matthey Plc. The largest and only group in which the results of the company are consolidated is that headed by 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 or www.matthey.com.

22. Changes in accounting policies

This note explains the impact on the company's accounts of the adoption of IFRS 16, Leases, that has been applied from 1st April 2019.

IFRS 16 became effective from 1st April 2019, replacing IAS 17, 'Leases', and related interpretations. Whilst lessor accounting is similar to IAS 17, lessee accounting is significantly different. Under IFRS 16, the company recognise on the balance sheet a right-of-use asset and a lease liability for future lease payments in respect of all leases unless the underlying assets are of low value or the lease term is 12 months or less. In the income statement, rental expense on the impacted leases is replaced with depreciation on the right-of-use asset and interest expense on the lease liability.

The company have applied the modified retrospective transition approach and has not restated comparative amounts for the year ended 31st March 2019. Under this approach, the company have chosen to measure right-of-use assets at 1st April 2019 at an amount equal to the lease liability as adjusted for lease prepayments, accrued lease expenses and onerous lease provisions.

The company have elected to adopt the following practical expedients on transition:

- not to capitalise a right-of-use lease asset or lease liability where the lease expired before 31st March 2020;
- not to reassess contracts to determine if the contract contains a lease;
- to utilise onerous lease provisions to reduce right-of-use asset values;
- to use hindsight in determining the lease term;
- to exclude initial direct costs from the measurement of the right of use asset; and
- to apply the portfolio approach when determining a discount rate where a group of leases has similar characteristics.

Impact of adoption on the primary statements

Income statement
Profit before tax has decreased by £93,000 in the year ended 31st March 2020 as a result of adopting IFRS 16, with operating profit decreasing and finance costs increasing by £281,000 and £374,000, respectively.

Balance sheet
The following table shows the effect of adopting IFRS 16 on the company's balance sheet at 1st April 2019.

	1 April 2019 £'000
Non-current assets	
Right-of-use assets	6,999
Total non-current assets	**6,999**
Total assets	**6,999**
Current liabilities	
Lease liabilities	(266)
Total current liabilities	**(266)**
Non-current liabilities	
Lease liabilities	(7,244)
Total non-current liabilities	**(7,244)**
Total liabilities	**(7,510)**
Net liabilities	**(511)**

22. Changes in accounting policies (continued)

Reconciliation between operating lease commitments and lease liabilities
The following table reconciles between the operating lease commitments disclosed under IAS 17 at 31st March 2019 and the lease liabilities recognised in the balance sheet of the company on transition to IFRS 16 at 1st April 2019:

	£'000
Future minimum amounts payable under non-cancellable operating leases reported under IAS 17 at 31st March 2019	11,818
Impact of discounting lease liability	(4,308)
Lease liabilities recognised on transition to IFRS 16 at 1st April 2019	**7,510**

23. Events after the balance sheet date

The impact of the COVID-19 pandemic on the company's operations is discussed in the principal risks and uncertainties section of the strategic report. Subsequent to the balance sheet date the company has monitored its trading performance and external factors, such as changes in government restrictions.