

Chief Executive's statement

Using our science to make the world cleaner and healthier

As 2018/19 drew to a close, we sat down with Robert MacLeod to ask him about progress during the year, his expectations for 2019/20 and his perspective on JM's relevance in today's changing world.

How have global megatrends developed for JM over the last year?

We have an inspiring vision at JM – for a world that is cleaner and healthier, today and for future generations. JM, and what we bring to the world, is arguably more relevant than ever before. Over the last 12 months, we have seen public awareness of, and action on, the world's global challenges increase. The next generation is speaking out on global issues such as climate change and air pollution, and it is these that JM can, and is, using its science to solve.

Focus continues on air quality and emissions – how is JM part of the solution?

The need to improve air quality across the world is leading to tighter emissions standards in many countries. In the longer term this will inevitably lead to a shift towards zero emission transportation, with more customers moving to electric vehicles. However, in the short term the need to significantly reduce emissions from gasoline and diesel vehicles is presenting an opportunity for JM; we are part of the solution.

Our Clean Air business is fabulous. It performed strongly this year despite the weaker global car market. In response to air quality concerns surrounding diesel cars, car buyers in Europe are increasingly favouring petrol engines. In addition, in Europe and Asia, tighter legislation is coming into force for petrol cars and we have reallocated our R&D spend accordingly in order that we can meet these more challenging requirements. Having said that, our R&D investment in diesel technology in prior years has reaped rewards as we have significantly extended our leadership in the market for light duty diesel cars in Europe. Now, around two thirds of all new diesel cars produced in Europe have JM's catalysts on them. Tighter legislation and JM technology means that diesel car emissions are lower than ever before and, in some cases, these cars produce less harmful particulate and NOx pollutants than their petrol counterparts. That means, those people for whom driving a diesel is the most economic choice, can do it in a less environmentally damaging way.

In China and India, our car and truck customers are also getting ready for the introduction of new regulations which begin to be implemented from July this year.

We are therefore expanding our manufacturing capacity for emission control catalysts with major new plants in Europe, China and India; the plants in Europe and China will come on line in 2019/20.

The global automotive industry is going through a once in a lifetime transition. Consumer buying patterns are less predictable and the automotive supply chain, JM included, is being more considered in making investments. With less inherent flexibility throughout the supply chain and less predictable consumer behaviour, JM is supporting our customers, the car companies, as we navigate this mobility transition together.

What impact is that having on your other automotive facing businesses?

The technology used to power our cars is evolving and diversifying, from primarily internal combustion engines to hybrids, battery electric and even fuel cells. JM is very well positioned with our broad portfolio of powertrain technology solutions – emission control, battery materials, fuel cell components – and strong relationships with vehicle manufacturers.

In our Battery Materials business we are using our science and technology expertise to enable the greater adoption of long range pure battery electric vehicles (BEVs) that meet consumers' performance expectations on range, charge time and safety. We are doing this through great technology which we are scaling up and commercialising in line with the predicted acceleration in EV ownership over the next decade.

Our portfolio of leading, ultra high energy density cathode battery materials, which we call eLNO, are next generation – so not designed to compete with materials our competitors have on the market today – and will suit a range of EV applications.

Over the past 12 months, we have made significant progress in commercialising eLNO. We continue to test our materials with our target customers and feedback remains very positive. They are increasingly looking for customised solutions to their problems and this plays right to our strengths. So we have been tailoring eLNO and are building application centres to support our customers' testing.



Robert MacLeod
Chief Executive

In order to manufacture our materials at scale, we have chosen a site in Konin, Poland for our first 10,000 metric tonnes commercial plant as it is close to major customers in the BEV supply chain and we expect to start construction later in 2019/20. The site has the potential for expansion to 100,000 metric tonnes, and we are carefully considering how we could scale our business beyond our initial 10,000 metric tonnes.

At the time we announced our plant location, we also secured our first long term supply agreement with Nemaska Lithium for raw materials – another important step in the road to commercialisation. And we are doing a lot of work to ensure our raw materials sourcing is responsible and in line with our sustainability principles. At the other end of the value chain, we have R&D work under way on battery materials recycling where we are combining our knowledge of battery materials with our many decades of experience in recycling pgms.

In addition, we continue to invest in fuel cell technology which can also be used to power electric vehicles. Fuel cells use hydrogen as a fuel to generate electricity with the only by product being water and so tick the box as a solution for low emission transport. JM has strong technology in this space and in September 2018 we joined the Hydrogen Council so we could work with other industrial players in enabling the uptake of hydrogen as an energy source in transportation, and a wide range of other applications.

So as you can see, we've come a long way and our customers are happy – one of them said that we were a "preferred cathode material company to work with" because of our fast response, willingness to customise the product and our ongoing investment in the science. It's great to hear that we're adding value, which goes back to the core of our strategy – science and technology that helps our customers solve complex problems.

[+](#) See pages 45 to 47 for our long term view

Have you delivered operational performance in line with your plans this year?

Yes, we certainly have; 2018/19 has been another successful year for Johnson Matthey. We have made further progress in delivering our strategy of sustained growth and value creation in line with the plans we laid out in 2017, and on strengthening the platform that will enable further long term growth.

We have continued to invest in our world class science and scientists to deliver leading technology into the attractive and growing markets in which we play.

Delivery of our strategy is underpinned by the fundamental changes we are making across all aspects of the group. These are making our business more agile and efficient, and giving us greater capability to deal with the fast changing world around us. We have invested in safety, our people, processes and systems while continuing to target further improvement.

We've delivered a strong set of numbers this year, in line with what we promised, despite a more challenging external environment. This demonstrates the resilience of the group and our ability to adapt and flex to support our customers' needs. It is also reflected in how we are effectively managing the continuing uncertainty in relation to Brexit in our business and with our customers.

If I look across our four sectors, Clean Air performed strongly and we remain excited by the growth opportunity in Battery Materials. We made further investments in Health to develop our pipeline of products. In Efficient Natural Resources, we continue to drive efficiencies while focusing on high growth market segments, although some unscheduled downtime at our UK pgm refinery this year did impact our precious metal working capital. To support our long term growth, and as we broaden our presence in sustainable technologies, we are also developing innovative solutions for fuel cells and battery materials recycling.

[+](#) See pages 78 to 85 for more information

And on those ambitions, all geared to sustainable technologies – what progress are you making there?

We are proud of our sustainable technologies and we have six sustainable business goals to direct our progress. This year we've continued to add to our portfolio of technologies and products, not to mention all the work that we are doing in our existing businesses which have a substantial impact upon building a cleaner, healthier world.

We've commercialised a new technology, developed together with BP, to transform household waste into diesel and jet fuels. This is an exciting opportunity for us and we have a licensing agreement with Fulcrum BioEnergy, a biofuel producer, which plans to build a plant in the US using our technology.

We also announced a new strategic partnership with Immunomedics for the large scale production of a drug linker used in a treatment for breast cancer.

[+](#) See pages 19 and 20 for more information

All the work we do is about delivering outcomes that are valued by our customers and contribute to a more sustainable future for people. We measure our contribution by aligning to the UN SDGs and have set ourselves a goal to double it between 2017 and 2025. We've done well this year, increasing our contribution to over 87% of our sales.

[+](#) See pages 24 to 27

Chief Executive's statement continued

At the same time, our customers are getting more tuned in to sustainability. So we are broadening and deepening our approach throughout our whole value chain. This not only enables us to give reassurance to our customers but more excitingly, it unlocks further opportunities for commercial advantage through innovating new sustainable technologies.

So you will see us up our ambition further in this space – right through the whole value chain.

You talked earlier about the changes you are making to be more flexible and agile. Tell us more?

Sure. We have a number of what we call 'strategy enablers' – a series of programmes that are fundamentally changing how we work. These are bringing consistent approaches and standard processes across JM; delivering operational efficiency, allowing us to be more flexible and agile.

We are achieving this in many ways, for example, through the deployment of a single global enterprise resource planning (ERP) system (SAP) system. The first implementation was successfully completed during the year and we will roll it out across the group over the next few years.

Our procurement programme is also enabling us to drive further efficiencies and savings. Furthermore, through better underlying data and standardised processes, we are gaining an improved understanding of customer and product profitability.

At the same time, we are building capability, not only in procurement, but in other areas including supply chain, capital project delivery and change management which is supporting the delivery of our strategy.

And how are JM employees supporting the strategy?

JM is full of inspiring and talented people. I've really enjoyed spending more time at our sites this year talking to employees about JM's strategy and their work, answering their questions and listening to their feedback on what they think it's like to work at JM. In September 2018, we also repeated our employee opinion survey. This gives us a good steer on where we are doing well and not so well, and where we need to prioritise. There were plenty of positives – our people told us that they have a better understanding and more connection with our strategy and that we take health and safety and doing the right thing seriously. But overall, they told us they were less engaged than two years prior. As I reflected on these results, I am not so surprised given the broad changes we are making, although it is something I am determined to reverse. We have actions under way and we are going to check in on how we are doing by conducting a pulse survey later this year.

Our people are key in delivering our strategy and vision, and we are doing a lot to create a culture of success. It started last year when we refreshed our values to support the delivery of our strategy, create an inclusive environment and guide us to act safely, ethically and more sustainably. Since then, we've been taking them deep into JM, holding workshops with our staff to explore the behaviours that support our values. We've also been embedding them into our people processes – from performance management and our development programmes, to recruitment and recognition – and we refreshed our code of ethics this year to guide us all in doing the right thing. As we move through different phases of our strategy, I also continue to evolve the shape and mix of skills in the management team to ensure we have the right team to deliver on our ambitions.

Driving the right behaviours in health and safety is a major priority and despite our continued focus, disappointingly our recordable incident rate has remained flat over the last year.

We are injecting new focus on safety leadership and engagement and will continue our efforts to manage our process safety risks by building on the improvements we achieved this year.

➤ See pages 60 to 75

Finally, what is the group outlook and priorities for 2019/20 and beyond?

For the year ending 31st March 2020, we expect growth in operating performance at constant rates to be within our medium term guidance of mid to high single digit growth.

At current foreign exchange rates (£:\$ 1.295, £:€ 1.157, £:RMB 8.72), translational foreign exchange movements for the year ending 31st March 2020 are expected to adversely impact sales and underlying operating profit by £6 million and £2 million respectively.

Building on the board's priorities outlined by Patrick on page 7, our priorities for 2019/20 (pages 16 and 17) are to:

- Continue to develop our science and technology to create the sustainable technologies of the future.
- Deliver in line with our strategic plans for each of our sectors so that we delight our customers with our brilliant products.
- Meet the milestones for our groupwide enabler programmes to drive further efficiencies.
- Involve and engage all our people in building our culture of success where we are safe, ethical and more sustainable.

In doing this, we will continue to strengthen our platform for growth.

We have an amazing vision, a winning strategy and the global drivers of our business are fundamentally strong. Today we face an unprecedented need for new technology to meet global issues. Working together, inspired thinking and the application of scientific knowledge can help us to overcome these challenges and shape a better future for all.



Robert MacLeod
Chief Executive



From left to right: John Walker, Annette Kelleher, Jane Toogood, Robert MacLeod, Anna Manz, Jason Apter, Simon Farrant

Group Management Committee (GMC)

John Walker, Sector Chief Executive, Clean Air

Joined the GMC and board: October 2013

John joined JM in 1984 and has led our Clean Air Sector since 2009 after heading up its Asian business for many years. John is directing our strategy to deliver sustained growth in our largest business sector.

Annette Kelleher, Chief HR Officer

Joined the GMC: May 2013

Annette is our Chief HR Officer, leading the group's people strategy. Joining from Pilkington Glass in May 2013, Annette is responsible for the programmes to build talent and capabilities across JM in line with our group strategy.

Jane Toogood, Sector Chief Executive, Efficient Natural Resources

Joined the GMC: March 2016

Jane joined JM from Borealis in March 2016 and leads the Efficient Natural Resources Sector, directing the strategy to deliver market leading growth. Jane also chairs the Brexit working group.

Robert MacLeod, Chief Executive

Joined the GMC and the board: June 2009

Having joined JM as Group Finance Director in 2009, Robert has been leading JM since June 2014 when he became Chief Executive. Robert also has executive level responsibility for our New Markets Sector, environment, health and safety and our sustainable business framework. Currently (since May 2019), our corporate R&D function is reporting to Robert while we are in the process of recruiting a Chief Technology Officer.

Anna Manz, Chief Financial Officer

Joined the GMC and the board: October 2016

Anna joined JM as Chief Financial Officer in October 2016 to lead the group's finance activities, risks and controls. Joining from Diageo, Anna also leads the group's strategic planning and corporate development activities, IT function and our operational efficiency initiatives.

Jason Apter, Sector Chief Executive, Health

Joined the GMC: March 2018

Jason joined JM in March 2018 to lead the Health Sector. Bringing experience from the healthcare and life science industry from MilliporeSigma, Jason leads the strategy to deliver complex chemistry solutions for our customers.

Simon Farrant, General Counsel and Company Secretary

Joined the GMC: July 2007

Simon joined JM in 1994 as Senior Legal Adviser and became Company Secretary in 2001. Simon heads up our company secretarial and legal activities, including on ethics and compliance. He also acts as secretary to the board and its committees.

Our approach

The following pages demonstrate how our integrated offer is connected from our strategy to our KPIs.

