Morning, everybody, and thank you for coming along today. Before we start, could I please ask could you just turn off your mobile phones, as we are doing a recording? Thank you.

Robert MacLeod - Johnson Matthey plc - Chief Executive

Thanks, Sally. And good morning, everybody; and welcome to the presentation of Johnson Matthey's half-year results. I'll just start off with a few key messages, and then hand over to Den to go through the financials; and then, I'll come back and talk about the divisions' performance.

So, start off with the key messages, I'm pleased to say that ECT has had a very good first half, growing operating profit by 16%. And we made some very good progress in our new business division, which we'll talk about a bit more, later.

We have, though, had some challenges in other markets. The low oil price, slower growth in China, and, of course, lower PGM prices, have impacted the business. And so there's subdued trading, particularly in PT and Precious Metal Products division, and so that's why we're taking actions to reduce costs, as we've talked about in the statement.

Overall, in the first half some modest sales growth at 5%, but underlying profit before tax down 4%, and underlying earnings per share down 3%.

We have, though, in the first half had strong cash flow, and the Board's raising the interim dividend by 5%. And, as you will have seen, we've declared a special dividend of 150p per share.
For the full year, I expect that 2015, 2016 will be in line with current market expectations; and also, that with attractive key end markets and our cost-control measures we’re positioned to return to growth in 2016, 2017.

Just quickly turn to health and safety again, as I did last time. In the first six months of the year, our lost time injury rates dropped by 30% to a ratio of 0.44.

But the progress we have made has been completely overshadowed by a tragic accident we had in one of our sites in the US, where one of our employees, very sadly, fell from height and died. Since then, we’ve had an independent third party carrying out an investigation in to the root causes of that accident. We have taken steps to ensure that, that will never happen again; and, of course, that will take some time to get the actions all the way throughout the organization.

As a result of the accident, we did have a safety shutdown in our Fine Chemicals’ sites in the US, and that lasted for three weeks.

It’s reinforced our efforts to really try and achieve a world-class health and safety culture across the Group.

But whilst the tragic accident happened at one of our sites, we should all think about health and safety. I just wanted to share a quick safety moment with you, and I want you to think about how you use the stairs, and how many of you held on to the handrail when you went up the stairs coming here at the Stock Exchange.

Just to remind you, in the UK, I did some research, about 0.25 million people have to go to the GP or A&E every year in the UK because of an accident on the stairs at home. So just think about that, and be careful when you are going up and down the stairs and hold the handrail.

With that, I'll hand over to Den to go through the financials.

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**Den Jones - Johnson Matthey plc - Group Finance Director**

Thank you, Robert. Good morning, everyone. I'm now going to take you briefly through our financial results for the half year.

As usual, I'll start with the underlying results. As you can see from the table, the sales were up 5%, and profit before tax was down 4%.

As Robert has mentioned, ECT had a very strong first half, and New Businesses made good progress. The challenging conditions in Process Technologies and Precious Metal Products both weighed on the Group's performance. Robert will cover this in more detail, a little later.

Moving across the table to foreign exchange, this was not material in the first half. However, within the businesses we saw differing impacts. Our US and Asian businesses saw a tailwind of FX, while our European businesses saw a strong headwind.

EPS is down 3%, mitigated by the lower UK headline tax rate, which went down from 21% to 20% during this year.

Our guidance for tax remains the same, and that we expect our effective tax rate to be maintained at, at least 3% lower than the UK headline tax rate.

We have raised our interim dividend by 5% to 19.5p, reflecting the Board’s confidence in the Group’s long-term prospects.

We have also announced today a special dividend of 150p per share, and I'll provide a little bit more detail on this later.

Now there have been a number of headwinds for the Group in the first half, which we flagged to you back in June. So, similar to the year end, I wanted to try and give you a flavor of the moving parts.
As I have mentioned, FX did not have a material impact in the first half. However, both the dilution of the sale of our gold and silver refining businesses and the substantially lower precious metal prices were each around a 2% drag on underlying profit before tax. The increased pension charge of GBP7 million was a further 3% drag.

From this rebased starting point of GBP201 million, shown in green on the chart, there was a strong growth contribution from ECT.

The challenging conditions in PT and PMP, and the safety shutdown in Fine Chemicals, meant that profit in these divisions all reduced. However, New Businesses made good progress, and reduced its operating loss.

So some headwinds; but, overall, excluding these, underlying PBT was up by 4%.

Now, turning to reported results, we completed the sale of our Research Chemicals business for GBP255 million on September 30th. The profit of GBP131 million from this sale has been added to our underlying numbers to get to our report profit. So reported profit before tax was GBP330 million, and earnings per share was 137.9p.

Turning to cash flow, we made good progress in the first half. Cash flow from operations was GBP545 million, compared to GBP163 million last year. This was driven by a near GBP400 million improvement in working capital. And this comprised a GBP315 million improvement in precious metal working capital, which was primarily due to lower inventories and lower PGM prices; and also included a GBP71 million decrease relating to non-precious metal, as a result of improvements in both receivable balances and inventory balances.

At the half year, the working capital days, this is excluding precious metals, were 64.

So, cash flow conversion, excluding precious metal working capital, this was good at 71% in the first half. And I continue to expect this to average around 70% over the next few years, mainly because of investment in CapEx ahead of depreciation.

And, as I have said before, I expect CapEx to be around 1.6 times to 1.8 times depreciation.

Now, moving on to investment, capital expenditure was just under GBP100 million across a range of projects. In ECT, we continue to extend manufacturing capacity in the UK to meet demand from the new European legislation.

In PT, we completed capacity expansion on our manufacturing sites in Germany.

Also, as you can see from the pie chart on the slide, corporate CapEx was just over 20% of Group spend in the period. Now, this is largely spend relating to upgrading our core business systems across the Group, which started ramping up in the first half. As I have said before, this is expected to total GBP100 million over a five-year period, although heavily weighted towards the earlier years.

So, for the full year, I anticipate CapEx will be similar to my previous guidance, which was just slightly under GBP280 million.

In terms of research and development, we continue to invest around 5% of sales. And, as you can see, these investment levels across both capital projects and research and development we continue to invest to drive the growth of the business.

Finally, my final slide on a few other things. Firstly, return on invested capital, this was 17.7%, down from 20.3% at the last half year, and from 18.8% at the year end. This drop from the previous half year is due to higher average levels of working capital over the last 12 months. And, as you know, our long-term return on invested capital target still remains 20%.

Next, looking at our funding position in terms of net debt, this has reduced by GBP553 million since the year end, and mainly due to improvements in working capital, as well as the sale of our Research Chemicals business.

This means that net debt-to-EBITDA ratio is 0.7 times at the half year, which is well below our target range of 1.5 times to 2 times.
As I said back at our trading update in July, in the absence of any material acquisitions, we would aim to return excess capital from disposals to shareholders once the sale of Research Chemicals was complete.

We have announced a special dividend of 150p, a total payment of around GBP300 million; and the Board has recommended a share consolidation to accompany this, which is subject to shareholder approval.

On a pro forma basis, net debt-to-EBITDA would have been 1.2 times.

Our priority remains to invest in the business, and we continue to look at opportunities to invest to deliver long-term growth, while maintaining an efficient balance sheet structure. Following this return, we continue to have sufficient returns to invest in capital expenditure, R&D, and appropriate acquisitions.

Just moving on to pensions, the latest triennial actuarial valuation of the Groups principle UK pension scheme has now been completed, and the valuation revealed a significantly reduced deficit of GBP28 million.

On an accounting basis, there has been a GBP7 million increase, predominantly non-cash, in the post-employment benefit cost. This is expected to be GBP15 million for the full year, as I mentioned back in July.

Now, I just want to take you through a little bit more detail regarding the actions we are taking at the moment to reduce our costs that Robert mentioned earlier.

Since the half-year end, we have started a restructuring program, mainly in the Process Technologies division; and I currently expect a one-off charge of around GBP40 million in the second half that will be outside our underlying results. This will reduce costs by around GBP30 million per annum, going forward. And we expect the benefits of this to start coming through in the fourth quarter of our current financial year.

So, in summary, I am pleased with the progress we have made on working capital and cash flow. We are raising the interim dividend by 5%, and returning cash to shareholders via a special dividend.

The balance sheet remains strong, and we have the capacity to invest for future growth.

We are facing challenging conditions in some of our business areas, but we are taking action to reduce costs.

I’ll now hand you back to Robert, who will take you through the performance of our divisions in more detail. Thank you.

Robert MacLeod - Johnson Matthey plc - Chief Executive

Thanks, Den. If I go through each of the divisions, and I’ll start with ECT first. As I said already, continued to grow strongly in ECT, and strong growth across all regions in the first half: sales up 8%, and underlying operating profit up 16%.

There’s been a lot of great work to improve efficiency across the division. But return on sales were also boosted by a one-off item that won’t recur, so we should expect margins in the second half to be closer to those margins that we had in the first half of last year.

Overall, we expect a strong performance to continue, and the second-half results to be similar to the first half, driven mainly by Euro 6b, and a robust market in the US for heavy duty diesel.

Just a little bit on the outlook. In each -- what I’ll do for each division is start with a summary and then go in to a little bit more detail of each -- the performance in the first half.
Looking at the light duty market, as you can see very good; way ahead of the market with sales up by 12% at constant currency. And that compares to a reduction in global car production of 3%. Euro 6b is the main driver of that; and that started on September 1, 2014 for new models, and September 1, 2015 for all models.

So, of course, we've seen that ramp up of fitment of diesel exhaust systems. Because Euro 6b's mainly about -- well, primarily about NOx emissions for diesel cars, and it brings the emissions much closer to those that come out of a gasoline car. Of course, that's in test cycle. And that added around 20% more value per car.

Asia also performed well with sales up by 9%; and that outpaced growth in our underlying truck -- car production in all of our key markets.

We've done especially well in China, where the market shrank by 7%, but yet our sales were up. And here, it's about our customers, they did well; and also, an increased proportion of higher value products helped us, too.

So, overall, a good first half, and a positive outlook for light duty.

Heavy duty also did well in the first half. Here, I'm really going to talk about the on-road side, but we also have the off-road and stationary business, too. And here, it is a bit weaker in the off-road, mainly due to the agricultural equipment slow down a bit; and also, stationary has really impacted a little bit by the slowdown in US exploration activity for oil and gas.

But on-road, our sales were up by 5%. The US did well with sales up 7%; ahead of production of trucks, which was up 4%.

Class 8 remained strong in the first half. And whilst it started to moderate, we expect the US market to remain robust.

Europe also did well. Here, though, the EU had strong production growth of 11%. But the results were held back by South America, where truck production dropped by over 30%.

Asia, it's a small market, but truck production also fell here, and down by about nearly 30%. However, more trucks now are being fitted with Euro IV systems. But it's a small system, a relatively simple and we're getting more and more smaller trucks being fitted, so whilst volumes have increased the average value per truck has reduced.

But overall, good in heavy duty diesel. And, as I said, the outlook remains robust.

Now, there's clearly been a lot of focus on emissions control recently and we thought it might be useful just to spend a little bit more time going through the impact of some of the issues in emission control. And for that, rather than hearing from me, I thought it'd be more useful to hear it from John Walker, so John's going to say a few words.

**John Walker - Johnson Matthey plc - Executive Director, ECT**

Thank you, Robert. As Robert said, since we spoke to you last there's been an increasing focus on emissions control, so next couple of slides I'd like to update you on some of the most recent developments and provide a reminder of the relevant technology options.

Air quality, especially in relation to emissions of NOx from diesel cars, remains the subject of much media commentary. However, there's been no shift in the share of diesel cars in Europe to date.

As you'll recall, we've said for some time that we expect the share of diesel cars in Europe to trend down in the medium term, mainly due to the fact that gasoline engines are becoming more fuel efficient, but it's really too early to say what impact the recent news flow will have on this. The two data points for the last two months don't signal any shift, but it remains to be seen what, if anything, will happen in the longer term.
That said, it's important to remember that CO2 emissions standards in Europe are set to tighten from 130 grams per kilometer to 95 grams per kilometer by 2020. And diesel cars generally have higher fuel efficiency and lower CO2 emissions than their gasoline counterparts and so, given the tightening standards, we see that it's clear that diesel will remain an important part of the mix, going forward.

What we have seen over the past few months is increased scrutiny on both emissions control and emissions testing. In the last couple of weeks, we've seen a further clarification around the details of real world driving, or RDE.

RDE is all about changing the test cycle so it's more in line with the way that people actually drive their cars. As such, it will comprise rural, urban, and highway driving sections as part of the test. And here, we'll be -- they'll be doing the test with a portable emission control equipment on the back of the car, rather than in a dynamometer in a laboratory, so a very different test. It will be introduced from September of 2017, and the initial focus has been on NOx.

As has been well publicized, under some real world driving conditions actual NOx emissions from diesel cars are higher than legislated limits precisely because the current test cycle doesn't accurately reflect the way that people drive.

Conformity factors have been introduced to specify the maximum emissions during actual driving, relative to the current limits. So the NOx factors will impact diesel cars from 2017, and they'll tighten further in 2020. So we expect the conformity factors for particulate number to be set early in 2016, and it's expected that this will lead to the introduction of gasoline particulate filters.

So here, a lot of developments. As I've said, Johnson Matthey's technology is part of the solution, so I just want to recap on the NOx control technologies that we provide, and the implications of these with regards to real-world driving.

As you can see, there's three types of technology, and Johnson Matthey is well positioned in all three. On the left you have what we call NOx Adsorber Catalyst, also known as NOx storage catalyst, also known as NOx trap; a system of many names.

This is a PGM-based system that requires fuel addition. So to be able to -- you add fuel as the reductant to be able to convert NOx, so -- and, hence, you have a penalty on fuel consumption with that system. It's usually favored on small cars; namely, due to space constraints.

Moving to the middle, this is the Selective Catalytic Reduction technology, or SCR. This requires a urea injection system and tends to be favored on larger vehicles, and is more effective at higher speeds. And that's one of the things that will be added to the European test cycle; you'll be driving a more aggressive driving cycle.

And then, on the right is what we'll call the Advanced SCR system. This is the most technically complex system of the three. And on demanding applications, an additional SCR-based technology can be added to maximize NOx conversion.

So with tougher, more stringent limits required to meet real world driving, we do expect a shift towards these Advanced SCR systems.

From a technology roadmap point of view, the NOx trap technology, on the left there, was an attractive system for the United States, as there was not an existing urea, or AdBlue as European people might know the brand name, infrastructure in the United States. So that was an attractive technology that you could introduce that and not have to add another fluid to the vehicle.

So then we move towards, in the technology roadmap, some NOx traps and some SCR. That's where we were at the beginning of 2014 when the European Euro 6b legislation was introduced. And today, the mix in Europe is around two-third SCR/one-third NOx traps, something like that.

And now, we're getting ready for the introduction of real world driving in Europe, and we see OEMs moving away from the NOx trap systems and towards the most Advanced SCR system, on the right. Again, that's a high-speed, high-temperature thing, where NOx traps start to lose the ability to absorb NOx.
So technologies do exist today to meet real world driving, and we've been working with our customers for some time on this. As we've said before, more complex, technically advanced catalyst generally means higher value for Johnson Matthey, so real world driving should benefit us in the long term.

So, I'll hand back to Robert.

Robert MacLeod - Johnson Matthey plc - Chief Executive

Thanks very much, John. Hopefully, that was helpful. But we'll also spend a little bit of time at our investor day next year talking in more detail about not just our role in emission control, but also our role with the power train, and how that's moving forward, including electrification.

Moving on now to Process Technologies, as I've already said, it's proved challenging; and, to be honest, somewhat more challenging than we expected. A tough first half as a result of the challenging external conditions: principally, lower demand in China, and the low oil price.

Low oil price particularly affected the Diagnostic Services business; but it also impacts our customers' technology decisions and their level of confidence in putting in a new plant.

Our catalyst sales held up, but returns were significantly impacted by that whole confidence issue that I've talked about.

In the outlook, we do expect the second half to be better than the first half. But catalyst orders, as usual, are weighted quite heavily towards the fourth quarter, so some risk must still remain to that outlook.

We're taking action, though, as Den's already talked about, to reduce cost. So although the second half will be better, the year as a whole will still be significantly lower than last year.

On the chemicals side, steady sales, but a slightly less favorable mix. On the Syngas side, strong formaldehyde sales, catalyst sales, but this is a lower margin business. Ammonia and methanol are both ahead slightly. But SNG, which is principally in China, sales were down, due to project delays.

Licensing income was also lower, but we did receive one Oxo license in [India] (corrected by company after the call).

The slow activity generally continues across the world, and there are fewer opportunities today out there. But we're typically feedstock agnostic in many of our technologies, and the long-term drivers are still in place.

On the oil and gas side, it's a mixed performance in the first half: good growth in catalysts, purification strong, but slower in hydrogen, following a strong new plant activity last year.

Also, a number of the change-outs are being delayed in to the second half of this year; and that's because refining margins are very high at the moment, so our customers are taking the benefit of cheaper feedstock and deferring a little bit their change-out of their catalyst. But we expect that, as I said, to recover in the second half.

Our Diagnostic Services business is the only part of JM that directly serves the upstream oil and gas industry and, hence, is impacted by the oil and gas price directly. This is a relatively high fixed-cost business, mainly a people business, and, hence, it's posted, unfortunately, an operating loss in the first half. We have taken action to reduce cost, not just here, but, as Den's already said, across the division; and to position it and the rest of the division for growth in 2016, 2017, and beyond.

Looking at the Precious Metal Products division, well, clearly, there have been quite significant headwinds in our refining business.
Loss of income in gold and silver because, of course, we sold that in March last year, and that made about GBP4 million in the first half of last year, obviously, that’s not there now; and a greater than 20% fall in the PGM price.

We don’t currently expect any recovery of the PGM prices any time soon and so intakes will remain weak in the second half. We’re taking action to reduce costs here, too. But if PGM prices stay as they are then the second half will continue to be lower than the first half.

On the precious metals services side, which is principally our PGM refineries, this has a strategic importance to the Group, mainly for security of metal supply. But it’s really not a growth driver, it’s all about security of supply.

As I mentioned, substantially lower PGM prices in the first half. And there’s no sign of any light at the end of the tunnel here. Indeed, today, last time I looked, platinum was about $850 an ounce, palladium $540 an ounce; and that’s 20%, in both cases, lower than these average prices that we had in the first half.

Intake volumes are lower than -- we expect intake volumes to be lower than the second half -- or were lower than the second half of last year.

And whilst pricing is stable, the mix has been slightly less favorable. And, for example, there’s been a substantial reduction in jewelry scrap; and, of course, that’s a higher margin business. But we’re making good progress on resolving some of the issues we have in the processing of intakes that we talked about last year.

On the manufacturing side, a mixed first half, too, here: good in the US medical industry, obscuration enamels in our advanced glass technologies business. But here, volumes are a little bit lower in China, as a result of the lower car production. Slower in the fertilizer business and other fabricated products. But we expect that the manufacturing businesses will remain steady for the rest of this year.

Turning now to Fine Chemicals, relatively steady performance across the division. But, as I’ve already mentioned, this business was impacted by the safety shutdown, which reduced operating profit by a few million pounds.

The highlight for the division, of course, is the completion of the sale of Research Chemicals. That contributed about GBP7.5 million of profit in the first half of this year, which, of course, won’t be there in the second half of the year. Having said that, the outlook is positive. And despite the sale of Research Chemicals, we expect the second half to be ahead of the first half.

Going in a bit more detail, looking, first, at the API manufacturing businesses, the mix of sales has impacted our top-line performance with lower volumes of bulk opiates and ADHD APIs, but steady sales of specialty opiates.

The expansion of our European API manufacturing footprint is going well with the redevelopment of the site in Annan in Scotland, which we acquired a year ago, progressing in line with our plans; and it should be ready for production in the latter part of next year.

So, generally, the outlook for Fine Chemicals remains positive.

Finally, to New Businesses, and I’m pleased with the progress we’ve been making here. And you can see, the loss has reduced in the first half.

Particularly pleased with the progress we’ve made in battery technologies, and that’s mainly through -- partly through the two acquisitions we’ve done on the battery materials space. We’ve seen strong sales of lithium iron phosphate in China; and we’re developing relationships with a number of key partners in the supply chain, including LG Chemicals.

Atmospheric Control Technologies, we bought a business in May, as you might have seen, and the integration of that is going well and going to plan.

So the outlook for new business is positive, and we expect a modest reduction in the operating loss for the year compared to last year.
Finally, looking at the outlook for the Group as a whole. In the first half, as we've said, strong performance in ECT, and good progress in new business; however, challenging conditions have weighed on Precious Metal Products division and Process Technologies.

As we expect, as things stand at the moment, we expect those to continue, hence, we're taking action to reduce costs. As Den said, we'll start to see some of the benefit of that coming through in our fourth quarter.

So, overall, I expect the continuing businesses to show good underlying growth in the second half, albeit strongly weighted to the fourth quarter.

And for the year as a whole, performance on our continuing businesses is expected to be in line with last year, and in line with current market expectations.

Although we have a few headwinds in some markets today, the long-term drivers remain firmly in place. We're taking actions to respond to the headwinds that we have faced. And, importantly, we're continuing to invest in R&D and improving our operations around the world.

So, overall, I remain confident that we're well placed to create long-term value for our shareholders and positioned -- and we're positioned to return to growth in 2016, 2017.

That's all we were going to say. We'll now -- if you give us a couple of seconds, we'll come up to the table here and we'll take your questions. If you could state your name, just for the record, please.

QUESTIONS AND ANSWERS

Paul Walsh - Morgan Stanley - Analyst

Paul Walsh, Morgan Stanley. Two questions, if I can. On the Fine Chemicals and the guidance for the second half, I think, if I adjust for Research Chemicals in H1, it’s implying sequentially more than 20% EBIT growth in that business H2 versus H1 underlying. Is that the right interpretation?

And that seems like there’s something very nice coming through in the second half, or maybe it’s just seasonal, I don’t know, but any sort of insights on that would be helpful.

And my second question, Robert, you mentioned some one-off benefits in the first half in the ECT business. I’m afraid to say I missed that when reading the release this morning. I wondered if you could just give an idea as to what it was, or how much it was, just for the sake of completeness. Thank you.

Robert MacLeod - Johnson Matthey plc - Chief Executive

Sure. I’ll try and answer those questions quickly, and then maybe John can give -- sorry, John Fowler -- too many Johns, can give a little bit of color on the Fine Chemicals bit.

On the ECT side, one-offs, yes, mid single-digits millions EBIT; and that was provision release related to prior years, as a result of us dealing with the issues that the provisions were there for.

On the Fine Chemicals side, yes, you’re right, we’ve got the GBP7.5 million that won’t be there for Research Chemicals. But, of course, I also mentioned the safety shutdown which impacted us, on the other hand, by a few million. So there’s a couple of swings and -- one going one way, one going the other way.

But, John, maybe you want to just explain a little bit about how we can see that growth in the second half.
John Fowler - Johnson Matthey plc - Division Director, Fine Chemicals

Yes. Some of the impact from the safety shutdown is obviously going to flow in to the second half, so we'll get a bit of a one-off benefit from that.

And in terms of the outlook for the second half, it's strong. API sales should be up strongly versus the first half, notwithstanding the safety shutdown. So we're excited about the future.

Paul Walsh - Morgan Stanley - Analyst

Thank you.

Laurent Favre - BofA Merrill Lynch - Analyst

Laurent Favre, Bank of America Merrill Lynch. I've got three questions, and they're all for John. John, on the slide on SCR, Advanced SCR, can you give us an idea of the value uplift between SCR and Advanced SCR?

Second question on gasoline particulate filters, can you remind us of how much of the delta in value between gasoline and diesel comes from the filter itself? So, with a filter, do you -- does gasoline get very close to diesel?

And the third question is on HDD off-road and stationary. I think Robert said it was a little bit down; it was 24% down in local currencies, which is a bit more than a little bit. I'm just wondering exactly how much of that is the market: how much of that could be market share, how much of that could be pricing? Can you talk generally about that market? I don't think there's any new change of regulations in the pipeline, certainly not for the next two years.

John Walker - Johnson Matthey plc - Executive Director, ECT

Not for now.

Laurent Favre - BofA Merrill Lynch - Analyst

So, how do we think about that line? Thank you.

John Walker - Johnson Matthey plc - Executive Director, ECT

So you asked the first unpredictable question about the value of that chart that we put up there, and I'm probably going to answer this different than Robert might answer that. But what I'll say is that for vehicles that have the most difficult NOx control problem, or however you want to look at that, the most challenging NOx control, for those vehicles we could see value increase up to 20%. So, I don't know how you might answer that.

Robert MacLeod - Johnson Matthey plc - Chief Executive

The same way.
John Walker - Johnson Matthey plc - Executive Director, ECT

Okay. Gasoline particulate filters, I think, in the past we’ve said that the sales value of the gasoline particulate filter is going to double what a typical three-way catalyst would be. And there’s a variety of different -- again, there’s never one clear answer for all these things, because there’s a variety of different options; different OEMs are going after this in different ways.

But now that it’s becoming a little bit more clear what the real world driving regulations are we’re going to probably see some filters on vehicles that are uncoated filters. That will probably be the first stage. And then, as the particulate number specification as part of the RDE kicks in, you’ll see progressively more OEMs going towards coated filters, because that gives you better emission control performance; and it gives you that extra engineering performance that a lot of OEMs would like to see.

And so, I guess, finally on the non-road stuff, the non-road stuff has been down. I think most of that, as far as we’re concerned, is the market. So, our market is down. We don’t feel that we’ve lost any market share, or any significant market share. And as you say, when the stage 5 regulations come in, in 2018, 2019, is when we expect to start seeing filters being added back to those diesel engines.

Den Jones - Johnson Matthey plc - Group Finance Director

There are value terms. It’s only GBP12 million of the sales value that’s come down, so -- we use a percentage, but the absolute number is a lot smaller.

Robert MacLeod - Johnson Matthey plc - Chief Executive

You put my -- you got my defense in (laughter).

Martin Dunwoodie - Deutsche Bank - Analyst

Martin Dunwoodie Deutsche Bank. Just coming back to the SCR slide, again, it was very helpful the value uplift you’ve given there. But obviously, you’re going to have, moving from NOx to SCR, lower PGM content. What’s the change in value in terms of the cost to the consumer as you move through that slide from left to right; i.e., is it going to increase the cost of the car, the cost of the system to the consumer in there? Is that going to be prohibitive as we move in to the more advanced systems?

And then secondly, on the cost savings, the GBP30 million, you said it’s skewed towards Process Technologies, how much of that should we assume is in the Process Technologies division? And when will that be complete? Is through next year, I presume?

John Walker - Johnson Matthey plc - Executive Director, ECT

So on -- if you going from the left to the right on that chart that had the different emission systems, it’s a little bit hard to compare lean NOx systems to SCR systems, because there’s not really an apples to apples comparison. And you don’t -- you have different engine sizes, so you end up ratioing things, so it’s not really fair to do that.

But I think from a valuation standpoint, sales -- well, I was going to say sales ex-PGM, but on a total cost basis, it’s a few hundred pounds because what you’re looking at on the value of these SCR systems. That’s from the emission -- that’s from the catalytic components of that system.

Robert MacLeod - Johnson Matthey plc - Chief Executive

So, a relatively small component in the overall cost of a vehicle.
Looking just at the cost savings, the savings that we'll get through this year are probably in the mid single-digit type territory that will come through in the fourth quarter. But our intention is -- in terms of our actions, as we've already mentioned, we've started the process; and our intention is to get virtually all of it available to the Group from April 1. So we're going hard, we're going fast, and we'll get it all -- virtually all of it from April 1.

And how much of that saving is going to go in PT, well, I'd rather not say in detail, but it's the majority. Not in -- it's more than half, but I'm not going to say how much.

Martin Dunwoodie - Deutsche Bank - Analyst

Great. Thank you.

Andrew Benson - Citi - Analyst

Andrew Benson, Citi. Just a few bits and bobs. On the pension side, if bond rates, etc., stayed where they were, what do you estimate for next year the impact would be, relative to this year? And, obviously, they could move around the place.

A huge amount of attention's been focused on diesel between, obviously, NOx and the Volkswagen scandal and real-world driving. What data have you seen on gasoline? Does gasoline also have the same challenges, and, therefore, the same potential uplift, from lab to real world driving standards?

Thirdly, the additional advanced catalyst system for diesel, does that affect fuel efficiency for vehicle at all? And does that affect the competitiveness of diesel versus petrol? Thanks.

Robert MacLeod - Johnson Matthey plc - Chief Executive

Den, if you want to just go with the pensions one first?

Den Jones - Johnson Matthey plc - Group Finance Director

Yes. Andrew, as you said, these rates move around, and, on accounting basis, depends what the rates are on March 31. If you use current rates, the GBP15 million I spoke around would come to about GBP10 million, GBP10 million or GBP9 million, so the impact on us would reduce by about GBP5 million to GBP6 million.

Robert MacLeod - Johnson Matthey plc - Chief Executive

So, for a change, we might have a tailwind next year relative to where we are this year; but we don't know that until we know it, at the end of March. John, do you want to answer the gasoline?

John Walker - Johnson Matthey plc - Executive Director, ECT

Real world driving affects both gasoline and diesel. And if you drive a gasoline car more aggressively you will reduce fuel economy, and you'll have higher emissions with an existing catalyst system as well. So, on a gasoline car, what that basically means is you either throw more precious metal at it or more catalyst. So that's the solution there, on the gasoline vehicles.

And what's the final --?
Robert MacLeod - Johnson Matthey plc - Chief Executive

Fuel efficiency of an Advanced SCR system.

Andrew Benson - Citi - Analyst

Sorry, can I just -- John, on that, is there any expectation? I mean you talk quite precisely on diesel. We know that 6b is a 20% uplift. If you go from lab to real world, is there an expectation of a 20% uplift? Or is that too early to (multiple speakers)?

John Walker - Johnson Matthey plc - Executive Director, ECT

For gasoline vehicles?

Andrew Benson - Citi - Analyst

For gasoline, yes.

John Walker - Johnson Matthey plc - Executive Director, ECT

No, it won't be 20%. It'll probably be single-digit uplift for gasoline vehicles.

Robert MacLeod - Johnson Matthey plc - Chief Executive

And the fuel efficiency on Advanced SCR systems?

John Walker - Johnson Matthey plc - Executive Director, ECT

No, we don't see any fuel efficiency penalty for Advanced SCR systems.

Adam Collins - Liberum - Analyst

Adam Collins, Liberum. I had a couple of fine chems, a couple of ECT. On fine chems, bulk opiate sales in the UK continue to decline because of rising UK imports and I wondered if you could just explain where we are in terms of that attrition process.

And then, on a more positive note in fine chems, CCT sales up 18%. Could you explain what's been driving that?

And then, on the ECT side, couple of things here. You helpfully said that the penetration rate in diesel of Euro 6b was 50% in March, and, obviously, it's going to 100% after September, but do you know what it was at the end of September? In other words, was there further adoption of Euro 6b before we got to the half-year stage?

And then, $64 billion question, I think, you gave some indication of the value accretion around real world emissions, but are those numbers inclusive of the conformity factors adjustments? In other words, will there be a net value accretion, allowing for the conformity factor through the 2017, 2020 period, do you think? Is it still positive for you after making allowances for that?
Robert MacLeod - Johnson Matthey plc - Chief Executive

Right, let's try and do these sequentially, just like you did it. On the API side, John, do you want to just talk a little bit about bulk opiate; first question on bulk opiates, and the second question on CCT?

John Fowler - Johnson Matthey plc - Division Director, Fine Chemicals

Adam, bulk opiates, we talked about this, I think it was in June: we talked about one of our customers shutting down their tabletting factory in the UK and moving it offshore.

So you -- although the API is heavily restricted -- and when you talk about bulk opiates you're talking mostly about codeine, that dominates the market. So you could still import the finished dose, the tablet, from outside the UK up to a certain level. So that's the impact on bulk opiates.

The good news, though, is some of the other opiates derived API. So we make -- particularly for anti-abuse drug addiction, are more than up to offset that.

And the other question was CCT, catalysis and chiral technologies, up significantly. We continue to see that trend.

As new drugs are being developed, they typically are more complex chemical entities that need more complex catalysts. And if you're the leader in catalyst technology development, the value that we bring is higher yields, improved API costs; and we continue to see an upward trend on that. We continue to get a lot of new business in that area, because we're the technology leader.

Robert MacLeod - Johnson Matthey plc - Chief Executive

We need to go back to his second two questions, Adam. On ECT, I'm going to have a go; and then, John, you'll tell me whether I'm wrong or not.

On the penetration side, yes, it was about 50% at the end of March. And the new legislation came in to force for all new models on September 1, so at September 30, it should have been around about 100%. So, in between times, it was a sort of a straight-ish line, for want of a better word.

On the value-accretion base, to do with the conformity factors, I think that's probably more to do with the mix; as John's talked about, the mix between the SCR system and the Advanced SCR system. And as you get the conformity factors get tighter, you'll see more of them moving on to the right. Is that fair, John?

John Walker - Johnson Matthey plc - Executive Director, ECT

I think that's true. We see the way the legislation is laid out as a nice progression. Things will get tougher and tougher and tougher, and that will give us the opportunity to have more and more of the mix of, if you will, the middle SCR to the Advanced SCR will start moving more and more to the right. So that will be value accretive to Johnson Matthey as we're making that transition from 2017 to 2019.

And the final point, I guess, is that what we're probably also going to see is we're going to see some car makers start to pull forward that advanced system sooner than was in original plans pre- the media issues that we've been talking about.

Robert MacLeod - Johnson Matthey plc - Chief Executive

Adam, I think, it's somewhat difficult for us to be very definitive on this, because different OEMs will do different things, and in different ways, for all sorts of reasons. And so some will, as John said, pull it forward; others might want to delay. And it's kind of up to the OEMs. I don't think we're going to see a step-change one year, like we have the Euro 6b, which was very definitive; I think from September 1, 2015 it became 100%. I think it will be a little bit more graduated.
Unidentified Audience Member

[Savi], UBS. Congratulations for your results.

Robert MacLeod - Johnson Matthey plc - Chief Executive

Thank you.

Unidentified Audience Member

Just one question on you're a -- I believe you're a major supplier to one of the major automobile companies which is kind of in to some trouble right now. How much do you think -- going forward, as we track Volkswagen, how it -- how the regulations tighten and what happens to them, how do you think it's going to impact you and your margins for the future, because if they have install more things so, probably, you'll have a pressure on the margins as well from them?

Robert MacLeod - Johnson Matthey plc - Chief Executive

I think there's a whole -- there's a -- interesting question, and that's a question we're asking ourselves, to be honest.

You're asking us to predict the future, which is somewhat hard, because it will all depend really on what -- if any particular OEM's, and you've named one, share drops there is all sorts of questions about, well, do they go -- where do they go to instead? Where does the buyer go to? Do they go buy another OEM who we supply to, or an OEM that we don't supply to? And if it's the former, of course, not much of an impact to us; if it's the latter, clearly, it would be.

And again, also, do they move from a diesel vehicle to a gasoline vehicle? And these are these questions we just don't know the answer to at this stage.

But in Europe, as you know, we are one of the big three in the catalyst suppliers. We supply pretty much every OEM, and so we think we're well positioned to ride through this, whichever way it goes. But, of course, we just have to wait and see exactly what happens in the market.

I don't think there's going to be much margin pressure particularly. It will depend -- the actual sales volumes will depend upon diesel versus gasoline and what actually happens with the various OEM.

Is that fair, John?

John Walker - Johnson Matthey plc - Executive Director, ECT

Yes. And I think in the short term there hasn't been much of an impact on sales that has flowed through, very few data points so far. But, yes, we expect there to be some impact, but we don't expect it to be dramatic. And we believe that there will be recovery, as there always is with these situations. We're part of the recovery, so looking forward to that.

Unidentified Audience Member

Do you think any legislation tightening on you, anything that could impact you as well?
Robert MacLeod - Johnson Matthey plc - Chief Executive

We don’t see anything impacting us as a Company point of view. Obviously, our products impact -- the legislation on our customers gives us an opportunity for products, as John was explaining, about the real world driving is something that’s beneficial to us.

But companies have regulation -- there’s lot of regulation around, as you well know, that impact all companies, and we don’t see any particularly changing on that for us at all.

Unidentified Audience Member

Okay. Thank you.

Robert Canepa-Anson - Newton Investment Management - Analyst

Robert Canepa-Anson. Just continuing the ECT bane of questioning here, just something around market share. With real world driving coming in to force over the next couple of years, do you expect many OEMs to retender, use that as an opportunity to retender, their catalyst business? That’s part of one of the question.

And part two is what’s Johnson Mathey’s market share on particulate filters and SCRs? As vehicle mix shifts towards more use of those technologies, how much of that playing to Johnson Matthey’s strengths?

Robert MacLeod - Johnson Matthey plc - Chief Executive

Well, on the market share point, I don’t think it’s going to materially change. I think it’s strong in both and so we don’t expect a particular change. We’re not going to see any -- we don’t think there’ll be much accretion or, on the other hand, dilution of market share.

John Walker - Johnson Matthey plc - Executive Director, ECT

And there’s a tender process for every platform, so that’s business as usual.

Robert MacLeod - Johnson Matthey plc - Chief Executive

So it’s not going to be -- it’s just that’s what we’ve been dealing with for the last -- well, when did autocatalyst come in, 40 years ago; and it’s been like that ever since then. So that’s business, as usual as John says.

Simon Fickling - Exane BNP Paribas - Analyst

Simon Fickling, Exane BNP Paribas. Can I pick up on free cash flow, firstly, and the free cash flow excluding precious metals, the improvement there?

Was there any benefit right at the end of the quarter from the disposal of the Research Chemicals business, which I think you had flagged as being quite working capital intensive? So, within that GBP71 million, was there any release there?

And, more broadly, was part of that to do with the ERP investment and some benefits of that coming through? And should further improvements come through further down the line?

Secondly, precious metal products, pressure on pricing from precious metal prices, but have you seen any pressure on refining fees, refining margins, and any change in the competitive landscape there?
And then, just finally, to clarify on the guidance in to next year, your expectation of growth, of returning to growth, is that underlying? Is that excluding the disposal of Research Chemicals, or is that without adjusting for that as well? Thanks.

**Robert MacLeod - Johnson Matthey plc - Chief Executive**

The answer is it’s without adjusting; it’s absolutely what the numbers are.

I’ll deal with the precious metal one, Precious Metal Products division. We haven’t seen any particular change in the competitive landscape. For all refiners times must be tough because of the metal prices, but we haven’t seen any particular change in the environment at all.

Den, do you want to talk about the free cash flow?

**Den Jones - Johnson Matthey plc - Group Finance Director**

Yes. On the free cash flow there was a small benefit from the sale of Research Chemicals at that time; but it’s generally driven by the improvement in inventories and receivables across all the divisions. So the whole GBP71 million, across the whole division, a small part of it was due to the sale of Research Chemicals.

**Robert MacLeod - Johnson Matthey plc - Chief Executive**

And the ERP investment? I can answer it, but on you go.

**Den Jones - Johnson Matthey plc - Group Finance Director**

I’d prefer if you did, actually. Sorry, I don’t know the answer to that.

**Robert MacLeod - Johnson Matthey plc - Chief Executive**

What we’re doing at the moment is the ERP hasn’t started yet. We’re in the investment phase. So the first go-live, touch wood, all being well, and all is well so far, is in July next year, and so it’s from then that we should start to see some of the benefits coming through from that ERP system.

And, of course, it’s a -- we’re doing nothing like a big bang. We’re doing it site by site. So it’s going to take us a number of years to roll out the ERP platform across the whole Group, so the benefits will happen gradually over a relatively long period of time.

**Den Jones - Johnson Matthey plc - Group Finance Director**

The initial investment will obviously be over the initial couple of years, so that’s what you’re seeing, kind of peaking.

**Neil Tyler - Redburn Europe Limited - Analyst**

Neil Tyler, Redburn. Two more questions, please. On the battery material, battery technologies business, the progress that you’ve made over the last six months, does that in any way prompt you to reconsider your trajectory that you outlined in January for new businesses as a whole in terms of breakeven and profit targets? Do you think you’re on a steeper trajectory in that business and, therefore, that can impact potentially positively there?
And then secondly, precious metals products, the manufacturing businesses there have obviously had a mixed performance, as you described it, some of which are down.

Are there any concerns amongst the Board that perhaps some of the manufacturing technologies and some of the chemistry that you offer is in any way being structurally devalued by lower metals prices? Is that something that’s being contemplated? And you talked in January about the need for reinvestment there, but is that something that you’re addressing or considering?

Robert MacLeod - Johnson Matthey plc - Chief Executive

On the Precious Metal Products division first, in many ways the lower PGM prices is beneficial to the products that we sell, because in many ways when actually prices go up then companies look for -- our customers look for substitution to substitute out the metal. Of course, these things don’t happen quickly, these things take a long time.

I think the bigger issue on a manufacturing business, as I said before, is where those growth engines are coming from; and that’s where we’re doing a bit of research and development and coming up with new growth drivers. And that’s the bigger issue for the Board, about how do we move in to growth mode, rather than worrying about the metal prices input.

On battery material side, yes, we are making good progress. And we’re very pleased with the progress that we have made, but at this stage I don’t think we will want to change our trajectory. I think we’re still -- that’s our trajectory. We believe we can do that. And, hopefully, we can do better. And if we can, and when we feel confident enough to say that, not that we’re not confident, we will come and tell you about it. But it’s not something I want to update every six months, so a long-term trajectory.

Charles Pick - Numis Securities - Analyst

Charles Pick, Numis. Three questions, please. The rise in depreciation seems quite subdued, up about GBP3 million, given that you’d flagged it would rise about GBP35 million over the next two financial years. Is that very back-end loaded in terms of the rate of increase?

Secondly, is it possible to clarify the leakage in terms of the tax on disposals, please; whether or not the gold and silver refining tax was paid in the first half?

And finally, in the VW statement with their interims they talked about hardware, as well as software, modifications to the vehicles that they’re recalling. Do you happen to know if those hardware modifications involve the catalysts as well, please?

Robert MacLeod - Johnson Matthey plc - Chief Executive

Thank you very much for those detailed questions. Over to you, Den.

Den Jones - Johnson Matthey plc - Group Finance Director

Depreciation will increase, as we said before. As we invest in the business, we are expecting depreciation to increase over the period. We have seen it slightly increase in the last half year to this; we expect that to continue to in to the second half. So, yes, we do see that increasing.

But on tax, obviously, the sale of shares in the UK is exempt tax. But we did -- the gross proceeds from both the sales of Gold and Silver and Research Chemicals was around GBP380 million. And we did pay some tax on the Research Chemicals, but not on the Gold and Silver, because it is a sale share in the UK.
Robert Macleod - Johnson Matthey plc - Chief Executive
Okay. John, on the hardware, software?

John Walker - Johnson Matthey plc - Executive Director, ECT
I'm going to give you a weird thing here, but kind of look at this like a battlefield, where you have a playbook of options. So there's a whole bunch of options that have been laid out on the table, and we've been asked to kind of do a readiness check. If there is something that would require hardware, we've done a readiness check and we're ready, I guess, is how I would put that. But it's still unclear what's going to be happening there.

Martin Evans - JPMorgan - Analyst
Martin Evans, JPMorgan. Just following up on the outlook for next year, and your comments on a return to growth, Robert, you said earlier, I think slightly immodestly, that you face a few headwinds.

But if we look at where we are today on metals, China, the uncertainty over diesel, and so on, as we enter, or go beyond, March next year, is your hope or confidence about the growth essentially derived from the GBP30 million annualized benefits from the cost cutting announced today; and, therefore, if you were to take that away, you'd be looking at the core business declining in 2016, 2017?

Robert Macleod - Johnson Matthey plc - Chief Executive
That's a very negative way of looking at growth, Martin (laughter). There's a balance here, isn't there? There's a balance between making sure that we do the right thing for the shareholders in the long run, the right thing for the shareholders in the short run. The cost restructuring we've done is about right-sizing the businesses for today's world. And today's world, as you say, is tougher in certain areas.

Our confidence about the future, we know what we've invested in over the last few years. In some areas, we're going to see underlying growth because of the investments we've made. And we've also taken advantage of -- or we will benefit in the results from some of the cost-cutting measures we've made. It's a blend of actions, Martin. And that's what you'd expect management to do.

I think it would be a bit harsh to say that growth is just purely about cost cutting, because we're also increasing cost in other areas to invest further in the business through R&D, and other areas, too.

Paul Walsh - Morgan Stanley - Analyst
Paul Walsh, Morgan Stanley. I was wanting to ask, just to be clear, John, on this sort of real world emissions, do the SCRs essentially meet the conversion factors today, which is my first question?

John Walker - Johnson Matthey plc - Executive Director, ECT
Some do.

Paul Walsh - Morgan Stanley - Analyst
Some do, but not all.
John Walker - Johnson Matthey plc - Executive Director, ECT

But not all.

Paul Walsh - Morgan Stanley - Analyst

Okay. And in terms of the value of uplift from SCR to Advanced SCR --?

John Walker - Johnson Matthey plc - Executive Director, ECT

Just remember on that point, real world driving is not a legislation yet. So asking if something is meeting a future regulation, well, nothing was designed to meet a future regulation, if you know what I mean.

Paul Walsh - Morgan Stanley - Analyst

Is that because you don't know the regulation, exactly what it's going to require yet? Or --

John Walker - Johnson Matthey plc - Executive Director, ECT

When some of these things were designed, yes, the regulation wasn't defined yet.

Paul Walsh - Morgan Stanley - Analyst

Sure. And then, the value uplift Advanced SCR versus SCR, did you said it was 20%?

John Walker - Johnson Matthey plc - Executive Director, ECT

I didn't say that. I said it could be up to 20% on more demanding applications.

Paul Walsh - Morgan Stanley - Analyst

And last quick one for Den. The proceeds from disposals, you've had the special dividend now, does that means that additional surplus cash return is as you enter the growth phase, from an investment perspective, that's sort of done? Or is it still just Company policy, when you've got surplus capital to return it?

Den Jones - Johnson Matthey plc - Group Finance Director

We're looking to invest to grow the Company across a broad range of issues, whether it's CapEx, capital projects; whether it's R&D; and we're also looking at acquisitions. But if we do have surplus cash as we go forward, we will return it. But we want to invest in the Company for the growth of the Company.

We're maintaining a prudent balance sheet, looking at 1.5 times to 2 times on net debt-to-EBITDA: that's our policy.
Paul Walsh - Morgan Stanley - Analyst

Understood. Thank you very much.

Robert MacLeod - Johnson Matthey plc - Chief Executive

Peter?

Unidentified Audience Member

Just one quick one. You've said very little on electric vehicles today. Is this the sort of thing, rate of uptake, that you will be addressing in January?

Robert MacLeod - Johnson Matthey plc - Chief Executive

We'll be talking about our role in the electrification of the power train and emission control in, well, actually, we don't know the date yet, we haven't defined the date, January, February.

Unidentified Audience Member

Okay.

Robert MacLeod - Johnson Matthey plc - Chief Executive

Any other questions? Well, let's call it a day there.

But I just wanted to say one last thing, if I may. That I was very disappointed that nobody asked the question about Process Technologies, because then I'd have been able to hand it over to Larry.

Larry's been on the Board since 2003, and has been a huge servant to the Company over the years. As you might have seen, he's retiring off our Board at the end of March, so this is the last time you'll see Larry at one of these things. As I say, I'm a little bit disappointed nobody asked him a question: maybe you can take it now, quietly, one to one.

But, Larry, thank you very much for all your efforts. And I'm sure people have enjoyed interacting with you all the way through the years. So, thank you, Larry.

And thank you, everybody else.
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