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EDITED TRANSCRIPT

JMAT.L - Johnson Matthey Plc - Presentation of Results for the year ended 31st March 2014

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PRESENTATION

Neil Carson - *Johnson Matthey Plc - Chief Executive*

Welcome to Johnson Matthey's presentation of the results for our year ended March 31, 2014.

And before I start, I've got an introduction to make. We've got a newcomer; he's Den Jones, our new FD. He starts work today.

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

Morning.

Neil Carson - *Johnson Matthey Plc - Chief Executive*

So those of you who don't know him, there he is. I'm sure you'll make his acquaintance into the future.

So usual format from us. A quick introduction from me, one slide; and then move into the financial review from Robert. And then we'll go through each of the divisions; I'll do that. And then we'll spare some time at the end to handle your questions.

We had a really good year in 2013/2014. Our sales were up strongly, and so was our underlying EPS. And growth came across all of our five divisions. But of particular note was a very strong performance from ECT.



We've continued to invest in our business, particularly the R&D, where we've increased spend again by another 12%. But also, you'll have heard, some extra manufacturing capacity in ECT and in PT, large investments in more capacity.

And to look forward into 2014/2015, we expect to be broadly in line with last year. But that's because we've got some really strong underlying growth in profits, because we've got some headwinds. We've got -- the first thing is the lack of an Anglo contract, which you know about, which is a GBP30 million headwind. And then we've got some adverse effects from currency, which is another GBP20 million headwind.

So double-digit underlying growth in profits for this business, going forward. And as we always say, we're particularly well positioned for long-term growth in this business.

So with that, let me hand over to Robert.

Robert MacLeod - *Johnson Matthey Plc - Group Finance Director*

Thank you, Neil. And good morning, everybody. As normal, I'll just go through some of the financial metrics.

So looking, first, at the underlying results. Neil's already said sales up 11%, profits up 14%, and earnings per share by 16%. These are all the underlying numbers.

Within this, you can see operating profit grew 13%; slightly higher than the growth in sales. Obviously, that's an improvement in margins. That'll probably drop a bit this year, because of the loss of the Anglo contract, which was a high margin business, as you know.

Foreign exchange didn't really make much of an impact on us this year, the year we've just reported. So these numbers, and the difference between the actual numbers and constant currency numbers aren't much different. But as Neil's already said, roughly, if the rates stay the same, there'll be a GBP20 million adverse hit for this year that we're now in.

The biggest impact on that is dollars. Then, after that, it's euros and renminbi. Those are the three big ones. Together, they make up nearly GBP18 million. Then the other currencies, the tail, is the extra GBP2 million or GBP3 million that gets us just around the GBP20 million number.

Looking at interest; interest went up a lot this year, partly because of higher pension interest charges. As you know, that's the way we have to account for it nowadays. But also, we had some pre-funding of our debt. We borrowed some money earlier than we needed because we took advantage of low interest rates, and that cost us about GBP1.5 million, and that obviously won't recur in the year we're in now.

Looking at the tax rate, tax rate for this year was 19.4% on the Group on underlying numbers. The UK tax rate for the year we've just finished was 23%, so we're a little over 3% below the headline rate. As you know, the UK rate is going to drop from 23% in the year we've just finished to 21% this year and we still will have at least 3% below that, and then it will drop to 20% next year. Those have all been enacted.

And finally on this slide, looking at the dividend, we've grown the dividend 10% this year, slightly below the rate in underlying earnings per share. Dividend cover of 2.7 times, so we've grown the cover a bit. We've done that -- as you know the Board wants to have a progressive dividend policy and we've taken into account the fact that this year we're going to lose the Anglo contract, but we want to have that progressive dividend going forward; round about cover of around 2.5 times, on average, is what we're looking to do.

Within the underlying profit numbers, and you can see on this slide, there's a couple of one-offs. Pension gains, I'll talk a little bit about in a few slides' time, just over GBP10 million, which are spread across the business, as you can see. And then the closure costs of one of our businesses in Precious Metal Products, one of our old ceramic color products businesses, and that cost us GBP8 million within Precious Metal Products. Both of these items are one-off items, though.

Just a small note on corporate costs; up a bit more than last year, round about 1.1% of sales, and it's been around 1.1% of sales for many, many years. As the business is growing, we need to increase the costs in the corporate center, just delivering the growth that we've got across the Group.



Last year was a bit of an anomaly really, because of -- sorry I don't mean the year we've just finished, the year before that -- where we didn't meet our in-year profit targets.

Turning now to cash, good cash flow performance in the year, particularly well driven by improvement in working capital. Working capital days down from 53 to 45. Huge amount of effort has gone on, particularly in ECT, where they've done really, really well on managing working capital. No one particular silver bullet; this is a whole pile of initiatives across the division.

I think 45 is probably a really good number and I think round about 50 is probably where we should be targeting, but hopefully we can keep that continued performance on keeping the working capital days down.

Net debt down GBP100 million to GBP729 million and with the reduction in pension numbers that I'll talk about a bit more later, our net debt to EBITDA is currently at 1.3 times. So slightly outside our range, which as you know, is 1.5 to 2 times, but not that far away, really.

Turning now to cash flow conversion, so this is how we turn our profits into cash, and you can see down slightly, 82% compared to 85% last year. The principal driver for this was the continued growth in CapEx and we expect that to continue and that'll keep our cash flow conversion round about 75%, maybe 80% in the next few years.

Return on capital, also good, nicely ahead of our target which is 20%, which is -- we keep that target of 20%, we're not changing that despite the change in the Anglo arrangements. Driven by a particularly good performance in ECT. Why did they do so well? Partly because of the very good growth in profits, but partly because of that working capital improvement I mentioned.

Slightly lower in Precious Metal Products division, again partly because of the Anglo contract, reduction in profit; but also because we had, at the end of the year, some higher metal inventories and the reason for that of course is, as you know, the supply disruptions in South Africa. From an insurance point of view, we wanted to increase our metal inventory levels to make sure we satisfy our customers' demands.

Capital expenditure, nearly GBP220 million last year. Big projects in ECT, that we told you about, in UK and Macedonia, ahead of the new legislation which is now in place, or coming in place in the UK too.

Expansion of our additives capacity in the US, which is now complete, which is -- we bought this business in Intercat a few years ago. We've now been expanding the capacity there in our additives business. So CapEx to depreciation, just about 1.7 times.

I think it will stay around that sort of level for the next couple of years, with CapEx around about GBP240 million this year. So slightly more CapEx, but of course, the depreciation's gone up a little bit too, which is why the CapEx to depreciation number stays fairly similar.

And most of the CapEx, or a larger portion of the CapEx going forward, is going to be in Process Technologies, as I think Geoff explained to you at the Capital Markets Day a few months ago.

Finally from me, looking at the pension schemes, you can see that the deficit's gone down quite a long way, partly driven by higher discount rates and some ongoing de-risking. Particular de-risking that we've done, I've talked a little bit already about the curtailment gains, that's that GBP10 million that's spread across the various divisions.

We closed the US scheme to new entrants and did a few other things as well, which I can explain if you want more detail, and those gave us these one-off gains. But we're now getting to a stage where we're narrowing down the range and potential outcomes of these pension schemes; the volatility is becoming much less.

We did put GBP27 million in last year to fund the deficits in both of these schemes, and we'd expect to put a similar level of cash flow in this year, as well.

With that, I'll -- that's finished from me, I'll hand back to Neil.



Neil Carson - Johnson Matthey Plc - Chief Executive

Thank you, Robert. So the operating review.

As always, we'll start with ECT, Emissions Control Technologies; good set of numbers, as you can see. Sales up 13%, operating profit up 25% and I'd point to you that return on invested capital which is a very strong number, 21%; so a good effort on lots of fronts by ECT.

ECT exceeded our expectations for the year. Some of it was an improved product mix that we got in Europe. I think diesel car sales held up better than we were expecting and our share of those was strong.

Good growth in our Asian businesses; and the implementation, of course, the highlight, which is the Euro VI legislation that benefited our HDD business in Europe.

So the pie chart shows you the split of the sales and interesting to note, 35% of our sales now are in HDD whereas in 2006 probably that was zero; so exciting area for us.

We're dependent on car sales. Here are car sales globally in the three regions, and globally divided and analyzed in our financial year. So you can see some growth in North America and Asia but flat in our year in Europe and global sales up 3%-ish.

But there's some signs of progress in car sales, after many years of depressed car sales, in Europe particularly; you can see that half 2 of last year compared to half 2 of the year before, there's some glimmers of some growth, which is very welcome.

So here are our sales broken down by region for light duty catalysts, and you can see we've hit GBP1 billion of total sales, up 8%, so we've exceeded the growth in the market, which was 3%-ish.

North America, broadly grew in line with the market and in Europe we outperformed the market. I talked about the product mix, which has been a benefit, and the fact that diesel cars have maintained a reasonable share of the market. So a 5% growth in our sales in Europe. And a good growth, good strong growth, in Asia. We've done pretty well in China. We've probably picked up some new business, but also in the rest of South East Asia, we've been doing well.

So operating profit well ahead and some good results from our process efficiency, manufacturing excellence and sustainability efforts that have really started to impact the cost side in ECT.

Here's the outlook as published by LMC Automotive. You can see that global car sales will hit 100 million in a couple of years' time, and steady growth in all the markets. I would think that the 2014 number in Europe might look a bit better than that by the time we get to the end of 2014.

So moving on to trucks, HDD truck sales and production. Healthy markets; North America's grown well, as has Europe, year on year, and then second half on second half, yes, a bit of an acceleration really, in sales of trucks in Europe and North America; so a healthy picture.

And here are our sales, GBP573 million of total sales in this area, up 20%. In North America, a reasonably good market. We grew in line with it. We're particularly well represented on Class 8 trucks, and they've picked up recently.

But Europe has done also very well and has had the impact of the tighter legislation. Of course, the next year will show a full year of impact from tighter legislation. And just to give you a guide, Euro VI sales now in Europe, about 60% of the total sales.

In Asia, a big increase from a smallish number, and, as we suspected, the new legislation that's impacted China is not being fully implemented but it's being implemented in about 10% of the potential cases, mainly in buses and in cities. But we've got a good share of that business, as you can see.



So continuing tightening legislation in Europe and China will benefit this business going forward. And we've got non-road sales, which are going to start to make an impact on the sales going forward.

So looking ahead for ECT, well, the situation in Europe looks a bit better on cars. Some car sales -- positive car sales data, which we haven't seen for a number of years. And the legislation is going to get tighter, so Euro 6b and 6c will add value to each car that we supply in the next couple of years.

There's lots of talk about CO2 legislation and limits, both in Europe and in North America and they're, broadly, positive for us in that smaller engines are more complex designs, and that gives us an opportunity.

So in heavy duty, in the developed markets, as I've mentioned before, we're going to have a full-year effect of the Euro VI legislation in Europe, and a continued rollout of the non-road business.

In developing markets, China is a focus for us. And we predicted a while ago that when the Euro IV legislation arrived, it would take four or five or six years to be fully implemented, and that looks, to us, like how it's going to be. It's a lower technology solution because it's only Euro IV, and it's a little bit more competitive, but we're pretty happy with the share of that business that we've secured.

Process Technology; here are the key numbers. So sales up 11% and profits up 10%; return on sales, steady. This division benefited from the addition of Formox, which we're very pleased to have added to the Group. And if you strip out the sales of Formox, there was some growth in the rest of the division; a particularly good performance in our Oil and Gas business. And you can see the split of sales there between Chemicals and Oil and Gas. But as we'd anticipated, our licensing sales have come down from a high point in the previous few years, and we're a little lower, at GBP82 million.

So let's talk about the Chemicals business first. Here's the makeup of the GBP339 million of sales that we make. Sales up 13%. Of course, that benefited by the addition of Formox and formaldehyde catalysts and technology we're very pleased with. It's gone very well. Methanol did pretty well, and we signed three new SNG licences in China.

The Oleo/biochemicals side did well in a fairly flat market. And in the Petrochemicals side, we've increased our catalyst volumes but the licensing revenue is down. And you can see from that bar chart the effect.

But important also to note here that in 2013 we sold five Oxo licences. They're particularly high earners for us in the Oxo licence. And this year, in 2014, only one. But some SNG licences were sold. But to note there that the SNG licence sale benefits quite a lot on the catalyst sales side rather than the licensing income side.

We are developing some new technologies. You know the requirements for more and more Oxo into the long-term future will, sometime, come to a bit of an end, but we have got some good new technologies in the pipeline. MEG and VCM are two of them.

Oil and Gas business has done pretty well. Sales grew 9%. There's some action in the refineries in the US, for the first time in a number of years, so that's boosted some hydrogen catalyst sales. You can see the split of the sales there.

Gas Processing did well, and our Diagnostic Services business is also doing well on unconventional oil and gas opportunities in the US, and is adding some new technology to its portfolio for the analysis of the wall thickness of pipelines.

So looking ahead in PT. We do expect progress in the Chemicals side in 2014/2015, but we would flag that the timing of these orders, particularly for licences, are really difficult to project exactly when they're going to hit us. We haven't lost any business, but the timing of orders is slightly uncertain. So it's not really appropriate to judge this business on one quarter of its performance.

We're still continuing to develop our new technologies. And the expansion of the petrochemical industry, so coal getting turned into products in China, that's a big driver for this business, and that will continue.



In the Oil and Gas area, we expect quite a robust year ahead, stronger demand from North American refineries, and some opportunities coming up in the increased use of shale gas in the US. Good drivers. So coal to products in China and shale gas in North America are key upsides to this business in the future.

Precious Metal Products, a year of transition, really, for Precious Metal Products. Sales flat and profits up a little bit. So sales in line with last year. You can see the split on that pie chart between the Services business and the Manufacturing businesses.

So you know the change in the Anglo Platinum arrangements will be an impact of about GBP30 million in the coming year. And in the year past, there were some lower prices for precious metals, which had a bit of an impact. And some continued weaknesses, I have to say, in the industrial area in the Manufacturing businesses. Not all of them, but some of them are finding life a little tougher.

And you've heard about the closure costs of part of our Color Technologies business, which really means our Color Technologies products now are all in the functional area rather than the decorative, which is where they came from many years ago.

Here's the services business data. Precious Metal Management, sales down 12%. Actually, Anglo American had a good first nine months in the year, and did better than we expected them to do, but that didn't offset the GBP10 million hit which was the one-quarter's worth of the loss of the contract. There you can see the average prices. Not a lot of movement there.

And on the Refining business, sales were down a little bit. And in PGM Refining and Recycling, we had a slightly lower average basket price for pgms. Intakes pretty stable, but the mix slightly less favorable.

We're investing money in this area. It's a very strategically important area for us. We're the biggest pgm refiners of secondary material, and that's a very nice place to be when there's uncertainty in supply from the primary producers. There's the split of [throughput] through the recycling side (corrected by company after the call).

If we look now at the Manufacturing businesses, sales up 11% but, actually, we transferred in a little business out of ECT that was much better fit with PMD, so that boosted the sales by about GBP24 million. Lower demand for nitric acid catalysts and N2O abatement technology on the industrial side, but much better demand for the medical device components, where sales were up.

Color Tech did well. It's had a tough few years with lower car sales, particularly in Europe, but that's starting to do a lot better. And we've closed the decorative side.

Chemical Products also did well on the back of ECT. They supply ECT with some raw materials on the precious metal side to make catalysts.

Looking ahead, the impact from Anglo. Pgm Refining and Recycling, currently looking a little bit better with slightly higher metal prices. Volumes fairly stable. There is some increased competition here. The primary producers have got refineries, which isn't having primary material go through them at the moment, so there's a little bit of increased competition here.

And a surprise to us, I guess, is that the strikes in South Africa have, so far, had limited effect on the price.

Mixed outlook for the Manufacturing businesses on the industrial side but growth in the medical business.

Fine Chemicals, good year for Fine Chem, sales up, profits up 10%, pretty steady performance. There's the split of the sales between the API Manufacturing business, the Catalysis and Chiral Tech and the Research Chemicals; and the return on sales has benefited here from the higher margin API business.

And in terms of its performance, API Manufacturing did well, sales 6% higher, growth in the specialty opiates business, launch of a new generic for drug addiction we've benefited from, and continued growth in the ADHD methylphenidate API area, which has helped us.



Research Chemicals had a reasonably tough year; they ran out of capacity, ran out of storage space in some of their markets, which we've now put right, particularly in China, on the west coast of the USA, so that ought to return to some growth. And Cat and Chiral Technologies grew its sales slightly but its profits pretty nicely.

Looking ahead in Fine Chem, steady progress in APIs, especially in the US. We are continuing to invest in adding more APIs to the portfolio; that will benefit our sales in future years and that involves working with customers, of course, to develop new -- all this is in the generic drug space. So the new warehouses, they'll help with Research Chemicals and so that should recover.

A couple of slides on New Businesses; sales up a lot but that's the full-year effect of one of the acquisitions we made, the Battery Systems business that we made through the year. Robust demand for e-bikes and power tools, which we supply. We've made an acquisition here, I don't know if it's referred to in the notes, I'll touch on that a little bit later.

Fuel Cells had a tough year in that its customers, which are all in the stationary power generation field, have not developed as we expected. But we are very pleased with the way that they have positioned themselves alongside car companies and are hopeful that we'll get a share of the cars that are made for the Californian market in the future.

So here's the acquisition of A123; we haven't bought the whole of A123 but we've bought -- we're in the process of buying the materials factory, which is mainly in China. So that's very helpful to our ambition to be a key material supplier. That's where we think we can add value in the battery space and we ought to have now the capacity to supply the customers once we've developed the products; pleased about that.

Just a slide on non-financial performance because we're pretty proud of what we've done in JM in terms of sustainability and particularly in manufacturing excellence. So we set ourselves some targets in 2007 to get to a different place in 2017 when we're 200 years old.

Here's a little bit of the data that I think you'll find interesting. So we've more than doubled our earnings per share since 2007, our target was to double by 2017; and we've also more than doubled our sales. But the rate of energy use per unit in sales is actually down 44%, global warming potential down 50%, water use down 40%. Just an indicator that we're a much more efficient company now and much more sustainable as we enter our third century.

So the outlook; further progress in ECT. European car market looking a little better. Tighter truck and car legislation in the mix going forward. And that's the medium-term prognosis, that sales will be driven by tightening legislation and increased growth in vehicles going forward.

We do expect progress in Process Technologies too, Chemicals has got a really good long-term outlook but I just put that warning out there that you shouldn't judge this business on one quarter; this business is a bit difficult to predict on the exact timing of some of the large contracts.

Oil and Gas we expect to be robust and the two long-term drivers, the key ones being coal to products in China and gas in North America remain very positive here.

We expect steady progress in Precious Metal Products excluding the Anglo situation and we think our pgm refining volumes will be stable and they ought to benefit from slightly higher precious metal prices going forward.

And the outlook for the Manufacturing business remains, I'm afraid, a little mixed; some good in medical, some not so good in industrial.

Steady growth in Fine Chem; CCT and Research Chemicals will also expect some growth in the coming year.

Pretty much similar in New Businesses, this is a long-term investment for us. One of the big long-term investments we made in the last 20 years has been in heavy duty diesel and that's now delivering us GBP570 million worth of sales. We have aspirations for something else in this portfolio to do something similar in the future.



So for the Group, underlying growth strong, offset by some headwinds. Currently expect next year/this year to be broadly in line with the year we just reported on. We are really well placed for long-term growth.

So here's the key messages again just to remind you. We had a very strong year, actually a record year. Underlying EPS up 16%, growth in all of the divisions, plenty of investment going into this business to put it in a good place for the future. And we expect to be broadly in line but very strong double-digit growth in underlying profits.

So here's the team that are going to answer your questions and I want to take a moment to talk to you again about the management changes here. As you know I'm going to shuffle off to the left of this chart and be replaced by Robert. So this has been a brilliant 10 years for me, have been a really lucky guy to be in charge of this Company.

I think we had a pretty good Company 10 years ago, I think it's a much better Company now and I think it's really well placed for the future. I've also enjoyed working with you guys, through you, with a very supportive bunch of shareholders. So if you just give us a minute to assemble at the front here, we will answer your questions. Thank you.

QUESTIONS AND ANSWERS

Neil Carson - *Johnson Matthey Plc - Chief Executive*

So there's some roving mics as usual and if you could please tell us who you are and who you represent before you ask your question, we'll do our best to answer it. The division directors and other senior management are here in the front row.

Paul Walsh - *Morgan Stanley - Analyst*

Paul Walsh, Morgan Stanley. I have two questions. As far as the questions I had, on the Euro 6b regulations, two questions I guess. Within your euro LDV business, how much is diesel and how much is petrol? And over what period of time would you expect that 20% increase in value to crystallize?

And then my second question on Euro 6c, what's the value proposition there in terms of potential uplift? I think you've given it before but it's slipped my mind. Thank you.

Neil Carson - *Johnson Matthey Plc - Chief Executive*

John, could you have a go at those?

John Walker - *Johnson Matthey Plc - Executive Director Emission Control Technologies*

I think diesel for gasoline in Europe, the numbers that we have in the book are 51/49, diesel 51, gasoline 49 for Western Europe.

Neil Carson - *Johnson Matthey Plc - Chief Executive*

That's the market sales, we don't really talk about our sales, and you probably don't have that data I am imagining.

John Walker - *Johnson Matthey Plc - Executive Director Emission Control Technologies*

We're probably a little bit heavier in diesel than gasoline than the market and typically it takes about three years to roll out the new legislation.



Neil Carson - *Johnson Matthey Plc - Chief Executive*

But the impact per vehicle on Euro 6b and c, we have talked about that before, I think.

John Walker - *Johnson Matthey Plc - Executive Director Emission Control Technologies*

Yes, Euro 6b we're saying sales will be up 20% and Euro 6c we're saying it's going to be double the value of the gasoline catalyst sale.

Paul Walsh - *Morgan Stanley - Analyst*

That's great, thanks very much.

Robert MacLeod - *Johnson Matthey Plc - Group Finance Director*

Can I just be clear on the Euro 6c? It's not for all gasoline cars. It's only the direct injection gasoline cars, which are around about half of them. So it's not the entirety, you can't just take --

Paul Walsh - *Morgan Stanley - Analyst*

It's half of the --

Robert MacLeod - *Johnson Matthey Plc - Group Finance Director*

It's half of them will be roughly double. And the other --

Paul Walsh - *Morgan Stanley - Analyst*

40% rather than -- thank you.

Neil Carson - *Johnson Matthey Plc - Chief Executive*

Thank you. Rakesh?

Rakesh Patel - *Goldman Sachs & Co. - Analyst*

I had two questions; one just on PT. And I know you've said not to judge it on each quarter, but just looking at some of the comments from, I think, your customers saying, especially in the US, there might be some delays, or actually delays to the installation of new petrochemical plants, not by one quarter, but one to two years, if not more.

So I wondered to what extent we should still continue to expect double-digit growth out of PT, day in, day out? This year was impacted by the acquisition of Formox.

And then, secondly, just on pgm refining. You've talked a little bit about increased competition. And I wondered to what extent is Johnson Matthey wedded to pgm refining? Would you ever look to exit this business?



And then, finally, just on heavy duty diesel in China, the usual question which comes up every quarter. In terms of where we are in market share, are you still thinking one-third, one-third, one-third? As we go out, how the mechanical shift with your share in HDD should evolve over time.

Neil Carson - *Johnson Matthey Plc - Chief Executive*

Okay. Quite a list there. Do you want to start with the PT ones, Larry?

Larry Pentz - *Johnson Matthey Plc - Executive Director*

Sure.

Neil Carson - *Johnson Matthey Plc - Chief Executive*

How sure are we about the future and the timing, etc.?

Larry Pentz - *Johnson Matthey Plc - Executive Director*

We're confident in the future. We've always said the PT business is a lumpy business. And that hasn't changed. The timing of licensing orders, the timing of rather large catalyst sales, difficult to predict. But our guidance hasn't changed. We still see, on average, double-digit growth in PT.

Neil Carson - *Johnson Matthey Plc - Chief Executive*

And yes, the projects never come in earlier than they say. There's always some slippage. And that's a fact of life really.

Larry Pentz - *Johnson Matthey Plc - Executive Director*

Engineers are optimists, as a general rule, yes.

Neil Carson - *Johnson Matthey Plc - Chief Executive*

That's right, yes. In the refining -- pgm refining side, we are absolutely wedded to this business. But the first question was about the competitive nature of the business. We haven't lost any volume, but there are people out there competing for business, which has had a small effect on the margins.

But that, to us, is a second order issue, because we are the biggest pgm refiners of secondary material. That's a really handy thing to be, when your main source of primary supply is on strike for three, four months. And it's difficult to predict what the future will be, in terms of reliability of supply from South Africa and the other big suppliers, Russia.

So this is very strategic for us. For that reason, for a number of years, we've been investing in a new flow sheet for that business, which will make it better and more efficient. And there's no prospect of us exiting that business any time soon, because there's no way we can, being in this precious metal business.

And HDD in China, about one-third of that, John, is that how you see it, going forward?

John Walker - Johnson Matthey Plc - Executive Director Emission Control Technologies

Yes. I think, China HDD, we would say, going forward, one-third, one-third, one-third; and the other 10% being local Chinese companies. So I don't think we're changing our guidance there. We probably did a little bit better than that on the first 10%, on the bus fitment, but that's probably a one-off thing.

There's a couple of interesting things that are happening that should help heavy duty in China. The one thing is they finally sorted out the fuel, so that from January 1, 2015, the Euro fuel, Euro IV fuel, should be available nationwide. So that should eliminate any of these people who are saying that they cannot fit emission control equipment to heavy duty vehicles there.

And it looks like they're coming close to a particle number requirement for Beijing. So there's the possibility that that should add some -- don't get too carried away here, but should add some filters to city vehicles.

Neil Carson - Johnson Matthey Plc - Chief Executive

Rather than partial filters.

John Walker - Johnson Matthey Plc - Executive Director Emission Control Technologies

Rather than partial filters.

Neil Carson - Johnson Matthey Plc - Chief Executive

Yes. So positive.

Simon Fickling - Exane BNP Paribas - Analyst

Simon Fickling, Exane. A first question on HDD and the Euro VI legislation there. The -- you flagged in this release, and I think at Q3, that early orders were filling the pipeline. An assessment, please, of where you think inventories are, and the risk maybe for the next couple of quarters that orders are slightly softer and that momentum is slightly weaker, given the level of inventories in the system.

ECT more broadly, process efficiency. Is there much more to come in terms of that?

And finally, on the M&A side, there's been a bit less in the year just ended. There's the A123 deal. But wondering where that may focus, and perhaps an indication as well on appetite for bigger deals that could perhaps involve a rights issue or more transformation on the portfolio. Thank you.

Neil Carson - Johnson Matthey Plc - Chief Executive

Okay, Simon. Thank you. HDD, John? Euro VI inventories and is it all going to fall off a cliff?

John Walker - Johnson Matthey Plc - Executive Director Emission Control Technologies

Visibility of inventory in Europe is less than in North America, for example. But the dreaded dip of the post pre-buy, I think I can confidently say that, that's not happening in the first quarter. And I feel a little bit better that it's going to be less of an impact on the second quarter as well.

But I still point out that we don't really know what the inventory situation is. So there could be a slight softening, but I'd say that's probably less than we thought before.

On process efficiencies, as you know, we just are finishing up our second phase of Macedonia. And also finishing up the filter investment in Royston. In particular, Macedonia, we're three-quarters of the way through to filling up -- or we're 100% in filling up the first build. And we're starting to increase the utilization of the second build. Line 3 has been up and running now for several months. And process efficiencies from that plant are very good, and improving.

So yes, I'd say there will still be more to come, in terms of leveraging that investment.

Neil Carson - *Johnson Matthey Plc - Chief Executive*

And globally, the manufacturing excellence effort is having an effect everywhere, in all 15 plants. So -- and that will --

John Walker - *Johnson Matthey Plc - Executive Director Emission Control Technologies*

We have a very embedded manufacturing excellence program right now. And that's going very well. So yes, I'd support Neil's comments there.

Neil Carson - *Johnson Matthey Plc - Chief Executive*

On M&A, well, we don't make that much M&A. And it's because in most of our businesses, we've got higher market shares in smallish markets, and the things we want to buy, we're not able to do. We have aspirations to make large M&A, but there's nothing particularly on the horizon, I have to say.

But more the M&A will be of the kind that we've seen with A123. So buying some specific assets that we need to give us a route to market to some of our new technologies in New Businesses. I think that will sum it up. Is that okay?

Simon Fickling - *Exane BNP Paribas - Analyst*

Thanks, yes.

Evgenia Molotova - *Berenberg - Analyst*

Evgenia Molotova, Berenberg. I have three questions. On ECT, on your improved product mix in diesel, how sustainable is the product mix improvement? And how long will this contract last?

And also, just one question on the comparables. Will you still experience stronger growth because of this gain of this contract in the first half of the year? Just when did it start, the product mix change?

And the second question -- the third question is on pgm refining. So when primary miners are on strike, does it mean that you have higher competition because they can actually refine more of the secondary products, because they don't get resourced from the mining, or not? Thank you.

Neil Carson - *Johnson Matthey Plc - Chief Executive*

Yes. I don't think we were talking about one contract in the --

Evgenia Molotova - *Berenberg - Analyst*

I didn't mean one. I meant as a whole.

Neil Carson - *Johnson Matthey Plc - Chief Executive*

John, pretty sustainable product mix?

John Walker - *Johnson Matthey Plc - Executive Director Emission Control Technologies*

Yes, I think the -- for at least the next several years, the trends that we're seeing are going to continue. So what we saw for the year ended 2013/2014, over the next two to three years, we should see something similar. Those extra filters that we have will remain. And again, it's not any one contract, it's a variety of things.

Neil Carson - *Johnson Matthey Plc - Chief Executive*

And then the new legislation's coming along, which will add value, again, for vehicles. So we don't see this going backwards.

Robert MacLeod - *Johnson Matthey Plc - Group Finance Director*

Let's just be clear on that, so just to be clear. That boosted the year we're in because comparative to the year before we didn't have that product mix benefit, so now it's in the comparators.

So, now, going forwards you're not going to have another boost. That contract is still there. We'll maintain that rather than drop back down.

Evgenia Molotova - *Berenberg - Analyst*

What I wanted to know is the contract still the same.

Neil Carson - *Johnson Matthey Plc - Chief Executive*

I think our overall guidance remains the same which is we, in cars, we ought to outperform the market by a couple of percent in terms of our sales. We've done a little bit better than that in the last couple of years, but that will be the guidance that we have you take on.

And, yes, exactly the point that you made, the primary producers have got refineries not doing so much and so have the availability of capacity to compete in the secondary market and that's something they really like to do.

But as I also said, when mining comes back maybe that will go away, I don't know. So, it's not something that has shifted much volume, but it's been a depressor of the margins a little bit.

Evgenia Molotova - *Berenberg - Analyst*

Thank you.



Adam Collins - *Liberum - Analyst*

Adam Collins, Liberum. A couple of questions please on the catalyst side. So, firstly on the platinum procurement risks associated with the strikes in South Africa, we've had roughly 20% of world supply offline for four months now. Even if they restarted today it would be roughly three months before they could supply the market again.

Clearly you haven't had a problem so far and there would appear to be quite a lot of plate supply out there, but maybe some shortages around sponge. I wondered if you could just talk more broadly about your experience so far in getting the metal you need, and whether we need to worry if strikes continue for the rest of the year, about this becoming a supply problem for you.

And how, if that was the case, that might impact the business, whether a force majeure like that and supply problems at your end would impact your business or whether there's some contractual arrangements for you to recover that? That's the first question.

Neil Carson - *Johnson Matthey Plc - Chief Executive*

Thank you, Adam. Do you want to pause for breath and I'll have Alan to answer that one for you? Alan Myers runs that business.

Alan Myers - *Johnson Matthey Plc - Division Director, Precious Metal Products*

Thank you. So far we've met all of our obligations to customers. As Neil pointed out, we've built substantial stocks prior to -- knowing the strike was coming. We've had a very strong conversion program of converting ingot to sponge in place for several months to meet our customer commitments.

And really we're in excellent position; we're the largest secondary refiner in the world, that gives us momentum that our competition doesn't have. And, therefore we really see no issue in the medium term.

Obviously if the strike went on for a long time that would change the fundamentals of the whole marketplace, but today and for the medium term, we expect really no issue with supplying to our customers.

Neil Carson - *Johnson Matthey Plc - Chief Executive*

And with that changing the market fundamentals means much higher prices which means potentially metal coming out of jewelry, metal coming out of lots of other applications through our refinery.

We've signed up agreements with other mines for more processing of primary supply too. So, we're in about as best shape as anyone could be, although you're right to flag it as a long-term concern.

Adam Collins - *Liberum - Analyst*

The second question was on margin expansion in ECT. Quite a noticeable uplift in the second half of last year, and I just wondered if you could talk about what drove that. To what extent was that down to the diesel value-add issues in light duty, or did it have quite a lot to do with the Euro VI ramp in HDD?

I think in the past you've talked about the fact that the expansion of a Euro VI HDD would be margin dilutive because of the high value of the substrates and filters. You then adjust that to saying it would be broadly neutral for divisional margin.

I suspect it may be actually accretive from the look of the second half results. Is that the case? Would you expect margin to accrete further in the coming year as HDD becomes a larger part of the sales base?

John Walker - Johnson Matthey Plc - Executive Director Emission Control Technologies

There's several reasons for margin improvement but specifically on the heavy duty side one of the things that happened is that a large proportion of our European heavy duty sales were manufactured in Germany in the past.

As we, especially, entered the fourth quarter and now going forward, more of our heavy duty sales on the flow-through side are being made in Macedonia. So, again, it's another efficiency benefit that is having a knock-on effect on margins.

Neil Carson - Johnson Matthey Plc - Chief Executive

So it should survive.

John Walker - Johnson Matthey Plc - Executive Director Emission Control Technologies

Yes, and that's going to continue.

Neil Carson - Johnson Matthey Plc - Chief Executive

That's the major effect, I think.

Adam Collins - Liberum - Analyst

HDD?

Neil Carson - Johnson Matthey Plc - Chief Executive

No, but the efficiency. HDD is an element of it, but it's the efficiency of the newer plants and the benefits of the manufacturing excellence programs. You're looking skeptical so have a word with John afterwards. Thomas?

Unidentified Audience Member

Thank you very much taking two questions. Unless I fell asleep during the Capital Markets Day, you didn't talk a lot about the chloralkali catalyst. So is the reason you're flagging this now as a new opportunity in PT, is that because the coal price has fallen and customers are starting to embrace the technology?

Did you have a breakthrough on the R&D side there, and can you dimensionalize your position in that chloralkali business relative to competition?

Then the second one is more shorter. I'm just clarifying; some of the suppliers to the US refinery industry were talking about revenues down 10% because of weather and outages, and you're saying US refining has been strong, will be strong. And so you're saying there was no impact of the weather on inventories in your business, and just you're sailing through the US refining market like a knife through butter. Is that what you're saying?

Neil Carson - Johnson Matthey Plc - Chief Executive

Let's have Geoff handle that one. He's never used the weather as an excuse so far.

Geoff Otterman - *Johnson Matthey Plc - Division Director, Process Technologies*

Well, we can now. On the first one, yes, the chloralkali comment, I need to talk to Nick here because that's not a business that we do anything in.

Neil Carson - *Johnson Matthey Plc - Chief Executive*

You're talking about the VCM?

Geoff Otterman - *Johnson Matthey Plc - Division Director, Process Technologies*

VCM, okay. On the VCM side, yes, it's something we just bought technology from Jacobs and we're also building a catalyst plant now in Shanghai to supply that market. With a different technology.

Neil Carson - *Johnson Matthey Plc - Chief Executive*

We invented some technology, we were sharing the technology with Jacobs, half and half; we bought their half, and so that's now a viable opportunity for the future.

Geoff Otterman - *Johnson Matthey Plc - Division Director, Process Technologies*

We really like it. It's a mercury-free replacement catalyst for China, which we think will have a good uptake over the next several years.

Neil Carson - *Johnson Matthey Plc - Chief Executive*

Which is actually legislated for.

Unidentified Audience Member

So it's legislated, because the reason I'm asking is when coal prices were high, the Chinese PVC or VCM, they were running 60% utilization, and now the coal price is low and now they're running 85%, 90%. Introducing this legislation (multiple speakers).

Geoff Otterman - *Johnson Matthey Plc - Division Director, Process Technologies*

Yes, there's legislation to get rid of the mercury catalyst that's used presently. And the product we have should be a reasonable, I wouldn't say quite, drop-in on the old process, but we can retrofit the existing processes, and then, going forward, we have -- we own the technology to go forward.

Unidentified Audience Member

And how much advance do you have to competition on that mercury-free side?

Geoff Otterman - *Johnson Matthey Plc - Division Director, Process Technologies*

Well, we're the only one that [is in a] patent position on it and we're the only ones right now.

On the weather question; I don't think we really saw any effect, and I'm not sure that we see it -- that we're quite as sophisticated to tell what the effect is on -- from weather on some of our demand.

Neil Carson - *Johnson Matthey Plc - Chief Executive*

So, we're still selling lots of additives and hydrogen catalysts.

Geoff Otterman - *Johnson Matthey Plc - Division Director, Process Technologies*

Yes, we had a good year in the US on both the hydrogen side and on additives, so we really didn't see any effect.

Larry Pentz - *Johnson Matthey Plc - Executive Director*

Remember, the additives bit of our business has two roles to play; it's an environmental role in which case there's still tightening of environmental requirements on petroleum refineries in the US. So that's allowing us to add capacity -- add sales.

Neil Carson - *Johnson Matthey Plc - Chief Executive*

Andrew?

Unidentified Audience Member

I've still got the question, thank you. So, it's really around New Businesses and particularly the A123 deal. You said you've bought some of it and not all of it. I'm just wondering if you could be a bit more detailed on that. So what have you left behind and why? How does it link into Axcel, if at all? Why did you -- what's the specific attraction of this asset?

And then staying with that whole new business enterprise, I just wondered what the definition of -- or some better definition of some time is? So some time before the division moves into profit. Just a sense of the key drivers in the sense of a timetable.

And then the second question is completely different on, back to HDD. We don't talk a lot, or we haven't talked a lot about the non-road business and I see from your presentation non-road is now 10% of HDD. I could be wrong, that feels a bit behind plan, but maybe I'm wrong and I just wondered if you could just update us on what you're seeing in non-road? Thank you.

Neil Carson - *Johnson Matthey Plc - Chief Executive*

Nick, do you want to handle what we've actually bought from A123 and how it fits?

Nick Garner - *Johnson Matthey Plc - Division Director, New Businesses and Corporate Development*

I shall try. The ambition of the batteries area for us has always been about the attraction on the materials side. That's the fit to us. It's the tackling this challenge of the energy density, which is an electrochemical barrier created by materials deficiencies in the current technologies.

And so it's always been about materials production and that's the assets we're buying out of A123. We've never been keen on the cell manufacturing space, it's not what we do, it's not what we want to do. It's around the materials development.



So we've got plenty of development capabilities which we're building, but what we didn't have is manufacturing assets, which had current access and route into the market. And that's what we're delivering. So to be quite specific, it's a manufacturing plant based in China and some of the technologies around that. That's what we're getting from A123. So relatively limited, but allowing us a route to market.

Neil Carson - *Johnson Matthey Plc - Chief Executive*

And we get some business with it too.

Nick Garner - *Johnson Matthey Plc - Division Director, New Businesses and Corporate Development*

We get the ongoing business into A123, which -- as a successful cell manufacturer. So that's what we sign up onto and we've got a long-term arrangement we are establishing with them.

Neil Carson - *Johnson Matthey Plc - Chief Executive*

The second part of that question's a tougher one in terms of predicting profits. This is by its very nature difficult to predict. What we can tell you for sure is we've got some really strong technologies. But that's not all you need, you need to have a route to market; that's what Nick is putting in place in batteries. And you need some compliant customers who really like what you've got to offer and that takes a number of years.

So I don't think we can be all that more specific. We can be -- we can give you -- you know what our target is for the long term. So from when we started a few years ago it was to have a significant business out of one of these things, i.e., GBP200 million of sales-ish 10 years from where we started and we're a good three or four years in.

Robert MacLeod - *Johnson Matthey Plc - Group Finance Director*

That's right and I think we've just got to be patient with this a bit. As Neil said in his earlier comment, we've now got nearly GBP600 million of sales in HDD and the R&D of that started nearly 20 years ago.

What we've got here is, if you take the loss that we've got, GBP18 million, more than half of it's in the Fuel Cell business, which we've had for some time. So the rest of the investment is a relatively small component of the overall investment we're making as a business.

And I think GBP8 million, GBP9 million a year ex the Fuel Cell business is probably not a bad place to -- a reasonable amount of money, I think, to invest.

Neil Carson - *Johnson Matthey Plc - Chief Executive*

And the final part was non-road. I guess we could refer you back to the wave chart that we printed a while ago and I don't know exactly what non-road ought to be. But by the end of 2015 it was, I can't remember, was it GBP0.5 billion?

Robert MacLeod - *Johnson Matthey Plc - Group Finance Director*

How are we doing John?

John Walker - *Johnson Matthey Plc - Executive Director Emission Control Technologies*

Well, in the year just ended we grew our non-road sales by 21%, so in line with the growth in heavy duty.



And I think the thing that's changed a little bit, since we talked about this a year and a half ago, or two years ago, is that there's probably less filters on some of the non-road applications than we had originally thought. So some engine manufacturers have found ways, by tuning and other adjustments, to be able to avoid putting filters onto as many engines as we thought when we first talked about this.

So I guess directionally, yes, you're right, compared to what we first said, the non-road numbers will be down a little bit, not dramatically.

Charles Pick - Numis - Analyst

Charles Pick, Numis. Three questions, please. You mentioned a slight market share loss in respect of Europe on the HDD side after the Euro VI came in. I just wondered why that arose, please?

In Asia, the LDV catalyst sales were up about 12% in the first half; it's about 19% for the full year and there's mention of some extra business being secured in China. I wondered if you could elaborate on that, please, and was it just in China you gained the extra business?

And finally, on the Process Technology side, there's mention of how some of the extra CapEx may be sanctioned. I wondered if you could give an indication of the scale of that, please?

Neil Carson - Johnson Matthey Plc - Chief Executive

Market share loss, John, in HDD? We started obviously with a very high market share, which we never really expected to maintain. And when the technology changes, there's an opportunity for our -- I think we've done pretty well there haven't we?

John Walker - Johnson Matthey Plc - Executive Director Emission Control Technologies

I think it's a mix in configuration thing. When some manufacturers made the change from Euro V to Euro VI, it changed the number of catalysts that were on some of the vehicles. So there was -- it wasn't like we lost any business, but it effectively is a market share loss because the number of catalysts in some cases was lower on some of the European vehicles.

But yes, we would say that our heavy duty market share globally, we probably lost 5%. The other part of that has nothing to do with Europe and that's just a natural dilution effect of the -- as we talked earlier of the 30/30/30 in China. So it's getting -- because of the volumes as China comes on, it's just mathematics. So our market share number will be reducing globally because of that.

Neil Carson - Johnson Matthey Plc - Chief Executive

And Asian business, light duty, picked up a bit?

John Walker - Johnson Matthey Plc - Executive Director Emission Control Technologies

Asian business. The big boom in Asia I guess was a combination of China, where we had some market share gains, at, in particular, two customers who will remain unnamed, and South East Asia, I think we've done very well.

I think the scary thing is that if Thailand wasn't under martial law, we might have even done better.

Neil Carson - Johnson Matthey Plc - Chief Executive

And extra CapEx in PT?



Robert MacLeod - *Johnson Matthey Plc - Group Finance Director*

The question was about our CapEx or the customer's CapEx?

Charles Pick - *Numis - Analyst*

There was a point in the statement as to how you're considering other opportunities that may increase the CapEx going forward.

Robert MacLeod - *Johnson Matthey Plc - Group Finance Director*

All right, yes. This is for us, this is -- we're looking at investing in China, to give us the facilities. Geoff talked a little bit about VCM already and then also SNG assets maybe we need to put in the ground. And we're also investing in Germany to add capacity for our chemical catalyst too.

So it's a range of things, and then there's always long-term opportunities as well, with GTL, whether that -- if those come through in the US, then maybe we'll need some more capacity for those too. But that's a longer-term play.

Charles Pick - *Numis - Analyst*

There's no order of magnitude then?

Robert MacLeod - *Johnson Matthey Plc - Group Finance Director*

No order of magnitude today.

Neil Carson - *Johnson Matthey Plc - Chief Executive*

We're going to stay within our guidance that you got on Robert's bit in terms of the Company.

Peter Michaelis - *Alliance Trust Investments - Analyst*

Peter Michaelis, Alliance Trust Investments. Just on the sustainability side. It's very impressive what you've achieved over the last seven years. What's the ambition for the rest of the sustainability program? And where should we see it coming through? Is it a margin question, or is it actually improve your relationships with customers? Where does it actually hit the profitability line?

Neil Carson - *Johnson Matthey Plc - Chief Executive*

It's a journey that isn't complete, obviously. We're not at 2017 yet. We've hit one of our targets already and we're pretty close to some of the others.

So the job in the near term will be to set some more targets for the future, to go well past our 200th birthday. And where does it appear? Well, it appears all over the place in the numbers really, but broadly on the cost side. So had we not reduced our electricity consumption per unit of sales by 44%, we'd be spending a lot more money on electricity.

But this is not why the guys on the shop floor do this. They do this because they like the sustainability idea, rather than the saving money idea. So that's what's gained a head of steam in Johnson Matthey, the fact that people think this is a thing they ought to be doing for when they're working for a company like JM.



So it's a pretty powerful thing and it fits now, of course, it meshes very nicely now with manufacturing excellence, which if you look at it from a different perspective, is almost to exactly the same kind of thing.

Robert MacLeod - *Johnson Matthey Plc - Group Finance Director*

It's also a very good motivator for our staff. The graduates and the new employees, one of the things they like about coming to a company like Johnson Matthey is that we do talk about sustainability and how it really matters. And so it's good for the bottom line, but it's also good for our employees and hopefully for all our stakeholders.

Neil Carson - *Johnson Matthey Plc - Chief Executive*

Thank you, Peter. Any final questions before we draw a close?

Then thank you very much, guys. Been a pleasure working with you. Good luck for the future. Thank you.

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