Johnson Matthey

# News release

For Release at 7.00 am Thursday 6th June 2013

## Preliminary Results for the year ended 31st March 2013

| | Year to 31st March 2013 | 2012 | % change |
|---|---|---|---|
| **Revenue** | **£10,729m** | **£12,023m** | **-11** |
| **Sales excluding precious metals** | **£2,676m** | **£2,679m** | **-** |
| **Profit before tax** | **£354.9m** | **£409.3m** | **-13** |
| **Total earnings per share** | **134.6p** | **148.7p** | **-9** |
| **Underlying*:** | | | |
| **Profit before tax** | **£389.2m** | **£426.0m** | **-9** |
| **Earnings per share** | **150.0p** | **153.7p** | **-2** |
| **Dividends per share:** | | | |
| **Ordinary** | **57.0p** | **55.0p** | **+4** |
| **Special** | **-** | **100.0p** | |

*before amortisation of acquired intangibles, major impairment and restructuring charges, profit or loss on disposal of businesses and, where relevant, related tax effects.

**2012/13 in Summary:**

- Revenue down 11% to £10.7 billion
- Sales excluding precious metals (sales) flat at £2.7 billion
- Underlying profit before tax and underlying earnings per share reduced by 9% and 2% respectively
- Cash flow conversion of 93% (2011/12 78%)
- Balance sheet remains strong with net debt (including post tax pension deficits) / EBITDA of 1.7 times
- Return on invested capital (ROIC) 19.7%
- Final dividend of 41.5 pence recommended resulting in full year dividend up 4% at 57.0 pence
- Acquisitions of Axeon and Formox add to the group's portfolio

**Business Overview**

- Environmental Technologies Division had a steady year with sales 2% ahead and underlying operating profit 7% higher

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    - Emission Control Technologies (ECT) impacted by weak European auto market but heavy duty diesel catalyst business continued to grow

    - Process Technologies' sales slightly ahead but operating profit increased significantly, supported by a good result from Davy Process Technology (DPT)

- Very disappointing year from Precious Metal Products Division, particularly its Services businesses, with sales 6% down and underlying operating profit 27% lower

    - Lower average precious metal prices, lower volumes and operational issues at the Salt Lake City refinery all contributed to the substantial reduction in profitability

    - As previously announced, loss of current contracts with Anglo American Platinum will impact from Q4 2013/14

- Underlying results from Fine Chemicals broadly in line with last year with sales down 3% but operating profit 2% ahead

    - API manufacturing business restructured – £14.2 million charge taken outside underlying profit

**Commenting on the results, Neil Carson, Chief Executive of Johnson Matthey said:**

"Johnson Matthey had a challenging year, but nevertheless we remain very well positioned to grow our business over the medium and long term. After two very strong years, continued growth in Environmental Technologies Division in 2012/13 was more than offset by a poor performance from our Precious Metal Products Division. Although underlying earnings per share in the year were 2% lower than 2011/12, the board is recommending an increase in the full year dividend of 4% reflecting its confidence in the medium term prospects for the group.

2013/14 will be a year of transition as on 1st January 2014 new Euro VI legislation comes into force for heavy duty diesel vehicles in Europe and on the same date our new arrangements with Anglo Platinum will commence.

Overall, we expect that the group will make steady progress in 2013/14 notwithstanding the loss of revenue from Anglo Platinum. In the medium term, growth is expected to accelerate in 2014/15 and beyond, driven particularly by tighter vehicle emissions legislation and demand for Process Technologies' products, especially in China. We are confident that our long term market drivers will enable Johnson Matthey to deliver continued growth which will be further enhanced by our ongoing investment in R&D and new business development."

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## Report to Shareholders

### Review of Results

After two very strong years for the group, some further growth in Environmental Technologies Division in 2012/13 was more than offset by a poor performance from our Precious Metal Products Division and a weaker year for Fine Chemicals. For the group as a whole, sales excluding precious metals (sales) were unchanged from last year at £2.7 billion but underlying operating profit reduced by 8% to £414.8 million.

Environmental Technologies Division grew slightly and improved its return on sales. The Emission Control Technologies business was impacted by the weak European automotive market which held back growth in its light duty vehicle catalyst business. However, its heavy duty diesel catalyst business continued to grow and overall its operating profit was slightly ahead. Process Technologies' sales were also a little ahead and operating profit increased significantly, supported by a good result from Davy Process Technology.

Precious Metal Products Division had a difficult year particularly in its Services businesses. Lower average precious metal prices, reduced volumes and previously reported operational issues at our Salt Lake City refinery all contributed to a substantial reduction in profitability. The loss of our current contracts with Anglo American Platinum, announced in February 2013, will impact the performance of this division from Q4 2013/14. The performance of its Manufacturing businesses, which represent nearly 70% of the division's sales, was similar to last year.

The underlying results from our Fine Chemicals Division were in line with last year but increased competition at our UK active pharmaceutical ingredient (API) manufacturing business constrained the division's growth. In response, we have restructured our global API Manufacturing business to better position it to return to growth. The US API manufacturing business and the division's Research Chemicals business both performed broadly in line with last year.

For the group as a whole, underlying profit before tax was 9% lower at £389.2 million. The group's underlying return on sales decreased from 16.8% last year to 15.5%, primarily due to the poor performance in Precious Metal Products Division's higher margin Services businesses.

Underlying earnings per share (before amortisation of acquired intangibles, major impairment and restructuring charges, profit or loss on disposal of businesses and related tax effects) decreased by 2% to 150.0 pence, as a result of a lower tax rate and a reduced number of shares following the share consolidation in August 2012. Total earnings per share were 134.6 pence, 9% below last year.

## Dividend

Despite the reduction in underlying earnings per share in 2012/13, the long term drivers of the group remain positive and the board is therefore recommending a 4% increase in the total dividend for the year. This comprises a final dividend of 41.5 pence which, together with the interim dividend of 15.5 pence, gives a total ordinary dividend for the year of 57.0 pence (2011/12 55.0 pence). At this level, the dividend would be covered 2.6 times by underlying earnings per share, compared with 2.8 times last year. Subject to approval by shareholders, the final dividend will be paid on 6th August 2013 to ordinary shareholders on the register as at 14th June 2013, with an ex dividend date of 12th June 2013.

The board's objective remains to grow the company's ordinary dividend over time, broadly in line with underlying earnings per share, with the dividend covered approximately 2.5 times.

### Return of Capital to Shareholders in 2012

In 2012, following a review of the group's balance sheet structure, a special dividend of 100 pence per share was approved by shareholders and paid in August 2012. The special dividend was accompanied by a share consolidation.

## Operations

### Environmental Technologies

| | Year to 31st March 2013 £ million | 2012 £ million | % change | % at constant rates |
|---|---|---|---|---|
| **Revenue** | **3,001** | **3,255** | **-8** | **-6** |
| **Sales (excl. precious metals)** | **1,904** | **1,876** | **+2** | **+2** |
| **Underlying operating profit** | **226.0** | **211.8** | **+7** | **+7** |
| **Return on sales** | **11.9%** | **11.3%** | | |
| **Return on invested capital (ROIC)** | **14.5%** | **14.2%** | | |

Environmental Technologies Division, which comprises Emission Control Technologies (ECT), Process Technologies, Fuel Cells and our newly formed Battery Technologies business, made progress in 2012/13 in the face of challenging conditions in some of its major markets. Revenue fell 8% to £3.0 billion, however, sales were 2% ahead at £1,904 million and underlying operating profit was 7% up at £226.0 million. Environmental Technologies Division's return on sales for the year increased by 0.6% to 11.9% and its ROIC improved from 14.2% to 14.5%.

**Emission Control Technologies'** sales fell by 1% to £1,461 million but operating profit was slightly ahead partly as a result of process efficiency improvements across the business delivered through our group wide Manufacturing Excellence programme. In Europe, although sales were down 6%, strong cost control and efficiency improvements led to a fall in operating profit of just 4%. Sales and operating profit continued to grow in both Asia and North America.

During the year ECT continued with its major expansion projects at its facilities in Macedonia and Royston, UK. These projects are both on schedule and the necessary capacity will be in place in time to meet our customers' requirements for the high technology products required for tighter European light and heavy duty diesel legislation.

*Light Duty Catalysts* – Sales in our light duty catalyst business fell by 3% to £938 million, representing 64% of ECT's sales in the year. Operating profit was 4% down.

**Estimated Light Vehicle Sales and Production**

| | | Year to 31st March | | |
|---|---|---|---|---|
| | | 2013 millions | 2012 millions | % change |
| North America | Sales | 17.3 | 15.7 | +10.2 |
| | Production | 15.0 | 13.7 | +9.5 |
| Total Europe | Sales | 17.9 | 19.0 | -5.8 |
| | Production | 18.0 | 20.1 | -10.4 |
| Asia | Sales | 34.1 | 31.0 | +10.0 |
| | Production | 41.1 | 38.0 | +8.2 |
| Global | Sales | 80.2 | 76.9 | +4.3 |
| | Production | 80.2 | 78.2 | +2.6 |

Source: LMC Automotive

In Johnson Matthey's financial year to 31st March 2013, global light duty vehicle sales grew by 4.3% to 80.2 million vehicles. Global production increased by a more modest 2.6%, with continued good growth in North America and Asia throughout the year, partly offset by a decline in production in Europe. Within Asia, vehicle production in China grew by 10% and production in South East Asia was 36% ahead, however growth in India and Japan was lower at 2% and 1% respectively.

**Johnson Matthey's Light Duty Vehicle Catalyst Sales by Region**

| | 2013 £ million | 2012 £ million | % change |
|---|---|---|---|
| **Europe** | **543** | **588** | **-8** |
| **Asia** | **214** | **201** | **+7** |
| **North America** | **181** | **180** | **-** |
| **Total** | **938** | **969** | **-3** |

Our sales in Europe of £543 million, which represent 58% of our light duty catalyst sales, fell by 8%, slightly less than the fall in vehicle production in the region. Despite a 7% reduction in the number of petrol vehicles produced in Europe in the year, our sales of petrol catalysts grew by 7%. This outperformance was due to gains from new business and our strong market share with some of the more successful car companies in the region. However, our sales were impacted by a small decline in the proportion of diesel vehicles produced in Western Europe which represented 53% of total light vehicle production, down from 55% last year. The number of diesel cars produced was 14% lower than in 2011/12 and our diesel catalyst sales declined broadly in line with this.

Due to the complex catalyst systems required to meet today's Euro 5 diesel emission standards, a diesel vehicle currently represents approximately five times the catalyst value of an equivalent petrol vehicle. Catalyst value will increase by a further 20 - 25% with the introduction of Euro 6b light duty diesel emission standards in September 2014 for new models and September 2015 for all production. This will require additional catalyst fitment to meet tighter NOx standards. New, more efficient petrol engines, such as those using direct injection technologies, also offer opportunities for additional catalyst sales with the introduction of Euro 6c emission standards starting from September 2017.

Light duty vehicle production in Asia grew by 8% in 2012/13. Our light duty catalyst sales were 7% ahead at £214 million. Our sales were well ahead in China, up 18%, where we benefited from continued strong growth in the market and further new business wins. We also saw good growth in our South East Asia business which was slightly ahead of the growth in vehicle production. Our share of the Japanese domestic market was reduced by the trend towards 'mini cars', a segment in which we currently have a lower market share. In addition, sales were impacted by our Japanese customers localising production in the US and China as a result of the strength of the yen. Consequently, our sales in Japan were well down.

North American light duty vehicle production grew by over 9% in 2012/13 although our sales were flat at £181 million. Whilst we benefited from higher North American vehicle production, this was broadly offset by a trend towards smaller engines, a customer losing market share and the impact on sales of lower pass through rare earth material costs.

*Heavy Duty Diesel Catalysts* – Despite an overall decline in heavy duty diesel (HDD) truck production in North America and Europe, our sales of HDD catalysts for both on road and non-road applications grew by 9% in 2012/13 to £477 million and operating profit was well ahead.

**Estimated HDD Truck Sales and Production**

| | | Year to 31st March | | |
|---|---|---|---|---|
| | | **2013 thousands** | **2012 thousands** | **% change** |
| **North America** | **Sales** | **434.2** | **404.8** | **+7.3** |
| | **Production** | **448.9** | **456.8** | **-1.7** |
| **EU** | **Sales** | **266.0** | **299.0** | **-11.0** |
| | **Production** | **370.9** | **419.0** | **-11.5** |

Source: LMC Automotive

Whilst production of HDD trucks in North America was strong in the first half of 2012/13, the second half saw some softening and overall production was 1.7% down on last year. Production in Europe was weak throughout the year and was 11.5% down.

**Johnson Matthey's Heavy Duty Diesel Vehicle Catalyst Sales by Region**

| | **2013 £ million** | **2012 £ million** | **% change** |
|---|---|---|---|
| **North America** | **331** | **295** | **+12** |
| **Europe** | **118** | **116** | **+2** |
| **Asia** | **28** | **27** | **+4** |
| **Total** | **477** | **438** | **+9** |

In North America our sales grew ahead of truck production, up 12% to £331 million with good growth in catalyst sales to our truck engine customers supported by a greater contribution from sales to non-road applications. This year, non-road applications, such as agricultural, construction and mining equipment, accounted for approximately 9% of our total North American HDD catalyst sales. Altogether, sales to non-road applications in North America, Europe and Asia accounted for over £34 million of our 2012/13 HDD vehicle catalyst sales compared with £20 million last year.

Our HDD sales in Europe were up 2% to £118 million, outperforming European truck production. This was primarily due to growth in Brazil (for which catalysts are supplied from our European operations) where Euro V legislation came into force last year. In Asia our HDD sales were up 4% at £28 million.

In Europe, Euro VI HDD legislation came into force on 1st January 2013 for new models and will apply to all production from 1st January 2014. This requires the addition of particulate control filter catalysts and represents a three to four times increase in catalyst sales value per vehicle. We have successfully agreed contracts for the supply of these systems to our customers at a market share that is broadly similar to our current share. We are therefore well positioned for growth in this market, although it is hard to predict how many trucks will be produced in 2013 given the uncertain European economic outlook.

With China adopting the equivalent of Euro IV HDD emissions standards from this summer and India following later, we expect to see good growth in these developing markets over the next few years. This year saw continued low levels of sales to these markets as local truck manufacturers prepared for the start of legislation. At the equivalent to Euro IV legislation and with relatively simple engines, these markets have lower technology requirements than Europe or North America and thus we face more competition from our global and local competitors. However, we expect that our global market share of HDD catalysts will be greater than 50% for the medium term.

**Process Technologies'** sales of its catalysts, technology licences and services were £406 million, slightly ahead of prior year. Return on sales, and hence operating profit, was well ahead of last year, benefiting from lower raw material prices, a good result from our higher margin Davy Process Technology (DPT) business and improved operational efficiencies.

In the Ammonia, Methanol, Oil and Gas (AMOG) business, sales of its catalysts, adsorbents and speciality additives were 4% down on last year at £246 million. In this business our customers typically require replacement catalysts every three to five years depending upon their market sector and on how hard their plants are working. As a result, catalyst sales are reasonably predictable but can often be lumpy. This year, sales of catalysts to ammonia customers grew strongly by 19% to £51 million, supported in part by some market share gains, but our sales of methanol catalysts were 21% lower at £37 million. We expect these trends to reverse in 2013/14. Sales of hydrogen catalysts were down 19% to £55 million, partly as a result of the timing of our customers' catalyst replacements, but also from a slowdown in the rate of new plant builds for refinery hydrogen production. The market drivers for hydrogen catalyst sales remain positive.

Our speciality additives help to improve the efficiency and environmental performance of the refinery fluid catalytic cracking (FCC) process and are continuously added to the FCC reactor, resulting in more consistent demand throughout the year. In 2012/13, our volumes increased but our sales were 6% down at £63 million due to a reduction in the price of ceria, a key pass through raw material in our products.

Demand for purification products, which are used to remove harmful impurities such as sulphur and mercury from gas streams, recovered well in 2012/13. Sales were up 48% to £31 million and the business supplied product to a number of new projects during the year.

The markets served by the AMOG business offer good growth opportunities over the coming years supported by key global drivers. Environmental concerns will continue to drive the need for hydrogen catalysts, additives and purification products whilst further economic development and population growth will support the methanol and ammonia sectors, although the current geopolitical issues in the Middle East may have a short term impact on our business.

During the year we have continued to invest in our manufacturing facilities in Clitheroe, UK and Panki, India to meet future capacity requirements, including for catalysts for substitute natural gas (SNG) plants in China where demand is expected to grow strongly in the coming years. We expect to complete these investments by the end of 2013/14. We have also commenced a major expansion of our additives plant in Savannah, USA which we expect to be completed in the second half of 2013/14.

DPT performed well again this year and reported a 7% increase in sales to £100 million. The business benefited from a further seven licences this year, six of which are in China. These included licences for one methanol plant and one butanediol plant. The remaining five projects are all for new oxo alcohols plants, one of which marked the 50th oxo licence for DPT and its licence partner. The oxo alcohols produced using this technology are mainly used as plasticisers and continued economic growth and development of the chemical industry in China has driven demand. We have invested in R&D to constantly improve our oxo technology and this has enabled us to maintain our strong position in China. Following the high level of oxo capacity introduced in China in recent years, we expect that the number of new plants and, hence, licences available to DPT will reduce from 2013/14 onwards.

Increasing access to unconventional gas (including that extracted from shale) and the resulting lower gas prices is encouraging activity in syngas projects, particularly in North America. During the year DPT has entered into engineering contracts for the design of two new methanol plants in the USA. R&D investment remains a key priority at DPT to enable it to enhance its existing technologies and bring new technologies to market. Work has continued in a number of new areas to support the expansion of DPT's portfolio, particularly in the area of biorenewables.

Tracerco had a very good year with sales 17% ahead of last year at £60 million. The business saw strong demand from the oil and gas industry for its specialist measurement and process diagnostic services which our customers use to help them improve the efficiency and environmental performance of their operations.

Energy security concerns, especially in China and North America, remain a strong driver for Process Technologies. Our business is also starting to benefit from the consequences of sustained lower gas pricing as a result of unconventional gas extraction in North America and we expect that over time, Europe and China will also seek to exploit their reserves.

In March 2013 Johnson Matthey acquired Formox, a leading global provider of catalysts, plant designs and licences for the manufacture of formaldehyde which is an important chemical intermediate. It has developed a range of metal oxide based catalysts for the production of formaldehyde from methanol and provides process technology for metal oxide based formaldehyde production plants with an installed base of around 130 plants worldwide.

Formox's technologies complement Johnson Matthey's existing strengths in process catalysts and in plant design and licensing. The acquisition enhances our position as a leading supplier of technology for a range of syngas and other chemical processes. Formox provides exciting opportunities to integrate and expand our technology and catalysts into a broader range of chemical processes. Its expertise in selective oxidation catalysis, a technology that has applications in a number of other catalyst areas, also provides additional opportunities for Johnson Matthey to grow its position in the global petrochemicals market.

Formox employs around 90 people and has manufacturing, R&D, engineering and sales facilities in Sweden. In the year to 31st December 2012 Formox had sales of £50 million and adjusted EBITDA (earnings before interest, tax, depreciation and amortisation) of £12.6 million.

Sales in our **Fuel Cells** business increased slightly this year to £6 million, benefiting from new opportunities in the backup power and consumer electronics markets, although growth was held back as a result of continuing delays at our customers in the deployment of combined heat and power systems in the USA.

Fuel cell technology for transport applications, especially cars, remains an important opportunity for Johnson Matthey and major car companies have reaffirmed their interest in fuel cell powertrains as part of a balanced portfolio of electric vehicles. We have continued to develop technology for automotive membrane electrode assemblies and our products have been well received by car companies, providing cost and performance characteristics in line with their needs.

The net expense of our Fuel Cells business increased by £1.3 million to £10.5 million.

Our **Battery Technologies** business was formed during 2012/13 and comprises Johnson Matthey's R&D programmes in advanced battery materials and Axeon, which was acquired in October 2012 and specialises in the design, development and manufacture of integrated battery systems.

The business is focused on developing advanced technologies and materials to meet the requirements of high performance battery applications such as for automotive, e-bikes and power tools. Whilst the market for these batteries continues to grow strongly in some markets, in others, for example automotive, the performance of today's battery chemistry continues to be a limiting factor. This provides opportunities for technology development to address the challenges for these markets. Johnson Matthey's capabilities in materials science fit well with Axeon's understanding of the applications engineering of battery systems and the integration of Axeon into the group is progressing well.

Our Battery Technologies business, which made a small loss in 2012/13, delivered sales of £31 million primarily to the power tools and e-bikes markets and we expect these markets to continue to grow in the next few years. Axeon has also made some initial progress with automotive customers.

Our R&D programmes are focusing on the development of improved materials for lithium-ion chemistries and on next generation materials. During the year we have expanded our R&D efforts and work is underway to add further laboratory facilities for materials testing and cell prototyping. We are also pursuing other bolt-on acquisition opportunities to further enhance our position in this market.

**Precious Metal Products**

| | Year to 31st March 2013 £ million | 2012 £ million | % change | % at constant rates |
|---|---|---|---|---|
| **Revenue** | **8,491** | **9,841** | **-14** | **-14** |
| **Sales (excl. precious metals)** | **548** | **582** | **-6** | **-5** |
| **Underlying operating profit** | **147.1** | **200.8** | **-27** | **-26** |
| **Return on sales** | **26.8%** | **34.5%** | | |
| **Return on invested capital (ROIC)** | **39.2%** | **58.9%** | | |

Precious Metal Products Division (PMPD) had a difficult year with revenue down 14% at £8.5 billion, sales 6% lower at £548 million and underlying operating profit 27% below last year at £147.1 million. Whilst sales in the division's Manufacturing businesses were only slightly down, its Services businesses were adversely impacted by the effect of lower average precious metal prices, lower volumes across its activities and by previously reported operational issues in the first half in the gold and silver refining business.

Sales in the division's **Services** businesses, which comprise its Platinum Marketing and Distribution and Refining activities and which represent 31% of PMPD's sales, fell by 15% to £168 million. These businesses have a high level of fixed costs and a significant proportion of their sales is influenced by precious metal prices. As a consequence of both of these factors, operating profit was substantially down on prior year.

*Platinum Marketing and Distribution* – Our Platinum Marketing and Distribution business had a poor year with sales of £58 million (2011/12 £80 million). Operating profit reduced sharply. Its performance was significantly impacted by lower average precious metal prices, with average platinum and palladium prices at $1,560/oz and $659/oz respectively, both 7% lower than in 2011/12. Lower production volumes at Anglo American Platinum (Anglo Platinum) also reduced our sales and profit from our distribution activities was down due to a continued lack of price volatility throughout the year.

Johnson Matthey has, for many years, had contracts with Anglo Platinum relating to the supply, market research and market development of the platinum group metals (pgms) and the existing contracts will expire on 31st December 2013.

On 15th February 2013 we announced an extension to our metal supply agreement with Anglo Platinum and a separate contract to provide it with pgm market research services. However, unlike the previous arrangements, there will be no market development agreement between the two parties. These new arrangements will take effect from 1st January 2014. In contrast to our existing contracts, where income was related both to Anglo Platinum's production volumes and pgm prices, the new metal supply agreement will attract no discounts and we will be paid a fixed fee for market research. The change in our contracts with Anglo Platinum will affect earnings in the fourth quarter of 2013/14 onwards and based upon sales in 2012/13, the full year impact on the group will be a loss of commission income of approximately £35 million. Any consequential restructuring to Precious Metal Products Division will not occur until the end of 2013 at the earliest and the likely cost savings associated with any restructuring are expected to be relatively modest.

*Refining* – The performance of our Refining businesses this year was poor, with sales down 7% at £110 million.

Sales in the Pgm Refining and Recycling business were 2% down on 2011/12 and volumes were lower across all types of refining feed. Operating profit was ahead as a result of operational improvements. The slowdown in demand experienced in the latter part of 2011/12 continued in the first half of 2012/13. However, volumes began to recover in the second half of the year and have continued to improve into 2013/14. In particular, intakes of end of life autocatalyst scrap, a key part of the business which accounted for around 35% of its refining volumes, increased in the second half of the year as collector networks and part processors, encouraged by more favourable pgm prices, began to release material into the refining circuit. Sales from our mining customers for primary refining services were also down, due to both the lower metal prices and the well publicised supply issues in South Africa.

Our Gold and Silver Refining business had a very difficult year with sales down 13%. As we have previously reported, we had some operational issues at our Salt Lake City refinery in the first half of the year which, after mitigating actions, had an adverse impact on our results of some £10 million. Action has been taken to address the root causes of these issues and to improve the operational efficiency of the refinery. As a result of these additional costs, together with lower volumes and slightly lower average metal prices, the business generated a small operating loss in the year. A stagnant gold price and lower silver prices impacted demand for refining services and bullion products at both our US and Canadian refineries although intakes of primary material did increase towards the end of the year. The average price of gold was flat, down $7/oz at $1,654/oz in 2012/13, whilst silver was down 14% year on year at $31/oz. Intakes of primary materials were slightly down on prior year, however, volumes of secondary scrap, where our margins are higher, were significantly lower after several years of high activity and more attractive metal prices. Work is underway to increase silver refining capacity at our Brampton, Canada facility primarily to support demand from a new primary refining contract which is due to start in 2014/15.

Sales in our **Manufacturing** businesses, comprising the division's Noble Metals, Colour Technologies and Catalysts and Chemicals activities, which represent 69% of PMPD's sales, were down 1% to £380 million. Operating profit was also slightly lower.

*Noble Metals* – Sales in our Noble Metals business, which supplies high technology products to the industrial, automotive and medical device sectors, fell slightly this year, down 2% to £122 million. Operating profit was significantly down, partly due to costs associated with exiting a small, loss making business which supplied equipment to the semiconductor industry.

Sales of industrial products, which represent 67% of Noble Metals' sales, were 6% lower at £82 million. Demand for pgm alloy catalysts used in fertiliser manufacture were down after a strong year in 2011/12, although this was partly offset by good growth in demand for nitrous oxide ($N_2O$) abatement technology as new projects came on line. The use of this technology is, however, very sensitive to the carbon price which has collapsed in recent months. Consequently, sales in 2013/14 for this high value technology are likely to be substantially lower. Sales of other industrial products were down slightly reflecting reduced customer demand, particularly in Europe.

Sales of medical components (33% of Noble Metals' sales) were 6% up on last year at £40 million, ahead of its market growth rates. Sales grew steadily in both the US and European regions and the business saw good demand for its pgm products used primarily in cardiovascular applications.

*Colour Technologies* – With its largest market being the European automotive glass sector, sales in Colour Technologies were 6% down at £82 million and operating profit also fell. In recent years the business has focused on the manufacture of high performance functional materials and these now represent more than two thirds of the business' sales compared with 45% five years ago.

Sales of automotive products were broadly flat this year as growth in the US and in particular in Asia compensated for a decline in Europe. Our market share has grown slightly as we benefited from the supply of innovative new products to the sector. During the year we acquired a small business in China that manufactures silver paste and which should provide us with a route to the growing market for silver paste for photovoltaic cell applications. Sales of products to decorative markets continued their long term declining trend.

*Catalysts and Chemicals* – Catalysts and Chemicals' sales grew by 3% to £176 million and operating profit was substantially ahead. Demand for catalysts used in the production of a wide range of petrochemicals was strong and the business continued to invest in R&D to support its pipeline of new products. Sales of catalysts for the production of edible oils and oleochemicals were down and whilst we saw a small reduction in volumes, the major impact on sales came from the effect of lower nickel raw material prices, the benefit of which is passed on to our customers. Sales of sponge nickel catalysts, which are used by the fine chemicals industry, were also adversely affected by the lower price of nickel. However, demand for catalysts and chiral technologies grew well in the year.

Sales of chemical products were slightly down on last year as a result of lower demand for pgm chemicals from customers in the pharmaceutical and fine chemical sectors. Demand for pgm salts used in the manufacture of emission control catalysts by external customers and our own ECT business were broadly flat.

**Fine Chemicals**

| | Year to 31st March 2013 £ million | 2012 £ million | % change | % at constant rates |
|---|---|---|---|---|
| **Revenue** | **286** | **292** | **-2** | **-2** |
| **Sales (excl. precious metals)** | **277** | **285** | **-3** | **-3** |
| **Underlying operating profit** | **71.1** | **69.7** | **+2** | **+2** |
| **Return on sales** | **25.6%** | **24.5%** | | |
| **Return on invested capital (ROIC)** | **16.9%** | **16.7%** | | |

After two of years of strong growth, the performance of Fine Chemicals Division was impacted by increased competition in the UK regulated market in 2012/13. The API manufacturing business in the US and Research Chemicals both performed broadly in line with last year. Overall, revenue was 2% down at £286 million, sales were 3% below last year at £277 million but underlying operating profit was 2% ahead at £71.1 million. The division's underlying return on sales improved by 1.1% to 25.6%.

The division's **API Manufacturing businesses** are based in Edinburgh, UK and in the north east of the USA. These businesses, which represent 71% of Fine Chemicals' sales at £198 million, had a challenging year with sales 4% lower and underlying operating profit down by a similar amount.

During the year, higher levels of importation of controlled substance products into the UK led to increased competition in our market. Despite this we were able to maintain volumes at levels close to last year, but prices fell particularly for bulk opiates used in pain relief, such as codeine and dihydrocodeine. In response to this increased competition we undertook a review of our global API manufacturing and, as a consequence, have restructured the business to improve its efficiency. A charge of £14.2 million, which is excluded from the division's underlying results, was made in the year to write off assets that will no longer be required following the consolidation of global manufacturing and to reduce staff numbers by 30 in the UK. This should result in cost savings of £5 million per annum in the second half of 2013/14.

In addition, we continue discussions with the UK government to understand their future intentions on importation of controlled substances, although we believe that a whole scale opening up of this market is unlikely. Our business is, however, now better positioned to return to growth and respond to any market changes that result.

The business saw continued growth in volumes for attention deficit hyperactivity disorder (ADHD) treatments and for opiate based pain relief products. Since the year end our customers have received approval for the launch of a new generic drug that utilises APIs manufactured by us in the UK and that is used to treat drug addiction; this should help to boost sales further in 2013/14 and beyond. The business continued to benefit from oxymorphone patent revenue from Endo, the US based healthcare company.

**Research Chemicals**, which operates globally under the Alfa Aesar brand name, performed in line with last year with sales at £79 million. Sales grew in Europe and Asia, but fell slightly in North America. Operating profit grew ahead of sales as the mix of higher margin catalogue sales grew at the expense of bulk sales.

During the year, work began on the construction of new warehouses in Shanghai, China and Nevada, USA. The Shanghai warehouse will enable the business to relocate its existing facility from Tianjin in the north of China to the more lucrative markets surrounding Shanghai. The Nevada warehouse will provide the business with a physical presence on the west coast of North America, significantly improving service levels to customers in this region. Both facilities will be completed in the first half of 2013/14.

The business continued to expand its range and during the year over 8,000 new products were added, many of which are unique and exclusive to Alfa Aesar.

## Financial Review

### Exchange Rates

The main impact of exchange rate movements on the group's results comes from the translation of foreign subsidiaries' profit into sterling as the group does not hedge the impact on the income statement or balance sheet of these translation effects.

Of the group's underlying operating profit that is denominated in overseas currencies the average exchange rates during 2012/13 were:

| | Share of 2012/13 non-sterling denominated underlying operating profit | Average exchange rate 2012/13 | Average exchange rate 2011/12 |
|---|---|---|---|
| **US dollar** | **42%** | **1.580** | **1.597** |
| **Euro** | **28%** | **1.228** | **1.160** |
| **Chinese renminbi** | **11%** | **9.93** | **10.21** |

During the year, sterling strengthened slightly against the euro but weakened slightly against the US dollar and Chinese renminbi. Together these decreased reported group underlying operating profit for the year by £1.8 million.

Going forward, each one cent change in the average US dollar exchange rate and each one cent change in the euro exchange rate have approximately a £0.8 million and £0.7 million effect respectively on underlying operating profit in a full year.

**Return on Sales**

The group's return on sales decreased from 16.8% to 15.5% as the group was impacted by lower returns in Precious Metal Products Division, as described in the operations review.

**Return on Invested Capital**

After two years of significant improvement in the group's return on invested capital (ROIC), this year ROIC fell from 22.3% to 19.7%. Although ROIC increased in Environmental Technologies Division, this was more than offset by a large reduction in our higher return on capital Precious Metal Products Division.

Underlying operating profit for the group was £35.3 million lower than last year at £414.8 million, and average invested capital was £92 million higher at £2,107 million due to the acquisition of both Axeon and Formox, but also an increase in working capital of £40.2 million.

Despite falling to 19.7%, the group's ROIC is still well ahead of our pre-tax cost of capital, which we estimate to be 10.5% (2011/12 11.2%). Looking forward to 2013/14 and beyond, the group's ROIC will be impacted by the new Anglo Platinum contracts from 1st January 2014. Notwithstanding this, we remain committed to our 20% ROIC target. While seeking to continually improve the group's returns, we will not do this at the expense of the long term future of the group. We will continue to invest in our businesses across the world, both in capital expenditure and in research and development, and we will also target appropriate acquisitions that accelerate the delivery of the group's strategy, but which, in the short term at least, may depress ROIC.

**Interest**

The group's net finance costs increased by £1.5 million to £25.6 million as a result of higher borrowing costs caused primarily by the return of capital to shareholders.

Approximately 74% of the group's net debt at 31st March 2013 has fixed interest rates averaging approximately 3.7%.

**Profit Before Tax**

The group's underlying profit before tax decreased by 9% to £389.2 million (2011/12 £426.0 million). Profit before tax was 13% lower at £354.9 million (2011/12 £409.3 million). Principal items excluded from underlying profit were:

- amortisation of acquired intangibles of £16.9 million; and
- an impairment and restructuring charge of £14.2 million in respect of rationalisation costs in our global API manufacturing business.

**Taxation**

The group's total tax charge for the year was £79.1 million, a tax rate of 22.3% on profit before tax (2011/12 22.9%).

On underlying profit before tax of £389.2 million, the tax charge was £81.7 million, which represents an effective tax rate of 21.0%, down from 23.5% last year. This decrease was primarily due to a lower proportion of profits in jurisdictions with higher tax rates and further reductions to the headline rate of corporation tax in the UK.

The group continues to benefit from the reduction in the headline UK corporation tax rate. That rate, which was 28% for the year ended 31st March 2011, was 24% for the year ended 31st March 2013 and will reduce to 23% for the year ending 31st March 2014, to 21% for the year ending 31st March 2015 and then to 20% for years ending after 31st March 2015.

In addition, recent changes to UK tax law to reduce the corporation tax charged on profit earned from qualifying patented technologies to 10% and favourable changes to the UK Controlled Foreign Companies tax rules, both effective for the year ending 31st March 2014, should help to reduce the group's effective tax rate further. Partly offsetting these changes, following the UK government's recently announced rules to allow the reporting of R&D tax credits 'above the line', the group will first report R&D tax credits as part of operating profit for the year ending 31st March 2014. This adjustment will not materially affect the group's profit after tax.

We can never be entirely certain of the geographic mix of profit in any given year, but going forward we anticipate that the rate of tax on the group's underlying profit should average at least 3% lower than the headline rate for UK corporation tax.

**Earnings per Share**

Underlying earnings per share fell by 2% to 150.0 pence, despite the reduction in underlying profit before tax of 9%. Earnings per share benefited from the lower tax rate as well as a reduced number of shares following the share consolidation that accompanied the special dividend paid in August 2012. Total earnings per share fell by 9% to 134.6 pence.

**Pensions**

*Actuarial – Funding Basis*

*UK Scheme*

The latest actuarial valuation of the UK scheme, effective as at 1st April 2012, estimated that the scheme deficit was £214 million (1st April 2009 £173 million). This increase of £41 million is after taking account of deficit funding contributions since 1st April 2009 of approximately £50 million. As a result of the increase in the actuarial deficit, the company has:

- established an asset backed, on balance sheet special purpose vehicle (SPV) which holds £50 million of third party corporate bonds financed by a one-off cash payment made in the second half of 2012/13. The annual income generated by this SPV will be paid to the UK pension scheme while it remains in deficit. Ongoing cash deficit contributions payable directly to the scheme will be maintained at £23.1 million per annum until 2020;
- with effect from 1st October 2012, the career average defined benefit section of the pension scheme was closed to new entrants. From that date new employees were enrolled in a new contributory cash balance defined benefit scheme; and
- from 1st April 2013, increased employee contributions for those who remain in the career average defined benefit section to help fund the increase in cost of providing these benefits.

*US Scheme*

The latest actuarial valuations of the two US pension schemes estimated that their deficits had increased from £12 million at 30th June 2011 to £39 million at 30th June 2012. Deficit funding contributions of £4.4 million were made in the year and contributions of £4 million were agreed for 2013/14.

The significant reduction in real US interest rates gave rise to the increase in the schemes' deficit. The company is currently reviewing its options for future pension provision in the US and, at the same time, reviewing other ways to reduce and manage these net deficits.

For each of its pension schemes worldwide, the group continues to work with their fiduciary committees and trustee boards to ensure an appropriate investment strategy is in place, which includes better matching of the schemes' assets to their liabilities as funding levels improve. Currently, 55% of the group's total pension assets are held in government and corporate bonds, up from 52% last year.

*IFRS – Accounting Basis*

The group's net liabilities associated with the pension and post-retirement medical benefit schemes are:

| | 31st March 2013<br>£ million | 31st March 2012<br>£ million |
|---|---|---|
| UK scheme | | |
| Scheme deficit | (115.6) | (84.8) |
| SPV assets | 49.7 | - |
| Net deficit[1] | (65.9) | (84.8) |
| US schemes | (55.4) | (26.0) |
| Other pension schemes[2] | (23.2) | (17.9) |
| | **(144.5)** | **(128.7)** |
| Post-retirement medical schemes | (49.7) | (38.4) |
| **Total [1]** | **(194.2)** | **(167.1)** |

[1] After taking account of the assets held on behalf of the UK pension scheme by the SPV.

[2] Deficits of £25.1 million and surplus of £1.9 million.

The deficits in the group's principal UK and US defined benefit pension schemes increased by £60.2 million despite deficit funding contributions of approximately £28 million made in the year. This increase was principally caused by a decrease in the discount rate used to value the schemes' liabilities.

The cost of providing post-employment benefits increased from £25.4 million in 2011/12 to £40.2 million in 2012/13. This charge was included, in full, within operating profit.

*IFRS – Revised Accounting Standard*

With effect from 1st April 2013, the group will take account of the revised accounting standard, IAS 19 – 'Employee Benefits'. This change will impact the group by amending disclosure requirements and replacing the expected return on plan assets and interest cost on plan obligations with net interest on the net defined benefit liability based upon the discount rate. The effect on the group for the year ending 31st March 2014 is estimated to be an increase in operating profit of approximately £1.5 million, and an increase in the interest charge of £10.5 million.

The implementation of this new standard will also require a restatement of prior years' results. Had the new standard been applied in the current and previous years, the effect would have been as follows:

| | 31st March 2013 | | 31st March 2012 | |
|---|---|---|---|---|
| | Published | Revised | Published | Revised |
| | £ million | £ million | £ million | £ million |
| Charge to operating profit | 40.2 | 38.9 | 25.4 | 31.2 |
| Net interest | - | 7.6 | - | 6.7 |
| Total charge to income | 40.2 | 46.5 | 25.4 | 37.9 |

**Cash Flow**

During the year ended 31st March 2013 net cash flow from operating activities was £396.1 million (2011/12 £464.4 million). The group's total working capital increased by £40.2 million in the year but excluding the element that relates to precious metals, working capital decreased by £43.8 million, from 54 days last year to 49 days; a good performance. Working capital in respect of precious metals, however, grew by £84.0 million as a result of lower levels of customer funded metal.

The group's free cash flow was £135.6 million (2011/12 £299.4 million). Adjusting for the effect of movements in precious metal working capital balances, the group's free cash flow was £219.6 million compared with £238.5 million last year, as capital expenditure increased to support future growth opportunities.

The group's cash flow conversion (adjusting for the effect of movements in precious metal working capital) was 93% (2011/12 78%), reflecting the improvement in working capital management across the group.

**Capital Expenditure**

Capital expenditure was £192.0 million (of which £183.9 million was cash spent in the year) which equated to 1.5 times depreciation. In the year, £117.4 million, or 61%, was incurred by Environmental Technologies Division. The principal investments were projects to:

- add further autocatalyst manufacturing capacity in Europe, in Macedonia and Royston, ahead of the upcoming light duty and heavy duty legislation;
- expand our additives plant in Savannah, US to meet the growing demand for its products; and
- increase the throughput of our gold and silver refinery in Brampton, Canada in order to satisfy the demands of a new primary refining contract which is due to start in 2014/15.

There are a number of good opportunities for growth across the group. In order to access these, we anticipate that capital expenditure will be just over £200 million per annum for the next few years. This will be in the range of 1.5 to 1.7 times depreciation.

Depreciation, which was £126.6 million in 2012/13 (2011/12 £126.1 million), will rise as a consequence of this increased investment to around £135 million in 2013/14 and then further, to around £165 million, by 2015/16.

**Capital Structure**

In the year ended 31st March 2013 net debt increased by £381.0 million to £835.2 million, although when the post tax pension deficits and bonds purchased to fund pensions of £107.8 million are included, net debt rises to £943.0 million. The principal reasons for the substantial increase in net debt in the year were the return of £212.1 million to shareholders by way of a special dividend, the acquisitions of Axeon and Formox, together costing £147.1 million (net of cash acquired), and the increase in working capital of £40.2 million referred to above. To fund the special dividend, we agreed new long term loans amounting to approximately £161 million at an average interest rate of 3.4%.

During the year, the group's EBITDA (on an underlying basis) fell by 6% to £541.4 million (2011/12 £576.2 million). As a result, net debt (including post tax pension deficits) / EBITDA rose from 1.0 last year to 1.7 times.

We continue to believe that a net debt (including post tax pension deficits) to EBITDA ratio of around 1.5 to 2.0 times is appropriate for the group over the longer term.

Since the year end we have arranged additional 10 to 15 year fixed rate loans of approximately $500 million through the US Private Placement market, with an average interest rate of 3.2%. These new borrowings refinance existing loans which mature during 2013/14 and also give us ample capacity to invest in the business.

**Outlook**

2012/13 was a challenging year for Johnson Matthey, but nevertheless we remain very well positioned to grow our business over the medium and long term. However, 2013/14 will be a year of transition as on 1st January 2014 new Euro VI legislation comes into force for heavy duty diesel vehicles in Europe and on the same date our new arrangements with Anglo Platinum will commence.

*Environmental Technologies*

Although the medium term outlook for our Environmental Technologies Division is positive, growth in our Emission Control Technologies business in the short term will be strongly influenced by the European economic environment. In the last few months light duty vehicle sales data has been mixed. Sales in our European heavy duty diesel business have, however, exceeded our expectations, which may suggest some pre-buy ahead of the new Euro VI legislation. Our North American business continues to make progress and the advent of heavy duty diesel Euro IV legislation in China, which commences on 1st July 2013, will drive further growth.

Process Technologies is well placed for another year of growth, benefiting from the acquisition of Formox. Underlying demand for our chemical catalysts and technologies remains strong, although we expect that normal cyclicality will impact demand for ammonia catalysts but benefit that for methanol catalysts. The oil and gas market remains robust which will enable continued strong demand for our products.

In its first full year, we anticipate that Battery Technologies will grow sales substantially.

*Precious Metal Products*

Overall we expect that Precious Metal Products Division will make progress in 2013/14 albeit from a relatively low base. Our refining businesses have started the year well as higher intake volumes in the fourth quarter of 2012/13 are processed. Precious metal prices have fallen in recent months and if maintained these lower prices will likely lead to a reduction in our refining volumes. Our Manufacturing businesses are expected to continue to make steady progress during 2013/14.

*Fine Chemicals*

The performance of Fine Chemicals Division in 2012/13 was impacted by competition issues at our UK API manufacturing business. The restructuring in the fourth quarter positions the business for the future but its UK business is unlikely to fully recover within the next two years. We expect continued growth in the US API manufacturing business in 2013/14 and overall the long term drivers for the division remain sound. We therefore expect that, after some modest retrenchment in the first half, the division should return to growth in the second half of 2013/14.

Overall, we expect that the group will make steady progress in 2013/14 notwithstanding the loss of revenue from Anglo Platinum. In the medium term, growth is expected to accelerate in 2014/15 and beyond, driven particularly by tighter vehicle emissions legislation and demand for Process Technologies' products, especially in China. In addition, we are confident that our long term market drivers will enable Johnson Matthey to deliver continued growth which will be further enhanced by our ongoing investment in R&D and new business development.

**Reorganisation**

With effect from 1st April 2013 the group has reorganised its reporting divisions and certain businesses within the Catalysts and Chemicals segment of Precious Metal Products Division have been moved into Process Technologies and Fine Chemicals. To reflect our new management structure and to improve transparency for our stakeholders, for the year ending 31st March 2014 the group will report the results of five divisions: Emission Control Technologies, Process Technologies, Precious Metal Products, Fine Chemicals and New Businesses.

## Consolidated Income Statement
for the year ended 31st March 2013

| | Notes | 2013 £ million | 2012 £ million |
|---|---|---|---|
| **Revenue** | 4 | **10,728.8** | 12,023.2 |
| Cost of sales | | **(10,024.9)** | (11,270.2) |
| Gross profit | | **703.9** | 753.0 |
| Distribution costs | | **(125.1)** | (119.8) |
| Administrative expenses | | **(164.0)** | (183.1) |
| Major impairment and restructuring charges | 2 | **(17.4)** | - |
| Amortisation of acquired intangibles | 3 | **(16.9)** | (16.7) |
| **Operating profit** | 5,4 | **380.5** | 433.4 |
| Finance costs | | **(33.8)** | (35.4) |
| Finance income | | **8.2** | 11.3 |
| **Profit before tax** | | **354.9** | 409.3 |
| Income tax expense | | **(79.1)** | (93.9) |
| **Profit for the year** | | **275.8** | 315.4 |
| **Attributable to:** | | | |
| **Owners of the parent company** | | **276.5** | 315.9 |
| Non-controlling interests | | **(0.7)** | (0.5) |
| | | **275.8** | 315.4 |
| | | **pence** | pence |
| **Earnings per ordinary share attributable to the equity holders of the parent company** | | | |
| Basic | 7 | **134.6** | 148.7 |
| Diluted | 7 | **133.5** | 146.9 |

## Consolidated Statement of Total Comprehensive Income
for the year ended 31st March 2013

| | 2013 £ million | 2012 £ million |
|---|---|---|
| **Profit for the year** | **275.8** | 315.4 |
| **Other comprehensive income:** | | |
| Currency translation differences | **22.2** | (53.7) |
| Cash flow hedges | **(15.6)** | 6.1 |
| Fair value (losses) / gains on net investment hedges | **(4.3)** | 23.7 |
| Fair value loss on available-for-sale investments | **(0.3)** | - |
| Actuarial loss on post-employment benefits assets and liabilities | **(97.9)** | (70.6) |
| Tax on above items taken directly to or transferred from equity | **25.8** | 18.7 |
| **Other comprehensive (expense) / income for the year** | **(70.1)** | (75.8) |
| **Total comprehensive income for the year** | **205.7** | 239.6 |
| **Attributable to:** | | |
| **Owners of the parent company** | **206.1** | 240.1 |
| Non-controlling interests | **(0.4)** | (0.5) |
| | **205.7** | 239.6 |

## Consolidated Balance Sheet
as at 31st March 2013

| | Notes | 2013 £ million | 2012 £ million |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **993.5** | 909.5 |
| Goodwill | | **585.3** | 519.5 |
| Other intangible assets | | **212.8** | 127.8 |
| Deferred income tax assets | | **20.3** | 25.4 |
| Investments and other receivables | | **62.6** | 11.0 |
| Interest rate swaps | 8 | **27.1** | 29.3 |
| Post-employment benefit net assets | 11 | **1.9** | 2.0 |
| **Total non-current assets** | | **1,903.5** | 1,624.5 |
| **Current assets** | | | |
| Inventories | | **665.9** | 630.8 |
| Current income tax assets | | **15.1** | 11.5 |
| Trade and other receivables | | **873.1** | 847.1 |
| Cash and cash equivalents - cash and deposits | 8 | **70.0** | 139.1 |
| Other financial assets | | **5.7** | 11.6 |
| **Total current assets** | | **1,629.8** | 1,640.1 |
| **Total assets** | | **3,533.3** | 3,264.6 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | | **(733.5)** | (710.7) |
| Current income tax liabilities | | **(106.7)** | (103.1) |
| Cash and cash equivalents - bank overdrafts | 8 | **(48.2)** | (35.8) |
| Other borrowings and finance leases | 8 | **(273.8)** | (56.4) |
| Other financial liabilities | | **(11.3)** | (4.5) |
| Provisions | | **(19.8)** | (34.0) |
| **Total current liabilities** | | **(1,193.3)** | (944.5) |
| **Non-current liabilities** | | | |
| Borrowings, finance leases and related swaps | 8 | **(610.3)** | (530.4) |
| Deferred income tax liabilities | | **(56.5)** | (53.4) |
| Employee benefit obligations | 11 | **(247.9)** | (171.4) |
| Provisions | | **(29.2)** | (28.8) |
| Other payables | | **(3.6)** | (4.3) |
| **Total non-current liabilities** | | **(947.5)** | (788.3) |
| **Total liabilities** | | **(2,140.8)** | (1,732.8) |
| **Net assets** | | **1,392.5** | 1,531.8 |
| **Equity** | | | |
| Share capital | | **220.7** | 220.7 |
| Share premium account | | **148.3** | 148.3 |
| Shares held in employee share ownership trust (ESOT) | | **(51.7)** | (50.2) |
| Other reserves | | **48.1** | 43.0 |
| Retained earnings | | **1,028.5** | 1,169.6 |
| **Total equity attributable to owners of the parent company** | | **1,393.9** | 1,531.4 |
| Non-controlling interests | | **(1.4)** | 0.4 |
| **Total equity** | | **1,392.5** | 1,531.8 |

## Consolidated Cash Flow Statement
for the year ended 31st March 2013

| | Notes | 2013 £ million | 2012 £ million |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before tax | | **354.9** | 409.3 |
| Adjustments for: | | | |
| Depreciation, amortisation, impairment losses and profit on sale of non-current assets and investments | | **149.6** | 146.8 |
| Share-based payments | | **7.9** | 12.8 |
| Increase in inventories | | **(11.6)** | (88.9) |
| (Increase) / decrease in receivables | | **(2.1)** | 24.5 |
| (Decrease) / increase in payables | | **(22.1)** | 55.4 |
| Decrease in provisions | | **(16.2)** | (19.2) |
| Contributions in excess of employee benefit obligations charge | | **(26.2)** | (30.9) |
| Changes in fair value of financial instruments | | **(3.0)** | (0.7) |
| Net finance costs | | **25.6** | 24.1 |
| Income tax paid | | **(60.7)** | (68.8) |
| **Net cash inflow from operating activities** | | **396.1** | 464.4 |
| **Cash flows from investing activities** | | | |
| Purchases of non-current assets and investments | | **(234.2)** | (150.7) |
| Proceeds from sale of non-current assets and investments | | **1.4** | 8.3 |
| Purchases of businesses | | **(149.6)** | 0.6 |
| **Net cash outflow from investing activities** | | **(382.4)** | (141.8) |
| **Cash flows from financing activities** | | | |
| Net cost of ESOT transactions in own shares | | **(23.9)** | (25.7) |
| Proceeds from / (repayment of) borrowings and finance leases | | **280.2** | (166.4) |
| Dividends paid to equity holders of the parent company | 6 | **(328.4)** | (103.1) |
| Settlement of currency swaps for net investment hedging | | **2.7** | 8.8 |
| Interest paid | | **(35.2)** | (34.0) |
| Interest received | | **7.5** | 11.4 |
| **Net cash outflow from financing activities** | | **(97.1)** | (309.0) |
| **(Decrease) / increase in cash and cash equivalents in the year** | | **(83.4)** | 13.6 |
| Exchange differences on cash and cash equivalents | | **1.9** | (4.7) |
| Cash and cash equivalents at beginning of year | | **103.3** | 94.4 |
| **Cash and cash equivalents at end of year** | 8 | **21.8** | 103.3 |

| | Notes | 2013 £ million | 2012 £ million |
|---|---|---|---|
| **Reconciliation to net debt** | | | |
| (Decrease) / increase in cash and cash equivalents in the year | | **(83.4)** | 13.6 |
| (Proceeds from) / repayment of borrowings and finance leases | | **(280.2)** | 166.4 |
| Change in net debt resulting from cash flows | | **(363.6)** | 180.0 |
| Borrowings acquired with subsidiaries | | **(0.5)** | - |
| Exchange differences on net debt | | **(16.9)** | 5.2 |
| Movement in net debt in year | | **(381.0)** | 185.2 |
| Net debt at beginning of year | | **(454.2)** | (639.4) |
| **Net debt at end of year** | 8 | **(835.2)** | (454.2) |

## Consolidated Statement of Changes in Equity

for the year ended 31st March 2013

| | Share capital £ million | Share premium account £ million | Shares held in ESOT £ million | Other reserves £ million | Retained earnings £ million | Non-controlling interests £ million | Total equity £ million |
|---|---|---|---|---|---|---|---|
| At 1st April 2011 | 220.7 | 148.3 | (35.8) | 68.3 | 1,001.2 | 1.1 | 1,403.8 |
| Total comprehensive income | - | - | - | (25.3) | 265.4 | (0.5) | 239.6 |
| Dividends paid (note 6) | - | - | - | - | (103.1) | (0.2) | (103.3) |
| Purchase of shares by ESOT | - | - | (37.0) | - | - | - | (37.0) |
| Share-based payments | - | - | - | - | 18.8 | - | 18.8 |
| Cost of shares transferred to employees | - | - | 22.6 | - | (17.4) | - | 5.2 |
| Tax on share-based payments | - | - | - | - | 4.7 | - | 4.7 |
| At 31st March 2012 | 220.7 | 148.3 | (50.2) | 43.0 | 1,169.6 | 0.4 | 1,531.8 |
| Total comprehensive income | - | - | - | 5.1 | 201.0 | (0.4) | 205.7 |
| Dividends paid (note 6) | - | - | - | - | (328.4) | (0.2) | (328.6) |
| Purchase of non-controlling interest | - | - | - | - | - | (1.2) | (1.2) |
| Purchase of shares by ESOT | - | - | (28.6) | - | - | - | (28.6) |
| Share-based payments | - | - | - | - | 14.3 | - | 14.3 |
| Cost of shares transferred to employees | - | - | 27.1 | - | (28.1) | - | (1.0) |
| Tax on share-based payments | - | - | - | - | 0.1 | - | 0.1 |
| **At 31st March 2013** | **220.7** | **148.3** | **(51.7)** | **48.1** | **1,028.5** | **(1.4)** | **1,392.5** |

# Notes on the Preliminary Accounts

for the year ended 31st March 2013

## 1 Basis of preparation

The financial information contained in this release does not constitute the company's statutory accounts for the years ended 31st March 2013 or 31st March 2012 within the meaning of section 435 of the Companies Act 2006, but is derived from those accounts. The accounts are prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) or the Standing Interpretations Committee (SIC) as adopted by the European Union. For Johnson Matthey, there are no differences between IFRS as adopted by the European Union and full IFRS as published by the International Accounting Standards Board and so the accounts comply with IFRS. The accounting policies applied are set out in the Annual Report and Accounts for the year ended 31st March 2012. None of the new and amendments to accounting standards and interpretations which the group has adopted during the year has had a material effect on the reported results or financial position of the group. Statutory accounts for 2012 have been delivered to the Registrar of Companies and those for 2013 will be delivered following the company's Annual General Meeting. The auditors have reported on both of these sets of accounts. Their reports were unqualified, did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and did not contain any statement under sections 498(2) or 498(3) of the Companies Act 2006. The accounts for the year ended 31st March 2013 were approved by the Board of Directors on 5th June 2013.

## 2 Major impairment and restructuring charges

During the year ended 31st March 2013 the group commenced a restructuring of its global active pharmaceutical ingredient (API) manufacturing business. This gave rise to a pre-tax impairment and restructuring charge of £14.2 million.

During the year ended 31st March 2013 the group liquidated an Irish subsidiary and an Australian subsidiary and so reclassified £4.6 million of cumulative exchange losses from equity to major impairment and restructuring charges.

During the year ended 31st March 2011 the group announced it was starting consultation with the Works Council about the closure of its autocatalyst facility in Brussels. The plant ceased production in July 2011, the closure of the site then commenced and was completed during the year ended 31st March 2013. This gave rise to a pre-tax impairment and restructuring charge of £57.0 million estimated in the year ended 31st March 2011. £1.4 million was credited to major impairment and restructuring charges in the year ended 31st March 2013.

These are excluded from underlying operating profit.

## 3 Amortisation of acquired intangibles

The amortisation of intangible assets which arise on the acquisition of businesses, together with any subsequent impairment of these intangible assets, is shown separately on the face of the income statement. It is excluded from underlying operating profit.

## Notes on the Preliminary Accounts

for the year ended 31st March 2013

### 4 Segmental information by business segment

| | Environmental Technologies £ million | Precious Metal Products £ million | Fine Chemicals £ million | Eliminations £ million | Total £ million |
|---|---|---|---|---|---|
| **Year ended 31st March 2013** | | | | | |
| Revenue from external customers | **2,925.1** | **7,520.1** | **283.6** | **-** | **10,728.8** |
| Inter-segment revenue | **76.1** | **970.9** | **2.7** | **(1,049.7)** | **-** |
| Total revenue | **3,001.2** | **8,491.0** | **286.3** | **(1,049.7)** | **10,728.8** |
| External sales excluding the value of precious metals | **1,896.3** | **504.6** | **274.8** | **-** | **2,675.7** |
| Inter-segment sales | **7.6** | **43.4** | **2.6** | **(53.6)** | **-** |
| **Sales excluding the value of precious metals** | **1,903.9** | **548.0** | **277.4** | **(53.6)** | **2,675.7** |
| Segmental underlying operating profit | **226.0** | **147.1** | **71.1** | **-** | **444.2** |
| Unallocated corporate expenses | | | | | **(29.4)** |
| **Underlying operating profit** | | | | | **414.8** |
| Major impairment and restructuring charges (note 2) | | | | | **(17.4)** |
| Amortisation of acquired intangibles (note 3) | | | | | **(16.9)** |
| Operating profit | | | | | **380.5** |
| Net finance costs | | | | | **(25.6)** |
| Profit before tax | | | | | **354.9** |
| Segmental net assets | **1,674.4** | **425.7** | **422.7** | **-** | **2,522.8** |
| **Year ended 31st March 2012** | | | | | |
| Revenue from external customers | 3,123.6 | 8,609.4 | 290.2 | - | 12,023.2 |
| Inter-segment revenue | 131.0 | 1,232.0 | 2.2 | (1,365.2) | - |
| Total revenue | 3,254.6 | 9,841.4 | 292.4 | (1,365.2) | 12,023.2 |
| External sales excluding the value of precious metals | 1,861.9 | 534.3 | 282.4 | - | 2,678.6 |
| Inter-segment sales | 13.8 | 47.7 | 2.3 | (63.8) | - |
| **Sales excluding the value of precious metals** | 1,875.7 | 582.0 | 284.7 | (63.8) | 2,678.6 |
| Segmental underlying operating profit | 211.8 | 200.8 | 69.7 | - | 482.3 |
| Unallocated corporate expenses | | | | | (32.2) |
| **Underlying operating profit** | | | | | 450.1 |
| Amortisation of acquired intangibles (note 3) | | | | | (16.7) |
| Operating profit | | | | | 433.4 |
| Net finance costs | | | | | (24.1) |
| Profit before tax | | | | | 409.3 |
| Segmental net assets | 1,448.6 | 324.6 | 418.8 | - | 2,192.0 |

### 5 Effect of exchange rate changes on translation of foreign subsidiaries' sales excluding the value of precious metals and operating profits

| Average exchange rates used for translation of results of foreign operations | **2013** | 2012 |
|---|---|---|
| US dollar / £ | **1.580** | 1.597 |
| Euro / £ | **1.228** | 1.160 |
| Chinese renminbi / £ | **9.93** | 10.21 |
| South African rand / £ | **13.45** | 11.85 |

The main impact of exchange rate movements on the group's sales and operating profit comes from the translation of foreign subsidiaries' results into sterling. The one significant exception is the South African rand where the translational impact is more than offset by the impact of movements in the rand on operating margins. Consequently the analysis below excludes the translational impact of the rand.

| | **Year ended 31st March 2013 £ million** | Year ended 31st March 2012 At last year's rates £ million | Year ended 31st March 2012 At this year's rates £ million | Change at this year's rates % |
|---|---|---|---|---|
| **Sales excluding the value of precious metals** | | | | |
| Environmental Technologies | **1,903.9** | 1,875.7 | 1,862.5 | +2 |
| Precious Metal Products | **548.0** | 582.0 | 576.0 | -5 |
| Fine Chemicals | **277.4** | 284.7 | 285.1 | -3 |
| Elimination of inter-segment sales | **(53.6)** | (63.8) | (63.9) | |
| **Sales excluding the value of precious metals** | **2,675.7** | 2,678.6 | 2,659.7 | +1 |
| **Underlying operating profit** | | | | |
| Environmental Technologies | **226.0** | 211.8 | 210.4 | +7 |
| Precious Metal Products | **147.1** | 200.8 | 199.5 | -26 |
| Fine Chemicals | **71.1** | 69.7 | 69.8 | +2 |
| Unallocated corporate expenses | **(29.4)** | (32.2) | (32.1) | |
| **Underlying operating profit** | **414.8** | 450.1 | 447.6 | -7 |

### 6 Dividends

A final dividend of 41.5 pence per ordinary share has been proposed by the board which will be paid on 6th August 2013 to shareholders on the register at the close of business on 14th June 2013, subject to shareholders' approval. The estimated amount to be paid is £84.1 million and has not been recognised in these accounts.

| | **2013 £ million** | 2012 £ million |
|---|---|---|
| 2010/11 final ordinary dividend paid - 33.5 pence per share | **-** | 71.2 |
| 2011/12 interim ordinary dividend paid - 15.0 pence per share | **-** | 31.9 |
| 2011/12 final ordinary dividend paid - 40.0 pence per share | **84.9** | - |
| Special dividend paid - 100.0 pence per share | **212.1** | - |
| 2012/13 interim ordinary dividend paid - 15.5 pence per share | **31.4** | - |
| **Total dividends** | **328.4** | 103.1 |

## 7 Earnings per ordinary share

Following approval at the Annual General Meeting held on 25th July 2012 and in connection with the special dividend also approved, a share consolidation under which shareholders received 21 new ordinary shares of $104^{16}/_{21}$ pence for every 22 existing ordinary shares of 100 pence each, became effective on 6th August 2012. The calculation of earnings per ordinary share is based on a weighted average of 205,507,239 shares in issue including the effect of the share consolidation (2012 212,431,522 shares). The calculation of diluted earnings per ordinary share is based on the weighted average number of shares in issue adjusted by the dilutive outstanding share options and long term incentive plans. These adjustments give rise to an increase in the weighted average number of shares in issue of 1,683,218 shares (2012 2,567,460 shares).

Underlying earnings per ordinary share are calculated as follows:

| | **2013**<br>**£ million** | 2012<br>£ million |
|---|---|---|
| Profit for the year attributable to equity holders of the parent company | **276.5** | 315.9 |
| Major impairment and restructuring charges (note 2) | **17.4** | - |
| Amortisation of acquired intangibles (note 3) | **16.9** | 16.7 |
| Tax thereon | **(2.6)** | (6.1) |
| Underlying profit for the year | **308.2** | 326.5 |
| | **pence** | pence |
| Basic underlying earnings per share | **150.0** | 153.7 |

## 8 Net debt

| | **2013**<br>**£ million** | 2012<br>£ million |
|---|---|---|
| Cash and deposits | **70.0** | 139.1 |
| Bank overdrafts | **(48.2)** | (35.8) |
| Cash and cash equivalents | **21.8** | 103.3 |
| Other current borrowings and finance leases | **(273.8)** | (56.4) |
| Non-current borrowings, finance leases and related swaps | **(610.3)** | (530.4) |
| Interest rate swaps | **27.1** | 29.3 |
| **Net debt** | **(835.2)** | (454.2) |

## 9 Precious metal operating leases

The group leases, rather than purchases, precious metals to fund temporary peaks in metal requirements provided market conditions allow. These leases are from banks for specified periods (typically a few months) and for which the group pays a fee. These arrangements are classified as operating leases. The group holds sufficient precious metal inventories to meet all the obligations under these lease arrangements as they fall due. At 31st March 2013 precious metal leases were £96.8 million (2012 £9.1 million).

## 10 Transactions with related parties

There were no material changes in related party relationships in the year ended 31st March 2013 and no other related party transactions have taken place which have materially affected the financial position or performance of the group during the year.

### 11 Post-employment benefits

The group operates a number of post-employment benefit plans around the world, the forms and benefits of which vary with conditions and practices in the countries concerned. The major defined benefit plans are pension plans and post-retirement medical plans in the UK and the US.

The main assumptions were:

| | **2013 UK plans %** | **2013 US plans %** | **2013 Other plans %** | 2012 UK plans % | 2012 US plans % | 2012 Other plans % |
|---|---|---|---|---|---|---|
| First 3 years rate of increase in salaries | **3.40** | **3.50** | **2.79** | 3.40 | 3.40 | 3.21 |
| Ultimate rate of increase in salaries | **4.15** | **3.50** | **2.79** | 4.15 | 3.40 | 3.21 |
| Rate of increase in pensions in payment | **3.40** | **-** | **1.18** | 3.40 | - | 1.57 |
| Discount rate | **4.50** | **4.20** | **3.57** | 5.10 | 4.80 | 4.78 |
| Inflation | | **2.75** | **1.36** | | 2.75 | 1.76 |
| - UK RPI | **3.40** | | | 3.40 | | |
| - UK CPI | **2.70** | | | 2.70 | | |
| Current medical benefits cost trend rate | **6.10** | **7.48** | **-** | 5.40 | 7.78 | - |
| Ultimate medical benefits cost trend rate | **6.10** | **4.50** | **-** | 5.40 | 4.50 | - |

The group uses certain mortality assumptions when calculating plan obligations. The current mortality assumptions for all major plans retain prudent allowance for future improvements in longevity and take account of experience.

The group's largest plan is in the UK and for this plan the group has used SAPS S1 mortality tables based on year of birth (as published by the Institute of Actuaries) for both pensioner and non-pensioner members in conjunction with the results of an investigation into the actual mortality experience of plan members. In addition, to allow for future improvements in longevity, the CMI 2011 tables (published by the Institute of Actuaries) have been used, with an assumed long term rate of future annual mortality improvement of 1.25%.

Movements in the net post-employment benefit assets and liabilities were:

| | UK pension £ million | UK post-retirement medical benefits £ million | US pensions £ million | US post-retirement medical benefits £ million | Other £ million | Total £ million |
|---|---|---|---|---|---|---|
| **At 1st April 2012** | (84.8) | (11.7) | (26.0) | (26.7) | (17.9) | (167.1) |
| Current service cost - in operating profit | (26.7) | (0.1) | (8.7) | (1.0) | (2.2) | (38.7) |
| Current service cost - capitalised | (0.1) | - | - | - | - | (0.1) |
| Interest on plan liabilities | (55.8) | (0.6) | (8.8) | (1.5) | (2.7) | (69.4) |
| Expected return on plan assets | 57.4 | - | 9.3 | - | 2.2 | 68.9 |
| Expected return on reimbursement rights | - | - | - | 0.6 | - | 0.6 |
| Past service cost - vested | (1.9) | - | - | - | (0.1) | (2.0) |
| Past service cost - non-vested | - | - | - | 0.4 | - | 0.4 |
| Actuarial (loss) / gain | (51.6) | 2.0 | (32.4) | (9.9) | (6.0) | (97.9) |
| Company contributions | 47.9 | 0.3 | 13.5 | 0.5 | 4.2 | 66.4 |
| Exchange adjustments | - | - | (2.3) | (2.0) | (0.7) | (5.0) |
| **At 31st March 2013** | **(115.6)** | **(10.1)** | **(55.4)** | **(39.6)** | **(23.2)** | **(243.9)** |

# Notes on the Preliminary Accounts
for the year ended 31st March 2013

## 11 Post-employment benefits (continued)

These are included in the balance sheet as:

| | 2013 Post-employment benefit net assets £ million | 2013 Employee benefit obligations £ million | 2013 Total £ million | 2012 Post-employment benefit net assets £ million | 2012 Employee benefit obligations £ million | 2012 Total £ million |
|---|---|---|---|---|---|---|
| UK pension plan | **-** | **(115.6)** | **(115.6)** | - | (84.8) | (84.8) |
| UK post-retirement medical benefits plan | **-** | **(10.1)** | **(10.1)** | - | (11.7) | (11.7) |
| US pension plans | **-** | **(55.4)** | **(55.4)** | - | (26.0) | (26.0) |
| US post-retirement medical benefits plan | **-** | **(39.6)** | **(39.6)** | - | (26.7) | (26.7) |
| Other plans | **1.9** | **(25.1)** | **(23.2)** | 2.0 | (19.9) | (17.9) |
| Total post-employment plans | **1.9** | **(245.8)** | **(243.9)** | 2.0 | (169.1) | (167.1) |
| Other long term employee benefits | | **(2.1)** | | | (2.3) | |
| **Total long term employee benefit obligations** | | **(247.9)** | | | (171.4) | |

## 12 Acquisitions

On 21st August 2012 the group acquired 100% of Shanghai Changyin Electronic Material Science and Technology Co., Ltd. Changyin is based in Shanghai, China and manufactures silver paste. The acquisition of Changyin should provide a route to the growing market for silver paste for photovoltaic cell applications.

On 19th October 2012 the group acquired 100% of AG Holding Limited and its subsidiaries (Axeon). Axeon is a specialist in the design, development and manufacture of integrated battery modules and systems for customers in the automotive industry and in high performance non-automotive applications. The acquisition of Axeon brings applications engineering expertise for battery systems which will complement the group's materials science and research and development expertise, providing the base for further expansion in battery materials and technology.

On 27th March 2013 the group acquired 100% of Formox AB, its Chinese subsidiary and its business in USA. Formox is based in Sweden and is a leading global provider of catalysts, plant designs and licences for the manufacture of formaldehyde. Its technologies complement the group's existing strengths in process catalysts and in plant design and licensing. Formox provides opportunities to integrate and expand the group's technology and catalysts into a broader range of chemical processes and grow its position in the global petrochemicals market.

The fair value of the net assets acquired were:

| | Changyin £ million | Axeon £ million | Formox £ million |
|---|---|---|---|
| Property, plant and equipment | **0.1** | **1.0** | **5.2** |
| Intangible assets | **0.3** | **30.4** | **73.3** |
| Net debt | **(0.3)** | **1.6** | **5.6** |
| Other net current assets / (liabilities) | **0.4** | **0.9** | **(4.8)** |
| Deferred income tax liabilities | **(0.1)** | **(5.8)** | **(10.5)** |
| Provisions | **-** | **(2.5)** | **-** |
| Total net assets acquired | **0.4** | **25.6** | **68.8** |
| Goodwill on acquisition | **1.6** | **15.0** | **43.4** |
| | **2.0** | **40.6** | **112.2** |

| Satisfied by: | £ million | £ million | £ million |
|---|---|---|---|
| Purchase consideration - cash | **2.0** | **40.6** | **113.7** |
| Purchase consideration - to be refunded | **-** | **-** | **(1.5)** |
| | **2.0** | **40.6** | **112.2** |

For the acquisition of Formox, the fair value of the consideration and the fair value of the net assets acquired are provisional as the completion accounts have yet to be agreed with the vendor.

## FINANCIAL CALENDAR

**2013**

**12th June**
Ex dividend date

**14th June**
Final dividend record date

**25th July**
122nd Annual General Meeting (AGM)

**6th August**
Payment of final dividend subject to declaration at the AGM

**21st November**
Announcement of results for the six months ending 30th September 2013

**27th November**
Ex dividend date

**29th November**
Interim dividend record date

**Cautionary Statement**

This announcement contains forward looking statements that are subject to risk factors associated with, amongst other things, the economic and business circumstances occurring from time to time in the countries and sectors in which the group operates. It is believed that the expectations reflected in this announcement are reasonable but they may be affected by a wide range of variables which could cause actual results to differ materially from those currently anticipated.

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