Johnson Matthey
Inspiring science, enhancing life

# News Release

Thursday 1st June 2017, 7.00 am

## Preliminary results for the year ended 31st March 2017

## Improving performance with stronger second half and full year results in line with expectations

| Financial information | | Year ended 31st March 2017 | 2016 | % change |
|---|---|---|---|---|
| Revenue | £ million | 12,031 | 10,714 | +12 |
| Operating profit | £ million | 493.2 | 418.9 | +18 |
| Profit before tax (PBT) | £ million | 461.6 | 386.3 | +19 |
| Earnings per share (EPS) | pence | 201.2 | 166.2 | +21 |
| Ordinary dividend per share | pence | 75.0 | 71.5 | +5 |

| Underlying[1] performance | | Year ended 31st March 2017 | 2016 | % change | % change, continuing businesses[2] at constant rates[3] |
|---|---|---|---|---|---|
| Sales excluding precious metals (Sales) | £ million | 3,578 | 3,177 | +13 | +3 |
| Operating profit | £ million | 513.3 | 450.8 | +14 | - |
| Profit before tax | £ million | 481.7 | 418.2 | +15 | +1 |
| Earnings per share | pence | 209.1 | 178.7 | +17 | |

**For notes see page 2**

### Highlights of the year ended 31st March 2017

- Revenue up 12% to £12,031 million and operating profit up 18% to £493.2 million including translational FX benefit of £721 million and £69 million respectively
- At constant rates[3], sales for continuing businesses[2] grew 3% with underlying[1] PBT up 1%
- In H2, at constant rates, sales for continuing businesses grew 6% and underlying operating profit grew 4%
- As a result of the restructuring programme announced in 2015/16, costs were reduced by £26 million, primarily in Process Technologies and Fuel Cells
- EPS up 21% at 201.2 pence and underlying EPS up 17% at 209.1 pence
- Cash flow from operating activities of £523 million and free cash flow of £230 million. Working capital days[4] reduced from 56 to 54 days
- Capex and R&D spend to drive future growth: capex was £265 million, 1.7 times depreciation, with gross R&D £201 million[5], 5.6% of sales
- Return on invested capital increased to 18.2% from 17.3%
- Strong balance sheet with net debt to EBITDA of 1.1 times (2015/16: 1.2 times)
- Recommended final dividend per share of 54.5 pence, up 5% reflecting confidence in group's medium term prospects. Full year dividend per share 75.0p.



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**Robert MacLeod, Chief Executive, commented:**

"This has been a year of further progress; strengthening our business, implementing our strategy and delivering financial results in line with our expectations. Across each of our businesses we are applying our world class science and technology strengths to help customers solve problems, enabling Johnson Matthey to contribute to a cleaner, healthier world.

Underlying sales growth has come from the application of our leading technologies. We have invested over £440 million in capex and R&D combined, underpinning our commitment to science in the UK and internationally. In ECT in Europe, our technology strengths delivered strong sales growth by providing customer focused solutions to meet increasing emissions standards. We have broadened our platforms, especially in our pipeline of new active pharmaceutical ingredients and in high energy battery materials. Our cost saving programme has increased efficiency, primarily in Process Technologies and Fuel Cells, and we have improved our agility and are capturing greater synergy across the divisions. Cash generation has improved through our disciplined management of working capital.

For the full year 2017/18, sales growth, at constant rates, is expected to be broadly in line with the 6% growth delivered in the second half of this year. Improving operating performance at constant rates, with stronger sales growth and further efficiency savings, is expected to be offset as there will be no US post-retirement medical benefit credit and there are higher non cash pension charges in 2017/18. At current exchange rates, reported results in 2017/18 will benefit from the positive impact of translational foreign exchange.

Beyond 2017/18, our stronger business platform and operational momentum will deliver sustained sales growth and margin expansion."

Ends

## Enquiries:

**Investor Relations**

| | | |
|---|---|---|
| Simon McGough | Head of Investor Relations | 020 7269 8235 |
| Sarah Armstrong | Head of Investor Relations | 020 7269 8426 |
| Katharine Burrow | Investor Relations Analyst | 020 7269 8444 |

**Media**

| | | |
|---|---|---|
| Sally Jones | Director of Corporate Relations | 020 7269 8407 |
| David Allchurch/Latika Shah | Tulchan Communications | 020 7353 4200 |

www.matthey.com

Notes:
1. Underlying is before amortisation of acquired intangibles, major impairment and restructuring charges, profit or loss on disposal of businesses, significant tax rate changes and, where relevant, related tax effects. For reconciliation see note 5 on page 26
2. Growth for continuing businesses excludes the contribution from the Research Chemicals business in 2015/16
3. Growth at constant rates excludes the translation impact of foreign exchange movements, with 2015/16 results converted at 2016/17 average exchange rates
4. Working capital days are calculated as non-precious metal related inventories, trade and other receivables and trade and other payables (including any classified as held for sale) divided by sales excluding precious metals for the last three months multiplied by 90 days
5. Gross R&D includes capitalised development of £19 million which is also included in capex
6. For definitions and reconciliations of other non-GAAP measures see page 29

## Additional Information

**Group structure**: On 20th April 2017, Johnson Matthey announced a new group structure, effective 1st April 2017. The group has moved to managing and reporting as four sectors aligned on the global priorities of cleaner air, the efficient use of natural resources and improved health: Clean Air, Efficient Natural Resources, Health and New Markets. Restated results for year ended 31st March 2017 will be issued prior to the Capital Markets Day which Johnson Matthey will hold in London on 21st September 2017.

**Quarterly reporting**: For the year ending 31st March 2018 and subsequent years, Johnson Matthey will not issue quarterly trading updates in line with current thinking from investment associations. A trading update will be issued at the time of the AGM on 28th July 2017.


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## Other financial information

### Outlook for the year ending 31st March 2018

- Sales growth, at constant rates, is expected to be broadly in line with the 6% growth delivered in the second half of the year ended 31st March 2017
- The combination of stronger sales growth together with additional cost savings is expected to be offset by comparison against the 2016/17 US post-retirement medical benefit credit and by higher non cash pension charges in 2017/18 (see post-employment benefits note below)

### 2017/18 restructuring charge

- In the year ending 31st March 2018 Johnson Matthey expects to take a restructuring charge as part of the further changes it will make to improve efficiency. The charge is expected to be in the range of £50 million to £65 million, of which over half will be cash. It is expected to generate savings of around £25 million in a full year and benefit 2017/18 by approximately £10 million

### Future capital expenditure

Capital expenditure for the year ending 31st March 2018 is expected to be around £285 million (1.8 times depreciation). Proposed projects include:

- Construction of a new manufacturing plant in Poland to provide capacity to satisfy the anticipated requirements of European emissions legislation and enhance our efficiency and operating flexibility
- Capitalised development costs as we continue work on expanding our pipeline of new active pharmaceutical ingredient products
- Continued investment in our core IT business systems

### Research and development

- Johnson Matthey spent £201 million on R&D in the year, an increase of 7% and 5.6% of sales. Investment in R&D supports our growth agenda, especially in Emission Control Technologies (ECT) and Fine Chemicals

### Foreign exchange

- Translational foreign exchange movements in the year benefited revenue by £721 million, sales by £351 million and operating profit by £69 million
- At current exchange rates (£:$ 1.289; £:Euro 1.149; £:RMB 8.84) translational foreign exchange movements are expected to increase revenue by £133 million, sales by £66 million and operating profit by £13 million in the year ending 31st March 2018

### Post-employment benefits

- In the six months ended 30th September 2016 a one-off gain of £16 million was recognised in operating profit and for the full year the gain was £17 million mainly following the implementation of an inflation cap in the US post-retirement medical plan. ECT and Precious Metal Products both received a credit of £6 million
- For the year ending 31st March 2018 the cost of providing post-employment benefits will increase due to lower discount rates. The service cost, accounted for in operating profit, is expected to increase by £12 million

### Share-based payments

- In the year ended 31st March 2017 the charge to operating profit relating to the group's share-based payments increased by £15 million. No material change is expected for 2017/18

### Taxation

- The effective tax rate on reported profit was 16.7% and on underlying profit it was 17.0%, an increase from 15.7% and 16.1% respectively in the year ended 31st March 2016. In the year ending 31st March 2018 we currently expect the tax rate on underlying profit to be around 18%


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## Additional financial analysis

Unless otherwise stated, commentary refers to performance of continuing businesses at constant rates. Percentage changes in the tables are calculated on unrounded numbers

| **Sales (£ million)** | **Year ended 31st March** | | | **% change, continuing businesses* at constant rates** |
|---|---|---|---|---|
| | **2017** | **2016** | **% change** | |
| Emission Control Technologies | 2,224 | 1,913 | +16 | +4 |
| Process Technologies | 587 | 541 | +8 | - |
| Precious Metal Products | 403 | 343 | +18 | +6 |
| Fine Chemicals | 284 | 296 | -4 | +1 |
| New Businesses | 191 | 157 | +22 | +10 |
| Eliminations | (111) | (73) | | |
| **Sales** | **3,578** | **3,177** | **+13** | **+3** |

*Sales for year ended 31st March 2016 includes £38 million from the Research Chemicals business sold in September 2015

Sales grew 6% in the second half of the year, following a decline of 1% in the first half. The anticipated improvement in sales growth in Process Technologies, which saw orders phased into the second half was the main driver of the improvement. In addition, stronger sales growth in Precious Metal Products reflected higher average platinum group metal (pgm) prices and improved refinery intakes.

| **Underlying operating profit (£ million)** | **Year ended 31st March** | | | **% change, continuing businesses* at constant rates** |
|---|---|---|---|---|
| | **2017** | **2016** | **% change** | |
| Emission Control Technologies | 318.2 | 272.2 | +17 | +2 |
| Process Technologies | 90.4 | 73.6 | +23 | +9 |
| Precious Metal Products | 86.4 | 66.3 | +30 | +17 |
| Fine Chemicals | 64.5 | 82.3 | -22 | -23 |
| New Businesses | (14.4) | (17.9) | +20 | +12 |
| Corporate | (31.8) | (25.7) | -24 | -24 |
| **Underlying Operating Profit** | **513.3** | **450.8** | **+14** | **-** |

*Underlying operating profit for year ended 31st March 2016 includes £7.5 million from the Research Chemicals business

Underlying operating profit was flat for the full year. Following a decline of 3% in the first half operating profit grew 4% in the second half. This is the result of the higher second half sales. In addition, Fine Chemicals benefited from the increased contribution of the API for dofetilide in the second half.

| **Reconciliation of underlying operating profit to operating profit (£ million)** | **Year ended 31st March 2017** | **2016** |
|---|---|---|
| Underlying operating profit | 513.3 | 450.8 |
| Amortisation of acquired intangibles | (20.1) | (20.9) |
| Profit on sale of Research Chemicals | - | 130.0 |
| Major impairment and restructuring charges | - | (141.0) |
| **Operating profit** | **493.2** | **418.9** |

Reported operating profit was up 18%, benefiting from foreign exchange movements of £69 million. In the year ended 31st March 2016 there were two large one-off items namely the profit on the sale of Research Chemicals and the major impairment and restructuring charge. In the year ended 31st March 2017 there were no similar charges.



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## Operating results by division

### Emission Control Technologies

**Sales outperformed vehicle production in almost every market despite a year of limited changes in legislation**

- Very strong growth in our European Light Duty Vehicle Catalyst business driven by sales of higher value catalysts across diesel and gasoline, and share gains in diesel catalysts
- In our Heavy Duty Diesel Catalyst business, sales outperformed in every region, driven by new business wins in North America and Asia, and sales of higher value catalysts in Europe
- The global focus on clean air will drive growth for our business over the medium to long term as tighter emissions legislation continues to be introduced, particularly in Europe and Asia

| | Year ended 31st March | | | |
|---|---|---|---|---|
| | **2017** | **2016** | | **% change,** |
| | **£ million** | **£ million** | **% change** | **constant rates** |
| **Sales** | | | | |
| LDV Europe | 847 | 698 | +21 | +13 |
| LDV Asia | 339 | 282 | +20 | +6 |
| LDV North America | 214 | 202 | +6 | -8 |
| **Total Light Duty Vehicle Catalysts** | **1,400** | **1,182** | **+18** | **+7** |
| | | | | |
| HDD North America | 397 | 405 | -2 | -15 |
| HDD Europe | 249 | 196 | +27 | +15 |
| HDD Asia | 85 | 44 | +95 | +64 |
| Other – non-road and stationary | 93 | 86 | +8 | -3 |
| **Total Heavy Duty Diesel Catalysts** | **824** | **731** | **+13** | **-1** |
| | | | | |
| **Total sales** | **2,224** | **1,913** | **+16** | **+4** |
| | | | | |
| **Underlying operating profit** | **318.2** | **272.2** | **+17** | **+2** |
| **Return on sales** | **14.3%** | **14.2%** | | |
| **Return on invested capital** | **30.7%** | **28.3%** | | |


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**Estimated LDV sales and production (number of light duty vehicles)***

| | | Year ended 31st March 2017 millions | 2016 millions | % change |
|---|---|---|---|---|
| North America | Sales | 21.1 | 20.9 | +1 |
| | Production | 18.0 | 17.6 | +2 |
| Total Europe | Sales | 20.2 | 19.3 | +5 |
| | Production | 21.8 | 21.0 | +4 |
| Asia | Sales | 43.8 | 39.9 | +10 |
| | Production | 49.3 | 45.6 | +8 |
| Global | Sales | 93.9 | 89.1 | +5 |
| | Production | 94.4 | 89.0 | +6 |

**Estimated HDD truck sales and production (number of trucks)***

| | | Year ended 31st March 2017 thousands | 2016 thousands | % change |
|---|---|---|---|---|
| North America | Sales | 478 | 550 | -13 |
| | Production | 456 | 558 | -18 |
| Total Europe | Sales | 445 | 413 | +8 |
| | Production | 569 | 534 | +7 |
| Asia | Sales | 1,628 | 1,263 | +29 |
| | Production | 1,788 | 1,424 | +26 |
| Global | Sales | 2,646 | 2,344 | +13 |
| | Production | 2,879 | 2,592 | +11 |

*Source: LMC Automotive

### *Light Duty Vehicle (LDV) Catalysts*

Our LDV Catalyst business provides catalysts for cars and other light duty vehicles powered by both gasoline and diesel. The business delivered a good performance in which it outperformed the growth in global vehicle production.

Our European LDV Catalyst business performed strongly and sales grew 13%, well ahead of the 4% growth in vehicle production.

Sales of catalysts for diesel powered vehicles, which account for approximately 80% of our European LDV catalyst sales, grew strongly in the year. This was in part driven by the full year effect of the sale of higher value catalysts to meet Euro 6b, which applied to all car production from September 2015 and which imposed tighter emissions standards on oxides of nitrogen (NOx) from diesel vehicles. However, sales growth, and Johnson Matthey's outperformance, was primarily due to new business for higher value products. This is the result of our strength in the technology required to meet Euro 6b and the tougher real world driving emission standards (RDE). While RDE will not be applicable to new models of cars until September 2017, with the increased public focus and scrutiny on emissions, we have seen our customers increasingly shift towards more advanced NOx control systems for diesel vehicles. As a result, there was increased demand for our advanced selective catalytic reduction (SCR) catalysts which have a higher value. The move to advanced SCR catalysts will benefit sales in 2017/18 and through the medium term.


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Sales of catalysts for gasoline powered vehicles showed good growth on the back of a shift in mix to some larger engine platforms for luxury vehicles and increased demand from some of our customers as a result of sales growth of their vehicles.

While in the year, diesel vehicles as a proportion of total vehicles produced in Western Europe only declined one percentage point to 51%, we expect the decline in diesel's share in Western Europe to accelerate over time, with demand for smaller diesel cars initially being most impacted. However, diesel engines continue to offer greater fuel efficiency and lower $CO_2$ emissions compared to their gasoline counterparts, particularly for larger vehicles. They enable car manufacturers to meet the significant reduction in fleet average $CO_2$ limits which will apply in 2020 and, therefore, we expect diesel to remain an important powertrain technology. Consequently, with the tighter RDE legislation and the business wins Johnson Matthey has already secured, we expect to see continued strong sales growth in our European LDV diesel catalyst business over the short to medium term.

We are also well positioned in our technology for catalysts for gasoline engines and will benefit from growth in gasoline vehicle production and tighter legislation. Euro 6c legislation, which requires a reduction in particulate emissions from gasoline vehicles, will apply to new models from September 2017 and to all production from September 2018. Certain gasoline cars, such as those with direct injection, are expected to require additional advanced coated particulate filter catalysts to meet the new standard and we estimate this will initially apply to up to a quarter of gasoline cars sold in the European Union. The addition of a coated particulate filter catalyst will significantly increase our average sales value per vehicle for these cars. During the year, we secured contracts with customers to supply Euro 6c platforms and these will begin to phase in from September 2017.

In order to provide sufficient capacity to satisfy anticipated requirements for tighter European emissions legislation in the medium term, and also to enhance our global efficiency and operating flexibility, we plan to invest approximately £90 million in the construction of a new manufacturing plant in Poland. This plant will commence production in summer 2019.

In Asia, our LDV Catalyst business performed well with sales up 6%. In China, while our volumes outperformed the strong 14% growth in Chinese vehicle production, our sales growth was lower. This was due to a change in customer mix as we increased the number of platforms supplied to local car manufacturers but reduced sales to global car manufacturers. Although this change in mix negatively impacted sales, margins were maintained as the associated manufacturing costs were also lower. We continued to work with customers ahead of the introduction of China 6 legislation from 2020 and completed the expansion of our research and development facilities there. Our businesses in Japan and South East Asia grew slightly ahead of flat markets.

Sales in our North American LDV Catalyst business declined 8%, underperforming vehicle production which was up 2% in the year. This was expected as a number of sales agreements came to an end. However, sales in the second half benefited from new platform wins which will drive sales growth next year.

### *Heavy Duty Diesel (HDD) Catalysts – on road*

Our on road HDD Catalyst business, which provides catalysts for trucks and buses, outperformed truck production across all regions.

Our US HDD Catalyst business outperformed a weak US market, where total truck production was down 18%, driven by a 30% decline in production of the larger Class 8 trucks. Our sales declined by 15% as we benefited from the launch of a new Class 8 platform and strong demand for catalysts for smaller trucks. We expect Class 8 truck production to stabilise in the first half of 2017/18 given our improving order book.

Sales in our European HDD Catalyst business were up 15%, supported by 7% growth in truck production and positive mix as an increasing proportion of our sales related to higher value products, both coated and extruded.


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Our HDD Catalyst business in Asia grew very strongly from a low base. Truck production in China was up 47% following enforcement of truck loading limits from September 2016. Johnson Matthey's strong reputation for working with customers in a rapidly changing legislative environment resulted in new business with local truck manufacturers. Our sales to China more than doubled. We expanded capacity in the year ahead of the move from nationwide China IV legislation to China VI in 2020.

### *Heavy Duty Diesel Catalysts – other*

Sales of catalysts for non-road and stationary applications fell slightly, mainly due to continued lower demand from the agricultural sector.

### Operating profit

Underlying operating profit was up 2% and return on sales at constant rates declined only slightly in spite of higher initial manufacturing costs associated with producing more advanced catalyst systems. Return on sales is expected to be broadly maintained in the year ending 31st March 2018 as we balance continued investment in China with improvements in the manufacturing efficiency of our advanced catalyst systems.

### Return on invested capital

ROIC improved to 30.7% from 28.3% driven primarily by the benefit of translational foreign exchange.


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## Process Technologies

**A good second half performance as the business maintained its strong position in a challenging market**

- With fewer new chemical plants constructed in the year, licence income in our Chemicals businesses was lower impacting sales and profitability
- New business gains benefited catalyst sales with a good second half
- Operating profit grew strongly, up 9%, benefiting from efficiency gains from last year's restructuring programme

| | Year ended 31st March | | | |
|---|---|---|---|---|
| | 2017 £ million | 2016 £ million | % change | % change, constant rates |
| **Sales** | | | | |
| Syngas | 141 | 158 | -11 | -17 |
| Oleo/biochemicals | 53 | 48 | +9 | -2 |
| Petrochemicals | 133 | 103 | +30 | +19 |
| **Chemicals** | **327** | **309** | **+6** | **-3** |
| | | | | |
| Refineries | 161 | 127 | +27 | +14 |
| Gas Processing | 41 | 42 | -2 | -5 |
| Diagnostic Services | 58 | 63 | -8 | -15 |
| **Oil and Gas** | **260** | **232** | **+12** | **+3** |
| | | | | |
| **Total sales** | **587** | **541** | **+8** | **-** |
| | | | | |
| **Underlying operating profit** | **90.4** | **73.6** | **+23** | **+9** |
| **Return on sales** | **15.4%** | **13.6%** | | |
| **Return on invested capital (ROIC)** | **11.4%** | **9.6%** | | |

Process Technologies sells licences, catalysts and services to help our customers operate their processes at optimum efficiency with reduced environmental impact.

### *Chemicals*

Across all our Chemicals businesses (Syngas, Oleo/biochemicals and Petrochemicals), we supply licences to our customers. There is excess manufacturing capacity which has negatively impacted new plant construction and consequently demand from our customers for new licences remains depressed. In addition, we saw lower sales of equipment to customers for use in the construction of their formaldehyde plants. We addressed these market challenges through restructuring the organisation improving both profitability and our flexibility to respond to demand.

We also supply a portfolio of catalysts. In our Syngas business, these are primarily to customers who manufacture ammonia, formaldehyde and methanol. Sales of first fills of catalysts for new ammonia plants were down year on year as a result of excess ammonia manufacturing capacity. Methanol first fill catalyst sales benefited from the supply to an Iranian customer. Ammonia and methanol catalyst replacements are typically every four to six years and those for formaldehyde are annual. Given there is excess manufacturing capacity for ammonia and methanol, our customers delayed the purchase of refill catalysts and sales of these catalysts were down year on year. Formaldehyde refill catalyst sales were up 9%. Sales of catalysts in our Oleo/biochemical business were steady.


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The Petrochemicals business produces catalysts for a range of different processes. Since the summer of 2015 it has supplied speciality zeolites to ECT for use in its SCR catalyst technologies. Growth in ECT's demand for zeolites and the full year impact of this was the main driver of the year on year sales growth.

Across our Chemicals business, the second half showed stronger sales benefiting from the purchase of catalysts by our customers as they prepare for plant shutdowns in the summer.

***Oil and Gas***

Sales in our Refineries business, where we supply catalysts and additives, were up significantly as we outperformed a broadly flat market with sales growth of 14%. We won a large first fill by providing a customer specific solution based on our world class catalyst technology. In addition we increased sales to an existing customer through our ability to respond quickly to an urgent order. In the increasingly competitive additives market, we developed new products and manufacturing processes and sales were up 1% in a flat market.

In Gas Processing, which supplies purification products used to remove mercury and sulphur impurities from natural gas, sales were down due to our introduction of more cost competitive products but this increased margins and profitability.

We have recently commenced a detailed strategic review to assess the alignment of our Diagnostic Services business with the rest of the group.

**Operating profit**

Underlying operating profit was up by 9%. Lower income from licencing and Diagnostic Services impacted operating profit and return on sales but this was more than offset by the £18 million of cost savings from the restructuring programme announced last year.

We expect ongoing tough end markets for our catalyst customers and do not expect a significant recovery in investment in plant construction. We will continue to review our cost base and deliver supply chain and manufacturing efficiencies in the year ending 31st March 2018. However, we expect licencing activity to remain subdued and this will negatively impact operating profit.

**ROIC**

ROIC increased from 9.6% to 11.4%, reflecting efficiency gains in the period and foreign exchange.


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## Precious Metal Products

**Stronger second half, reflecting higher pgm prices and actions taken to drive efficiency**

- PGM Refining and Recycling benefited from improving intakes and higher average pgm prices
- We have improved the operational efficiency of our refineries which benefited working capital
- Our Manufacturing businesses continued to grow steadily based on our strong market positions

| | Year ended 31st March | | | |
|---|---|---|---|---|
| | **2017** | **2016** | | **% change,** |
| | **£ million** | **£ million** | **% change** | **constant rates** |
| **Sales** | | | | |
| PGM Refining and Recycling | 95 | 77 | +24 | +13 |
| Precious Metals Management | 19 | 17 | +12 | +8 |
| **Services** | **114** | **94** | **+22** | **+13** |
| | | | | |
| Noble Metals | 152 | 130 | +16 | +4 |
| Advanced Glass Technologies | 85 | 71 | +20 | +5 |
| Chemical Products | 52 | 48 | +9 | +1 |
| **Manufacturing** | **289** | **249** | **+16** | **+4** |
| | | | | |
| **Total sales** | **403** | **343** | **+18** | **+6** |
| | | | | |
| **Underlying operating profit** | **86.4** | **66.3** | **+30** | **+17** |
| **Return on sales** | **21.4%** | **19.4%** | | |
| **Return on invested capital (ROIC)** | **19.8%** | **16.5%** | | |

### *Services*

Sales in our PGM Refining and Recycling business grew by 13% helped by improving intake volumes and higher average prices of platinum and palladium, which rose by 2% and 8% respectively over the year. These drivers particularly benefited the second half. The business also benefited from a focus on an improved mix of intakes and actions taken to improve the operational efficiency of our refineries.

In order to position us for future demand in China, we opened a new pgm recycling facility in Zhangjiagang in October 2016. The site is now processing small quantities of material consistent with a phased start up.

Sales in Precious Metals Management increased as the business benefited from volatility in pgm prices over the year.

### *Manufacturing*

Sales across our Manufacturing businesses grew by 4% with good growth in Advanced Glass Technologies and Noble Metals.

Sales growth in Noble Metals reflects slightly higher sales of medical device components and increased sales of pgm products for a range of industrial applications. Sales of pgm gauzes, used in the production of nitric acid, were slightly down in the year.

Sales growth in our Advanced Glass Technologies business was driven by higher automotive production, particularly in China, leading to increased demand for our black obscuration enamels used in car windscreens. Sales of other glass products for a range of functional and decorative applications were broadly steady.


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Sales across Chemical Products were slightly up, helped by a small increase in sales of materials for autocatalysts to ECT.

### Operating profit

Underlying operating profit grew strongly in the year, up 17%. The first half benefited from the US post-retirement medical benefit credit. The second half was particularly strong, benefiting from sales growth across manufacturing products, higher pgm prices and improved operational efficiency helped by an improved mix of intakes.

While some of these improved trends are expected to continue, there will be no US post-retirement medical benefit credit in 2017/18.

### ROIC

ROIC improved to 19.8%, reflecting operating profit growth and foreign exchange.

## Fine Chemicals

**Strong sales from active pharmaceutical ingredients (APIs) for two newly approved drugs offset lower sales of ADHD APIs**

- Underlying operating profit was significantly down due to lower sales of the higher margin ADHD APIs
- Investment to drive medium term growth through the continued development of our pipeline of new APIs

| | Year ended 31st March 2017 £ million | 2016 £ million | % change | % change, continuing businesses* at constant rates |
|---|---|---|---|---|
| **Sales** | | | | |
| API Manufacturing | 236 | 217 | +9 | -1 |
| Catalysis and Chiral Technologies | 48 | 41 | +17 | +9 |
| Research Chemicals | - | 38 | | |
| **Total sales** | **284** | **296** | **-4** | **+1** |
| | | | | |
| **Underlying operating profit** | **64.5** | **82.3** | **-22** | **-23** |
| **Return on sales** | **22.8%** | **27.8%** | | |
| **Return on invested capital (ROIC)** | **12.3%** | **16.9%** | | |

* Continuing businesses excludes sales and underlying operating profit for the year ended 31st March 2016 of £38 million and £7.5 million respectively in relation to the Research Chemicals business sold in September 2015

### *API Manufacturing*

Our API Manufacturing business develops and manufactures APIs for a variety of treatments, with over half of our sales coming from opiate-based painkillers and ADHD treatments. While our API portfolio is currently relatively small, there is great opportunity for Johnson Matthey to increase its share of a $650 billion global pharmaceutical market growing at mid to high single digits per year.

The performance in the year reflects lower sales from ADHD treatments in the US and lower sales of opiate-based APIs, broadly offset by sales of new APIs for drugs which have been in development and have now been successfully launched.

Increased competition in the US market for ADHD treatments had a significant impact on the business' results. While the market for ADHD treatments grew in the year, consolidation of


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distributors and increased competition amongst ADHD drug product manufacturers led to significant pricing pressures. The impact of this on our main customer led to a reduction in our sales.

Sales of opiate-based APIs were lower this year, partly reflecting increased competition in the market for bulk opiates, principally codeine and morphine. Sales were also impacted by the conclusion of a contract with one customer for a specialist opiate.

The US Drug Enforcement Agency has introduced tighter manufacturing quotas for the 2017 calendar year for certain controlled substances. This had no material impact on sales in the year, although the tighter quotas may impact future periods.

Sales of other APIs grew strongly. We benefited from a significant contribution from dofetilide, an anti-arrhythmic drug and which is currently the only true generic alternative to Tikosyn®. We worked to develop dofetilide with the generic manufacturer and we now supply the API. Following its launch in June 2016 it has had strong sales, particularly in the second half of the year. We also saw increased sales of an API for the treatment of muscular dystrophy, as approval was granted for a customer's new product in September 2016.

Our API Manufacturing business also includes our contract development business. This had an excellent year of sales. The business benefited from capacity expansion in North America and a full year's contribution of Pharmorphix, a solid state research services provider acquired last year, which has broadened our product and service offering.

### *Catalysis and Chiral Technologies (CCT)*

CCT saw increased sales across its range of catalysts, with particular growth in catalysts used in the production of drugs to treat Hepatitis C.

### Operating profit

The reduced contribution from ADHD-related sales had a significant impact on underlying operating profit at a time when we were investing in the business to develop future growth. This was partially offset by the strong contribution of dofetilide for the first time this year.

In the year we have continued to develop our API product portfolio and now have over 40 products in development. This will reduce the volatility of sales and profit trends, improving performance as our portfolio builds scale in the medium term. In 2017/18, sales growth will improve and operating profit is expected to grow.

### ROIC

The reduction in operating profit, partly as a result of investing in future growth, was the primary driver of the reduction in ROIC to 12.3%.


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## New Businesses

**Through our New Businesses division we access additional areas of potential growth**

- Widened our portfolio of battery materials, developing high energy materials
- Sales growth and improving productivity in Fuel Cells

| | Year ended 31st March | | | |
|---|---|---|---|---|
| | **2017** | **2016** | | **% change,** |
| | **£ million** | **£ million** | **% change** | **constant rates** |
| **Sales** | | | | |
| Battery Technologies | 148 | 130 | +14 | +2 |
| Fuel Cells | 12 | 10 | +25 | +23 |
| Water Technologies | 11 | 1 | n/m | n/m |
| Atmosphere Control Technologies | 20 | 16 | +27 | +11 |
| **Total sales** | **191** | **157** | **+22** | **+10** |
| **Underlying operating loss*** | **(14.4)** | **(17.9)** | **+20** | **+12** |

*In the year ended 31st March 2017, our long term investments in two venture funds were impaired and this resulted in a charge of £5 million

Battery Technologies is the biggest element of New Businesses and has two parts, Battery Systems and Battery Materials.

Battery Materials, which sells battery materials for automotive applications, saw sales down 2% with a significantly weaker second half as changes to electric vehicle tax incentives in China impacted the market for lithium iron phosphate (LFP) battery materials. Drawing on our expertise in nickel based chemistry we have moved at pace to extend our battery technology platforms. We have already entered into two new licensing agreements and are developing nickel rich high energy battery materials.

Battery Systems is a cell assembly business and delivered single digit growth mainly from increasing demand for e-bikes in Europe.

In our other new businesses, growth in the stationary back up power market benefited Fuel Cells, with sales 23% ahead of last year. We increased our expertise in water technology with small acquisitions of MIOX Corporation and Finex in 2016. Atmosphere Control Technologies, acquired in May 2015, delivered modest sales growth in North America.

### Operating profit

The underlying operating loss reduced by £3.5 million despite taking a £5 million impairment charge. The underlying improvement resulted from a significant reduction in the operating loss in Fuel Cells, helped by the prior year restructuring, and improved profitability within Battery Technologies. We will continue to make progress in the underlying profitability of New Businesses.


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### Corporate

Corporate costs increased in the year from £25.7 million to £31.8 million, primarily driven by an increased charge in relation to performance related pay and benefits due to the improving business performance compared to the year ended 31st March 2016.

Corporate costs for the year ending 31st March 2018 are expected to be around 1% of sales.

## Financial review

### Foreign exchange

The calculation of growth at constant rates excludes the impact of foreign exchange movements arising from the translation of overseas subsidiaries' profit into sterling. The group does not hedge the income statement impact of these translation effects.

The principal overseas currencies, which represented 82% of the non-sterling denominated underlying operating profit in the year ended 31st March 2017, were:

| | Share of 2016/17 non-sterling denominated underlying operating profit | Average exchange rate Year ended 31st March | | |
|---|---|---|---|---|
| | | 2017 | 2016 | % change |
| **US dollar** | 36% | 1.308 | 1.510 | -13 |
| **Euro** | 33% | 1.191 | 1.367 | -13 |
| **Chinese renminbi** | 13% | 8.79 | 9.60 | -8 |

There was a significant decrease in the value of sterling against most major currencies during the year. The impact of exchange rates increased sales and underlying operating profit for the year by £351 million and £69 million respectively.

If current exchange rates are maintained throughout the year ending 31st March 2018, foreign currency translation will have a positive impact of approximately £13 million on underlying operating profit. A one cent change in the average US dollar and euro exchange rates each has an impact of approximately £1.6 million on full year underlying operating profit and a ten fen change in the average rate of the Chinese renminbi has an impact of approximately £0.9 million.

### Research and development

Johnson Matthey spent £200.7 million on R&D in the year, an increase of 7% and 5.6% of sales. This included £18.9 million of capitalised development costs. Investment in R&D supports our growth agenda, especially in ECT and Fine Chemicals.

### Major impairment and restructuring costs

In the financial year ending 31st March 2018 Johnson Matthey expects to take a restructuring charge as part of our continued focus on operational efficiency. The charge is expected to be in the range of £50 million to £65 million, of which over half will be cash. It is expected to generate savings of around £25 million in a full year and benefit 2017/18 by approximately £10 million.

In the year ended 31st March 2016, a major impairment and restructuring charge of £141 million was taken. It identified annual cost savings of £34 million of which £8 million were achieved in 2015/16 and a further £26 million were realised in 2016/17. In the year ended 31st March 2017 cash costs relating to the restructuring charge were around £16 million.


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## Finance charges

Net finance charges were £31.8 million, down from £32.6 million in 2015/16. Interest increased by £5.8 million mainly due to the negative impact from foreign exchange on interest on our US dollar and euro denominated debt and the higher average net debt, as excess cash from disposals was held during the year ended 31st March 2016 prior to payment of the special dividend in February 2016. 99% of the group's net debt at 31st March 2017 has fixed interest rates averaging approximately 3.1%. The group's interest charge on its post-employment benefit plans decreased by £6.6 million.

## Taxation

The tax charge for the year was £77.0 million, a tax rate of 16.7% on profit before tax (2015/16: 15.7%). The tax charge on underlying profit before tax was £82.0 million, which represents an effective tax rate of 17.0%, up from 16.1% last year due to the change in UK tax legislation during the year which adversely impacted the tax outcome of certain intra group financing arrangements.

Going forward, we expect that the current upward pressure on corporate tax rates will continue and the tax rate on underlying profit to be around 18%.

## Post-employment benefits

### *IFRS – accounting basis*

At the year end the group's net post-employment benefit position, after taking account of the bonds held to fund the UK pension scheme deficit, was a surplus of £63.3 million, up from a surplus of £47.3 million at 31st March 2016. This increase in the surplus results from changes in the assumptions made relating to inflation and mortality, partly offset by the lower discount rates at 31st March 2017.

The cost of providing post-employment benefits in the year was £45.9 million, a reduction of £24.6 million, as a result of the higher discount rate at 31st March 2016 compared to 31st March 2015. This reduction included the impact of the £16.8 million one-off credit which was mainly the result of the implementation of an inflation cap in the US post-retirement medical plan.

For the year ending 31st March 2018 the cost of providing post-employment benefits is expected to increase, due to the absence of the one-off credit in the US post-retirement medical plan and due to the reduction in discount rates at 31st March 2017. The service cost, accounted for in operating profit, is expected to increase by £12 million.

### *Actuarial – funding basis*

The latest triennial actuarial valuation of the UK scheme as at 1st April 2015 revealed a deficit of £69 million in the legacy defined benefit career average section, or £28 million after taking account of the future additional deficit funding contributions from the special purpose vehicle set up in January 2013. The latest valuation update as at 1st April 2016, showed the UK pension scheme to be in deficit, £109 million in the legacy defined benefit career average section. The deficit for this section of the scheme is £69 million after taking account of the special purpose vehicle. The increase in the deficit from 1st April 2015 was due to a reduction in gilt yields which increased the value of liabilities combined with lower than assumed asset returns. The 2016 valuation showed a surplus of £2 million in the defined benefit cash balance section of the scheme, which was opened on 1st October 2012 when the defined benefit career average section was closed to new entrants. The latest actuarial valuations of our two US pension schemes showed a surplus of £2 million at 30th June 2016 down from a £3 million surplus at 30th June 2015.

## Capital expenditure

Capital expenditure was £264.7 million (of which £259.5 million was cash spent in the year) which equated to 1.7 times depreciation. The principal investments were:


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- to increase ECT manufacturing capacity and technology in Europe and China to meet demand from business wins, vehicle production growth and new legislation;
- improvements to API development and manufacturing facilities and capitalised development costs as we work on expanding our pipeline of new APIs; and
- to upgrade core IT business systems

Depreciation was £151.7 million (2015/16: £139.3 million).

Capital expenditure for the year ending 31st March 2018 is expected to be around £285 million (1.8 times depreciation).

### Free cash flow

Free cash flow was £230 million. While working capital days (excluding precious metals) reduced, the strong sales in the fourth quarter increased receivables at the year end.

### Dividend

The board has recommended a 5% increase in the final dividend to 54.5 pence per share. Together with the interim dividend of 20.5 pence per share this gives a total ordinary dividend for the year ended 31st March 2017 of 75.0 pence per share (2015/16: 71.5 pence per share). At this level the dividend would be covered 2.8 times by underlying earnings per share. Subject to approval by shareholders, the final dividend will be paid to shareholders on 1st August 2017, with an ex-dividend date of 8th June 2017.

### Return on invested capital

Return on invested capital (ROIC) increased to 18.2% from 17.3%. Underlying operating profit for the group was 14% ahead of last year at £513.3 million, and average invested capital increased £215 million to £2,816 million, primarily due to the impact of foreign exchange translation.

Our long term ROIC target is 20%. We continue to invest organically in our businesses across the world to improve returns and we target appropriate acquisitions that accelerate the delivery of the group's strategy. Acquisitions may depress ROIC in the short term, but create long term value.

### Capital structure

Net debt at 31st March 2017 was £715.7 million. This is down £181.1 million from 30th September 2016 and is an increase of £40.8 million from 31st March 2016. Net debt increases to £758.5 million when adjusted for the post-tax pension deficits. The group's underlying EBITDA increased to £665 million (2015/16: £590.1 million). As a result, the group's net debt (including post tax pension deficits) to EBITDA was 1.1 times (2015/16: 1.2 times). Our target range is 1.5 to 2.0 times.

## Corporate responsibility

### Health and safety

We continue to build a world class health and safety culture across Johnson Matthey. However, this year saw a deterioration in performance in some safety areas; the lost time injury and illness rate was 0.49, and the total recordable injury and illness rate was 1.05, per 200,000 hours worked in a rolling year. Actions have been taken and new measures put in place to ensure that we reach our target of being in the top 10% of our industry peers.


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## People

As we grow and work towards our vision for a cleaner, healthier world, we rely on our talented and committed workforce to achieve it. We are working to enhance the engagement of our people to enable them to reach their full potential, so they can do their best work with us. In November 2016 we ran our first ever global employee survey, designed to gain a greater understanding of strategically and culturally important themes across the group and highlight opportunities to create a better working environment for employees to develop and contribute. We received a 75% response rate and in 2017/18 we will act on the results of the survey to drive higher levels of engagement to enable higher levels of performance.

## Sustainability 2017

In 2007, we launched Sustainability 2017, our ten year programme to support growth by running our business in a more sustainable way. Over the last decade this has transformed the efficiency of our operations, reduced their environmental impact, delivered improved solutions for our customers and created significant value for our shareholders. Through the programme we have more than doubled our earnings per share while reducing our carbon intensity and use of key resources (electricity, natural gas and water) by almost half, relative to sales. We have also made significant progress in reducing waste to landfill across our global operations, our health and safety performance has improved over the ten year period and occupational illness cases have reduced to just one case for every 1,000 employees. The most important outcome of Sustainability 2017 has been the successful embedding of sustainability across Johnson Matthey which has been achieved through engaging employees and making sustainability the way we do business.



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## Consolidated Income Statement
for the year ended 31st March 2017

| | Notes | 2017 £ million | 2016 £ million |
|---|---|---|---|
| **Revenue** | 3 | **12,031.0** | 10,713.9 |
| Cost of sales | | **(11,188.0)** | (9,947.1) |
| Gross profit | | **843.0** | 766.8 |
| Distribution costs | | **(126.5)** | (126.1) |
| Administrative expenses | | **(203.2)** | (189.9) |
| Profit on sale or liquidation of businesses | | **-** | 130.0 |
| Amortisation of acquired intangibles | 2 | **(20.1)** | (20.9) |
| Major impairment and restructuring charges | | **-** | (141.0) |
| **Operating profit** | 3 | **493.2** | 418.9 |
| Finance costs | | **(38.7)** | (40.2) |
| Finance income | | **6.9** | 7.6 |
| Share of profit of joint venture and associate | | **0.2** | - |
| **Profit before tax** | | **461.6** | 386.3 |
| Income tax expense | | **(77.0)** | (60.6) |
| **Profit for the year** | | **384.6** | 325.7 |
| **Attributable to:** | | | |
| **Owners of the parent company** | | **386.0** | 333.1 |
| Non-controlling interests | | **(1.4)** | (7.4) |
| | | **384.6** | 325.7 |
| | | **pence** | pence |
| **Earnings per ordinary share attributable to the equity holders of the parent company** | | | |
| Basic | | **201.2** | 166.2 |
| Diluted | | **200.8** | 165.9 |

## Consolidated Statement of Total Comprehensive Income
for the year ended 31st March 2017

| | Notes | 2017 £ million | 2016 £ million |
|---|---|---|---|
| **Profit for the year** | | **384.6** | 325.7 |
| **Other comprehensive income:** | | | |
| **Items that will not be reclassified to profit or loss:** | | | |
| Remeasurements of post-employment benefit assets and liabilities | 10 | **(18.4)** | 180.1 |
| Tax on above items taken directly to or transferred from equity | | **2.0** | (39.1) |
| | | **(16.4)** | 141.0 |
| **Items that may be reclassified subsequently to profit or loss:** | | | |
| Currency translation differences | | **163.9** | 23.8 |
| Share of currency translation differences of joint venture and associate | | **1.3** | 0.3 |
| Cash flow hedges | | **(1.4)** | 5.6 |
| Fair value losses on net investment hedges | | **(21.0)** | (1.2) |
| Fair value gains / (losses) on available-for-sale investments | | **7.0** | (5.5) |
| Tax on above items taken directly to or transferred from equity | | **(0.4)** | (4.7) |
| | | **149.4** | 18.3 |
| **Other comprehensive income for the year** | | **133.0** | 159.3 |
| **Total comprehensive income for the year** | | **517.6** | 485.0 |
| **Attributable to:** | | | |
| **Owners of the parent company** | | **518.5** | 492.8 |
| Non-controlling interests | | **(0.9)** | (7.8) |
| | | **517.6** | 485.0 |



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# Consolidated Balance Sheet

as at 31st March 2017

| | Notes | 2017 £ million | 2016 £ million |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **1,235.1** | 1,086.3 |
| Goodwill | | **607.1** | 570.0 |
| Other intangible assets | | **288.3** | 225.0 |
| Deferred income tax assets | | **25.6** | 22.2 |
| Investments and other receivables | | **107.3** | 92.3 |
| Interest rate swaps | 7 | **17.4** | 11.1 |
| Post-employment benefit net assets | 10 | **116.6** | 109.1 |
| **Total non-current assets** | | **2,397.4** | 2,116.0 |
| **Current assets** | | | |
| Inventories | | **772.3** | 653.7 |
| Current income tax assets | | **20.4** | 21.9 |
| Trade and other receivables | | **1,139.4** | 948.0 |
| Cash and cash equivalents – cash and deposits | 7 | **330.4** | 304.5 |
| Interest rate swaps | 7 | **-** | 4.6 |
| Other financial assets | | **7.5** | 8.5 |
| **Total current assets** | | **2,270.0** | 1,941.2 |
| **Total assets** | | **4,667.4** | 4,057.2 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | | **(968.3)** | (812.3) |
| Current income tax liabilities | | **(133.5)** | (115.0) |
| Cash and cash equivalents – bank overdrafts | 7 | **(31.8)** | (20.7) |
| Other borrowings, finance leases and related swaps | 7 | **(20.2)** | (138.5) |
| Other financial liabilities | | **(14.9)** | (17.9) |
| Provisions | | **(21.0)** | (41.3) |
| **Total current liabilities** | | **(1,189.7)** | (1,145.7) |
| **Non-current liabilities** | | | |
| Borrowings, finance leases and related swaps | 7 | **(1,011.5)** | (835.9) |
| Deferred income tax liabilities | | **(113.0)** | (99.4) |
| Employee benefit obligations | 10 | **(111.8)** | (115.1) |
| Provisions | | **(18.4)** | (20.6) |
| Other payables | | **(5.9)** | (5.9) |
| **Total non-current liabilities** | | **(1,260.6)** | (1,076.9) |
| **Total liabilities** | | **(2,450.3)** | (2,222.6) |
| **Net assets** | | **2,217.1** | 1,834.6 |
| **Equity** | | | |
| Share capital | | **220.7** | 220.7 |
| Share premium account | | **148.3** | 148.3 |
| Shares held in employee share ownership trust (ESOT) | | **(55.5)** | (54.9) |
| Other reserves | | **146.6** | (2.3) |
| Retained earnings | | **1,776.5** | 1,541.3 |
| **Total equity attributable to owners of the parent company** | | **2,236.6** | 1,853.1 |
| Non-controlling interests | | **(19.5)** | (18.5) |
| **Total equity** | | **2,217.1** | 1,834.6 |



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## Consolidated Cash Flow Statement

for the year ended 31st March 2017

| | Notes | 2017 £ million | 2016 £ million |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before tax | | **461.6** | 386.3 |
| Adjustments for: | | | |
| Share of profit of joint venture and associate | | **(0.2)** | - |
| Profit on sale of continuing activities | | **-** | (130.0) |
| Depreciation, amortisation, impairment losses and loss on sale of non-current assets | | **176.6** | 252.0 |
| Share-based payments | | **10.6** | (2.8) |
| (Increase) / decrease in inventories | | **(36.7)** | 211.6 |
| (Increase) / decrease in receivables | | **(111.1)** | 153.2 |
| Increase in payables | | **120.7** | 47.1 |
| Decrease in provisions | | **(27.5)** | (0.7) |
| Contributions in excess of employee benefit obligations charge | | **(40.8)** | (21.0) |
| Changes in fair value of financial instruments | | **(3.2)** | 4.0 |
| Net finance costs | | **31.8** | 32.6 |
| Income tax paid | | **(58.9)** | (65.8) |
| **Net cash inflow from operating activities** | | **522.9** | 866.5 |
| **Cash flows from investing activities** | | | |
| Dividends received from joint venture | | **-** | 0.3 |
| Interest received | | **4.8** | 5.2 |
| Purchases of non-current assets and investments | | **(259.5)** | (253.5) |
| Proceeds from sale of non-current assets and investments | | **3.9** | 4.0 |
| Purchase of interest in associate | | **-** | (16.2) |
| Purchases of businesses | | **(19.7)** | (16.6) |
| Net proceeds from sale of businesses | | **-** | 244.6 |
| **Net cash outflow from investing activities** | | **(270.5)** | (32.2) |
| **Cash flows from financing activities** | | | |
| Net cost of ESOT transactions in own shares | | **(6.1)** | (3.1) |
| Proceeds from additional borrowings | | **80.8** | 134.4 |
| Repayment of borrowings and finance leases | | **(133.2)** | (211.6) |
| Dividends paid to equity holders of the parent company | 6 | **(139.0)** | (444.6) |
| Settlement of currency swaps for net investment hedging | | **(7.3)** | (4.8) |
| Interest paid | | **(42.1)** | (33.9) |
| **Net cash outflow from financing activities** | | **(246.9)** | (563.6) |
| **Increase in cash and cash equivalents in the year** | | **5.5** | 270.7 |
| Exchange differences on cash and cash equivalents | | **9.3** | 9.2 |
| Cash and cash equivalents at beginning of year | | **283.8** | 3.9 |
| **Cash and cash equivalents at end of year** | 7 | **298.6** | 283.8 |

| | Notes | 2017 £ million | 2016 £ million |
|---|---|---|---|
| **Reconciliation to net debt** | | | |
| Increase in cash and cash equivalents in the year | | **5.5** | 270.7 |
| Decrease in borrowings and finance leases | | **52.4** | 77.2 |
| Change in net debt resulting from cash flows | | **57.9** | 347.9 |
| Borrowings acquired with subsidiaries | | **(4.8)** | - |
| New finance leases | | **(0.1)** | - |
| Exchange differences on net debt | | **(93.8)** | (28.4) |
| Movement in net debt in year | | **(40.8)** | 319.5 |
| Net debt at beginning of year | | **(674.9)** | (994.4) |
| **Net debt at end of year** | 7 | **(715.7)** | (674.9) |



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# Consolidated Statement of Changes in Equity

for the year ended 31st March 2017

| | 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 2015 | 220.7 | 148.3 | (54.7) | (21.0) | 1,517.3 | (10.5) | 1,800.1 |
| Total comprehensive income | - | - | - | 18.7 | 474.1 | (7.8) | 485.0 |
| Dividends paid (note 6) | - | - | - | - | (444.6) | (0.2) | (444.8) |
| Purchase of shares by ESOT | - | - | (3.3) | - | - | - | (3.3) |
| Share-based payments | - | - | - | - | 4.3 | - | 4.3 |
| Cost of shares transferred to employees | - | - | 3.1 | - | (10.1) | - | (7.0) |
| Tax on share-based payments | - | - | - | - | 0.3 | - | 0.3 |
| At 31st March 2016 | 220.7 | 148.3 | (54.9) | (2.3) | 1,541.3 | (18.5) | 1,834.6 |
| Total comprehensive income | - | - | - | 148.9 | 369.6 | (0.9) | 517.6 |
| Dividends paid (note 6) | - | - | - | - | (139.0) | (0.1) | (139.1) |
| Purchase of shares by ESOT | - | - | (6.1) | - | - | - | (6.1) |
| Share-based payments | - | - | - | - | 17.1 | - | 17.1 |
| Cost of shares transferred to employees | - | - | 5.5 | - | (11.9) | - | (6.4) |
| Tax on share-based payments | - | - | - | - | (0.6) | - | (0.6) |
| **At 31st March 2017** | **220.7** | **148.3** | **(55.5)** | **146.6** | **1,776.5** | **(19.5)** | **2,217.1** |



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# Notes on the Preliminary Accounts

for the year ended 31st March 2017

## 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 2017 or 31st March 2016 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 2016. None of the new standards or amendments to 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 2016 have been delivered to the Registrar of Companies and those for 2017 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 2017 were approved by the Board of Directors on 31st May 2017.

## 2 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.



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## 3 Segmental information by business segment

| | Emission Control Technologies £ million | Process Technologies £ million | Precious Metal Products £ million | Fine Chemicals £ million | New Businesses £ million | Eliminations £ million | Total £ million |
|---|---|---|---|---|---|---|---|
| **Year ended 31st March 2017** | | | | | | | |
| Revenue from external customers | **3,779.5** | **537.8** | **7,206.1** | **308.9** | **198.7** | **-** | **12,031.0** |
| Inter-segment revenue | **175.0** | **63.7** | **1,688.0** | **6.0** | **2.5** | **(1,935.2)** | **-** |
| Total revenue | **3,954.5** | **601.5** | **8,894.1** | **314.9** | **201.2** | **(1,935.2)** | **12,031.0** |
| External sales excluding precious metals | **2,223.1** | **523.4** | **363.4** | **278.7** | **188.9** | **-** | **3,577.5** |
| Inter-segment sales | **0.4** | **63.4** | **39.7** | **4.8** | **2.4** | **(110.7)** | **-** |
| **Sales excluding precious metals** | **2,223.5** | **586.8** | **403.1** | **283.5** | **191.3** | **(110.7)** | **3,577.5** |
| Segment underlying operating profit / (loss) | **318.2** | **90.4** | **86.4** | **64.5** | **(14.4)** | **-** | **545.1** |
| Unallocated corporate expenses | | | | | | | **(31.8)** |
| **Underlying operating profit** | | | | | | | **513.3** |
| Amortisation of acquired intangibles (note 2) | | | | | | | **(20.1)** |
| Operating profit | | | | | | | **493.2** |
| Net finance costs | | | | | | | **(31.8)** |
| Share of profit of joint venture | | | | | | | **0.2** |
| Profit before tax | | | | | | | **461.6** |
| Segment net assets | **1,090.2** | **802.4** | **347.9** | **554.1** | **162.4** | **-** | **2,957.0** |
| **Year ended 31st March 2016** | | | | | | | |
| Revenue from external customers | 3,262.8 | 519.4 | 6,454.1 | 318.5 | 159.1 | - | 10,713.9 |
| Inter-segment revenue | 221.0 | 31.3 | 1,213.3 | 6.4 | 1.6 | (1,473.6) | - |
| Total revenue | 3,483.8 | 550.7 | 7,667.4 | 324.9 | 160.7 | (1,473.6) | 10,713.9 |
| External sales excluding precious metals | 1,912.7 | 510.0 | 307.9 | 291.4 | 155.0 | - | 3,177.0 |
| Inter-segment sales | 0.4 | 31.2 | 34.6 | 4.8 | 1.5 | (72.5) | - |
| **Sales excluding precious metals** | 1,913.1 | 541.2 | 342.5 | 296.2 | 156.5 | (72.5) | 3,177.0 |
| Segment underlying operating profit / (loss) | 272.2 | 73.6 | 66.3 | 82.3 | (17.9) | - | 476.5 |
| Unallocated corporate expenses | | | | | | | (25.7) |
| **Underlying operating profit** | | | | | | | 450.8 |
| Profit on sale or liquidation of businesses | | | | | | | 130.0 |
| Amortisation of acquired intangibles (note 2) | | | | | | | (20.9) |
| Major impairment and restructuring charges | | | | | | | (141.0) |
| Operating profit | | | | | | | 418.9 |
| Net finance costs | | | | | | | (32.6) |
| Profit before tax | | | | | | | 386.3 |
| Segment net assets | 903.2 | 756.2 | 313.5 | 457.3 | 100.8 | - | 2,531.0 |



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## 4 Effect of exchange rate changes on translation of foreign subsidiaries' sales excluding metals and operating profit

| **Average exchange rates used for translation of results of foreign operations** | **2017** | 2016 |
|---|---|---|
| US dollar / £ | **1.308** | 1.510 |
| Euro / £ | **1.191** | 1.367 |
| Chinese renminbi / £ | **8.79** | 9.60 |

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.

| | **Year ended 31st March 2017 £ million** | Year ended 31st March 2016 At last year's rates £ million | At this year's rates £ million | Change at this year's rates % |
|---|---|---|---|---|
| **Sales excluding precious metals** | | | | |
| Emission Control Technologies | **2,223.5** | 1,913.1 | 2,139.1 | +4 |
| Process Technologies | **586.8** | 541.2 | 588.6 | - |
| Precious Metal Products | **403.1** | 342.5 | 380.5 | +6 |
| Fine Chemicals | **283.5** | 296.2 | 325.6 | -13 |
| New Businesses | **191.3** | 156.5 | 173.8 | +10 |
| Elimination of inter-segment sales | **(110.7)** | (72.5) | (79.9) | |
| **Sales excluding precious metals** | **3,577.5** | 3,177.0 | 3,527.7 | +1 |
| Less Research Chemicals | **-** | (38.3) | (43.9) | |
| **Sales excluding precious metals for continuing businesses** | **3,577.5** | 3,138.7 | 3,483.8 | +3 |
| **Underlying operating profit** | | | | |
| Emission Control Technologies | **318.2** | 272.2 | 313.2 | +2 |
| Process Technologies | **90.4** | 73.6 | 83.0 | +9 |
| Precious Metal Products | **86.4** | 66.3 | 74.1 | +17 |
| Fine Chemicals | **64.5** | 82.3 | 91.6 | -30 |
| New Businesses | **(14.4)** | (17.9) | (16.3) | +12 |
| Unallocated corporate expenses | **(31.8)** | (25.7) | (25.7) | |
| **Underlying operating profit** | **513.3** | 450.8 | 519.9 | -1 |
| Less Research Chemicals | **-** | (7.5) | (8.3) | |
| **Underlying operating profit for continuing businesses** | **513.3** | 443.3 | 511.6 | - |

Fine Chemicals' Research Chemicals business was sold on 30th September 2015.


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## 5 Underlying profit reconciliation

| | **2017 £ million** | 2016 £ million |
|---|---|---|
| **Underlying operating profit, continuing businesses at constant rates (note 4)** | **513.3** | 511.6 |
| Underlying operating profit of Research Chemicals (note 4) | **-** | 8.3 |
| Translation exchange effect to this year's rates | **-** | (69.1) |
| **Underlying operating profit (note 4)** | **513.3** | 450.8 |
| Profit on sale or liquidation of businesses | **-** | 130.0 |
| Amortisation of acquired intangibles (note 2) | **(20.1)** | (20.9) |
| Major impairment and restructuring charges | **-** | (141.0) |
| **Operating profit** | **493.2** | 418.9 |
| **Underlying profit before tax** | **481.7** | 418.2 |
| Profit on sale or liquidation of businesses | **-** | 130.0 |
| Amortisation of acquired intangibles (note 2) | **(20.1)** | (20.9) |
| Major impairment and restructuring charges | **-** | (141.0) |
| **Profit before tax** | **461.6** | 386.3 |
| **Tax on underlying profit before tax** | **(82.0)** | (67.4) |
| Tax on profit on sale or liquidation of businesses | **-** | (15.5) |
| Tax on amortisation of acquired intangibles (note 2) | **5.0** | 4.9 |
| Tax on major impairment and restructuring charges | **-** | 17.4 |
| **Income tax expense** | **(77.0)** | (60.6) |
| **Underlying profit for the period** | **401.1** | 358.2 |
| Profit on sale or liquidation of businesses | **-** | 130.0 |
| Amortisation of acquired intangibles (note 2) | **(20.1)** | (20.9) |
| Major impairment and restructuring charges | **-** | (141.0) |
| Tax thereon | **5.0** | 6.8 |
| **Profit for the period attributable to owners of the parent company** | **386.0** | 333.1 |

| | **million** | million |
|---|---|---|
| Weighted average number of shares in issue | **191.9** | 200.5 |

| | **pence** | pence |
|---|---|---|
| **Underlying earnings per share** | **209.1** | 178.7 |



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## 6 Dividends

A final dividend of 54.5 pence per ordinary share has been proposed by the board which will be paid on 1st August 2017 to shareholders on the register at the close of business on 9th June 2017, subject to shareholders' approval. The estimated amount to be paid is £104.5 million and has not been recognised in these accounts.

| | **2017 £ million** | 2016 £ million |
|---|---|---|
| 2014/15 final ordinary dividend paid – 49.5 pence per share | **-** | 100.5 |
| Special dividend paid – 150.0 pence per share | **-** | 304.5 |
| 2015/16 interim ordinary dividend paid – 19.5 pence per share | **-** | 39.6 |
| 2015/16 final ordinary dividend paid – 52.0 pence per share | **99.7** | - |
| 2016/17 interim ordinary dividend paid – 20.5 pence per share | **39.3** | - |
| **Total dividends** | **139.0** | 444.6 |

## 7 Net debt

| | **2017 £ million** | 2016 £ million |
|---|---|---|
| Cash and deposits | **330.4** | 304.5 |
| Bank overdrafts | **(31.8)** | (20.7) |
| Cash and cash equivalents | **298.6** | 283.8 |
| Other current borrowings, finance leases and related swaps | **(20.2)** | (138.5) |
| Current interest rate swaps | **-** | 4.6 |
| Non-current borrowings, finance leases and related swaps | **(1,011.5)** | (835.9) |
| Non-current interest rate swaps | **17.4** | 11.1 |
| **Net debt** | **(715.7)** | (674.9) |

## 8 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 2017 precious metal leases were £77.0 million (2016: £70.3 million).

## 9 Transactions with related parties

There were no material changes in related party relationships in the year ended 31st March 2017 and no other related party transactions have taken place which have materially affected the financial position or performance of the group during the year.


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## 10 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.

Movements in the net post-employment benefit assets and liabilities, including reimbursement rights, 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 2016** | 100.8 | (10.5) | (21.4) | (41.9) | (29.6) | (2.6) |
| Current service cost - in operating profit | (28.5) | - | (10.0) | (0.8) | (2.2) | (41.5) |
| Current service cost - capitalised | (1.0) | - | (0.1) | - | - | (1.1) |
| Net interest | 3.6 | (0.4) | (1.1) | (1.5) | (0.6) | - |
| Past service cost | (2.5) | - | - | 16.8 | - | 14.3 |
| Remeasurements | (22.2) | 0.9 | 6.1 | (2.0) | (1.2) | (18.4) |
| Company contributions | 56.2 | 0.4 | 9.6 | 1.1 | 2.4 | 69.7 |
| Exchange adjustments | - | - | (3.2) | (5.6) | (2.4) | (11.2) |
| **At 31st March 2017** | **106.4** | **(9.6)** | **(20.1)** | **(33.9)** | **(33.6)** | **9.2** |

These are included in the balance sheet as:

| | **2017 Post-employment benefit net assets £ million** | **2017 Employee benefit obligations £ million** | **2017 Total £ million** | 2016 Post-employment benefit net assets £ million | 2016 Employee benefit obligations £ million | 2016 Total £ million |
|---|---|---|---|---|---|---|
| UK pension plan | **106.4** | **-** | **106.4** | 100.8 | - | 100.8 |
| UK post-retirement medical benefits plan | **-** | **(9.6)** | **(9.6)** | - | (10.5) | (10.5) |
| US pension plans | **-** | **(20.1)** | **(20.1)** | - | (21.4) | (21.4) |
| US post-retirement medical benefits plan | **8.3** | **(42.2)** | **(33.9)** | 6.7 | (48.6) | (41.9) |
| Other plans | **1.9** | **(35.5)** | **(33.6)** | 1.6 | (31.2) | (29.6) |
| Total post-employment plans | **116.6** | **(107.4)** | **9.2** | 109.1 | (111.7) | (2.6) |
| Other long term employee benefits | | **(4.4)** | | | (3.4) | |
| **Total long term employee benefit obligations** | | **(111.8)** | | | (115.1) | |



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## Definition and reconciliation of non-GAAP measures to GAAP measures

for the year ended 31st March 2017

The group uses various measures to manage its business which are not defined by generally accepted accounting principles (GAAP). The group's management believes these measures provide valuable additional information to users of the accounts in understanding the group's performance.

**Sales excluding precious metals (sales)**

The group believes that sales excluding precious metals is a better measure of the growth of the group than revenue. Total revenue can be heavily distorted by year on year fluctuations in the market prices of precious metals. In addition, in many cases, the value of precious metals is passed directly on to our customers.

**Underlying profit and earnings**

These are the equivalent GAAP measures adjusted to exclude amortisation of acquired intangibles (note 2), major impairment and restructuring charges, profit or loss on disposal of businesses, significant tax rate changes and, where relevant, related tax effects. The group believes that these measures provide a better guide to the underlying performance of the group. These are reconciled in note 5.

**Working capital days**

Non-precious metal related inventories, trade and other receivables and trade and other payables (including any classified as held for sale) divided by sales excluding precious metals for the last three months multiplied by 90 days.

**Free cash flow**

Net cash flow from operating activities, after net interest paid, net purchases of non-current assets and investments and dividends received from joint venture.

**Capex**

Additions of property, plant and equipment plus additions of other intangible assets.

**Capex to depreciation ratio**

Capex divided by depreciation. Depreciation is the depreciation charge of property, plant and equipment plus the amortisation charge of other intangible assets excluding amortisation of acquired intangibles (note 2).

**Return on invested capital (ROIC)**

Annualised underlying operating profit divided by the monthly average of equity plus net debt for the same period.

| | **2017**<br>**£ million** | 2016<br>£ million |
|---|---|---|
| Average net debt | **878.5** | 691.0 |
| Average equity | **1,937.1** | 1,909.2 |
| **Average capital employed** | **2,815.6** | 2,600.2 |
| **Annualised underlying operating profit** | **513.3** | 450.8 |
| **ROIC** | **18.2%** | 17.3% |
| Inventories | **772.3** | 653.7 |
| Trade and other receivables | **1,139.4** | 948.0 |
| Trade and other payables | **(968.3)** | (812.3) |
| **Total working capital** | **943.4** | 789.4 |
| Less precious metal working capital | **(335.5)** | (256.5) |
| **Working capital (excluding precious metals)** | **607.9** | 532.9 |


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# Definition and reconciliation of non-GAAP measures to GAAP measures

for the year ended 31st March 2017

| | **2017 £ million** | 2016 £ million |
|---|---|---|
| **Earnings before interest, tax, depreciation and amortisation (EBITDA)** | **665.0** | 590.1 |
| Depreciation and amortisation | **(171.8)** | (157.6) |
| Impairment of acquired intangibles | **-** | (2.6) |
| Profit on sale or liquidation of businesses | **-** | 130.0 |
| Major impairment and restructuring charges | **-** | (141.0) |
| **Operating profit** | **493.2** | 418.9 |
| | | |
| **Net debt** | **(715.7)** | (674.9) |
| Pension deficits | **(55.6)** | (52.6) |
| Bonds purchased to fund pensions (excluded when UK pension plan in surplus) | **-** | - |
| Related deferred tax | **12.8** | 28.4 |
| **Net debt (including post tax pension deficits)** | **(758.5)** | (699.1) |
| | | |
| **Net debt (including post tax pension deficits) to EBITDA** | **1.1** | 1.2 |
| | | |
| **Adjusted operating cash flow** | **352.8** | 709.4 |
| Income tax paid | **(58.9)** | (65.8) |
| Pension deficit funding contributions | **(26.6)** | (26.6) |
| Less net purchases of non-current assets and investments | **255.6** | 249.5 |
| **Net cash flow from operations** | **522.9** | 866.5 |
| | | |
| Adjusted operating cash flow | **352.8** | 709.4 |
| Precious metal working capital increase / (decrease) | **78.9** | (341.9) |
| **Adjusted operating cash flow (excluding precious metal)** | **431.7** | 367.5 |
| | | |
| **Cash flow conversion** | **84%** | 82% |



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# Financial Calendar

## 2017

**8th June**
Ex dividend date

**9th June**
Final dividend record date

**28th July**
126th Annual General Meeting (AGM)

**1st August**
Payment of final dividend subject to declaration at the AGM

**21st November**
Announcement of results for the six months ending 30th September 2017

**30th November**
Ex dividend date

**1st December**
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.

**Johnson Matthey Public Limited Company**
Registered Office: 5th Floor, 25 Farringdon Street, London EC4A 4AB
Telephone: 020 7269 8400
Internet address: www.matthey.com
E-mail: jmpr@matthey.com

Registered in England - Number 33774

**Registrars**
Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA
Telephone: 0871 384 2344
Internet address: www.shareview.co.uk