Results for the Half-Year Ended 30th September 2017

Tuesday, 21st November 2017

Operator: Good day and welcome to the Johnson Matthey half-year results conference call. Today's conference is being recorded, and at this time I would like to turn the conference over to Robert MacLeod, CEO. Please go ahead, sir.

Robert MacLeod: Thank you very much, and good morning everybody and welcome to our conference call. I hope you had a chance to, A, read our press release that we put out at 07.00 this morning, and watch our video at 08.00, the presentation video that we put out at 08.00. But this is your time; this is your time to ask – ask the questions. I'm joined here by the leadership team, so Anna, John, Jane and Alan, and so we are very happy to take any questions that you may have, so over to you.

Q&A

Operator: Thank you. Ladies and gentlemen, if you wish to ask a question at this time, please press star one on your telephone keypad. If you find that your question has already been answered, you may remove yourself from the queue by pressing star two. Please make sure the mute function on your phone is switched off to allow your signal to reach our equipment. Again, please press star 1 to ask a question. We'll pause for just a moment to allow everyone to signal.

And our first question comes from Andrew Stott of UBS. Please go ahead.

Andrew Stott (UBS): Yeah, morning Robert, morning Anna.

Robert MacLeod: Morning Andrew.

Andrew Stott: A couple of questions from me. Number one, I just wondered if we can go back to the licensing and first-fill business in catalysts; slightly surprised to see that still deteriorating. I don't know why, I think I had the impression that licence income was now sort of flattening out. So just sort of expand upon what you're seeing in both licence and first-fill and how much of each was in that -19.

The second question was on Fine Chems. I've seen you reiterate lately the longer-term target and the high-20% margin target from 2019–2020 but how about next year? What are your thoughts as we look out over the next 18 months, rather than the longer term? Thank you.

Robert MacLeod: Okay. Thanks Andrew, so I will go first and answer the Health question and then Jane will answer the question on Efficient Natural Resources. So, looking to Health, we've said in the statement that we expect the first of this – sorry, the second half of this year, sorry, the second half to be broadly in line with the last – well, not the second half, the whole year to be broadly in line with last year. Next year, as Anna said, and we said at the Capital Markets Day, we expect to see a modest decline in profitability as the – some of the sort of legacy products come off their high-value area and then before the new products come in play. So, a modest decline next year but we should be, for the full year, for this year, broadly in line with last year.

That – is that clear?

Andrew Stott: That's very clear, thank you.

Robert MacLeod: Okay. Jane, over to you.

Jane Toogood: Okay, so on the licensing first-fill question, then basically yes – I mean of course there has been this deterioration in the licensing business, as we discussed in the Capital Markets Day and so on, and I guess this year we're seeing the bottom of that, and so that's why it's lower again in that first half. I hope you also notice that the refill catalyst is doing rather well and has picked up, in terms of the business there, which is also consistent with the message that we gave, and that actually saw a double-digit growth in revenue terms. So, I think it's consistent with the trends we gave but unfortunately there's no – you know, it hasn't – we're at the bottom of that licensing curve now and bumping along.

Andrew Stott: Okay, that's clear as well. Thank you very much.

Robert MacLeod: Thanks, Andrew.

Operator: The next question comes from Andrew Benson of Citi. Please go ahead.

Andrew Benson (Citigroup): Yeah, thanks very much. Just on the take-forward and Andrew's other question, when do you anticipate, or is there any sign on the horizon that licence income may improve? If I could ask a few, if I may? Can you just give a shape for how you see the outlook for Heavy Duty in Asia or – 88%, whatever it was, growth looks an enormous number.

Secondly, net working capital, can you give us a view of where you'll be in the full year, particularly for the bit that you can control as well on PGMs? On the eLNO, are you going to make patent filings? I think there's – just want clarity on your – if you like, your IP position there, and perhaps I'll leave it there.

Robert MacLeod: Okay, Andrew, thanks very much for those questions and I think you neatly allowed me to pass it out to all my colleagues and not ask me one directly, which I think was very kind of you, thank you. So, I'll just go in the order that we – you asked the questions, so I'll start with Jane, if I may, on licensing?

Jane Toogood: Okay, so well a question about when might licensing change, and don't anticipate any major turnaround soon in licensing because, of course, there is that overcapacity in the market. But if you remember from the Capital Markets Day, I talked about specific sub-segments and there are some sub-segments which are still interesting, so for example, methanol remains an interesting sub-segment where there is still some growth. But otherwise, as a general rule of thumb, it would be fair to say there won't be a big pick up in licensing. Our strategy does not depend on licensing in order to deliver, so obviously that's part of what we've put into our forecast and our strategy is not built around that; it is built around looking at those sub-segments that are going to grow, making sure that we are growing our refill catalysts and so on.

Robert MacLeod: Okay, so hopefully that's clear, I mean, if you look back in time, the sort of oxo-alcohols were the sort of big, high-value licences, much more high value than, say, a methanol licence. So those – the – there was a huge amount of capacity built into – in China, in particular, over the years and so until that capacity is utilised I think that will take some time before that comes back.

So, hopefully that answers the first question. John, do you want to answer the question on the outlook for Asia Heavy Duty diesel?

John Walker: Yeah, I think the big surge that we've seen in Heavy Duty in Asia has been mostly related to this enforcement of the truck weight regulation in China and that's driven sales very strongly as people have had to upgrade the size of their trucks. That's kind of a one-off, that's not going to continue but we do expect that our Asian heavy-duty sales and China in particular will continue to lead the market.

Robert MacLeod: Andrew, was that –

Andrew Benson: Well, yeah, it's a one-off, I mean, is it going to fall in the second half then?

John Walker: It's going to – the rate of growth will slow down but we will still remain ahead of the truck growth in China.

Robert MacLeod: Okay, hopefully that's clear –

Andrew Benson: Yeah, thanks.

Robert MacLeod: – guidance for you, Andrew.

Andrew Benson: That's fine.

Robert MacLeod: Anna, your turn; working capital.

Anna Manz: Yeah, so our working capital is somewhat phased through the year, and as you know, having followed us a few years, it's always a little bit higher at the end of half-one in day terms as we make sure that we have the inventory we need in place to deliver a bigger H2. So, if you break it into what we can control, what we can control is the non-precious metal piece, and I'm confident that that will be clearly in the 50 to 60-day range at the full year and that there'll be some unwinding of the current position. With respect to precious metal, the debtors and creditors days we will absolutely manage, and I would expect those to – they generally show a little bit of improvement through the second half. The bit that is far harder for us to manage, because it's a function of the liquidity in the precious metal market and our customers' choices around whether they look to us to source metal, whether they leave their metal with us, is the precious metal [inventory] piece. Here I think we've seen the worst of the correction behind us with respect to the tightening in the market and the reduction in liquidity but it's always hard to know what choices our customers will make as we look forward depending on what happens with metal prices.

So that is a long way of saying normal course: we generally see improvement through the second half but, you know, I don't have a crystal ball with respect to what's going to happen with the precious metal market.

Does that answer it?

Andrew Benson: Yeah, no, that's great, thanks. Yeah.

Robert MacLeod: Okay, and then last but by no means least, Alan, do you want to just give a brief update on our patenting strategy?

Alan Nelson: Sure, thanks Robert. So, I guess what I'd start with is we always look to protect our information assets, and of course protecting our eLNO is a strategic objective for us. And today, just to confirm, we have filed for IP over our eLNO, and we'll continue to file, if possible and sensible, as part of the business strategy.

Robert MacLeod: And I think we don't file everything, all our secrets, because I think, Andrew, you need to get – Alan, you need to get the mix right, isn't it, between how much you keep inside? As soon as you file a patent, of course, then you tell everybody what your secret sauce is.

Alan Nelson: Right.

Robert MacLeod: So sometimes you keep some of it internally, don't we, Alan?

Alan Nelson: Absolutely. That's a sensibility piece, so it's part of a broader intellectual information asset management strategy.

Robert MacLeod: Okay?

Andrew Benson: Okay, thanks.

Robert MacLeod: Thanks, Andrew.

Operator: The next question comes from Chetan Udeshi of JP Morgan. Please go ahead.

Chetan Udeshi (JP Morgan): Yeah, hi, thanks. You know, coming back to the –

Robert MacLeod: Morning.

Chetan Udeshi: – metal inventory build, can you explain if customers were to request you to hold inventory on their behalf, does it change the competitive dynamics for you with that customer or does it – in other words, you know, how does it help in terms of competitive dynamics in the business in, say, the mid-to-long term in terms of customer relationship?

And the second question I have is on efficient natural resources. I mean, the margin decline that we are seeing at this point, is any of that structural? Because, you know, maybe it's just a change as a business model, less licensing, more hard catalyst sales or is it just a factor of cyclical weakness in some of the markets and so margin might recover at some point, say in the mid-term, back to the levels you had a few years back, for instance?

Robert MacLeod: Sure, thanks very much for your question. So, on metal management, you know, we are well-known for our PGM management, we are the PGM company of the world, but I don't know; who wants to answer this one directly? I'm looking at – Jane, do you want to say a few –

Jane Toogood: Well, I don't – why don't I have a go at both of those, yeah?

Robert MacLeod: Yeah, go on.

Jane Toogood: So, I mean with respect to the metal management, I mean, this is all part of the regular service that we provide to the industry, not only looking after metal, but of course, we are also the world's leading secondary refiner of PGM, so it's all part of that complete service that we provide and it isn't really a – it doesn't change in any way particularly the relationship with any particular customer, this is all part of the overarching service that we provide in the market.

Robert MacLeod: And it's fundamentally, then, if you think about their cash flow as well because when metal prices are very high, they need to look at their cash flow, the implications, and of course we work with them through the cycle, and of course having the refinery really is helping us too. And it doesn't really give a massive competitive advantage versus, say, our emission control competitors, except that we have security of supply, and that security of supply, by having access to metal, is absolutely vital. And for John's business, the fact that we have the world's largest PGM refinery is absolutely fundamental to help us. And so that's how the fact that there's been a squeeze in the market is not a big issue for us for delivery to our customers, which of course is the biggest competitive advantage that we have.

Jane Toogood: Okay. And then carrying on to the question on licensing and whether that was a change in business model, it's not really a change in business model, it is just part of the normal cycles. I think you could question is this going to be a lot – a slightly longer cycle than we've seen in the past? There is a big amount of overcapacity in the market overall, so how long it lasts it's very difficult to predict. So maybe it's a slightly longer cycle than normal but it is no different than a regular cycle in this whole chemical space.

Chetan Udeshi: But –

Robert MacLeod: Okay.

Chetan Udeshi: – if I can follow up on that question, so do you think the restructuring that you are doing in that business will help the margin curve in that business improve from sort of the weaker levels we are at this point in, say, first half 2018, or is it more like, no, you are trying to offset some of the pressure at the moment in the business, cyclical pressure, with the restructuring to just maintain the sort of margin structure at this particular –

Anna Manz: So just to clarify where we are on margin, we are impacted by lapping the end of the licensing business; that is done this year so we're not lapping it going forward. We are also impacted in the half and in the year by some destocking that we have chosen to do to manage our efficiency better. Both of those things impact our margin and we see the normal movements in the markets. But fundamentally, this business is exactly where we expected it to be and where we described it to be at the Capital Markets Day. This is just about managing through coming off the back of the licensing income, which does affect margin, and some destocking that we have chosen to do as we run the business more efficiently. The restructuring sets us up in a position to deliver on the growth that Jane described at the Capital Markets Day going forward.

Robert MacLeod: And if you remember the growth she talked about – Jane talked about – was that we would grow our sales faster than the market by a percentage point or so and continue to grow our margins as we drive efficiency. So, I think hopefully that answers all – that answers your questions and gives you the clarification you were looking for.

Chetan Udeshi: Thank you.

Robert MacLeod: Thank you. Next up.

Operator: Adam Collins of Liberum, please go ahead.

Adam Collins (Liberum): Yeah, good morning, I had three please. So, first of all, going back to HDD, John, I hear what you're saying about the upgrading cycle in China, but the statement also refers to strong growth in Japan and India, and I wondered if you could just walk us through what's driving that?

The second area – related area – is on the trajectory of the improvement in Light Duty catalysis that you're talking about. Could you give us a sense of how the market share gains that you've talked about, the one-third increase by 2018/2019 in Light Duty diesel Europe, how that kicks in, in the next few quarters?

And then finally, the statement on efficient natural resources, when talking about the margin decline, is alluding to increased price competition, as well as the impact of fewer licences. I wondered if you could just walk us through what the price competition you were referring to is about? Thanks very much.

Robert MacLeod: Okay. Okay, Adam; good questions, and I think it's probably best, because they're quite detailed questions, if I hand them out to both John and Jane. I could answer them, but I think it's better to hear it from them. So, John, do you want to answer the Heavy Duty – the couple of questions on your business?

John Walker: Yeah, so on Heavy Duty in Asia, I guess you're right, Adam, there probably were a few more moving parts that I didn't talk about when I just zoned in on the truck weight limit. You know, we're continuing to transition to some of the Euro 5 catalysts right now and you know, as you'll see in Asia, the catalyst size is increasing and, you know, substrate and sales are starting to have an impact in our sales as well, so there's a couple of things that are driving our sales number in Asia.

In India, as you say, you know, they are also getting ready for this transition to be able to move from Euro 4 to Euro 6 and we continue to grow our diesel sales there. And then Japan, Japan has been very strong, and that's just a kind of winning with the customers thing. The customers that are we are with in our Japanese heavy-duty business have been doing very well and the combination of all those factors has contributed to that strong sales growth number.

Robert MacLeod: And John, can I just add –

John Walker: In –

Robert MacLeod: – the statement, Adam, just to be clear, when we talked about Japan and India, it was a light duty comment, rather than a heavy duty comment; I think you asked the question in the context of heavy duty.

Adam Collins: Okay, I thought otherwise, okay.

Robert MacLeod: Japan and India was very much a comment about the Light Duty market, rather than Heavy Duty, but John's comments about Japan and India hold true nonetheless. And John on – yeah –

John Walker: And then in Europe on the Light –

Robert MacLeod: Yeah, the trajectory, John.

John Walker: In Europe on the Light Duty diesel side of things, we continue to hold to our guidance that we gave at the Capital Markets Day; we expect to have a strong second half in Europe and that will be the beginning of some of the new sales and the new business wins that we expect to see. That will continue through 2018 and I think that will also carry over a little bit into 2019, as well. So that's when we're going to start seeing that, in the second half of this year and that will continue for quite a number of quarters after that.

Robert MacLeod: That – is that clear, on John's business, Clean Air, Adam?

Adam Collins: I think so, maybe just to ask one follow-up on that, to what extent will the business benefit also from more advanced NO_x control fitment as we move further into the regulatory phase for new drive emissions? Is there an additional pick-up from that in the next few quarters?

John Walker: I think – well, I think there's still this transition where people are trying to get ready for the 6d final legislation and some people have already made their technology decisions and some people are still in the process of making their technology decisions. So, you know, I think there's still a little bit of a mix effect that could happen when these final decisions are made for the Euro 6d final.

Robert MacLeod: Okay, shall we move on to Efficient Natural Resources? Jane, do you want to talk a little bit about –

Jane Toogood: Price.

Robert MacLeod: – price?

Jane Toogood: Okay, so the question was around, you know, the increase in price competition, and I think here we saw an increase in price competition in a couple of sub-segments, so particularly hydrogen gas processing, and in those segments it depends a bit when the business comes up, because catalyst business isn't something that you get every week, typically; it's bits of discrete pieces of business, and if they come up, some of the strategic pieces, within a certain time and they're pieces of business that we need, naturally we will ensure that we do win those. Generally, I would say that a trend towards significant increased price competition is not seen across the board, and what we're seeing here isn't particularly out of the ordinary. You know, we operate in pretty competitive markets and we usually win on the basis of the service we provide, the technology, etc.

So, in those couple of sub-segments, we did see some pricing pressure but otherwise it's nothing out of the ordinary, I would say.

Adam Collins: Okay, thank you very much.

Robert MacLeod: Thanks, Adam, good to speak to you.

Operator: The next question from Nicola Tang of Evercore ISI. Please go ahead.

Nicola Tang (Evercore ISI): Hi, morning everyone.

Robert MacLeod: Morning.

Nicola Tang: Thanks for taking my questions. The first one is on LFP. I just wanted to clarify, when you talk about sort of a shift to high-energy material, is that to NMC or is that something else? And when you talk about expanding, you know, alternative growth opportunities for LFP, can you give some examples of what that might be?

And secondly, I saw some headlines yesterday about a patent case between BASF and J Matt being revised on US HGV. I was wondering whether you could just remind us about that and you know, any update you could give on that? Thank you.

Robert MacLeod: Okay. As far as the patent case is concerned, I'm afraid I'm not going to give you anything on that; that's not something we'd comment on, ongoing discussions and you know, that will get sorted out one way or another over time but, you know, we don't comment about active cases, or ongoing cases.

Alan, do you want to talk a little bit about LFP and what's going on there? But I mean if you remember our Capital Markets Day, we did talk about having a portfolio of products, of which LFP is one and enhanced lithium nickel oxide another. But do you want to specifically talk about LFP, Alan?

Alan Nelson: Sure. So, Nicola, just back to your first question, you know, what we've seen and what's changed, predominantly, out of China is a number of the tax incentives and subsidies and the schemes there, changed in December and January, so starting late last year and then early this year and it really rewarded a shift to NMC. So, what we've seen is that for plug-in hybrid systems, as well as full-battery electric vehicles, the market has shifted from LFP into NMC. So, it's not any other material, it's principally NMC-532 and a little bit of 622, but most of what we're seeing today is primarily 532.

When we talk about expanding growth opportunities, also what we said during Capital Markets Day is while we see the overall LFP market expanding – and we have certainly seen that hold true over the last two months as well – there is a narrowing of the applications for LFP. So, we see that narrowing primarily focused on the smaller battery systems, so the systems that would go into mild and micro-hybrid applications, 12-volt applications, for example, as well as narrowing towards larger applications, so say, bus applications, where safety is of paramount importance. So, we're seeing the market change and shift to kind of each end, if you will, of those powertrain platforms moving forward and we continue to work with our customers and develop materials to supply those ends of the segments moving forward.

Nicola Tang: Okay, thanks. And if I could quickly follow up with a question, also on the alternative powertrain, you talked about in – there was a, you know, boost in fuel cells because of a specific customer. Is that something that was one-off? In other words, how should I think about alternative powertrain for H2, with the sort of LFP impact and the fuel cells impact?

Alan Nelson: Yeah, I mean the fuel cells had a very strong start to the year to date and you know, I think moving forward we're still very optimistic on the business around fuel cells. Again, you know, a lot of that was driven by a growth in the stationary market; we're still not seeing much in the automotive market, other than say a few small niche areas and applications but we're continuing to broaden out that customer base, so it's a bit more diverse than just one customer.

Robert MacLeod: And I think you've just got to remember that the fuel cell business is still a pretty small part of the overall Johnson Matthey Group.

Alan Nelson: Right.

Robert MacLeod: But for a change which is something that we haven't had before, it is a profitable part of the group, whereas previously it was a loss-making part of the group. So small but at least it's profitable.

Nicola Tang: Okay, thank you.

Robert MacLeod: Yeah, thank you.

Operator: The next question comes from Stephanie Bothwell of Bank of America Merrill Lynch. Please go ahead.

Stephanie Bothwell (Bank of America Merrill Lynch): Yes, thank you and good morning everyone and thanks for the presentation earlier. I have two questions, both on the Clean Air division. The first one is on the European Heavy Duty business, where you had a very strong +16% constant currency growth in the half. In the release you highlight that part of that was due to the ramp-up of new business wins in the last financial year, so I was wondering if you could help us perhaps understand how much of that new business wins are now within the base number to get a sense of how the growth looks like into the second half?

And then the other question was on the European Light Duty business, specifically the European [diesel] business, where sales were down 5%. In the release you highlight that volumes were flat for diesel catalyst in the half, but with a negative platform mix and the negative effect of substrate pricing. Could you possibly split those two items for us, we can get a sense of what the negative platform mix contributed versus that of the past three on the substrate prices and get a sense again of what the H2 trajectory looks like? Thank you.

Robert MacLeod: Okay, just very quickly on – and John, the Heavy Duty one I'll ask you to answer but on the Light Duty side, more than half is to do with substrate pricing. And as you know, the substrate price – substrates, sorry, are straight pass-through for us, so that doesn't impact our profitability at all and so those lower prices for the substrate then flowed through into ultimately, therefore, lower sales but didn't impact profitability at all. And as we said, more than half of the impact of that sort of mix between volumes and sales was caused by substrate pricing.

Has that – does that answer your question?

Stephanie Bothwell: That's very helpful, thank you.

Robert MacLeod: Okay. John, on the European Heavy Duty diesel business?

John Walker: The European Heavy Duty diesel business, the business wins that we're talking about are in our extruded business and, you know, those business wins, we started manufacturing some of those products a couple of months ago and that will continue, the ramp-up will continue, through 2018–2019 and then we expect some further wins, so, you know, we do expect that growth to continue in that part of our Heavy Duty business for – you know, over the next year or so.

Stephanie Bothwell: So, just so I can follow-up –

Robert MacLeod: I –

Stephanie Bothwell: Sorry, go ahead.

Robert MacLeod: Go on. No, no, on you go.

Stephanie Bothwell: I was just going to say, in terms of the magnitude of sort of the 16% versus the underlying European truck production in Europe, you would expect to be able to outperform to that degree as we go into the second half, given those business wins are still ramping up?

Robert MacLeod: No, I don't think we will continue to have –

John Walker: We will –

Robert MacLeod: Go on John.

John Walker: Go ahead Robert.

Robert MacLeod: John, you go.

John Walker: No, it's that we will continue to outperform the market. I'm not sure that we will remain at the 16% level, but we will continue to outperform the European Heavy Duty market.

Robert MacLeod: Sorry, there's a slight gap between John and me because John is out of the country at the moment seeing customers. But I think, so, what we are trying to say is that as we've ramped up, we should continue in the second half to outperform the growth in the underlying market, but it will be nothing like the 12% outperformance that we saw in the first half. The exact number I'm not sure, and it will depend upon exactly what happens in the second half, but it will be some way lower but more than four. Well, whatever the absolute underlying number is, it will be greater than the absolute underlying growth in the market.

Stephanie Bothwell: Okay, that's very clear. Thank you very much.

Robert MacLeod: Okay, next.

Operator: Sebastian Bray of Berenberg, please go ahead.

Sebastian Bray (Berenberg): Good morning and thank you for taking my questions. I have three, please.

Robert MacLeod: Good morning.

Sebastian Bray: The first would be on the Euro 6c opportunity emerging for Johnson Matthey in autocatalyst next year. Could you perhaps give some guidance of how much front-running of this aspect of legislation there has been, how much of this opportunity is still there to wash through in numbers? And as a quick follow-up to that, any indication of the sustainability of the growth rates in US Light Duty in autocatalyst would be helpful; do you expect to continue to outgrow the market?

The second question is a simple one on restructuring costs; are there going to be any running through the P&L next year? And finally, on the New Markets segment, could you perhaps give some guidance on how you expect profitability in this division to develop over the next two to three years, given the forthcoming investment in battery materials? Thank you.

Robert MacLeod: Okay, so I'll take the first – sorry, the second two questions and then let John answer the first one. So, firstly, on restructurings in the P&L next year, I mean unfortunately I can't give you an answer at this stage; we don't plan to have restructurings every year, but we certainly plan to have a restructuring this year, as we talked about – when did we talk about it – six months ago, at the full year. But, you know, we continue to drive the business forward and look to take out costs where appropriate, and to – as we try to improve the efficiency of our business. I mean, we talked in the Capital Markets Day and I think the words we used was a relentless focus on operational efficiency, and sometimes with that relentless focus, you do take out costs for good reason to drive future performance and that is what we will continue to do. Whether that will end up with any restructurings next year, it's hard for me to say at this stage.

And on the profitability of New Markets going forward and a projection for the next two or three years, I'm afraid I'm not going to give you that, not because we're trying to be difficult, it's just that I think we need to see how this market evolves, particularly on batteries and the level of investment required in the market and how it evolves. You can be assured that we will continue to do the right level of investment to give ourselves the best long-term opportunity and we need to cut our cloth accordingly, but we won't give guidance at this stage of exactly, year on year on year, what our profitability is going to be. So sorry to – I'm not sure if I've answered either of your questions. I'm sorry but I mean everything is consistent that we said at the Capital Markets Day; I would go back to that. Sorry, it sounds a bit like a stuck record that we keep going back to the Capital Markets Day, but we try to be pretty clear about our guidance and where we're going, and we are continuing to drive the business forward, particularly in New Markets based on milestones. Those milestones are, you know, as we drive the business forward, have we achieved certain things, has the market developed in certain ways and if those things happen, then we'll continue to invest and invest strongly and that's the way we're driving that business.

Sebastian Bray: Understood.

Robert MacLeod: John, over to you on the two questions, if I may, on Euro 6c and I think North American Light Duty outperformance.

John Walker: So, in Euro 6c, we haven't really seen much of that come through yet at all, so that's kind of good news for the future, so we expect some of the filters on gasoline cars to start coming through in our next fiscal year, in 2018, and that will continue over the next couple of years. You know, and as we've seen, we've talked a little bit about some of the filters that are out there right now are uncoated filters, so they don't have a catalyst coating on them, but we do expect more and more customers to move to coated filters, again to meet the 6d final legislation as well. So, you know, that will continue in 2018 and 2019.

As far as the Light Duty diesel – sorry, the Light Duty business in Europe [Correction: Americas], we've seen strong growth in our Light Duty diesel business related to diesel pickup truck sales in North America and we continue to see that trend – we see that trend continuing. And you know, I think we'll stay on that trend line in North America for the upcoming period as well.

Sebastian Bray: Thank you very much.

Robert MacLeod: Okay, thank you.

Operator: The next question from Alex Stewart of Barclays, please go ahead.

Alex Stewart (Barclays): Hi there, good morning.

Robert MacLeod: Morning.

Alex Stewart: I want to go back to the Capital Markets Day guidance, which I know you've talked ad nauseam about and apologies for covering old ground, but you gave an indication that the margin in Clean Air would come down as a result of the investment you made to grow your market share in European Light Duty. That hasn't really come through in the first half, it doesn't sound like you're expecting it to necessarily come through in the – in the second half. Could you give us some idea of when that 100 basis points of margin erosion might be seen in the P&L?

And then the second question, it's a little bit leftfield, I apologise but there's talk of a big methanol build out in Iran and downstream methanol, can you just tell us what your approach is to business in Iran and whether it's something you would consider if it became available, or whether it's off limits, given the sanctions and all the other difficulties in that country?

Robert MacLeod: I say, well, why don't I do the Iranian question first. I mean the short answer on Iran is, of course we'll do business in Iran. We're not anti doing business in Iran and in fact it's entirely – you know, it's perfectly – the sanctions – there are no sanctions in place anymore for certain – for our – for the technology in which we operate, but what we need to be really, really clear about is who our customer is, or who our customers are and understand and everything is done in an absolutely ethical and compliant way. And assuming we can satisfy ourselves on all of that stuff, all of those issues, of course we'll do business in Iran and you would expect us to do that.

The other challenge, sometimes, in Iran is access to cash and getting your cash out of the country in – again, in an ethical and compliant way. And the banks are – you know, they – not only do we do quite a lot of work in making sure we understand our customers but then the banks require not only to see what we have done but they also want to see – do even more work. So, it's quite hard to do business in Iran today, unfortunately, but we will only do business the right way and not chase it just because it is an opportunity and then end up regretting at leisure, so hopefully that answers your question.

And on the margin point, since it was Anna that very clearly gave the statement at the Capital Markets Day, I think it's – Anna, do you want to give the colour again?

Anna Manz: Yeah, so what we said at the Capital Markets Day was the 20 percentage points of share gain that we've made in European Light Duty does come with some margin erosion and up to a point of margin erosion as that starts to flow through. We start to see share gain come through in the second half and as we've guided in the context of our full year this year, we will see a slight deterioration in margins in Clean Air in the second half versus where they were in the first half but, you know, slight.

Robert MacLeod: Is that okay?

Alex Stewart: Yes, thank you.

Robert MacLeod: Okay. Next?

Operator: Next question from Andrew Benson from Citi again. Thank you.

Andrew Benson: Yeah, thanks very much again. I – just on the – page seven of your release, you've given production and sales numbers for Light Duty and Heavy Duty and in both cases the production is materially ahead of sales. So, I was just wondering how you see the outlook. Do you see any – you know, are – any potential, perhaps, destocking at any point in your customer inventories over the next six months to a year or so? Thanks.

Robert MacLeod: Sorry, Andrew, Andrew sorry. I'm not sure I – so when you say that, I mean I'm looking at the data on page seven; if I look at global

Light Duty, I'm seeing the change is one on one. I mean, are you talking about the absolute numbers?

Andrew Benson: Yeah, so the sales of 42.7 million units and the production of –

Robert MacLeod: Okay.

Andrew Benson: – 45.5 million, or is that just a normal thing; there's a normal delta there?

Robert MacLeod: That's a normal – there's a normal delta there, there always is. They're able to record production in a much more accurate way than sales, and of course there are other parts of the globe as well. It's been like that for many, many, many years.

Andrew Benson: Okay, that's my ignorance, sorry.

Operator: Thank you. As a reminder, to ask a question at this time please press star one. Our next question comes from Matthew Hampshire-Waugh of Credit Suisse. Please go ahead.

Matthew Hampshire-Waugh (Credit Suisse): Hi all, I just had a quick question on the note on contingent liabilities on page 15 of your report. I understand there's obviously legal constraints around it, but I was just wondering if you could give us a bit more detail on what that's about, what part of the business, sales exposure, any companies involved that you can mention, any detail would be good? Thank you.

Robert MacLeod: Well, I'm afraid you're probably not going to get too much detail from me but of course this is a situation that we've been added as a defendant to an existing contract law dispute in the US, alongside the supplier to an OEM. It is in the Clean Air segment, where we've supplied a coated substrate, which as you know is one of the components in the engine after-treatment system. So, we're not the primary supplier here and the key point to note that I would again draw your attention to in the note is that we don't believe we will have any – we don't believe we have any warranty liability here and of course we will, as a result, vigorously defend ourselves. I'm afraid, as you would expect in this sort of situation with ongoing litigation, there's not much we can say, but of course we'll update you any – in the future if there's anything further that we can or should say.

Matthew Hampshire-Waugh: Thank you very much.

Operator: There are no further questions in the queue at this time and as a final reminder, to ask a question please press star one.

Robert MacLeod: I should actually just go back and just reiterate, on that last point, we haven't made any provision either in the accounts associated with that issue. But are there any other questions, looking to the IR team? Nothing at the moment.

Okay, well look, thanks very much indeed. I just – thank you very much, A, for dialling in; hopefully we managed to answer all your questions, I look forward to seeing many of you on the roadshow that Anna and I will be doing with the IR team over the coming days. I think just one thing to remember of course, when you look at our statement, that we've reaffirmed our full-year guidance. We do expect to see stronger sales in the second half and to deliver full-year growth of around 6% and, again, broadly flat operating profit on a constant currency basis as the operational momentum that we had in the second half of last year continues and some of the cost savings that we've made will offset the non-cash pension charges, that post-retirement medical benefit credit last year and – that we're lapping, of course. And we've put the interim dividend up by 6% to reflect our confidence in the long-term future that we talked about at the Capital Markets Day.

So, anyway, look, thanks very much indeed for your attention and your questions. I look forward to seeing you again soon.

Operator: Thank you. That will conclude today's conference call. Thank you for your participation, ladies and gentlemen, you may now disconnect.

[END OF TRANSCRIPT]