

# BUSINESS REVIEW

## Financial Review

### Exchange Rates

The main impact of exchange rate movements on the group's results comes from the translation of foreign subsidiaries' profits into sterling. After last year's significant devaluation of sterling against most major currencies, this year sterling was more stable but continued to weaken further:

Around a quarter of the group's profits are made in North America, mainly in the USA. The average rate for the US dollar for the year was \$1.595/£ compared with \$1.719/£ for 2008/09. Each one cent change in the average rate for the dollar has approximately a £0.4 million effect on underlying operating profit in a full year. The reduction in the average exchange rate for the dollar in 2009/10 increased reported group underlying operating profit for the year by £5.0 million.

Sterling also fell against the euro averaging €1.129/£ compared with €1.205/£ in 2008/09, which increased reported underlying operating profit by £2.8 million. In addition, sterling also weakened against the South African rand, from R15.0/£ to R12.5/£. However, the catalysts manufactured by our South African business are ultimately for export and the impact of a stronger rand on margins offsets the translational effect.

Robert MacLeod  
Group Finance Director



Overall, excluding the rand, exchange translation increased the group's underlying operating profit by £12.2 million compared with 2008/09.

### Return on Sales

We measure return on sales as underlying operating profit divided by sales excluding precious metals. Return on sales for the group fell by 2.2% to 14.4% with the ratio improving in Fine Chemicals Division but declining in the other two divisions. The rise in return on sales in Fine Chemicals Division was primarily as a result of the one-off benefit associated with the launch of the generic version of ADDERALL XR®. If that benefit is excluded, the return on sales of Fine Chemicals Division would have been broadly in line with last year.

Environmental Technologies Division's return on sales for the year fell by 1.2% to 9.7%. While Emission Control Technologies' (ECT's) overall returns fell, the returns of our light duty vehicle catalyst business were ahead of last year as the business benefited from increased activity and lower costs. However, its heavy duty diesel catalyst business made a loss which reduced the returns for ECT as a whole. Process Technologies' return on sales was slightly lower than last year.

The fall in the return for Precious Metal Products Division from 32.0% to 27.8% reflected the more challenging market conditions for its Refining business. The return on sales for the rest of the division's businesses was broadly in line with last year.

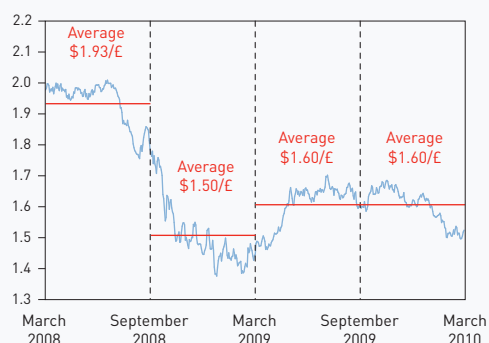
### Return on Invested Capital

The group's return on invested capital (ROIC) fell by 1.3% to 15.8%. Underlying operating profit was £26.7 million lower than last year at £271.8 million and average net assets were £24 million lower at £1,717 million. The group's ROIC of 15.8% was still well ahead of our pre-tax cost of capital, which we estimate to be 10.8%.

Our long term group target for ROIC remains at 20% on a pre-tax basis. Over the previous few years we had been making good progress towards that target but the global recession significantly impacted our performance. Demand reduced in a number of our markets, particularly the automotive market, and we now have spare capacity. However, the medium term outlook for the group remains encouraging with growth in catalyst demand underpinned by new emissions legislation which is already in place. Once global activity starts to recover, the group's ROIC should improve again as capacity utilisation increases.

## US Dollar Exchange Rates

\$/£



Fine Chemicals Division improved its ROIC to 13.4%, up from 12.2% last year; once again due to the one-off benefit from the launch of the generic version of ADDERALL XR®. If that benefit is excluded, Fine Chemicals Division's ROIC would have been 11.6%. While Precious Metal Products Division's ROIC fell to 46.8%, its return was still well above the group's pre-tax cost of capital. Environmental Technologies Division's ROIC fell to 9.4%, 1.4% below the group's cost of capital, as a result of the impact of the global recession but it should return above the group's cost of capital as the business recovers.

## Interest

The group's net finance costs decreased substantially, falling by £13.2 million to £19.4 million as a result of lower average borrowings and lower interest rates throughout the year. The group should continue to benefit from lower interest rates but around 65% of borrowings at 31st March 2010 have fixed interest rates averaging 5.1%.

The group also benefited in 2009/10 from interest receipts on tax rebates of £2.4 million.

## Profit before Tax

Underlying profit before tax fell by 5% to £254.1 million. After amortisation of acquired intangibles, major impairment and restructuring charges and profit or loss on disposal of businesses, profit before tax was 8% down at £228.5 million.

Profit before tax included a £1.7 million profit from its associate, compared with a £2.0 million profit in 2008/09. This relates to AGR Matthey, the Australian gold refining business in which the group had a 20% stake and which performed well in the year with good demand for gold refining. An agreement between the partners of AGR Matthey to dissolve the partnership became effective on 29th March 2010 (see note 19 on page 90).

## Return on Sales Excluding Precious Metals

	Sales excluding precious metals		Return on sales excluding precious metals <sup>1</sup>	
	2010 £ million	2009 £ million	2010 %	2009 %
Environmental Technologies	1,247	1,135	9.7	10.9
Precious Metal Products	420	447	27.8	32.0
Fine Chemicals	219	215	25.5	23.0
<b>Total group</b>	<b>1,886</b>	<b>1,797</b>	<b>14.4</b>	<b>16.6</b>

<sup>1</sup> Underlying operating profit divided by sales excluding precious metals.

## Taxation

The group's total tax charge for the year was £64.3 million, a tax rate of 28.1% on profit before tax (2008/09 30.8%). The effective tax rate on underlying profit before tax was 28.0% (2008/09 29.6%), reflecting the increased share of profit from lower tax jurisdictions such as China. This lower effective tax rate is likely to continue.

## Earnings per Share

Underlying earnings per share decreased by 3.2 pence to 86.4 pence. Total earnings per share were 77.6 pence, 6% below last year.

This year we have taken an impairment charge in respect of redundant assets at our Pharmaceutical Materials and Services contract research business in Massachusetts, USA. This resulted in a charge of £11.3 million which has been excluded from underlying earnings per share.

## Dividend

Despite the reduction in underlying earnings per share, as a demonstration of its confidence in the long term prospects of the group, the board is recommending to shareholders a final dividend of 27.9 pence, making a total dividend for the year of 39.0 pence, 5% up on last year. If approved, dividend cover for 2009/10 would be 2.2 times. Our long term policy remains to grow dividends in line with underlying earnings with dividend cover at about two and a half times.

## Pensions

At 31st March 2010 the group's UK pension scheme was in deficit by £156.9 million (85% funded) on an IFRS basis compared with a deficit of £45.2 million at 31st March 2009. The £111.7 million increase in the deficit was principally due to a reduction in the discount rate used from 6.5% to 5.5%.

Worldwide, including provisions for the group's post-retirement healthcare schemes, the group had a net deficit of £245.7 million on employee benefit obligations at 31st March 2010 (2009 £151.6 million).

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## Return on Invested Capital

	Average invested capital <sup>1</sup>		Return on invested capital <sup>2</sup>	
	2010 £ million	2009 £ million	2010 %	2009 %
Environmental Technologies	<b>1,281</b>	1,179	<b>9.4</b>	10.5
Precious Metal Products	<b>249</b>	276	<b>46.8</b>	51.8
Fine Chemicals	<b>417</b>	404	<b>13.4</b>	12.2
Corporate / other	<b>(230)</b>	(118)	<b>n/a</b>	n/a
<b>Total group</b>	<b>1,717</b>	1,741	<b>15.8</b>	17.1

<sup>1</sup> Average of opening and closing segmental net assets as shown in note 1 on the accounts on pages 68 and 69. For the group, the average of opening and closing equity plus net debt.

<sup>2</sup> Underlying operating profit divided by average invested capital.

## Underlying Operating Profit

(before amortisation of acquired intangibles, major impairment and restructuring charges and profit or loss on disposal of businesses)

	Year to 31st March		2009 at 2010 exchange rates	
	2010 £ million	2009 £ million	change %	change %
Environmental Technologies	<b>120.9</b>	124.3	-3	129.1
Precious Metal Products	<b>116.7</b>	143.0	-18	148.9
Fine Chemicals	<b>55.8</b>	49.5	+13	51.1
Corporate	<b>(21.6)</b>	(18.3)		(18.4)
<b>Total group</b>	<b>271.8</b>	298.5	-9	310.7

The triennial revaluation of our UK scheme as at 1st April 2009 was completed by the scheme's actuaries during the year. They estimated that the scheme had an actuarial deficit of £173.4 million, which represented a funding level of 80%, and it is estimated to be broadly similar at 31st March 2010. This compares with an actuarial surplus of £21.0 million at 1st April 2006 and a funding level of 103%. As a result of the worsening of the scheme's funding position, the company, after a period of consultation, agreed with the Trustees that the final salary section of the UK defined benefit scheme would be closed to future accrual of benefits with effect from 1st April 2010. From that date, those employees affected accrue future benefits within the scheme's existing career average salary plan. This impacted approximately 2,000 employees.

The Trustees and the company also agreed a ten year recovery plan commencing on 1st April 2010, under which the company will make deficit funding contributions of £23.1 million per annum. In 2009/10 the group's normal ongoing contribution to the UK scheme was £23.1 million (2008/09 £22.1 million).

In December 2009 we made a one-off additional payment of US \$30 million into our US schemes to reduce their deficits.

## Cash Flow

During the year ended 31st March 2010 the group's cash generation was once again strong as the business generated a net cash inflow of £33.0 million.

Net cash flow from operating activities was £275.7 million (2008/09 £501.4 million). As demand for our products and precious metal prices picked up in the second half of the year, the group's working capital requirement increased, reversing the opposite effect in 2008/09. This increase is partly due to the impact of higher precious metal prices but we monitor our working capital excluding the element that relates to precious metals. On that basis, the group's working capital increased by £24.9 million, but the number of working capital days was 57 compared with 63 last year. Higher precious metal prices also increased working capital by £77.1 million however, this was lower than we had anticipated as a result of higher levels of customer funded metal within the business.

During the year our capital expenditure was £131.8 million which equated to approximately 1.2 times depreciation. In 2009/10 we completed the construction of our two new ECT facilities in Macedonia and western Pennsylvania, USA and the new production facility at Clitheroe, UK to manufacture methanol synthesis catalysts. We also commenced construction of a new plate type SCR catalyst manufacturing facility in Shanghai, China.

Having completed the majority of our recent investment programme, the group now has sufficient capacity to meet much of the growth forecast over the next few years. We therefore anticipate that capital expenditure will remain at around 1.0 to 1.2 times depreciation for the next few years. However, we retain the capacity to invest in further growth opportunities as they arise.

## Capital Structure

In 2009/10 net debt fell by £61.0 million to £473.4 million and equity rose by £74.7 million to £1,250.8 million. Net debt / EBITDA for the year was 1.2 times and interest cover (underlying operating profit / net finance costs) was 14.0 times. If the post tax pension deficit of £148.2 million is included within net debt, the ratio would increase to 1.6 times. The board believes that it is important to maintain an appropriately efficient balance sheet with net debt (including the post tax pension deficit) / EBITDA between 1.5 and 2.0 times.

Gross borrowings (net of related swaps) amounted to £652.5 million offset by £179.1 million of cash and deposits. Included within gross borrowings at 31st March 2010 were drawings of £50.0 million out of total committed bank facilities, which are individually negotiated, of £280.0 million (see note 29c on page 94).