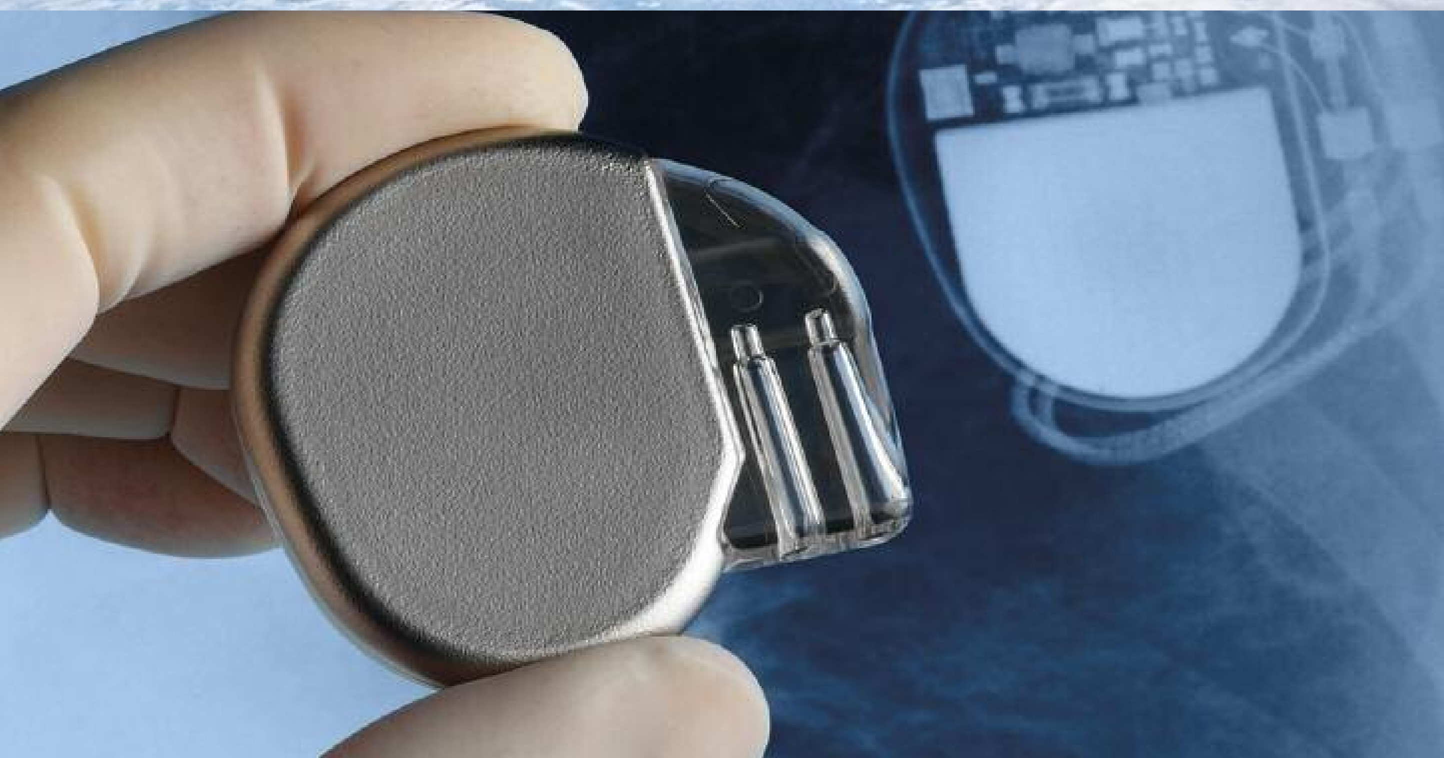
Financial Performance



Group Performance Review

Johnson Matthey delivered improving performance with a stronger second half in 2016/17.

		Year to 31st March			
		2017	2016	% change	% change, continuing businesses[2] at constant rates[3]
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	
Underlying[1] performance:					
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	

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.

2 Growth for continuing businesses excludes the contribution of 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 average exchange rates for 2016/17.

4 For definitions of other non-GAAP measures see glossary on page 190. For reconciliations of other non-GAAP measures see page 173.

Performance Highlights:

- Revenue up 12% to £12,031 million and operating profit up 18% to £493.2 million including translational foreign exchange 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[4] of £230 million. Working capital days[5] reduced from 56 to 54 days
- Capital expenditure and R&D spend to drive future growth: capital expenditure was £265 million, 1.7 times depreciation[4], with gross R&D £201[6] million, 5.6% of sales
- Return on invested capital (ROIC)[4] increased to 18.2% from 17.3%
- Strong balance sheet with net debt to EBITDA[4] 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 75.0 pence

Underlying Operating Profit	Year ended 31st March **2017** **£ million**	2016 £ million	% change	% change, continuing businesses[2] at constant rates
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	–

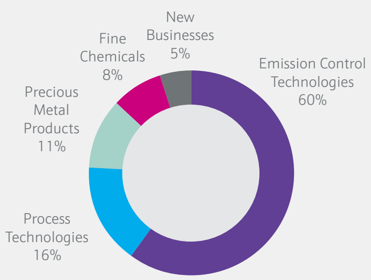
Performance in 2016/17

Johnson Matthey had 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.

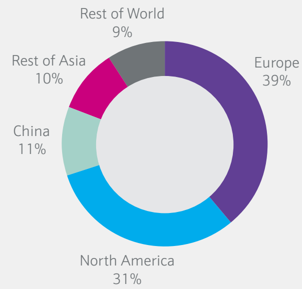
Underlying sales growth has come from the application of our leading technologies. We have invested over £440 million in capex and R&D combined, underpinning our commitment to science in the UK and internationally. In Emission Control Technologies (ECT) in Europe, our technology strengths delivered strong 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.

The performance of our five divisions is explained in more detail in the Financial Review of Operations section on pages 28 to 43.

Sales by Division

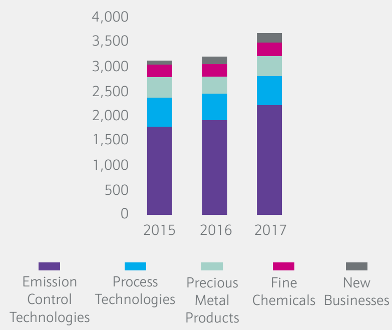


Sales by Destination



Divisional Sales

£ million



[5] 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.

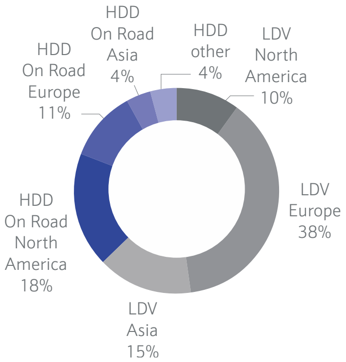
[6] Gross R&D includes capitalised development of £19 million which is also included in capital expenditure.

2. Financial Performance

Financial Review of Operations

Divisional Performance Summary

Emission Control Technologies
Sales[1] by business



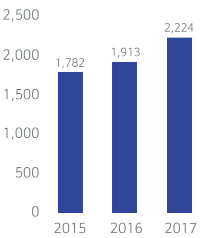
Heavy Duty Diesel (HDD) Catalysts **37%**

Light Duty Vehicles (LDV) Catalysts **63%**

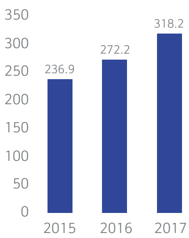
- **Light Duty Vehicle Catalysts** – a world leading manufacturer of catalysts for cars and other light duty vehicles powered by all types of fuel
- **Heavy Duty Diesel (On Road) Catalysts** – catalyst systems for diesel powered trucks and buses
- **Heavy Duty Diesel (Other) Catalysts** – catalyst systems for stationary equipment and non-road machinery

- Return on sales **14.3%**
- Return on invested capital **30.7%**
- Employees **4,948**

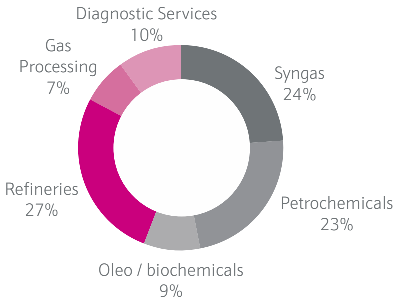
Sales[1]
£ million



Operating Profit
£ million



Process Technologies
Sales[1] by business



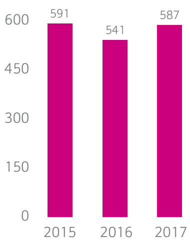
Oil and Gas **44%**

Chemicals **56%**

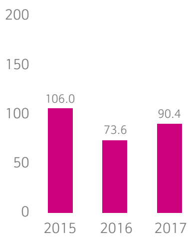
- **Chemicals** – manufactures speciality catalysts, licenses process technology and delivers services to the chemical industry
- **Oil and Gas** – manufactures catalysts, additives and absorbents and delivers services to the oil and gas industry

- Return on sales **15.4%**
- Return on invested capital **11.4%**
- Employees **2,068**

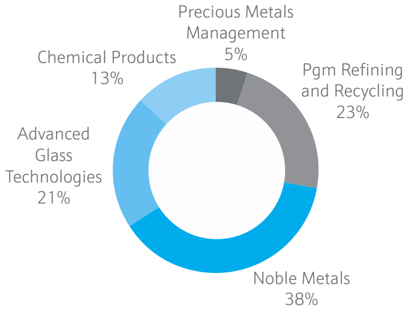
Sales[1]
£ million



Operating Profit
£ million



Precious Metal Products
Sales[1] by business



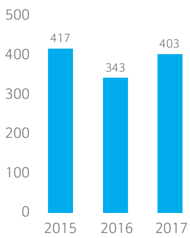
Manufacturing **72%**

Services **28%**

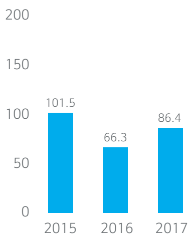
- **Services** – marketing, distribution, refining and recycling of platinum group metals (pgms)
- **Manufacturing** – fabricates products using precious metals and related materials and manufactures pgm chemicals

- Return on sales **21.4%**
- Return on invested capital **19.8%**
- Employees **2,137**

Sales[1]
£ million



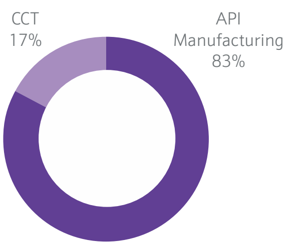
Operating Profit
£ million



[1] Sales excluding precious metals.

Fine Chemicals

Sales[1] by business

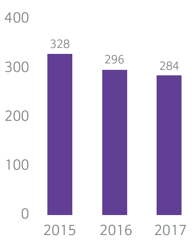


- **API Manufacturing** – a global supplier of active pharmaceutical ingredients and intermediate products
- **Catalysis and Chiral Technologies (CCT)** – supplies a range of speciality chemical, chiral and biocatalytic technologies

- Return on sales **22.8%**
- Return on invested capital **12.3%**
- Employees **1,292**

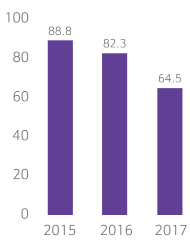
Sales[1]

£ million



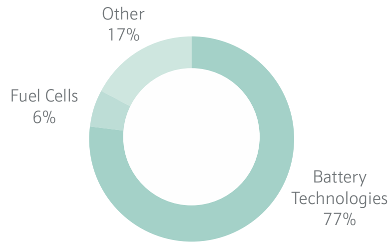
Operating Profit

£ million



New Businesses

Sales[1] by business

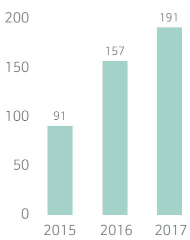


- **Battery Technologies** – focused on the research, development, design and manufacture of battery materials and integrated battery systems
- **Fuel Cells** – develops and manufactures catalysed components for fuel cells
- Investment in other new opportunities including atmosphere control technologies and water purification

- Employees **1,125**

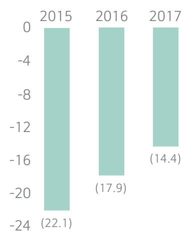
Sales[1]

£ million



Operating Loss

£ million



- **Emission Control Technologies**

  £318.2 million

  Operating profit

- **Process Technologies**

  £90.4 million

  Operating profit

- **Precious Metal Products**

  £86.4 million

  Operating profit

- **Fine Chemicals**

  £64.5 million

  Operating profit

- **New Businesses**

  £14.4 million

  Operating loss

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 clean air, the efficient use of natural resources and improved health. The four sectors are Clean Air, Efficient Natural Resources, Health and New Markets.

2. Financial Performance

Emission Control Technologies

Divisional Summary

Business	Light Duty Vehicle Catalysts	Heavy Duty Diesel Catalysts
What We Do	Manufacture catalysts which control harmful emissions from cars and other light duty vehicles powered by all types of fuel	Manufacture catalysts which control harmful emissions from diesel powered trucks, buses and non-road machinery
How We Add Value	Develop high technology catalyst formulations and systems to meet legislated limits for emissions around the world	
Societal Benefits	• Improved air quality and fuel efficiency • Respiratory health benefits	
Global Drivers	Environmental Factors Climate Change Regulation Population Growth Urbanisation Increasing Wealth Health and Nutrition Ageing Population	
Customer Profile	• Car companies • Global customer base	• Heavy duty truck and engine manufacturers • Local Chinese producers • Global customer base
Major Competitors	• BASF • Umicore • Cataler	• BASF • Umicore • Haldor Topsøe
Employees	4,948	
Locations	• 13 manufacturing facilities in 12 countries • Nine technical centres in eight countries	
2016/17 Sales	£1,400 million	£824 million

Strategy

– **Maintain differentiation through technology by investing in R&D**

– **A deep understanding of markets and customers**

– **Operational excellence and sustainability**

– **Deliver superior growth**

The division is focused on maintaining differentiation through technology by investing in R&D. This investment is vital to ensure Emission Control Technologies can continue to develop high performance leading edge catalysts for its customers.

A deep understanding of markets and customers enables the division to provide the right solutions for its customers in evolving markets driven by tightening legislation. Strong relationships and a good understanding of customers' needs are crucial to the division's success.

The division is focused on operational excellence and sustainability to optimise raw materials and plant efficiency. This enables it to produce the best quality products at minimum operating cost whilst ensuring the highest standards of environmental, health and safety performance.

The division aims to deliver superior growth. It targets markets that are driven by global trends, such as environmental regulation and increasing wealth, applying its expertise in leading edge catalysis to generate growth at rates ahead of industry baselines.

Performance in 2016/17

	Year to 31st March 2017 £ million	2016 £ million	% change	% change, constant rates
Sales excluding precious metals (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 (ROIC)	**30.7%**	28.3%		

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.

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 sales 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.

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 declined only 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.

Estimated Light Duty Vehicle Sales and Production

		Year to 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

Source: LMC Automotive.

Johnson Matthey's Light Duty Vehicle Catalyst Sales by Region

	2017 £ million	2016 £ million	% change	% change, constant rates
Europe	**847**	698	+21	+13
Asia	**339**	282	+20	+6
North America	**214**	202	+6	-8
Total	**1,400**	1,182	+18	+7

2. Financial Performance

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

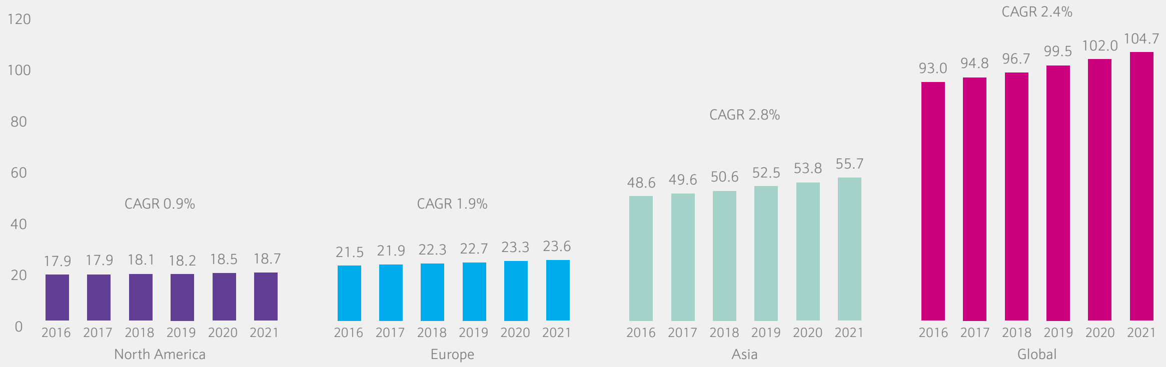
Our on road HDD Catalyst business, which provides catalysts for trucks and buses, outperformed truck production across all regions.

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.

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.

Light Duty Vehicle Production Outlook (Calendar Years)
million



Source: LMC Automotive (April 2017)

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.

Estimated HDD Truck Sales and Production

		Year to 31st March **2017** **thousands**	2016 thousands	% change
North America	Sales	**478**	550	-13
	Production	**456**	558	-18
EU	Sales	**445**	413	+8
	Production	**569**	534	+7

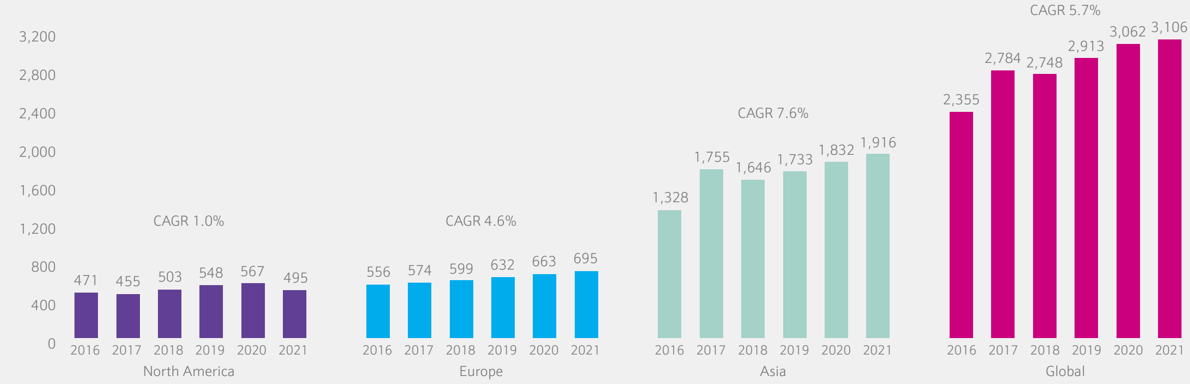
Source: LMC Automotive

Johnson Matthey's Heavy Duty Diesel Catalyst Sales by Region

	2017 **£ million**	2016 £ million	% change	% change, constant rates
North America	**397**	405	-2	-15
Europe	**249**	196	+27	+15
Asia	**85**	44	+95	+64
Other – non-road and stationary	**93**	86	+8	-3
Total	**824**	731	+13	-1

Heavy Duty Diesel Vehicle (Regulated Engines) Production Outlook (Calendar Years)

thousands



Source: LMC Automotive (April 2017)

2. Financial Performance

Process Technologies

Divisional Summary

	Chemicals Markets			Oil and Gas markets		
Business	**Syngas**	**Oleo / Biochemicals**	**Petrochemicals**	**Refineries**	**Gas Processing**	**Diagnostic Services**
What We Do	Manufacture catalysts, license process technology and deliver services to the chemical industry			Manufacture catalysts, additives and absorbents and deliver services to the oil and gas industry		
How We Add Value	Innovate and develop products, process technologies and services to enable customers to operate their processes at optimum efficiency and with reduced environmental impact					
Societal Benefits	• More efficient use of natural resources • Lower energy use • Biorenewables / low carbon technology			• Improved fuel quality • More efficient use of natural resources • Lower energy use • Improved environmental performance of refineries	• Removal of harmful impurities from gas • Improved environmental performance for our customers	• Improved asset performance and integrity
Global Drivers		**Natural Resource Constraints** **Increasing Electrification**	**Environmental Factors** **Climate Change** **Regulation**	**Population Growth** **Urbanisation** **Increasing Wealth**		**Health and Nutrition** **Ageing Population**
Customer Profile	• Chemical companies • Engineering contractors			• Refineries • Industrial gas companies	• Gas producers	• Oil and gas companies
Major Competitors	• Haldor Topsøe • Clariant	• BASF • Lurgi		• Clariant • Albemarle	• Grace • UOP	
Employees	2, 068					
Locations	• Nine manufacturing facilities in six countries • Ten technical centres in four countries • Sales offices in key markets					
2016/17 Sales	£141 million	£53 million	£133 million	£161 million	£41 million	£58 million

Strategy

– **Maintain leading positions in catalysts and process technologies for chemicals and oil and gas markets**

– **Deliver growth in current sectors and through entry into new markets**

– **Expand capabilities**

– **Achieve margin improvement by operational excellence**

The division is focused on maintaining leading positions in catalysts and process technologies for chemicals and oil and gas markets and on continued development of high performance products and services for its customers.

Through combining its expertise in catalysts and process technology to create value and new opportunities, the division aims to deliver superior growth in current and new markets. Exploiting existing technology advantages and developing process technology to complement our catalysts will enable the division to access larger markets within the target sectors of oil and gas and chemicals. The division also aims to enter new sectors, both by leveraging existing capabilities and by targeted acquisition. It will also invest in its people, manufacturing and technology to capitalise on opportunities in its markets.

The division aims to expand capabilities through focused research and development, external partnerships and targeted acquisitions in order to provide value adding solutions for its customers.

Process Technologies has a broad asset base, closely aligned to market needs. The division will deliver improved margins by rigorous application of manufacturing excellence and lean tools.

Performance in 2016/17

	Year to 31st March **2017** **£ million**	2016 £ million	% change	% change, constant rates
Sales excluding precious metals (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%		

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 catalysts sales with a good second half
- Operating profit grew strongly, up 9%, benefiting from efficiency gains from last year's restructuring programme

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.

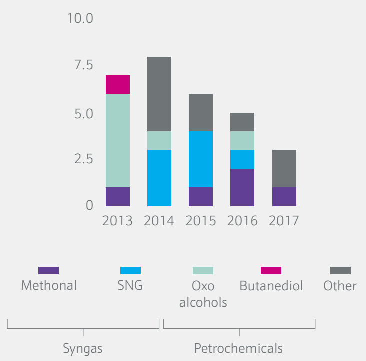
We also supply a portfolio of catalysts. In our Syngas business, these are primarily to customers who manufacture ammonia, formaldehyde and methanol. Sales of first fills of catalysts for new ammonia plants were down year on year as a result of excess ammonia manufacturing capacity. Methanol first fill 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.

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.

Technology Licensing – Projects Awarded 2013-2017



Process Technologies – Chemicals Businesses' Sales

	2017 £ million	2016 £ million	% change	% change, constant rates
Syngas	**141**	158	-11	-17
Oleo/biochemicals	**53**	48	+9	-2
Petrochemicals	**133**	103	+30	+19
Total	**327**	309	+6	-3

2. Financial Performance

Process Technologies – Oil and Gas Businesses' Sales

	2017 £ million	2016 £ million	% change	% change, constant rates
Refineries	**161**	127	+27	+14
Gas Processing	**41**	42	-2	-5
Diagnostic Services	**58**	63	-8	-15
Total	**260**	232	+12	+3

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.

Return on Invested Capital

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

Precious Metal Products

Divisional Summary

	Services		Manufacturing		
Business	**Precious Metals Management**	**Refining**	**Noble Metals**	**Advanced Glass Technologies**	**Chemical Products**
What We Do	Global management and distribution of platinum group metals (pgms)	Refining and recycling of pgms from a wide range of inputs	Develop and fabricate a wide range of products from precious metals and other speciality materials	Develop and manufacture functional coatings and conductive inks	Manufacture pgm chemicals for a broad range of markets including automotive and chemical
How We Add Value	Ensure Johnson Matthey's operations have metal to meet their customers' orders	Ensure optimal recovery of pgms for external customers and Johnson Matthey's businesses	R&D to find new applications which use the unique properties of pgms and other materials	R&D in material technologies to provide high performance solutions	R&D to develop products that provide unique solutions for our customers
Societal Benefits	• Enable the production of pgm containing products that deliver environmental, health and social benefits	• More efficient use of natural resources	• Enhanced health and wellbeing • Greenhouse gas abatement	• Enhance lifestyle • Some environmental benefits	• Our customers' work underpins a broad range of environmental and other societal benefits
Global Drivers	**Natural Resource Constraints** **Increasing Electrification**	**Environmental Factors** **Climate Change** **Regulation**	**Population Growth** **Urbanisation** **Increasing Wealth**	**Health and Nutrition** **Ageing Population**	
Customer Profile	• Johnson Matthey's businesses and their customers • Other industrial pgm users	• End of life autocatalyst collectors • Industrial pgm users • Johnson Matthey's businesses and their customers • Miners	• Customers from a wide range of industries including medical, chemical and automotive	• Automotive glass manufacturers • Electronic component manufacturers	• Chemical / pharmaceutical manufacturers • Emission control catalyst manufacturers
Major Competitors	• BASF • Heraeus • Umicore • Bullion banks	• Heraeus • Umicore • BASF	• Heraeus • Umicore	• Ferro • DuPont • Heraeus	• Heraeus • Umicore
Employees	2,137				
Locations	• UK, US and Hong Kong	• UK, China and US	• Manufacturing sites in Europe, US and Australia; support centres in Asia	• Six manufacturing sites and three support centres in Europe, US and Asia	• Manufacturing sites and technical centres in Europe, US and Asia
2016/17 Sales	£19 million	£95 million	£152 million	£85 million	£52 million

2. Financial Performance

Strategy

– **Leverage our deep understanding of pgm chemistry, materials science and manufacturing**

– **Provide customer solutions through investment in R&D**

– **Offer first class services to our external and internal customers**

– **Deliver superior growth**

Through leveraging its deep understanding of pgm chemistry, materials science and manufacturing, Precious Metal Products can apply expertise to ensure it continues to develop leading edge products and manufacturing routes.

The division is focused on providing customer solutions through investment in R&D. Although it comprises a mix of newer and more mature businesses, constant innovation is key to enable the division to respond to customers' continued demand for new products.

Offering first class services to external and internal customers is an important element of the strategy. The division serves external customers and also provides vital services to other Johnson Matthey businesses, either through the provision of precious metals or through refining and recycling spent process or customer material. Investing in the business and focusing on the quality and scope of the services it offers is key to maintaining a competitive position.

The division aims to deliver superior growth by targeting higher technology areas where its expertise in adding value to precious metals and related materials can generate growth at rates ahead of industry baselines.

Performance in 2016/17

	Year to 31st March **2017** **£ million**	2016 £ million	% change	% change, constant rates
Sales excluding precious metals (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%		

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

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.

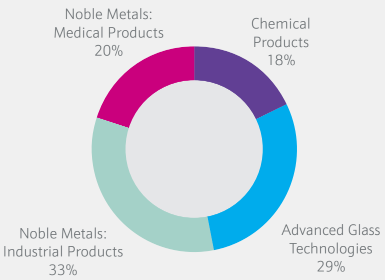
Precious Metal Products – Services Businesses' Sales

	2017 **£ million**	2016 £ million	% change	% change at constant rates
Pgm Refining and Recycling	**95**	77	+24	+13
Precious Metals Management	**19**	17	+12	+8
Total	**114**	94	+22	+13

Manufacturing

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

Manufacturing Businesses' Sales



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.

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.

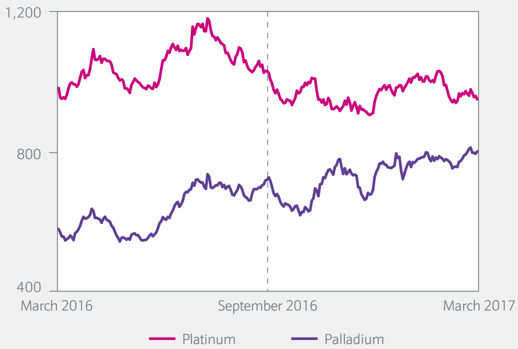
Return on Invested Capital

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

Precious Metal Products – Manufacturing Businesses' Sales

	2017 £ million	2016 £ million	% change	% change, constant rates
Noble Metals	**152**	130	+16	+4
Advanced Glass Technologies	**85**	71	+20	+5
Chemical Products	**52**	48	+9	+1
Total	**289**	249	+16	+4

Platinum and Palladium Prices
US$/oz



2. Financial Performance

Fine Chemicals

Divisional Summary

Business	Active Pharmaceutical Ingredient (API) Manufacturing		Catalysis and Chiral Technologies
	API and lifecycle management	Custom pharma solutions	
What We Do	Develop and manufacture complex APIs for a variety of treatments, including for pain management and Attention Deficit Hyperactivity Disorders (ADHD)	Provide custom pharmaceutical research, development and manufacturing services	Supply a leading range of speciality chemical, chiral and biocatalytic technologies and products
How We Add Value	Use our unique technology position and expertise to develop and manufacture APIs, enabling first to market commercialisation opportunities for our branded and generic customers	Leading complex chemistry capabilities and technology, coupled with outstanding services, enabling customers to increase R&D productivity and speed to market	Use our unique catalysis technology position to develop highly efficient and sustainable catalytic processes and manufacture products for customers in the pharmaceutical and agrochemical sectors
Societal Benefits	• Improved quality of life for an ageing global population • Treats critical conditions e.g. cancer, chronic pain, neurodegenerative diseases	• Facilitating the development and commercialisation of pharmaceuticals for unmet medical needs	• Sustainable processes that enable cost effective pharmaceutical manufacture
Global Drivers	Health and Nutrition Ageing Population		Population Growth Urbanisation Increasing Wealth
Customer Profile	• Multiple small and large branded and generic pharmaceutical companies	• Innovative pharmaceutical companies developing novel products	• Pharmaceutical, fine chemical and agrochemical companies
Major Competitors	• Medtronic • Noramco • Francopia • Siegfried • Cambrex • AMRI	• AMRI • Alcami • Hovione • Almac	• Evonik • BASF
Employees	1,292		
Locations	• Global network of 11 sites located in US, Europe, India and China		
2016/17 Sales	£236 million		£48 million

Strategy

- Deliver niche products and services to pharmaceutical markets
- Leverage synergies between market presence, technology and global manufacturing network
- Move further up the pharmaceutical value chain
- Deliver superior growth

Fine Chemicals is focused on delivering niche products and services to pharmaceutical markets where it can apply its capabilities in complex chemistry, research, development and manufacturing to deliver existing and new products. Differentiation through technology while delivering on speed to market and quality is a key value proposition we offer to both innovative and generic pharmaceutical customers.

By leveraging synergies between market presence, technology and our global manufacturing network across the division, we maintain a robust portfolio of new products and customers. Vertical integration and close collaboration between its businesses are key advantages the division offers to customers through providing a unique and differentiated offering.

Building upon its reputation as a premier technology led API development business, Fine Chemicals aims to extend its position in generic pharmaceuticals by moving further up the pharmaceutical value chain, through coinvesting and codeveloping new formulated drug products to increase access and value share of this high growth market segment.

The division aims to deliver superior growth in markets that are driven by global trends towards the increased use of pharmaceutical products. Its strong position in niche areas and its technology, process development and manufacturing infrastructure position it well for growth at rates ahead of industry baselines.

Performance in 2016/17

	Year to 31st March 2017 £ million	2016 £ million	% change	% change, continuing businesses[1] at constant rates
Sales excluding precious metals (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%		

[1] Continuing businesses excludes sales and underlying operating profit from 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.

Strong sales from active 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

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 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 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.

Return on Invested Capital

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%.

Fine Chemicals – Sales by Business

	2017 £ million	2016 £ million	% change	% change, continuing businesses[1] at constant rates
API Manufacturing	**236**	217	+9	-1
Catalysis and Chiral Technologies	**48**	41	+17	+9
Research Chemicals	**–**	38		
Total	**284**	296	-4	+1

[1] Continuing businesses excludes the Research Chemicals business that was sold in September 2015.

2. Financial Performance

New Businesses

Divisional Summary

Business	Battery Technologies	Fuel Cells
What We Do	Research, development and manufacture of battery materials, design and supply of high performance battery systems	Develop and manufacture catalysts and components for emerging fuel cell markets
How We Add Value	Development of improved and next generation battery materials, design and integration of high performance battery systems	Leverage expertise in advanced materials to develop more economically viable fuel cell components
Societal Benefits	• Alternative energy • Low carbon, zero emission transport / power	
Global Drivers	**Environmental Factors** **Climate Change** **Regulation** **Natural Resource Constraints** **Increasing Electrification** **Health and Nutrition** **Ageing Population**	
Customer Profile	• Automotive and heavy duty vehicle customers • Lithium-ion cell manufacturers • High performance cordless tool and niche transport manufacturers	• Manufacturers of fuel cells for portable, automotive and stationary applications
Major Competitors	Systems: • LG • BMZ Materials: • BASF • Umicore	• W L Gore • 3M
Employees	1,125	
Locations	• Materials manufacturing in China and Canada • Materials R&D in UK and Germany • Systems design, development and manufacture in UK and Poland	• Headquartered in UK • R&D capability in UK
2016/17 Sales	£191 million	

Strategy

- **Targeting opportunities with sales potential of around £200 million per annum by 2020**
- **Develop new business areas**
- **Invest in R&D to drive growth**
- **Make targeted acquisitions to accelerate progress**

We are targeting opportunities with sales potential of at least £200 million per annum within ten years. We will focus on areas adjacent to our current businesses and that build on our core technology competences.

The division is focused on developing new business areas. Potential areas must show a good fit with our key global drivers, offer strong market growth, attractive margin potential and present the opportunity for new market entry positions through application of Johnson Matthey's technology.

We will invest in R&D to drive growth through developing technology for new markets. Through an ongoing process, we will identify and evaluate new opportunities whilst developing and filtering out those already in our pipeline.

Alongside organic development and the evolution of our business plans, we anticipate the need to fill gaps in our experience and make targeted acquisitions to accelerate progress. These are likely to be relatively small scale, up to the value of around £100 million.

Performance in 2016/17

	Year to 31st March 2017 £ million	2016 £ million	% change	% change, constant rates
Sales excluding precious metals (sales)	**191**	157	+22	+10
Underlying operating profit / (loss)[1]	**(14.4)**	(17.9)	+20	+12

[1] 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.

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

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 have 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.

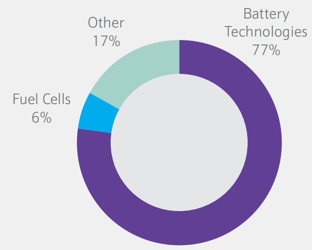
Battery Systems is a cell assembly business and delivered single digit growth mainly from increasing demand for e-bikes in Europe.

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.

New Businesses' Sales



Financial Review

In Summary

- **As a result of the restructuring programme announced in 2015/16, costs were reduced by £26 million, primarily in Process Technologies and Fuel Cells**
- **Cash flow from operating activities of £523 million and free cash flow of £230 million. Working capital days reduced from 56 to 54 days**
- **Capital expenditure and R&D spend to drive future growth: Capital expenditure was £265 million, 1.7 times depreciation, with gross R&D £201 million[1], 5.6% of sales**
- **Strong balance sheet with net debt to EBITDA of 1.1 times (2015/16: 1.2 times)**

Introduction

Johnson Matthey delivered improving performance with a stronger second half in 2016/17. Profit before tax of £461.6 million was up 19% and earnings per share increased by 21% to 201.2 pence. Underlying profit before tax of £481.7 million was up 1% at constant rates on a continuing basis and underlying earnings per share increased by 17% to 209.1 pence. Further aspects of the group's financial performance in 2016/17 are outlined below.

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.

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.

1 Gross R&D includes capitalised development of £19 million which is also included in capital expenditure.

Anna Manz
Chief Financial Officer

Research and Development (R&D)

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.

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 will be around 18%.

Our Approach to Tax

Johnson Matthey has developed a reputation over the last 200 years for integrity and our people take pride in doing the right thing across all aspects of our business. These principles underpin our approach to the management of tax.

We want to be clear and open on our approach so that our stakeholders understand it. Today we have operations in over 30 countries and, for each of those countries, we endeavour to pay our fair share of tax. We follow the laws of the relevant country and our group tax strategy so that we pay the correct and appropriate amount of tax at the right time.

Through implementation of our tax strategy we plan to:

- Optimise global tax incentives and exemptions, such as those which support the research and development of our next generation of sustainable technologies. We will only engage in tax planning which is supported by a clear commercial rationale.
- Have clear and consistent tax policies and procedures to support our business strategy. All our tax policies and guidelines are managed and maintained by our professional tax function which is supported by external advisers. This ensures compliance and allows us to properly respond to global tax changes and developments.
- Proactively identify, evaluate, manage and monitor tax risks arising from our business operations to ensure they remain in line with the group's risk appetite, seeking external advice where necessary.
- Ensure that all tax returns are accurate, complete and are submitted in a timely manner through the activation of a thorough tax risk compliance management process.
- Maintain open, positive and cooperative relationships with governments and global tax authorities. We also partake in constructive discussions on taxation policies that are relevant to our business.

The board approves our tax strategy each year and reviews compliance against it on a regular basis. That way, our strategy will encompass any learning and remain relevant and consistent with our values. The tax strategy satisfies the requirements of UK Finance Act 2016.

2. Financial Performance

Pension

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:

- 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

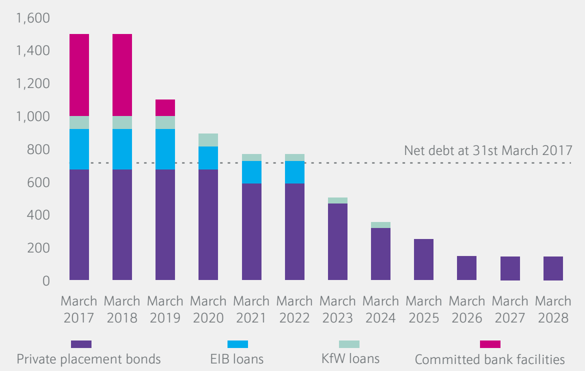
Return on invested capital (ROIC) increased to 18.2% from 17.3%. Underlying operating profit for the group was 14% ahead of last year at £513.3 million, and average invested capital increased £215 million to £2,816 million, primarily due to the impact of foreign exchange translation.

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 they 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.

Maturity Profile of Debt Facilities
At 31st March 2017 exchange rates
£ million



Treasury Policies, Going Concern and Viability

Treasury Policies and Financial Risk Management

Group Treasury is a centralised function within Johnson Matthey based in the UK and US. The role of Group Treasury is to secure funding for the group, manage financial risks and provide treasury services to the group's operating businesses. Group Treasury is run as a service centre rather than a profit centre. The group does not undertake any speculative trading activity in financial instruments.

Funding and Liquidity Risk

The group's policy on funding capacity is to ensure that we always have sufficient long term funding and committed bank facilities in place to meet foreseeable peak borrowing requirements.

At 31st March 2017 the group had cash and deposits of £330.4 million and £498.6 million of undrawn committed bank facilities available to meet future funding requirements. The group also has a number of uncommitted facilities, including overdrafts and metal lease lines, at its disposal. The maturity dates of the group's debt and committed borrowing facilities as at 31st March 2017 are illustrated in the chart on page 46.

Of the committed bank facilities, £120.2 million falls due to be repaid in the 15 months to 30th June 2018 (the going concern period). £51.5 million of the committed bank facilities were refinanced in May 2017 for a further two years with a long term relationship bank.

Going Concern

The directors have assessed the future funding requirements of the group and the company and compared it to the level of long term debt and committed bank facilities for the 15 months from the balance sheet date. The assessment included a sensitivity analysis on the key factors which could affect future cash flow and funding requirements. Having undertaken this work, the directors are of the opinion that the group has adequate resources to fund its operations and so determine that it is appropriate to prepare the accounts on a going concern basis.

Viability

In accordance with provision C.2.2 of the 2014 UK Corporate Governance Code, the directors have assessed the viability of the company over a longer period than the 15 months covered by the 'Going Concern' statement. The directors' assessment has been made by considering the group's current position and prospects, our strategy, the board's risk appetite, and our principal risks and how these are managed, as set out in the section on 'Risks and Uncertainties'. The directors have determined that a three year period to 31st March 2020 is an appropriate period over which to assess the group's viability. We refresh our strategy every three years and this period is also aligned with our normal and well established business planning process which includes preparing and reviewing a three year plan each year. In making the assessment, we have considered a number of severe but plausible stress scenarios linked to the group's principal risks. We have analysed the impact of five individual operational or market risk scenarios, plus all of them occurring at the same time. Such scenarios include the loss of a major site, product failure or the decline in demand from a shift in the markets in which we operate. We have also considered a hard Brexit scenario, but this was not modelled as it is unlikely to materialise before 2019/20. The assessment took account of the group's current funding, forecast requirements and existing debt and committed borrowing facilities. It assumed that existing debt and borrowing facilities could be refinanced as they mature. We have also undertaken a reverse stress test in order to analyse scenarios and circumstances that would threaten our current financing arrangements. All of our stress tests were derived through discussions with senior management and the board after considering our principal risks and uncertainties.

Based on this assessment, the directors have a reasonable expectation that the company will be able to continue in operation, comply with facility covenants and meet its liabilities as they fall due over a period of at least three years.

Foreign Currency Risk

Johnson Matthey's operations are located in over 30 countries, providing global coverage. A significant amount of profit is earned outside the UK.

In order to protect the group's sterling balance sheet and reduce cash flow risk, the group has financed a significant portion of its investment in the US and Europe by borrowing US dollars and euros respectively. Additionally, the group uses foreign currency swaps to hedge a portion of its assets. The group uses forward exchange contracts to hedge foreign exchange exposures arising on forecast receipts and payments in foreign currencies. Currency options are occasionally used to hedge foreign exchange exposures, for example in a bid situation. Details of the contracts outstanding on 31st March 2017 are shown on page 156.

Interest Rate Risk

At 31st March 2017 the group had net borrowings of £715.7 million of which 99% was at fixed rates with an average interest rate of 3.1%. The remaining 1% of the group's net borrowings was funded on a floating rate basis. A 1% change in all interest rates would have a 0.01% impact on underlying profit before tax. This is within the range the board regards as acceptable.

Precious Metal Prices

Fluctuations in precious metal prices have an impact on Johnson Matthey's financial results. Our policy for all manufacturing businesses is to limit this exposure by hedging against future price changes where such hedging can be done at acceptable cost. The group does not take material exposures on metal trading.

A proportion of the group's precious metal inventories are unhedged due to the ongoing risk over security of supply.

Credit Risk

The group is exposed to credit risk on its commercial and treasury activities. In both cases counterparties are assessed against the appropriate credit ratings, trading experience and market position. Credit limits are then defined and exposures monitored against these limits. In treasury and precious metal management, these exposures include the mark to market of outstanding transactions and potential settlement risks.

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Read more about our principal risks on pages 16 to 21.