Johnson Matthey

News release

Q3 Trading Update

Trading in line with expectations, full year outlook confirmed

2nd February 2017

Unless otherwise stated, figures and commentary quoted in this statement are based on the quarter ended 31st December 2016 and compare this quarter to Q3 2015/16 at constant rates[1].

Q3 Highlights

- Q3 sales[2] up 19% at actual rates; up 2% at constant rates[1]
- Underlying profit before tax[3] ahead of last year at constant rates
- Full year outlook confirmed; expect the group's performance to be slightly ahead of last year for continuing businesses at constant rates

	Q3 2016/17 £ million	Q3 2015/16 £ million	Q3 on Q3 % change actual	Q3 on Q3 % change constant rates[1]
Revenue	**3,127**	**2,504**	**+25**	**+14**
Sales excluding precious metals (sales) [2]				
Emission Control Technologies (ECT)	549	459	+20	+2
Process Technologies	147	119	+24	+10
Precious Metal Products	102	78	+29	+12
Fine Chemicals	60	57	+5	-9
New Businesses	48	46	+4	-10
Eliminations	(30)	(20)		
Group sales	**876**	**739**	**+19**	**+2**

Overview of Trading

Trading for the group in the third quarter was in line with our expectations. Sales of £876 million were 2% up on last year supported by good demand across many of our markets. First half trends in ECT continued in Q3, with good growth in Europe and Asia. As expected, Process Technologies benefited from a stronger order book and Precious Metal Products' sales grew well due to improved demand and more favourable average precious metal prices. Fine Chemicals was impacted by lower sales in North America, particularly of active pharmaceutical ingredients (APIs) for attention deficit hyperactivity disorder (ADHD) treatments, although these should improve in Q4. New Businesses had a weaker quarter, partly as a result of phasing of orders in Battery Technologies.

The group's underlying profit before tax was ahead of last year and our outlook for the full year remains unchanged.

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Emission Control Technologies (ECT)
Sales in ECT were up 2% at £549 million with strength in Europe and Asia offsetting expected weakness in North America.

Our light duty vehicle (LDV) catalyst business grew well with sales up 6% to £348 million, and broadly in line with the 8% increase in global car production. European LDV catalyst sales grew strongly, supported by a continued shift to more advanced NOx control systems for diesel vehicles as we move towards the introduction of real world driving emission standards from September 2017. Sales in Asia also grew strongly, boosted by increased vehicle production in China as consumers took advantage of the tax incentives in place on smaller-engined cars. In North America, the less favourable customer and product mix in the first half continued and, as a result, our Q3 sales were lower than last year.

Sales in our heavy duty diesel (HDD) catalyst business were 3% lower at £201 million due to continued weakness in North America. As expected, lower levels of production of large (Class 8) trucks continued to weigh on our North American HDD catalyst sales although this was partly offset by some new business in the quarter. European HDD catalyst sales were impacted by phasing of orders but remain on track overall, whilst sales in Asia grew significantly, supported by strong truck production levels in China.

Process Technologies
As expected, Process Technologies had a stronger quarter with sales up 10% to £147 million. Demand in our end markets remained weak.

Sales in our Chemicals businesses were strongly ahead, supported by expected catalyst orders to syngas customers and good demand for catalysts from the petrochemicals sector. New licensing activity remained subdued but two small oleo/biochemicals licences were signed in the period.

Sales in our Oil and Gas businesses were stable overall, supported by good demand for catalysts from refinery customers. Whilst sales of refinery additives were steady, trading conditions in Diagnostic Services remained tough.

Precious Metal Products
Precious Metal Products' sales increased by 12% to £102 million with good demand for the division's products and services.

Sales grew strongly in Services, supported by more favourable average platinum group metal (pgm) prices (platinum averaged $951/oz, up 4% on the same period last year, and palladium averaged $689/oz, up 12%). We saw stable intakes in our refineries and the volatility in pgm prices during the period benefited our Precious Metals Management business.

In Manufacturing, demand for our products was also good with sales in all three businesses ahead of last year.

Fine Chemicals
Sales in Fine Chemicals were down 9% at £60 million as weaker demand in North America, particularly of APIs for attention deficit hyperactivity disorder (ADHD) products, more than offset sales growth in Europe.

Sales from ADHD APIs in the US were impacted by customers reaching their reduced controlled substance quota limits for the 2016 calendar year, and a more challenging competitive environment driving down prices. New quotas for calendar 2017 should support increased sales in our fourth quarter.

Sales of speciality opiates were down as strength in Europe only partly offset weakness in the US where orders are phased into the fourth quarter. However, increasing sales of APIs for non-controlled substances in North America more than compensated for the weaker speciality opiate sales.

New Businesses
Sales in New Businesses were down 10% to £48 million, partly due to phasing of orders for battery systems for e-bikes. The quarter also saw a hiatus in demand for battery materials in China, as customers there ran down their stocks ahead of the announcement of the tax incentives for 2017, which came later than in previous years. Overall, the development of our Battery Materials business continues in line with our plans. During the third quarter we were selected as a strategic supplier to LG Chemicals and will provide

them with lithium iron phosphate (LFP) for use on a new platform with a major Western automotive manufacturer.

Group Taxation

The underlying tax rate for the full year is expected to be at the upper end of our guidance at just under 17% as the impact of the UK's adoption of BEPS (Base Erosion and Profit Shifting) measures are felt in the last quarter.

Outlook

Our guidance for the full year remains unchanged for our continuing businesses on a constant currency basis and therefore we expect the group's performance to be slightly ahead of last year.

The group will benefit from favourable exchange rates. If exchange rates remain at 31st December 2016 levels for the remainder of 2016/17, the positive translational impact to underlying operating profit would be approximately £65 million for the year as a whole. This is unchanged from the guidance given at the half year results in November 2016.

Exchange rate movements since 30th September 2016 do not have a material effect on the translational gain to underlying operating profit. However, they have a greater effect on the balance sheet and, if rates remain at 31st December 2016 levels, we would expect working capital days, excluding precious metals, at the year end to be slightly above our 50-60 day range.

Johnson Matthey remains well positioned to benefit from demand globally for cleaner air, the trend towards increased use of generic drugs and a recovery in the petrochemical industry. Our strong market positions and differentiated technologies, supported by ongoing R&D investment and a strong balance sheet, will continue to drive attractive shareholder returns over the medium term.

Notes:

Call for Analysts and Investors

Anna Manz, Group Finance Director, will host a conference call at 8.00 am today, Thursday 2nd February 2017, to discuss this trading update. The dial-in number for UK callers is 01296 480 100; for overseas callers please see http://www.btconferencing.com/globalaccess/?bid=54_attended. The passcode is 241631#. Please dial in approximately 15 minutes prior to the start of the conference call to allow time for registration.

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[1] At constant rates (if Q3 2015/16 results are converted at average exchange rates for Q3 2016/17).

[2] Sales excluding precious metals (sales) is believed to be a better measure of the growth of the group than revenue. Total revenue can be heavily distorted by year on year fluctuations in the market price of precious metals. In addition, in many cases, the value of precious metals is passed directly on to our customers. Sales for Q3 2015/16 have been adjusted to include certain non-pass through precious metal items.

[3] Underlying is before amortisation of acquired intangibles, major impairment and restructuring charges, profit or loss on disposal of businesses. We believe that this provides a better guide to the underlying performance of the group.