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News Release

Thursday 30th May 2019, 7.00 am

Preliminary results for the year ended 31st March 2019

Strong performance whilst strengthening our platform for growth

Robert MacLeod, Chief Executive, commented:
We had another good year with strong sales and operating profit growth, as we progress our strategy to deliver our vision for a cleaner, healthier world.

In the year, Clean Air performed strongly and we are investing in new plants to satisfy future demand, particularly from Asia which will be our next key growth driver. We remain excited by the growth opportunity in Battery Materials and commercialisation of eLNO®, our leading ultra-high energy density cathode material, continues at pace. We made further investments in Health to develop our pipeline of products and in Efficient Natural Resources we continue to drive efficiencies whilst focusing on high growth market segments. To support our long term growth and as we broaden our presence in sustainable technologies, we are also developing innovative solutions for fuel cells and battery materials recycling.

Delivery of our strategy is underpinned by the fundamental changes we are making across all aspects of the group. Our business is becoming more agile and efficient, with greater capability to deal with the fast changing world around us. We have invested in safety, people, systems and processes whilst continuing to target further improvement. The ongoing roll out of our single global ERP system which will standardise processes and transform the way we work is an example. Together, all of these actions are enabling us to strengthen our platform for growth.

In light of our strong performance, continued delivery against our strategy and confidence in the group's future growth prospects, we are proposing a 7% increase in the ordinary dividend for the full year. For 2019/20, we expect growth in operating performance at constant rates to be within our medium term guidance of mid to high single digit growth.

Reported results		**Year ended 31st March 2019**	**2018**	**% change**
Revenue[1]	£ million	10,745	10,274	+5
Operating profit	£ million	531	359	+48
Profit before tax (PBT)	£ million	488	320	+53
Earnings per share (EPS)	pence	215.2	155.2	+39
Ordinary dividend per share	pence	85.5	80.0	+7

Underlying performance[2]		**Year ended 31st March 2019**	**2018**	**% change**	**% change, constant rates[3]**
Sales excluding precious metals (Sales)[4]	£ million	4,214	3,846	+10	+10
Operating profit	£ million	566	525	+8	+8
Profit before tax	£ million	523	486	+8	+7
Earnings per share	pence	228.8	208.4	+10	

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Underlying performance[2]

- Sales grew 10% and underlying operating profit grew 8% at constant rates[3] driven by strong growth in Clean Air
- Underlying EPS was up 10% and ahead of operating profit, benefiting from a lower tax rate
- Free cash was an outflow of £13 million impacted by platinum group metal (pgm) refinery downtime, driving higher precious metal working capital and higher capex
- Average working capital days excluding precious metals improved by three days to 59 days
- Return on invested capital (ROIC), excluding net pension assets, decreased from 17.0% to 16.4% mainly due to higher precious metal working capital
- Strong balance sheet with net debt of £866 million; net debt to EBITDA of 1.3 times

By sector

- Continued strong sales and operating profit growth in **Clean Air**, and achieved our planned market share of c.65% in European light duty diesel. Sector sales grew 11%, well ahead of the decline in global vehicle production, driven by double digit growth in both light and heavy duty catalysts
- Sales grew 4% in **Efficient Natural Resources** with strong operating profit driven by higher average precious metal prices and net benefits from improved efficiency and weaker performance in Advanced Glass Technologies
- In **Health**, sales were up 3% and operating profit was slightly down reflecting product mix and net costs associated with footprint optimisation
- **New Markets** saw strong sales growth but lower operating profit mainly due to Battery Materials as we invest in eLNO. We continue to make progress on commercialising eLNO and customer feedback remains positive. We recently secured a site in Poland for our first commercial plant as well as our first long term supply agreement for raw materials with Nemaska Lithium

Reported results

- Reported revenue increased 5%
- Reported operating profit was £531 million, up 48%. In the prior year, we recognised a major impairment and restructuring charge of £90 million, and a legal settlement of £50 million
- Reported EPS was therefore up 39%, reflecting the higher operating profit in the current year
- Cash inflow from operating activities was £334 million
- Recommended ordinary dividend up 7% to 85.5 pence for the full year, reflecting our strong performance and confidence in the group's future prospects

Outlook for the year ending 31st March 2020

- For 2019/20, we expect growth in operating performance at constant rates to be within our medium term guidance of mid to high single digit growth
- At current foreign exchange rates (£:$ 1.295, £:€ 1.157, £:RMB 8.72), translational foreign exchange movements for the year ending 31st March 2020 are expected to adversely impact sales and underlying operating profit by £6 million and £2 million respectively

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Notes:

1. Revenue for the year ended 31st March 2018 has been restated, see note 16 on pages 35 to 38
2. Underlying is before profit or loss on disposal of businesses, gain or loss on significant legal proceedings together with associated legal costs, amortisation of acquired intangibles, major impairment and restructuring charges and, where relevant, related tax effects and significant tax rate changes. For definitions and reconciliations of other non-GAAP measures, see pages 39 to 41
3. Unless otherwise stated, sales and operating profit commentary refers to performance at constant rates. Growth at constant rates excludes the translation impact of foreign exchange movements, with 2017/18 results converted at 2018/19 average exchange rates
4. Revenue excluding sales of precious metals to customers and the precious metal content of products sold to customers

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Progress on our strategy

Our vision is for a world that is cleaner and healthier, today and for future generations. We deliver this through our strategy, which is underpinned by the fundamental changes we are continuing to drive across the group. This will leave us better positioned to deal with the fast pace of change in the world around us and take advantage of the opportunities that it presents.

The strategy we have outlined will deliver sustained growth in Clean Air, market leading growth in Efficient Natural Resources and break out growth in Health and Battery Materials. Over the medium term, it will deliver the following financial outcomes:

- Mid to high single digit EPS CAGR
- Expanding group ROIC to 20%
- Progressive dividend

Creating a more agile and efficient business to drive growth

We are delivering good growth despite a more challenging external environment, demonstrating the resilience of the group. As we execute on our strategy, we are making changes to our people, processes and systems, creating a more agile and efficient business. We are focusing on areas including procurement, restructuring and manufacturing footprint optimisation in Health which, as previously guided, will together deliver over £100m of savings. Not all of these benefits will be visible in the income statement, with some being reinvested to drive further efficiencies.

The roll out of our single global enterprise resource planning (ERP) system (SAP) is progressing well. The first implementation was successfully completed during the year and eight further roll outs will take place in 2019/20. We are moving from over 40 ERP systems to one global system which will reduce complexity; drive standardisation to help us to better simplify our processes to deliver future cost savings; and make us more agile and responsive to our customers.

The changes we are driving across the group are enabling us to strengthen our platform for growth, allowing us to invest into sustainable opportunities for the future. These include opportunities in Health, Battery Materials and those that are more nascent such as Fuel Cells and battery materials recycling. Whilst the speed and degree of change is high, our science, technology and customers remain at the core of our business.

Summary of efficiency initiatives

- **Global procurement** – as our global procurement process builds, we are beginning to realise benefits and are on track to deliver the expected £60 million of savings over three years, with three quarters benefiting the income statement. In 2018/19, we achieved £26 million of savings, of which £19 million benefited the income statement. We anticipate a similar level of savings in 2019/20
- **Group restructuring programme** – this is substantially complete with delivery of the vast majority of annualised cost savings of around £25 million
- **Health footprint optimisation** – closure of our manufacturing plant in Riverside, US, is now complete as we build our platform for breakout growth

Initiative £ million	Total	Achieved in the year	Achieved to date
Procurement	60	26	28
Restructuring	25	12	24
Footprint optimisation	20	15	15
Total	**105**	**53**	**67**

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Sustained growth in Clean Air

Our strategy in Clean Air provides clear visibility of sustained growth, as we help solve the challenges of air quality across the world. Share gains in Europe and tighter legislation globally, particularly in Europe and China are helping us deliver this growth.

- We have grown our Light Duty diesel market share in Europe from c.45% in 2017/18 to c.65% at the end of 2018/19. The annualisation of these share gains will drive growth in 2019/20
- The recent introduction of Euro 6c/d could double the sales value to us compared with Euro 6b for the majority of gasoline vehicles in Europe by 2025. We have reallocated R&D spend on gasoline given developments in the market and this uplift in value
- Sustained growth in light duty in the US
- The pull forward of China heavy duty legislation to July 2019 and implementation of Bharat 6 in India in 2020 will drive growth in 2020/21. Both of these developments result in a tripling of the value per truck to us compared with China 5 and Bharat 4
- In light duty in China, implementation of China 6 from 2020 could double the value per vehicle for us compared with China 5, and drive growth in 2020/21
- Delivering planned efficiencies from optimising our cost base and processes. Expect to maintain a margin of c.14% in the medium term
- Construction of our new manufacturing facilities in Poland and China is well underway and we will begin construction on our India plant next year. This increased capacity will drive efficiency and enable us to meet higher demand driven by new legislation in Europe, China and India

Market leading growth in Efficient Natural Resources

Our strategy for Efficient Natural Resources is to leverage our market leading technologies through focused resource allocation to outperform in selected, higher growth segments. Increased operational efficiency will enhance performance to deliver profit growth ahead of sales growth. Developments against this strategy include:

- In Catalyst Technologies, sales outperformed our markets in aggregate and profit growth was ahead of sales
- Good progress in commercialising newly developed technology such as waste to aviation fuel
- Continued to simplify our product portfolio with the removal of a number of products to optimise our offering to the market
- Surveyed customers across Efficient Natural Resources to drive deeper engagement and understanding of their requirements, and continued improvement of our customer experience
- Strong progress implementing our key account management and channel strategy to drive resources to areas where we can create the most value for our customers
- Restructuring substantially complete, delivering planned annualised cost savings of £12 million

Break out growth in Health

Our Health strategy will deliver break out growth as we benefit from the commercialisation of our pipeline of new generic and innovator products. The generic pipeline is expected to deliver incremental operating profit of around £100 million by 2025, driving margin for the sector to the high 20%s. Developments include:

- Taking the right actions on optimising our manufacturing footprint and efficiency, focusing on our operations to ensure we have the most appropriate platform to deliver breakout growth:
    - The previously announced closure of our manufacturing plant in Riverside, US is now complete
    - Our plant in Annan, UK is ramping up and made its first commercial sales in the year. The plant will be fully operational by the end of 2019/20
    - Improved the efficiency of our existing plants to incrementally increase our capacity
- With the right operational structure in place, we will now further increase our focus on the pipeline. During the year:
    - Further progress has been made on developing and commercialising our pipeline of new generic API products. The generic pipeline remains substantially on track although there are delays to some products. At the year end, we had 46 products in the pipeline, an increase of seven in the period, and one of our products was launched
    - Our pipeline of innovator API products also continued to progress with three products nearing commercialisation

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Significant progress in commercialisation of Battery Materials

eLNO is our portfolio of leading ultra-high energy density materials which will compete with future materials such as NMC 811. eLNO will suit a broad range of applications in electric vehicles (EV) and, in particular, enable greater adoption of long range, pure battery EV.

Over the past twelve months, we have made significant progress in commercialising eLNO. We continue to test our materials with our target customers and feedback remains very positive. It is especially pleasing that as the market for cathode materials develops, auto OEMs are increasingly looking for customised solutions to solve their specific problems, which plays to our strengths in science and technology. Consequently, we have been tailoring eLNO for our customers and now have a portfolio of materials. As we progress through various stages of testing, we will work with customers to test eLNO in their own specific applications. To facilitate this, we are constructing three customer application centres – two in the UK and one in Japan. One of the UK centres will be completed in 2019 and the remaining two centres will be completed in 2020.

In scaling up, we have moved from lab scale to our pilot plant which is now complete. We recently selected a site in Poland for the first 10,000 metric tonnes commercial plant, which has the potential for expansion to 100,000 metric tonnes, and we are carefully planning how we scale beyond our initial 10,000 metric tonnes. We also signed our first long term supply agreement for raw materials with Nemaska Lithium.

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Summary of operating results

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

Sales (£ million)	Year ended 31st March 2019	2018	% change	% change, constant rates
Clean Air	2,720	2,454	+11	+11
Efficient Natural Resources	991	956	+4	+4
Health	257	247	+4	+3
New Markets	362	312	+16	+17
Eliminations	(116)	(123)		
Sales	**4,214**	**3,846**	**+10**	**+10**

Underlying operating profit (£ million)	Year ended 31st March 2019	2018	% change	% change, constant rates
Clean Air	393	349	+13	+13
Efficient Natural Resources	181	158	+15	+15
Health	43	44	-3	-4
New Markets	2	17	-85	-85
Corporate	(53)	(43)		
Underlying operating profit	**566**	**525**	**+8**	**+8**

Reconciliation of underlying operating profit to operating profit (£ million)	Year ended 31st March 2019	2018
Underlying operating profit	566	525
Loss on disposal of businesses[1]	(12)	(7)
Loss on significant legal proceedings[1]	(17)	(50)
Amortisation of acquired intangibles	(14)	(19)
Major impairment and restructuring charges[1]	8	(90)
Operating profit	**531**	**359**

[1]For further detail on these items please see pages 18 and 21

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Second half performance

Sales (£ million)	**H2 2018/19**	**2017/18**	**% change**	**% change, constant rates**
Clean Air	1,408	1,260	+12	+11
Efficient Natural Resources	528	498	+6	+5
Health	139	128	+8	+5
New Markets	189	169	+12	+11
Eliminations	(59)	(62)		
Sales	**2,205**	**1,993**	**+11**	**+9**

Sales grew 9% in H2 2018/19 with growth across all sectors. In Clean Air, we saw sales growth primarily driven by Light Duty Europe diesel and gasoline as well as Heavy Duty Diesel in the Americas. In Efficient Natural Resources, there was strong performance in Pgm Services. Health also saw sales growth, driven by Innovators. In New Markets, sales growth was driven by Battery Systems where there was increased demand for e-bikes, whilst Fuel Cells' momentum continued for non-automotive applications.

Underlying Operating Profit (£ million)	**H2 2018/19**	**2017/18**	**% change**	**% change, constant rates**
Clean Air	202	182	+12	+10
Efficient Natural Resources	96	88	+9	+6
Health	28	22	+25	+20
New Markets	(1)	8	-103	-103
Corporate	(30)	(25)		
Underlying Operating Profit	**295**	**275**	**+8**	**+5**

Operating profit was up 5% in the second half. This was lower than sales growth mainly due to increased investment in eLNO and higher corporate costs driven by legal and investment in central programmes to improve the way we work across the group.

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Operating results by sector

Clean Air

Double digit sales growth in both LDV and HDD catalysts

- Light Duty Europe sales up 21% with strong growth in both diesel and gasoline
- Achieved share gains in European light duty diesel and a market share of c.65% at March 2019
- Light Duty Asia sales grew 3%, ahead of market production
- Light Duty Americas sales were down 4% driven by weaker diesel sales
- Sales of HDD catalysts were up 11% primarily due to continued strength in higher value US Class 8
- Operating profit was up 13% and margin improved 0.2 percentage points to 14.4%

	Year ended 31st March 2019 £ million	2018 £ million	% change	% change, constant rates
Sales				
LDV Europe	1,031	855	+20	+21
LDV Asia	361	351	+3	+3
LDV Americas	346	358	-3	-4
Total Light Duty Vehicle Catalysts	**1,738**	**1,564**	**+11**	**+12**
HDD Americas	476	395	+20	+19
HDD Europe	334	320	+4	+4
HDD Asia	128	131	-2	-1
Total Heavy Duty Diesel Catalysts	**938**	**846**	**+11**	**+11**
Other – stationary	44	44	-	-
Total sales	**2,720**	**2,454**	**+11**	**+11**
Underlying operating profit	**393**	**349**	**+13**	**+13**
Margin	**14.4%**	**14.2%**		
Return on invested capital (ROIC)	**30.0%**	**30.5%**		
Reported operating profit	**390**	**296**	**+32**	

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

		Year ended 31st March 2019 millions	2018 millions	% change
North America	Sales	**20.6**	20.8	-1
	Production	**16.9**	16.9	-
Total Europe	Sales	**20.4**	20.8	-2
	Production	**22.0**	22.2	-1
Asia	Sales	**43.4**	44.8	-3
	Production	**47.2**	48.8	-3
Global	Sales	**93.0**	95.8	-3
	Production	**91.8**	94.0	-2

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

		Year ended 31st March 2019 thousands	2018 thousands	% change
North America	Sales	**615**	535	+15
	Production	**624**	540	+16
Total Europe	Sales	**506**	502	+1
	Production	**645**	653	-1
Asia	Sales	**2,257**	2,297	-2
	Production	**2,298**	2,314	-1
Global	Sales	**3,515**	3,450	+2
	Production	**3,710**	3,631	+2

*Source: LMC Automotive

Light Duty Vehicle (LDV) Catalysts

Our LDV Catalyst business provides catalysts for emission control after-treatment systems that reduce emissions for cars and other light duty vehicles powered by diesel and gasoline. The business grew 12%, well ahead of the decline in global vehicle production.

In Europe, where diesel accounts for around 85% of our LDV business, sales grew 21% primarily driven by our diesel market share gains.

Sales of diesel catalysts were up 22% reflecting our market share gains and were significantly ahead of diesel market production which declined 9% year on year. As expected, we achieved the c.20 percentage point increase in our market share from 45% to c.65% by the end of the financial year. There was also a small benefit from higher value sales of more complex catalyst systems.

In Western Europe, diesel accounted for 35% of new passenger car sales in 2018/19 compared with 42% in the last financial year. Light duty commercial vehicles remain largely diesel today. When these are included, the overall share of diesel sales in Western Europe was 42% for 2018/19, compared with 49% in 2017/18. These trends do not change our assumption of a diesel share of around 25% of total light duty vehicles and 20% of cars in 2025.

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Sales of gasoline catalysts were up 18%, well ahead of market production. Growth was driven by an improved sales mix with an increased number of high value coated gasoline particulate filters (GPFs) sold in the period. We expect the number of vehicles with coated GPFs to increase in the medium term, significantly increasing our sales value per gasoline vehicle.

The World Harmonised Light Duty Testing Procedure (WLTP) was introduced from September 2018. There was some disruption to phasing of European automotive production and sales, but we experienced no material impact on our business in the year. In the longer term, due to the different technical requirements to meet these standards, some auto OEMs have changed solutions. Consequently, as we previously indicated, our anticipated five percentage point market share gain in gasoline will not be achieved by 2020/21. We continue to increase R&D spend on gasoline catalysts given the development of the market.

Sales in Asia LDV grew at 3%, ahead of the decline in market production. Within this, sales in China declined 5%, broadly in line with the market which slowed significantly during the second half of our financial year. China currently represents a small portion of our Clean Air business and therefore the impact of the Chinese market decline was not material. Over the medium term, our Asian business will double in size as we capture growth from tightening legislation, particularly in China and India.

Sales in Americas LDV were down 4%, whilst market production was flat. This was driven by a weaker performance in diesel following strong growth in the prior year and the ramp down of a platform.

Heavy Duty Diesel (HDD) Catalysts

Our HDD Catalyst business provides catalysts for emission control after-treatment systems that reduce emissions for trucks, buses and non-road equipment. The business had another good year with sales growing 11%, significantly ahead of global market production, driven by strong growth in the higher value US Class 8 market.

The Americas HDD Catalyst business grew sales 19%. Sales of catalysts for Class 8 trucks were broadly in line with market production of 22% and we continue to expect high levels of production to peak in the middle of the 2019 calendar year.

Sales in our European HDD Catalyst business grew 4%, ahead of the market. This outperformance was driven by the increase in the proportion of sales related to higher value non-road extruded products.

Sales in the Asian HDD Catalyst business were broadly flat, in line with the market. In China, sales fell 10%, also in line with the market. This followed a period of strong production growth driven by increased demand for trucks as a result of loading limit legislation. We continue to see strong sales growth in India from a low base.

Underlying operating profit

Operating profit grew 13% and margin improved by 0.2 percentage points, benefiting from volume leverage.

ROIC

ROIC, excluding net pension assets was down slightly at 30.0% reflecting higher precious metal working capital.

Outlook

We expect a year of more modest growth in 2019/20, weighted to the first half as we realise the benefit of annualised share gains, partly offset by reinvestment into R&D, our ERP system and new manufacturing capacity. We anticipate that these investments for growth and efficiency will lead to a slightly lower margin than in 2018/19. Beyond 2019/20, we expect sales and operating profit growth to be increasingly driven by the introduction of new legislation in China and India.

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Efficient Natural Resources

Growth in sales and margin improved

- Sales growth driven by double digit growth in catalyst refills and higher average pgm prices, partly offset by lower catalyst first fills
- Operating profit grew strongly and margin improved by 1.8 percentage points to 18.3%, benefiting from higher average pgm prices and net benefits from improved efficiency partly offset by reinvestment in the safety and resilience of our pgm refineries and weaker performance in Advanced Glass Technologies

	Year ended 31st March 2019 £ million	2018 £ million	% change	% change, constant rates
Sales				
Catalyst Technologies	567	564	-	+1
Pgm Services	281	253	+11	+10
Advanced Glass Technologies	75	82	-9	-9
Diagnostic Services	68	57	+21	+24
Total sales	**991**	**956**	**+4**	**+4**
Underlying operating profit	**181**	**158**	**+15**	**+15**
Margin	**18.3%**	**16.5%**		
Return on invested capital (ROIC)	**12.6%**	**11.8%**		
Reported operating profit	**175**	**138**	**+27**	

Catalyst Technologies

Our Catalyst Technologies business licenses technology and manufactures speciality catalysts and additives for the chemicals and oil and gas industries. Sales were broadly flat with double digit growth in refill catalysts offset by lower sales from first fill catalysts whilst licensing was stable at a low level.

Refill catalysts and additives is recurring business which makes up the majority of sales within our Catalyst Technologies business. Sales grew double digit, outperforming our markets in aggregate. We saw very strong performance in methanol but weaker performance in ammonia, primarily driven by the phasing of customers' orders. There was also good growth, above the market, in catalysts for petrochemical and hydrogen plants.

Sales of catalyst first fills were significantly down. These are one-off in nature and driven by the start-up of new plants. Sales of methanol first fills were lower following increased activity in 2017/18 as industry capacity came on stream and hydrogen first fills were also down reflecting a large order in 2017/18.

Our licensing business is dependent on new plant builds and income is recognised over the period of construction. In the year, licensing income was stable and activity around new plant builds, particularly for the technologies we license remains subdued. We signed five new licences in the period which includes our newly developed technologies such as mono ethylene glycol and waste to aviation fuel. Whilst we do not expect a material recovery in licensing income in the near term, we are pleased with our progress in developing and commercialising new technologies.

Pgm Services

Our Pgm Services business primarily provides a strategic service to the group, mainly supporting Clean Air with security of metal supply in a volatile market. This business is expected to grow at low single digits over the medium term. It comprises our pgm refining and recycling activities, and produces chemical and industrial products containing pgms.

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In the period, sales grew 10%. We saw strong growth in our refining and trading businesses due to higher and more volatile average pgm prices. Average palladium and rhodium prices were up 20% and 83% respectively, while the platinum price declined 11% compared to the same period last year. Sales of chemical products grew slightly driven by growth in Clean Air which uses pgm materials in its catalyst products, however, sales of industrial products containing pgms were down.

In the period, we had unscheduled downtime in one of our pgm refineries which, in conjunction with higher average pgm prices, resulted in a significant increase in precious metal working capital. We expect to make progress in reducing our precious metal working capital in our refineries during 2019/20 and anticipate being at normalised levels by the end of 2020/21. We are improving the performance of our refineries and, as previously stated, we are investing to ensure our assets operate effectively and reliably, improving returns. This programme amounts to around £100 million over three years and is already included within our group capex guidance.

Advanced Glass Technologies

Advanced Glass Technologies mainly provides black obscuration enamels and silver paste for automotive glass applications. Sales declined primarily driven by the automotive segment reflecting a slowdown in global car production and weaker performance in China, partly due to destocking in the supply chain. Demand for non-automotive enamels and ceramics was also lower.

Diagnostic Services

Diagnostic Services provides specialised detection, diagnostic and measurement solutions for our customers in the petroleum industry. Our Diagnostic Services business grew strongly. The higher oil price drove greater activity in the upstream oil and gas industry leading to higher capital investment and increased operating expenditure by our customers. This resulted in improved demand for our services.

Underlying operating profit

Operating profit was up 15% and margin improved by 1.8 percentage points, benefiting by around £16 million from higher pgm prices, around £7 million of savings from the restructuring programme and further net benefits from improved efficiency across the sector of which around £5 million will not repeat. This was partly offset by higher operating costs in the pgm refineries and investment in their safety and resilience.

ROIC

ROIC, excluding net pension assets was up by 0.8 percentage points to 12.6% reflecting higher operating profit.

Outlook

In 2019/20, we expect sales growth with operating profit growth ahead of sales as we continue to drive efficiencies in our business and maintain our focus on higher growth segments.

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Health

Sales growth with operating profit slightly down

- Generics sales were broadly flat whilst Innovators continued to grow
- Operating profit was slightly down as expected and margin was 1.3 percentage points lower. This was mainly due to a weaker product mix because of a continued decline in high margin products as they moved through their life cycle and net costs associated with footprint optimisation
- There are 46 molecules in our generic API pipeline, which includes one launch in the year. We remain on track to deliver an additional £100 million of operating profit by 2025

	Year ended 31st March 2019 £ million	2018 £ million	% change	% change, constant rates
Sales				
Generics	171	173	-1	-2
Innovators	86	74	+16	+14
Total sales	**257**	**247**	**+4**	**+3**
Underlying operating profit	**43**	**44**	**-3**	**-4**
Margin	**16.7%**	**18.0%**		
Return on invested capital (ROIC)	**9.0%**	**8.4%**		
Reported operating profit / (loss)	**50**	**(12)**	**n/a**	

Generics

Our Generics business develops and manufactures generic active pharmaceutical ingredients (APIs) for a variety of treatments. Sales were broadly flat, with a mixed performance across the business.

Sales of controlled APIs grew slightly. We saw sales growth in bulk opiates in Europe with strong demand from one key customer following a weaker prior year. Sales of speciality opiates also grew, primarily driven by buprenorphine with higher volumes supported by increased capacity from the ramp up of our manufacturing site in Annan, UK. Our sales of APIs for ADHD treatments were flat. Although we saw a reduction in pricing and volumes of certain high margin ADHD APIs as they move through their natural lifecycle, we benefited from a new customer launch following a recent product approval.

Our non-controlled APIs declined as expected. This primarily reflected a reduction in sales of dofetilide as new competitors for our customer entered the market.

Innovators

Our Innovators business performed well. We saw growth from sales of APIs where our customers are increasing volumes as they move into late stage testing ahead of commercialisation.

In the period, we also announced a strategic manufacturing partnership with Immunomedics for the manufacture of a drug linker used in the production of an immuno-oncology treatment for triple negative breast cancer. The drug is currently under review with the US Food and Drug Administration (FDA).

API product pipeline

We continued to invest in our new product pipeline across both our Generics and Innovators businesses, and this is substantially on track. We have 46 products in our pipeline of generic APIs (31st March 2018: 39 products), which includes one product that launched in the year and four that moved into regulatory stage. Within our pipeline of innovator APIs, three products are nearing commercial launch with new drug approvals (NDAs) filed with the FDA by our customers.

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Underlying operating profit

Operating profit was slightly down and margin decreased by 1.3 percentage points. This mainly reflected a significant decline in high margin products as they moved through their natural life cycle. Operating profit was also impacted by net costs associated with the optimisation of our manufacturing footprint due to the closure of Riverside, US and ramp up of Annan, UK. Whilst the optimisation delivered savings of £15 million in the year and will deliver significant benefits over the medium term, associated one-off costs in the period outweighed early savings.

ROIC

Return on invested capital, excluding net pension assets improved 0.6 percentage points to 9.0% due to footprint optimisation.

Outlook

In 2019/20, we expect sales to be broadly stable whilst operating profit will grow double digit, primarily due to cost savings associated with footprint optimisation.

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New Markets

Strong sales growth; commercialisation of eLNO on track

- Sales growth driven by strong demand for our non-automotive battery systems and fuel cells
- Operating profit declined 85% due to further investment in our Battery Materials business and weaker profitability in Medical Device Components
- Continued progress in commercialising eLNO with board approval for the initial capital investment and site selection for our first commercial plant

	Year ended 31st March 2019 £ million	2018 £ million	% change	% change, constant rates
Sales				
Alternative Powertrain	206	156	+32	+33
Medical Device Components	70	74	-5	-6
Life Science Technologies	49	45	+10	+12
Other	37	37	-1	-1
Total sales	**362**	**312**	**+16**	**+17**
Underlying operating profit	**2**	**17**	**-85**	**-85**
Margin	**0.7%**	**5.3%**		
Return on invested capital (ROIC)	**1.1%**	**7.9%**		
Reported operating loss	**(15)**	**(20)**	**+29**	

Alternative Powertrain

Our Alternative Powertrain business provides battery systems for a range of applications, fuel cell technologies and battery materials for automotive applications. Our battery materials business comprises lithium iron phosphate (LFP) materials as well as eLNO, our portfolio of leading ultra-high energy density materials. Alternative Powertrain sales grew over 30% driven by significant growth in battery systems for e-bikes and continued momentum in fuel cells.

Commercialisation of eLNO

We are making good progress in the development and commercialisation of eLNO which will compete with future materials such as NMC 811.

We continue to test our materials with our target customers and feedback remains very positive. It is especially pleasing that as the market for cathode materials develops, auto OEMs are increasingly looking for customised solutions to solve their specific problems, which plays to our strengths in science and technology. Consequently, we have been tailoring eLNO for our customers and now have a portfolio of materials. As we progress through various stages of testing, we will work with customers to test eLNO in their own specific applications. To facilitate this, we are constructing three customer application centres – two in the UK and one in Japan. One of the UK centres will be completed in 2019 and the remaining two centres will be completed in 2020.

In scaling up, we have moved from lab scale to our pilot plant which is now complete. We recently selected a site in Poland for the first 10,000 metric tonnes commercial plant, which has the potential for expansion to 100,000 metric tonnes, and we are carefully considering how we scale beyond our initial 10,000 metric tonnes. We also signed our first long term supply agreement for raw materials with Nemaska Lithium.

Lithium Iron Phosphate

In battery materials, sales of lithium iron phosphate remained at a low level and were flat year on year.

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Fuel Cells
Fuel Cells is now profitable, with improved demand for non-automotive applications and new business wins in China, resulting in sales growth of 41%. We are also investing in new capacity to support growth in demand.

Medical Device Components
Our Medical Device Components business leverages our science and technology to develop products found in devices used in medical procedures. Sales declined 6% due to quality issues which have now been resolved and an increase in dual sourcing from our customers.

Life Science Technologies
Our Life Science Technologies business provides advanced catalysts to the pharmaceutical and agricultural chemicals markets. Sales grew 12% in the period, supported by sales to two large customers.

Underlying operating profit
Operating profit declined 85% and margin reduced by 4.6 percentage points to 0.7%. This was impacted by higher costs in our Battery Materials business as we continue to build strategic customer relationships to support commercialisation of eLNO. The margin was further affected by the quality issues and dual sourcing in Medical Device Components and a strong increase in lower margin Battery Systems sales.

ROIC
ROIC declined to 1.1% reflecting lower operating profit.

Outlook
New Markets is expected to deliver sales and operating profit growth in 2019/20.

Corporate

Corporate costs in the period were £53 million, an increase of £10 million from 2017/18 due to higher legal costs and costs associated with building further capability within group functions.

Outlook
Corporate costs are expected to be slightly higher in 2019/20.

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Financial review

IFRS 15 and related restatements

IFRS 15, Revenue from Contracts with Customers, is effective for annual reporting periods beginning on or after 1st January 2018 and replaces IAS 18, Revenue. IFRS 15 provides a principles-based approach for revenue recognition. As part of considering the impact of IFRS 15 we have also performed a detailed review of how we account for commodity contracts, which has resulted in a change to the way we are presenting our accounts.

We have concluded that swaps and sale and repurchase agreements entered into by our Platinum Group Metals Services business within Efficient Natural Resources should not be included within statutory revenue. Consequently, we have excluded these transactions from statutory revenue in 2019, and we have also fully restated the prior year financial statements to reflect these changes. This results in both years now being presented on a consistent basis.

The impact of these restatements is to reduce revenue and cost of sales by £3.9 billion for the year ended 31st March 2018. There is no impact on sales excluding precious metals, operating profit, working capital, cashflows or net assets. The overall impact on equity is less than £5 million. Historic business performance measures communicated by Johnson Matthey are unchanged. Full details are given in Note 16 on pages 35 to 38.

IFRS 16

IFRS 16 is effective from 1st April 2019 and replaces IAS 17, Leases. There is no impact on the year ended 31st March 2019. Upon transition, the group will recognise right-of-use assets and lease liabilities of approximately £75 million on the balance sheet.

For the year ending 31st March 2020, we anticipate an increase in underlying operating profit of £2 million and an additional interest cost of £3 million. Consequently, the group estimates that profit before tax will be reduced by approximately £1 million for the year ending 31st March 2020 as a result of adopting IFRS 16.

Research and development (R&D)

We invested £190 million on R&D in the period, including £19 million of capitalised R&D, around 5% of sales. Spend was broadly flat partly due to more focused investment. Key areas of spend included next generation technologies in Clean Air, improving the efficiency and resiliency of our refineries in Efficient Natural Resources, our Health API product pipeline and investment in our eLNO battery material.

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 impact of translation effects on the income statement.

The principal overseas currencies, which represented 85% of non-sterling denominated underlying operating profit in the year ended 31st March 2019, were:

	Share of 2018/19 non-sterling denominated underlying operating profit	Average exchange rate Year ended 31st March		% change
		2019	2018	
US dollar	39%	1.310	1.328	-1
Euro	37%	1.134	1.134	-
Chinese renminbi	9%	8.81	8.79	-

Overall, for the year as a whole, the impact of exchange rates decreased sales by £3 million and increased underlying operating profit by £1 million, following a £27 million and a £4 million decrease respectively in our first half.

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If current exchange rates (£:$ 1.295, £:€ 1.157, £:RMB 8.72) are maintained throughout the year ending 31st March 2020, foreign currency translation will have a negative impact of approximately £2 million on underlying operating profit. A one cent change in the average US dollar and euro exchange rates each have an impact of approximately £2 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 £1 million.

Pgm prices

Higher average pgm prices benefited operating profit by around £16 million in the period in Efficient Natural Resources.

Major impairment and restructuring charges

We had no major impairment and restructuring charges in the year ended 31st March 2019. Cash spend in relation to ongoing restructuring in 2018/19 was £8 million.

Our group restructuring programme is expected to deliver annualised cost savings of around £25 million and is substantially complete, having delivered £24 million of savings in 2018/19.

The closure of our manufacturing plant in Riverside, US, is now complete and we expect to deliver annualised cost savings of £20 million, having delivered £15 million of savings in 2018/19.

See below for a breakdown showing the cost, cash costs and cost savings achieved to date:

Year ended 31st March 2019 £ million	**Impairment and restructuring credit**	**Cash costs**
Group restructuring programme	(1)	5
Health – Closure of Riverside, US	(7)	3
Total	**(8)**	**8**

Year ended 31st March 2018 £ million	**Impairment and restructuring charge**	**Cash costs**
Group restructuring programme	43	19
Health – Closure of Riverside, US	36	4
New Markets – Impairment of Water	11	-
Total	**90**	**23**

Loss on disposal of businesses

Profit or loss on disposal of businesses is shown separately on the face of the income statement and excluded from underlying operating profit. On 1st February 2019, the group sold its water disinfection business, Miox. After costs, the net proceeds were £2 million which resulted in a loss on sale of £12 million. In the prior year, the group sold its UK automotive battery systems business. After costs, the net proceeds were £5 million which resulted in a loss on sale of £7 million.

Finance charges

Net finance charges in the period amounted to £43 million, up from £38 million in 2017/18. This was primarily driven by higher precious metal funding costs following downtime during the first half in one of our pgm refineries.

We anticipate that net finance charges will be significantly higher in 2019/20 due to higher average net debt as we invest for future growth, higher precious metal funding costs and the impact of IFRS 16.

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Taxation

The effective tax rate on reported profit for the year was 15.3%, up from 6.9% for the year ended 31st March 2018.

The tax charge on underlying profit before tax was £83 million, an effective tax rate of 15.9%, down from 17.7% for the year ended 31st March 2018. This decrease was primarily due to changes in the US tax legislation and the mix of profits by country.

We currently expect the tax rate on underlying profit for the year ending 31st March 2020 to be around 16%.

Post-employment benefits

IFRS – accounting basis

At 31st March 2019, 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 £159 million.

The cost of providing post-employment benefits in the period was £56 million, down from £69 million last year, primarily reflecting a decrease in the current service cost due to a change de-risking the UK plan.

On 26th October 2018, the High Court ruled that UK defined benefit pension schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pensions. The past service credit includes a charge of £1 million in respect of this ruling. The additional liabilities have been treated as a plan amendment and, therefore, this past service cost has been reflected in the income statement.

Actuarial - funding basis

The UK pension scheme has a legacy defined benefit career average section which was closed to new entrants on 1st October 2012 when a new defined benefit cash balance section was opened.

The last triennial actuarial valuation of the career average section as at 1st April 2018 revealed a deficit of £34 million, or a surplus of £9 million after taking account of the future additional deficit funding contributions from the special purpose vehicle set up in January 2013. The valuation results as at 1st April 2018 allowed for the equalisation of Guaranteed Minimum Pension.

The last triennial actuarial valuation of the cash balance section as at 1st April 2018 revealed a surplus of £0.2 million.

In order to reduce the company's long-term pension risk exposure a number of changes to the UK pension scheme became effective from 1st July 2018, including:

- Contributions from those employees who remain in the career average section increased and will further rise over the next few years to help fund the increased cost of providing these benefits
- The accrual rate in the career average section reduced from 1/80th to 1/100th for each year of future service after this date
- New benefit levels with varying employee contribution rates were introduced in the cash balance section
- Employees in the career average section were given the option of switching to the cash balance section.

The latest actuarial valuations of our two US pension schemes showed a deficit of £2 million at 1st July 2018, an improvement from a £11 million deficit at 1st July 2017.

UK's withdrawal from European Union

Although JM relies extensively on an agile, flexible supply chain, we have paid significant attention to the potential impact of the UK's withdrawal from the European Union under a 'no deal' scenario. Our well established working group, which is composed of a number of functional and sector experts, has assessed the implications of a 'no-deal' withdrawal. A number of mitigating activities were put in place ahead of 29th March 2019 in preparation for this eventuality, for example through building inventory.

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As part of the preparations, the project team conducted scenario analysis to assess the impact of individual risks and combinations of risks. As the probability of a hard withdrawal (without a transition agreement recognising the existing trading rules) increased, the working group approved the acceleration of the project team's contingency plans, with the primary objective of ensuring the continuity of the European business across the whole business model.

To that end, we remain comfortable that our current contingency planning will be effective should the UK withdraw from the European Union without a deal. We remain vigilant and alert to changes in the UK and EU's stance and the potential implications these may have on our operations.

Capital expenditure

Capital expenditure was £323 million in the year, 2.1 times depreciation and amortisation (excluding amortisation of acquired intangibles). In the period, projects included:

- Clean Air manufacturing plants in Poland, China and India. This increased capacity will drive efficiency and improve flexibility, enabling us to support demand from tightening legislation in Europe and Asia
- Investment in development and commercialisation of eLNO. We completed our pilot plant and began construction of three customer application centres – two in the UK and one in Japan. We selected a site in Poland for the first 10,000 metric tonnes commercial plant, which has the potential for expansion to 100,000 metric tonnes. The first commercial plant is on track to start production in 2021/22 and supply platforms in production in 2022/23
- Upgrading our core IT business systems
- Investment in our Health manufacturing and development facilities in Annan, UK and continued investment in our API product pipeline
- Improving the efficiency and resilience of our pgm refineries within Efficient Natural Resources

Capital expenditure for 2019/20 is expected to be up to £500 million as our investments into growth projects increase. Key projects include:

- Investment in eLNO as we continue to commercialise our market-leading ultra-high energy battery cathode material
- Clean Air plants in Poland, China and India to meet the growing demand
- Upgrade of our IT systems as we continue to roll out our single global ERP system, with eight roll outs in 2019/20

Depreciation and amortisation (excluding amortisation of acquired intangibles) is expected to increase by around £16 million in 2019/20 primarily as we depreciate our investment in upgrading our core IT systems.

Free cash flow and working capital

Free cash flow was an outflow of £13 million. This was due to a working capital outflow of £224 million, of which £198 million related to precious metal primarily reflecting downtime at one of our pgm refineries during the first half.

Excluding precious metal, working capital days improved to 48 days compared to 50 days at 31st March 2018, better than our target for year-end working capital days excluding precious metal of 50 to 60 days.

Average working capital days excluding precious metals improved by three days to 59 days, despite planned inventory build ahead of the first implementation of SAP and the UK's planned withdrawal from the European Union.

Dividend

The board has recommended an increase of 7% in the final dividend to 62.25 pence per share. Together with the interim dividend of 23.25 pence per share this gives a total ordinary dividend for the year ended 31st March 2019 of 85.5 pence per share (2017/18: 80.0 pence per share). Subject to approval by shareholders, the final dividend will be paid to shareholders on 6th August 2019, with an ex dividend date of 6th June 2019.

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Return on invested capital (ROIC)

ROIC excluding net pension fund assets slightly declined to 16.4% from 17.0% at 31st March 2018 driven by higher precious metal working capital. ROIC including net pension fund assets would have been 15.4% compared with 16.4% at full year 2017/18.

Capital structure

Net debt at 31st March 2019 was £866 million. This is a decrease of £170 million from 30th September 2018 and an increase of £187 million from 31st March 2018. Net debt increases to £912 million when adjusted for the post tax pension deficits. The group's net debt (including post tax pension deficits) to EBITDA was 1.3 times (31st March 2018: 1.1 times). Our target range is 1.5 to 2.0 times, as this ensures we have flexibility to invest further in the future growth of the business.

Contingent liabilities

The group is involved in various disputes and claims which arise from time to time in the course of its business including, for example, in relation to commercial matters, product quality or liability, employee matters and tax audits. The group is also involved from time to time in the course of its business in legal proceedings and actions, engagement with regulatory authorities and in dispute resolution processes. These are reviewed on a regular basis and, where possible, an estimate is made of the potential financial impact on the group. In appropriate cases a provision is recognised based on advice, best estimates and management judgement. Where it is too early to determine the likely outcome of these matters, no provision is made. Whilst the group cannot predict the outcome of any current or future such matters with any certainty, it currently believes the likelihood of any material liabilities to be low, and that such liabilities, if any, will not have a material adverse effect on its consolidated income, financial position or cash flows.

On a specific matter, Johnson Matthey previously disclosed that it had been informed by two customers of failures in certain engine systems for which the group supplied a particular coated substrate as a component for their customers' emissions after-treatment systems. The particular coated substrate was sold to only these two customers. Johnson Matthey has not been contacted by any regulatory authority about these engine system failures. The reported failures have not been demonstrated to be due to the coated substrate supplied by Johnson Matthey. In the period, we settled with one of these customers on mutually acceptable terms with no admission of fault. Under this settlement, Johnson Matthey recognised a charge of £17 million in the year ended 31st March 2019 and made the associated cash settlement post year end. This charge has been excluded from underlying operating profit.

Having reviewed its contractual obligations and the information currently available to it, the group believes it has defensible warranty positions in respect of its supplies of coated substrate for the after-treatment systems in the affected engines remaining at issue (as it believes it had in respect of the matter settled in the period). If required, it will vigorously assert its available contractual protections and defences. The outcome of any discussions relating to the matters raised is not certain, nor is the group able to make a reliable estimate of the possible financial impact at this stage, if any. While Johnson Matthey works with all its customers to ensure appropriate product quality, we have not received claims in respect of other emissions after-treatment components from these or any other customers. Our vision is for a world that's cleaner and healthier; today and for future generations. We are committed to enabling improving air quality and we work constructively with our customers to achieve this.

Going concern

The directors have assessed the future funding requirements of the group and are of the opinion that the group has adequate resources to fund its operations for the foreseeable future. Therefore they believe that it is appropriate to prepare the accounts on a going concern basis.

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Health and safety

We continue to build a world class health and safety culture across Johnson Matthey. Disappointingly, despite continued focus on health and safety over the last year, our lagging indicators of performance for employees did not improve. Our LTIIR of 0.53 and TRIIR of 0.97 were broadly similar to last year (2017/18: LTIIR 0.53, TRIIR 0.96). Interventions are already well underway; poor performing sites are on safety improvement plans and we are rolling out a range of wellbeing support services and activities.

People

Our people are critical to the execution of our business strategy. For us to deliver solutions from our world class science and realise our vision we need a culture within which people can be successful; one which attracts, retains and develops the very best. Market, economic and technological trends, and what these are demanding of JM, are having a significant impact on the people agenda and for this reason it is a strategic pillar to which all organisation objectives are aligned.

Every two years we conduct an employee survey, known as yourSay to know whether our employees are engaged with what we are doing. The scores on employee understanding of our strategy had risen, showing that we have responded well to calls in the 2016 survey for clarity and communication. During 2017/18, we reviewed and then realigned our values to the needs of our long-term strategy and to make them clearer and more relevant to employees. Our values drive individual and collective actions that help create a safe working environment and ethical, diverse and inclusive organisation.

The yourSay results for health and safety and ethics were once again higher than the industry norms, and the work/life balance score had also improved. However, the 'employee engagement' measure – indicating how committed and motivated our people are – had dropped by three percentage points since 2016. These scores are unsurprising given the level of change in the organisation, however the survey results have enabled us to chart a course for improvement.

Our culture at Johnson Matthey sets safety, wellbeing, inclusion and collaboration as priorities, using our diversity as a strength and challenging ourselves to be open, efficient, ethical and personally responsible. With this culture, we are well placed to deliver on our vision to make the world a cleaner, healthier place and solve the complex problems of our customers – it is a culture for success.

Sustainable business framework to 2025

The route to climate stability brings many challenges that must be tackled. In setting our vision for a cleaner, healthier world, we have made it our business to use our cutting edge science to create sustainable technologies that contribute to the solution. Sustainability is therefore an integral part of our strategy and governance. It is at the heart of what we do and our employee promise. It is engrained in our company values.

Our sustainable business framework is all about embedding our vision for a cleaner, healthier world through all aspects of our business and supply chains. We have six challenging goals to 2025 against which we measure progress towards our vision. Through these goals, we continue our sustainability commitment internally and externally towards our customers, communities and supply chains. Goals 1, 2 and 3 are internal measures to: improve health and safety performance; support employee engagement and inclusivity; and reduce the environmental impact of our operations. Goals 4, 5 and 6 are externally facing and cover: responsible sourcing; increasing the impact of our products on a cleaner healthier world; and community engagement through employee volunteering.

Further details of this framework, goals and their associated targets will be outlined in our 2019 Annual Report and Accounts which will be published on 14th June 2019.

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Consolidated Income Statement
for the year ended 31st March 2019

	Notes	**2019** £ million	2018 Restated[1] £ million
Revenue	2	**10,745**	10,274
Cost of sales		**(9,729)**	(9,366)
Gross profit		**1,016**	908
Distribution costs		**(126)**	(123)
Administrative expenses		**(324)**	(260)
Loss on disposal of businesses	5	**(12)**	(7)
Loss on significant legal proceedings	6	**(17)**	(50)
Amortisation of acquired intangibles	7	**(14)**	(19)
Major impairment and restructuring charges	8	**8**	(90)
Operating profit	4	**531**	359
Finance costs		**(107)**	(63)
Finance income		**64**	25
Share of loss of joint venture and associate		**-**	(1)
Profit before tax		**488**	320
Tax expense		**(75)**	(22)
Profit for the year		**413**	298
		pence	pence
Earnings per ordinary share			
Basic		**215.2**	155.2
Diluted		**214.6**	155.0

Consolidated Statement of Total Comprehensive Income
for the year ended 31st March 2019

	Notes	**2019** £ million	2018 £ million
Profit for the year		**413**	298
Other comprehensive income			
Items that will not be reclassified to the income statement			
Remeasurements of post-employment benefit assets and liabilities	14	**(69)**	103
Fair value losses on equity investments at fair value through other comprehensive income		**(3)**	-
Tax on items that will not be reclassified to the income statement		**13**	(31)
		(59)	72
Items that may be reclassified to the income statement			
Exchange differences on translation of foreign operations		**22**	(95)
Fair value losses on other investments at fair value through other comprehensive income		**(1)**	-
Amounts credited to hedging reserve		**4**	5
Fair value (losses) / gains on net investment hedges		**(1)**	6
		24	(84)
Other comprehensive income for the year		**(35)**	(12)
Total comprehensive income for the year		**378**	286

[1] See note 16.

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Consolidated Balance Sheet
as at 31st March 2019

	Notes	2019 £ million	2018 Restated[1] £ million
Assets			
Non-current assets			
Property, plant and equipment		**1,271**	1,155
Goodwill		**578**	574
Other intangible assets		**336**	295
Investments in joint venture and associate		**20**	20
Investments at fair value through other comprehensive income		**52**	56
Other receivables		**39**	38
Interest rate swaps	10	**13**	6
Deferred income tax assets		**58**	48
Post-employment benefit net assets	14	**209**	236
Total non-current assets		**2,576**	2,428
Current assets			
Inventories		**1,316**	924
Current income tax assets		**37**	35
Trade and other receivables		**1,553**	1,304
Cash and cash equivalents – cash and deposits	10	**90**	203
Cash and cash equivalents – money market funds	10	**347**	171
Other financial assets		**22**	15
Assets held for sale		**7**	-
Total current assets		**3,372**	2,652
Total assets		**5,948**	5,080
Liabilities			
Current liabilities			
Trade and other payables		**(1,647)**	(1,228)
Current income tax liabilities		**(130)**	(149)
Cash and cash equivalents – bank overdrafts	10	**(59)**	(70)
Other borrowings and related swaps	10	**(184)**	(38)
Other financial liabilities		**(13)**	(12)
Provisions		**(20)**	(37)
Total current liabilities		**(2,053)**	(1,534)
Non-current liabilities			
Borrowings and related swaps	10	**(1,073)**	(951)
Deferred income tax liabilities		**(91)**	(94)
Employee benefit obligations	14	**(106)**	(103)
Provisions		**(9)**	(14)
Other payables		**(5)**	(5)
Total non-current liabilities		**(1,284)**	(1,167)
Total liabilities		**(3,337)**	(2,701)
Net assets		**2,611**	2,379
Equity			
Share capital		**221**	221
Share premium		**148**	148
Shares held in employee share ownership trust (ESOT)		**(45)**	(48)
Other reserves		**87**	63
Retained earnings		**2,200**	1,995
Total equity		**2,611**	2,379

[1] See note 16.

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Consolidated Cash Flow Statement

for the year ended 31st March 2019

	Notes	2019 £ million	2018 Restated[1] £ million
Cash flows from operating activities			
Profit before tax		**488**	320
Adjustments for:			
Share of loss of joint venture and associate		**-**	1
Loss on disposal of businesses		**12**	7
Depreciation, amortisation, impairment reversals / losses and profit / loss on sale of non-current assets		**166**	245
Share-based payments		**10**	10
Increase in inventories		**(394)**	(66)
Increase in receivables		**(246)**	(144)
Increase in payables		**416**	62
(Decrease) / increase in provisions		**(24)**	15
Contributions in excess of employee benefit obligations charge		**(40)**	(20)
Changes in fair value of financial instruments		**(2)**	(5)
Net finance costs		**43**	38
Income tax paid		**(95)**	(77)
Net cash inflow from operating activities		**334**	386
Cash flows from investing activities			
Dividends received from joint venture and associate		**-**	1
Interest received		**61**	23
Purchases of property, plant and equipment		**(215)**	(157)
Purchases of intangible assets		**(86)**	(59)
Proceeds from sale of non-current assets		**1**	7
Net proceeds from sale of businesses		**2**	5
Net cash outflow from investing activities		**(237)**	(180)
Cash flows from financing activities			
Proceeds from borrowings		**245**	30
Repayment of borrowings		**(2)**	(14)
Dividends paid to equity shareholders	9	**(156)**	(146)
Settlement of currency swaps		**(2)**	(1)
Interest paid		**(108)**	(65)
Net cash outflow from financing activities		**(23)**	(196)
Increase in cash and cash equivalents		**74**	10
Exchange differences on cash and cash equivalents		**-**	(4)
Cash and cash equivalents at beginning of year		**304**	298
Cash and cash equivalents at end of year	10	**378**	304

	Notes	2019 £ million	2018 Restated[1] £ million
Reconciliation to net debt			
Increase in cash and cash equivalents		**74**	10
Increase in borrowings		**(241)**	(16)
Change in net debt resulting from cash flows		**(167)**	(6)
Exchange differences on net debt[2]		**(26)**	54
Other non-cash movements[2]		**6**	(11)
Movement in net debt		**(187)**	37
Net debt at beginning of year		**(679)**	(716)
Net debt at end of year	10	**(866)**	(679)

[1] See note 16.

[2] 2018 re-presented to separately analyse fair value movements in net debt relating to hedging instruments.

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Consolidated Statement of Changes in Equity
for the year ended 31st March 2019

	Share capital £ million	Share premium account £ million	Shares held in ESOT £ million	Other reserves £ million	Retained earnings £ million	Non-controlling interests £ million	Total equity £ million
At 1st April 2017	221	148	(55)	147	1,776	(20)	2,217
Impact of adoption of IFRS 15 (note 16)	-	-	-	-	1	-	1
At 1st April 2017 (restated)	221	148	(55)	147	1,777	(20)	2,218
Total comprehensive income	-	-	-	(84)	370	-	286
Dividends paid (note 9)	-	-	-	-	(146)	-	(146)
Share-based payments	-	-	-	-	17	-	17
Cost of shares transferred to employees	-	-	7	-	(14)	-	(7)
Purchase of non-controlling interests	-	-	-	-	(9)	20	11
At 31st March 2018 (restated)	221	148	(48)	63	1,995	-	2,379
Impact of adoption of IFRS 9 (note 16)	-	-	-	(1)	-	-	(1)
At 31st March 2018 (restated)	221	148	(48)	62	1,995	-	2,378
Total comprehensive income	-	-	-	21	357	-	378
Dividends paid (note 9)	-	-	-	-	(156)	-	(156)
Share-based payments	-	-	-	-	17	-	17
Cost of shares transferred to employees	-	-	3	-	(10)	-	(7)
Tax on share-based payments	-	-	-	-	1	-	1
Reclassification	-	-	-	4	(4)	-	-
At 31st March 2019	**221**	**148**	**(45)**	**87**	**2,200**	**-**	**2,611**

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1 Basis of preparation

The financial information contained in this release does not constitute the company's statutory accounts for the years ended 31st March 2019 or 31st March 2018 within the meaning of section 435 of the Companies Act 2006, but is derived from those accounts. The accounts are prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) or the Standing Interpretations Committee (SIC) as adopted by the European Union. Except for the changes noted below, the accounting policies applied are set out in the Annual Report and Accounts for the year ended 31st March 2018.

Statutory accounts for 2018 have been delivered to the Registrar of Companies and those for 2019 will be delivered following the company's Annual General Meeting. The auditors, PwC, reported on the 2019 accounts. KPMG, the company's previous auditors, reported on the 2018 accounts. Their reports were unqualified, did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and did not contain any statement under sections 498(2) or 498(3) of the Companies Act 2006. The accounts for the year ended 31st March 2019 were approved by the Board of Directors on 30th May 2019.

Changes in accounting policies

Standards effective from 1st April 2018

IFRS 9, Financial Instruments, and IFRS 15, Revenue from Contracts with Customers, became effective from 1st April 2018. The impact of adoption is set out in note 16.

Standards effective from 1st April 2019

IFRS 16, Leases

IFRS 16 is effective from 1st April 2019. Whilst lessor accounting is similar to IAS 17, lessee accounting is significantly different. Under IFRS 16, the group will recognise on the balance sheet a right-of-use asset and a lease liability for future lease payments in respect of all leases unless the underlying assets are of low value or the lease term is 12 months or less. In the income statement, rental expense on the impacted leases will be replaced with depreciation on the right-of-use asset and interest expense on the lease liability. The new standard will primarily impact the accounting for the group's operating leases as its activities as a lessor are not significant.

The group will apply the simplified transition approach and will not restate comparative amounts for the year ended 31st March 2019. All right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

As at 31st March 2019, the group has non-cancellable operating lease commitments of £76 million, of which approximately £2 million relates to short-term leases which will be recognised in the income statement on a straight-line basis under IFRS 16.

For the remaining lease commitments, the group expects to recognise right-of-use assets and lease liabilities of approximately £75 million on 1st April 2019. The discounted lease liabilities include cancellable lease term extension options which are not included in the operating lease commitments note, but are expected to be exercised. The group estimates that profit before tax will be reduced by approximately £1 million in the year ending 31st March 2020 as a result of adopting IFRS 16.

It is unclear whether contracts entered into by the group to lease metal from third parties constitute leases as defined by IFRS 16. Specifically, it is not clear whether the leased metal represents a defined asset given its fungible nature. However, on the basis that there is no alternative accounting standard applicable to these transactions, the group will continue to recognise the expense in the income statement on a straight-line basis, with no recognition on the balance sheet.

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1 Basis of preparation (continued)

IFRIC 23, Uncertainty over Income Tax Treatments

IFRIC 23 is effective from 1st April 2019. The interpretation clarifies how to recognise and measure current and deferred income tax assets and liabilities where there is uncertainty over a tax treatment. The group does not expect IFRIC 23 to have a material impact on its reported results or net assets.

The group does not consider that any other standards or interpretations issued, but not yet effective, will have a significant impact on its reported results or net assets.

2 Segmental information

	Clean Air £ million	Efficient Natural Resources £ million	Health £ million	New Markets £ million	Corporate £ million	Eliminations £ million	Total £ million
Year ended 31st March 2019							
Revenue from external customers	**4,948**	**5,074**	**259**	**464**	**-**	**-**	**10,745**
Inter-segment revenue	**210**	**2,608**	**-**	**9**	**-**	**(2,827)**	**-**
Revenue	**5,158**	**7,682**	**259**	**473**	**-**	**(2,827)**	**10,745**
External sales	**2,719**	**880**	**256**	**359**	**-**	**-**	**4,214**
Inter-segment sales	**1**	**111**	**1**	**3**	**-**	**(116)**	**-**
Sales	**2,720**	**991**	**257**	**362**	**-**	**(116)**	**4,214**
Underlying operating profit	**393**	**181**	**43**	**2**	**(53)**	**-**	**566**
Year ended 31st March 2018							
Revenue from external customers[1]	4,248	5,389	252	385	-	-	10,274
Inter-segment revenue	260	2,342	-	18	-	(2,620)	-
Revenue[1]	4,508	7,731	252	403	-	(2,620)	10,274
External sales	2,454	845	247	300	-	-	3,846
Inter-segment sales	-	111	-	12	-	(123)	-
Sales	2,454	956	247	312	-	(123)	3,846
Underlying operating profit	349	158	44	17	(43)	-	525

[1] Restated (see note 16).

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3 Effect of exchange rate movements on translation of sales and underlying operating profit of foreign operations

Average exchange rates used for translation of the results of foreign operations

	2019	2018
US dollar / £	**1.310**	1.328
Euro / £	**1.134**	1.134
Chinese renminbi / £	**8.81**	8.79

The main impact of exchange rate movements on the group's sales and underlying operating profit comes from the translation of the results of foreign operations into sterling.

	Year ended 31st March 2019	Year ended 31st March 2018		Change at this year's rates
		At last year's rates	At this year's rates	
	£ million	£ million	£ million	%
Sales				
Clean Air	**2,720**	2,454	2,451	+11
Efficient Natural Resources	**991**	956	956	+4
Health	**257**	247	250	+3
New Markets	**362**	312	310	+17
Inter-segment sales	**(116)**	(123)	(124)	
Sales	**4,214**	3,846	3,843	+10
Underlying operating profit				
Clean Air	**393**	349	349	+13
Efficient Natural Resources	**181**	158	158	+15
Health	**43**	44	45	-4
New Markets	**2**	17	17	-85
Corporate	**(53)**	(43)	(43)	
Underlying operating profit	**566**	525	526	+8

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4 Underlying profit reconciliations

	2019 £ million	2018 £ million
Underlying operating profit (note 2)	**566**	525
Loss on disposal of businesses (note 5)	**(12)**	(7)
Loss on significant legal proceedings (note 6)	**(17)**	(50)
Amortisation of acquired intangibles (note 7)	**(14)**	(19)
Major impairment and restructuring charges (note 8)	**8**	(90)
Operating profit	**531**	359
Underlying profit before tax	**523**	486
Loss on disposal of businesses (note 5)	**(12)**	(7)
Loss on significant legal proceedings (note 6)	**(17)**	(50)
Amortisation of acquired intangibles (note 7)	**(14)**	(19)
Major impairment and restructuring charges (note 8)	**8**	(90)
Profit before tax	**488**	320
Tax on underlying profit before tax	**(83)**	(86)
Tax on loss on disposal of businesses (note 5)	**4**	-
Tax on loss on significant legal proceedings (note 6)	**3**	16
Tax on amortisation of acquired intangibles (note 7)	**3**	4
Tax on major impairment and restructuring charges (note 8)	**(2)**	21
Tax thereon	**8**	41
Tax rate changes[1]	**-**	23
Income tax expense	**(75)**	(22)
Underlying profit for the year	**440**	400
Loss on disposal of businesses (note 5)	**(12)**	(7)
Loss on significant legal proceedings (note 6)	**(17)**	(50)
Amortisation of acquired intangibles (note 7)	**(14)**	(19)
Major impairment and restructuring charges (note 8)	**8**	(90)
Tax thereon	**8**	41
Tax rate changes[1]	**-**	23
Profit for the year	**413**	298

[1] Effective 1st January 2018, the US federal tax rate was reduced, which led to a revaluation of US deferred tax assets and liabilities during the year ended 31st March 2018.

	million	million
Weighted average number of shares in issue	**192**	192

	pence	pence
Underlying earnings per share	**228.8**	208.4

5 Loss on disposal of businesses

Profit or loss on disposal of businesses is shown separately on the face of the income statement and excluded from underlying operating profit. On 1st February 2019, the group sold its water disinfection business, Miox. After costs, the net proceeds were £2 million which resulted in a loss on sale of £12 million. Net assets sold comprise intangible assets (£9 million), property, plant and equipment (£2 million) and working capital (£3 million). In the prior year, the group sold its UK automotive battery systems business. After costs, the net proceeds were £5 million which resulted in a loss on sale of £7 million.

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6 Loss on significant legal proceedings

Gains and losses on significant legal proceedings, together with associated legal costs, are shown separately on the face of the income statement and excluded from underlying operating profit. In April 2019, the group paid £17 million in respect of a settlement with a customer on mutually acceptable terms with no admission of fault relating to failures in certain engine systems for which it supplied a component in the US. The settlement has been recognised in the year ended 31st March 2019 on the basis that it confirms that the group had a present obligation at the year end. In the prior year, the group recognised a charge of £50 million in connection with the resolution of a contract dispute lawsuit related to a component supplied by the group in the US.

7 Amortisation of acquired intangibles

The amortisation of intangible assets which arise on the acquisition of businesses, together with any subsequent impairment of these intangible assets, is shown separately on the face of the income statement and excluded from underlying operating profit.

8 Major impairment and restructuring charges

Major impairment and restructuring charges are shown separately on the face of the income statement and excluded from underlying operating profit. As part of the group's operational efficiency programme announced on 31st March 2017, a restructuring and impairment charge of £90 million was incurred in the prior year. The £90 million comprised £66 million asset write offs, £11 million provisions and £13 million cash costs incurred. Contained within the £90 million were costs for redundancies and business or plant closures as part of the optimisation of the manufacturing footprint in Health (including £36 million relating to the closure of the Riverside, US, manufacturing facility and £17 million relating to the exit of certain operations in Portugal). The group is at an advanced stage of negotiations to sell the Riverside site for £7 million, net of costs, and an equivalent amount of the prior year impairment has been reversed during the year ended 31st March 2019.

9 Dividends

A final dividend of 62.25 pence per ordinary share has been proposed by the board which will be paid on 6th August 2019 to shareholders on the register at the close of business on 7th June 2019, subject to shareholders' approval. The estimated amount to be paid is £120 million and has not been recognised in these accounts.

	2019 £ million	2018 £ million
2016/17 final ordinary dividend paid – 54.5 pence per share	**-**	104
2017/18 interim ordinary dividend paid – 21.75 pence per share	**-**	42
2017/18 final ordinary dividend paid – 58.25 pence per share	**112**	-
2018/19 interim ordinary dividend paid – 23.25 pence per share	**44**	-
Total dividends	**156**	146

10 Net debt

	2019 £ million	2018 Restated[1] £ million
Cash and deposits	**90**	203
Money market funds	**347**	171
Bank overdrafts	**(59)**	(70)
Cash and cash equivalents	**378**	304
Other current borrowings and related swaps	**(184)**	(38)
Non-current borrowings and related swaps	**(1,073)**	(951)
Non-current interest rate swap assets	**13**	6
Net debt	**(866)**	(679)

[1] See note 16.

11 Precious metal leases

The group leases, rather than purchases, precious metals to fund temporary peaks in metal requirements provided market conditions allow. These leases are from banks for specified periods (typically a few months) and the group pays a fee which is expensed on a straight-line basis over the lease term in finance costs. The group holds sufficient precious metal inventories to meet all the obligations under these lease arrangements as they fall due. At 31st March 2019, precious metal leases were £372 million (2018: £184 million) at year end prices.

12 Contingent liabilities

The group is involved in various disputes and claims which arise from time to time in the course of its business including, for example, in relation to commercial matters, product quality or liability, employee matters and tax audits. The group is also involved from time to time in the course of its business in legal proceedings and actions, engagement with regulatory authorities and in dispute resolution processes. These are reviewed on a regular basis and, where possible, an estimate is made of the potential financial impact on the group. In appropriate cases a provision is recognised based on advice, best estimates and management judgement. Where it is too early to determine the likely outcome of these matters, no provision is made. Whilst the group cannot predict the outcome of any current or future such matters with any certainty, it currently believes the likelihood of any material liabilities to be low, and that such liabilities, if any, will not have a material adverse effect on its consolidated income, financial position or cash flows.

On a specific matter, the group previously disclosed that it had been informed by two customers of failures in certain engine systems for which the group supplied a particular coated substrate as a component for their customers' emissions after-treatment systems. The particular coated substrate was sold to only these two customers. The group has not been contacted by any regulatory authority about these engine system failures. The reported failures have not been demonstrated to be due to the coated substrate supplied by the group. In the period, we settled with one of these customers on mutually acceptable terms with no admission of fault. Under this settlement, the group recognised a charge of £17 million in the year ended 31st March 2019 and made the associated cash settlement post year end. This charge has been excluded from underlying operating profit.

Having reviewed its contractual obligations and the information currently available to it, the group believes it has defensible warranty positions in respect of its supplies of coated substrate for the after-treatment systems in the affected engines remaining at issue (as it believes it had in respect of the matter settled in the period). If required, it will vigorously assert its available contractual protections and defences. The outcome of any discussions relating to the matters raised is not certain, nor is the group able to make a reliable estimate of the possible financial impact at this stage, if any. While the group works with all its customers to ensure appropriate product quality, we have not received claims in respect of other emissions after-treatment components from these or any other customers. Our vision is for a world that's cleaner and healthier; today and for future generations. We are committed to enabling improving air quality and we work constructively with our customers to achieve this.

13 Transactions with related parties

There were no material changes in related party relationships in the year ended 31st March 2019 and no other related party transactions have taken place which have materially affected the financial position or performance of the group during the year.

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14 Post-employment benefits

The group operates a number of post-employment benefit plans around the world, the forms and benefits of which vary with conditions and practices in the countries concerned. The major defined benefit plans are pension plans and post-retirement medical plans in the UK and the US.

Movements in the net post-employment benefit assets and liabilities, including reimbursement rights, were:

	UK pension - legacy section £ million	UK pension - cash balance section £ million	UK post-retirement medical benefits £ million	US pensions £ million	US post-retirement medical benefits £ million	Other £ million	Total £ million
At 1st April 2018	225	1	(9)	(20)	(26)	(34)	137
Current service cost - in operating profit	(12)	(17)	-	(8)	-	(3)	(40)
Past service cost - in operating profit	7	-	-	2	-	-	9
Administrative expenses - in operating profit	(3)	-	-	(1)	-	-	(4)
Interest	7	(1)	-	(1)	(1)	(1)	3
Remeasurements	(61)	(2)	-	(1)	(1)	(4)	(69)
Company contributions	36	18	-	16	2	3	75
Exchange	-	-	-	(2)	(3)	1	(4)
At 31st March 2019	**199**	**(1)**	**(9)**	**(15)**	**(29)**	**(38)**	**107**

The past service credit in the legacy section of the UK pension plan during the year ended 31st March 2019 includes a credit of £8 million as a result of the breaking of the salary linkage on the accrued pensions of employees who elected to switch from the career average section to the cash balance section with effect from 1st July 2018. It also includes a charge of £1 million in respect of a High Court ruling that UK defined benefit pension plans should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pensions. The additional liabilities have been treated as a plan amendment and, therefore, this past service cost has been reflected in the income statement.

The remeasurement loss due to changes in financial assumptions in the legacy section of the UK pension plan during the year ended 31st March 2019 mainly reflects a 40 basis-point decrease in the real (after inflation) discount rate caused by falling corporate bond yields and rising market-implied inflation.

The post-employment benefit assets and liabilities are included in the balance sheet as follows:

	2019 Post-employment benefit net assets £ million	**2019 Employee benefit obligations £ million**	**2019 Total £ million**	2018 Post-employment benefit net assets £ million	2018 Employee benefit obligations £ million	2018 Total £ million
UK pension - legacy section	**199**	**-**	**199**	225	-	225
UK pension - cash balance section	**-**	**(1)**	**(1)**	1	-	1
UK post-retirement medical benefits	**-**	**(9)**	**(9)**	-	(9)	(9)
US pensions	**-**	**(15)**	**(15)**	-	(20)	(20)
US post-retirement medical benefits	**8**	**(37)**	**(29)**	8	(34)	(26)
Other	**2**	**(40)**	**(38)**	2	(36)	(34)
Total post-employment plans	**209**	**(102)**	**107**	236	(99)	137
Other long-term employee benefits		**(4)**			(4)	
Total long-term employee benefit obligations		**(106)**			(103)	

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15 Fair values

Fair value of financial instruments

Certain of the group's financial instruments are held at fair value. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the balance sheet date.

Fair value hierarchy

Fair values are measured using a hierarchy where the inputs are:

- Level 1 — quoted prices in active markets for identical assets or liabilities.
- Level 2 — not level 1 but are observable for that asset or liability either directly or indirectly.
- Level 3 — not based on observable market data (unobservable).

The fair value of forward foreign exchange contracts, interest rate swaps, forward precious metal price contracts and currency swaps is estimated by discounting the future contractual cash flows using forward exchange rates, interest rates and prices at the balance sheet date.

The fair value of money market funds is calculated by multiplying the net asset value per share by the investment held at the balance sheet date.

There were no transfers of any financial instrument between the levels of the fair value hierarchy during the current or prior years.

	2019	2018 Restated[1]	Fair value hierarchy
	£ million	£ million	Level
Financial instruments measured at fair value			
Non-current			
Quoted bonds purchased to fund pension deficit	**52**	53	1
Unquoted investments	**-**	3	3
Investments at fair value through other comprehensive income	**52**	56	
Interest rate swaps	**13**	6	2
Borrowings and related swaps	**(5)**	(8)	2
Current			
Trade receivables[2]	**173**	160	2
Other receivables[3]	**9**	10	2
Cash and cash equivalents - money market funds	**347**	171	2
Other financial assets	**22**	15	2
Other borrowings and related swaps	**-**	(2)	2
Other financial liabilities	**(13)**	(12)	2
Financial instruments not measured at fair value			
Non-current			
Borrowings and related swaps	**(1,068)**	(943)	
Current			
Cash and cash equivalents - cash and deposits	**90**	203	
Cash and cash equivalents - bank overdrafts	**(59)**	(70)	
Other borrowings and related swaps	**(184)**	(36)	

[1] See note 16.
[2] Trade receivables held in a part of the group with a business model to hold trade receivables for collection or sale.
[3] Other receivables with cash flows that do not represent solely the payment of principal and interest.

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15 Fair values (continued)

The fair value of financial instruments, excluding accrued interest, is approximately equal to book value except for:

	2019		2018	
	Carrying amount £ million	**Fair value £ million**	Carrying amount £ million	Fair value £ million
US Dollar Bonds 2022, 2023, 2025 and 2028	**(481)**	**(477)**	(448)	(420)
Euro Bonds 2021, 2023, 2025 and 2028	**(251)**	**(264)**	(104)	(118)
Euro EIB loan 2019	**(107)**	**(108)**	(109)	(113)
Sterling Bonds 2024 and 2025	**(110)**	**(118)**	(65)	(71)
KfW US dollar loan 2024	**(38)**	**(39)**	(36)	(35)

The fair values are calculated using level 2 inputs by discounting future cash flows to net present values using appropriate market interest rates prevailing at the year end.

16 Changes in accounting policies and restatements

This note explains the impact on the group's accounts of the adoption of IFRS 9, Financial Instruments, and IFRS 15, Revenue from Contracts with Customers, that have been applied from 1st April 2018 and the restatement of prior year comparatives for location swaps, sale and repurchase agreements and cash and borrowings.

IFRS 9

IFRS 9 introduces new requirements for recognition, classification and measurement of financial assets and financial liabilities, a new impairment model for financial assets based on expected credit losses and simplified hedge accounting, replacing the requirements of IAS 39, Financial Instruments: Recognition and Measurement.

Impact of adoption

Under IFRS 9, changes to the classification and measurement of financial assets have been applied retrospectively by adjusting opening retained earnings at 1st April 2018. The group has chosen not to restate comparative information for prior periods. The impact of adopting IFRS 9 on the group's equity as at 1st April 2018 is a decrease of £1 million.

Classification and measurement

The group has classified its financial instruments in the appropriate IFRS 9 categories as at 1st April 2018 and, as a result, £160 million of trade receivables were reclassified from being valued at amortised cost to fair value through other comprehensive income because they are held in a part of the group with a business model to hold trade receivables for collection or sale. Derivative financial instruments that did not qualify for hedge accounting under IAS 39 were classified in the fair value through profit or loss category and gains and losses have been recognised in the income statement for the year. There is no change in the classification of these financial instruments under IFRS 9 as they fail the contractual cash flow characteristics test.

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16 Changes in accounting policies and restatements (continued)

The group has reclassified its financial assets as follows:

Financial assets	IFRS 9	IAS 39	**2019** **IFRS 9** **£ million**	2018 Restated[1] IAS 39 £ million
Quoted bonds purchased to fund pension deficit	FVTOCI[4]	Available for sale	**52**	53
Unquoted investments	FVTOCI[4]	Available for sale	**-**	3
Trade receivables	Amortised cost	Loans and receivables	**1,031**	889
Trade receivables[2]	FVTOCI[4]	Loans and receivables	**173**	160
Other receivables	Amortised cost	Loans and receivables	**226**	159
Other receivables[3]	FVTPL[5]	Loans and receivables	**9**	10
Cash and cash equivalents - cash and deposits	Amortised cost	Loans and receivables	**90**	203
Cash and cash equivalents - money market funds[3]	FVTPL[5]	Loans and receivables	**347**	171
Derivatives	FVTPL[5]	Held for trading	**35**	21

[1] See below.
[2] Trade receivables reclassified to fair value through other comprehensive income on adoption of IFRS 9 because they are held in a part of the group with a business model to hold trade receivables for collection or sale.
[3] Other receivables and money market funds reclassified to fair value through profit or loss on adoption of IFRS 9 because the cash flows do not represent solely the payment of principal and interest.
[4] Fair value through other comprehensive income.
[5] Fair value through profit or loss.

Impairment of financial assets

Trade and contract receivables are subject to IFRS 9's new expected credit loss model and, as they do not contain a significant financing element, expected credit losses are measured using the simplified approach, which requires expected lifetime losses to be recognised from initial recognition. Whilst cash and deposits are also subject to the impairment requirements of IFRS 9, there was no identified impairment loss on these balances.

Hedge accounting

Derivative financial instruments designated as part of cash flow hedges, fair values hedges and net investment hedges under IAS 39 at 31st March 2018 continue to qualify for hedge accounting under IFRS 9 at 1st April 2018 and are, therefore, treated as continuing hedges.

IFRS 15

IFRS 15 supersedes all revenue standards and interpretations in IFRS. It provides a principles-based approach for revenue recognition and requires that revenue is recognised as the distinct performance obligations promised within a contract are satisfied either at a point in time or over time. Following the detailed review of the transactions performed in the year ended 31st March 2018, the group has concluded that all swaps (location and form) and sale and repurchase agreements will be excluded from revenue under IFRS 15.

The impact on the financial statements as a result of the move to IFRS 15 has led the group to conclude that it should apply IFRS 15 on a fully retrospective basis, which means that the comparative information for the year ended 31st March 2018 has been restated. The following expedients have been used in accordance with paragraph C5:

- revenue in respect of completed contracts with variable consideration reflects the transaction price at the date the contracts were completed; and
- the transaction price allocated to unsatisfied and partially unsatisfied performance obligations as at 31st March 2018 is not disclosed.

The group has not shown the amount of the adjustments relating to periods before those presented on the basis that it is not practicable to do so. Movements in inventories, receivables and payables in the consolidated cash flow statement for the year ended 31st March 2018 have not been restated on the same basis. The overall impact on equity is less than £5 million as a result of the re-presentation of the financial statements as at 31st March 2018 and there is no impact on sales excluding precious metals, profit, working capital, net debt or net assets.

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16 Changes in accounting policies and restatements (continued)

IFRS 15 (continued)

Impact of adoption

The group has noted that the presentation of sales and purchases of certain commodity forward contracts varies across its industry peer group. In conjunction with its adoption of IFRS 15, the group has reviewed its accounting for a number of such contracts held by the Platinum Group Metal Services business. The group regularly enters into contracts whereby metal is transferred with a separate agreement to buy back the metal, either in a different location and/or in a different form. IFRS 15 requires the presentation of swap transactions (regardless of whether they are a location or form swap) with counterparties of a similar nature to the group to be excluded from revenue. It further clarifies that transactions with a linked sale and future repurchase (sale and repurchase agreements) are excluded from revenue and treated as finance transactions.

The impact of applying this presentation of form and location swaps to the financial statements is to reduce revenue and cost of sales for the year ended 31st March 2018 by £840 million with no impact on sales excluding precious metals, profit, working capital, net debt or net assets. This change has also decreased inventories by £2 million and increased receivables by £2 million as at 31st March 2018. Location swaps are also non-revenue transactions under IAS 18. Had the group not restated under IFRS 15, the financial impact of restating location swaps and other, smaller errors identified during the process, would be to decrease revenue and cost of sales by £621 million, with no impact on reported profit, net assets or net debt.

IFRS 15 provides new guidance in respect of principal versus agent considerations which is relevant to the sale of metal and substrate in Clean Air and to the sale of metal in Efficient Natural Resources. Revenue from refining metal owned by customers in Efficient Natural Resources continues to be recognised over time on the basis that the group is enhancing an asset controlled by the customer. Revenue in respect of the sale of the company’s metal and substrate continues to be recognised on a gross basis reflecting the fact that the group is the principal. Where the group refines metal owned by customers and control of the metal remains with the customer during the process, the revenue recognised does not include the value of the metal controlled by the customer. The impact on the group’s income statement is to increase revenue and cost of sales by £2 million, with no net impact on profit. The impact on the group’s balance sheet is to reduce inventory by £18 million, increase contract receivables £20 million, increase accruals £2 million, decrease contract liabilities £1 million and increase opening retained earnings £1 million.

Restatements

Sale and repurchase agreements

The group has restated the financial statements to exclude revenue and cost of sales derived from sale and repurchase agreements and account for these as finance transactions. Application of this change in presentation to the financial statements for the year ended 31st March 2018 reduces revenue and cost of sales by £3,010 million. This change has also increased inventories by £161 million, creditors by £215 million and receivables by £54 million as at 31st March 2018. This change also increased finance costs and finance income by £20 million, respectively.

The re-presentation of the financial statements has no impact on sales excluding precious metals, profit, working capital, net debt or net assets and, therefore, historic business performance measures communicated by the group are unchanged.

Cash and borrowings

The group's consolidated balance sheet and cash flow statement have been restated to increase cash and deposits by £45 million, bank overdrafts by £17 million and other current borrowings and related swaps by £28 million at 31st March 2018 to better reflect the group's cash pooling arrangements. In addition, money market funds of £171 million have been shown separately from cash and deposits.

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16 Changes in accounting policies and restatements (continued)

Impact on the accounts

Consolidated Income Statement

	Year ended 31st March 2018			
	As previously reported £ million	IFRS 15 £ million	Location swaps and sale and repurchase agreements £ million	**Restated £ million**
Revenue	14,122	(217)	(3,631)	**10,274**
Cost of sales	(13,214)	217	3,631	**(9,366)**
Gross profit	908	-	-	**908**
Finance costs	(43)	-	(20)	**(63)**
Finance income	5	-	20	**25**
Profit before tax	320	-	-	**320**

Consolidated Balance Sheet

	As at 31st March 2018				
	As previously reported £ million	IFRS 15 £ million	Location swaps and sale and repurchase agreements £ million	Cash and borrowings £ million	**Restated £ million**
Total non-current assets	2,428	-	-	-	**2,428**
Current assets					
Inventories	783	(20)	161	-	**924**
Current income tax assets	35	-	-	-	**35**
Trade and other receivables	1,228	22	54	-	**1,304**
Cash and cash equivalents - cash and deposits	329	-	-	(126)	**203**
Cash and cash equivalents - money market funds	-	-	-	171	**171**
Other financial assets	15	-	-	-	**15**
Total current assets	2,390	2	215	45	**2,652**
Total assets	4,818	2	215	45	**5,080**
Current liabilities					
Trade and other payables	(1,012)	(1)	(215)	-	**(1,228)**
Current income tax liabilities	(149)	-	-	-	**(149)**
Cash and cash equivalents - bank overdrafts	(53)	-	-	(17)	**(70)**
Other borrowings and related swaps	(10)	-	-	(28)	**(38)**
Other financial liabilities	(12)	-	-	-	**(12)**
Provisions	(37)	-	-	-	**(37)**
Total current liabilities	(1,273)	(1)	(215)	(45)	**(1,534)**
Total non-current liabilities	(1,167)	-	-	-	**(1,167)**
Total liabilities	(2,440)	(1)	(215)	(45)	**(2,701)**
Net assets	2,378	1	-	-	**2,379**

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Definition and reconciliation of non-GAAP measures to GAAP measures

for the year ended 31st March 2019

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

Sales

Sales is defined as revenue excluding sales of precious metals to customers and the precious metal content of products sold to customers. The group believes that sales is a better measure of the growth of the group than revenue. Total revenue can be heavily distorted by year on year fluctuations in the market prices of precious metals and, in many cases, the value of precious metals is passed directly on to customers.

Underlying profit and earnings

Underlying profit and earnings are non-GAAP measures that the group believes provide a better guide to the underlying performance of the group. These measures exclude profit or loss on disposal of businesses, gain or loss on significant legal proceedings, together with associated legal costs, amortisation of acquired intangibles and major impairment and restructuring charges, and are reconciled to their equivalent GAAP measures in note 4.

Margin

Underlying operating profit divided by sales.

Capex

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

Capex to depreciation ratio

Capex divided by depreciation. Depreciation is the depreciation charge on property, plant and equipment plus the amortisation charge on other intangible assets excluding amortisation of acquired intangibles (note 7).

Working capital (excluding precious metals)

	2019 £ million	2018 Restated[1] £ million
Inventories	**1,316**	924
Trade and other receivables	**1,553**	1,304
Trade and other payables	**(1,647)**	(1,228)
Total working capital	**1,222**	1,000
Less: Precious metal working capital	**(590)**	(404)
Working capital (excluding precious metals)	**632**	596

[1] See note 16.

Working capital days (excluding precious metals)

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

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Definition and reconciliation of non-GAAP measures to GAAP measures

for the year ended 31st March 2019

Return on invested capital (ROIC)

Underlying operating profit divided by average equity, excluding post tax pension net assets, plus net debt for the same period.

	2019 £ million	2018 £ million
Underlying operating profit (note 4)	**566**	525
Average net debt	**1,128**	923
Average equity	**2,541**	2,276
Average capital employed	**3,669**	3,199
Less: Average pension net assets	**(251)**	(125)
Less: Average related deferred taxation	**41**	14
Average capital employed (excluding post tax pension net assets)	**3,459**	3,088
ROIC (excluding post tax pension net assets)	**16.4%**	17.0%
ROIC	**15.4%**	16.4%

Net debt (including post tax pension deficits) to underlying EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation)

Net debt, including post tax pension deficits and quoted bonds purchased to fund the UK pension (excluded when the UK pension plan is in surplus), divided by underlying EBITDA for the same period.

	2019 £ million	2018 Restated[1] £ million
Net debt	**(866)**	(679)
Add: Pension deficits	**(56)**	(56)
Add: Related deferred tax	**10**	10
Net debt (including post tax pension deficits)	**(912)**	(725)
Underlying EBITDA	**723**	681
Depreciation and amortisation	**(157)**	(156)
Loss on disposal of businesses	**(12)**	(7)
Loss on significant legal proceedings	**(17)**	(50)
Amortisation of acquired intangibles	**(14)**	(19)
Major impairment and restructuring charges	**8**	(90)
Finance costs	**(107)**	(63)
Finance income	**64**	25
Share of loss of joint venture and associate	**-**	(1)
Tax expense	**(75)**	(22)
Profit for the year	**413**	298
Net debt (including post tax pension deficits) to underlying EBITDA	**1.3**	1.1

[1] See note 16.

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Definition and reconciliation of non-GAAP measures to GAAP measures
for the year ended 31st March 2019

Free cash flow

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

	2019 **£ million**	2018 £ million
Net cash inflow from operating activities	**334**	386
Dividends received from joint venture and associate	**-**	1
Interest received	**61**	23
Interest paid	**(108)**	(65)
Purchases of property, plant and equipment	**(215)**	(157)
Purchases of intangible assets	**(86)**	(59)
Proceeds from sale of non-current assets	**1**	7
Free cash flow	**(13)**	136

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Financial Calendar

2019

6th June
Ex dividend date

7th June
Final dividend record date

17th July
128th Annual General Meeting (AGM)

6th August
Payment of final dividend subject to declaration at the AGM

21st November
Announcement of results for the six months ending 30th September 2019

28th November
Ex dividend date

29th November
Interim dividend record date

Cautionary Statement

This announcement contains forward looking statements that are subject to risk factors associated with, amongst other things, the economic and business circumstances occurring from time to time in the countries and sectors in which the group operates. It is believed that the expectations reflected in this announcement are reasonable but they may be affected by a wide range of variables which could cause actual results to differ materially from those currently anticipated.

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