

NOTES ON THE ACCOUNTS

for the year ended 31st March 2007

1 Segmental information

By business segment

For management purposes, the group was organised into four operating divisions – Catalysts, Precious Metal Products, Pharmaceutical Materials and Ceramics. Their principal activities are described on pages 8 to 13. The group sold its Ceramics Division during the year (note 40) and so its results are reported as discontinued operations. Sales between segments are made at market prices, taking into account the volumes involved.

Year ended 31st March 2007

	Catalysts £ million	Precious Metal Products £ million	Pharmaceutical Materials £ million	Eliminations £ million	Total £ million
Sales to external customers	2,192.6	3,824.4	134.7	–	6,151.7
Inter-segment sales	21.9	1,162.6	0.3	(1,184.8)	–
Total revenue	2,214.5	4,987.0	135.0	(1,184.8)	6,151.7
External sales excluding the value of precious metals	1,035.6	290.0	128.6	–	1,454.2
Segment result	148.8	85.3	35.5	–	269.6
Unallocated corporate expenses					(17.2)
Operating profit					252.4
Net finance costs					(26.8)
Share of profit of associates		0.9			0.9
Profit before tax					226.5
Income tax expense					(64.7)
Profit for the year from continuing operations					161.8
Profit for the year from discontinued operations					43.7
Profit for the year					205.5
Segment assets	1,308.1	298.4	324.2	(52.1)	1,878.6
Investments in associates	–	4.8	–	–	4.8
Cash and deposits					73.2
Current and deferred income tax assets					15.9
Post-employment benefits net assets					49.2
Unallocated corporate assets					67.5
Total assets					2,089.2
Segment liabilities	329.8	92.1	18.4	(52.1)	388.2
Borrowings, finance leases and related swaps					438.0
Current and deferred income tax liabilities					89.2
Employee benefits obligations					48.3
Unallocated corporate liabilities					47.4
Total liabilities					1,011.1
Segment capital expenditure	91.5	11.2	10.7	–	113.4
Capital expenditure on discontinued operations					4.5
Corporate capital expenditure					1.9
Total capital expenditure					119.8
Segment depreciation and amortisation	46.0	13.4	10.5	–	69.9
Depreciation on discontinued operations					5.5
Corporate depreciation					2.1
Total depreciation and amortisation					77.5
Significant non-cash expenses other than depreciation	1.5	1.3	–	–	2.8

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for the year ended 31st March 2007

1 Segmental information (continued) By business segment (continued)

Year ended 31st March 2006 (restated)

	Catalysts £ million	Precious Metal Products £ million	Pharmaceutical Materials £ million	Ceramics £ million	Eliminations £ million	Total £ million
Sales to external customers	1,477.4	2,962.4	133.9		–	4,573.7
Inter-segment sales	17.4	676.9	1.2		(695.5)	–
Total revenue	1,494.8	3,639.3	135.1		(695.5)	4,573.7
External sales excluding the value of precious metals	786.4	245.4	127.2		–	1,159.0
Segment result before impairment costs	134.2	62.2	33.8		–	230.2
Impairment costs	–	(6.0)	–		–	(6.0)
Segment result	134.2	56.2	33.8		–	224.2
Unallocated corporate expenses						(16.8)
Operating profit						207.4
Net finance costs						(15.7)
Share of loss of associates		(0.2)				(0.2)
Profit before tax						191.5
Income tax expense						(54.7)
Profit for the year from continuing operations						136.8
Profit for the year from discontinued operations						14.5
Profit for the year						151.3
Segment assets	1,119.1	305.8	331.3	164.6	(26.7)	1,894.1
Investments in associates	–	4.3	–	–	–	4.3
Cash and deposits						133.0
Current and deferred income tax assets						8.0
Post-employment benefits net assets						75.0
Unallocated corporate assets						52.2
Total assets						2,166.6
Segment liabilities	207.0	117.1	24.1	38.0	(26.7)	359.5
Borrowings, finance leases and related swaps						545.0
Current and deferred income tax liabilities						115.7
Employee benefits obligations						56.2
Unallocated corporate liabilities						45.7
Total liabilities						1,122.1
Segment capital expenditure	89.2	13.7	9.9	6.5	–	119.3
Corporate capital expenditure						4.7
Total capital expenditure						124.0
Segment depreciation and amortisation	39.8	13.0	10.0	6.3	–	69.1
Corporate depreciation						1.7
Total depreciation and amortisation						70.8
Significant non-cash expenses other than depreciation	–	7.7	–	–	–	7.7

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for the year ended 31st March 2007

1 Segmental information (continued)

By geographical segment

Pharmaceutical Materials is located in Europe and North America. All of the other divisions of the group have a presence in each of the geographical segments.

Year ended 31st March 2007

	Europe £ million	North America £ million	Asia £ million	Rest of the World £ million	Eliminations £ million	Total £ million
External sales by geographical destination	2,654.5	1,496.3	1,339.8	661.1	–	6,151.7
Carrying value of segment assets by location	1,154.5	478.6	176.7	141.2	(72.4)	1,878.6
Capital expenditure by location of assets	61.7	29.8	17.5	10.8	–	119.8

Year ended 31st March 2006 (restated)

	Europe £ million	North America £ million	Asia £ million	Rest of the World £ million	Eliminations £ million	Total £ million
External sales by geographical destination	1,862.2	1,124.9	1,089.6	497.0	–	4,573.7
Carrying value of segment assets by location	1,322.7	294.1	170.4	162.9	(56.0)	1,894.1
Capital expenditure by location of assets	61.3	42.5	13.7	6.5	–	124.0

2 Revenue

	2007 £ million	2006 restated £ million
Sale of goods	6,021.5	4,482.7
Rendering of services	109.8	86.6
Royalties / licence income	20.4	4.4
Total revenue – continuing operations	6,151.7	4,573.7

3 Impairment costs

	2007 £ million	2006 £ million
Impairment of UK Pgm Refining assets (Precious Metal Products)	–	6.0
Total impairment costs	–	6.0

During the year ended 31st March 2006 the group decided to stop using parts of the pgm refining process and so fully impaired the associated plant and equipment.

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for the year ended 31st March 2007

4 Operating profit

	2007 £ million	2006 restated £ million
Operating profit is arrived at after charging / (crediting):		
Total research and development expenditure	66.5	60.6
less development expenditure capitalised	(7.8)	(6.7)
Research and development charged	58.7	53.9
less external funding received – from government grants	(1.9)	(1.2)
– from other organisations	(2.6)	(2.7)
Net research and development – continuing operations	54.2	50.0
Net research and development – discontinued operations	1.5	2.1
Net research and development	55.7	52.1
Other government grants	–	(0.1)
Inventories recognised as an expense – continuing operations	5,300.0	3,842.3
Inventories recognised as an expense – discontinued operations	94.9	103.7
Inventories recognised as an expense	5,394.9	3,946.0
Write-down of inventories recognised as an expense – continuing operations	3.2	2.9
Write-down of inventories recognised as an expense – discontinued operations	–	0.1
Write-down of inventories recognised as an expense	3.2	3.0
Reversal of write-down of inventories arising from increases in net realisable value	(0.5)	(0.3)
Net losses / (gains) on foreign exchange – continuing operations	1.7	(0.4)
Net losses / (gains) on foreign exchange – discontinued operations	0.5	(0.1)
Net losses / (gains) on foreign exchange	2.2	(0.5)
Net (gains) / losses on foreign currency forwards held for trading	(0.2)	0.1
Depreciation of property, plant and equipment – continuing operations	63.1	58.4
Depreciation of property, plant and equipment – discontinued operations	5.5	6.3
Depreciation of property, plant and equipment	68.6	64.7
Amortisation of internally generated intangible assets included in other cost of sales	2.5	1.4
Amortisation of other intangible assets included in – other cost of sales	2.1	2.2
– distribution costs	0.1	0.2
– administrative expenses	4.2	2.3
Operating lease rentals payable – minimum lease payments – continuing operations	8.3	8.3
Operating lease rentals payable – minimum lease payments – discontinued operations	0.3	0.8
Operating lease rentals payable – minimum lease payments	8.6	9.1

Unless otherwise specified, the items above are for both continuing operations and total group.

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5 Fees payable to auditors

	2007 £ million	2006 £ million
Fees payable to the company's auditor for the audit of the company's annual accounts	0.4	0.4
Fees payable to the company's auditor and its associates for other services:		
– the audit of the company's subsidiaries, pursuant to legislation	0.7	0.6
– other services supplied pursuant to legislation	0.1	0.1
– tax services	0.3	0.3
– due diligence	0.2	–
Total fees payable to the company's auditor and its associates for other services	1.3	1.0
Total fees payable to the company's auditor	1.7	1.4

Audit fees payable to other auditors were £ nil (2006 £0.1 million).

6 Finance costs

	2007 £ million	2006 restated £ million
Interest payable on bank loans and overdrafts	24.4	18.6
Other interest payable	11.4	12.8
Remaining loss on remeasurement of net investment hedging instruments to fair value	0.2	–
Net loss on remeasurement of fair value hedges and related hedged items to fair value	–	0.1
Total finance costs – continuing operations	36.0	31.5

7 Finance income

	2007 £ million	2006 restated £ million
Interest receivable	3.8	7.1
Interest receivable on interest rate swaps	5.0	8.4
Remaining gain on remeasurement of net investment hedging instruments to fair value	–	0.2
Net gain on remeasurement of fair value hedges and related hedged items to fair value	0.3	–
Net gain on remeasurement of foreign currency swaps held for trading	0.1	0.1
Total finance income – continuing operations	9.2	15.8

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8 Taxation

	2007 £ million	2006 restated £ million
Current tax		
Corporation tax on profits for the year	60.9	56.1
Adjustment for prior years	(0.5)	(0.9)
Total current tax	60.4	55.2
Deferred tax		
Origination and reversal of temporary differences	3.9	1.4
Changes in tax rates and laws	0.4	(0.3)
Recognition of previously unrecognised deferred tax assets	-	(1.7)
Adjustment to estimated recoverable amount of deferred tax assets arising in prior years	-	0.1
Total deferred tax	4.3	(0.5)
Income tax expense – continuing operations	64.7	54.7

The tax charge for the year can be reconciled to the profit per the income statement as follows:

	2007 £ million	2006 restated £ million
Profit before tax	226.5	191.5
Tax expense at UK corporation tax rate of 30% (2006 30%)	68.0	57.5
Effects of:		
Overseas tax rates	-	0.7
Expenses not deductible for tax purposes	3.9	1.1
Net utilisation of tax losses and tax holidays	(5.7)	(1.8)
Adjustments for prior years	-	(0.8)
Research and development credits	(2.9)	(2.4)
Other	1.4	0.4
Tax expense for the year	64.7	54.7

9 Dividends

	2007 £ million	2006 £ million
2004/05 final ordinary dividend paid – 19.0 pence per share	-	40.9
2005/06 interim ordinary dividend paid – 9.1 pence per share	-	19.5
2005/06 final ordinary dividend paid – 21.0 pence per share	44.9	-
2006/07 interim ordinary dividend paid – 9.9 pence per share	21.1	-
Total dividends	66.0	60.4

A final dividend of 23.7 pence per ordinary share has been proposed by the board which will be paid on 7th August 2007 to shareholders on the register at the close of business on 15th June 2007. The estimated amount to be paid is £50.0 million. In accordance with IFRS accounting requirements this dividend has not been recognised in these accounts.

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10 Earnings per ordinary share

	2007 pence	2006 restated pence
Total		
Basic	96.9	70.8
Diluted	95.4	70.5
Continuing		
Basic	76.5	64.2
Diluted	75.3	63.9
Discontinued		
Basic	20.4	6.6
Diluted	20.1	6.6

Earnings per ordinary share have been calculated by dividing the profit attributable to equity holders of the parent company by the weighted average number of shares in issue during the period.

	2007 £ million	2006 restated £ million
Earnings		
Profit for the year from continuing operations attributable to equity holders of the parent company	163.0	138.0
Profit for the year from discontinued operations attributable to equity holders of the parent company	43.5	14.1
Profit for the year attributable to equity holders of the parent company	206.5	152.1

Profit for the year from discontinued operations attributable to equity holders of the parent company is after taking account of the minority interests of discontinued operations of £0.2 million (2006 £0.4 million).

	2007	2006
Weighted average number of shares in issue		
Basic	213,219,273	214,895,523
Dilution for share options and long term incentive plan	3,312,043	967,320
Diluted	216,531,316	215,862,843

Earnings per ordinary share before one-off items are calculated as follows:

	2007 £ million	2006 £ million
Profit for the year attributable to equity holders of the parent company	206.5	152.1
Profit on disposal of discontinued operations	(34.4)	–
Impairment costs	–	6.0
Tax thereon	1.1	(1.8)
Profit for the year before one-off items	173.2	156.3

	2007 pence	2006 pence
Earnings per share before one-off items		
Basic	81.2	72.7
Diluted	80.0	72.4

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11 Employee and key management personnel costs

11a Employee numbers

	Group		Parent company	
	2007	restated 2006	2007	restated 2006
The average monthly number of employees during the year was:				
Catalysts	4,801	4,129	1,426	1,311
Precious Metal Products	1,882	1,788	720	708
Pharmaceutical Materials	599	580	286	267
Corporate and Central Research	292	255	260	223
Average number of employees – continuing operations	7,574	6,752	2,692	2,509
Discontinued operations	619	699	53	67
Average number of employees – total	8,193	7,451	2,745	2,576
Actual number of employees at 31st March	7,795	7,718	2,791	2,633

The number of temporary employees included above at 31st March 2007 was 178 (2006 174) for the group and 49 (2006 39) for the parent company.

11b Employee benefits expense

	Group		Parent company	
	2007 £ million	2006 restated £ million	2007 £ million	2006 restated £ million
Wages and salaries – continuing operations	229.2	207.1	97.6	87.1
Social security costs – continuing operations	22.4	21.2	8.6	8.0
Pension and other post-employment costs – continuing operations	22.7	18.3	10.4	10.7
Share-based payments – continuing operations	10.9	7.4	9.9	6.3
Total employee benefits expense – continuing operations	285.2	254.0	126.5	112.1
Wages and salaries – discontinued operations	11.9	13.3	1.3	2.0
Social security costs – discontinued operations	3.1	2.9	0.1	0.1
Pension and other post-employment costs – discontinued operations	(0.8)	0.2	(0.8)	0.2
Share-based payments – discontinued operations	0.9	0.2	0.9	0.2
Total employee benefits expense – discontinued operations	15.1	16.6	1.5	2.5
Total employee benefits expense	300.3	270.6	128.0	114.6

Termination benefits of £1.2 million (2006 £5.1 million) for group continuing operations and £1.3 million (2006 £5.7 million) for the group are not included above. Termination benefits of £0.2 million (2006 £4.9 million) for parent company continuing operations and £0.3 million (2006 £5.3 million) for the parent company are not included above.

11c Key management personnel

The key management of the group and parent company consist of the board of directors and the members of the Chief Executive's Committee. Their compensation charged in the year was:

	2007 £ million	2006 £ million
Short term employee benefits	4.4	3.5
Pension and other post-employment costs	0.3	0.7
Share-based payments	1.7	0.9
Non-executive directors' fees and benefits	0.5	0.5
Total compensation of key management personnel	6.9	5.6

Other than the compensation above there were no transactions with any key management personnel. There were no balances outstanding at the year end.

Information on the directors' remuneration is given in the Remuneration Report on pages 42 to 48.

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for the year ended 31st March 2007

12 Share-based payments

Share options

Equity settled share options are granted to employees at the average of the market value of the company's shares over the three days prior to the date of grant and are subject to performance targets over a three year period and have a maximum life of ten years. The number of shares over which options are granted is based on a percentage of the employee's salary and since 2001 approximately 800 employees have been granted options each year.

Options granted in 2004 onwards are subject to a minimum three year performance target of earnings per share (EPS) growth of UK RPI plus 3% per annum. Other performance targets are EPS growth of UK RPI plus 4% per annum and EPS growth of UK RPI plus 5% per annum. If the performance targets are not met at the end of the three year performance period, the options will lapse. Also, gains are capped at 100% of the grant price.

Options granted in 2001 to 2003 can only be exercised if the normalised EPS has grown by at least UK RPI plus 4% per annum over any three consecutive years during the life of the options. They are subject to annual retesting until they lapse on the tenth anniversary of grant. The target had not been met in previous years and none of these option grants was exercisable. However the target has now been met and these option grants are exercisable from June 2007.

Some options granted in 2000 and before are still outstanding. These were subject to a performance target of EPS growth of UK RPI plus 2% over the three year performance period. Since that target has been met all these options are exercisable.

Long Term Incentive Plan (LTIP)

Under the LTIP, shares are allocated to directors and certain key executives of the group based upon a percentage of salary and are subject to performance conditions over a three year period. At 31st March 2007, shares allocated in 2004, 2005 and 2006 (at 31st March 2006, shares allocated in 2003, 2004 and 2005) were outstanding in respect of which the performance period has not expired.

For allocations made in 2004 onwards the release of shares is subject to a relative total shareholder return (TSR) compared to those companies ranked 51 to 150 in the FTSE index over a three year period. All shares are released if the company ranks in the 76th percentile or above. None of the shares are released if the company ranks in the 50th percentile or below. If the company ranks between these percentiles 35% to 100% of the shares are released on a straight line basis. In addition EPS growth must be at least equal to UK RPI plus 2% per annum over the three year performance period before any release is made.

For allocations made prior to 2004, 50% of the allocation is subject to the relative TSR target described above. For the remaining 50%, release is subject to absolute TSR growth over the three year period. All shares are released if the absolute TSR growth is 45% or more. Pro-rata allocations on a straight line basis of between 50% and 100% are released if absolute TSR growth is between 30% and 45%. Half of the allocated shares are released if TSR growth is 30%. No shares are released if growth is below 30%. In addition EPS growth must be at least equal to UK RPI plus 2% per annum over the three year performance period before any release is made.

Share Incentive Plan (SIP) – UK and Overseas

Under the SIP, all employees with at least one year of service with the group and who are employed by a participating group company are entitled to contribute up to 2.5% of basic pay each month, subject to a £125 per month limit. The SIP trustees buy shares (partnership shares) at market value each month with the contributions. For each partnership share purchased, the group purchases two shares (matching shares) which are allocated to the employee. In the UK SIP, if the employee sells or transfers partnership shares within three years from the date of allocation, the linked matching shares are forfeited. In the Overseas SIP, partnership shares and matching shares are subject to a three year holding period and cannot be sold or transferred during that time.

401k approved savings investment plans (401k plans)

In the US there are two 401k plans, one for salaried employees and one for hourly employees. Salaried employees may contribute up to 50% of their base pay and hourly up to 20% of their base pay, both subject to a statutory limit. Salaried employees choosing Johnson Matthey Plc shares matching are matched 100% of the first 4% contributed and hourly employees are matched 50% of the first 2% contributed. Employees may contribute after one month of service and are eligible for matching after one year of service.

Further details of the directors' remuneration under share-based payment plans are given in the Remuneration Report on pages 42 to 48.

Activity relating to share options was:

	2007	2007 Weighted average exercise price pence	2006	2006 Weighted average exercise price pence
	Number of options		Number of options	
Outstanding at the start of the year	8,189,652	948.23	7,282,342	891.85
Granted during the year	1,991,140	1,277.92	2,207,614	1,070.00
Forfeited during the year	(548,057)	999.14	(594,700)	944.68
Exercised during the year	(248,973)	871.05	(705,604)	750.62
Outstanding at the end of the year	9,383,762	1,017.26	8,189,652	948.23
Exercisable at the end of the year	364,641	771.71	504,790	776.65

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12 Share-based payments (continued)

Options were exercised on a regular basis throughout the year. The average share price during the year was 1,411.78 pence (2006 1,193.92 pence).

Details of share options outstanding at the end of the year are:

	2007	2007	2006	2006
	Number of	Weighted	Number of	Weighted
	options	average	options	average
		remaining life		remaining life
		years		years
Range of exercise price				
300 pence to 400 pence	601	2.0	1,126	3.0
400 pence to 500 pence	307	2.3	307	3.3
500 pence to 600 pence	163,282	1.9	218,243	2.8
600 pence to 700 pence	262	3.3	952	1.5
800 pence to 900 pence	4,324,370	6.4	4,665,693	7.4
900 pence to 1,000 pence	200,189	3.3	284,162	4.3
1,000 pence to 1,100 pence	2,802,497	7.2	3,019,169	8.2
1,200 pence to 1,300 pence	1,892,254	9.3	–	–
	9,383,762	7.1	8,189,652	7.5

The fair value of share options granted during the year was 234.3 pence per option (2006 192.4 pence per option). An adjusted Black-Scholes option pricing model was used to determine the fair value of the options granted. The inputs to the model were:

	2007	2006
Share price	1,282p	1,070p
Exercise price	1,299p	1,070p
Expected volatility	18.7%	27.1%
Expected option life	5 years	5 years
Expected dividend rate	2.32%	2.59%
Risk free interest rate	4.77%	4.26%

Expected volatility was determined by calculating the historical volatility of the company's share price over the previous three years. The expected option life takes into account the effects of expected early exercise, exercise restrictions and behavioural considerations based on the history of previous option grants. Given the low employee turnover and the consistency of the historical average option life Black-Scholes is considered to be a suitable stochastic model to use for fair valuing Johnson Matthey's share options. The Black-Scholes option pricing model is adjusted to take account of the cap which reduces the benefit and cost appearing in the accounts.

During the year 336,483 (2006 423,030) shares were allocated under the LTIP with a fair value at allocation date of 504.7 pence per share allocation (2006 389.5 pence per share allocation). The fair value was determined using a Black-Scholes option pricing model with a zero exercise price, a share price at date of allocation of 1,283.0 pence (2006 1,002.5 pence) and an expected dividend rate of 2.35% (2006 2.76%). The fair value was adjusted to take account of the TSR performance condition.

Activity relating to the LTIP was:

	2007	2006
	Number of	Number of
	allocated	allocated
	shares	shares
Outstanding at the start of the year	1,221,994	1,205,842
Allocated during the year	336,483	423,030
Forfeited during the year	(14,808)	(29,626)
Released during the year	(198,730)	–
Expired during the year	(235,681)	(377,252)
Outstanding at the end of the year	1,109,258	1,221,994

289,696 (2006 281,921) matching shares under the SIP and 71,879 (2006 91,595) shares under the 401k plans were allocated to employees during the year. They are nil cost awards on which performance conditions are substantially completed at the date of grant. Consequently the fair value of these awards is based on the market value of the shares at that date.

The total expense recognised during the year in respect of equity settled share-based payments, taking into account expected lapses due to leavers and the probability that EPS performance conditions will not be met, was £11.8 million (2006 £7.6 million).

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13 Post-employment benefits

13a Group

The group operates a number of post-employment benefits plans around the world, the forms and benefits of which vary with conditions and practices in the countries concerned. The majority of the plans are defined benefit which require contributions to be made into separately administered funds and retirement benefits are based on factors such as employees' pensionable salary and length of service. Some of the plans are defined contribution, where the retirement benefits are determined by the value of funds arising from contributions paid in respect of each employee. The group also makes payments to employees' personal pension plans. The amount recognised as an expense for defined contribution plans was £2.8 million (2006 £2.9 million).

The major defined benefit plans are pension plans and post-retirement medical plans in the UK and the US. The pension plans are final salary plans except for the new section of the UK plan which is a career average salary plan and the US hourly plan which is a fixed benefit based upon years of service. Full actuarial valuations were carried out at 1st April 2006 for the main UK pension plan and 30th June 2006 for the US pension plans and the valuations of all of the UK and US plans were updated to 31st March 2007 by qualified independent actuaries. The other UK defined benefit pension plan was merged into the main plan on 1st October 2006.

The main assumptions were:

	2007 UK plans %	2007 US plans %	2007 Other plans %	2006 UK plans %	2006 US plans %	2006 Other plans %
Rate of increase in salaries	4.60	4.25	3.52	4.40	4.25	3.57
Rate of increase in pensions in payment	3.10	–	2.13	2.90	–	2.31
Discount rate	5.40	6.00	4.87	4.90	5.75	4.66
Inflation	3.10	2.75	2.34	2.90	2.75	2.66
Current medical benefits cost trend rate	7.10	9.00	4.00	6.90	10.00	4.00
Ultimate medical benefits cost trend rate	7.10	5.00	4.00	6.90	5.00	4.00

The group uses certain mortality assumptions when calculating plan obligations. The current mortality assumptions for all major plans retain prudent allowance for future improvements in longevity and take account of experience.

The mortality tables used for the group's largest plan, which is in the UK, were PMA92C2006 with a one and a half years positive age rating for male members retiring in normal health and PFA92C2006 with a one and a half years positive age rating for female members retiring in normal health. Allowance for future mortality improvements was made in line with the medium cohort versions of these tables. Shorter longevity assumptions are used for members who retire on grounds of ill-health. These tables lead to a further life expectancy of an average member currently aged 63 (the plan's normal retirement age for the majority of its members) and one who retires at age 63 in 23 years time of:

	Male	Female
Retiring today at age 63	20.8	23.9
Retiring in 23 years time at 63	22.4	25.4

The mortality tables used for the other larger plans were:

US	RP-2000 for males and females (projected to 2010) for healthy participants and 1985 Pension Disability Mortality Table for disabled participants
Netherlands	GBM/V 1995-2000 (-1, -2)
Canada	UP 94 generational (including allowance for future mortality improvements)
South Africa	PA(90), rates down 2 years

A one percentage point change in the assumed medical cost trend rates would have the following effects on:

	One percentage point increase		One percentage point decrease	
	UK plan £ million	US plan £ million	UK plan £ million	US plan £ million
At 31st March 2007				
Post-retirement medical plan expense	0.2	0.3	(0.1)	(0.2)
Post-retirement medical plan defined benefit obligation	1.8	3.1	(1.5)	(2.4)
At 31st March 2006				
Post-retirement medical plan expense	0.2	0.3	(0.2)	(0.3)
Post-retirement medical plan defined benefit obligation	2.0	4.0	(1.6)	(3.2)

NOTES ON THE ACCOUNTS

for the year ended 31st March 2007

13 Post-employment benefits (continued)

13a Group (continued)

A 0.1% change in the discount rate and rate of increase in salaries would have the following effects on the UK pension plan's defined benefit obligation at 31st March 2007:

	0.1% increase £ million	0.1% decrease £ million
Effect of discount rate	(14.0)	14.3
Effect of rate of increase in salaries	3.3	(3.3)

The fair values and expected rates of return for plan assets were:

	UK pensions		US pensions		Other	
	Expected rate of return %	Value £ million	Expected rate of return %	Value £ million	Expected rate of return %	Value £ million
At 31st March 2007						
Equities	7.75	440.6	8.00	57.3	7.51	8.4
Bonds	4.90	349.6	5.10	22.2	3.99	6.2
Property	6.25	56.3	-	-	4.00	0.1
Insurance policies	-	-	-	-	4.25	11.6
	6.47	846.5	7.19	79.5	5.23	26.3
At 31st March 2006						
Equities	7.75	411.2	8.00	56.1	7.62	12.1
Bonds	4.50	345.5	5.20	22.9	3.38	3.9
Property	6.00	48.4	-	-	4.00	0.1
Insurance policies	-	-	-	-	3.82	9.0
	6.25	805.1	7.19	79.0	5.58	25.1

The defined benefit pension plans do not invest directly in Johnson Matthey Plc shares and no property or other assets owned by the pension plans is used by the group. The overall expected rate of return is determined on a country by country basis by reference to market expectations for each class of asset. It is based upon the forecasts of actuaries and market professionals.

The net post-employment benefits assets and liabilities shown in the balance sheet are analysed as:

	UK pensions £ million	UK post-retirement medical benefits £ million	US pensions £ million	US post-retirement medical benefits £ million	Other £ million	Total £ million
At 31st March 2007						
Present value of funded obligations	(801.0)	-	(87.4)	-	(30.2)	(918.6)
Present value of unfunded obligations	-	(11.6)	-	(16.5)	(3.3)	(31.4)
Defined benefit obligation	(801.0)	(11.6)	(87.4)	(16.5)	(33.5)	(950.0)
Fair value of plan assets	846.5	-	79.5	-	26.3	952.3
Reimbursement rights	-	-	-	2.8	-	2.8
Unrecognised past service credit – non-vested	-	-	-	(2.8)	-	(2.8)
Net post-employment benefits assets and liabilities	45.5	(11.6)	(7.9)	(16.5)	(7.2)	2.3
At 31st March 2006						
Present value of funded obligations	(736.4)	-	(90.4)	-	(28.0)	(854.8)
Present value of unfunded obligations	-	(11.9)	-	(20.2)	(2.9)	(35.0)
Defined benefit obligation	(736.4)	(11.9)	(90.4)	(20.2)	(30.9)	(889.8)
Fair value of plan assets	805.1	-	79.0	-	25.1	909.2
Reimbursement rights	-	-	-	2.6	-	2.6
Net post-employment benefits assets and liabilities	68.7	(11.9)	(11.4)	(17.6)	(5.8)	22.0

NOTES ON THE ACCOUNTS

for the year ended 31st March 2007

13 Post-employment benefits (continued)

13a Group (continued)

These are included in the balance sheet as:

	2007 Post- employment benefits net assets £ million	2007 Employee benefits obligations £ million	2007 Total £ million	2006 Post- employment benefits net assets £ million	2006 Employee benefits obligations £ million	2006 Total £ million
UK pension plans	45.5	–	45.5	70.6	(1.9)	68.7
UK post-retirement medical benefits plan	–	(11.6)	(11.6)	–	(11.9)	(11.9)
US pension plans	–	(7.9)	(7.9)	–	(11.4)	(11.4)
US post-retirement medical benefits plan	–	(16.5)	(16.5)	–	(17.6)	(17.6)
Other plans	3.7	(10.9)	(7.2)	4.4	(10.2)	(5.8)
Total post-employment plans	49.2	(46.9)	2.3	75.0	(53.0)	22.0
Other long term employee benefits		(1.4)			(3.2)	
Total long term employee benefits obligations		(48.3)			(56.2)	

Movements in the defined benefit obligation during the year were:

	UK pensions £ million	UK post- retirement medical benefits £ million	US pensions £ million	US post- retirement medical benefits £ million	Other £ million	Total £ million
At 1st April 2005	(613.6)	(10.0)	(75.7)	(17.9)	(21.3)	(738.5)
Current service cost – in operating profit	(18.7)	(0.3)	(3.7)	(0.6)	(1.4)	(24.7)
Current service cost – capitalised	(0.2)	–	–	–	–	(0.2)
Past service cost	(1.3)	–	(0.1)	0.8	(0.1)	(0.7)
Interest cost	(32.7)	(0.5)	(4.6)	(1.0)	(1.0)	(39.8)
Employee contributions	(2.9)	–	–	–	(0.1)	(3.0)
Actuarial loss	(55.0)	(1.5)	(1.7)	(0.3)	(7.7)	(66.2)
Curtailed losses	(0.1)	–	–	–	–	(0.1)
Liabilities extinguished on settlements	–	–	–	–	0.9	0.9
Acquisitions	(34.2)	–	–	–	–	(34.2)
Benefits paid	22.3	0.4	2.4	0.4	1.1	26.6
Exchange adjustments	–	–	(7.0)	(1.6)	(1.3)	(9.9)
At 31st March 2006	(736.4)	(11.9)	(90.4)	(20.2)	(30.9)	(889.8)
Current service cost – in operating profit	(24.8)	(0.2)	(4.3)	(0.5)	(2.0)	(31.8)
Current service cost – capitalised	(0.1)	–	–	–	–	(0.1)
Past service cost – vested	(0.3)	–	(0.7)	0.8	(1.0)	(1.2)
Past service cost – non-vested	–	–	–	2.9	–	2.9
Interest cost	(35.5)	(0.6)	(4.6)	(0.8)	(1.4)	(42.9)
Employee contributions	(3.4)	–	–	–	(0.2)	(3.6)
Actuarial (loss) / gain	(25.9)	0.8	(1.0)	(1.4)	(1.6)	(29.1)
Curtailed gains	0.9	–	–	–	–	0.9
Benefits paid	24.5	0.3	2.9	0.4	1.1	29.2
Exchange adjustments	–	–	10.7	2.3	2.5	15.5
At 31st March 2007	(801.0)	(11.6)	(87.4)	(16.5)	(33.5)	(950.0)

NOTES ON THE ACCOUNTS

for the year ended 31st March 2007

13 Post-employment benefits (continued)

13a Group (continued)

Movements in the fair value of the plan assets during the year were:

	UK pensions £ million	UK post-retirement medical benefits £ million	US pensions £ million	US post-retirement medical benefits £ million	Other £ million	Total £ million
At 1st April 2005	657.4	–	64.1	–	14.9	736.4
Expected return on plan assets	44.2	–	4.6	–	0.9	49.7
Actuarial gain	76.4	–	1.0	–	8.1	85.5
Employee contributions	2.9	–	–	–	0.1	3.0
Company contributions	17.0	0.4	5.7	0.4	1.7	25.2
Acquisitions	29.5	–	–	–	–	29.5
Benefits paid	(22.3)	(0.4)	(2.4)	(0.4)	(1.1)	(26.6)
Assets distributed on settlements	–	–	–	–	(1.0)	(1.0)
Exchange adjustments	–	–	6.0	–	1.5	7.5
At 31st March 2006	805.1	–	79.0	–	25.1	909.2
Expected return on plan assets	50.4	–	5.2	–	1.3	56.9
Actuarial (loss) / gain	(8.4)	–	2.3	–	2.5	(3.6)
Employee contributions	3.4	–	–	–	0.2	3.6
Company contributions	20.5	0.3	5.4	0.4	2.1	28.7
Benefits paid	(24.5)	(0.3)	(2.9)	(0.4)	(1.1)	(29.2)
Assets distributed on settlements	–	–	–	–	(0.9)	(0.9)
Exchange adjustments	–	–	(9.5)	–	(2.9)	(12.4)
At 31st March 2007	846.5	–	79.5	–	26.3	952.3

The actual return on plan assets for UK plans was £42.1 million (2006 £120.6 million) and for US plans was £7.5 million (2006 £5.6 million).

Movements in the reimbursement rights during the year were:

	UK pensions £ million	UK post-retirement medical benefits £ million	US pensions £ million	US post-retirement medical benefits £ million	Other £ million	Total £ million
At 1st April 2005	–	–	–	2.0	–	2.0
Expected return	–	–	–	0.1	–	0.1
Actuarial gain	–	–	–	0.3	–	0.3
Exchange adjustments	–	–	–	0.2	–	0.2
At 31st March 2006	–	–	–	2.6	–	2.6
Expected return	–	–	–	0.1	–	0.1
Actuarial gain	–	–	–	0.4	–	0.4
Exchange adjustments	–	–	–	(0.3)	–	(0.3)
At 31st March 2007	–	–	–	2.8	–	2.8

The cumulative amount of actuarial gains / (losses) recognised in the statement of recognised income and expense were:

	UK pensions £ million	UK post-retirement medical benefits £ million	US pensions £ million	US post-retirement medical benefits £ million	Other £ million	Total £ million
At 1st April 2005	(7.0)	(0.1)	(4.6)	0.1	(4.5)	(16.1)
Recognised in year	21.4	(1.5)	(0.7)	–	0.4	19.6
At 31st March 2006	14.4	(1.6)	(5.3)	0.1	(4.1)	3.5
Recognised in year	(34.3)	0.8	1.3	(1.0)	0.9	(32.3)
At 31st March 2007	(19.9)	(0.8)	(4.0)	(0.9)	(3.2)	(28.8)

It is estimated that the group will contribute about £29 million to the post-employment defined benefit plans during the year ending 31st March 2008.

NOTES ON THE ACCOUNTS

for the year ended 31st March 2007

13 Post-employment benefits (continued)

13a Group (continued)

Amounts recognised in the income statement in respect of these plans were:

	UK pensions £ million	UK post-retirement medical benefits £ million	US pensions £ million	US post-retirement medical benefits £ million	Other £ million	Total £ million
Year ended 31st March 2007						
Current service cost	(24.8)	(0.2)	(4.3)	(0.5)	(2.0)	(31.8)
Interest on plan liabilities	(35.5)	(0.6)	(4.6)	(0.8)	(1.4)	(42.9)
Expected return on plan assets	50.4	–	5.2	–	1.3	56.9
Expected return on reimbursement rights	–	–	–	0.1	–	0.1
Curtailment gains	0.9	–	–	–	–	0.9
Settlement losses	–	–	–	–	(0.9)	(0.9)
Past service cost	(0.3)	–	(0.7)	0.8	(1.0)	(1.2)
Charge to income	(9.3)	(0.8)	(4.4)	(0.4)	(4.0)	(18.9)
Year ended 31st March 2006						
Current service cost	(18.7)	(0.3)	(3.7)	(0.6)	(1.4)	(24.7)
Interest on plan liabilities	(32.7)	(0.5)	(4.6)	(1.0)	(1.0)	(39.8)
Expected return on plan assets	44.2	–	4.6	–	0.9	49.7
Expected return on reimbursement rights	–	–	–	0.1	–	0.1
Curtailment losses	(0.1)	–	–	–	–	(0.1)
Settlement losses	–	–	–	–	(0.1)	(0.1)
Past service cost	(1.3)	–	(0.1)	0.8	(0.1)	(0.7)
Charge to income	(8.6)	(0.8)	(3.8)	(0.7)	(1.7)	(15.6)

Of the total charge for the year, £12.5 million (2006 restated £9.5 million) has been included within other cost of sales, £2.4 million (2006 restated £1.6 million) in distribution costs, £4.8 million (2006 restated £4.3 million) in administrative expenses and £0.8 million credit (2006 restated £0.2 million charge) in the profit for the year from discontinued operations.

History of the plans and experience adjustments are:

	UK pensions £ million	UK post-retirement medical benefits £ million	US pensions £ million	US post-retirement medical benefits £ million	Other £ million	Total £ million
Year ended 31st March 2007						
Present value of defined benefit obligation	(801.0)	(11.6)	(87.4)	(16.5)	(33.5)	(950.0)
Fair value of plan assets	846.5	–	79.5	–	26.3	952.3
Reimbursement rights	–	–	–	2.8	–	2.8
Surplus / (deficit) in the plan	45.5	(11.6)	(7.9)	(13.7)	(7.2)	5.1
Experience adjustments arising on plan liabilities	(44.4)	0.5	(1.0)	(0.8)	2.8	(42.9)
Experience adjustments arising on plan assets	(8.3)	–	2.3	–	0.3	(5.7)
Year ended 31st March 2006						
Present value of defined benefit obligation	(736.4)	(11.9)	(90.4)	(20.2)	(30.9)	(889.8)
Fair value of plan assets	805.1	–	79.0	–	25.1	909.2
Reimbursement rights	–	–	–	2.6	–	2.6
Surplus / (deficit) in the plan	68.7	(11.9)	(11.4)	(17.6)	(5.8)	22.0
Experience adjustments arising on plan liabilities	0.7	1.7	(1.2)	0.3	(1.0)	0.5
Experience adjustments arising on plan assets	79.7	–	1.0	–	(0.2)	80.5
Year ended 31st March 2005						
Present value of defined benefit obligation	(613.6)	(10.0)	(75.7)	(17.9)	(21.3)	(738.5)
Fair value of plan assets	657.4	–	64.1	–	14.9	736.4
Reimbursement rights	–	–	–	2.0	–	2.0
Surplus / (deficit) in the plan	43.8	(10.0)	(11.6)	(15.9)	(6.4)	(0.1)
Experience adjustments arising on plan liabilities	0.8	0.4	(0.6)	(0.9)	(1.1)	(1.4)
Experience adjustments arising on plan assets	26.0	–	(1.1)	–	0.4	25.3

NOTES ON THE ACCOUNTS

for the year ended 31st March 2007

13 Post-employment benefits (continued)

13b Parent company

The parent company is the sponsoring employer of the group's UK defined benefit pension plan and the UK post-retirement medical benefits plan. There is no contractual agreement or stated policy for charging the net defined benefit cost for the plan to the individual group entities. The main assumptions used for these plans are disclosed in note 13a.

The fair values and expected rates of return for defined benefit pension plan assets were:

	2007 Expected rate of return %	2007 Value £ million	2006 Expected rate of return %	2006 Value £ million
Equities	7.75	440.6	7.75	386.2
Bonds	4.90	349.6	4.50	339.3
Property	6.25	56.3	6.00	48.4
	6.47	846.5	6.22	773.9

The defined benefit pension plan does not invest directly in Johnson Matthey Plc shares and no property or other assets owned by the pension plan is used by the company. The overall expected rate of return is determined by reference to market expectations for each class of asset. It is based upon the forecasts of actuaries and market professionals.

The net post-employment benefits assets and liabilities shown in the balance sheet are analysed as:

	2007 Pension £ million	2007 Post- retirement medical benefits £ million	2006 Pension £ million	2006 Post- retirement medical benefits £ million
Present value of funded obligations	(801.0)	–	(703.3)	–
Present value of unfunded obligations	–	(11.6)	–	(11.9)
Defined benefit obligation	(801.0)	(11.6)	(703.3)	(11.9)
Fair value of plan assets	846.5	–	773.9	–
Net retirement benefits assets and liabilities	45.5	(11.6)	70.6	(11.9)
Other long term employee benefits		(0.1)		(0.2)
Total long term employee benefits obligations		(11.7)		(12.1)

Movements in the defined benefit obligation during the year were:

	2007 Pension £ million	2007 Post- retirement medical benefits £ million	2006 Pension £ million	2006 Post- retirement medical benefits £ million
At beginning of year	(703.3)	(11.9)	(613.6)	(10.0)
Current service cost – in operating profit	(23.9)	(0.2)	(18.5)	(0.3)
Current service cost – capitalised	(0.1)	–	(0.2)	–
Past service cost	(0.3)	–	(1.3)	–
Interest cost	(34.7)	(0.6)	(32.5)	(0.5)
Employee contributions	(3.2)	–	(2.8)	–
Actuarial (loss) / gain	(26.5)	0.8	(56.5)	(1.5)
Curtailment gains / (losses)	0.9	–	(0.1)	–
Benefits paid	24.4	0.3	22.2	0.4
Transfer of plan from subsidiary	(34.3)	–	–	–
At end of year	(801.0)	(11.6)	(703.3)	(11.9)

NOTES ON THE ACCOUNTS

for the year ended 31st March 2007

13 Post-employment benefits (continued)

13b Parent company (continued)

Movements in the fair value of the plan assets during the year were:

	2007	2007 Post- retirement medical benefits £ million	2006	2006 Post- retirement medical benefits £ million
	Pension £ million		Pension £ million	
At beginning of year	773.9	–	657.4	–
Expected return on plan assets	49.2	–	43.9	–
Actuarial (loss) / gain	(6.5)	–	75.2	–
Employee contributions	3.2	–	2.8	–
Company contributions	19.9	0.3	16.8	0.4
Benefits paid	(24.4)	(0.3)	(22.2)	(0.4)
Transfer of plan from subsidiary	31.2	–	–	–
At end of year	846.5	–	773.9	–

The actual return on plan assets was £42.7 million (2006 £119.1 million).

The cumulative amount of actuarial gains / (losses) recognised in the statement of recognised income and expense were:

	2007	2007 Post- retirement medical benefits £ million	2006	2006 Post- retirement medical benefits £ million
	Pension £ million		Pension £ million	
At beginning of year	11.7	(1.6)	(7.0)	(0.1)
Recognised in year	(33.0)	0.8	18.7	(1.5)
At end of year	(21.3)	(0.8)	11.7	(1.6)

It is estimated that the company will contribute about £21 million to the post-employment defined benefit plans during the year ending 31st March 2008.

History of the plans and experience adjustments are:

	2007	2007 Post- retirement medical benefits £ million	2006	2006 Post- retirement medical benefits £ million	2005	2005 Post- retirement medical benefits £ million
	Pension £ million		Pension £ million		Pension £ million	
Present value of defined benefit obligation	(801.0)	(11.6)	(703.3)	(11.9)	(613.6)	(10.0)
Fair value of plan assets	846.5	–	773.9	–	657.4	–
Surplus / (deficit) in the plan	45.5	(11.6)	70.6	(11.9)	43.8	(10.0)
Experience adjustments arising on plan liabilities	(41.0)	0.5	0.8	1.7	0.8	0.4
Experience adjustments arising on plan assets	(6.5)	–	75.2	–	26.0	–

NOTES ON THE ACCOUNTS

for the year ended 31st March 2007

14 Property, plant and equipment

14a Group

	Freehold land & buildings £ million	Long & short leasehold £ million	Plant & machinery £ million	Assets in the course of construction £ million	Total £ million
Cost					
At 1st April 2005	231.9	16.4	693.4	38.2	979.9
Additions	19.4	0.5	68.9	25.2	114.0
Acquisitions	6.6	0.2	3.4	0.4	10.6
Reclassifications	1.9	–	5.4	(7.3)	–
Disposals	–	(0.1)	(18.5)	(3.7)	(22.3)
Exchange adjustments	9.3	0.5	29.5	2.4	41.7
At 31st March 2006	269.1	17.5	782.1	55.2	1,123.9
Additions	10.0	0.9	63.4	35.8	110.1
Acquisitions	0.1	–	0.6	–	0.7
Reclassifications	3.1	0.2	40.6	(43.9)	–
Transferred to non-current assets classified as held for sale	–	–	(4.5)	–	(4.5)
Disposals	(1.6)	(0.1)	(10.5)	–	(12.2)
Disposal of businesses (note 40)	(27.4)	(0.4)	(64.9)	(5.3)	(98.0)
Exchange adjustments	(16.3)	(0.8)	(50.1)	(3.8)	(71.0)
At 31st March 2007	237.0	17.3	756.7	38.0	1,049.0
Accumulated depreciation and impairment					
At 1st April 2005	55.5	6.4	325.0	–	386.9
Charge for the year	7.3	0.8	56.6	–	64.7
Impairment losses (note 3)	1.0	–	5.0	–	6.0
Disposals	–	(0.1)	(12.7)	–	(12.8)
Exchange adjustments	2.5	0.2	15.3	–	18.0
At 31st March 2006	66.3	7.3	389.2	–	462.8
Charge for the year	7.7	0.8	60.1	–	68.6
Reclassifications	(0.7)	–	0.7	–	–
Impairment losses (note 24)	–	–	0.9	–	0.9
Transferred to non-current assets classified as held for sale	–	–	(4.1)	–	(4.1)
Disposals	(0.7)	(0.1)	(6.8)	–	(7.6)
Disposal of businesses (note 40)	(5.2)	(0.1)	(36.1)	–	(41.4)
Exchange adjustments	(4.5)	(0.3)	(26.1)	–	(30.9)
At 31st March 2007	62.9	7.6	377.8	–	448.3
Carrying amount at 31st March 2007	174.1	9.7	378.9	38.0	600.7
Carrying amount at 31st March 2006	202.8	10.2	392.9	55.2	661.1
Carrying amount at 1st April 2005	176.4	10.0	368.4	38.2	593.0

The carrying amount of plant and machinery includes £3.2 million (2006 £3.4 million) in respect of assets held under finance leases. Compensation received for impaired or lost property, plant and equipment was £ nil (2006 £ nil).

NOTES ON THE ACCOUNTS

for the year ended 31st March 2007

14 Property, plant and equipment

14b Parent company

	Freehold land & buildings £ million	Long & short leasehold £ million	Plant & machinery £ million	Assets in the course of construction £ million	Total £ million
Cost					
At 1st April 2005	67.5	1.9	272.3	17.3	359.0
Additions	11.4	–	32.8	–	44.2
Reclassifications	–	–	2.3	(2.3)	–
Disposals	–	–	(15.6)	–	(15.6)
At 31st March 2006	78.9	1.9	291.8	15.0	387.6
Additions	5.6	–	24.8	13.0	43.4
Acquisitions	–	–	0.3	–	0.3
Reclassifications	1.3	–	14.7	(16.0)	–
Disposals	(0.3)	–	(3.4)	–	(3.7)
Disposal of businesses	(1.2)	–	(2.5)	–	(3.7)
At 31st March 2007	84.3	1.9	325.7	12.0	423.9
Accumulated depreciation and impairment					
At 1st April 2005	20.6	1.8	109.1	–	131.5
Charge for the year	2.4	–	22.3	–	24.7
Impairment losses	1.0	–	5.0	–	6.0
Disposals	–	–	(10.2)	–	(10.2)
At 31st March 2006	24.0	1.8	126.2	–	152.0
Charge for the year	2.4	–	24.5	–	26.9
Reclassifications	(0.7)	–	0.7	–	–
Disposals	(0.2)	–	(2.9)	–	(3.1)
Disposal of businesses	(0.2)	–	(0.9)	–	(1.1)
At 31st March 2007	25.3	1.8	147.6	–	174.7
Carrying amount at 31st March 2007	59.0	0.1	178.1	12.0	249.2
Carrying amount at 31st March 2006	54.9	0.1	165.6	15.0	235.6
Carrying amount at 1st April 2005	46.9	0.1	163.2	17.3	227.5

The carrying amount of plant and machinery includes £3.2 million (2006 £3.4 million) in respect of assets held under finance leases.

NOTES ON THE ACCOUNTS

for the year ended 31st March 2007

15 Goodwill

	Group £ million	Parent company £ million
Cost		
At 1st April 2005	375.1	248.2
Additions, fair value adjustments and adjustments to consideration (note 39)	22.1	–
Exchange adjustments	5.2	–
At 31st March 2006	402.4	248.2
Additional fair value adjustments and adjustments to consideration (note 39)	0.7	–
At 31st March 2006 (restated)	403.1	248.2
Additions, fair value adjustments and adjustments to consideration (note 39)	4.3	1.3
Disposals (note 40)	(0.4)	–
Exchange adjustments	(7.8)	–
At 31st March 2007	399.2	249.5
Impairment		
At 1st April 2005, 31st March 2006 and 31st March 2007	–	–
Carrying amount at 31st March 2007	399.2	249.5
Carrying amount at 31st March 2006 (restated)	403.1	248.2
Carrying amount at 1st April 2005	375.1	248.2

Goodwill arising on the acquisition of businesses is allocated, at acquisition, to the cash-generating units (CGUs) that are expected to benefit from that business combination. Goodwill is allocated as follows:

	Group		Parent company	
	2007 £ million	2006 restated £ million	2007 £ million	2006 £ million
Catalysts				
Synetix (including the process diagnostics business of Quest TruTec)	194.3	193.9	132.4	132.2
Research Chemicals	21.3	21.3	–	–
Johnson Matthey Tennessee	19.0	21.5	–	–
Davy Process Technology Limited (DPT)	22.6	22.6	–	–
Other Catalysts	3.4	5.9	–	–
Precious Metal Products	3.9	2.1	–	–
Pharmaceutical Materials				
Macfarlan Smith (including the business of United Pharmaceuticals Limited)	117.1	116.0	117.1	116.0
Pharma Services / Ireland	17.6	19.4	–	–
Ceramics	–	0.4	–	–
	399.2	403.1	249.5	248.2

The group and parent company test goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. The recoverable amounts of the CGUs are determined using value in use calculations which use cash flow projections based on financial budgets and plans approved by management, generally covering a three year period. The budgets and plans are based on a number of key assumptions including market share, expected changes to selling prices, product profitability, the likelihood and timing of new product launches, foreign exchange rates, precious metal prices and other direct input costs. Market share, changes in selling prices, product profitability, precious metal prices and other direct input costs are based on past experience and management's expectations of future changes in the markets using external sources of information where appropriate. Foreign exchange rates are based on actual rates at the time the budgets were prepared and are held constant over the three years. New product launches are based on management's best estimate of what may happen. Apart from as discussed below, it is not considered that a reasonably possible change in any of these assumptions would generate a different impairment test outcome. These cash flows are then extrapolated using the long term average growth rates for the relevant products, industries and countries in which the CGUs operate. The cash flows are discounted at the group's estimated pre-tax weighted average cost of capital of 11.2% (2006 11.3%), as this is considered to be a discount rate a typical third party purchaser would also use to value the significant CGUs.

For Synetix the long term average growth rate is 5% (2006 5%), for Research Chemicals 5% (2006 4%), for Johnson Matthey Tennessee 4% (2006 3%), for DPT 5% (2006 3%) and Macfarlan Smith 5% (2006 6%).

For Pharma Services / Ireland, where its cash flows are expected to grow significantly due to new prostaglandin product launches over the next few years, cash flow projections cover a five (2006 six) year period and then a long term average growth rate of 6% (2006 6%) is used to extrapolate these cash flows. If some of these product launches do not happen as expected an impairment loss may arise.

NOTES ON THE ACCOUNTS

for the year ended 31st March 2007

16 Other intangible assets

16a Group

	Customer contracts and relationships £ million	Computer software £ million	Patents, trademarks and licences £ million	Development expenditure £ million	Total £ million
Cost					
At 1st April 2005	0.2	27.6	–	18.8	46.6
Additions	–	2.6	0.7	6.7	10.0
Acquisitions	6.7	–	1.9	–	8.6
Exchange adjustments	–	0.9	–	1.2	2.1
At 31st March 2006	6.9	31.1	2.6	26.7	67.3
Additions	–	1.9	–	7.8	9.7
Acquisitions	0.4	–	–	–	0.4
Disposals	–	(0.7)	–	–	(0.7)
Disposal of businesses	–	(0.1)	–	–	(0.1)
Exchange adjustments	(0.1)	(1.4)	–	(2.1)	(3.6)
At 31st March 2007	7.2	30.8	2.6	32.4	73.0
Accumulated amortisation and impairment					
At 1st April 2005	0.1	15.7	–	3.4	19.2
Charge for the year	0.9	3.8	–	1.4	6.1
Exchange adjustments	–	0.6	–	0.1	0.7
At 31st March 2006	1.0	20.1	–	4.9	26.0
Charge for the year	3.0	3.1	0.3	2.5	8.9
Disposals	–	(0.6)	–	–	(0.6)
Disposal of businesses	–	(0.1)	–	–	(0.1)
Exchange adjustments	(0.1)	(1.0)	–	(0.2)	(1.3)
At 31st March 2007	3.9	21.5	0.3	7.2	32.9
Carrying amount at 31st March 2007	3.3	9.3	2.3	25.2	40.1
Carrying amount at 31st March 2006	5.9	11.0	2.6	21.8	41.3
Carrying amount at 1st April 2005	0.1	11.9	–	15.4	27.4

The carrying amount of development expenditure includes £11.1 million (2006 £18.1 million) which is not yet being amortised as the assets are not yet available for use. These assets are tested for impairment annually and no impairment has been found.

NOTES ON THE ACCOUNTS

for the year ended 31st March 2007

16 Other intangible assets (continued)

16b Parent company

	Computer software £ million	Development expenditure £ million	Total £ million
Cost			
At 1st April 2005	11.8	3.4	15.2
Additions	0.9	0.3	1.2
At 31st March 2006	12.7	3.7	16.4
Additions	0.9	0.3	1.2
Disposals	(0.2)	–	(0.2)
At 31st March 2007	13.4	4.0	17.4
Accumulated amortisation and impairment			
At 1st April 2005	6.4	1.5	7.9
Charge for the year	1.8	0.6	2.4
At 31st March 2006	8.2	2.1	10.3
Charge for the year	1.4	0.4	1.8
Disposals	(0.2)	–	(0.2)
At 31st March 2007	9.4	2.5	11.9
Carrying amount at 31st March 2007	4.0	1.5	5.5
Carrying amount at 31st March 2006	4.5	1.6	6.1
Carrying amount at 1st April 2005	5.4	1.9	7.3

The carrying amount of development expenditure includes £0.6 million (2006 £0.3 million) which is not yet being amortised as the assets are not yet available for use. These assets are tested for impairment annually and no impairment has been found.

17 Investments in subsidiaries

	Cost of investments in subsidiaries £ million	Accumulated impairment £ million	Carrying amount £ million
At 1st April 2005	456.7	(1.5)	455.2
Additions	40.6	–	40.6
Acquisition from subsidiaries	8.2	–	8.2
Impairment loss	–	(0.5)	(0.5)
Dividends received out of pre-acquisition profits of subsidiary	(11.0)	–	(11.0)
At 31st March 2006	494.5	(2.0)	492.5
Additions	0.2	–	0.2
Capital reduction of subsidiary	(2.7)	–	(2.7)
Impairment loss	–	(147.5)	(147.5)
At 31st March 2007	492.0	(149.5)	342.5

The principal subsidiaries are shown on page 97.

As a result of group restructurings the parent company has written down its investments in subsidiaries.

NOTES ON THE ACCOUNTS

for the year ended 31st March 2007

18 Investments in associates

	2007 £ million	2006 £ million
At beginning of year	4.3	4.8
Group's share of profit / (loss) of associates for the year	0.9	(0.2)
Dividends paid	(0.5)	(0.1)
Purchase of remaining interests	–	(0.1)
Exchange adjustments	0.1	(0.1)
At end of year	4.8	4.3

The group's associate is AGR Matthey, which is a partnership operating in Australia in which the group has a 20% interest. Oximet SrL, which is incorporated in Italy, was an associate, with the group holding a 33% interest, until the group bought out the remaining interests on 6th September 2005 (see note 39).

Summarised financial information in respect of the group's associates is:

	2007 £ million	2006 £ million
Total assets	47.8	28.1
Total liabilities	(30.8)	(12.9)
Net assets	17.0	15.2
Total revenue	23.7	19.6
Total profit / (loss) for the year	4.7	(1.2)

19 Available-for-sale investments

	2007 £ million	2006 £ million
Non-current		
Unquoted investments	4.8	5.9
Non-current available-for-sale investments	4.8	5.9
Current		
Investments quoted on the London Stock Exchange	0.2	0.1
Current available-for-sale investments	0.2	0.1

20 Inventories

	Group		Parent company	
	2007 £ million	2006 £ million	2007 £ million	2006 £ million
Raw materials and consumables	83.2	76.1	26.3	23.0
Work in progress – precious metals	85.2	90.2	8.4	48.3
– other	52.5	36.5	34.0	21.3
Finished goods and goods for resale	141.8	143.0	30.5	28.0
	362.7	345.8	99.2	120.6

The group also holds customers' materials in the process of refining and fabrication and for other reasons.

NOTES ON THE ACCOUNTS

for the year ended 31st March 2007

21 Construction contracts

	Group	
	2007 £ million	2006 £ million
Contract revenue recognised	48.1	6.8
Contracts in progress at the year end:		
Costs incurred plus recognised profits less recognised losses to date	46.7	6.6
Amount of advances received	15.5	12.3

22 Trade and other receivables

	Group		Parent company	
	2007 £ million	2006 £ million	2007 £ million	2006 £ million
Current				
Trade receivables	473.5	422.5	185.9	159.8
Allowances for bad and doubtful debts	(4.0)	(6.4)	(0.9)	(1.2)
Trade receivables net of allowances	469.5	416.1	185.0	158.6
Amounts receivable from construction contract customers	10.3	9.1	–	–
Amounts receivable from subsidiaries	–	–	814.0	938.8
Prepayments and accrued income	29.6	26.7	10.8	9.9
Other receivables	17.9	26.6	7.0	3.1
Current trade and other receivables	527.3	478.5	1,016.8	1,110.4
Non-current				
Amounts receivable from subsidiaries	–	–	297.4	195.5
Prepayments and accrued income	0.2	–	–	–
Other receivables	0.2	0.2	–	–
Non-current trade and other receivables	0.4	0.2	297.4	195.5

23 Trade and other payables

	Group		Parent company	
	2007 £ million	2006 restated £ million	2007 £ million	2006 £ million
Current				
Trade payables	243.1	203.9	59.1	53.7
Amounts payable to construction contract customers	20.4	16.6	–	–
Amounts payable to subsidiaries	–	–	656.7	480.0
Accruals and deferred income	120.4	115.0	44.7	43.0
Other payables	32.1	50.4	13.2	27.9
Current trade and other payables	416.0	385.9	773.7	604.6
Non-current				
Amounts payable to subsidiaries	–	–	83.7	227.0
Other payables	1.2	0.8	–	–
Non-current trade and other payables	1.2	0.8	83.7	227.0

24 Non-current assets classified as held for sale

At the end of March 2007 a contract was signed to sell the Hong Kong refinery business and this was completed on 4th May 2007. The plant and machinery has been written down to fair value less costs to sell and transferred to non-current assets classified as held for sale. The impairment of £0.9 million was charged to other cost of sales.

NOTES ON THE ACCOUNTS

for the year ended 31st March 2007

25 Net debt

	Group		Parent company	
	2007 £ million	2006 £ million	2007 £ million	2006 £ million
Non-current borrowings, finance leases and related swaps				
Bank, other loans and related swaps				
5.67% US Dollar Bonds 2016	75.4	–	75.4	–
4.95% US Dollar Bonds 2015	98.9	109.9	98.9	109.9
5.55% US Dollar Bonds 2013	51.0	–	51.0	–
5.17% Sterling Bonds 2013	40.0	40.0	40.0	40.0
4.935% US Dollar EIB Loan 2011	51.0	57.6	51.0	57.6
4.25% US Dollar Bonds 2010	15.3	17.3	15.3	17.3
Interest rate swaps designated as fair value hedges	3.3	5.0	3.3	5.0
Cross currency interest rate swaps designated as cash flow hedges	7.7	5.6	7.7	5.6
Other repayable after five years	25.5	5.5	25.5	–
Other repayable from four to five years	4.6	18.8	–	18.5
Other repayable from three to four years	18.7	0.3	18.5	–
Other repayable from two to three years	15.7	146.3	15.4	31.4
Other repayable from one to two years	0.3	45.0	–	38.4
Finance leases repayable				
After five years	2.0	2.3	2.0	2.3
From four to five years	0.2	0.2	0.2	0.2
From three to four years	0.3	0.3	0.3	0.3
From two to three years	0.3	0.3	0.3	0.3
From one to two years	0.3	0.3	0.3	0.3
Non-current borrowings, finance leases and related swaps	410.5	454.7	405.1	327.1
Current borrowings and finance leases				
Bank overdrafts	13.2	7.9	17.4	16.6
6.36% US Dollar Bonds 2006	–	57.6	–	57.6
Other bank and other loans	14.0	24.5	2.4	11.0
Finance leases	0.3	0.3	0.3	0.3
Current borrowings and finance leases	27.5	90.3	20.1	85.5
Total borrowings, finance leases and related swaps	438.0	545.0	425.2	412.6
Less cash and deposits	73.2	133.0	9.9	26.6
Net debt	364.8	412.0	415.3	386.0

Of the 4.95% US Dollar Bonds 2015 US\$35.0 million have been swapped into sterling at 5.15% and US\$165.0 million have been swapped into floating rate US dollars. All the 4.25% US Dollar Bonds 2010 have been swapped into sterling at 4.93%. All the 5.67% US Dollar Bonds 2016 have been swapped into floating rate US dollars. The interest rate implicit in the finance leases is 5.9% and the lease term ends in 2017. Apart from the bonds, EIB loan and finance leases shown separately above, all the loans, overdrafts and bank deposits are denominated in various currencies and bear interest at commercial floating rates.

26 Other financial assets

	Group		Parent company	
	2007 £ million	2006 £ million	2007 £ million	2006 £ million
Forward foreign exchange contracts and options designated as cash flow hedges	1.2	0.1	1.3	0.3
Forward foreign exchange contracts and currency swaps held for trading	1.1	2.5	1.5	2.6
Foreign exchange swaps designated as hedges of a net investment in foreign operations	0.4	0.1	–	–
Embedded derivatives	0.5	0.5	0.5	0.5
	3.2	3.2	3.3	3.4

NOTES ON THE ACCOUNTS

for the year ended 31st March 2007

27 Other financial liabilities

	Group		Parent company	
	2007 £ million	2006 £ million	2007 £ million	2006 £ million
Forward foreign exchange contracts and options designated as cash flow hedges	–	1.2	0.2	1.2
Forward foreign exchange contracts and currency swaps held for trading	1.9	2.3	2.1	3.1
Foreign exchange swaps designated as hedges of a net investment in foreign operations	0.1	0.7	–	–
	2.0	4.2	2.3	4.3

28 Financial risk management

The group's and parent company's activities expose them to a variety of financial risks including market risk, credit risk, liquidity risk and cash flow interest rate risk. Market risk includes currency risk, fair value interest rate risk and price risk. The main financial risks managed by the group and parent company, under policies approved by the board, are foreign currency risk, interest rate risk, liquidity risk and credit risk. The group and parent company use derivative financial instruments, in particular forward currency contracts and currency swaps, to manage their financial risks associated with their underlying business activities and the financing of those activities. Some derivative financial instruments used to manage financial risk are not designated as hedges and so are classified as 'held for trading'. The group and parent company do not undertake any trading activity in financial instruments.

28a Interest rate risk

The group's and parent company's interest rate risk arises from their fixed rate borrowings (fair value risk) and floating rate borrowings (cash flow risk). Their policy is to optimise interest cost and reduce volatility in reported earnings. They manage their risk by reviewing the profile of their debt regularly on a currency by currency basis and by selectively using interest rate and cross currency swaps. The group and parent company have designated the US dollar fixed rate to US dollar floating rate swaps as fair value hedges as they hedge the changes in fair value of the bond attributable to changes in interest rates. The group and parent company have designated the US dollar fixed interest rate to sterling fixed interest rate cross currency swaps as cash flow hedges as they hedge the movement in the cash flows of the hedged bonds attributable to changes in the US dollar / sterling exchange rate. The cash flows are expected to occur in 2010 and 2015 when the respective bonds which they hedge mature. The interest element of the cash flow hedges is realised in the income statement each year and the exchange effect is expected to be realised in the income statement in 2010 and 2015. At 31st March 2007, 51% (2006 49%) of the group's net debt and 45% (2006 52%) of the company's net debt was at fixed rates with an average interest rate of 5.20% (2006 5.43%). The remaining debt is funded on a floating rate basis. A 1% change in all interest rates would have a 0.8% impact on the group's profit before tax. This is within the range the board regards as acceptable.

28b Liquidity risk

The group's and parent company's policy on funding capacity is to ensure that they always have sufficient long term funding and committed bank facilities in place to meet foreseeable peak borrowing requirements. Within long term debt of £410.5 million at 31st March 2007 (2006 £454.7 million), the group had borrowings under committed bank facilities of £15.4 million (2006 £191.0 million). The parent company's long term debt at 31st March 2007 was £405.1 million (2006 £327.1 million) including committed bank borrowings of £15.4 million (2006 £69.8 million). The group and parent company also have a number of uncommitted facilities, including metal leases, and overdraft lines at their disposal.

	Group		Parent company	
	2007 £ million	2006 £ million	2007 £ million	2006 £ million
Undrawn committed borrowing facilities				
Expiring in more than one year but not more than two years	50.0	45.1	50.0	45.1
Expiring in more than two years	244.6	53.9	244.6	53.9
	294.6	99.0	294.6	99.0

NOTES ON THE ACCOUNTS

for the year ended 31st March 2007

28 Financial risk management (continued)

28c Foreign currency risk

The group operates globally with the majority of its profits earned outside the UK. It has significant investments outside the UK with the largest single investment being in the USA. In order to protect the group's sterling balance sheet and reduce cash flow risk the group has financed most of its investment in the USA, Europe, Japan and China by borrowing US dollars, euros, yen and renminbi respectively. Although an element of this funding is obtained by directly borrowing the relevant currency, a large part is achieved through currency swaps which can be more efficient and reduce costs and credit exposure. The group has designated the currency swaps and one loan as hedges of net investments in foreign operations as they hedge the changes in values of the subsidiaries' net assets against movements in exchange rates.

The main currencies of the net debt after taking into account the effect of the currency swaps were:

	Group		Group		Parent company		Parent company	
	Borrowings 2007 £ million	Borrowings 2006 £ million	Cash 2007 £ million	Cash 2006 £ million	Borrowings 2007 £ million	Borrowings 2006 £ million	Cash 2007 £ million	Cash 2006 £ million
Sterling	105.3	118.4	192.7	105.5	102.1	117.2	186.4	84.2
US dollar	170.5	287.5	12.1	36.5	164.6	152.6	1.1	16.2
Euro	232.2	173.1	–	7.6	250.2	184.4	–	–
Japanese yen	57.9	24.8	–	4.3	60.3	24.8	–	–
South African rand	24.8	2.3	–	1.8	15.4	–	–	–
Hong Kong dollar	–	–	17.4	17.4	2.4	–	–	–
Chinese renminbi	7.2	11.6	4.1	6.2	5.5	6.0	–	–
Swiss franc	–	–	5.9	0.4	–	1.8	2.2	–
South Korean won	2.7	–	4.3	2.4	–	–	–	–
Malaysian ringgit	1.2	0.1	1.6	8.7	–	–	–	–
Brazilian real	–	–	0.2	7.8	–	–	–	–
Other currencies	3.7	1.8	2.4	9.0	4.9	0.4	0.4	0.8
	605.5	619.6	240.7	207.6	605.4	487.2	190.1	101.2

The group and parent company use forward exchange contracts, and occasionally currency options, to hedge foreign exchange exposures arising on forecast receipts and payments in foreign currencies. These are designated and accounted for as cash flow hedges. The majority of the cash flows are expected to occur and the hedge effect realised in the income statement in the year ending 31st March 2008.

The main impact of movements in exchange rates on the group's results arises on translation of overseas subsidiaries' profits into sterling. The group's largest exposure is to the US dollar and a 5 cent (2.6% (2006 2.8%)) movement in the average exchange rate for the US dollar against sterling has a 0.8% (2006 0.8%) impact on operating profit. The group is also exposed to the euro and a 5 cent (3.4% (2006 3.4%)) movement in the average exchange rate for the euro against sterling has a 0.4% (2006 0.6%) impact on operating profit. This exposure is part of the group's economic risk of operating globally which is essential to remain competitive in the markets in which the group operates.

28d Credit risk

Within certain divisions, the group and parent company derive a significant proportion of their revenue from sales to major customers. Sales to individual customers are frequently high if the value of precious metals is included in the price. The failure of any such company to honour its debts could materially impact the group's and parent company's results. The group and parent company derive significant benefit from trading with their large customers and manage the risk at many levels. Each business and division has a credit committee that regularly monitors its exposure. The Audit Committee receives a report every six months that details all significant credit limits, amounts due and amounts overdue within the group and the relevant actions being taken. As at 31st March 2007 (and at 31st March 2006), no single outstanding balance exceeded 2% of the company's market capitalisation.

The credit risk on cash and deposits and derivative financial instruments is limited because the counterparties are banks with high credit ratings. As at 31st March 2007, the maximum exposure with a single bank for net deposits was £11.3 million (2006 £16.5 million) for the group and £7.0 million (2006 £14.4 million) for the parent company, whilst the largest mark to market exposure for forward foreign exchange contracts to a single bank was £0.8 million (2006 £0.5 million) for the group and parent company.

The group guarantees its share of the borrowings and precious metal leases of its associates and its exposure at 31st March 2007 was £0.8 million (2006 £1.5 million). At 31st March 2007 the group and parent company guaranteed £3.3 million of the borrowings of subsidiaries of Endeka Ceramics, former subsidiaries of the group (note 40). The parent company also guarantees some of its subsidiaries' borrowings, partly through interest netting arrangements, and precious metal leases and its exposure at 31st March 2007 was £16.1 million (2006 £155.0 million).

NOTES ON THE ACCOUNTS

for the year ended 31st March 2007

28 Financial risk management (continued)

28e Fair value of financial instruments – group

	2007		2006	
	Carrying amount £ million	Fair value £ million	Carrying amount restated £ million	Fair value restated £ million
Quoted available-for-sale investments	0.2	0.2	0.1	0.1
Unquoted available-for-sale investments	4.8	4.8	5.9	5.9
Trade receivables	469.5	469.5	416.1	416.1
Trade payables	(243.1)	(243.1)	(203.9)	(203.9)
Amounts receivable from construction contract customers	10.3	10.3	9.1	9.1
Amounts payable to construction contract customers	(20.4)	(20.4)	(16.6)	(16.6)
Other receivables	17.9	17.9	13.9	13.9
Other payables	(32.1)	(32.1)	(50.4)	(50.4)
Cash and deposits	73.2	73.2	133.0	133.0
US Dollar Bonds 2006, 2010, 2013, 2015 and 2016	(240.6)	(242.8)	(184.8)	(182.9)
US Dollar EIB Loan 2011	(51.0)	(50.9)	(57.6)	(56.3)
Sterling Bonds 2013	(40.0)	(38.5)	(40.0)	(39.4)
Other non-current borrowings and finance leases	(67.9)	(67.9)	(219.3)	(219.3)
Other current borrowings and finance leases	(27.5)	(27.5)	(32.7)	(32.7)
Interest rate swaps designated as fair value hedges	(3.3)	(3.3)	(5.0)	(5.0)
Cross currency interest rate swaps designated as cash flow hedges	(7.7)	(7.7)	(5.6)	(5.6)
Forward foreign exchange contracts and options designated as cash flow hedges	1.2	1.2	(1.1)	(1.1)
Forward foreign exchange contracts and currency swaps held for trading	(0.8)	(0.8)	0.2	0.2
Foreign exchange swaps designated as hedges of a net investment in foreign operations	0.3	0.3	(0.6)	(0.6)
Embedded derivatives	0.5	0.5	0.5	0.5
Non-current other payables	(1.2)	(1.2)	(0.8)	(0.8)
	(157.7)	(158.3)	(239.6)	(235.8)

The fair value of quoted investments is based on market value. It is not possible to determine reliably the fair value of the unquoted available-for-sale investments. The fair values of the bonds and interest rate swaps are calculated by discounting future cash flows to net present values using appropriate market interest rates prevailing at the year end. The fair value of the cross currency interest rate swaps is the market value of equivalent swaps which could be taken out at the balance sheet date with the same banks, the same maturity dates and identical terms. The fair value of forward exchange contracts and currency swaps represents the unrealised gain or loss on revaluation of the contracts to year end forward exchange rates obtained from the banks the contracts are with. The fair value of the embedded derivatives are calculated by using a suitable valuation technique. The fair value of all other financial instruments is approximately equal to book value due to their size, short term nature or the fact that they bear interest at floating rates.

28f Fair value of financial instruments – parent company

	2007		2006	
	Carrying amount £ million	Fair value £ million	Carrying amount £ million	Fair value £ million
Trade receivables	185.0	185.0	158.6	158.6
Trade payables	(59.1)	(59.1)	(53.7)	(53.7)
Amounts receivable from subsidiaries	1,111.4	1,109.7	1,134.3	1,136.9
Amounts payable to subsidiaries	(740.4)	(740.4)	(707.0)	(707.0)
Other receivables	7.0	7.0	3.1	3.1
Other payables	(13.2)	(13.2)	(27.9)	(27.9)
Cash and deposits	9.9	9.9	26.6	26.6
US Dollar Bonds 2006, 2010, 2013, 2015 and 2016	(240.6)	(242.8)	(184.8)	(182.9)
US Dollar EIB Loan 2011	(51.0)	(50.9)	(57.6)	(56.3)
Sterling Bonds 2013	(40.0)	(38.5)	(40.0)	(39.4)
Other non-current borrowings and finance leases	(62.5)	(62.5)	(91.7)	(91.7)
Other current borrowings and finance leases	(20.1)	(20.1)	(27.9)	(27.9)
Interest rate swaps designated as fair value hedges	(3.3)	(3.3)	(5.0)	(5.0)
Cross currency interest rate swaps designated as cash flow hedges	(7.7)	(7.7)	(5.6)	(5.6)
Forward foreign exchange contracts and options designated as cash flow hedges	1.1	1.1	(0.9)	(0.9)
Forward foreign exchange contracts and currency swaps held for trading	(0.6)	(0.6)	(0.5)	(0.5)
Embedded derivatives	0.5	0.5	0.5	0.5
	76.4	74.1	120.5	126.9

The bases for the fair values is as described in note 28e.

NOTES ON THE ACCOUNTS

for the year ended 31st March 2007

29 Provisions and contingent liabilities

29a Group

	Restructuring provisions £ million	Warranty & technology provisions £ million	Other provisions £ million	Total £ million
At 1st April 2006	0.8	7.6	5.9	14.3
Charge for year	4.2	2.9	3.5	10.6
Utilised	(2.7)	(2.0)	(1.9)	(6.6)
Released	(0.1)	(1.1)	(0.2)	(1.4)
Exchange adjustments	–	(0.1)	(0.4)	(0.5)
At 31st March 2007	2.2	7.3	6.9	16.4

	2007 £ million	2006 £ million
Current	7.7	9.1
Non-current	8.7	5.2
Total provisions	16.4	14.3

The restructuring provisions relate to Catalysts Division and Precious Metal Products Division and are expected to be fully spent in 2008.

The warranty and technology provisions represent management's best estimate of the group's liability under warranties granted and remedial work required under technology licences, based on past experience in Catalysts Division. Warranties generally cover a period up to three years.

The other provisions include environmental, legal and relocation provisions. Amounts provided reflect management's best estimate of the expenditure required to settle the obligations at the balance sheet date. It is possible that these and further contingent environmental and legal liabilities may give rise to expenditure above that provided. Further details of environmental and legal provisions and contingent liabilities are not provided to avoid the potential of seriously prejudicing the group's stance in law.

Details of the guarantees given by the group are disclosed in note 28d.

29b Parent company

	Restructuring provisions £ million	Warranty provisions £ million	Other provisions £ million	Total £ million
At 1st April 2006	0.3	0.8	5.5	6.6
Charge for year	2.6	–	0.9	3.5
Utilised	(1.0)	–	(0.6)	(1.6)
Released	(0.1)	–	–	(0.1)
At 31st March 2007	1.8	0.8	5.8	8.4

	2007 £ million	2006 £ million
Current	2.6	2.0
Non-current	5.8	4.6
Total provisions	8.4	6.6

The restructuring provisions relate to Catalysts Division and Precious Metal Products Division and are expected to be fully spent in 2008.

The warranty provisions represent management's best estimate of the parent company's liability under warranties granted, based on past experience in Catalysts Division.

The other provisions include relocation provisions and provisions to buy metal to cover positions created by the parent company selling metal belonging to subsidiaries. Amounts provided reflect management's best estimate of the expenditure required to settle the obligations at the balance sheet date.

Details of the guarantees given by the parent company are disclosed in note 28d.

NOTES ON THE ACCOUNTS

for the year ended 31st March 2007

30 Deferred taxation

30a Group

	Property, plant & equipment £ million	Post- employment benefits £ million	Translation differences on foreign currency loans £ million	Inventories £ million	Other £ million	Total £ million
At 1st April 2005	67.2	2.4	(14.5)	(13.5)	1.0	42.6
IFRS transition adjustment for financial instruments	–	–	–	–	1.2	1.2
Charge / (credit) to income	3.1	(3.5)	(0.2)	(17.9)	18.6	0.1
Tax on items taken directly to or transferred from equity	–	4.4	6.3	–	(9.5)	1.2
Acquisitions	(0.1)	–	–	–	–	(0.1)
Exchange adjustments	–	–	0.4	–	(0.1)	0.3
At 31st March 2006	70.2	3.3	(8.0)	(31.4)	11.2	45.3
(Credit) / charge to income	(6.9)	8.8	(2.2)	(3.3)	8.1	4.5
Tax on items taken directly to or transferred from equity	–	(9.5)	(5.7)	–	(3.1)	(18.3)
Disposals (note 40)	(3.1)	–	–	0.4	–	(2.7)
Exchange adjustments	(0.3)	–	(0.1)	(0.8)	–	(1.2)
At 31st March 2007	59.9	2.6	(16.0)	(35.1)	16.2	27.6

	2007 £ million	2006 £ million
Deferred tax assets	8.9	4.4
Deferred tax liabilities	36.5	49.7
	27.6	45.3

Deductible temporary differences, unused tax losses and unused tax credits not recognised on the balance sheet are £33.8 million (2006 £42.9 million).

Deferred tax liabilities have not been recognised on temporary differences of £410.4 million (2006 £519.4 million) associated with investments in subsidiaries and associates, other than in the case of the group's captive insurance company where cumulative deferred tax of £1.2 million (2006 £1.2 million) has been provided on an accrued dividend.

30b Parent company

	Property, plant & equipment £ million	Post- employment benefits £ million	Translation differences on foreign currency loans £ million	Inventories £ million	Other £ million	Total £ million
At 1st April 2005	33.9	13.2	–	(14.7)	(2.3)	30.1
IFRS transition adjustment for financial instruments	–	–	–	–	0.8	0.8
Charge / (credit) to income	2.7	2.4	–	(12.1)	1.3	(5.7)
Tax on items taken directly to or transferred from equity	–	5.6	(1.6)	–	(3.6)	0.4
At 31st March 2006	36.6	21.2	(1.6)	(26.8)	(3.8)	25.6
(Credit) / charge to income	(5.9)	2.4	(2.0)	(5.3)	9.4	(1.4)
Tax on items taken directly to or transferred from equity	–	(9.9)	2.9	–	(3.1)	(10.1)
At 31st March 2007	30.7	13.7	(0.7)	(32.1)	2.5	14.1

Deductible temporary differences, unused tax losses and unused tax credits not recognised on the balance sheet are £3.6 million (2006 £3.6 million).

NOTES ON THE ACCOUNTS

for the year ended 31st March 2007

31 Share capital

	Authorised Number	£ million	Issued and fully paid Number	£ million
Ordinary shares of £1 each				
At 1st April 2005	291,550,000	291.6	219,522,706	219.5
Share options exercised	–	–	705,604	0.7
At 31st March 2006	291,550,000	291.6	220,228,310	220.2
Share options exercised	–	–	248,973	0.3
At 31st March 2007	291,550,000	291.6	220,477,283	220.5

Details of outstanding share options and allocations under the company's long term incentive plan which have yet to mature are disclosed in note 12.

At the last annual general meeting on 25th July 2006 shareholders approved a resolution for the company to make purchases of its own shares up to a maximum number of 22,031,543 shares. The resolution remains valid until the conclusion of this year's annual general meeting. The company will purchase its own shares when the board believes it to be in the best interests of the shareholders generally and will result in an increase in earnings per share.

The group's employee share ownership trusts (ESOTs) also buy shares on the open market and hold them in trust for employees participating in the group's executive share option schemes and long term incentive plan. At 31st March 2007 the group's ESOTs held 6,121,013 shares (2006 6,319,743 shares) which had not yet vested unconditionally in employees. Computershare Trustees (CI) Limited, as trustee for the ESOTs, has waived its dividend entitlement. At 31st March 2007 the parent company's ESOT held 6,056,432 shares (2006 6,255,162 shares) which had not yet vested unconditionally in employees.

32 Other reserves

32a Group

	Capital redemption reserve £ million	Foreign currency translation £ million	Available- for-sale reserve £ million	Hedging reserve £ million	Total other reserves £ million
At 1st April 2005	6.5	(0.2)	0.7	2.1	9.1
Cash flow hedges:					
Losses taken to equity	–	–	–	(3.6)	(3.6)
Transferred to income statement	–	–	–	(2.6)	(2.6)
Available-for-sale investments:					
Transferred to income statement on sale	–	–	(0.8)	–	(0.8)
Fair value losses on net investment hedges	–	(12.5)	–	–	(12.5)
Currency translation differences on foreign currency net investments and related loans	–	42.3	–	–	42.3
Tax on items taken directly to or transferred from equity	–	(5.4)	0.2	1.8	(3.4)
At 31st March 2006	6.5	24.2	0.1	(2.3)	28.5
Cash flow hedges:					
Gains taken to equity	–	–	–	3.1	3.1
Transferred to income statement	–	–	–	1.2	1.2
Fair value gains on net investment hedges	–	23.3	–	–	23.3
Fair value gains on net investment hedges transferred to profit on sale of discontinued operations	–	(2.0)	–	–	(2.0)
Currency translation differences on foreign currency net investments and related loans	–	(67.3)	–	–	(67.3)
Currency translation differences transferred to profit on sale of discontinued operations	–	(3.8)	–	–	(3.8)
Tax on items taken directly to or transferred from equity	–	5.3	–	(1.2)	4.1
At 31st March 2007	6.5	(20.3)	0.1	0.8	(12.9)

NOTES ON THE ACCOUNTS

for the year ended 31st March 2007

32 Other reserves (continued)

32b Parent company

	Capital redemption reserve £ million	Foreign currency translation £ million	Hedging reserve £ million	Total other reserves £ million
At 1st April 2005	6.5	–	2.0	8.5
Cash flow hedges:				
Losses taken to equity	–	–	(3.4)	(3.4)
Transferred to income statement	–	–	(2.2)	(2.2)
Currency translation differences on foreign operations	–	(0.4)	–	(0.4)
Tax on items taken directly to or transferred from equity	–	–	1.7	1.7
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st March 2006	6.5	(0.4)	(1.9)	4.2
Cash flow hedges:				
Gains taken to equity	–	–	2.7	2.7
Transferred to income statement	–	–	1.4	1.4
Currency translation differences on foreign operations	–	1.4	–	1.4
Tax on items taken directly to or transferred from equity	–	–	(1.3)	(1.3)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st March 2007	6.5	1.0	0.9	8.4

33 Minority interests

	£ million
At 1st April 2005	7.5
Share of loss for the year	(0.8)
Dividends	(0.3)
	<hr/>
At 31st March 2006	6.4
Share of loss for the year	(1.0)
Dividends	(0.3)
Disposal (note 40)	(2.7)
Arising on formation of subsidiary	0.3
Share capital reduction of subsidiary	(0.3)
	<hr/>
At 31st March 2007	2.4

In July 2006 the group formed a new subsidiary and entered into a joint venture with Dialog Systems Sdn Bhd. Dialog contributed plant and machinery of £0.1 million and cash of £0.2 million in return for a minority interest of £0.3 million.

NOTES ON THE ACCOUNTS

for the year ended 31st March 2007

34 Changes in equity – attributable to equity holders of the parent company

34a Group

	Share capital £ million	Share premium account £ million	Shares held in ESOTs £ million	Other reserves £ million	Retained earnings £ million	Equity attributable to equity holders of parent company £ million
At 1st April 2005	219.5	139.8	(37.7)	9.1	594.4	925.1
Profit for the year	-	-	-	-	152.1	152.1
Actuarial gain on post-employment benefits assets and liabilities	-	-	-	-	19.6	19.6
Dividends paid	-	-	-	-	(60.4)	(60.4)
New share capital subscribed	0.7	4.6	-	-	-	5.3
Purchase of shares for ESOTs	-	-	(25.3)	-	-	(25.3)
Share-based payments	-	-	-	-	7.6	7.6
Cost of shares transferred to employees	-	-	-	-	(4.4)	(4.4)
Cash flow hedges:						
Losses taken to equity	-	-	-	(3.6)	-	(3.6)
Transferred to income statement	-	-	-	(2.6)	-	(2.6)
Available-for-sale investments:						
Transferred to income statement on sale	-	-	-	(0.8)	-	(0.8)
Fair value losses on net investment hedges	-	-	-	(12.5)	-	(12.5)
Currency translation differences on foreign currency net investments and related loans	-	-	-	42.3	-	42.3
Tax on items taken directly to or transferred from equity	-	-	-	(3.4)	(0.9)	(4.3)
At 31st March 2006	220.2	144.4	(63.0)	28.5	708.0	1,038.1
Profit for the year	-	-	-	-	206.5	206.5
Actuarial loss on post-employment benefits assets and liabilities	-	-	-	-	(32.3)	(32.3)
Dividends paid	-	-	-	-	(66.0)	(66.0)
New share capital subscribed	0.3	1.9	-	-	-	2.2
Purchase of treasury shares	-	-	-	-	(52.6)	(52.6)
Share-based payments	-	-	-	-	11.8	11.8
Cost of shares transferred to employees	-	-	1.1	-	(5.6)	(4.5)
Cash flow hedges:						
Gains taken to equity	-	-	-	3.1	-	3.1
Transferred to income statement	-	-	-	1.2	-	1.2
Fair value gains on net investment hedges	-	-	-	23.3	-	23.3
Fair value gains on net investment hedges transferred to profit on sale of discontinued operations	-	-	-	(2.0)	-	(2.0)
Currency translation differences on foreign currency net investments and related loans	-	-	-	(67.3)	-	(67.3)
Currency translation differences transferred to profit on sale of discontinued operations	-	-	-	(3.8)	-	(3.8)
Tax on items taken directly to or transferred from equity	-	-	-	4.1	13.9	18.0
At 31st March 2007	220.5	146.3	(61.9)	(12.9)	783.7	1,075.7

During the year the company purchased 3,600,000 shares at a cost of £52.6 million. These shares are being held as treasury shares.

NOTES ON THE ACCOUNTS

for the year ended 31st March 2007

34 Changes in equity – attributable to equity holders of the parent company (continued)

34b Parent company

	Share capital £ million	Share premium account £ million	Shares held in ESOTs £ million	Other reserves £ million	Retained earnings £ million	Equity attributable to equity holders of parent company £ million
At 1st April 2005	219.5	139.8	(37.3)	8.5	731.3	1,061.8
Profit for the year	-	-	-	-	215.6	215.6
Actuarial gain on post-employment benefits assets and liabilities	-	-	-	-	17.2	17.2
Dividends paid	-	-	-	-	(60.4)	(60.4)
New share capital subscribed	0.7	4.6	-	-	-	5.3
Purchase of shares for ESOTs	-	-	(25.3)	-	-	(25.3)
Share-based payments	-	-	-	-	6.5	6.5
Cost of shares transferred to employees	-	-	-	-	(3.3)	(3.3)
Cash flow hedges:						
Losses taken to equity	-	-	-	(3.4)	-	(3.4)
Transferred to income statement	-	-	-	(2.2)	-	(2.2)
Currency translation differences on foreign operations	-	-	-	(0.4)	-	(0.4)
Tax on items taken directly to or transferred from equity	-	-	-	1.7	(2.0)	(0.3)
At 31st March 2006	220.2	144.4	(62.6)	4.2	904.9	1,211.1
Loss for the year	-	-	-	-	(78.4)	(78.4)
Actuarial loss on post-employment benefits assets and liabilities	-	-	-	-	(32.2)	(32.2)
Dividends paid	-	-	-	-	(66.0)	(66.0)
New share capital subscribed	0.3	1.9	-	-	-	2.2
Purchase of treasury shares	-	-	-	-	(52.6)	(52.6)
Share-based payments	-	-	-	-	11.8	11.8
Cost of shares transferred to employees	-	-	1.1	-	(5.6)	(4.5)
Cash flow hedges:						
Gains taken to equity	-	-	-	2.7	-	2.7
Transferred to income statement	-	-	-	1.4	-	1.4
Currency translation differences on foreign operations	-	-	-	1.4	-	1.4
Tax on items taken directly to or transferred from equity	-	-	-	(1.3)	14.3	13.0
At 31st March 2007	220.5	146.3	(61.5)	8.4	696.2	1,009.9

35 Gross cash flows

35a Purchases of non-current assets and investments

	Group		Parent company	
	2007 £ million	2006 £ million	2007 £ million	2006 £ million
Purchases of property, plant and equipment	115.1	109.8	42.7	40.0
Purchases of intangible assets	9.7	10.0	1.2	1.2
Purchase of investments in subsidiaries	-	-	-	48.8
Purchases of available-for-sale investments	0.2	0.5	-	-
	125.0	120.3	43.9	90.0

35b Purchases of businesses and minority interests

	Group		Parent company	
	2007 £ million	2006 £ million	2007 £ million	2006 £ million
Purchase of businesses	8.6	41.6	5.1	-
Cash acquired with businesses	-	(17.3)	-	-
	8.6	24.3	5.1	-

NOTES ON THE ACCOUNTS

for the year ended 31st March 2007

35 Gross cash flows (continued)

35c Net proceeds from sale of businesses and minority interests

	Group		Parent company	
	2007 £ million	2006 £ million	2007 £ million	2006 £ million
Disposal of Ceramics (note 40)	141.3	–	1.4	–
Cash and cash equivalents disposed of with Ceramics (note 40)	(14.4)	–	–	–
Cash received on capital reduction of subsidiary	–	–	2.7	–
Cash received from minority interest on formation of subsidiary (note 33)	0.2	–	–	–
	127.1	–	4.1	–

35d Net purchase of own shares

	Group		Parent company	
	2007 £ million	2006 £ million	2007 £ million	2006 £ million
Issue of ordinary share capital	2.2	5.3	2.2	5.3
Purchase of own shares	(52.6)	(31.2)	(52.6)	(31.2)
	(50.4)	(25.9)	(50.4)	(25.9)

35e (Repayment of) / proceeds from borrowings and finance leases

	Group		Parent company	
	2007 £ million	2006 £ million	2007 £ million	2006 £ million
(Decrease) / increase in borrowings falling due within one year	(51.6)	45.2	(66.2)	56.1
(Decrease) / increase in borrowings falling due after more than one year	(19.9)	37.4	80.6	27.8
Capital element of finance lease rental payments	(0.3)	(0.3)	(0.2)	(0.3)
	(71.8)	82.3	14.2	83.6

36 Cash and cash equivalents

	Group		Parent company	
	2007 £ million	2006 £ million	2007 £ million	2006 £ million
Cash and deposits	73.2	133.0	9.9	26.6
Bank overdrafts	(13.2)	(7.9)	(17.4)	(16.6)
Cash and cash equivalents	60.0	125.1	(7.5)	10.0

37 Precious metal operating leases

The group leases precious metals from banks for specified periods (typically a few months) and for which the group pays a fee. These arrangements are classified as operating leases. The group holds sufficient precious metal inventories to meet all the obligations under these lease arrangements as they fall due. At 31st March 2007 precious metal leases were £93.2 million (2006 £93.2 million).

NOTES ON THE ACCOUNTS

for the year ended 31st March 2007

38 Commitments

	Group		Parent company	
	2007 £ million	2006 £ million	2007 £ million	2006 £ million
Future capital expenditure contracted but not provided	9.2	5.8	5.3	3.0
Future minimum amounts payable under non-cancellable operating leases				
Within one year	8.7	9.6	1.9	2.0
From one to five years	14.2	12.8	4.2	3.9
After five years	11.5	14.4	6.7	6.7
	34.4	36.8	12.8	12.6
Future minimum amounts payable under finance leases				
Within one year	0.5	0.5	0.5	0.5
From one to five years	1.8	1.8	1.8	1.8
After five years	2.2	2.7	2.2	2.7
	4.5	5.0	4.5	5.0
Less future finance charges	(1.1)	(1.3)	(1.1)	(1.3)
Present value of finance lease obligations	3.4	3.7	3.4	3.7

39 Acquisitions

If all acquisitions had been completed on 1st April 2006 the revenue for the group would have been £6,151.7 million and its profit for the year £205.5 million.

United Pharmaceuticals Limited

On 13th April 2006 the group purchased most of the business of United Pharmaceuticals Limited for £1.9 million plus costs of £0.1 million. The fair value of the assets acquired were plant and machinery of £0.3 million and inventories of £0.6 million giving goodwill of £1.1 million. The goodwill arising is attributable to future synergies arising from the combination. It has been fully integrated with Macfarlan Smith and so its post acquisition results are not identifiable and are included in Pharmaceutical Materials.

Process diagnostics business

On 21st April 2006 the group purchased the process diagnostics business of Quest TruTec for £3.8 million plus costs of £0.1 million. The fair value of the assets acquired were customer contracts and relationships of £0.4 million, property, plant and equipment of £0.3 million giving goodwill of £3.2 million. The goodwill arising is attributable to future synergies arising from the combination. It has been fully integrated with the group's existing processing services business and so its post acquisition results are not identifiable and are included in Catalysts.

Cascade Biochem Limited acquired in the year ended 31st March 2003

On 17th October 2002 the group acquired Cascade Biochem Limited. The outstanding deferred consideration of £2.5 million was paid during the year ended 31st March 2007.

Oximet SrL acquired in the year ended 31st March 2006

On 6th September 2005 the group acquired the remaining 67% of the share capital of Oximet SrL, which it did not already own for £0.4 million. The fair value of the net assets acquired were inventories of £0.2 million, trade and other receivables of £1.0 million, trade and other payables of £0.8 million and bank overdrafts of £0.1 million. The fair value of the associate immediately prior to the acquisition was £0.1 million resulting in goodwill of £0.2 million. The goodwill arising is attributable to future synergies arising from the combination. The net cash outflow on acquisition was £0.5 million, consisting of £0.4 million of cash consideration and £0.1 million of bank overdrafts classed as cash and cash equivalents. From 6th September 2005 it contributed no net profit to the group's profit for the year and its results are included in Ceramics.

NOTES ON THE ACCOUNTS

for the year ended 31st March 2007

39 Acquisitions (continued)

Davy Process Technology Limited acquired in the year ended 31st March 2006

On 1st February 2006 the group acquired 100% of the issued share capital of Davy Process Technology Limited (DPT). DPT develops chemical process technologies and licenses them to customers in the oil, gas and petrochemical industries. Its revenue is generated through the licensing of its proprietary technologies and from the sale of associated basic engineering packages, catalysts, specialist equipment and other services. The goodwill disclosed in last year's accounts was provisional at £21.9 million. An additional liability of £0.5 million was discovered and additional costs of £0.2 million were incurred during the first year of ownership and so the comparatives have been restated. The goodwill arising is attributable to future research and sales synergies arising from the combination.

The net assets acquired were:

	Carrying amounts under IFRS immediately prior to acquisition £ million	Fair value adjustments £ million	Fair value at time of acquisition £ million
Property, plant and equipment	11.4	(0.8)	10.6
Intangible assets – customer contracts and relationships	–	6.7	6.7
Intangible assets – patents	–	1.9	1.9
Non-current available-for-sale investments	3.4	–	3.4
Deferred income tax assets	0.8	(0.7)	0.1
Trade and other receivables	14.9	(0.3)	14.6
Cash and deposits	17.4	–	17.4
Trade and other payables	(20.6)	(2.0)	(22.6)
Current income tax liabilities	(1.4)	–	(1.4)
Non-current borrowings	(1.4)	–	(1.4)
Employee benefit obligations	(3.7)	(1.0)	(4.7)
Provisions	(3.8)	(2.6)	(6.4)
Total net assets acquired	17.0	1.2	18.2
Goodwill on acquisition			22.6
			40.8

Satisfied by:

	£ million
Purchase consideration – cash	39.9
Costs incurred – cash	0.9
	40.8

Net cash outflow arising on acquisition was:

	2007 £ million	2006 £ million
Cash consideration and costs	0.2	40.6
Less cash and cash equivalents acquired	–	17.4
Net cash outflow	0.2	23.2
Borrowings acquired	–	1.4
Increase in net debt	0.2	24.6

From 1st February 2006 its results are included in Catalysts and were:

	2006 £ million
Operating profit before amortisation of intangible assets recognised on acquisition by Johnson Matthey	1.6
Amortisation of intangible assets recognised on acquisition by Johnson Matthey	(0.8)
Operating profit	0.8
Net finance income	0.1
Profit before tax	0.9
Income tax expense	(0.6)
Net profit	0.3

NOTES ON THE ACCOUNTS

for the year ended 31st March 2007

40 Discontinued operations

On 28th February 2007 the group sold its Ceramics Division to the Endeka Ceramics group established by Pamplona Capital Partners I, LP, a private equity investment fund.

Ceramics Division's net assets disposed of were:

	£ million
Property, plant and equipment	56.6
Goodwill	0.4
Inventories	43.4
Trade and other receivables	61.2
Cash and deposits	20.1
Bank overdrafts	(5.7)
Current other borrowings	(6.5)
Group loans	(12.6)
Current trade and other payables	(37.0)
Current income tax liabilities	(2.0)
Non-current trade and other payables	(0.7)
Employee benefits obligations	(1.5)
Deferred income tax liabilities	(2.7)
	113.0
Minority interests	(2.7)
	110.3

The profit on disposal of Ceramics Division was:

	£ million
Consideration – cash	143.9
Consideration – refund outstanding	(0.6)
Costs incurred – cash	(2.6)
Costs incurred – non-cash	(0.4)
Costs incurred – accrued	(2.3)
	138.0
Less assets disposed of	(110.3)
Pension curtailment gain	0.9
Cumulative exchange gains deferred in equity	5.8
	34.4
Profit on disposal before tax	34.4
Tax	(1.1)
	33.3

The results of the discontinued operations included in the consolidated income statement were:

	2007 £ million	2006 £ million
Ceramics Division		
Sales of goods to external customers	160.1	182.2
Inter-segment sales	3.4	4.4
Expenses	(147.6)	(165.3)
	15.9	21.3
Operating profit	15.9	21.3
Finance costs	(0.5)	(0.2)
Finance income	0.9	1.2
	16.3	22.3
Profit before tax	16.3	22.3
Income tax expense	(5.7)	(7.8)
Profit on disposal	33.3	–
	43.9	14.5
Profit for the year from Ceramics Division	43.9	14.5
Additional environmental warranty obligations retained on sale of Pigments & Dispersions	(0.2)	–
	43.7	14.5
Profit for the year from discontinued operations	43.7	14.5
	0.7	5.6
Net cash inflow from operating activities of discontinued operations	0.7	5.6
Net cash outflow from investing activities of discontinued operations	(4.5)	(6.4)
Net cash outflow from financing activities of discontinued operations	(1.9)	(2.4)

NOTES ON THE ACCOUNTS

for the year ended 31st March 2007

40 Discontinued operations (continued)

The Ceramics Division had a presence in each of the geographical segments. Its external sales by geographical destination were:

	Europe £ million	North America £ million	Asia £ million	Rest of the World £ million	Total £ million
Period ended 28th February 2007	86.8	5.1	40.9	27.3	160.1
Year ended 31st March 2006	97.3	7.9	34.6	42.4	182.2

41 Transactions with related parties

Transactions between the parent company and its subsidiaries, which are related parties, have been eliminated on consolidation and so are only disclosed for the parent company's accounts. The group's associates, as described in note 18, are related parties. Guarantees of subsidiaries' and associates' borrowings are disclosed in note 28d.

	Group		Parent company	
	2007 £ million	2006 £ million	2007 £ million	2006 £ million
Trading transactions with associates				
Purchases of raw materials	–	0.2	–	–
Trading transactions with subsidiaries				
Sales of goods	–	–	940.7	832.6
Purchases of goods	–	–	196.8	150.7
Income from service charges	–	–	2.3	2.2
Amounts receivable from subsidiaries	–	–	43.7	31.9
Amounts payable to subsidiaries	–	–	17.1	9.6

The group's post-employment plans are related parties and the group's and parent company's transactions with them are disclosed in notes 13a and 13b respectively.

The transactions with key management personnel are described in note 11c.

42 Key sources of estimation uncertainty

Determining the carrying amounts of some assets and liabilities requires estimation of the effects of uncertain future events on those assets and liabilities at the balance sheet date. The group and parent company have made appropriate estimates when applying the accounting policies, but the actual outcome may differ from those calculated.

The key sources of estimation uncertainty at the balance sheet date which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are:

Post-employment benefits

The group's and parent company's defined benefit plans are assessed annually by qualified independent actuaries. The details of the plans and assumptions used are described in note 13.

Goodwill

The group has capitalised goodwill of £399.2 million and the parent company has £249.5 million. Annual impairment reviews are performed which require various assumptions. More details are given in note 15.

Other intangible assets

Other intangible assets which are not yet being amortised (note 16) are also subject to annual impairment reviews based on discounted cash flow projections. No impairment has been found.

Provisions and contingent liabilities

As described in note 29 and the accounting policies, the group and parent company measure provisions and contingent liabilities at management's best estimate of the expenditure required to settle the obligations at the balance sheet date.

Taxation

The tax payable on profits is determined based on tax laws and regulations that apply in each of the numerous jurisdictions in which the group operates. Where the precise impact of these laws and regulations is unclear then reasonable estimates may be used to determine the tax charge included in the accounts. If the tax eventually payable or reclaimable differs from the amounts originally estimated then the difference will be charged or credited in the accounts for the year in which it is determined.