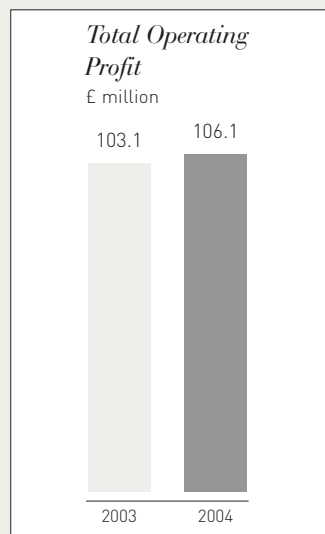


Report to Shareholders

Introduction Johnson Matthey performed well in the first half of 2004/05 with profit before tax, exceptional items and goodwill amortisation up 6% despite adverse exchange translation. On a constant currency basis all four divisions were comfortably ahead of last year. Cash generation was good with net borrowings reduced by £31.3 million.

Review of Results Total sales grew by 14% in the half year to £2,473 million, largely as a result of more buoyant trading conditions for platinum group metals and higher average prices. Sales excluding the value of precious metals fell by 4% to £598 million. The fall partly reflected the impact of exchange translation but also lower pass through costs for autocatalyst substrates.

Operating profit before exceptional items and goodwill amortisation rose by 3% to £106.1 million. Adverse exchange translation reduced profits by £6.3 million compared with the first half of last year mainly because of the fall in the US dollar which averaged \$1.81/£ compared with \$1.62/£ for the same period last year. Translated at last year's exchange rates operating profit before exceptional items and goodwill amortisation would have been 9% up.



Interest was £1.1 million lower than last year as a result of more favourable average interest rates including lower financing costs for platinum. The return on retirement benefits assets and liabilities also improved by £1.7 million reflecting the increased funding surplus at 31st March 2004.

Profit before tax, exceptional items and goodwill amortisation increased by 6% to £103.3 million. Earnings per share before exceptional items and goodwill amortisation also rose by 6% to 33.6 pence.

The costs of integrating the AMC and Lancaster Synthesis businesses following acquisition amount to £1.0 million and £2.0 million respectively. These have been included as exceptional costs in operating profit. The disposal of Pigments & Dispersions gave rise to an exceptional loss of £15.3 million after costs, of which £5.8 million related to goodwill previously written off to reserves. The closure of the UK gold and silver bullion refinery gave rise to a further exceptional loss of £12.4 million. Goodwill amortisation in the half year increased by £0.7 million to £10.6 million.

Taking into account exceptional costs and goodwill amortisation, profit before tax on a statutory basis fell by £25.6 million to £62.0 million and earnings per share were 9.3 pence lower at 18.5 pence.

Dividend The interim dividend has been increased by 6% to 8.7 pence, in line with the growth in earnings per share before exceptional items and goodwill amortisation.

Report to Shareholders

Operations Catalysts Division's sales fell by 2% to £583 million. Sales excluding the value of precious metals were 10% below last year at £342 million. The main reasons for the lower sales were adverse exchange translation and lower pass through substrate costs associated with the increasing proportion of diesel catalysts sold. Operating profit increased by 1% to £56.9 million despite the lower sales revenue. At constant exchange rates operating profit grew by 6%.

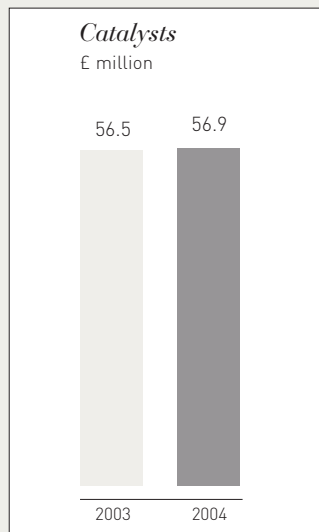
Car sales in North America were flat in the six months to 30th September 2004 at 10.2 million vehicles but domestic production was slightly down. In Western Europe sales and production were both slightly up with 8.2 million vehicles sold. Asia continues to show the most growth with a 4% increase in car sales in the main markets although the rate of growth in China slowed during the period to 12%.

Environmental Catalysts and Technologies (ECT) achieved good growth in profits in autocatalysts with the growth coming in Asia and Europe. The division benefited from the continued growth in diesel car sales in Europe where Johnson Matthey has leading technology. Profits in the US were flat. We have increased our investment on product development for heavy duty diesel (HDD) catalysts with a number of joint programmes with original equipment manufacturers underway. This investment also benefits the next generation of light duty diesel (LDD) particulate filters. Revenue from sales of retrofit HDD products was well down on the first half of last year which had benefited from a major fitment programme in Tokyo. Despite these factors ECT's operating profit was up on last year on a constant currency basis.

Process Catalysts and Technologies (PCT) achieved good profit growth with an encouraging first six months' contribution from AMC, the leading supplier of Sponge Nickel™ catalysts, which was acquired in March 2004. Sales of gas processing products and syngas catalysts (used to convert natural gas or naphtha into ammonia, methanol and hydrogen) were also strong. Platinum group metal refining continues to be adversely affected by the weak palladium price and margins for that part of the division were down.

In September 2004 we concluded the acquisition of the worldwide business of Lancaster Synthesis Limited (Lancaster) from Clariant AG for £2 million. A higher price had originally been agreed for the acquisition but in July Lancaster suffered a serious fire at its UK premises which destroyed a considerable amount of stock and some of its manufacturing facilities. Lancaster's operations remain an excellent fit with those of Johnson Matthey's existing Research Chemicals business and its acquisition provides the opportunity to improve market share and increase operating efficiencies. An exceptional charge of £2 million has been included in operating profit to cover the cost of integrating Lancaster into Johnson Matthey's business.

The cost of our **Fuel Cells** business continued at a similar rate to last year at £4.8 million. Developments in automotive fuel cells continue to be very encouraging but the market for stationary fuel cells has not grown as quickly as our customers had expected.



Report to Shareholders

Precious Metals Division's sales increased by 23% to £1,693 million, reflecting more buoyant trading conditions for platinum group metals and higher average prices. Operating profit increased by 7% to £23.4 million despite the revised terms of the renewed contracts with Anglo Platinum and adverse exchange translation.

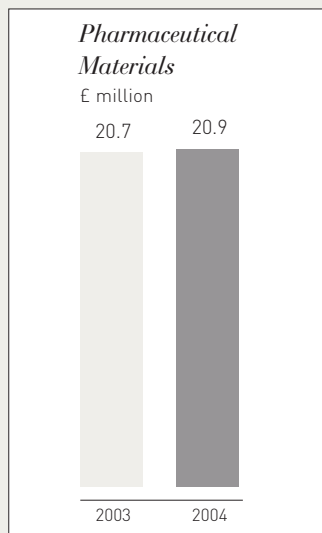
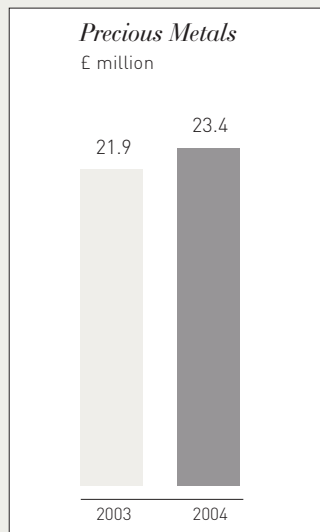
The average price of platinum in the first half of Johnson Matthey's financial year rose to \$837 per ounce, up 24% compared to the same period last year. This dampened purchases from jewellery manufacturers, especially in China, but growing worldwide use in the automobile and glass industries compensated. Total demand rose by less than 1% to match the record set in 2002. With supplies growing by 4%, the market was close to balance after recording significant deficits in each of the last five years.

The price of palladium showed a similar increase, up 30% to an average of \$238 per ounce. Demand for palladium is expected to grow by 9% in 2004, with US auto makers using less metal from inventory and global light vehicle production rising. The most significant increase came from China where retailers, especially in the smaller cities, began stocking palladium jewellery. An 11% increase in

palladium supply, driven by the expanding South African mines, prevented a more substantial recovery in the palladium price.

The division's platinum fabrication business achieved good growth with increased demand across its product range. Sales of precision machined parts for medical device applications continue to show strong growth. The division's gold refining businesses in North America and Hong Kong showed some modest growth in the six month period. However, the business in the UK continued to be loss making and in September 2004 the board took the decision to close the UK gold and silver bullion refinery. In 2003/04 the business made a loss of £1.6 million after metal interest and incurred a further loss of £0.6 million in the first five months of this year. Closure costs amount to £12.4 million of which £6.6 million relates to asset write offs.

Pharmaceutical Materials Division increased its sales by 3% to £66 million despite adverse exchange translation. Operating profit increased by 1% to £20.9 million. At constant exchange rates operating profit for the half year grew by 7%.



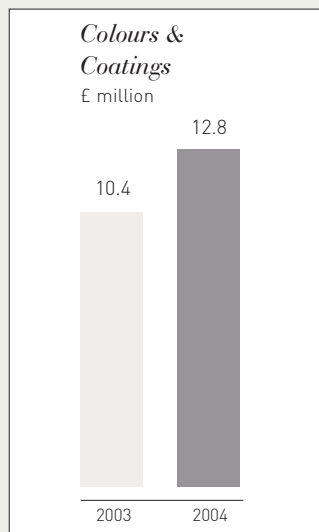
Report to Shareholders

Macfarlan Smith was well ahead of last year with good sales of specialist opiate products, and we continue to invest in the growth of the Edinburgh facility. In the US, carboplatin sales continued to be satisfactory with the pediatric extension to the carboplatin patent extending through to October 2004. In the second half of the year the contribution from this product will fall, as generic competition develops. However, sales of other platinum based anticancer products continue to be encouraging. With ongoing technology transfers from Macfarlan Smith, West Deptford continues to make progress in manufacturing and qualifying its opiate products with new customers.

Pharm-Eco, which we have renamed Johnson Matthey Pharma Services to better reflect its market, continues to grow its small volume manufacturing segment, and has begun development of several low volume, high potency generic products. We have consolidated our prostaglandin business into its existing Cork, Ireland facility. Qualification of our prostaglandin products into new generic dosage forms continues to make good progress.

Colours & Coatings Division's sales rose by 6% to £118 million. Operating profit increased by 23% to £12.8 million. Sales of glass coating products continued to grow. Sales to the automotive sector increased, particularly sales of conductive silver paste. Demand for decorative products for other glass applications was also up.

Structural Ceramics, which sells decorative products to the tile industry, continued the recovery seen in the second half of 2003/04. In November 2003 we announced we would consider offers for parts of our Colours & Coatings Division including Structural Ceramics. The Pigments & Dispersions business was sold in September 2004 for £27 million. The board considered that the offers received for Structural Ceramics did not provide adequate value, particularly in view of the favourable outlook for the business. Consequently, the board decided that Structural Ceramics will be retained.



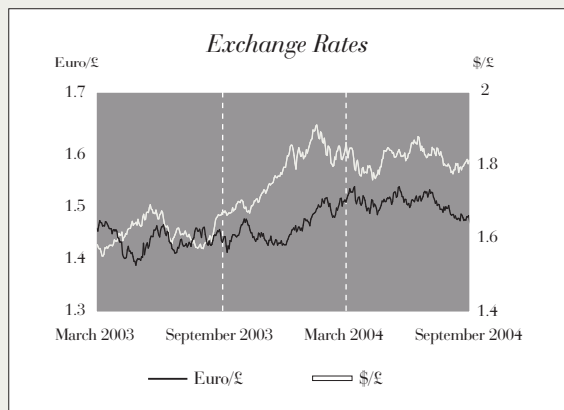
Report to Shareholders

Finance

Exchange Rates

The main impact of exchange rate movements on the group's results comes from the translation of foreign subsidiaries' profits into sterling. A third of the group's profits were made in North America, mainly in the USA. The US dollar weakened significantly from \$1.62/£ in the first half of last year to an average of \$1.81/£

for the six months to 30th September 2004. The average rate for the euro also weakened from €1.43/£ to €1.49/£. The South African rand strengthened slightly but the translational benefit of that rise was more than offset by the adverse impact of the stronger rand on operating margins. Excluding the rand, exchange translation reduced operating profit by £6.3 million, which is equivalent to 6% of operating profit before exceptional items and goodwill amortisation.



Interest

In the six months to 30th September 2004 the group interest charge fell by £1.1 million

to £7.4 million. Metal financing costs improved, particularly for platinum where lease rates had risen to very high levels in the previous year. The return on retirement benefits assets and liabilities also improved by £1.7 million. This credit is shown separately under FRS 17 (the pension accounting standard adopted by the group last year). The rise reflected the increase in the pension fund surplus at 31st March 2004.

Taxation

The group's tax charge for the six months fell by £5.7 million. The reduction reflects the tax relief available on the exceptional costs incurred in the period. Before exceptional items and goodwill amortisation the average tax rate for the six months was the same as last year at 29.9%.

Cash Flow

Johnson Matthey's net cash flow for the six months was strong at £30.4 million. After taking account of £0.9 million of exchange translation, net borrowings fell by £31.3 million. Gearing (net borrowings / shareholders' funds and minority interests) fell by 5% from 45.3% at 31st March 2004 to 40.3% at 30th September 2004.

Report to Shareholders

The group received £24.4 million from disposals and paid £3.1 million for acquisitions. Excluding acquisitions, disposals and share issuance the group generated a free cash flow of £8.0 million. Cash flow from operations was £120.9 million which was below last year as a result of an increase in working capital in the period. Capital expenditure was significantly lower than last year partly as a result of phasing with an increase in the rate of expenditure planned for the second half of this year. Major investments include expansion of ECT's production facilities in the UK, South Africa, Japan and China; investment in catalyst manufacturing for PCT at Clitheroe, UK; and further investment in new capacity at Macfarlan Smith in Edinburgh. For the year as a whole capital expenditure is expected to be around 1.5 times depreciation compared with 1.8 times for 2003/04.

Outlook and Strategy The outlook for the remainder of this year is satisfactory although growth in sterling terms will continue to be held back by adverse exchange translation. Despite the weak US dollar, for the year as a whole we would expect to achieve continued growth in earnings per share before exceptional items and goodwill amortisation.

Over the next few years we believe the group is well positioned for growth, particularly in Catalysts and Pharmaceutical Materials. This growth is based on Johnson Matthey's investment in new technology and leading positions in several new product areas.

Heavy duty diesel catalysts represent a major opportunity once legislation comes into force in the USA in 2007 and in Europe in 2005 and 2008. Removal of particulate from vehicle emissions for health reasons is becoming increasingly important. Developing catalysed soot filter (CSF) technology provides a solution to this issue and offers growth in both the heavy duty and light duty diesel segments. In Pharmaceutical Materials we have a strong worldwide position in the manufacture of controlled drugs and complex molecules and expect to benefit in 2006 and 2007 from the launch of new generic drugs. We have also significantly increased our investment this year on R&D for gas to liquids catalysts. Fuel cell components for the automotive market remains an exciting opportunity in the longer term.

Return on investment is a key measure of the group's performance. Although Johnson Matthey's return remains well above our cost of capital it has fallen in recent years as a result of the goodwill paid for acquisitions. Over the next few years we expect the return to improve as a result of organic profit growth and a greater focus on improving the returns of underperforming assets.

As part of this strategy we have divested our Pigments & Dispersions business where margins were declining and which was non-core. We are also in the process of closing our UK gold and silver refinery which has been loss making for several years and where the European market for gold refining shows no sign of improving. We intend to use the cash generated from these initiatives to buy back shares.

The combined effect of investment in new product areas and increased focus on return on assets should ensure the group is well positioned for growth in earnings per share in the years to come.