Johnson Matthey

Annual Report & Accounts 1999

Divisional Highlights

Contents

Front Cover: High throughput screening methods are used for the rapid evaluation of a large number of samples in the development of both homogeneous and heterogeneous catalysts for application in the pharmaceutical, agrochemical and speciality chemical industries

Financial Highlights

Group Results Summary

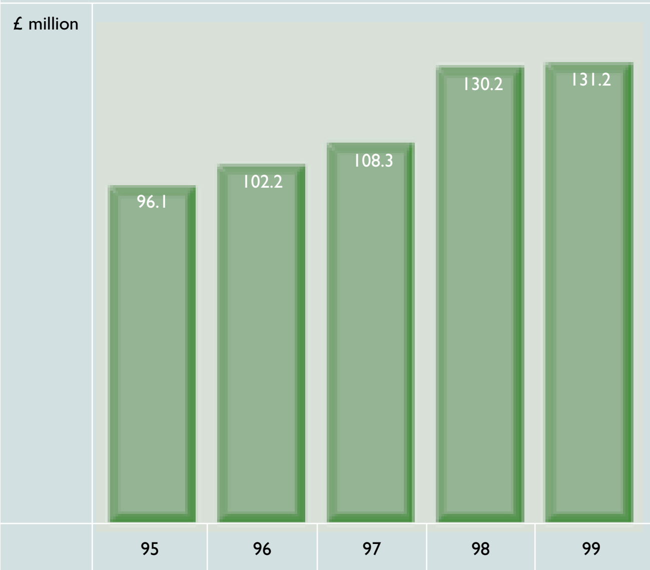
	1999 £ million	1998 £ million	% Inc.
Total turnover	3,385.4	3,267.6	+4%
Divisional operating profit			
Catalysts & Chemicals	74.2	64.7	+15%
Precious Metals	37.3	33.2	+12%
Colours & Coatings[1]	24.8	9.4	+56%
Electronic Materials	22.1	40.1	-45%
Corporate	(11.6)	(9.7)	
Operating profit-continuing	146.8	137.7	+7%
Discontinued operations	0.3	1.5	
Operating profit[2]	147.1	139.2	+6%
Interest	(15.9)	(9.0)	
Profit before tax[2]	131.2	130.2	+1%
	pence	pence	
Earnings per share[2]	44.3	44.3	-
Earnings per share (FRS 3)	46.1	48.2	-4%
Dividend per share	19.0	17.8	+7%

	1999 £ million	1998 £ million
Cash flow from operations	+176.0	+156.4
Free cash flow	+26.0	+28.8
Net borrowings	221.6	225.1
Shareholders' funds	561.8	493.3
Gearing	39%	45%

[1] Growth for Colours & Coatings calculated based on 100% ownership for whole of 1998

[2] Excluding exceptional items and ACT saving on FIDs

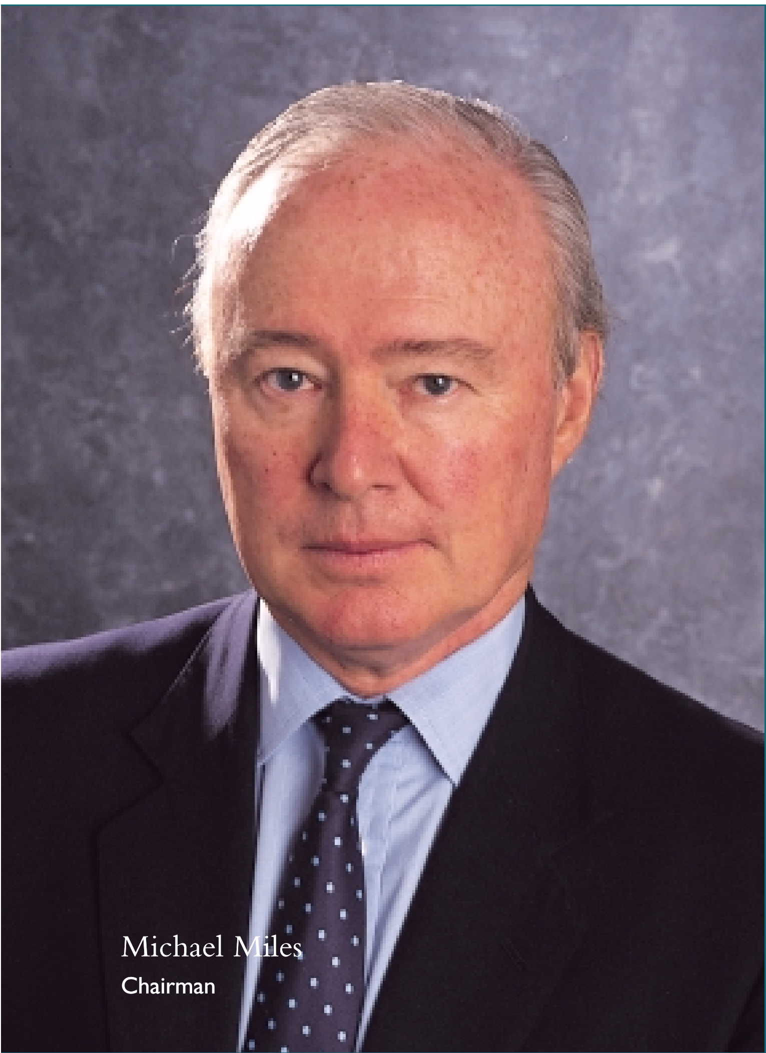
Profit before tax and exceptional items



Earnings per share excluding exceptional items

Dividend per share

Chairman's Statement



1998/99 was a year which saw a number of important developments at Johnson Matthey. I am pleased to report that the company achieved continued growth despite the sharp downturn in the semiconductor market which adversely affected our Electronic Materials business. Our other three divisions performed well to cover the shortfall with a 20% improvement in profits.

In the first half of the year we conducted a major review of corporate strategy. This resulted in the refocusing of the group on its core activities, where we have genuine leadership and a strong market position, and the establishing of our successful Electronic Materials business as a stand alone company to enable us to unlock shareholder value. Indeed it is the enhancement of shareholder value which is the prime motivation of your board.

Board

During the year the board of Johnson Matthey has been focusing particular attention on the future strategic direction of the group. The non-executive directors played an active role in the strategic review conducted during the autumn, the results of which were announced at our interim results in late November. I am most grateful for their commitment and support.

In March we announced that Gordon Thorburn would retire from the board at the conclusion of this year's Annual General Meeting due to ill health. Gordon has had a long and distinguished career with Johnson Matthey, having joined the board as Group Finance Director in 1983. He was appointed to his current post of Executive Director, Administration in 1987. Over years that witnessed many crucial events in the development of the company, Gordon worked with great dedication and the board will miss his steady hand and wise counsel. We are very sorry to lose his services earlier than we would have hoped and we wish him a long, happy and healthy retirement.

In January Graham Titcombe was appointed as Group Managing Director, reflecting his role as Johnson Matthey's senior operational executive director. He has retained responsibility for Precious Metals Division and from 1st August will additionally assume board responsibility for Colours & Coatings Division.

Charles Mackay joined the board as a non-executive director in January and Mike Dearden was appointed as a non-executive director in April this year. Both have a great deal of valuable and relevant experience of the international markets in which Johnson Matthey operates. We look forward to benefiting from their input.

Finally, I am delighted to announce the appointment of two new executive directors. With effect from 1st August Neil Carson will join the board as Executive Director with responsibility for Catalytic Systems and Chemicals. This reflects the importance of these businesses to the future development of the Johnson Matthey group. Neil, who is currently Division Director of Catalytic Systems, has been with Johnson Matthey for 19 years and has held a series of senior management positions in both our Precious Metals and Catalytic Systems Divisions. Also effective from 1st August David Morgan is appointed to the board as Executive Director, Corporate Development. David has been with the company for 11 years holding a succession of senior financial and planning positions. Since 1995 he has been Group Corporate Development Director and has played a leading role in the development of the group.

People and the Community

People play an essential role in the success of any company and at Johnson Matthey we are extremely fortunate to have a highly professional and dedicated workforce. On behalf of the board I would like to thank all our employees around the world for their hard work and dedication during what has been a challenging year for many of our businesses. The importance of developing our employees to enable them to fulfil their full potential cannot be stressed too highly. This is especially important in the development of our management talent. Our management development policy is featured on page 25.

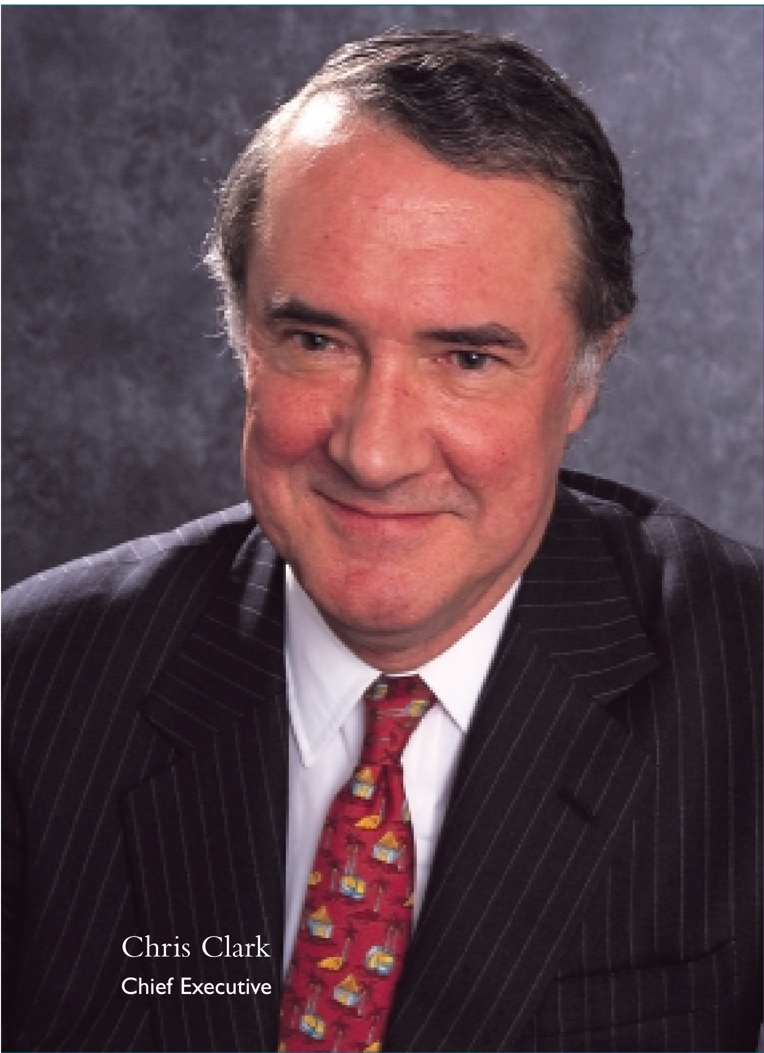
We have some very exciting opportunities ahead of us. Johnson Matthey is at the forefront of a number of technologies for air pollution control and clean energy generation that will make an increasingly important contribution to quality of life in the years ahead. We are also fully committed to ensuring that we meet our responsibilities to the environment and for maintaining the highest standards of health and safety in all our operations around the world. The company's Environment, Health and Safety policies are presented on page 25. On pages 26 and 27 we have a special feature on Johnson Matthey's contribution to a clean energy future.

Conclusion

Your board is pleased with the progress we have made in the last year to focus the company on our core strengths. Johnson Matthey is well positioned to benefit from its leading position in major world markets in a number of key catalyst and chemical technologies and to deliver sustained growth as we move into the new millennium.

Michael Miles OBE
Chairman

Chief Executive's Statement



Chris Clark
Chief Executive

At the time of our interim results in late November we announced the conclusions of a major strategic review of Johnson Matthey's businesses. This was conducted in the autumn of last year and focused on the all-important objective of delivering value to our shareholders. The two major strategic initiatives announced in November were as follows:

It was recognised that Johnson Matthey has traditional strengths in the chemistry of precious metals and in catalysis. As a result we created a new Catalysts & Chemicals Division that has brought together all of our core chemicals operations under a single heading. This reflected our intention to build on the many opportunities offered by the technological strengths of these businesses. Over the previous five years growth in this segment has averaged some 13% per annum and returns on both assets and sales have been good. We plan to grow this business both organically and by acquisition.

Growth in Electronic Materials Division over the preceding five years had taken Johnson Matthey to a market leading position with the inevitable consequence that this division had become predominantly a North American business. We therefore judged that the time was right to establish the division as a separate entity under a US holding company. This has given the business the option of raising its own capital in the future and has led to other opportunities for enhancing shareholder value.

The second half has seen good progress in the development and implementation of this strategy. The Catalysts & Chemicals Division continued its record of double digit growth with profits for the year up 15%. Growth in the division was broadly based with good performances from autocatalysts, pharmaceutical materials, process catalysts and speciality chemicals. Over the next few years new opportunities will arise from the commercialisation of fuel cells. Johnson Matthey has a leading position in fuel cell technology and will benefit from the rapid expansion of this new market.

Good progress has also been made towards our goal of realising shareholder value from Electronic Materials. The process of creating a stand alone business under a separate, US based holding company was completed on schedule on 31st March 1999. Significant progress has been made in preparations for a potential initial public offering of stock in the new company. In parallel, we are pursuing discussions with a number of parties who have expressed an interest in acquiring the business. Along with our advisors we will evaluate the strategic alternatives and we expect to announce our conclusions within the next few months.

The group's two other divisions have also performed well. Precious Metals has maintained its world leadership positions in platinum group metals marketing and gold refining and delivered good profit growth in the year with strong cash generation. Ceramic Materials has achieved a major recovery in profits and margins and has been renamed the Colours & Coatings Division to provide a better description of the division's product range.

The new group structure reflects the change in the balance of Johnson Matthey's businesses which has taken place over the last few years. Over two thirds of the group's profits are now made from the manufacture of catalysts and other fine chemicals, a proportion which will increase when Electronic Materials is spun off. This development has been recognised by FTSE International which changed its industry classification of Johnson Matthey from Engineering to Chemicals – Speciality in December 1998.

Given the considerable uncertainty which surrounds the world's economies we continue to place great emphasis on minimising costs to maintain margins and protect profits. Where markets declined last year, particularly in the tableware market and in certain parts of the semiconductor market, we responded rapidly by reducing costs to ensure our businesses remain profitable. Group headcount, which peaked at 13,200 in February 1998 has been reduced by 1,500 or 11%. The costs of the rationalisation in Colours & Coatings were provided for in last year's accounts. The costs for Electronic Materials Division amounted to £1.5 million and were charged against the division's operating profit for the year.

Financial highlights

In the year to 31st March 1999 Johnson Matthey earned profits before tax (excluding exceptional items) of £131.2 million, a £1.0 million increase over the prior year. Turnover rose by 4% to £3,385.4 million. Operating profit grew by 6% to £147.1 million despite an adverse exchange translation effect of £2.7 million.

Earnings per share excluding exceptional items were unchanged at 44.3 pence. Including exceptionals, earnings per share were 46.1 pence.

Cash flow from operations increased by 13% to £176.0 million. Free cash flow was strongly positive at £26.0 million for the year.

The board is recommending to shareholders a final dividend of 13.3 pence making a total dividend for the year of 19.0 pence, an increase of 7%. The dividend will be covered 2.3 times by earnings.

Chief Executive's Statement

Operations

Catalysts & Chemicals Division increased its sales by 21% over last year to £677.2 million. Operating profits were up by 15% to £74.2 million. The growth in turnover reflected increased sales volume and the effect of higher palladium prices on autocatalysts.

All three of the division's businesses had a good year. Autocatalysts achieved good growth in operating profits as the result of both strong car sales and tighter emission standards in its major markets in Europe and North America. Unit sales worldwide were 13% ahead of last year due to the increased numbers of catalysts per vehicle required to meet new standards and the continued popularity of large sport utility vehicles in the US. The introduction of new high technology catalysts, which provide important benefits to customers, has enabled the business to protect its margins.

Pharmaceutical Materials had an excellent year led by strong growth in organics. The business benefited from a very successful first full year of methylphenidate sales to Schein Pharmaceutical, Inc. but also saw good growth in other products. We have also embarked on a programme of expansion of our manufacturing facility in the USA. New competitors entered the methylphenidate market during the fourth quarter and revenues from this product may decline somewhat in the current year but any shortfall should be offset by new product introductions. The Chemicals business also had a successful year led by good growth in sales of platinum group metal chemicals and refining services. Some additional costs were incurred in developing new ranges of catalysts for the pharmaceutical and chemical industries which should benefit future results.

Precious Metals Division's sales were down 3% at £2,041.3 million as a result of lower levels of activity in the Gold business in the Far East in the second half of the year. Operating profits were 12% up at £37.3 million. The Platinum business had a good year benefiting from higher platinum group metal prices and strong demand for both physical metal and fabricated products. After a strong first half, the Gold business saw lower levels of dishoarding and a softening of demand for bullion products in the Far East. Nevertheless the primary gold refining business remained strong achieving solid growth in its profits.

Electronic Materials Division held on to share in its major markets and sales were only 5% down at £414.7 million. However, the adverse conditions in the global semiconductor markets depressed margins which resulted in operating profits being down 45% to £22.1 million. The division has been reorganised into two sub-divisions: Wafer Fabrication Materials which serves the "front end" (chip production) of the semiconductor manufacturing process, and Interconnect Products and Services which encompasses Assembly Products, Laminate Products and Semiconductor Packages all of which feed into the "back end" of the overall process where chips are packaged and final products assembled.

Johnson Matthey's pharmaceutical manufacturing facility at West Deptford, USA has embarked on a programme of expansion.

Wafer Fabrication Materials, comprising the division's sputtering targets and high purity metals businesses, was affected by customer destocking and price competition for much of the year. However there were early signs of a recovery in the final quarter and order books improved. In Interconnect Products and Services Semiconductor Packages had a good year. Demand for packages was strong but margins were reduced due to Japanese competitors who enjoyed a currency advantage. Assembly Products was impacted by a decline in demand for its thermal management and die attach products due to the downturn in Asia and the rapid shift towards lower cost personal computers. Laminate Products maintained full order books throughout the year but price competition, mainly from Asia, adversely impacted profits. The introduction of new high density interconnect technology, in which the business has a leading position, will enable it to significantly improve margins going forward.

DaimlerChrysler unveiled NECAR 4 its latest fuel cell powered car in March 1999 and plans to have similar vehicles in production by 2004 (Photograph courtesy of dbb Fuel Cell Engines GmbH)

Colours & Coatings Division's sales fell by 8% (for the business as a whole) to £250.5 million reflecting lower material costs for zircon sand and reduced demand for tableware products in the UK. Operating profits on the same basis were 56% up at £24.8 million chiefly as a result of cost cutting initiatives undertaken since Johnson Matthey acquired full ownership of the business in February 1998. The glass, pigments and tile sectors all achieved double digit growth in profits. Sales of glass enamels to the automotive industry and pigments and dispersions to the paint industry were particularly strong. Tableware was down reflecting the continued decline in the major market in Staffordshire.

Outlook

We have made good progress on our strategy announced last November to change the focus of the group's activities. Electronic Materials has been established as a stand alone entity and we expect to make a further announcement on its future within the next few months. There are excellent opportunities in all Johnson Matthey's core businesses. New product developments and rigorous attention to costs will provide the group with a firm basis for future growth.

Chris Clark
Chief Executive

Financial Review

Review of Results

Johnson Matthey earned profits before tax excluding exceptional items of £131.2 million in the year to 31st March 1999, an increase of £1.0 million over the previous year. Turnover rose by 4% to £3,385.4 million while operating profit was up 6% at £147.1 million.

Earnings per share excluding exceptional items were unchanged at 44.3 pence. Including exceptional items earnings per share were 46.1 pence.

Sales and Margins

Johnson Matthey's turnover is heavily impacted by the high value of precious metals sold by the group particularly in the Precious Metals Division. The total value of sales each year varies according to the mix of metals sold and level of trading activity. The value of the precious metals included in sales is separately invoiced and payment made within a few days. Consequently, although return on sales (operating profit / total external sales) for the precious metals businesses is low, profit growth has been relatively stable and return on investment is high.

To provide a more useful measure of return on sales, the table on the facing page shows sales by division excluding the value of precious metals. Total sales for the group excluding precious metals were £1,148.9 million and return on sales averaged 12.8%. The group's target for each of its divisions is to achieve a return on sales excluding precious metals in excess of 10%. In 1999 Catalysts & Chemicals and Precious Metals were well above that target, Colours & Coatings showed significant improvement and came in at just over 10%. Electronic Materials' margins were well down reflecting the major downturn in its market.

Return on Investment

We set a target of 20% for the pre-tax return on assets (ROA) for all our businesses. This target is based on operating profit divided by average net operating assets (including goodwill). Catalysts & Chemicals and Precious Metals were both well ahead of the group target. Colours & Coatings improved its return substantially but was still below the group target. Electronic Materials' ROA for the year fell below 10% reflecting the sharp decline in profits in that division.

For the group as a whole, return on assets was 15.8%. On a post-tax basis this equates to a return of 11.5% which is comfortably above the group's current average cost of capital of 10%.

Exceptional Items

Overall, exceptional items were nil on a pre-tax basis and gave rise to a credit of £3.9 million after tax. A net exceptional cost of £1.9 million is included in operating profit. This comprises a loss of £2.4 million on closure of the group's autocatalyst manufacturing business in Australia following the withdrawal of fiscal incentives. In addition, the group incurred a £2.5 million charge in withdrawing from plating and bushings manufacture. The total was partly offset by a gain of £3.0 million on the sale of shares in Ballard Power Systems, Inc. The net loss in operating profit is offset by an exceptional gain of £1.6 million arising from the sale of the UK Minerals business of Colours & Coatings Division on 1st June 1998 and a profit on disposal of land and buildings of £0.3 million.

The group achieved a tax saving of £3.9 million by paying dividends as Foreign Income Dividends (FIDs). This credit has been treated as exceptional.

Exchange Rates

Adverse exchange rates once again had a significant impact on Johnson Matthey's results for the year. Exchange translation reduced profits by £2.7 million as a result of the strength of sterling, particularly against the South African rand, the Australian dollar and the US dollar.

Interest

The group's interest charge rose by £6.9 million largely as a result of the increase in borrowings following the acquisition of 100% of the ownership of Cookson Matthey Ceramics (now Colours & Coatings) in February 1998. The purchase of the outstanding stake was earnings enhancing adding in excess of £5 million to group profit before tax after taking into account the additional interest charge.

Taxation

The group's tax charge shows the benefit of paying dividends as FIDs. Part of the benefit of the FID has been added to deferred tax to reflect the change in the offset rules for surplus Advance Corporation Tax (ACT) after April 1999. Excluding the ACT savings on the FIDs the group's average tax rate rose slightly to 27.3%.

Investment

The group invested £91.0 million on capital expenditure which was 1.4 times depreciation. Major projects included capacity expansions for autocatalyst production at Germiston, South Africa and for pharmaceutical materials at West Deptford in the US. A new plant for manufacturing homogeneous catalysts was completed at Royston in the UK. In Electronics, significant new investment went into High Density Interconnect manufacturing capacity for printed circuit boards.

On 3rd February 1999 Johnson Matthey acquired the business of Watson Engineering Testing Development Inc. (Watson) based in Detroit in the US for £6.5 million. Watson's main business is catalyst ageing, a critical step in the development and evaluation of autocatalysts. We are in the process of upgrading the facility which will also become our North American heavy duty diesel development centre.

In April 1998, the group completed the sale of its former head office site in Hatton Garden for £21 million.

Cash Flow

Net cash flow from operating activities rose by 13% to £176.0 million as a result of higher profits and depreciation. The figures include a full year contribution from Colours & Coatings which was accounted for as a joint venture for most of the previous year.

Return on Sales (ROS)

	Total External Sales £ million	ROS %
Catalysts & Chemicals	677	11.0
Precious Metals	2,041	1.8
Colours & Coatings	251	9.9
Electronic Materials	415	5.3
Continuing Businesses	3,384	4.3

	Sales Excluding Precious Metals £ million	ROS %
Catalysts & Chemicals	408	18.2
Precious Metals	96	38.8
Colours & Coatings	243	10.2
Electronic Materials	400	5.5
Continuing Businesses	1,147	12.8

Operating Profit

North America 49%
Europe 40%
Rest of the World 11%

Financial Review

Free cash flow (net cash flow from operating activities after interest, tax, dividends and capital expenditure) was also strongly positive at £26.0 million. Over the last two years the group has generated £54.8 million of free cash flow. Net cash flow after acquisitions and share purchases was £20.1 million. Net borrowings after taking into account the effect of exchange translation fell by £3.5 million to £221.6 million.

Johnson Matthey's balance sheet remains strong. The group's gearing (% net borrowings : shareholders' funds and minority interests) fell from 45% to 39%. Interest cover for the year (operating profit : net interest) was just over 9 times.

Financial Risk Management

In this year's accounts the group has adopted FRS 13 – 'Derivatives and other Financial Instruments: Disclosures'. The group uses financial instruments, in particular forward currency contracts and currency swaps, to manage the financial risks associated with the group's underlying business activities and the financing of those activities. The group does not undertake any trading activity in financial instruments. Our Treasury department is run as a service centre rather than a profit centre.

Interest Rate Risk

The group's net borrowings are largely in the form of foreign currency loans, primarily US dollars, to fund overseas operations (see page 59). The group occasionally uses interest rate swaps to generate the desired interest profile. The group has £62.0 million (US$100 million) of long term fixed rate borrowings in the form of an issue of US dollar bonds which carry an interest coupon of 6.36%. At 31st March 1999 28% of the group's net borrowings were at fixed rates of interest. The remaining 72% of the group's net borrowings were at floating rates.

Liquidity Risk

The group's policy on funding capacity is to ensure that we always have sufficient long term funding and committed bank facilities in place to meet foreseeable peak borrowing requirements. At 31st March 1999 we had £255 million of committed facilities from a group of high quality international banks with maturities up to 4 years, of which 61% were drawn down (see page 61). The group also has a number of uncommitted facilities and overdraft lines.

Foreign Currency Risk

Johnson Matthey's operations are global in nature with the majority of the group's profits earned outside the UK. The group has operating subsidiaries in 38 countries with the largest single investment being in the US. In order to protect the group's sterling balance sheet and reduce cash flow risk, the group finances most of its US investment by US dollar borrowings. Although most of this funding is obtained by directly borrowing US dollars, some is achieved by using currency swaps to reduce costs and credit exposure. The group also uses local currency borrowings to fund its operations in other countries.

The group uses forward exchange contracts to hedge foreign exchange exposures arising on forecast receipts and payments in foreign currencies. Currency options are occasionally used to hedge foreign exchange exposures, usually when the forecast receipt or payment amounts are uncertain.

Precious Metals Prices

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

All the group's stocks of gold and silver are fully hedged by leasing or forward sales. Currently the majority of the group's platinum group metal stocks are unhedged because of the lack of liquidity in the platinum metal markets.

Implementation of the Euro

The impact of the introduction of the Euro for our businesses worldwide and especially in Europe was reviewed in early 1998 and resulted in a detailed implementation plan to allow banking and internal reporting systems to be modified and tested in advance of the 1st January 1999 introduction. The process was completed successfully and has allowed us to meet all customer currency requirements whilst enabling some treasury and risk management activities to be streamlined.

Year 2000 Systems Compliance

The Year 2000 Compliance programme established in September 1996 is now substantially complete. The project has met our self imposed deadline of 31st March 1999 for the upgrade, repair or replacement, as appropriate, of all critical business systems.

To ensure the effectiveness of this work we have instigated a formal programme of year 2000 audits at all our 55 operational sites. This is due to be completed by 30th June 1999. In addition to systems reviews the scope of the audits extend to supply chain issues, general preparedness and detailed business contingency planning.

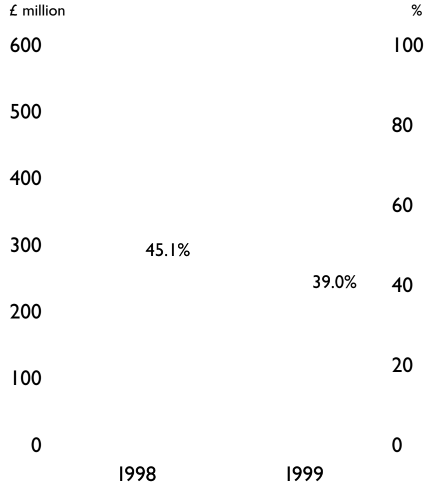
Given the scale of the task, work on remaining non-critical systems including technical and some embedded applications will continue up to the end of 1999. However, with the main systems task completed the major business focus is now directed to finalising contingency plans for the group. In the lead up to the millennium and beyond, the objective is to further develop and refine our plans so as to minimise risks due to external influences outside our direct control.

Costs are capitalised where systems are enhanced. Such projects have been included in the group's capital expenditure plans and amount to £3.5 million to completion. Modifications to existing systems which bring no additional business benefit are expensed, although there has not been significant incremental expenditure in this category.

We continue to work with suppliers and customers on compliance issues. A number of our larger customers have already undertaken successful compliance audits at JM manufacturing sites which form a critical part of their supply chain.

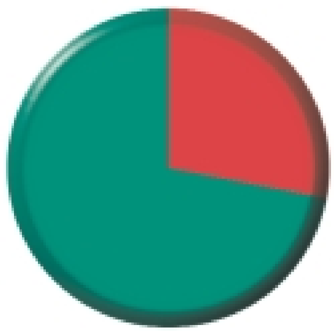
John Sheldrick
Group Finance Director

Gearing



Shareholders' funds and minorities
Net borrowings
Gearing

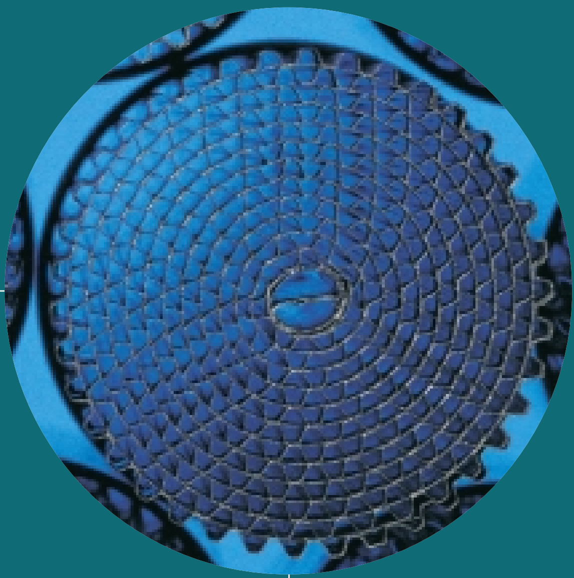
Interest Rates



Fixed 28%
Floating 72%

Divisional Structure

Catalysts & Chemicals



Catalysts & Chemicals consists of Autocatalysts and Pharmaceutical Materials, previously reported as our Catalytic Systems Division, and Chemicals which incorporates the Process Catalysts, Fine Chemicals and Platinum Group Metals Refining activities of our former Precious Metals Division.

Autocatalysts

We are a world leading manufacturer of catalysts for vehicle exhaust emission control and reduction of volatile organic compound emissions from industrial processes.
Manufacturing takes place in the USA, UK, Belgium, Mexico, Argentina, South Africa, Malaysia and India and we have R&D facilities in the USA, UK, Sweden, Japan and Brazil.

Pharmaceutical Materials

Manufactures active pharmaceutical ingredients for sale to leading pharmaceutical companies. We also partner with customers to develop and manufacture patent protected drugs and generic controlled substances. Production is in the USA.

Chemicals

Process Catalysts manufactures supported and homogeneous catalysts, fine chemicals and electrochemical products such as catalysts for fuel cells and gas detectors. Our Platinum Group Metals (pgm) refining business recovers spent catalysts and other secondary material and also refines primary pgms from global mining operations. Manufacturing facilities are in the USA and UK. Our research chemicals catalogue business, Alfa Aesar, is based in the USA and Germany.

Precious Metals

Our Precious Metals Division is organised into two groups; Platinum and Gold and Silver, and incorporates Johnson Matthey's precious metals marketing, fabrication and refining activities.

Platinum

Consists of our worldwide platinum marketing and fabrication activities. Marketing is headquartered in London with support facilities in Philadelphia and Hong Kong. We are the world's leading distributor of platinum group metals and the sole marketing agent for Amplats, the world's largest producer of platinum. Our platinum fabrication business makes a wide range of platinum group metal products primarily in the UK and USA.

Gold and Silver

Comprises our worldwide gold and silver refining and bullion manufacturing operations. Johnson Matthey is the largest refiner of gold in the world and a major refiner of silver. The business serves the world's mining industries and recycles secondary scrap material. We are also the world's largest manufacturer of high purity small gold bar products for investment and jewellery manufacture.
Gold and silver refining operations are located in the UK, USA, Canada, Australia and Hong Kong.

Colours & Coatings

Our recently renamed Colours & Coatings Division is ranked among the world's top three integrated suppliers of decorative products and associated raw materials for ceramics and glass. The division is structured into four businesses; Glass, Pigments and Dispersions, Structural Ceramics and Tableware, which are organised around the key markets that we serve.

Glass

Based in the Netherlands, our Glass business manufactures black obscuration and silver conductive enamels for automotive glass. It also makes enamels and decorative precious metal products for other glass applications such as bottles and architectural glass.

Pigments and Dispersions

Pigments and Dispersions produces a wide range of inorganic and organic pigments and pigment dispersions for use in printing inks, paints, automotive finishes, woodstains and plastics.

Structural Ceramics

Our Structural Ceramics business manufactures colours, glazes and frits for the tile and sanitaryware industries, and includes our zircon business.

Tableware

Tableware supplies colours, glazes, decals and decorative precious metal products to manufacturers of fine china in the UK and around the world.

Electronic Materials

Our Electronic Materials business is organised on global lines in two sub-divisions; Wafer Fabrication Materials and Interconnect Products and Services.

Wafer Fabrication Materials

Consists of our sputtering target and high purity metals businesses and also manufactures products for temperature measurement and wafer processing chamber components. Our products are used for making semiconductor chips in the "front end" of the semiconductor device manufacturing process.

Johnson Matthey is the world's biggest supplier of high purity (99.99 to 99.9999%) titanium for the electronics industry. We are also the world leader in sputtering targets used for thin film deposition in the semiconductor manufacturing process. Manufacturing is in the USA, UK, Japan, Korea and Taiwan.

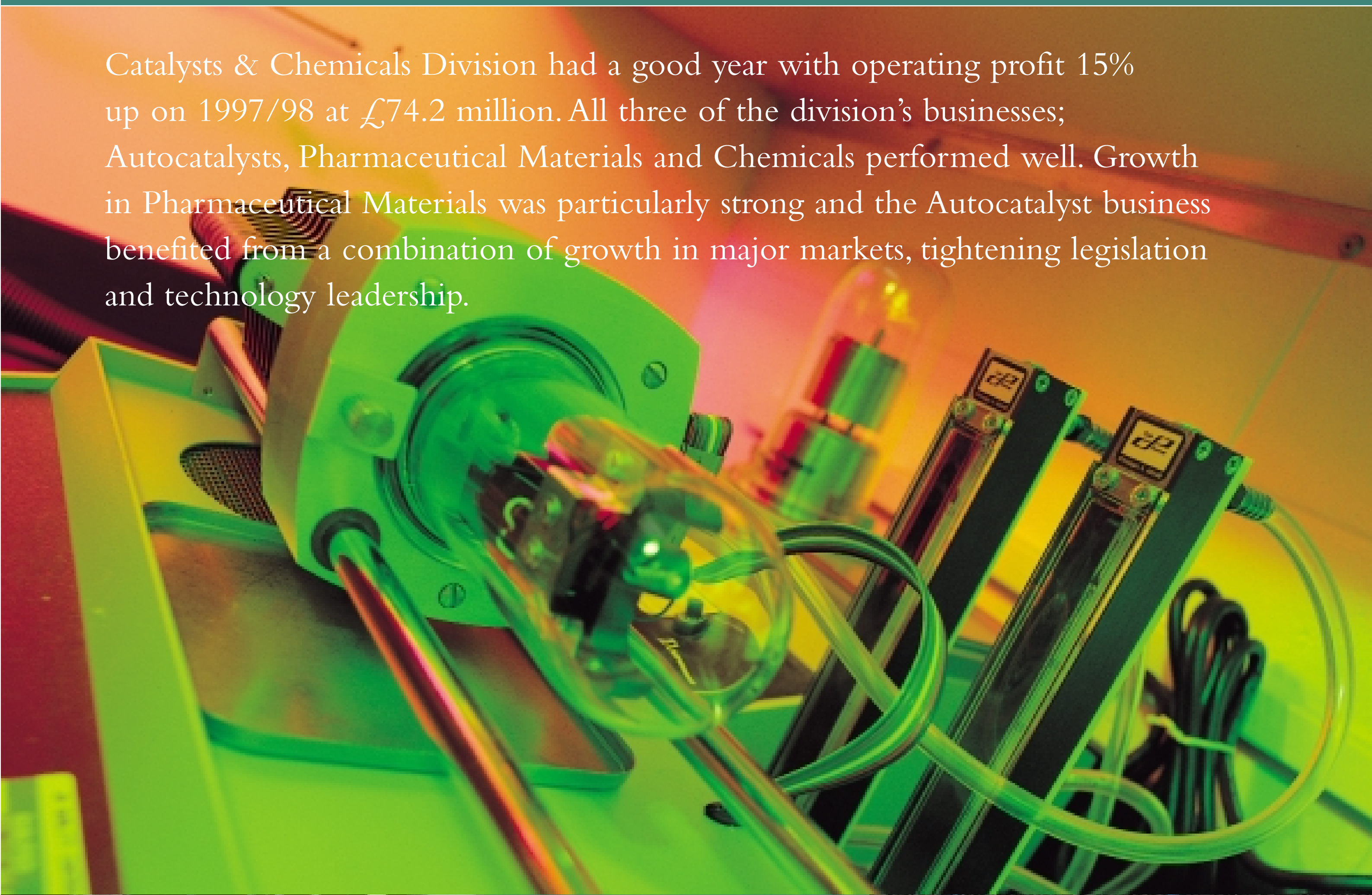
Interconnect Products and Services

Encompasses our Assembly Products, Laminate Products and Semiconductor Packages businesses. These supply products used for the packaging and assembly of semiconductors and advanced microelectronics devices in the "back end" of the semiconductor manufacturing process.

Assembly Products supplies materials used in the packaging of semiconductor devices including die attach materials, metal seal lids and thermal management materials.

Laminate Products is the third largest supplier of complex multilayer printed circuit boards in the USA, the market leader in sophisticated boards for mobile telecommunications, and a world leader in high density interconnect technology for personal communications products. Semiconductor Packages manufactures plastic laminate packages for advanced semiconductor devices at our state of the art facility in Chippewa Falls, USA.

Catalysts & Chemicals



Catalysts & Chemicals Division had a good year with operating profit 15% up on 1997/98 at £74.2 million. All three of the division's businesses; Autocatalysts, Pharmaceutical Materials and Chemicals performed well. Growth in Pharmaceutical Materials was particularly strong and the Autocatalyst business benefited from a combination of growth in major markets, tightening legislation and technology leadership.

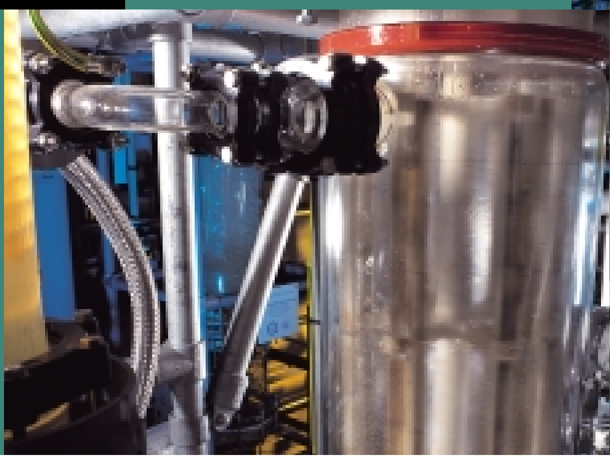
Above
Physical testing of active pharmaceutical ingredients using laser particle size analysis

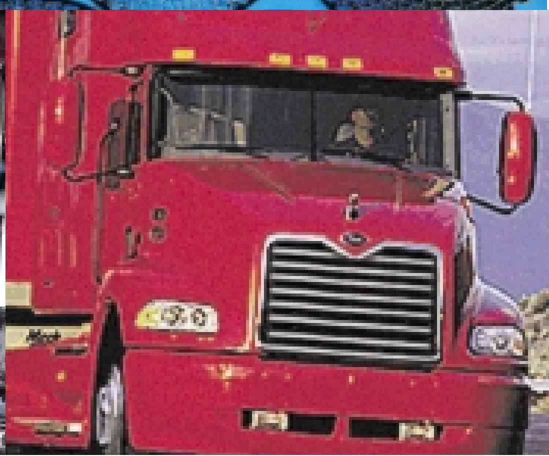
Left
Johnson Matthey is committed to investment in the development of new catalysts for a wide range of high technology applications

Right
Autocatalysts are used on motorcycles in an increasing number of European and Asian countries

Left
Manufacturing platinum group metal homogeneous catalysts at our new production facility in Royston, UK

Right
New heavy duty diesel legislation due to come into effect in the US in 2002 will open up a major new market for emission control catalysts

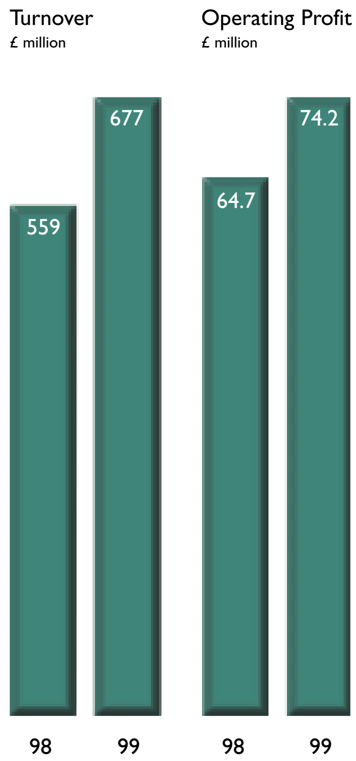




Autocatalysts

The autocatalyst business had a good year. While the South American, ASEAN and Japanese markets were depressed, car sales in its major markets of Europe and North America were strong, growing by 7% and 3% respectively. This growth, reinforced by tighter emissions standards which are resulting in more catalysts per vehicle coupled with the continuing popularity of sport utility vehicles in the US, enabled the business to increase its worldwide unit sales by 13%.

The group's Australian autocatalyst facility, which supplied European customers under an export credit scheme, was closed at the end of 1998 following the effective ending of the scheme. These sales will in future be sourced from JM's plants in South Africa, which has strong export credit incentives, Brussels and Malaysia. In February 1999 production commenced in a new facility near Delhi, India. This plant will provide autocatalysts for India's growing car and motorcycle markets. In early February 1999 Johnson Matthey acquired the business of Watson Engineering Testing Development Inc. in Detroit. This facility will further enhance JM's service to its US customers and is being expanded to become the group's North American heavy duty diesel development centre. Sales of heavy duty diesel catalysts continued to make good progress in both Europe and the United States during the year and will be further enhanced by legislation due to come into effect in the US in 2002 and in Europe in 2005. Motor industry interest in fuel cells has accelerated over the last year with announcements by many leading car companies that they will be selling fuel cell powered vehicles within the next five years. Johnson Matthey made major advances during the year both in developing fuel cell technology and in establishing its position in the fuel cell engine supply chain. In late October the company announced a long term agreement with Ballard Power Systems, Inc. to supply catalysts and electrodes for their fuel cells. An agreement was concluded in March with dbb Fuel Cell Engines GmbH to supply catalysts and gas clean up components for their fuel cell engines.



Pharmaceutical Materials

The Pharmaceutical Materials business achieved substantial growth in both sales and operating profit during the year. Sales of organic pharmaceuticals more than doubled over the prior year, led by a successful first full year of methylphenidate sales to Schein Pharmaceutical, Inc. as well as by strong sales of fentanyl, sufentanil and hydrocodone. Sales and royalty income from the important platinum based anti-cancer drugs, carboplatin and cisplatin, remained strong, with no decision as yet on legal challenges to the US cisplatin patent. Significant progress was made in new product development for several important new customers with additional generic products as well as a promising Phase III drug well advanced toward commercialisation. In support of this strong product pipeline, the business has continued to invest in manufacturing capacity, which has more than doubled since last year and plans for further expansion are well advanced. AnorMED Inc., which was established in 1996 via a spin-off of Johnson Matthey's biomedical research activities, completed a successful initial public offering on the Toronto Stock Exchange in March. Johnson Matthey owns 18.5% of the floated company.

Chemicals

The Chemicals business had a very successful year, led by its core platinum group metal (pgm) chemicals and refining businesses in North America and Europe. PGM refining from both primary and secondary sources was particularly buoyant. The process catalyst business, which supplies heterogeneous and homogeneous catalysts to the pharmaceutical, agrochemical, automotive, speciality and fine chemicals sectors, continued to make good progress.

Significant investments were made during the year in the construction of a homogeneous catalyst facility and in extending the product range. Chiral catalysis, used in the manufacture of single isomer drugs, is a growing area for homogeneous catalysts. The business has invested in ligand technology for these catalysts and in high throughput screening methods necessary for rapid evaluation of both homogeneous and heterogeneous catalysts.

The research chemicals business in North America continued to perform well.

Research and Development

Autocatalyst research is focused on providing customers with world leading technology at competitive prices. During the year excellent progress has been made on NOx reduction solutions for diesel and gasoline lean burn applications and also in developing new generations of advanced three way catalysts. Increased emphasis was placed upon research into heavy duty diesel emissions in response to new regulations in North America and Europe. At the opposite end of the scale we established a motorcycle test facility in Royston to support the growing worldwide market for motorcycle catalysts. In Pharmaceutical Materials there is a good flow of new products in the pipeline. R&D in the Chemicals business is focused on catalysts, especially for the pharmaceutical industry. Significant progress has also been made in the development of new precious metal based dyes for application in solar cells.

Precious Metals

Precious Metals Division achieved operating profits of £37.3 million, 12% up on last year. The division consists of two businesses; Platinum and Gold and Silver. The Platinum business saw good growth on the back of higher metal prices and strong demand for both physical metal and fabricated products. Gold and Silver also performed well.

Above
Platinum coated ceramic stirrers used in the glass industry

Left
Washers struck from platinum sheet are crafted into bridal rings

Right
Platinum coated hard disks used in personal computers

Below
Gold and silver bullion products manufactured by JM's refineries around the world

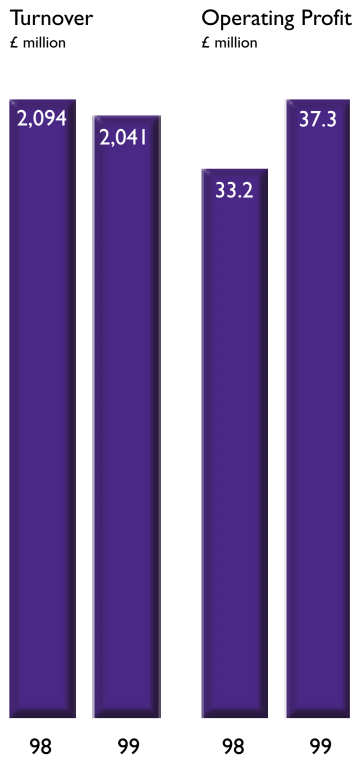
Platinum

The Platinum business includes Johnson Matthey's platinum group metal (pgm) marketing and trading activities together with its pgm product manufacturing and sales businesses. Strong demand for both metal and fabricated products coupled with volatile pgm prices contributed to another year of excellent profit growth from the Platinum operations in 1998/99.

Trading activities benefited from the volatility created by a further year of disruptions to pgm supplies. Delays in Russian shipments of platinum and palladium in the first quarter of 1998, which were repeated in 1999, sent prices and lease rates sharply higher. The price of platinum reached a peak of $429 per ounce in mid April 1998, falling back on resumption of Russian supplies before recovering some ground in early 1999. Palladium had a spectacular year fuelled by the continued steep rise in autocatalyst demand. With Russian palladium sales concentrated in the second half, volatility was exceptional. Palladium fixed at a record $417 per ounce in May 1998 with lease rates oscillating between 150-200% in this period. The price retreated to trade in a $270-300 range for much of the next six months before a renewed suspension of Russian shipments early in 1999 saw palladium climb back above $350 per ounce. The average price of platinum in 1998/99 was $368 per ounce. Palladium averaged $310 per ounce, an increase of 50% over 1997/98.

Demand for the platinum group metals reached record levels in 1998/99, largely unaffected by the erratic pattern of Russian supplies or the economic problems affecting much of Asia and Latin America. Consumption of platinum rose due to a rapid expansion of platinum jewellery fabrication in China. Palladium demand again outpaced platinum and has almost doubled in the last five years driven by rising autocatalyst usage.

Platinum's manufacturing operations performed very well in the year. Demand for higher technology products boosted growth and profitability in both US and European markets.



Gold and Silver

Johnson Matthey is the world's largest refiner of gold and this year refined in excess of 1,900 tonnes of silver, placing the company firmly in the top two silver refiners. The gold and silver refining business continues to achieve steady growth in both market share and profits. 1998/99 was another excellent year for the business, driven by the refining of large volumes of secondary material resulting from the economic crisis in the Far East and by continuing growth in primary refining business from South America, Africa and Australia.

Johnson Matthey's Hong Kong operation was particularly busy during the first half of the year refining dishoarded gold from South East Asia, though this activity declined somewhat in the second half. The refinery in Royston, UK continued its programme of upgrading and expansion. In Australia, a significant investment in new refining processes was completed during the year.

Worldwide, mine production of gold increased to 2,555 tonnes in calendar year 1998.* Secondary supplies for refining exceeded a phenomenal 1,200 tonnes. Demand for gold products reduced in 1998 but this followed a record year in 1997. Current indications are that demand is increasing again in the important, traditional markets of India and the Far East.

Johnson Matthey is well positioned to continue to grow its market share and profitability in all its gold and silver businesses. This will be achieved by building on Johnson Matthey's unrivalled reputation for integrity and the highest levels of customer service.

Research and Development

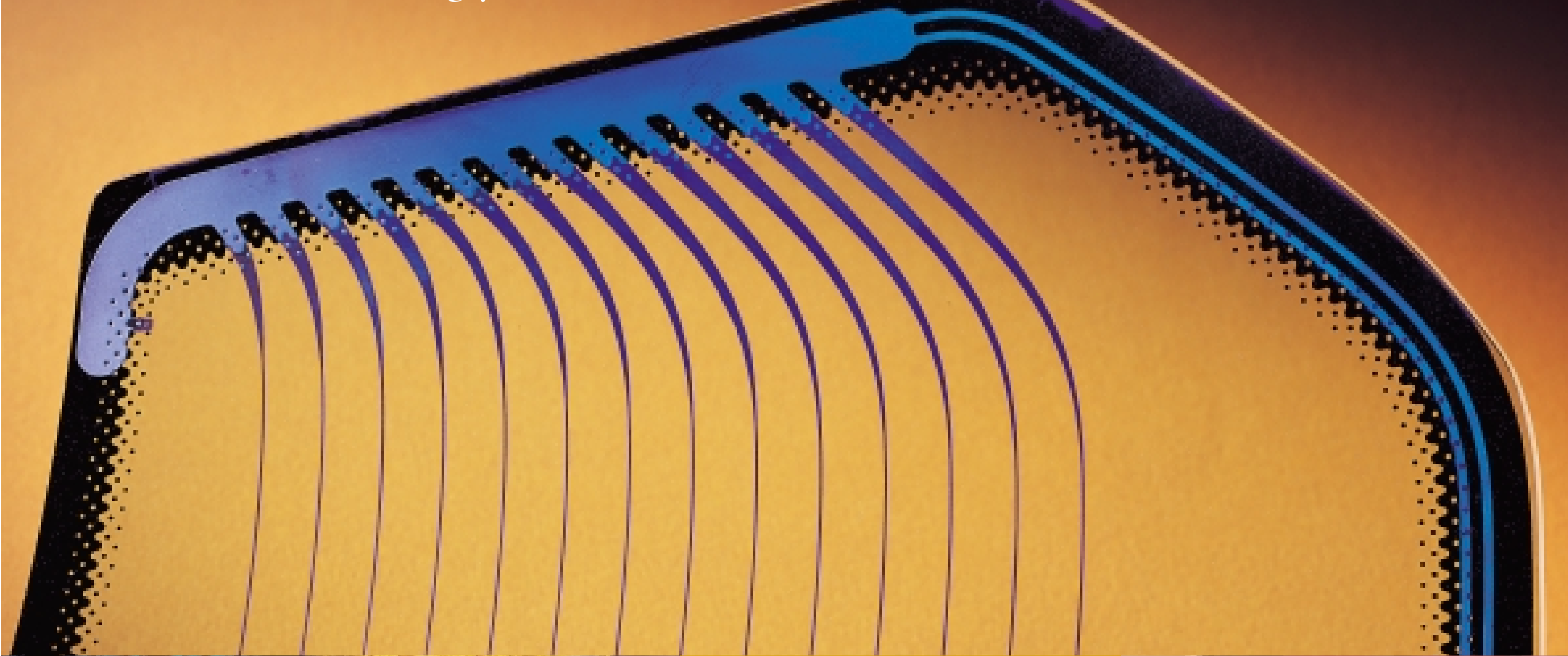
Platinum's research and development is focused on pgm coating technology. Thin coatings of the platinum group metals find many applications as protective films in a number of high temperature, corrosive industrial applications. Notably in the glass sector, the use of JM's patented ACT platinum coatings has provided significant benefits in terms of component durability and product quality.

Research and development in Gold and Silver continues to concentrate on metal handling and process improvements.

* Source – GFMS Gold Survey 1999

Colours & Coatings

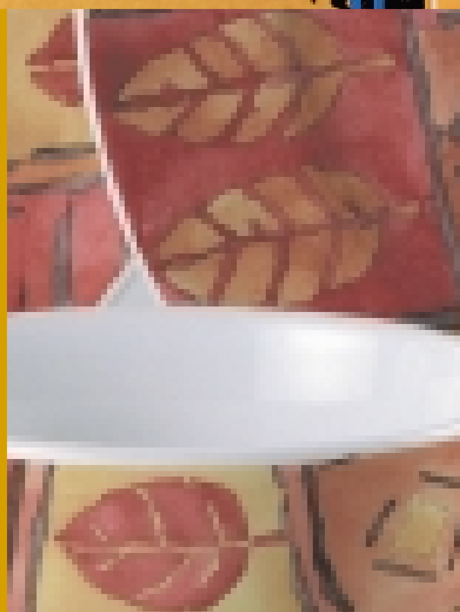
Johnson Matthey's Colours & Coatings Division had an excellent year despite difficult conditions in some of its markets. Operating profits were 56% up at £24.8 million. This growth was achieved mainly as the result of rationalisation initiatives undertaken since the acquisition of 100% of the business last year. These have significantly reduced the division's cost base with further benefits to be realised in coming years.



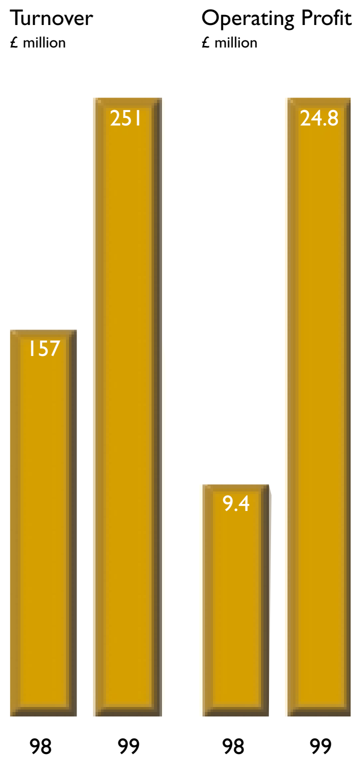
Above
Black obscuration and silver conductive enamels for automotive glass

Left & right
Colours & Coatings manufactures a full range of high specification products for the decoration of tiles and tableware working in close partnership with its customers around the world

Below
Coloured enamels and decorative precious metal products are extensively used in the decoration of glass packaging



The division has been renamed in order to more accurately reflect its product range. Colours & Coatings manufactures inorganic and organic colours and surface coatings for use in a wide range of industries including automotive, glass, tableware, tile, plastics and inks. Colours & Coatings Division is a global business and is organised around the four key markets it serves: Glass, Pigments and Dispersions, Structural Ceramics and Tableware. The division saw strong profit growth in all sectors except Tableware.



Glass

The Glass business, based in Maastricht in the Netherlands, manufactures black obscuration and silver conductive enamels for automotive glass. It also makes enamels and decorative precious metal products for other glass applications such as bottles and architectural glass. Glass had a very successful year achieving good growth in both sales and profits, building on the introduction of new products in the automotive and decorative precious metals markets. Its operations in the United States and in the Far East were reorganised during the year to focus on the major growth potential of these markets with immediate benefits being realised.

Pigments and Dispersions

The Pigments and Dispersions business produces a wide range of inorganic and organic pigments and pigment dispersions used in printing inks, paints, automotive finishes, woodstains and plastics. During the year the business achieved good profit growth benefiting from its strong market positions in pigments and dispersions for paints and in transparent iron oxide for the woodstain and automotive finishes markets. Despite the impact of the strong pound much of this growth came from outside the UK. Cost reduction initiatives undertaken during the year have placed the business in a good position to benefit from improvements in the economic climate.

Structural Ceramics

The Structural Ceramics business manufactures colours, glazes and frits for the tile and sanitaryware industries and includes Johnson Matthey's zircon business. The Tile business has operations in all the world's major markets including Italy, Spain, Brazil and the Far East. Products for the sanitaryware industry and for roof tiles are produced chiefly in the UK and the Netherlands. Zircon, a white pigment used principally in the tile and sanitaryware industries, is manufactured by the controlled grinding of zircon sand and additives at sites in Spain, Italy, the UK, Brazil, Malaysia and India. A facility is under construction in the United States.

The Structural Ceramics sector had a very good year with profits up in all three of its businesses. While the Tile business was hit by a fall in sales to Asia, it benefited from substantial improvements in Europe, particularly in the fast growing Spanish market. The Sanitaryware business faced difficult market conditions throughout the year but benefited from major reductions in its cost base. The Zircon business traded very strongly, despite falling prices, having established itself as the leading low cost producer.

Tableware

The Tableware business supplies colours, glazes, decals and decorative precious metals to the tableware industry. This was a difficult year for the business with many of its customers, particularly in North Staffordshire, severely affected by the strength of sterling and the continued downturn of Far Eastern markets for their products. Profits were down and major cost reductions were implemented during the year. The business is now well positioned to benefit from any upturn in the market.

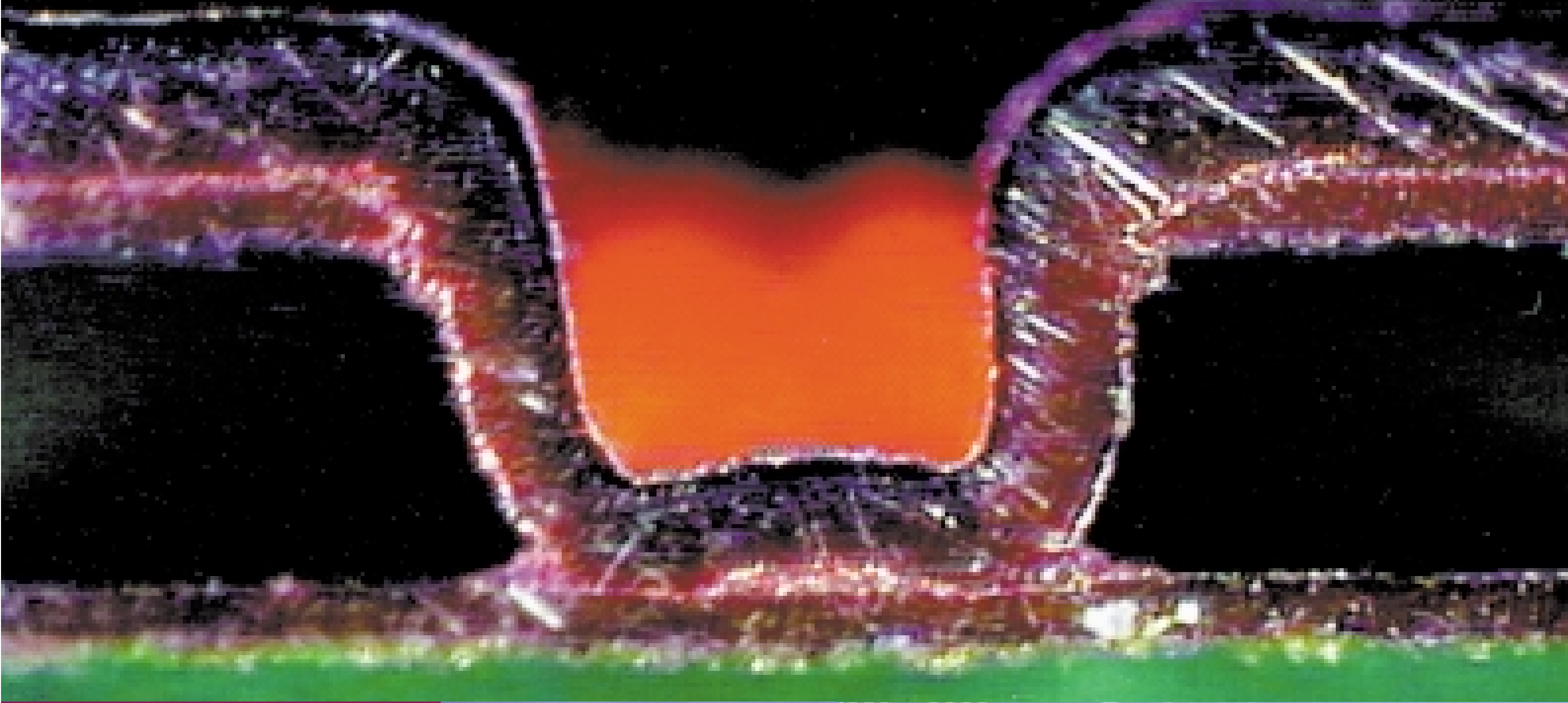
Research and Development

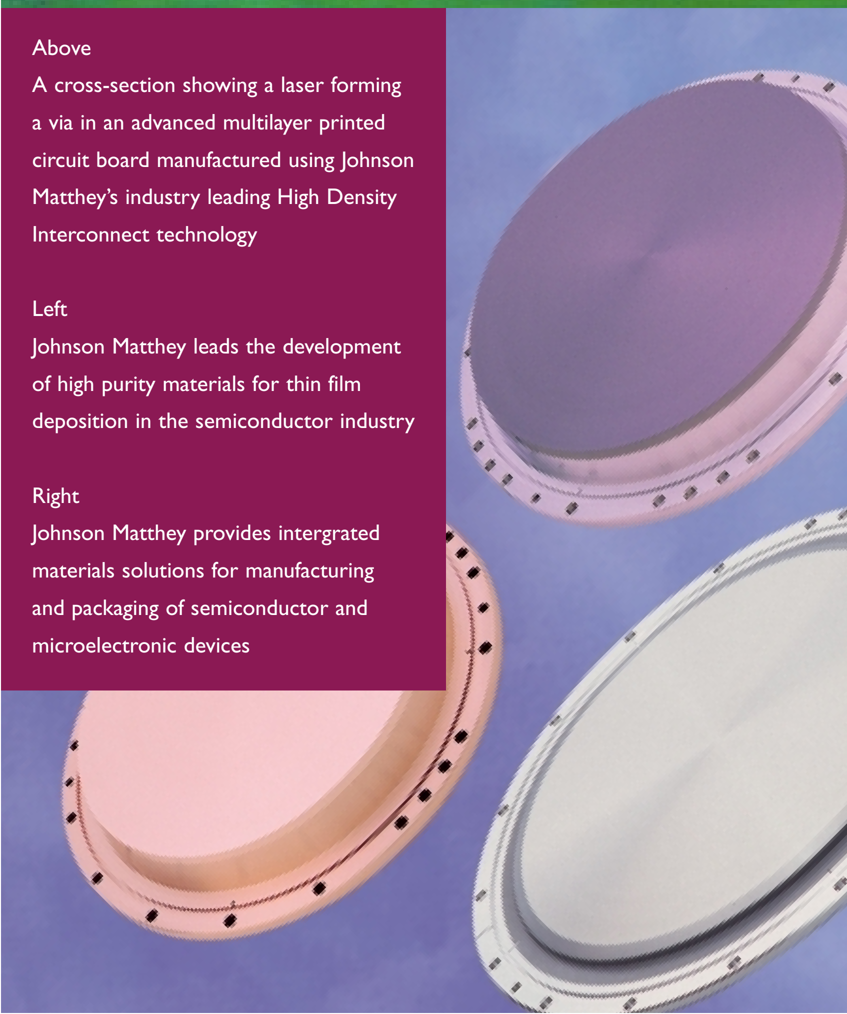
Fundamental research for the Colours & Coatings Division has been successfully consolidated within the Johnson Matthey Technology Centre. This research group undertakes fundamental studies for the division, focusing on the application of new materials technologies and investigating the properties and performance of existing products. The technical knowledge gained is an important component of its customer liaison programme and is vital to enhancing Johnson Matthey's competitive position in the marketplace.

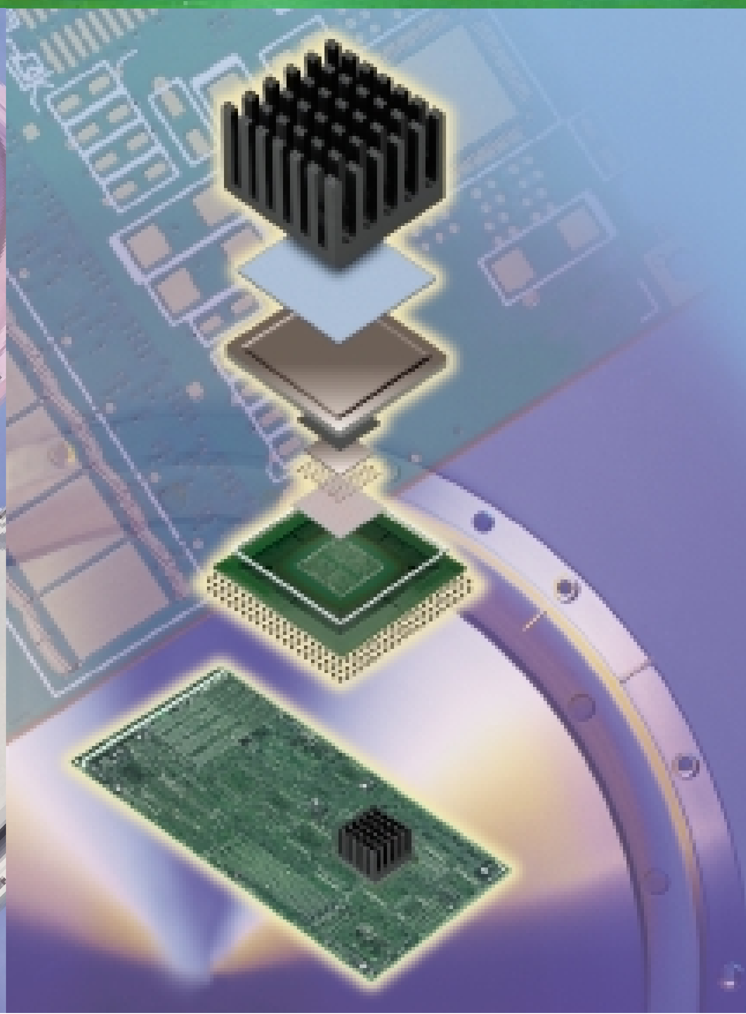
Current programmes include improving the performance of glazes through an understanding of their flow properties, improving the conductivity and tarnish resistance of automotive silver pastes and the development of a new generation of decorative golds.

Electronic Materials

The Electronic Materials Division had a difficult year due to a significant downturn in the semiconductor and microelectronics industries that it supplies and associated price pressure, mainly from the Far East, which depressed margins. As a result the division's operating profits were 45% down on last year at £22.1 million.







Above
A cross-section showing a laser forming a via in an advanced multilayer printed circuit board manufactured using Johnson Matthey's industry leading High Density Interconnect technology

Left
Johnson Matthey leads the development of high purity materials for thin film deposition in the semiconductor industry

Right
Johnson Matthey provides intergrated materials solutions for manufacturing and packaging of semiconductor and microelectronic devices

Electronic Materials has been reorganised into two sub-divisions: Wafer Fabrication Materials, which serves the front end of the semiconductor manufacturing process, and Interconnect Products and Services, which includes the Assembly Products, Laminate Products and Semiconductor Packages businesses that service the back end of the semiconductor and microelectronics industries.

Wafer Fabrication Materials

The Wafer Fabrication Materials business (WFM) continued to expand its global operations despite difficult industry conditions throughout the year. It is well positioned for growth as market conditions improve, indeed order books began to strengthen in the final quarter. In line with its globalisation strategy WFM increased its market penetration during the year, particularly in Southeast Asia where it commissioned its most recent manufacturing operation in Taiwan. A new facility in the UK is due for completion by the late summer and the business is now strategically positioned in all the key semiconductor manufacturing regions worldwide. During the year WFM extended its product range to include high purity tantalum and cobalt and established refining facilities for high purity copper at its Spokane plant. The business has also expanded its portfolio to include chamber consumables used in the sputtering process and has demonstrated production capability for 300mm wafer processing technology. The business is well positioned to remain the world's leading supplier of thin film deposition materials to the semiconductor industry.

Interconnect Products and Services

Laminate Products Group

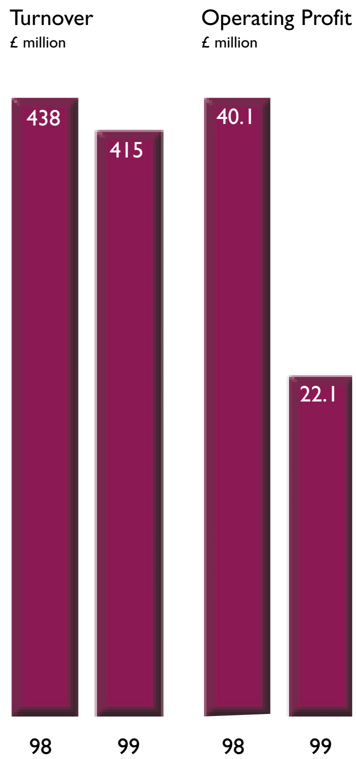
While Johnson Matthey Advanced Circuits, Inc. (JMACI) kept its manufacturing facilities full throughout the year, its profits were impacted by intense overseas price competition resulting from the Asian economic crisis. However the business has continued to develop leading edge technology for the telecommunications and high end computer markets with capital investment at its Buffalo and St. Louis Park facilities to prepare for volume production of new high density interconnect printed circuit boards in the Spring of 1999. JMACI is positioned for the medium term to be the only US volume manufacturer of this microvia technology which is being incorporated in the next generation of multifunction digital mobile phones and advanced networking and Internet infrastructure products.

Semiconductor Packages Group

The Semiconductor Packages Group (SPG) had a good year exceeding all its volume and yield goals and making a good contribution to profits despite price pressure from Japanese competitors. SPG is working with leading telecommunication, computer, semiconductor and contract manufacturing customers on a mixture of package and advanced high layer count PCB products as the current customer and product mix is in transition. A new flip chip pre-production plant, utilising the advanced build up technology cross-licensed from Kyocera Corporation, is fully operational and is capable of producing the most technically advanced packages in the United States. Johnson Matthey remains the principal US supplier of advanced semiconductor packages and is also positioned to be the premier supplier of high end PCBs to the workstation, server, and supercomputer markets.

Assembly Products Group

Profits in the Assembly Products Group declined due to the impact on thermal management and die attach products of the economic downturn in Asia, associated price competition and design changes resulting from the rapid shift to lower cost personal computers. These effects were partially offset by a strong second half rebound in its contract assembly business, where revenues were grown by leveraging the industry wide trend toward increased outsourcing of specific assembly operations and by establishing a significant manufacturing base at the Juarez, Mexico facility. This growth is anticipated to continue in the next year. Additional successes were seen in low alpha lead products, where Johnson Matthey is now the largest merchant supplier to the semiconductor industry, and new proprietary thermal interface materials, which are undergoing customer qualifications.



Research and Development

EMD continues to invest in leading edge materials technologies designed to establish key positions in emerging markets.

The Chippewa Falls and Minneapolis facilities have made a significant investment in ultra fine line sequential build up technologies designed to produce the next generation of printed circuit board and laminate packages for the flip chip connection of integrated circuits. This fast growing packaging technology also demands novel underfill and thermal interface materials and the division's San Diego facility has been active in generating integrated material sets for this application.

Integrated circuit manufacturing has seen a move to smaller device geometries and the emergence of new copper based thin film technologies. Johnson Matthey has established an excellent position in these areas with notable successes in the development of high density refractory targets as well as sputtering targets for the next generation of barrier and contact materials. The development of other high purity metals for future generations is also well advanced.

Board of Directors

M B Dearden MA

Age 56; appointed a non-executive director in April 1999. Currently Chief Executive of Castrol International and a main board director of Burmah Castrol plc. **A, M, N**

H E Fitzgibbons BA JD

Age 62; appointed a non-executive director in May 1990. Currently Managing Director of Top Technology Ltd and several venture capital funds. Currently a non-executive director of Trafficmaster Plc. **A, M, N**

Committees of the Board

A Audit Committee

M Management Development and Remuneration Committee

N Nomination Committee

P F Retief

Age 66; appointed a non-executive director in June 1993. Currently a director, previously Chairman, of Anglo American Platinum Corporation Limited. Formerly Chairman of JCI Limited and Johnnies Industrial Corporation Limited. **A, M, N**

H R Jenkins CBE

Age 65; appointed a non-executive director in January 1996 when he retired as a director of The Prudential Corporation plc where he was Chief Executive of Prudential Portfolio Managers. Latterly Chairman of Thorn plc and currently a non-executive director of EMI plc and The Rank Group Plc. He chaired the property advisory group at the Department of the Environment from 1990 to1999. Previously Group Investment Director, Allied Dunbar Assurance and Director General of Investments, British Coal Pensions. **A, M, N**

J N Sheldrick MA MSc FCMA FCT

Group Finance Director Age 49; joined Johnson Matthey as Executive Director, Finance in September 1990 and assumed current job title in September 1995. Currently a non-executive director of API Group Plc. Previously Group Treasurer of The BOC Group plc.

H M P Miles OBE

Chairman Age 63; joined Johnson Matthey as a non-executive director in March 1990; appointed Chairman in June 1998. Currently a director of ING Baring Holdings Limited and John Swire & Sons Limited and a non-executive director of BP Amoco plc, BICC plc and other companies. He is a Vice President of the China Britain Business Council. Previously Chairman of Cathay Pacific Airways, Swire Group Hong Kong and the HongKong Tourist Association, and a director of HSBC. **A, M, N**

Left to Right: M B Dearden, H E Fitzgibbons, P F Retief, H R Jenkins, J N Sheldrick, H M P Miles, C R N Clark, D G Titcombe, C D Mackay, M J Cleare, I G Thorburn, G D Wells

C R N Clark MIM

Chief Executive Age 57; joined Johnson Matthey in 1962; headed Johnson Matthey's platinum marketing operations before assuming responsibility for Catalytic Systems Division in 1988, and, additionally, Colour and Print in 1990. Appointed an executive director in March 1990 and Group Managing Director in September 1995. Became Chief Operating Officer in July 1996 and appointed Chief Executive in June 1998.

D G Titcombe

Group Managing Director Age 56; joined Johnson Matthey in 1960; appointed Division Director, Metals Division in 1984 and Director Precious Metals Marketing in 1988. Appointed Executive Director, Precious Metals in November 1990, and Managing Director, Precious Metals and Catalytic Systems in March 1994. In September 1995, he was appointed Managing Director of the enlarged Precious Metals Division. Appointed Group Managing Director in January 1999. Currently a non-executive director of Wagon plc.

C D Mackay MBA, MA

Age 59; appointed a non-executive director in January 1999. Currently Deputy Chairman of Eurotunnel Group (and Chairman of Eurotunnel PLC and The Channel Tunnel Group Limited), Deputy Chairman of Thistle Hotels plc and a member of the Supervisory Board of Gucci Group NV. Previously, Group Chief Executive and Deputy Chairman of Inchcape plc and has also served on a number of boards including those of HSBC Holdings plc and British Airways plc. **A, M, N**

Dr M J Cleare BSc DIC PhD FRSC

Managing Director, Electronic Materials Division Age 55; joined Johnson Matthey in 1966 and worked in various R&D roles. Research Director from 1982 to 1988. Appointed Planning and Development Director in 1989 and President of Materials Technology Division (North America) in 1990. Became President and Divisional Director MTD Chemicals in 1994 and Managing Director, Catalytic Systems and an executive director in September 1995. Appointed to his current role in January 1997. Currently a non-executive director of AnorMED Inc. (Vancouver).

I G Thorburn MA FCA

Executive Director, Administration Age 58; joined Johnson Matthey in March 1982 as Group Financial Controller. Appointed Finance Director in August 1983 and Executive Director, Administration in May 1987. Company Secretary and Chairman of the Trustees of Johnson Matthey's UK pension schemes until May 1999. Previously Finance Director, Yardley & Co. Ltd. Retires as a director of the company at the conclusion of this year's Annual General Meeting on 21st July 1999.

G D Wells

Age 63; appointed a non-executive director in March 1998. Currently a non-executive director of Q Logic Corporation and Align-Rite International. Previously, Executive Vice President, Fairchild Semiconductor, President and Chief Executive Officer of General Electric's Intersil subsidiary, President and Chief Operating Officer, later Vice Chairman of LSI Logic Corporation and President and Chief Executive Officer of Exar Corporation. **A, M, N**

Other Senior Management

Catalysts & Chemicals

N A P Carson Division Director CSD, President CSD Worldwide

L C Pentz President, CSD North America

P G Emmel Managing Director, CSD European Region

D B MacDermot Finance and Planning Director, CSD

F K Sheffy Vice President and General Manager, Pharmaceutical Materials

R J Tait Operations Director, Chemicals

M T Durney General Manager, Chemicals, North America

Y Katoh Chairman, Japan

Precious Metals

K Green Operations Director, Platinum

K T Burgoine General Manager, Canada

B J Doherty Managing Director, Australasia

J Fairley General Manager, Gold and Silver, UK

A M Myers General Manager, Noble Metals, North America

W F Sandford General Manager, Noble Metals, Europe

P E Tape Finance Director, PMD

Colours & Coatings

C M Hood Division Director

G A Hughes Managing Director, Pigments and Dispersions

J Murkens Business Director, Glass

V Ros Managing Director, Structural Ceramics

J M Shears Finance Director, Colours & Coatings Division

Electronic Materials

B E Pouliquen President, Johnson Matthey Electronics

D J Miller President, Wafer Fabrication Materials

G J Coates Finance Director, EMD

Corporate

S Farrant Company Secretary and Senior Legal Adviser

I D Godwin Group Public Relations Manager

M J L Henkel Group Taxation Manager

G McGuire Director, Technology Centre

D W Morgan Group Corporate Development Director

I F Stephenson Director, Information Technology and Environment, Health and Safety and Personnel

Corporate Policies

Environment, Health and Safety

Johnson Matthey places high priority on its responsibility for the environment and the health and safety of its employees, customers and the community. The Environment, Health and Safety Committee of the board ensures compliance with the corporate Environment, Health and Safety Policies set out below. Each of our locations around the world is required to formulate its own particular arrangements, including performance targets, to meet the key objectives set out in the corporate policies and to ensure that all employees are aware of policy and their individual responsibilities. Performance is measured through analysis of health and safety and emissions data and through regular site audits.

Environment

- Ensure that site operations meet legal and company requirements.
- Design and manufacture products to optimise their environmental performance.
- Eliminate all polluting releases from operations. Where elimination is not presently achievable, the intermediate goal is reduction.
- Promote high standards of energy management.
- Undertake comprehensive waste management programmes based on the following hierarchy of options – prevent, minimise, re-use, recycle and safely dispose.
- Minimise the impacts of past, present and future operations through effective planning and adequate provision of resources.
- Ensure that operations cause minimal visual impact or nuisance to the public.

Health and Safety

- Ensure that all locations meet all legal and company health and safety requirements.
- Manufacture current products in a manner which ensures a safe working environment through each phase of the production process.
- Strive toward an end goal of eliminating unsafe practices at all locations.
- Promote high standards of safety awareness through employee involvement and management commitment at each location.
- Operate processes at all times to minimise danger to the surrounding community.
- Provide immediate and effective response in event of accidents and emergencies.

Training and Development of People

Johnson Matthey recognises the importance of recruiting the very highest calibre of employees, training them to achieve challenging standards in the performance of their jobs, and developing them to their maximum potential.

Our policy requires careful review of organisation structure, succession and the development of high potential people to meet our business goals. The Management Development and Remuneration Committee of the board takes a special interest in ensuring compliance with the Training and Development of People Policy set out below.

Training and Development of People

- Ensure highest standards in the recruitment of staff.
- Assess training needs in the light of job requirements.
- Ensure relevance of training and link with business goals.
- Employ and evaluate effective and efficient training methods.
- Promote from within, from high potential pools of talent.
- Understand employees' aspirations.
- Provide development opportunities to meet employees' potential and aspirations.

Johnson Matthey – Providing Technology for a Clean Energy Future

Since developing the first autocatalysts in the early 1970s, Johnson Matthey has built a global reputation for excellence in air pollution control technology, and played an important part in improving the environment in which we live.

Achieving further reductions in the emissions that cause local air pollution, acid rain and global warming remains an important goal for the next century. Johnson Matthey is determined to build further on its expertise in catalysis and to maintain its position at the forefront of the growing markets for new and improved environmental technologies.

Minimising emissions from vehicles

The introduction of autocatalysts has resulted in dramatic reductions in major exhaust pollutants. In the UK, for example, where autocatalysts have been fitted since the early 1990s, emissions savings in the period between 1990 and 2000 will total around 15.0 million tonnes CO, 3.7 million tonnes NOx and 2.9 million tonnes HCs.

Improving air quality further in city centres depends largely on cutting polluting emissions from heavy duty diesel vehicles such as buses and lorries and from motorcycles. Johnson Matthey has been at the forefront of development of products to deal with heavy duty diesel pollution for many years. Its Continuously Regenerating Trap (CRT™), can reduce HCs, CO and PM_{10} from such vehicles by more than 90% – so it is no wonder that the CRT™ was one of the first 200 Millennium products selected by the UK Design Council.

Recent US and EU legislation on heavy duty vehicle emissions sets tough standards for emissions of NOx and particulates for the years ahead that will require the use of advanced exhaust catalyst technology.

The CRT™ now features in the R&D programmes of many of the world's leading engine manufacturers and is already being offered as an option by several of Europe's leading truck and bus manufacturers. Johnson Matthey is also actively involved in developing solutions to NOx emissions with major engine manufacturers in the USA and Europe. The group is in the process of equipping the Detroit testing facility that it acquired in February 1999 with state of the art heavy duty diesel testing equipment.

Johnson Matthey is also at the forefront of development of emission control catalysts for motorcycles. These are expected to be fitted in significant numbers in Europe and India as new regulations come into force over the next year.

Cutting emissions from industrial processes and energy generation

Johnson Matthey's Environmental Products business provides unique catalytic solutions to air quality problems caused by emissions from industrial processes and power generation plants. Though based in the USA where environmental limits are toughest, the business supplies customers around the globe and will be ready to respond to demand as clean air regulations spread and tighten.

Fuel cell technology

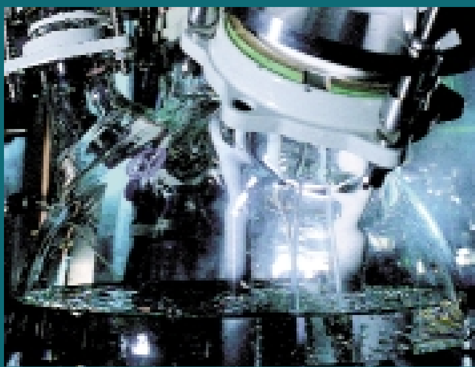
Fuel cells use platinum catalysed electrodes to generate power electrochemically from hydrogen and oxygen. Their major environmental benefits include high energy efficiency and potentially zero polluting

Key

CO_2	carbon dioxide – main gas causing global warming
NOx	nitrogen oxides – contributes to acid rain, low level ozone and smog
CO	carbon monoxide – a poisonous gas
HCs	hydrocarbons – involved in the formation of smog, have unpleasant smell
PM_{10}	soot or particulate matter – particles smaller than 10 micrometres in diameter are the biggest health worry

emissions – if pure hydrogen is used as fuel the only by-product is water. As development milestones continue to be passed, it is becoming ever clearer that fuel cells can offer a real alternative to internal combustion engines, batteries and all sizes of power plants.

Johnson Matthey is working with a number of major Proton Exchange Membrane (PEM) fuel cell developers and has produced a range of leading edge catalysts and catalysed components such as MEAs (membrane-electrode assemblies) designed to give optimum performance and to be capable of volume manufacture. Work is also continuing on ancillary catalyst based components necessary for fuel cell systems such as fuel reformers to generate hydrogen and CO clean up devices. Johnson Matthey's proprietary HotSpot™ methanol fuel reformer is being adapted for use with other fuels.



… in cars and buses

A fuel cell vehicle engine with Johnson Matthey's HotSpot™ reformer and Demonox™ CO clean up technology can reduce tailpipe emissions of CO_2 by 40-60%, and all but eliminate NOx and CO emissions. The earliest transport application of fuel cells will be in buses; successful field trials have already taken place in Canada and America. But cars are set to become the biggest market for fuel cells. Many of the world's leading car companies now have PEM fuel cell research and demonstration programmes, with several announcing plans to produce significant volumes of vehicles for sale by 2004.

… for power generation

Decentralised fuel cell power generation is widely seen as a major opportunity, with environmental benefits including high energy efficiency, negligible emissions and low noise. Systems sized to power offices and factories are already being built. Smaller scale residential PEM fuel cell systems have also attracted much interest from energy companies, and are projected to be the first mass market for fuel cells, perhaps becoming commercially available as early as 2001. Johnson Matthey has developed novel fuel reformers to generate hydrogen from natural gas for this application which will be used in large scale field trials in the US starting in 2000. Using natural gas, these micro-CHP (combined heat and power) systems could reduce CO_2 emissions for each home by 20-50%.

Solar energy

Capturing sunlight and turning it into electricity is an ideal emissions free and noise-free way of creating energy at the point where it is needed – and each kilowatt of solar energy created can save the equivalent of one tonne of CO_2 emissions per year. But huge challenges still exist in development of cheap and effective solar energy systems. Johnson Matthey's recent purchase of a stake in a photovoltaic development company, INAP, allows our active participation in developing novel low cost cells. Highly specialised ruthenium dyes are at the heart of this technology and represent one area of expertise Johnson Matthey brings to the programme. Benefits the technology can offer include efficient operation at diffused light levels, systems that are sufficiently cost effective for widespread use in developing countries and the potential to produce transparent photovoltaic glass.

Directors' Report

The directors submit to shareholders their one hundred and eighth annual report, together with the audited accounts of the group for the year ended 31st March 1999. Pages 1 to 40 are an integral part of the report.

Principal Activities

The group's principal activities are summarised on pages 12 and 13.

Dividends

The interim dividend of 5.7 pence per share, up 0.5 pence, was paid as a FID in February 1999. A final dividend, which will be paid as an ordinary dividend, of 13.3 pence per share, up 0.7 pence, is being proposed to shareholders as Resolution 2 at the Annual General Meeting (AGM), making a total for the year of 19.0 pence, an increase of 7% over last year. Dividends for the year total £41.3 million.

Share Capital

Allotments of ordinary shares of £1 each of the company were made during the year as set out in note 24 on pages 63 and 64.

Johnson Matthey's share capital includes 450,000 of 5.0% (prior to 6th April 1999, 3.5%) cumulative preference shares of £1 each (300,000 of which have been issued). These preference shares now represent a very small fraction of shareholders' funds. The board has decided, taking into account the expense and administrative burden of maintaining the preference shares, that the company would benefit from a simplified capital structure. Consequently the board is proposing a resolution to shareholders at the AGM to cancel and repay the preference shares at their nominal value of £1 plus accrued dividends up to the date of repayment.

The board has also decided to seek shareholders' authority for the company to make purchases of its own ordinary shares through the market. Johnson Matthey has no present intention to exercise this authority and would only do so in circumstances where the directors believe that it would result in an increase in earnings per share and is in the best interests of the shareholders generally.

The resolutions relating to the company's share capital to be proposed at the AGM are set out in the circular enclosed with this annual report.

Employment Policies

It is the policy of the group to train and develop employees at all levels so that group objectives can be met. We recruit, train and manage our employees regardless of sex, ethnic origin or religion. Employees who become disabled and disabled people are offered employment consistent with their capabilities. Close attention under the direction of the Management Development and Remuneration Committee is given to the group's recruitment and training procedures as well as career development to meet current and future group requirements. The group's Training and Development of People Policy is set out on page 25.

Johnson Matthey recognises the importance of effective employee communications. Information and comment is exchanged with employees through the company's in-house magazine, regular news bulletins, presentations to staff and team briefings.

47% of employees worldwide are shareholders in Johnson Matthey through the group's employee share schemes, which held 4,709,536 shares (2.16% of ordinary share capital) at 31st May 1999. A total of 891 current and former executives hold options over 7,139,843 shares through the company's executive share option schemes.

Directors

Details of the directors of the company are shown on pages 22 and 23. Mr C D Mackay, appointed to the board on 27th January 1999, and Mr M B Dearden, appointed to the board on 27th April 1999, offer themselves for election at the forthcoming AGM. In accordance with the company's Articles of Association, Dr M J Cleare and Mr J N Sheldrick (who are employed on service contracts subject to two years' notice) and Mr H E Fitzgibbons retire by rotation and, being eligible, offer themselves for re-election at the AGM. Mr I G Thorburn, who was a director throughout the financial year, will retire from the board at the conclusion of the AGM. Directors' interests in the company's shares are detailed in the Remuneration Report on pages 33 to 40.

Company Secretary

Mr I G Thorburn who, as stated above, will retire from the board at the conclusion of the AGM, resigned as company secretary on 1st May 1999. He was succeeded by Simon Farrant who is also the group's Senior Legal Adviser.

Directors' Material Interests in Contracts

Other than service contracts, no director had any interest in any material contract with any group company at any time during the year.

Substantial Shareholdings

The company has been advised of the following notifiable interests in its ordinary share capital as at 31st May 1999:

Schroder Investment Management Ltd	18.48%
Prudential Corporation group of companies (see note 1 below)	3.85%
Fidelity Investments	3.11%

The directors are not aware of any other notifiable holdings of 3% or more of the ordinary share capital of the company, but the following interests should also be noted:

1 The Prudential Corporation controls a number of non-material holdings which, when combined with the above notifiable material holdings, bring the total holding to 3.90% (1998 4.98%).

2 Legal & General and Phillips & Drew are interested in their capacity as fund managers in 3.06% and 4.56% respectively of the ordinary share capital of the company.

Auditor

In accordance with section 384 of the Companies Act 1985, a resolution is to be proposed at the forthcoming AGM for the reappointment of KPMG Audit Plc as auditor of the company.

Policy on Payment of Commercial Debts

The group's policy in relation to the payment of all suppliers (set out in its Group Control Manual, which is distributed to all group operations) is that payment should be made within the credit terms agreed with the supplier. At 31st March 1999, the company's aggregate level of "creditor days" amounted to 3 days. Creditor days are calculated by dividing the aggregate of the amounts which were owed to trade creditors at the end of the year by the aggregate of the amounts the company was invoiced by suppliers during the year and multiplying by 365 to express the ratio as a number of days.

Donations

During the year the group donated £267,000 (1998 £272,000) to charitable organisations, of which £198,000 (1998 £213,000) was in the UK. There were no political donations made in the year (1998 £26,000).

This report was approved by the directors on 8th June 1999 and is signed on their behalf by:

Simon Farrant
Company Secretary

Corporate Governance

The group has applied all of the principles set out in section 1 of the Combined Code on Corporate Governance (the Code) relating to the structure and composition of the board, the remuneration of the directors, relations with shareholders and procedures for financial reporting, internal control and audit. This statement describes how the principles of the Code have been applied.

Throughout the year, the group has been in compliance with the provisions of the Code with the exception of those matters noted below.

Directors and the Board

The board is responsible to the shareholders for the group's system of corporate governance, its strategic objectives and the stewardship of the company's resources. The board meets at least seven times per year and delegates specific responsibilities to board committees, as described below. The board reviews the key activities of the business, and receives papers and presentations to enable it to do so effectively. The Company Secretary is responsible to the board, and is available to individual directors, in respect of board procedures.

The board comprises the Chairman (who is the recognised Senior Independent Director), the Chief Executive, four other executive directors and six other independent non-executive directors. The role of non-executive directors is to enhance independence and objectivity of the board's deliberations and decisions. The executive directors have specific responsibilities, which are detailed on pages 22 and 23, and have direct responsibility for all operations and activities.

Sub-Committees

The Chief Executive's Committee is responsible for the recommendation to the board of strategic and operating plans and on decisions reserved to the board where appropriate. It is also responsible for the executive management of the group's business. The Committee is chaired by the Chief Executive and meets monthly. It comprises the executive directors and four senior executives of the company.

The Audit Committee is a sub-committee of the board whose purpose is to assist the board in the effective discharge of its responsibilities for financial reporting and corporate control. The Committee is chaired by Mr H R Jenkins and meets twice a year. It comprises all the non-executive directors with the Chief Executive, the Finance Director and the external and internal auditors in attendance.

The Nomination Committee is a sub-committee of the board responsible for advising the board and making recommendations on the appointment of new directors. The Committee is chaired by Mr H M P Miles and comprises all the non-executive directors.

The Management Development and Remuneration Committee (MDRC) is a sub-committee of the board which determines on behalf of the board the remuneration of the Chief Executive, executive directors and senior management. The Committee is chaired by Mr H M P Miles and comprises all the non-executive directors. The Chief Executive and Company Secretary attend by invitation except when their own performance and remuneration are discussed.

The Company Secretary is secretary to all of the sub-committees except the Chief Executive's Committee.

Directors' Remuneration

The Remuneration Report on pages 33 to 40, includes details of remuneration policies and of the remuneration of the directors.

Relations with Shareholders

The company reports formally to shareholders twice a year, when its half year and full year results are announced and an interim report and a full report are issued to shareholders. At the same time, executive directors give presentations on the results to institutional investors, analysts and the media in London and other international centres.

The Annual General Meeting (AGM) of the company takes place in London and formal notification is sent to shareholders with the annual report at least 20 working days in advance of the meeting. The directors are available, formally during the AGM, and informally afterwards, for questions. Details of the 1999 AGM are set out in the notice of the meeting enclosed with this annual report.

During the year, the Chief Executive, Finance Director and executive directors maintain a dialogue with institutional shareholders on the company's progress through a programme of meetings. All executive directors speak regularly at external conferences and presentations.

Accountability, Audit and Internal Control

In its reporting to shareholders, the board aims to present a balanced and understandable assessment of the group's financial position and prospects.

Following guidance from the London Stock Exchange in December 1998, the directors confirm that they have reviewed the effectiveness of the group's system of internal financial controls. However, in the absence of guidance from the Institute of Chartered Accountants in England and Wales, the directors have not undertaken a formal review of the effectiveness of the group's system of non-financial controls, including operational and compliance controls and risk management. The board expects to be able to report that it has reviewed the effectiveness of internal controls in future years when the formal guidance has been published.

Key elements of the group's system of internal controls are described below:

The board has overall responsibility for the group's system of internal controls, which are designed to meet the group's needs and address the risks to which it is exposed. Such a system can provide reasonable but not absolute assurance against material misstatement or loss.

The group's organisational structure is focused on its four wholly owned divisions. These entities are all separately managed, but report to the board through a board director. The executive management team receive monthly summaries of financial results from each division through a standardised reporting process.

The board meets annually to consider the strategy for individual divisions and again annually to review three year financial plans. The group has in place a comprehensive annual budgeting process including forecasts for the next two years. Variances from budget are closely monitored. The group's treasury policies are discussed in the financial review on page 10. The principal aspects of these policies are approved by the board. Specific criteria exist for the approval of significant contracts and other legal agreements. A committee of the board reviews significant items of this nature.

Corporate Governance

The Group Control Manual, which is distributed to all group operations, clearly sets out the composition, responsibilities and authority limits of the various board and executive committees and also specifies what may be decided without central approval. It is supplemented by other specialist policy and procedures manuals issued by the group, divisions and individual business units or departments. The high intrinsic value of many of the metals with which the group is associated necessitates stringent physical controls over precious metals held at the group's sites.

The internal audit function is responsible for monitoring the group's systems of internal financial controls and the control and the integrity of the financial information reported to the board. The Audit Committee receives the reports produced by the internal audit function on a regular basis. Actions are agreed with management in response to the internal audit reports produced.

In addition, significant business units through a programme of self-assessment provide assurance on the maintenance of financial controls and compliance with group policies. These assessments are summarised by the internal audit function and a report is made annually to the Audit Committee.

Non-Compliance

The items in the Code with which the group did not comply in full throughout the period together with the appropriate Code reference are stated below:

The company ensures that it recruits to the board only individuals of sufficient calibre, knowledge and experience to fulfil the duties of a director appropriately. There is currently no formal training programme for directors (A.1.6).

The offices of Chairman and Chief Executive are held separately. Prior to 9th June 1998 the offices were combined (A.2.1).

The executive directors are employed on contracts subject to two years' notice at any time, which the MDRC considers appropriate in the overall context of the executive directors' terms of employment. It is not currently proposed that this should be reduced further for existing service contracts. In the event of early termination of service contracts the MDRC strongly endorses the principle of requiring the directors to mitigate their loss (B.1.7).

Going Concern

The directors have a reasonable expectation that the group has sufficient resources to continue in operational existence for the foreseeable future and have, therefore, adopted the going concern basis in preparing the accounts.

Remuneration Report

Remuneration Report to Shareholders

Management Development and Remuneration Committee and its Terms of Reference

The board has established the Management Development and Remuneration Committee (the Committee) which comprises all the non-executive directors of the company as set out on pages 22 and 23.

Mr C D Mackay joined the Committee when he was appointed a non-executive director in January 1999. Mr M B Dearden joined the Committee when he was appointed a non-executive director in April 1999.

The Committee's terms of reference are to determine on behalf of the board fair remuneration for the executive directors and other senior employees, which, while set in the context of what the company can reasonably afford, recognises their individual contributions to the company's overall performance. In addition the Committee assists the board in ensuring that the current and future management of the group are recruited, developed and remunerated in appropriate fashion.

The Committee also reviews the amount of profit to be appropriated to the company's employee share participation schemes.

The remuneration of the non-executive directors is determined by the board, within the limits prescribed by the company's Articles of Association.

Executive Remuneration Policy

The Committee recognises that, in order to attract and retain a senior management team which will provide maximum shareholder value, it is necessary to have a competitive pay and benefits structure. To assist with this the company, on behalf of the Committee, receives advice from independent consultants on the pay and incentive arrangements prevailing in comparably sized industrial companies in each country in which Johnson Matthey has operations.

The remuneration policy was first determined by the Committee in 1995 and reviewed further by the Committee in 1998 and consists of the following:

Basic Salary – which is in line with the median market salary for each director's responsibilities as advised by independent consultants. Basic salary is normally reviewed on 1st August each year and the Committee takes into account individual performance during the year.

Annual Bonus – which is paid as a percentage of basic salary under the terms of the company's Executive Compensation Plan (which also applies to the company's 200 or so most senior executives). The executive directors' bonus award is based on consolidated profit before tax (PBT) of Johnson Matthey compared with the annual budget. Under the terms of the scheme, an annual bonus payment of 30% of basic salary (prevailing at 31st March) is paid if the group meets the annual budget. This bonus payment may rise to a maximum of 50% of basic salary if the group achieves PBT of 107.5% of budget. PBT must reach 92.5% of budget for a minimum bonus to be payable. The Committee retains discretion to vary the awards payable under the foregoing formulae. The bonus awarded to executive directors in 1998/99 varied between 5% and 20% of salary at 31st March 1999.

Remuneration Report

Term Plan – During 1994/95 a term bonus plan (the Term Plan) was introduced to motivate and reward the most senior executives of the company for the achievement of longer term objectives and enhanced shareholder value.

Awards, which are paid in cash, were calculated on the company's average compound growth in earnings per share (excluding exceptional profits or losses) during the three years from 1996 to 1998. The threshold target of 10% per annum for the three year period was realised. This entitled executive directors to an annual payment of 25.4% of salary (other senior executives 20.3%) for three years, starting in July 1998.

Long Term Incentive Plan (LTIP) – Shareholder approval was obtained at the 1998 AGM for a new LTIP to replace the Term Plan. The LTIP allocates shares to directors and key executives subject to performance conditions. The number of shares released to the individual is dependant upon growth in Johnson's Matthey's total shareholder return (TSR) compared to the FTSE mid-250 over a three year performance period. Earnings per share (eps) is used as a second performance measure and requires an increase in eps to be at least equal to the annual increase in UK RPI plus 2% pa over the period. 100% of the allocated shares will be released if the company's TSR is in the 75th percentile or above; 35% will be released at the 50th percentile; pro-rata allocations will be made for performance between these levels.

Share Options – Since the introduction of the LTIP, option grants have not been made to executive directors. Previously, options were granted to executive directors under the 1985 schemes (under which the final grant was made in November 1994) and 1995 schemes with the latter having a minimum performance requirement of eps growth of UK RPI plus 2% for a three year period. Options under all the schemes were granted in annual tranches, up to the maximum permitted of four times earnings.

Pensions – All the executive directors are members of the Johnson Matthey Employees Pension Scheme. Under the scheme, members are entitled to a pension based on their service and final pensionable salary subject to Inland Revenue limits. The scheme provides life assurance cover of four times annual salary. The normal pension age for directors is 60.
None of the non-executive directors are members of the scheme. Details of the individual arrangements for executive directors are given on page 36.

Other Benefits – Available to the executive directors are private medical insurance, a company car and membership of the company's employee share participation schemes which are open to all employees in the countries in which the company operates such schemes.

Service Contracts – The executive directors are employed on contracts subject to two years' notice at any time, which the Committee considers appropriate in the overall context of the executive directors' terms of employment. In the event of early termination, the MDRC strongly endorses the principle of requiring directors to mitigate their loss.

Remuneration

Directors' Emoluments 1998/99

	Fees (£'000)	Salary (£'000)	Annual bonus (£'000)	Benefits (£'000)	Total excluding pension (£'000)	Total prior year excluding pension (£'000)
Executive						
C R N Clark	-	373	80	26	479	401
M J Cleare	-	220	11	21	252	319
J N Sheldrick	-	244	33	17	294	332
I G Thorburn	-	195	32	21	248	255
D G Titcombe	-	213	44	23	280	310
Non-Executive						
H M P Miles (Chairman)	127					20
M B Dearden	–					–
H E Fitzgibbons	28					20
H R Jenkins	28					20
C D Mackay	5*					–
P F Retief	28					20
G D Wells	40**					1**

* from date of appointment

** including consultancy fees

Dr M J Cleare is based in the US and his emoluments shown above have been translated at the average exchange rate for 1998/99.

The annual bonus above is now stated on an earned basis, i.e. in relation to performance in the year in question. Prior year has been adjusted to reflect this basis.

Benefits are shown as the assessment to tax for each director arising from the provision of a company car and private medical insurance, plus the cost of company contributions to the company's employee share participation schemes.

Executive directors may, with the consent of the board, accept one external directorship and retain any related remuneration.

Pensions

Pension and life assurance benefits for executive directors are provided through the company's final salary occupational pension scheme for UK employees – The Johnson Matthey Employees Pension Scheme (JMEPS) – which is constituted under a separate Trust Deed. The JMEPS is an exempt approved scheme under Chapter I of Part XIV of the Income & Corporation Taxes Act 1988, and its members are contracted-out of the State Earnings Related Pension Scheme.

Remuneration Report

The pensions benefits earned by the executive directors are as follows:

Name of Director	Age at 31st March 1999	Years of service at 31st March 1999	Director's contributions in the year (note 6) £'000	Increase in accrued pension in the year (note 2) £'000	Total accrued pension at 31st March 1999 (note 1) £'000 p.a.	Transfer value of increase in accrued benefit at 31st March 1999 (note 3) £'000 p.a.
C R N Clark	57	36	15	90	244	1,439
M J Cleare	55	32	9	20	128	303
J N Sheldrick	49	8	4	3	21	32
I G Thorburn	58	17	8	31	129	538
D G Titcombe	56	38	9	17	133	277

Notes:

1 The entitlement shown under "Total accrued pension at 31st March 1999" is the pension which would be paid annually on retirement, based on pensionable service to 31st March 1999. The pension would however be subject to an actuarial reduction of 0.3% per month for each month that precedes age 60.

2 The increase in accrued pension during the year excludes any increase for inflation.

3 The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note 11 less directors' contributions. No allowance has been made in the transfer value for any discretionary benefits that have been or may be awarded under the JMEPS.

4 On the recommendation of the actuary, the company has suspended contributions to the JMEPS until the next actuarial valuation.

5 The salary of Mr J N Sheldrick, who joined the scheme after 1989, was supplemented by 14.5% in view of the impact of the 1989 "earnings cap" on his JMEPS benefits.

6 Members' contributions are at the general scheme rate of 4% of pensionable pay, i.e. basic salary excluding bonuses.

7 In the case of Dr M J Cleare, who is currently resident in the USA, pension entitlements are based on a notional UK salary for pension purposes which is normally reviewed annually. His notional salary for the period from 1st August 1997 to 31st July 1998 was £196,250 and £222,000 for the period 1st August 1998 to 31st March 1999.

8 Mr C R N Clark, the highest paid director, had total accrued pension at 31st March 1998 of £149,241.

Term Plan

The executive directors received the following amounts as the first of the three payments under the Term Plan in July 1998 (see page 34):

C R N Clark	£65,081
M J Cleare	£50,649
J N Sheldrick	£49,847
I G Thorburn	£41,611
D G Titcombe	£49,847

Directors' Interests

The interests of the directors in the shares of the company as at 31st March 1999, according to the register required to be kept by section 325(1) of the Companies Act 1985, were:

1 Ordinary Shares

	31st March 1999	31st March 1998
C R N Clark	**28,470**	14,718
M J Cleare	**16,402**	8,493
M B Dearden	**–**	–
H E Fitzgibbons	**1,125**	1,125
H R Jenkins	**1,000**	1,000
C D Mackay	**12,500**	–
H M P Miles	**562**	562
P F Retief	**500**	500
J N Sheldrick	**69,706**	65,896
I G Thorburn	**20,186**	17,873
D G Titcombe	**42,023**	38,271
G D Wells	**1,000**	–

The directors are also deemed to be interested in the shares held by two employee benefit trusts (see note 17 on page 58).

2 Share Options

As at 31st March 1999, individual holdings under the company's executive share option schemes were as set out below. Options are not granted to the non-executive directors.

	Date of grant	Ordinary shares under option	Exercise price (pence)	Date from which exercisable	Expiry date	Total number of ordinary shares under option
C R N Clark	14.7.93	20,019	447.95	14.7.96	14.7.2003	198,325
	13.7.94	23,767	526.71	13.7.97	13.7.2004	(1998: 198,325)
	17.8.95	67,077	578.89	17.8.98	17.8.2005	
	17.7.96	41,379	574.50	17.7.99	17.7.2006	
	17.7.97	46,083	556.00	17.7.2000	17.7.2007	
M J Cleare	13.7.94	10,157	526.71	13.7.97	13.7.2004	171,614
	17.8.95	38,693	578.89	17.8.98	17.8.2005	(1998: 171,614)
	1.12.95	20,000	533.00	1.12.98	1.12.2005	
	17.7.96	34,088	574.50	17.7.99	17.7.2006	
	8.1.97	48,000	590.50	8.1.2000	8.1.2007	
	17.7.97	20,676	556.00	17.7.2000	17.7.2007	

Remuneration Report

	Date of grant	Ordinary shares under option	Exercise price (pence)	Date from which exercisable	Expiry date	Total number of ordinary shares under option
J N Sheldrick	13.7.94	32,400	526.71	13.7.97	13.7.2004	160,331
	17.8.95	61,667	578.89	17.8.98	17.8.2005	(1998: 160,331)
	17.7.96	30,776	574.50	17.7.99	17.7.2006	
	27.11.97	35,488	553.00	29.11.2000	27.11.2007	
I G Thorburn	18.7.91	8,801	316.59	18.7.94	18.7.2001	128,048
	16.7.92	4,839	410.39	16.7.95	16.7.2002	(1998: 128,048)
	14.7.93	4,570	447.95	14.7.96	14.7.2003	
	13.7.94	10,360	526.71	13.7.97	13.7.2004	
	17.8.95	44,840	578.89	17.8.98	17.8.2005	
	17.7.96	25,173	574.50	17.7.99	17.7.2006	
	17.7.97	29,465	556.00	17.7.2000	17.7.2007	
D G Titcombe	18.7.91	37,351	316.59	18.7.94	18.7.2001	174,508
	16.7.92	11,496	410.39	16.7.95	16.7.2002	(1998: 174,508)
	14.7.93	18,770	447.95	14.7.96	14.7.2003	
	13.7.94	23,767	526.71	13.7.97	13.7.2004	
	17.8.95	38,098	578.89	17.8.98	17.8.2005	
	17.7.96	30,776	574.50	17.7.99	17.7.2006	
	17.7.97	14,250	556.00	17.7.2000	17.7.2007	

Notes:

a No options were exercised by directors and thus no gains made between 1st April 1998 and 31st March 1999 (1998 an aggregate gain of £230,171 was made by Dr M J Cleare and Mr J N Sheldrick).

b The market price of the company's shares at 31st March 1999 was 466.50 pence and the range during 1998/99 was 265.00 pence to 640.50 pence.

3 LTIP Allocations

The following number of shares were allocated to the executive directors on 1st August 1998 under the terms of the new LTIP (see page 34):

C R N Clark	69,686
M J Cleare	39,286
J N Sheldrick	38,676
I G Thorburn	36,585
D G Titcombe	38,676

Directors' interests at 1st June 1999 were unchanged from those listed above with the following exceptions:
The Trustees of the Johnson Matthey UK Employee Share Participation Scheme have purchased on behalf of Messrs C R N Clark, J N Sheldrick, I G Thorburn and D G Titcombe a further 480, 478, 474 and 480 ordinary shares respectively. The Trustees of the US Salaried Employees Savings Investment Plan have purchased 752 shares on behalf of Dr M J Cleare.

No director had an interest in the 3.5% cumulative preference shares at 1st April 1998 or 31st March 1999.

Former Director

Sir David Davies retired from the board as Chairman and Chief Executive on 9th June 1998. His contract of employment was subject to eleven months notice. Upon leaving Johnson Matthey he received £264,555 compensation for loss of office, equivalent to approximately seven months salary. His emoluments for 1998/99 and prior year were as follows:

Salary (£'000)	Annual Bonus (£'000)	Benefits (£'000)	Total excluding pension (£'000)	Total prior year excluding pension (£'000)
74	–	6	80	570

Sir David Davies' annual bonus of £173,644 for 1997/98 is included in the prior year total, as directors' bonuses are now reported on an earned basis. In addition he received his Term Plan entitlement of £88,211.

Pension – As agreed in July 1997, Sir David Davies' pension on retirement was enhanced to the maximum payable under Inland Revenue limits. Accordingly he received a pension entitlement on retirement of £24,577 per annum. The difference between the value of this pension and that of his accrued pension as at 31st March 1998 was £216,000.

Remuneration Report

Sir David Davies held stock appreciation rights (options) under a share price related cash bonus scheme, the terms of which were similar to those of the company's 1985 and 1995 share option schemes. His options as at 31st March 1999 were:

Date of grant	Ordinary shares under option	Exercise price (pence)	Date from which exercisable	Expiry date	Total number of ordinary shares under option
31.12.89	61,496	225.72	31.12.92	31.12.1999	404,894
1.8.90	36,160	276.53	1.8.93	1.8.2000	(1998: 404,894)
1.8.91	37,898	316.59	1.8.94	1.8.2001	
1.8.92	9,772	410.39	1.8.95	1.8.2002	
1.8.93	26,788	447.95	1.8.96	1.8.2003	
1.8.94	60,942	526.71	1.8.97	1.8.2004	
17.8.95	114,266	578.89	17.8.98	17.8.2005	
17.7.96	57,572	574.50	17.8.99	17.7.2006	

Sir David Davies exercised his option entitlements as set out above, in accordance with his leaving agreement, at prices between £5.545 and £5.83 during April 1999, realising a gain of £492,957.

As at the date of his retirement, Sir David Davies held 42,982 ordinary shares in the company (38,036 as at 31st March 1998).

Michael Miles OBE
Chairman

Responsibility of the Directors

for the preparation of the accounts

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and group and of the profit or loss for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts,
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the accounts comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Report of the Auditors

to the members of Johnson Matthey Public Limited Company

We have audited the accounts on pages 42 to 68.

Respective Responsibilities of Directors and Auditor

The directors are responsible for preparing the annual report, including, as described on page 40, the accounts. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange, and by our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the accounts, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the company is not disclosed.

We review whether the statement on pages 30 to 32 reflects the company's compliance with those provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the company's corporate governance procedures or its internal controls.

We read the other information contained in the annual report, including the corporate governance statement, and consider whether it is consistent with the audited accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

Basis of Audit Opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company and the group as at 31st March 1999 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London
9th June 1999

Consolidated Profit and Loss Account

for the year ended 31st March 1999

	NOTE	1999 Before exceptional items £ million	1999 Exceptional items £ million	1999 Total £ million	1998 Total restated £ million
Turnover	1				
Continuing operations		3,383.7	–	3,383.7	3,248.9
Discontinued operations	3	1.7	–	1.7	18.7
Total turnover		3,385.4	–	3,385.4	3,267.6
Less share of joint ventures' turnover		–	–	–	(128.8)
Group turnover		3,385.4	–	3,385.4	3,138.8
Operating profit	1				
Continuing operations before exceptional items		146.5	–	146.5	131.9
Exceptional items	2	–	(1.9)	(1.9)	(3.2)
Total continuing operations		146.5	(1.9)	144.6	128.7
Discontinued operations	3	0.3	–	0.3	0.3
Group operating profit	4	146.8	(1.9)	144.9	129.0
Share of profit in joint ventures - continuing		–	–	–	5.9
Share of profit in joint ventures - exceptional items	2	–	–	–	(1.3)
Share of profit in joint ventures - discontinued	3	–	–	–	1.2
Share of profit in associates		0.3	–	0.3	(0.1)
Total operating profit		147.1	(1.9)	145.2	134.7
Profit on sale - continuing operations					
Part disposal of investment in AnorMED Inc.		–	–	–	2.6
Profit on disposal of surplus properties		–	0.3	0.3	–
Profit on sale - discontinued operations					
Sale of Otavi Minen AG		–	–	–	1.8
Sale of UK Minerals	2	–	1.6	1.6	–
Profit on ordinary activities before interest		147.1	–	147.1	139.1
Net interest	5	(15.9)	–	(15.9)	(9.0)
Profit on ordinary activities before taxation	6	131.2	–	131.2	130.1
Taxation	7	(35.8)	3.9	(31.9)	(25.2)
Profit after taxation		95.4	3.9	99.3	104.9
Equity minority interests		0.7	–	0.7	(0.3)
Profit attributable to shareholders		96.1	3.9	100.0	104.6
Dividends	9	(41.3)	–	(41.3)	(38.7)
Retained profit for the year	25	54.8	3.9	58.7	65.9

	NOTE	pence	pence
Earnings per ordinary share	8	46.1	48.2
Diluted earnings per ordinary share	8	46.1	48.1
Earnings per ordinary share excluding exceptional items	8	44.3	44.3
Dividend per ordinary share	9	19.0	17.8

The notes on pages 48 to 68 form an integral part of the accounts.

Consolidated and Parent Company Balance Sheets

as at 31st March 1999

	NOTE	Group 1999 £ million	Group 1998 £ million	Parent company 1999 £ million	Parent company 1998 £ million
Fixed assets					
Goodwill	11	**4.2**	–	**–**	–
Tangible fixed assets	12	**488.5**	476.5	**69.4**	85.6
Investments	13	**1.8**	4.2	**210.0**	208.6
		494.5	480.7	**279.4**	294.2
Current assets					
Stocks	15	**244.4**	245.5	**87.7**	103.8
Debtors: due within one year	16	**336.4**	293.2	**537.5**	473.7
Debtors: due after one year	16	**94.0**	85.5	**351.2**	221.5
Short term investments	17	**9.2**	2.4	**4.9**	0.5
Cash at bank and in hand	18	**58.6**	63.8	**3.9**	0.7
		742.6	690.4	**985.2**	800.2
Creditors: Amounts falling due within one year					
Borrowings and finance leases	18	**(165.6)**	(141.6)	**(102.7)**	(56.1)
Precious metal leases	20	**(24.7)**	(24.1)	**(29.1)**	(23.8)
Other creditors	21	**(289.2)**	(289.5)	**(298.6)**	(216.2)
Net current assets		**263.1**	235.2	**554.8**	504.1
Total assets less current liabilities		**757.6**	715.9	**834.2**	798.3
Creditors: Amounts falling due after more than one year					
Borrowings and finance leases	18	**(114.6)**	(147.3)	**(106.8)**	(139.0)
Other creditors	21	**(1.1)**	(2.7)	**(0.3)**	(0.2)
Provisions for liabilities and charges	22	**(74.3)**	(66.5)	**(18.5)**	(9.2)
Net assets		**567.6**	499.4	**708.6**	649.9
Capital and reserves					
Called up share capital	24	**218.5**	217.8	**218.5**	217.8
Share premium account	25	**103.9**	101.8	**103.9**	101.8
Revaluation reserve	25	**9.0**	15.5	**(1.2)**	5.3
Associates' reserves	25	**0.1**	1.6	**–**	–
Profit and loss account	25	**230.3**	156.6	**387.4**	325.0
Shareholders' funds		**561.8**	493.3	**708.6**	649.9
Equity minority interests		**5.8**	6.1	**–**	–
		567.6	499.4	**708.6**	649.9

The accounts were approved by the Board of Directors on 8th June 1999 and signed on its behalf by:

C R N Clark

Directors

J N Sheldrick

The notes on pages 48 to 68 form an integral part of the accounts.

Consolidated Cash Flow Statement

for the year ended 31st March 1999

	NOTE	1999 £ million	1998 restated £ million

Reconciliation of operating profit to net cash inflow from operating activities

	NOTE	1999 £ million	1998 restated £ million
Operating profit		**144.9**	129.0
Depreciation charges		**64.3**	45.5
Profit on sale of tangible fixed assets and investments		**(0.4)**	(3.1)
Decrease / (increase) in owned stocks		**4.8**	(12.4)
Increase in debtors		**(23.9)**	(56.6)
(Decrease) / increase in creditors and provisions		**(13.7)**	54.0
Net cash inflow from operating activities		**176.0**	156.4

Cash Flow Statement

	NOTE	1999 £ million	1998 restated £ million
Net cash inflow from operating activities		**176.0**	156.4
Dividends received from associates		**0.1**	–
Returns on investments and servicing of finance	27	**(16.5)**	2.6
Taxation		**(32.4)**	(30.8)
Capital expenditure and financial investment			
Purchase of tangible fixed assets and investments	27	**(90.6)**	(72.4)
Proceeds on sale of tangible fixed assets and investments	27	**29.2**	7.7
Net cash outflow for capital expenditure and financial investment		**(61.4)**	(64.7)
Acquisitions and disposals	27	**(4.3)**	(44.1)
Equity dividends paid		**(39.8)**	(34.7)
Net cash inflow / (outflow) before use of liquid resources and financing		**21.7**	(15.3)
Management of liquid resources	27	**4.9**	9.0
Financing			
Issue and purchase of ordinary share capital	27	**(1.6)**	2.8
(Decrease) / increase in borrowings and finance leases	27	**(22.4)**	2.3
Net cash (outflow) / inflow from financing		**(24.0)**	5.1
Increase / (decrease) in cash in the period		**2.6**	(1.2)

Reconciliation of net cash flow to movement in net debt

	NOTE	1999 £ million	1998 restated £ million
Increase / (decrease) in cash in the period		**2.6**	(1.2)
Cash outflow / (inflow) from movement in borrowings and finance leases	28	**22.4**	(2.3)
Cash inflow from term deposits included in liquid resources		**(4.9)**	(9.0)
Change in net debt resulting from cash flows		**20.1**	(12.5)
Liquid resources, borrowings and finance leases acquired with subsidiaries		**–**	(82.3)
New finance leases		**–**	(2.1)
Translation difference	28	**(16.6)**	15.5
Movement in net debt in year		**3.5**	(81.4)
Net debt at beginning of year	28	**(225.1)**	(143.7)
Net debt at end of year	28	**(221.6)**	(225.1)

The notes on pages 48 to 68 form an integral part of the accounts.

Total Recognised Gains and Losses

for the year ended 31st March 1999

	1999 £ million	1998 £ million
Profit attributable to shareholders	**100.0**	104.6
Unrealised deficit on revaluation	**–**	(1.8)
	100.0	102.8
Currency translation differences on foreign currency net investments	**7.0**	(23.6)
Total recognised gains and losses relating to the year	**107.0**	79.2

Note of Historical Cost Profits and Losses

for the year ended 31st March 1999

	1999 £ million	1998 £ million
Reported profit on ordinary activities before taxation	**131.2**	130.1
Realisation of property revaluation gains of previous years	**6.9**	–
Difference between historical cost depreciation and actual	**(0.2)**	(0.2)
Historical cost profit on ordinary activities before taxation	**137.9**	129.9
Historical cost retained profit	**65.4**	65.7

Movement in Shareholders' Funds

for the year ended 31st March 1999

	1999 £ million	1998 £ million
Profit attributable to shareholders	**100.0**	104.6
Dividends	**(41.3)**	(38.7)
Retained profit for the year	**58.7**	65.9
Other recognised gains and losses relating to the year	**7.0**	(25.4)
New share capital subscribed	**2.8**	2.8
Goodwill written back on disposals	**–**	1.0
Goodwill written off in respect of acquisitions and joint ventures	**–**	(16.1)
Net addition to shareholders' funds	**68.5**	28.2
Opening shareholders' funds	**493.3**	465.1
Closing shareholders' funds	**561.8**	493.3

The notes on pages 48 to 68 form an integral part of the accounts.

Accounting Policies

for the year ended 31st March 1999

Accounting convention: The accounts are prepared in accordance with applicable accounting standards under the historical cost convention as modified by the revaluation of certain land and buildings.

Basis of consolidation: The consolidated accounts comprise the accounts of the parent company and all its subsidiary undertakings and include the group's interest in associates and joint ventures.

The results of companies acquired or disposed of in the year are dealt with from or up to the effective date of acquisition or disposal respectively. The net assets of companies acquired are incorporated in the consolidated accounts at their fair values to the group at the date of acquisition.

The parent company has not presented its own profit and loss account as permitted by section 230 of the Companies Act 1985.

Turnover: Comprises all invoiced sales of goods and services exclusive of sales taxes.

Financial instruments: In this year's accounts the group has adopted Financial Reporting Standard (FRS) 13 - 'Derivatives and Other Financial Instruments: Disclosures'. The group uses financial instruments, in particular forward currency contracts and currency swaps, to manage the financial risks associated with the group's underlying business activities and the financing of those activities. The group does not undertake any trading activity in financial instruments.

A discussion of how the group manages its financial risks is included in the Financial Review on page 10. Financial instruments are accounted for as follows:

- Forward exchange contracts are used to hedge foreign exchange exposures arising on forecast receipts and payments in foreign currencies. These forward contracts are revalued to the rates of exchange at the balance sheet date and any aggregate unrealised gains and losses arising on revaluation are included in other debtors / other creditors. At maturity, or when the contract ceases to be a hedge, gains and losses are taken to the profit and loss account.

- Currency options are occasionally used to hedge foreign exchange exposures, usually when the forecast receipt or payment amounts are uncertain. Option premia are recognised at their historic cost in the group balance sheet as prepayments. At maturity, or upon exercise, the option premia net of any realised gains on exercise are taken to the profit and loss account.

- Interest rate swaps are occasionally used to hedge the group's exposure to movements on interest rates. The interest payable or receivable on such swaps is accrued in the same way as interest arising on deposits or borrowings. Interest rate swaps are not revalued to fair value prior to maturity.

- Currency swaps are used as balance sheet hedging instruments to hedge foreign currency assets and borrowings. Currency swaps are used to reduce costs and credit exposure where the group would otherwise have cash deposits and borrowings in different currencies. The difference between spot and forward rate for these contracts is recognised as part of the net interest payable over the period of the contract. These swaps are revalued to the rates of exchange at the balance sheet date and any aggregate unrealised gains or losses arising on revaluation are included in other debtors / other creditors. Realised gains and losses on these currency swaps are taken to reserves in the same way as for the foreign investments and borrowings to which the swaps relate.

The aggregate fair values at the balance sheet date of the hedging instruments described above are disclosed as a note on the accounts.

The group has taken advantage of the exemption available for short term debtors and creditors.

Foreign currencies: Profit and loss accounts in foreign currencies and cash flows included in the cash flow statement are translated into sterling at average exchange rates for the year. Foreign currency assets and liabilities are translated into sterling at the rates of exchange at the balance sheet date. Gains or losses arising on the translation of the net assets of overseas subsidiaries and associated undertakings are taken to reserves, less exchange differences arising on related foreign currency borrowings. Other exchange differences are taken to the profit and loss account.

Accounting Policies

for the year ended 31st March 1999

Research and development expenditure: Charged against profits in the year incurred.

Goodwill: FRS 10 - 'Goodwill and Intangible Assets' was adopted from 1st April 1998. Consequently goodwill arising on acquisitions is capitalised and amortised over the estimated useful economic life of 20 years. Goodwill previously eliminated against reserves has not been reinstated, but will be charged to the profit and loss account on subsequent disposal of the businesses to which it relates.

Depreciation: Freehold land and certain office buildings are not depreciated. The group's policy is to maintain these properties in such condition that their value does not diminish and the cost of maintenance is charged to operating profit. Other fixed assets are depreciated on a straight line basis at annual rates which vary according to the class of asset, but are typically; leasehold property 2% (or at higher rates based on the life of the lease), freehold buildings 3.33%, plant and equipment 10% - 33%.

Leases: The cost of assets held under finance leases is included under tangible fixed assets and the capital element of future lease payments is included in borrowings. Depreciation is provided in accordance with the group's accounting policy for the class of asset concerned. Lease payments are treated as consisting of capital and interest elements and the interest is charged to the profit and loss account using the annuity method. Rentals under operating leases are expensed as incurred.

Grants in respect of capital expenditure: Grants received in respect of capital expenditure are included in creditors and released to the profit and loss account in equal instalments over the expected useful lives of the related assets.

Precious metal stocks: Stocks of gold, silver and platinum group metals are valued according to the source from which the metal is obtained. Metal which has been purchased and committed to future sales to customers or hedged in metal markets is valued at the price at which it is contractually committed or hedged, adjusted for unexpired contango. Leased metal is valued at market prices at the balance sheet date. Other precious metal stocks owned by the group, which are unhedged, are valued at the lower of cost and net realisable value.

Other stocks: These are valued at the lower of cost, including attributable overheads, and net realisable value.

Deferred taxation: Provided using the liability method on all timing differences to the extent that they are expected to reverse in the foreseeable future.

Pensions and other retirement benefits: The group operates a number of contributory and non-contributory schemes, mainly of the defined benefit type, which require contributions to be made to separately administered funds. The cost of these schemes is charged to the profit and loss account over the service lives of employees in accordance with the advice of the schemes' independent actuaries. Variations from the regular cost are spread over the average expected remaining service lives of current employees.

The cost of post-retirement health care benefits is charged to the profit and loss account on a systematic basis over the expected service lives of employees. The actuarial liability for the cost of these benefits is fully provided for in the balance sheet.

Changes in presentation: The presentation of the profit and loss account and cash flow statement has been changed to comply with FRS 9 - 'Associates and Joint Ventures'.

Notes on the Accounts

for the year ended 31st March 1999

1 Segmental information

Activity analysis	Turnover 1999 £ million	Turnover 1998 restated £ million	Operating profit 1999 £ million	Operating profit 1998 restated £ million	Net operating assets 1999 £ million	Net operating assets 1998 restated £ million
Catalytic Systems	517.4	391.3	54.6	45.4	223.8	161.2
PMD Chemicals	159.8	168.0	19.6	19.3	66.7	86.0
Catalysts & Chemicals	677.2	559.3	74.2	64.7	290.5	247.2
Precious Metals	2,041.3	2,094.2	37.3	33.2	80.3	70.4
Colours & Coatings	250.5	157.3	24.8	9.4	177.5	160.2
Electronic Materials	414.7	438.1	22.1	40.1	262.0	245.4
Corporate	–	–	(11.6)	(9.7)	(21.1)	(2.5)
	3,383.7	3,248.9	146.8	137.7	789.2	720.7
Discontinued operations	1.7	18.7	0.3	1.5	–	3.8
Total turnover	3,385.4	3,267.6				
Exceptional items included in total operating profit (note 2)			(1.9)	(4.5)		
			145.2	134.7	789.2	724.5
Other exceptional items			1.9	4.4		
Net interest			(15.9)	(9.0)		
Profit on ordinary activities before taxation			131.2	130.1		
Net borrowings and finance leases					(221.6)	(225.1)
Net assets					567.6	499.4

Geographical analysis by origin	Turnover 1999 £ million	Turnover 1998 restated £ million	Operating profit 1999 £ million	Operating profit 1998 £ million	Net operating assets 1999 £ million	Net operating assets 1998 £ million
Europe	2,103.6	1,871.7	58.7	43.6	365.7	367.6
North America	1,166.1	1,015.4	72.4	79.2	310.6	267.3
Rest of the World	742.0	913.7	15.7	14.9	112.9	85.8
	4,011.7	3,800.8	146.8	137.7	789.2	720.7
Discontinued operations	1.7	18.8	0.3	1.5	–	3.8
	4,013.4	3,819.6				
Less inter-segment sales	(628.0)	(552.0)				
Total turnover	3,385.4	3,267.6				
Exceptional items included in total operating profit (note 2)			(1.9)	(4.5)		
			145.2	134.7	789.2	724.5
Other exceptional items			1.9	4.4		
Net interest			(15.9)	(9.0)		
Profit on ordinary activities before taxation			131.2	130.1		
Net borrowings and finance leases					(221.6)	(225.1)
Net assets					567.6	499.4

Notes on the Accounts

for the year ended 31st March 1999

1 Segmental information continued

External turnover by geographical destination	1999 £ million	1998 restated £ million
Europe	**1,711.1**	1,091.5
North America	**1,129.5**	1,034.8
Rest of the World	**544.8**	1,141.3
Total turnover	**3,385.4**	3,267.6

The activity analyses have been restated to show Catalysts & Chemicals as a new segment. This combines the chemicals business of Precious Metals Division (PMD) with Catalytic Systems Division.

Turnover by destination relating to the United Kingdom amounted to £825.4 million (1998 £729.4 million).

2 Exceptional items

A net exceptional charge of £1.9 million (1998 £4.5 million) has been included in total operating profit. This comprises:

	1999 £ million	1998 £ million
Profit on sale of shares in Ballard Power Systems, Inc.	**3.0**	3.5
Loss on closure of Australian autocatalyst manufacturing business	**(2.4)**	–
Closure costs on withdrawal from plating and bushing manufacture	**(2.5)**	–
Cost of restructuring of Cookson Matthey Ceramics plc (CMC) post acquisition	**–**	(4.9)
Other rationalisation costs	**–**	(1.8)
	(1.9)	(3.2)
Share of CMC's rationalisation costs prior to acquisition	**–**	(1.3)
	(1.9)	(4.5)

These charges arise in Europe (£0.4 million credit, 1998 £4.2 million), North America (£0.3 million, 1998 £0.3 million) and the Rest of the World (£2.0 million, 1998 £ nil).

On 1st June 1998 the group sold its UK Minerals business, previously part of CMC, for net proceeds of £5.0 million. The sale produced a net profit of £1.6 million.

3 Discontinued operations

	Turnover		Operating profit	
	1999 £ million	1998 £ million	1999 £ million	1998 £ million
Otavi Minen AG	**–**	12.9	**–**	1.0
UK Minerals (note 30)	**1.7**	5.8	**0.3**	0.5
	1.7	18.7	**0.3**	1.5

Notes on the Accounts

for the year ended 31st March 1999

4 Group operating profit after exceptional items

	1999 Continuing operations £ million	1999 Discontinued operations £ million	1999 Total £ million	1998 Total £ million
Group turnover	3,383.7	1.7	3,385.4	3,138.8
Cost of materials sold	(2,657.7)	(0.9)	(2,658.6)	(2,545.0)
Net revenues	726.0	0.8	726.8	593.8
Other cost of sales	(435.6)	(0.3)	(435.9)	(354.0)
Gross profit	290.4	0.5	290.9	239.8
Distribution costs	(68.2)	(0.1)	(68.3)	(49.4)
Administrative expenses	(77.6)	(0.1)	(77.7)	(61.4)
Group operating profit	144.6	0.3	144.9	129.0

Total continuing operations include exceptional charges of £1.9 million (1998 £2.0 million) in administration expenses, £ nil (1998 £1.1 million) in other cost of sales and £ nil (1998 £0.1 million) in distribution costs.

5 Net interest

	1999 £ million	1998 £ million
Interest payable on bank loans and overdrafts	(14.1)	(8.3)
Interest payable on other loans	(6.6)	(4.3)
	(20.7)	(12.6)
Interest receivable from associates and joint ventures	0.1	8.5
Other interest receivable	4.7	5.9
Net interest - group	(15.9)	1.8
Share of interest receivable of joint ventures	–	0.1
Share of interest payable of joint ventures - payable to group	–	(8.4)
Share of interest payable of joint ventures - other	–	(2.5)
Share of interest receivable of associates	0.1	0.1
Share of interest payable of associates - payable to group	(0.1)	(0.1)
Net interest	(15.9)	(9.0)

6 Profit on ordinary activities before taxation

	1999 £ million	1998 £ million

Profit on ordinary activities before taxation is arrived at after charging / (crediting):

	1999 £ million	1998 £ million
Research and development	37.2	32.8
less share of Cookson Matthey Ceramics plc	–	(2.9)
less external funding received	(2.8)	(2.8)
Net research and development	34.4	27.1

Notes on the Accounts

for the year ended 31st March 1999

6 Profit on ordinary activities before taxation continued

		1999 £ million	1998 £ million
Depreciation	– on owned assets	**64.1**	45.5
	– on leased assets	**0.2**	–
Auditor's remuneration	– parent company	**0.3**	0.3
	– subsidiary undertakings	**0.8**	0.5
	– group	**1.1**	0.8
Other fees paid to auditor	– United Kingdom	**0.3**	0.2
	– Rest of the World	**0.5**	0.8
Operating lease rentals	– on plant and machinery	**4.3**	2.8
	– on other operating leases	**8.9**	7.7

Directors' fees were £0.3 million (1998 £0.1 million) and other emoluments were £1.6 million (1998 restated £2.2 million). The prior year comparative has been restated to include the annual bonus on an earned basis. Details are given in the Remuneration Report on pages 33 to 40.

7 Taxation

	1999 £ million	1999 £ million	1998 £ million	1998 £ million
United Kingdom				
Corporation tax at 31% (1998 31%)		**39.3**		42.1
Double taxation relief		**(13.7)**		(26.5)
Net advance corporation tax set off in year		**(6.6)**		(3.1)
Current taxation for year		**19.0**		12.5
Deferred taxation for year		**(0.9)**		(1.1)
Adjustment for prior years		**3.7**		5.8
Prior year advance corporation tax set off		**(9.5)**		(4.8)
		12.3		12.4
Overseas				
Taxation on income for the year	**23.7**		20.9	
Withholding tax deductions on overseas income	**1.1**		2.6	
Current taxation for year	**24.8**		23.5	
Deferred taxation for year	**(1.3)**		2.6	
Adjustment for prior years	**–**		(7.0)	
		23.5		19.1
Joint ventures		**–**		2.4
		35.8		33.9
Taxation on exceptional restructuring and rationalisation costs		**–**		(0.4)
Taxation on disposals		**–**		0.4
ACT saving on foreign income dividends (FIDs)		**(3.9)**		(8.7)
Total taxation		**31.9**		25.2

The Advance Corporation Tax (ACT) saving on paying the final dividend for 1997/98 and the interim dividend for 1998/99 as FIDs amounted to £9.9 million gross. Of this amount £6.0 million has been added to deferred tax to reflect the change in the offsetting arrangements after 5th April 1999.

Notes on the Accounts

for the year ended 31st March 1999

8 Earnings per ordinary share

Profit for the year attributable to shareholders, less preference dividends, is £100.0 million (1998 £104.6 million). This is divided by the weighted average number of shares in issue calculated as 216,947,859 (1998 restated 217,019,901) to give basic earnings per share of 46.1 pence (1998 48.2 pence). The prior year comparatives have been restated to exclude shares held and dividends received by the Employee Share Ownership Trusts in accordance with FRS 14 - 'Earnings per Share' (see note 17).

Excluding exceptional items, the tax thereon, and the benefit of the ACT saving on FIDs, earnings per share were 44.3 pence (1998 44.3 pence).

	1999 £ million	1998 £ million
Attributable profit	100.0	104.6
Exceptional items	–	0.1
Tax thereon	–	–
ACT saving on FIDs	(3.9)	(8.7)
Adjusted profit	96.1	96.0
Earnings per share excluding exceptional items	44.3p	44.3p

The calculation of diluted earnings per share is based on the weighted average number of shares in issue adjusted by the dilutive outstanding share options. These adjustments give rise to an increase in the weighted average number of shares in issue of 58,902 (1998 275,565).

9 Dividends

	1999 £ million	1998 £ million
3.5% Cumulative preference dividend paid £10,500 (1998 £10,500)	–	–
Interim ordinary dividend paid - 5.7 pence per share (1998 5.2 pence per share)	12.4	11.3
Final ordinary dividend proposed - 13.3 pence per share (1998 12.6 pence per share)	28.9	27.4
Total dividends	41.3	38.7

10 Employee information

10a Employee numbers

	1999	1998 restated
The average monthly number of employees during the year was as follows:		
Catalytic Systems	1,450	1,227
PMD Chemicals	920	903
Catalysts & Chemicals	2,370	2,130
Precious Metals	1,125	1,091
Colours & Coatings	2,474	1,758
Electronic Materials	5,864	5,679
Research and Corporate	225	215
	12,058	10,873
Less share of Cookson Matthey Ceramics plc	–	(1,277)
Average number of employees	12,058	9,596
Actual number of employees at 31st March	11,662	12,617

The number of temporary employees included above at 31st March 1999 was 310 (1998 1,244).

Notes on the Accounts

for the year ended 31st March 1999

10b Employee costs

	1999 £ million	1998 £ million
Wages and salaries	**239.7**	191.9
Social security costs	**25.0**	18.2
Other pension costs	**(1.3)**	(4.6)
Total employee costs	**263.4**	205.5

10c Retirement benefits

(i) United Kingdom pension scheme

The group's UK pension scheme is of the defined benefit type which requires contributions to be made to a separately administered fund. At 1st April 1997, the date of the latest actuarial valuation, the market value of the UK scheme's assets was £421.0 million, the actuarial value of which represented 153% of the liability for benefits that had accrued to that date, making full allowance for future salary and pension increases and after taking into account the cost of benefit improvements granted with effect from 1st April 1998. This represents an actuarial surplus of £138.7 million which, following actuarial recommendations, has permitted the company to suspend contributions for the foreseeable future. A surplus cannot be refunded to the company except by dissolution of the scheme in accordance with the rules of the scheme and relevant legislation. The financial assumptions applicable to the last actuarial valuation at 1st April 1997 were: long term rate of investment return 7.75%, dividend increase rate 4.25%, general salary and wage inflation rate 6% and pension increase rate 4%.

The other UK pension scheme relates to Cookson Matthey Ceramics plc (CMC) which became a wholly owned subsidiary on 6th February 1998. The CMC group's UK pension scheme is also of the defined benefit type which requires contributions to be made to a separately administered fund. At 31st December 1996, the date of the latest actuarial valuation, the market value of the UK scheme's assets was £49.8 million, the actuarial value of which represented 101.4% of the liability for benefits that had accrued to that date making full allowance for future salary and pension increases. This represents an actuarial surplus of £0.7 million. The financial assumptions applicable to the last valuation at 31st December 1996 were: long term rate of investment return 9.5%, dividend increase rate 5.5%, general salary and wage inflation rate 7% and pension increase rate 4.5%. Following actuarial recommendations the company commenced contributions during 1997.

In accordance with the applicable accounting standard, the surplus on the group's UK pension funds has been spread over the average of the expected remaining service lives of current employees (12 years) as a variation from regular cost. The regular pension cost is assessed using the projected unit method.

(ii) Foreign schemes

Pension costs relating to foreign schemes are charged in accordance with local best practice using different accounting policies. The group's largest foreign scheme is in the US, which is of the defined benefit type and which requires contributions to be made to a separately administered fund. This scheme is accounted for using the applicable US accounting standard. The cost of obtaining actuarial valuations for the purpose of adjusting to the applicable UK accounting standard is considered to be out of proportion to the benefits to be gained.

(iii) Other retirement benefits

These costs are charged on an accruals basis similar to that used for pensions. The actuarial liability for the cost of these benefits is fully provided for in the balance sheet.

10c Retirement benefits continued

(iv) Profit and loss account and balance sheet impact of providing retirement benefits

The effect of providing pensions and other retirement benefits on operating profit was as follows:

	1999 £ million	1998 £ million
United Kingdom		
Regular pension cost	**(8.6)**	(6.2)
Variation from regular cost	**9.9**	10.8
Interest on prepayment	**6.4**	5.5
Cost of post-retirement medical benefits	**(0.2)**	(0.2)
	7.5	9.9
Overseas		
Cost of foreign pension schemes	**(5.4)**	(4.3)
Cost of post-retirement medical benefits	**(0.8)**	(1.0)
	1.3	4.6

The following prepayments and provisions relating to pension schemes and other post-retirement benefits are included in the group and parent company's balance sheets:

	Group		Parent company	
	1999 £ million	1998 £ million	1999 £ million	1998 £million
Prepaid pension costs in the UK	**92.5**	82.2	**92.5**	82.2
Provision for UK pensions	**1.5**	1.7	**–**	–
Provision for foreign pensions	**11.0**	7.3	**–**	–
Provision for post-retirement medical benefits - UK	**3.7**	3.6	**3.2**	3.0
Provision for post-retirement medical benefits - overseas	**14.6**	12.7	**–**	–

11 Fixed assets – goodwill

	£ million
Cost	
At beginning of year	–
Additions (note 29)	4.2
At end of year	4.2
Amortisation	
At beginning of year	–
Charge for the year	–
At end of year	–
Net book value at 31st March 1999	**4.2**
Net book value at 31st March 1998	–

12 Fixed assets – tangible assets

12a Group

	Freehold land & buildings £ million	Short leasehold £ million	Plant & machinery £ million	Total £ million
Cost / Valuation				
At beginning of year	162.9	17.0	520.4	700.3
Purchases	3.8	2.2	85.0	91.0
Acquisitions	–	–	2.3	2.3
Reclassifications	1.5	–	(1.5)	–
Disposals	(23.9)	(1.8)	(18.0)	(43.7)
Disposal of subsidiaries	(1.2)	–	(1.1)	(2.3)
Exchange adjustments	5.2	0.8	14.7	20.7
At end of year	148.3	18.2	601.8	768.3
Depreciation				
At beginning of year	11.7	6.7	205.4	223.8
Charge for the year	5.0	1.6	57.7	64.3
Disposals	(0.1)	(1.8)	(13.2)	(15.1)
Disposal of subsidiaries	–	–	(0.1)	(0.1)
Exchange adjustments	0.7	0.2	6.0	6.9
At end of year	17.3	6.7	255.8	279.8
Net book value at 31st March 1999	**131.0**	**11.5**	**346.0**	**488.5**
Net book value at 31st March 1998	151.2	10.3	315.0	476.5
Historical cost at 31st March 1999	160.2	18.6	601.8	780.6
Accumulated historical depreciation	37.4	7.2	255.8	300.4
Historical net book value at 31st March 1999	**122.8**	**11.4**	**346.0**	**480.2**

The net book value of tangible fixed assets includes £2.0 million (1998 £2.1 million) in respect of assets held under finance leases. Freehold land and buildings of £33.3 million included above are not depreciated.

Notes on the Accounts

for the year ended 31st March 1999

12b Parent company

	Freehold land & buildings £ million	Short leasehold £ million	Plant & machinery £ million	Total £ million
Cost / Valuation				
At beginning of year	45.9	1.3	94.4	141.6
Purchases	0.1	0.2	12.0	12.3
Disposals	(18.9)	–	(4.4)	(23.3)
At end of year	27.1	1.5	102.0	130.6
Depreciation				
At beginning of year	2.6	0.5	52.9	56.0
Charge for the year	0.7	0.1	7.2	8.0
Disposals	–	–	(2.8)	(2.8)
At end of year	3.3	0.6	57.3	61.2
Net book value at 31st March 1999	**23.8**	**0.9**	**44.7**	**69.4**
Net book value at 31st March 1998	43.3	0.8	41.5	85.6
Historical cost at 31st March 1999	36.4	2.0	102.0	140.4
Accumulated historical depreciation	11.4	1.1	57.3	69.8
Historical net book value at 31st March 1999	**25.0**	**0.9**	**44.7**	**70.6**

Freehold land and buildings of £12.2 million included above are not depreciated.

12c Asset revaluations

Group freehold land and buildings and short leasehold, having a total valuation of £54.6 million (parent company £20.6 million) and £0.1 million (parent company £0.1 million) respectively, were included in the asset revaluations carried out by Jones Lang Wootton, Chartered Surveyors, independent professional valuers, in March 1995. The basis used was open market value for existing use or depreciated replacement cost whichever was considered the more appropriate basis in accordance with the RICS Statement of Asset Valuation Practice and Guidance Notes. Included were assets valued at depreciated replacement cost of £23.2 million in the group and £4.7 million in the parent company (1998 £23.0 million and £4.7 million respectively).

13 Fixed assets – investments

13a Group

	Investment in associates £ million	Unlisted investments £ million	Total £ million
At beginning of year	3.0	1.2	4.2
Additions	0.2	–	0.2
Transfer to short term investments	(2.8)	–	(2.8)
Exchange adjustments	(0.1)	–	(0.1)
Profits retained for the year	0.3	–	0.3
At end of year	**0.6**	**1.2**	**1.8**

13b Parent company

	Cost of investment in subsidiary undertakings £ million
At beginning of year	208.6
Additions	1.4
At end of year	**210.0**

The principal subsidiary undertakings are shown on page 68.

13c Associates

	Issued share capital	Percentage holding of ordinary share capital %	Country of incorporation
Arora-Matthey Limited	INR 19,920,000	40	India
Oximet SrL	ITL 735,000,000	33	Italy

Matthey Pharmaceutical Alkaloids, L.L.C., operating in the USA, has members' capital of US$1,882,000 of which the group has a 50% holding.

The group's cost of investment in associates amounted to £0.4 million (1998 £1.3 million).

14 Transactions with related parties

The group's related parties are its associates described in note 13c. KonserQ Limited (which was wound up) and AnorMED Inc. were associates and related parties until 10th November 1998 and 5th March 1999 respectively.

There were no transactions with Arora-Matthey Limited and Oximet SrL during the year.

There were no transactions with KonserQ Limited during the period to 10th November 1998.

During the period to 5th March 1999 the group made service charges of £40,000 to AnorMED Inc.

During the year the group supplied finished opiate products to a value of £207,000 to Matthey Pharmaceutical Alkaloids, L.L.C. and made service charges of £281,000. The group purchased fixed assets at a cost of £585,000 which it then transferred to Matthey Pharmaceutical Alkaloids, L.L.C. on finance lease agreements. For these and other finance lease agreements capital repayments of £42,000 and interest income of £98,000 were received. Interest received on other loans amounted to £74,000. Total balances receivable from Matthey Pharmaceutical Alkaloids, L.L.C. at 31st March 1999 were £2.3 million which includes the finance lease capital debtor under one year of £55,000 and over one year £1,393,000.

Notes on the Accounts

for the year ended 31st March 1999

15 Stocks

	Group		Parent company	
	1999 £ million	1998 £ million	1999 £ million	1998 £ million
Raw materials and consumables	49.9	43.5	5.5	6.0
Work in progress – precious metals	91.2	105.8	70.1	87.7
– other	39.6	35.7	6.6	5.7
Finished goods and goods for resale	63.7	60.5	5.5	4.4
Total stocks	244.4	245.5	87.7	103.8

The group also holds customers' materials in the process of refining and fabrication and for other reasons.
Parent company precious metals includes net metal lent to subsidiary undertakings.

16 Debtors

	Group		Parent company	
	1999 £ million	1998 £ million	1999 £ million	1998 £ million
Debtors: due within one year				
Trade debtors	262.7	242.6	40.8	42.0
Amounts owed by subsidiary undertakings	–	–	486.4	418.3
Amounts owed by associates	0.9	1.1	–	0.1
Other debtors	29.1	25.5	5.4	6.7
Payment owed for disposals (note 30)	1.0	–	–	–
Prepayments and accrued income	42.7	24.0	4.9	6.6
	336.4	293.2	537.5	473.7
Debtors: due after one year				
Prepaid pensions	92.5	82.2	92.5	82.2
Amounts owed by subsidiary undertakings	–	–	258.7	139.3
Finance lease receivable from associate	1.4	0.8	–	–
Other debtors	0.1	2.5	–	–
	94.0	85.5	351.2	221.5

17 Short term investments

	Group		Parent company	
	1999 £ million	1998 £ million	1999 £ million	1998 £ million
Interest in own shares	6.2	1.9	4.9	0.5
Other	3.0	0.5	–	–
	9.2	2.4	4.9	0.5

The interest in own shares represents the cost of the shares held by the group's two Employee Share Ownership Trusts (ESOTs). The ESOTs have purchased 1,478,598 shares in the open market, which are held on trust for employees participating in the group's executive share option schemes and long term incentive plan. The purchase of the shares was financed by a contribution of £511,100 and loans of £5,717,003 from the group. At 31st March 1999 the market value of the shares was £6,008,641. Mourant & Co., as trustees for the ESOTs, has waived its dividend entitlement for the period ended 31st March 1999 (in 1998 its dividend entitlement was not waived).

18 Borrowings and finance leases

	Group		Parent company	
	1999	1998	**1999**	1998
	£ million	£ million	**£ million**	£ million
Borrowings and finance leases falling due after more than one year				
Bank and other loans repayable by instalments				
After five years	**0.1**	0.3	**–**	–
From two to five years	**0.5**	0.7	**–**	–
From one to two years	**0.5**	0.5	**–**	–
Bank and other loans repayable otherwise than by instalments				
6.36% US Dollar Bonds 2006	**62.0**	59.7	**62.0**	59.7
Other after five years	**5.3**	5.1	**–**	–
From two to five years	**35.0**	25.2	**35.0**	25.2
From one to two years	**9.8**	54.1	**9.8**	54.1
Finance leases repayable				
From two to five years	**1.1**	1.4	**–**	–
From one to two years	**0.3**	0.3	**–**	–
Borrowings and finance leases falling due after more than one year	**114.6**	147.3	**106.8**	139.0
Borrowings and finance leases falling due within one year				
Bank and other loans	**165.3**	141.2	**102.7**	56.1
Finance leases	**0.3**	0.4	**–**	–
Borrowings and finance leases falling due within one year	**165.6**	141.6	**102.7**	56.1
Total borrowings and finance leases	**280.2**	288.9	**209.5**	195.1
Less cash and deposits	**58.6**	63.8	**3.9**	0.7
Net borrowings and finance leases	**221.6**	225.1	**205.6**	194.4

The loans are denominated in various currencies and bear interest at commercial rates. The aggregate amount of loans which are repayable by instalments, any of which fall due for payment after five years, is £0.7 million (1998 £0.8 million).

19 Financial risk management

The group's approach to managing financial risk is described in the Financial Review on page 10.

19a Interest rate risk

				Fixed rate financial liabilities	
Financial liabilities	**At fixed interest rates £ million**	**At floating interest rates £ million**	**Total £ million**	**Weighted average interest rates %**	**Weighted average period for which rates are fixed Years**
Sterling (preference shares)	**0.3**	**–**	**0.3**	**3.50**	*****
US dollar	**62.0**	**168.2**	**230.2**	**6.36**	**7**
Euro	**–**	**22.8**	**22.8**	**–**	**–**
Australian dollar	**–**	**14.7**	**14.7**	**–**	**–**
Japanese yen	**–**	**14.6**	**14.6**	**–**	**–**
Other currencies	**–**	**6.0**	**6.0**	**–**	**–**
	62.3	**226.3**	**288.6**		

* There is no redemption date on the preference shares, but a resolution is being put at the Annual General Meeting on 21st July 1999 to cancel them and repay the nominal value (plus any arrears of dividend) to the shareholders.

Notes on the Accounts

for the year ended 31st March 1999

19a Interest rate risk continued

The financial liabilities of the group comprised:

	1999 £ million
Total borrowings and finance leases	280.2
Borrowings generated by swaps	7.0
Other creditors falling due after more than one year	1.1
Cumulative preference shares	0.3
	288.6

Floating rate financial liabilities comprise bank borrowings and overdrafts bearing interest at commercial rates.

Financial assets	At floating interest rates £ million	Interest free £ million	Total £ million
Sterling	16.4	–	16.4
US dollar	11.3	–	11.3
Euro	9.1	–	9.1
Australian dollar	0.8	–	0.8
Japanese yen	5.3	–	5.3
Hong Kong dollar	13.4	–	13.4
Other currencies	10.8	3.0	13.8
	67.1	3.0	70.1

The financial assets of the group comprised:

	1999 £ million
Cash and deposits	58.6
Deposits generated by swaps	7.0
Debtors due after one year (excluding prepaid pensions)	1.5
Other short term investments	3.0
	70.1

Floating rate financial assets comprise bank deposits bearing interest at commercial rates and finance leases to an associate bearing interest based on the US Prime rate plus 1.5%. Interest free financial assets are shares held in two publicly quoted companies, Ballard Power Systems, Inc. and AnorMED Inc.

19b Currency exposures

After taking into account the effects of forward exchange contracts the group does not have any significant currency exposures on monetary assets and liabilities.

19c Maturity of financial liabilities

	1999 £ million
In one year or less, or on demand	172.6
In more than one year but not more than two years	11.1
In more than two years but not more than five years	37.2
In more than five years	67.7
	288.6

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for the year ended 31st March 1999

19d Undrawn committed borrowing facilities

	1999 £ million
Expiring in one year or less	87.1
Expiring in more than one year but not more than two years	–
Expiring in more than two years	12.9
	100.0

19e Fair value of financial instruments

	Book value £ million	Fair value £ million
Cash and deposits	58.6	58.6
Debtors due after one year (excluding prepaid pensions)	1.5	1.5
Other short term investments including warrants	3.0	11.6
Borrowings and finance leases falling due within one year	(165.6)	(165.6)
US Dollar Bonds	(62.0)	(63.4)
Other borrowings and finance leases falling after more than one year	(52.6)	(52.6)
Other creditors falling due after more than one year	(1.1)	(1.1)
Cumulative preference shares	(0.3)	(0.3)
Forward exchange contracts	–	(0.4)
	(218.5)	(211.7)

The fair value of other short term investments is based on market value less, where applicable, the cost of exercising warrants. The fair value of the US Dollar Bonds is calculated by discounting cash flows based on the seven year Treasury Bond rate plus a margin of 0.8%. The fair value of forward exchange contracts represents the unrealised gain or loss on revaluation of the contracts to year end exchange rates. The fair value of all other financial instruments is approximately equal to book value due to their short term nature or the fact that they bear interest at floating rates.

19f Gains and losses on hedges

Forward exchange contracts are used to hedge foreign exchange exposures arising on forecast receipts and payments in foreign currencies. These forward contracts are revalued to the rates of exchange at the balance sheet date and any aggregate unrealised gains and losses arising on revaluation are included in other debtors / other creditors. At maturity, or when the contract ceases to be a hedge, gains and losses are taken to the profit and loss account.

	Gains £ million	Losses £ million	Total net gains / (losses) £ million
Unrecognised gains and losses at 31st March 1998	–	0.8	(0.8)
Gains / losses recognised in the year	–	0.8	(0.8)
Gains and losses arising before 31st March 1988 not recognised in 1998/99	–	–	–
Unrecognised gains and losses at 31st March 1999	0.2	0.6	(0.4)
Of which gains and losses expected to be recognised in the year to 31st March 2000	0.2	0.6	(0.4)

19g Market price risk

The group monitors its interest rate and currency risks and other market price risks to which it is exposed primarily through a process known as 'sensitivity analysis'. This involves estimating the effect on profit before tax over various periods of possible changes in interest rates and exchange rates.

Most of the group's borrowings and deposits are at floating rates. A 1% change on all interest rates would have a 1.2% impact on group profit before tax. This is well within the range the group regards as acceptable.

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 since Johnson Matthey's largest single overseas investment is in the USA. A 5 cent (3%) movement in the average exchange rate for the US dollar against sterling has a 1.8% impact on group profit before tax. 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.

20 Precious metal leases

Precious metal leases are rental and consignment stock arrangements under which banks provide the group with precious metals for a specified period and for which the group pays a fee. The group holds sufficient precious metal stocks to meet all the obligations under these lease arrangements as they come due.

21 Other creditors

	Group		Parent company	
	1999 £ million	1998 £ million	**1999 £ million**	1998 £ million
Amounts falling due within one year				
Trade creditors	**136.7**	138.7	**11.9**	20.0
Amounts owed to subsidiary undertakings	**–**	–	**226.7**	126.3
Current corporation tax	**26.1**	13.5	**7.7**	11.4
Other taxes and social security costs	**6.0**	6.5	**0.8**	1.6
Payment due for acquisitions	**–**	1.5	**–**	1.5
Other creditors	**27.9**	31.2	**3.6**	4.1
Accruals and deferred income	**63.6**	70.7	**19.0**	23.9
Dividends	**28.9**	27.4	**28.9**	27.4
Total other creditors falling due within one year	**289.2**	289.5	**298.6**	216.2
Amounts falling due after more than one year				
Amounts owed to subsidiary undertakings	**–**	–	**0.3**	0.2
Other creditors	**1.1**	2.7	**–**	–
Total other creditors falling due after more than one year	**1.1**	2.7	**0.3**	0.2

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for the year ended 31st March 1999

22 Provisions for liabilities and charges

22a Group

	Rationalisation provisions £ million	Retirement benefits (note 10c) £ million	Other provisions £ million	Deferred taxation (note 23) £ million	Total £ million
At beginning of year	5.8	25.3	11.0	24.4	66.5
Exchange adjustments	–	0.9	0.2	0.5	1.6
Utilised	(5.7)	(5.0)	(3.7)	–	(14.4)
Released	–	–	(4.1)	–	(4.1)
Transfers from long term creditors	–	1.0	0.6	–	1.6
Charge for year	–	8.6	7.8	6.7	23.1
At end of year	**0.1**	**30.8**	**11.8**	**31.6**	**74.3**

22b Parent company

	Rationalisation provisions £ million	Retirement benefits (note 10c) £ million	Other provisions £ million	Deferred taxation (note 23) £ million	Total £ million
At beginning of year	0.2	3.0	3.6	2.4	9.2
Utilised	(0.2)	(0.1)	(0.5)	–	(0.8)
Released	–	–	(0.3)	–	(0.3)
Charge for year	–	0.3	3.2	6.9	10.4
At end of year	**–**	**3.2**	**6.0**	**9.3**	**18.5**

23 Deferred taxation

	Group		Parent company	
	Provision £ million	Full potential liability £ million	Provision £ million	Full potential liability £ million
Timing differences on fixed assets	26.3	26.3	9.9	9.9
Timing differences on stock	3.5	3.5	(0.6)	(0.6)
Deferred capital gains	1.8	7.3	–	2.7
	31.6	37.1	9.3	12.0

No account has been taken of taxation which would be payable if the retained profits of overseas subsidiary undertakings were distributed.

24 Called up share capital

	1999		1998	
	Authorised £ million	Allotted issued fully paid £ million	Authorised £ million	Allotted issued fully paid £ million
3.5% Cumulative preference shares of £1 each	0.4	0.3	0.4	0.3
Ordinary shares of £1 each	291.6	218.2	291.6	217.5
Total called up share capital	292.0	218.5	292.0	217.8

24 Called up share capital continued

The number of ordinary shares in issue at 31st March 1999 was 218,157,622 (1998 217,470,103).

During the year ended 31st March 1999, the trustees of the company's employee share participation schemes subscribed for a total of 553,812 ordinary shares at market prices. In addition, current and former senior executives exercised their options to subscribe for a total of 133,707 ordinary shares at prices from 316.59 pence per share to 578.89 pence per share.

No options have been exercised since 31st March 1999.

Certain directors and senior executives have options under the company's executive share option schemes giving them the right to subscribe for a total as at 31st May 1999 of 7,139,843 ordinary shares, exercisable at various times up to the year 2008 at prices from 276.53 pence per share to 632.00 pence per share.

With the exception of 3.5% cumulative preference shares, the company has no non-equity share capital.

25 Reserves

25a Group

	Share premium account £ million	Revaluation reserve £ million	Associates' reserves £ million	Profit & loss account £ million
At beginning of year	101.8	15.5	1.6	156.6
Exchange adjustments	–	0.2	(0.1)	6.9
Premium on shares issued	2.1	–	–	–
Retained profit for the period	–	–	0.3	58.4
Transfers and other movements	–	(6.7)	(1.7)	8.4
At end of year	**103.9**	**9.0**	**0.1**	**230.3**

At 31st March 1999, the cumulative amount of goodwill, net of goodwill relating to disposals, charged against profit and loss account was £171.4 million (1998 £171.4 million).

In the group accounts, £5.8 million of net exchange losses (1998 £4.5 million gains) on foreign currency borrowings have been offset in reserves against exchange gains (1998 losses) on the translation of the related net investment in overseas subsidiaries.

25b Parent company

	Share premium account £ million	Revaluation reserve £ million	Profit & loss account £ million
At beginning of year	101.8	5.3	325.0
Premium on shares issued	2.1	–	–
Retained profit for the period	–	–	55.9
Transfers and other movements	–	(6.5)	6.5
At end of year	**103.9**	**(1.2)**	**387.4**

The parent company's profit for the financial year was £97.2 million (1998 £86.6 million).

Notes on the Accounts

for the year ended 31st March 1999

26 Commitments, guarantees and contingent liabilities

	Group		Parent company	
	1999	1998	1999	1998
	£ million	£ million	£ million	£ million
Commitments				
Future capital expenditure contracted but not provided	3.2	3.0	1.7	0.3
Annual commitments under operating leases				
Leases of land and buildings terminating				
Within one year	1.8	0.8	1.3	–
In one to five years	4.7	5.1	1.2	2.4
Over five years	2.1	1.8	–	0.1
Other leases terminating				
Within one year	0.7	0.6	0.1	0.1
In one to five years	2.2	2.3	0.6	0.6
Over five years	0.2	–	–	–
Guarantees				
Guarantees of subsidiary undertakings' borrowings	–	–	64.3	63.8
Other guarantees	1.0	2.0	0.6	0.7

Contingent liabilities

In August 1993, General Motors Corporation (GM) issued proceedings against Johnson Matthey in the United States alleging breach of contract and various other matters. Johnson Matthey vigorously rejects all GM's allegations which it does not believe have any substance and has filed several counterclaims. The directors are of the opinion, relying on legal advice, that GM's allegations will not prevail.

27 Gross cash flows

27a Returns on investments and servicing of finance

	1999	1998
	£ million	£ million
Interest received from joint ventures	–	9.6
Interest received	4.6	5.9
Interest paid	(20.9)	(12.9)
Dividends paid to minority shareholders	(0.2)	–
Net cash (outflow) / inflow for returns on investments and servicing of finance	(16.5)	2.6

27b Capital expenditure and financial investment

	1999		1998	
	£ million	£ million	£ million	£ million
Purchase of tangible fixed assets		(90.0)		(72.4)
Finance lease to associate		(0.6)		–
		(90.6)		(72.4)
Sale of tangible fixed assets	25.7		2.7	
Sale of short term investments	3.5		5.0	
		29.2		7.7
Net cash outflow for capital expenditure and financial investment		(61.4)		(64.7)

27c Cash flows on acquisitions and disposals

	1999 £ million	1999 £ million	1998 £ million	1998 £ million
Investment in subsidiary undertakings (note 29)		**(0.4)**		(65.8)
Cash acquired with subsidiary undertakings		**–**		7.8
Purchase of businesses (note 29)		**(8.3)**		(6.6)
		(8.7)		(64.6)
Disposal of subsidiary undertaking (note 30)	**(1.1)**		17.7	
Sale of business (note 30)	**4.0**		–	
Payment received for minority interest (note 29)	**1.5**		–	
Sale of investment in associates	**–**		2.8	
		4.4		20.5
Net cash outflow for acquisitions and disposals		**(4.3)**		**(44.1)**

27d Management of liquid resources

	1999 £ million	1998 £ million
Cash paid into term deposits of less than one year	**(3.7)**	(2.0)
Cash withdrawn from term deposits of less than one year	**8.6**	11.0
Net cash inflow from management of liquid resources	**4.9**	**9.0**

27e Financing

	1999 £ million	1999 £ million	1998 £ million	1998 £ million
Issue of ordinary share capital		**2.8**		2.8
Purchase of own shares		**(4.4)**		–
		(1.6)		2.8
Decrease in borrowings falling due within one year	**(9.0)**		(67.0)	
(Decrease) / increase in borrowings falling due after more than one year	**(13.0)**		69.4	
Capital element of finance lease rental payments	**(0.4)**		(0.1)	
		(22.4)		2.3
Net cash (outflow) / inflow from financing		**(24.0)**		**5.1**

28 Analysis of net debt

	Cash at bank and in hand £ million	Borrowings due within one year - overdrafts £ million	Borrowings due within one year - other £ million	Borrowings due after more than one year £ million	Finance leases £ million	Total £ million
At beginning of year	63.8	(25.1)	(116.1)	(145.6)	(2.1)	(225.1)
Cash flow						
From cash and overdrafts	(1.8)	4.4	–	–	–	2.6
From borrowings and finance leases	–	–	9.0	13.0	0.4	22.4
From term deposits	(4.9)	–	–	–	–	(4.9)
Net cash flow	(6.7)	4.4	9.0	13.0	0.4	20.1
Other non cash changes	–	–	(24.7)	24.7	–	–
Effect of foreign exchange rate changes	1.5	–	(12.8)	(5.3)	–	(16.6)
At end of year	**58.6**	**(20.7)**	**(144.6)**	**(113.2)**	**(1.7)**	**(221.6)**

Notes on the Accounts

for the year ended 31st March 1999

29 Acquisitions

Testing facility business of Watson Engineering Testing Development Inc.

On 3rd February 1999 the group acquired the testing facility business of Watson Engineering Testing Development Inc. located in Detroit in the US for £6.5 million. The fair value of the fixed assets acquired was £2.3 million, giving goodwill of £4.2 million. This has been accounted for by acquisition accounting.

Printed circuit board operations of Universal Circuits Inc. acquired in the year ended 31st March 1998

On 23rd January 1998 the group acquired the printed circuit board operations of Universal Circuits Inc. located in Buffalo, Minnesota in the US for £6.4 million, the majority of which was paid last year and the balance of £0.3 million was paid this year.

Cookson Matthey Ceramics plc acquired in the year ended 31st March 1998

On 6th February 1998 the group acquired the 50% of Cookson Matthey Ceramics plc which it did not already own. The accrued costs incurred of £0.4 million were paid this year.

Argentina joint venture formed in the year ended 31st March 1997

On 26th November 1996 the group entered into an agreement with Magneti Marelli S.p.A. to set up a joint venture company to manufacture autocatalysts in Argentina. As part of this agreement the group agreed to purchase Magneti Marelli's autocatalyst plant in Turin, parts of which have been utilised in the construction of the facility in Argentina. The consideration was £2.3 million, of which £0.3 million was paid immediately, £0.5 million paid last year and £1.5 million was paid this year. Also during the year Magneti Marelli paid £1.5 million for their minority interest at book value.

30 Disposals

UK Minerals

On 1st June 1998 the group sold its UK Minerals business.

Net assets disposed of were:	£ million
Tangible fixed assets	2.2
Stocks	1.2
	3.4
Profit on disposal	1.6
	5.0

Satisfied by:	£ million
Cash	5.0
Deferred cash payment	1.0
Costs incurred	(1.0)
	5.0

Otavi Minen AG sold in the year ended 31st March 1998

On 31st March 1998 the group sold Otavi Minen AG for £21.2 million. Costs of £1.1 million were accrued and have been paid this year.

Principal Subsidiary Undertakings and Associates

	Country of incorporation
Europe	
S.A. Johnson Matthey N.V.	Belgium
Johnson Matthey S.A.	France
Matthey Beyrand & Cie S.A. (80%)	France
Johnson Matthey GmbH	Germany
Johnson Matthey Italia S.p.A.	Italy
Johnson Matthey BV	Netherlands
Johnson Matthey Ceramica (Portugal) Lda	Portugal
Johnson Matthey Ceramics S.A.	Spain
Almiberia S.A.	Spain
Svenska Emissionsteknik AB	Sweden
Johnson Matthey & Brandenberger AG	Switzerland
†Johnson Matthey Ceramics plc	UK
Johnson Matthey Ceramics & Materials Limited	UK
North America	
The Argent Insurance Co. Limited	Bermuda
Johnson Matthey Limited	Canada
Johnson Matthey de Mexico, S.A. de C.V.	Mexico
Johnson Matthey Holdings, Inc.	USA
Johnson Matthey Investments, Inc.	USA
Johnson Matthey Inc.	USA
Johnson Matthey Catalog Company Inc.	USA
Johnson Matthey Electronics, Inc.	USA
JM Electronics Holding Company, Inc.	USA
The Alta Group Inc.	USA
Johnson Matthey Advanced Circuits, Inc.	USA
Johnson Matthey Semiconductor Packages, Inc.	USA
Johnson Matthey Electronic Assembly Services, Inc.	USA
Johnson Matthey Japan Autocatalyst, Inc.	USA

	Country of incorporation
Australia and New Zealand	
Johnson Matthey Limited	Australia
Johnson Matthey (Aust.) Limited	Australia
Johnson Matthey (NZ) Limited	New Zealand
Asia	
Johnson Matthey Hong Kong Limited	Hong Kong
*Arora-Matthey Limited (40%)	India
Johnson Matthey Japan Limited	Japan
Ryoka Matthey Corporation (50%)	Japan
†Johnson Matthey Sdn. Bhd. (89%)	Malaysia
Johnson Matthey Ceramics (Malaysia) Sdn. Bhd.	Malaysia
Johnson Matthey (Singapore) Pte Limited	Singapore
Johnson Matthey Ceramics (Asia) Pte Ltd	Singapore
Johnson Matthey Korea Limited	South Korea
Johnson Matthey Taiwan Co. Limited	Taiwan
South Africa	
Johnson Matthey (Pty) Limited	South Africa
South America	
†Johnson Matthey Argentina S.A.	Argentina
Microcina Comercial Vendas Ltda	Brazil
Ca Venezolana de Pigmentos (51%)	Venezuela

Except where otherwise stated, all companies are wholly owned.

* Associate (see note 13c on page 57).

† Investments held by parent company.

All the subsidiary undertakings and associates are involved in the principal activities of the group.

Shareholder Information

Shareholder Analysis

Analysis of ordinary shareholders as at 31st March 1999

By category	Number of shares	Percentage
Pension funds	119,114,062	54.60
Insurance companies	39,595,608	18.15
Investment and Unit Trusts	35,363,351	16.21
Individuals	10,144,329	4.65
Charities	7,242,833	3.32
Other	6,697,439	3.07
	218,157,622	100.00

By size of holding	Number of holdings	Percentage	Number of shares	Percentage
1-1,000	5,020	55.90	2,368,547	1.09
1,001-10,000	3,263	36.34	8,409,748	3.85
10,001-100,000	449	5.00	15,938,747	7.31
100,001-1,000,000	207	2.30	67,500,969	30.94
1,000,001-5,000,000	38	0.42	75,487,037	34.60
5,000,001 and over	4	0.04	48,452,574	22.21
	8,981	100.00	218,157,622	100.00

Low Cost Share Dealing Service

A low cost share dealing service is available through the Warburg Dillon Read Corporate Share Dealing Service provided by The Share Centre. This service allows shareholders to buy and sell Johnson Matthey plc shares in a simple and low cost manner.
For further details contact The Share Centre Ltd., PO Box 1000, Tring, Hertfordshire, HP23 5AN, telephone: 01442 890 844.

Share Price Information – UK Taxation

For capital gains tax purposes the mid-market price of the company's ordinary shares on 31st March 1982 was 253 pence.

Five Year Record

	1995 £ million	1996 £ million	1997 £ million	1998 £ million	**1999 £ million**
Turnover					
Parent and subsidiaries	2,177.8	2,528.9	2,423.2	3,138.8	**3,385.4**
Share of joint ventures	97.1	156.7	156.9	128.8	**–**
Total	2,274.9	2,685.6	2,580.1	3,267.6	**3,385.4**
Total operating profit	100.4	111.0	116.3	134.7	**145.2**
Profit on part disposal of investment in AnorMED Inc.	–	–	–	2.6	**–**
Profit on termination of operations	–	–	–	1.8	**1.6**
Profit on disposal of surplus properties	–	–	–	–	**0.3**
Fundamental restructuring	(0.7)	–	–	–	**–**
Profit before interest	99.7	111.0	116.3	139.1	**147.1**
Net interest	(4.3)	(8.8)	(8.0)	(9.0)	**(15.9)**
Profit before taxation	95.4	102.2	108.3	130.1	**131.2**
Taxation	(30.5)	(30.5)	(29.2)	(25.2)	**(31.9)**
Profit after taxation	64.9	71.7	79.1	104.9	**99.3**
Equity minority interests	(1.0)	(1.7)	(1.2)	(0.3)	**0.7**
Profit attributable to shareholders	63.9	70.0	77.9	104.6	**100.0**
Dividends	(25.9)	(31.4)	(33.6)	(38.7)	**(41.3)**
Profit retained	38.0	38.6	44.3	65.9	**58.7**
Earnings per ordinary share – FRS 3*	32.9p	34.4p	36.0p	48.2p	**46.1p**
Earnings per ordinary share excluding exceptional items*	33.2p	34.4p	36.0p	44.3p	**44.3p**
Dividend per ordinary share	13.5p	14.5p	15.5p	17.8p	**19.0p**
Interest cover (times) (Total operating profit before exceptional items / net interest)	23.3	12.6	14.5	15.5	**9.3**
Dividend cover – net (times) (Earnings per ordinary share / dividend per ordinary share)	2.4	2.4	2.3	2.7	**2.4**
Dividend cover excluding exceptional items - net (times) (Earnings per ordinary share excluding exceptional items / dividend per ordinary share)	2.5	2.4	2.3	2.5	**2.3**

*The earnings per ordinary share for 1998 and prior years have been restated to exclude shares held by the Employee Share Ownership Trusts in accordance with FRS14 - 'Earnings per Share'. The earnings per ordinary share for 1995 have been adjusted for the bonus element in the 1 for 8 rights issue made on 19th September 1995. The actual cum rights price on the last day of quotation (13th September 1995) was 581 pence per share.

Five Year Record

	1995 £ million	1996 £ million	1997 £ million	1998 £ million	1999 £ million
Summary Balance Sheet					
Assets employed:					
Goodwill	–	–	–	–	4.2
Tangible fixed assets	272.7	338.8	354.4	476.5	488.5
Investments in joint ventures	70.1	93.0	77.9	–	–
Investments in associates	0.8	2.9	3.1	3.0	0.6
Other fixed assets investments	–	4.5	3.2	1.2	1.2
Stocks	153.6	197.2	185.3	245.5	244.4
Debtors and short term investments	190.9	232.2	252.6	381.1	439.6
Other creditors and provisions	(207.5)	(284.2)	(267.5)	(382.8)	(389.3)
	480.6	584.4	609.0	724.5	789.2
Financed by:					
Net borrowings and finance leases	102.4	134.2	143.7	225.1	221.6
Shareholders' funds	380.2	450.9	465.1	493.3	561.8
Equity minority interests	(2.0)	(0.7)	0.2	6.1	5.8
Capital employed	480.6	584.4	609.0	724.5	789.2
Cumulative goodwill taken directly to reserves	57.5	150.3	156.3	171.4	171.4
Capital expenditure	48.2	52.1	82.1	77.2	91.0
Depreciation	27.8	33.1	40.6	45.5	64.3
Average number of employees	4,996	5,624	7,452	9,596	12,058
Gearing (Net borrowings and finance leases / shareholders' funds and equity minority interests)	27.1%	29.8%	30.9%	45.1%	39.0%
Return on capital employed (Total operating profit before exceptional items / capital employed)	20.9%	19.0%	19.1%	19.2%	18.6%
Return on assets (Total operating profit before exceptional items / average capital employed and cumulative goodwill)	19.4%	17.4%	15.5%	16.8%	15.8%

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