# Annual Report & Accounts 2000


Johnson Matthey

Johnson Matthey Annual Report & Accounts 2000

# Divisional Highlights


## Contents



Front Cover: State of the art fuel cell testing facilities at Johnson Matthey's Technology Centre in Sonning Common, UK

# Financial Highlights

## Group Results Summary

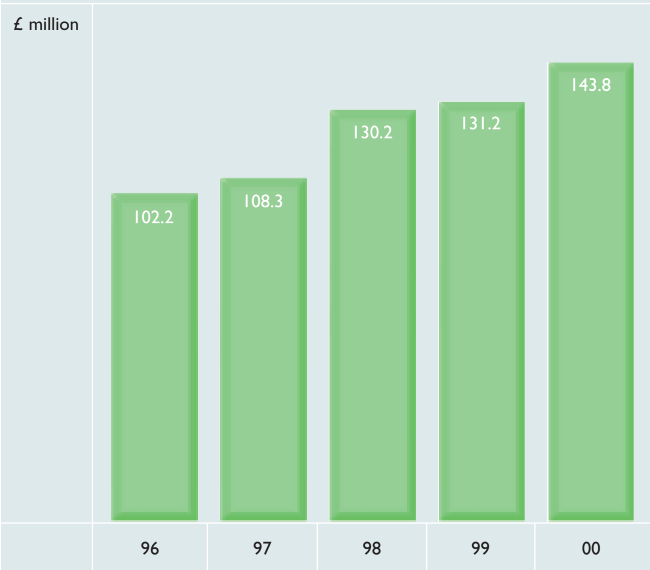
| | 1999 £ million | 2000 £ million | % Inc. |
|---|---|---|---|
| **Total turnover** | 3,385.4 | **3,866.0** | 14% |
| **Divisional operating profit** | | | |
| Catalysts & Chemicals | 74.2 | **84.8** | 14% |
| Precious Metals | 37.3 | **45.4** | 22% |
| Colours & Coatings | 25.1 | **27.9** | 11% |
| Corporate | (11.6) | **(11.6)** | |
| **Operating profit-continuing**[1] | 125.0 | **146.5** | 17% |
| Discontinued operations | 22.1 | **(0.3)** | |
| Operating profit[1] | 147.1 | **146.2** | -1% |
| Interest | (15.9) | **(2.4)** | |
| **Profit before tax and exceptionals**[1] | 131.2 | **143.8** | 10% |
| | pence | **pence** | |
| Earnings per share | 49.3 | **51.4** | 4% |
| Earnings per share excluding exceptionals[1] | 44.3 | **47.5** | 7% |
| Dividend per share | 19.0 | **20.3** | 7% |

| | 1999 £ million | 2000 £ million |
|---|---|---|
| Net cash flow | 20.1 | **393.3** |
| Net (borrowings) / cash | (221.6) | **165.8** |
| Shareholders' funds | 552.8 | **755.4** |
| Economic value added[2] | 16 | **32** |
| Return on assets (ROA)[2] | 16.1% | **18.4%** |

[1] Excluding exceptional items and goodwill amortisation

[2] See page 8

Profit before tax and exceptionals[1]




Earnings per share excluding exceptionals[1]

Dividend per share

# Chairman's Statement

Michael Miles
Chairman

I am pleased to report that 1999/2000 was a very good year for Johnson Matthey with all three of its operating divisions contributing to strong growth in profits. Excellent progress has continued to be made towards our goal of enhancing shareholder value. Johnson Matthey's strong technology and market leadership positions are widely recognised as providing a firm platform for continued growth as well as presenting exciting opportunities for the development of new global businesses such as fuel cells.

The strategy that we announced 18 months ago of refocusing the group on its core activities where we have genuine leadership and a strong market position has made good progress during the year. The sale of our Electronic Materials business to AlliedSignal Inc. was completed during the first half. The year has seen continued progress in the reshaping of the group with rationalisation of our Colours & Coatings Division's Tableware activities and the exit from its non-core organic pigments businesses. At the same time we have continued to invest in research and development, in new technology and in new production facilities to ensure that we maintain our leadership positions. It is gratifying to see that Johnson Matthey is increasingly recognised as a leading global speciality chemicals company with a strong franchise in catalysts, chemicals and precious metals.

Fuel cells have been the centre of a great deal of interest over the last year. Through its commitment to research and development and strong relationships with the world's leading developers of fuel cell technology, Johnson Matthey is in a uniquely strong position to benefit from the growth of new fuel cell industries. As the world leader in catalysts and catalysed components for fuel cells the advent of fuel cell engines for cars and fuel cell based micro combined heat and power units for homes offer Johnson Matthey a major opportunity for growth. The board is fully committed to supporting management in growing this exciting new business. On pages 14 and 15 we have a special feature on fuel cell technology and the role that Johnson Matthey is playing in bringing fuel cell systems to market.

## Board

The board of Johnson Matthey continues to pay particularly close attention to the group's future strategic direction and opportunities for growth. We are fortunate to have the support of a strong team of non-executive directors who bring a wealth of experience to the board. I am grateful for their efforts and wise counsel over the last year.

In July 1999 Mike Cleare retired from the board following the agreement to sell our Electronic Materials business to AlliedSignal Inc. Mike joined the board of Johnson Matthey in September 1995 following a succession of senior management positions with the group in both the United Kingdom and the United States. He headed Electronic Materials Division from January 1997. On behalf of the board I wish Mike well in his retirement.

In June this year we announced that George Wells would retire from the board at the end of July 2000. George has been a valuable member of our board since joining us in March 1998 and I should personally like to thank him for his contribution.

## People and the Community

People are Johnson Matthey's major asset and the company is fortunate to have an extremely dedicated and highly professional workforce. On behalf of the board I would like to thank all our employees for their hard work during the year.

At the end of April 2000 Dr George McGuire retired as Director of Johnson Matthey's Technology Centre after a distinguished 30 year career with Johnson Matthey. I would like to take this opportunity to thank George for his hard work and dedication and to wish him all the best for his retirement.

The company's future is embodied in its employees and I can not stress highly enough the importance of developing the management talent of tomorrow. This receives a great deal of attention throughout the company and is acknowledged as a primary responsibility of today's management. Our Training and Development of People policy is set out on page 24 of this annual report.

While Johnson Matthey is at the forefront of a number of important environmentally beneficial technologies, such as emission control catalysts and fuel cells, we also strive to ensure that all our operations around the world meet and exceed our responsibilities to the environment. We also seek to achieve the highest standards of health and safety performance in all our operations. Our corporate Environment, Health and Safety policies and information on our performance in these areas are detailed on pages 20 and 21.

Our current Charity of the Year programme is in support of the National Asthma Campaign. During the year we have also made donations to the Royal London Society for the Blind, with whom we have a relationship dating back over 160 years, and to the NSPCC in support of their FULL STOP campaign.

## Conclusion

The board is pleased with the progress that has been made with implementing the strategy that we announced in November 1998. We believe that Johnson Matthey's strong technology and market positions in catalysts, fine chemicals and precious metals mean that we are uniquely placed to achieve strong growth as the world seeks to meet the environmental challenges of this new century.

**Michael Miles OBE**
Chairman

# Chief Executive's Statement

Chris Clark
Chief Executive

Johnson Matthey's strategy announced in November 1998 to change the focus of the group has been successfully implemented. Electronic Materials Division (EMD) was established as a stand alone entity and sold for a good price. Our core businesses achieved 17% growth in profits following 20% growth in 1998/99.

The prospects for future growth are very encouraging. We are undertaking a significant investment programme to take advantage of opportunities in the strongly growing autocatalyst market. We have recently announced an investment of £10 million to build a new autocatalyst facility at Royston in the UK to meet the increasing demand in Europe for more technologically advanced catalysts. The new factory will initially have capacity to manufacture 3.5 million catalysts a year. In February 2000 we announced the establishment of a new autocatalyst facility in China which will initially have capacity to produce 0.6 million car catalysts and 1 million motorcycle catalysts. We are doubling the capacity of our very successful Indian business at a new site in Harayana state which will have capacity for 2 million car catalysts and 4 million motorcycle catalysts.

We are also investing in our global manufacturing technology with expenditure of £20 million over the next 3 years. This investment will give Johnson Matthey a significant competitive edge enabling the production of catalysts to the much tighter specifications required for the next generation of clean cars.

**In March 2000 Johnson Matthey unveiled its SCRT™ system which represents a major step forward in diesel emission control. This will make heavy duty diesel truck and bus engines as clean as those of the very latest passenger cars. In the next few years much more stringent emission control limits will be introduced for heavy duty diesel engines both in the US and Europe. This new technology will enable manufacturers to meet these new limits within industry cost targets.**

**New catalyst development is increasing in other areas. In January 2000 we acquired an equity stake in Oy Smoptech Ab as part of a phased acquisition of the company. Smoptech, which is based in Turku, Finland, has developed a range of advanced polymer fibres for use as innovative supports for catalysts and in other chemical process applications in the pharmaceutical and chemical industries. In Pharmaceutical Materials the major capacity expansion at West Deptford in the US is well underway and should be operational during calendar year 2001 to meet anticipated demand arising from new product introductions.**

**Fuel cells represent a major opportunity for growth with their application in vehicles and in our homes soon to become a reality. It is expected that there will be several thousand fuel cell vehicles on the road by 2005 and industry estimates are that between 600,000 and 1 million fuel cell cars will be produced per year by 2010. Johnson Matthey is the world leader in catalysts and catalysed components for fuel cells. We are investing £12 million in the expansion of our fuel cell development, testing and pilot production facilities both at our Technology Centre at Sonning Common and in the US.**

**Our technology lead in fuel cells has enabled us to secure an unrivaled list of fuel cell customer partnerships. These include XCELLSIS, VW, General Motors, Siemens, Ballard, IFC, Plug Power and Energy Partners. We recently announced a new collaboration and supply agreement with James Cropper PLC. This represents an important step in the development of high volume manufacturing processes for Johnson Matthey's Membrane Electrode Assembly (MEA), the key component at the heart of Polymer Electrolyte Membrane (PEM) fuel cells.**

**Johnson Matthey continues to be the largest fabricator of platinum group metal (pgm) products in the world and has a distribution capability second to none. Our platinum marketing activities support demand for platinum products worldwide which is expected to show continued growth in the coming years. The group is sole marketing agent for Anglo American Platinum Corporation Limited, the world's leading primary producer of pgms, a relationship which goes back over 70 years. Many of the new uses for pgms have been developed in Johnson Matthey's own laboratories. We are increasing our investment in this area, which will underpin the continued long term growth of our core Precious Metals Division.**

**Colours & Coatings Division continues to make excellent progress since we acquired full ownership in February 1998. Return on sales has risen to 11.6%. We expect the return to continue to improve as the benefits of the restructuring programme for Tableware come through. We will be investing £10 million on new production facilities at Castellon in Spain to meet rapid growth in demand from tile manufacturers in southern Europe and around the world. We are also planning to put further investment in our factory in Maastricht, Holland which makes specialised automotive glass enamels and other decorative products for the glass industry.**

# Chief Executive's Statement

**The programme to manage the millennium IT risk was completed well in advance of the deadline and the group achieved a smooth and successful transition into 2000. New investment in Information Technology infrastructure to support the rapid growth of the business continues to be made. The Internet and related technology provide significant opportunities to further enhance the capabilities of our businesses in improving efficiency and better serving our customers. These opportunities and other ways of realising value via the Internet form the basis of our e-Commerce strategy and are being pursued energetically. Johnson Matthey's established US catalogue sales business Alfa Aesar has been trading on the Internet since 1997 and is currently in the process of being upgraded to offer improved facilities for customers with a growing interest in e-Commerce.**

**The group is also looking at the opportunity to grow its core businesses by strategic acquisitions, and is actively pursuing a number of opportunities. Following the sale of EMD the group is well positioned to fund these opportunities out of existing resources.**

## Financial Highlights

In the year to 31st March 2000 operating profit from continuing operations rose by 17% to £146.5 million on sales that were 27% up at £3,769 million. On 17th August 1999, EMD was sold to AlliedSignal Inc. for US$655 million. EMD made a £0.1 million contribution to profits compared with £22.1 million for the full year 1998/99. Despite the shortfall in EMD, Johnson Matthey earned profits before tax and exceptionals of £143.8 million, 10% up on prior year.

Earnings per share excluding exceptionals were 7% up at 47.5 pence. Including exceptionals earnings per share were 4% up at 51.4 pence.

As a result of the sale of EMD net cash flow for the group was strongly positive at £393.3 million. Johnson Matthey ended the year with net cash of £165.8 million compared with net borrowings of £221.6 million last year. Shareholders' funds rose by £202.6 million to £755.4 million.

The board is recommending to shareholders a final dividend of 14.2 pence making a total dividend for the year of 20.3 pence, an increase of 7%. The dividend would be covered 2.3 times by earnings.

## Operations

Catalysts & Chemicals Division increased its sales by 26% over last year to £856 million. The growth reflected increased sales volume and the effect of higher palladium prices on autocatalysts. The division's operating profit rose by 14% to £84.8 million.

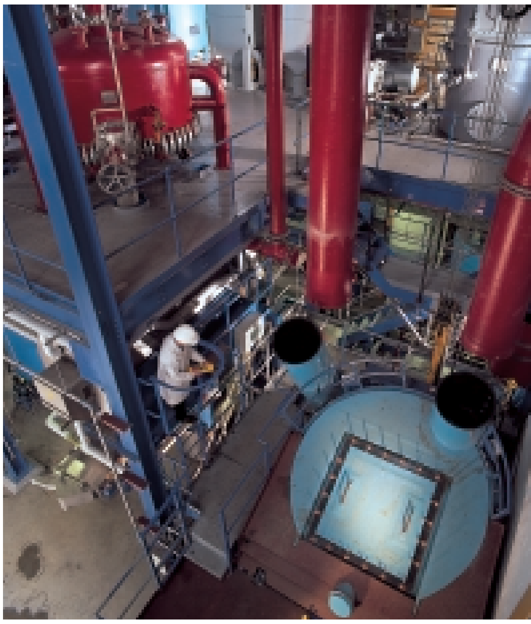
The Autocatalyst business achieved good growth in operating profit with unit sales 11% higher than last year driven by strong car sales and tightening emission standards in all the world's major car markets. These tighter standards are resulting in more catalysts per vehicle and growing demand for more technologically sophisticated catalysts.

In August 1999 we announced that Johnson Matthey had agreed with General Motors Corporation to settle a long-standing commercial dispute. As part of the settlement agreement Johnson Matthey has entered into collaboration with General Motors on a significant research and development project on fuel cells for transportation applications.

Testing the latest catalysts for motorcycle applications at Johnson Matthey's European Autocatalyst Technology Centre in Royston, UK

The Chemicals business also achieved good growth in operating profit benefiting from strong demand for pgm refining and good sales of platinum group metal compounds. As anticipated, profits in our Pharmaceutical Materials business were flat as a result of the increased competition in methylphenidate as two new generic suppliers entered the market and prices declined. This was offset by strong sales of carboplatin, fentanyl and hydromorphone and initial income from a new product in late stage clinical trials.

Precious Metals Division's (PMD's) sales were 31% ahead of last year at £2,672 million. Sales of platinum group metals rose as a result of increasing demand and higher prices. Gold sales also increased with higher levels of refining activity in the Far East. Operating profit for the division rose by 22% to £45.4 million.


Johnson Matthey's new facility to manufacture heterogeneous catalysts for the bulk chemicals industry

Another year of unpredictable Russian supplies supported pgm prices and ensured continued market volatility. PMD's marketing operations benefited from the trading opportunities and record demand for metal from the autocatalyst and jewellery sectors. Buoyant demand for industrial products underpinned a good performance from PMD's platinum fabrication facilities.

Gold and Silver operations had a satisfactory year. Good levels of business for refining and bullion products were offset by weaker margins in a competitive marketplace.

Colours & Coatings Division's sales were 1% down on last year at £241.2 million. Much of the division's operations are based in Europe and sales growth was adversely affected by exchange translation because of the weakness of the euro. On a constant currency basis sales grew by 3%. Operating profits grew by 11% to £27.9 million despite adverse exchange translation. Margins improved to 11.6% as a result of both a shift to higher margin products and continued emphasis on reducing costs.

The Structural Ceramics segment was well up on last year with strong demand for decorative products from tile producers in southern Europe. The Glass business also performed well led by continued growth in sales of automotive glass enamels. The division's inorganic pigments businesses produced encouraging results with good sales of products for woodstains, paints and plastics. The division's organic pigments businesses made a loss of £0.4 million and were sold at the end of the year.

The Tableware business saw a further decline in its market and a rationalisation programme was introduced in the second half of the year to streamline operations by closing one site, reducing administration costs and cutting headcount by more than 200. The cost of this programme is £9.8 million of which £5.2 million had been spent by 31st March 2000. It will give rise to savings of around £4 million in the financial year 2000/01 and £7 million per annum in following years.

## Outlook

Prospects for all the group's businesses are very encouraging. We are investing in new technology to maintain continued growth and pursuing a number of opportunities to add further to our core businesses.

**Chris Clark**
Chief Executive

# Financial Review

## Review of Results

In the year to 31st March 2000 operating profit from continuing operations rose by 17% to £146.5 million on sales that were 27% up at £3,769 million. On 17th August 1999, Electronic Materials Division (EMD) was sold to AlliedSignal Inc. for US$655 million. EMD made a £0.1 million contribution to profits compared with £22.1 million for the full year 1998/99. Despite the shortfall in EMD, Johnson Matthey earned profits before tax and exceptionals of £143.8 million, 10% up on prior year.

Earnings per share excluding exceptionals were 7% up at 47.5 pence. Including exceptionals earnings per share were 4% up at 51.4 pence. The board is recommending to shareholders a final dividend of 14.2 pence making a total dividend for the year of 20.3 pence, an increase of 7%. The dividend would be covered 2.3 times by earnings.

### 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 generally 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 adjacent table shows sales by division excluding the value of precious metals. Total sales for the continuing businesses excluding precious metals were £841.4 million which was 13% up on last year and return on sales averaged 17.4% compared with 16.8% in 1998/99. The group's target for each of its divisions is to achieve a return on sales excluding precious metals in excess of 10%. In 1999/2000 Catalysts & Chemicals and Precious Metals were well above that target, Colours & Coatings showed a good improvement and also came in above the target.

#### Return on Sales (ROS)

| | Total External Sales | | ROS | |
|---|---|---|---|---|
| | 1999 | **2000** | 1999 | **2000** |
| | £ million | **£ million** | % | **%** |
| Catalysts & Chemicals | 677 | **856** | 11.0 | **9.9** |
| Precious Metals | 2,041 | **2,672** | 1.8 | **1.7** |
| Colours & Coatings | 244 | **241** | 10.3 | **11.6** |
| Continuing Businesses | 2,963 | **3,769** | 4.2 | **3.9** |

| | Sales Excluding Precious Metals | | ROS | |
|---|---|---|---|---|
| | 1999 | **2000** | 1999 | **2000** |
| | £ million | **£ million** | % | **%** |
| Catalysts & Chemicals | 408 | **494** | 18.2 | **17.2** |
| Precious Metals | 96 | **114** | 38.8 | **40.0** |
| Colours & Coatings | 240 | **234** | 10.5 | **11.9** |
| Continuing Businesses | 744 | **841** | 16.8 | **17.4** |

### 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 but was still a little below the group target.

For the continuing businesses return on assets reached 24.2% in 2000. For the group as a whole (including EMD for part of the year), return on assets was 18.4% (see pages 68 and 69). On a post-tax basis this equates to a return of 13.2% which is comfortably above the group's current average long run cost of capital of 10%. Economic value added, which measures earnings after charging the cost of capital, was £32 million including exceptionals compared with £16 million last year.

### Exceptional Items

Overall, exceptional items gave rise to a net profit of £13.6 million on a pre-tax basis. Most of the gain arose from the sale of EMD for US$655 million in cash which was completed in August 1999. Some peripheral assets, mainly property, amounting to £13.7 million were retained. The sale generated a net gain of £152.2 million compared with book value. After writing back £123.7 million of goodwill it gave rise to an exceptional profit of £28.5 million.

At the end of the year the group sold its organic pigments businesses in Venezuela and the United States to Dominion Colour Corporation and Continuous Link Color Inc. respectively. The businesses were sold at a loss of £4.5 million compared with book value. After writing back £1.7 million of goodwill the disposals gave rise to an exceptional loss of £6.2 million.

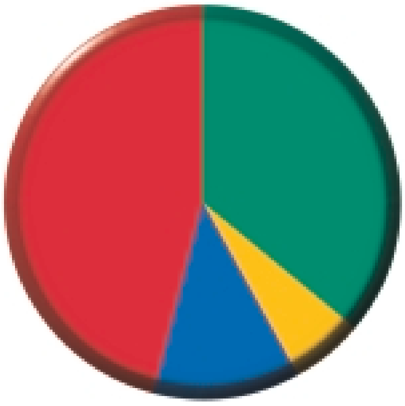
An exceptional charge of £9.8 million has been included in operating profit to cover the cost of the rationalisation programme for the group's Tableware business. An exceptional gain of £1.1 million arose in the year on disposal of surplus properties.

### Interest and Exchange Rates

The interest charge fell by £13.5 million to £2.4 million as a result of the interest earned on the sale proceeds of EMD. In the second half of the year the group had net interest income of £2.8 million. Interest for the year includes £2.2 million of leasing costs for gold and silver which increased from £1.3 million last year.

Operating profit from continuing operations rose significantly in North America, Asia and in the rest of the world but fell slightly in Europe. The increase in the rest of the world included additional autocatalyst manufacturing in South Africa and Argentina for the European market.

Operating Profit by Region



North America 47% (£69.3 million)
Europe 36% (£52.2 million)
Asia 6% (£8.8 million)
Rest of the World 11% (£16.2 million)

Exchange rates had a mixed impact on the group's results. The strength of sterling against the euro and other foreign currencies had an adverse impact on the group's businesses that export from the UK, particularly in Colours & Coatings. However the US dollar was also stronger which benefited the translation of our US subsidiaries' earnings. Overall, exchange translation improved profits by £0.2 million compared with last year.

### Taxation

The group's average tax rate, excluding exceptional items, was slightly higher than last year at 28.1%. Tax payable in the UK rose compared with last year as a result of the change in the rules for Advance Corporation Tax. Tax payable fell in the US following the disposal of EMD but increased in the rest of the world reflecting the higher level of profit earned in those countries.

### Cash Flow

The group's net cash flow for the year was very strong at £393.3 million as a result of the sale of EMD. Free cash flow (net cash flow from operating activities after interest, tax, dividends and capital expenditure) for the continuing businesses was slightly negative at £7.6 million after two years in which the group had generated £54.8 million at this level. The outflow was mainly the result of the sharp increase in platinum group metal prices which occurred towards the end of the year and which resulted in additional funding requirements for debtors and stocks in Catalysts & Chemicals Division.

The group ended the year with net cash of £165.8 million compared with net borrowings of £221.6 million last year. Shareholders' funds rose by £202.6 million to £755.4 million.

# Financial Review

## Financial Risk Management

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

Following the sale of EMD the group used the proceeds to repay borrowings and deposited the remainder with a range of high quality international banks. The deposits are mainly held in sterling with relatively short maturities. The group occasionally uses interest rate swaps to generate the desired interest profile. The group has £62.7 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 2000 the group had £53.5 million of floating rate borrowings, largely in the form of foreign currency loans to fund overseas operations (see page 57). A 1% change in all interest rates would have a 1.4% impact on group profit before tax. This is well within the range the group regards as acceptable.

### 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. Following the sale of EMD the group reduced its committed bank facilities to £40 million. None of these facilities was drawn down at 31st March 2000. 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 operating profits earned outside the UK. The group has operations in 34 countries with the largest single investment being in the USA. In order to protect the group's sterling balance sheet and reduce cash flow risk, the group 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 (see page 57).

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. Details of the contracts outstanding on 31st March 2000 are shown on page 59.

### 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.

John Sheldrick

**John Sheldrick**
Group Finance Director

# Divisional Structure

## Catalysts & Chemicals

Catalysts & Chemicals consists of Autocatalysts, Pharmaceutical Materials and Chemicals. It also includes Johnson Matthey's Fuel Cell business.

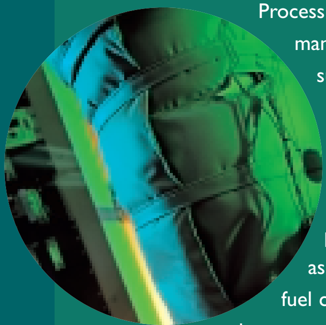
### Autocatalysts

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.

### Fuel Cells

Johnson Matthey is the world leader in catalysts and catalysed components for fuel cells.

## Precious Metals

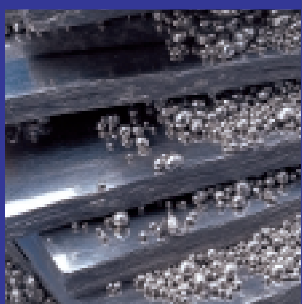
Our Precious Metals Division is organised into two groups; Platinum and Gold and Silver, and incorporates Johnson Matthey's precious metals marketing, fabrication and refining activities.

### 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.

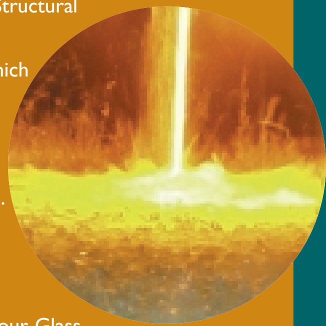
### Gold and Silver

Comprises our worldwide gold and silver refining and bullion manufacturing operations. Johnson Matthey is the market leader in the refining of gold and 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

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 pigments and pigment dispersions for use in printing inks, paints, automotive finishes, woodstains and plastics.

### Structural Ceramics

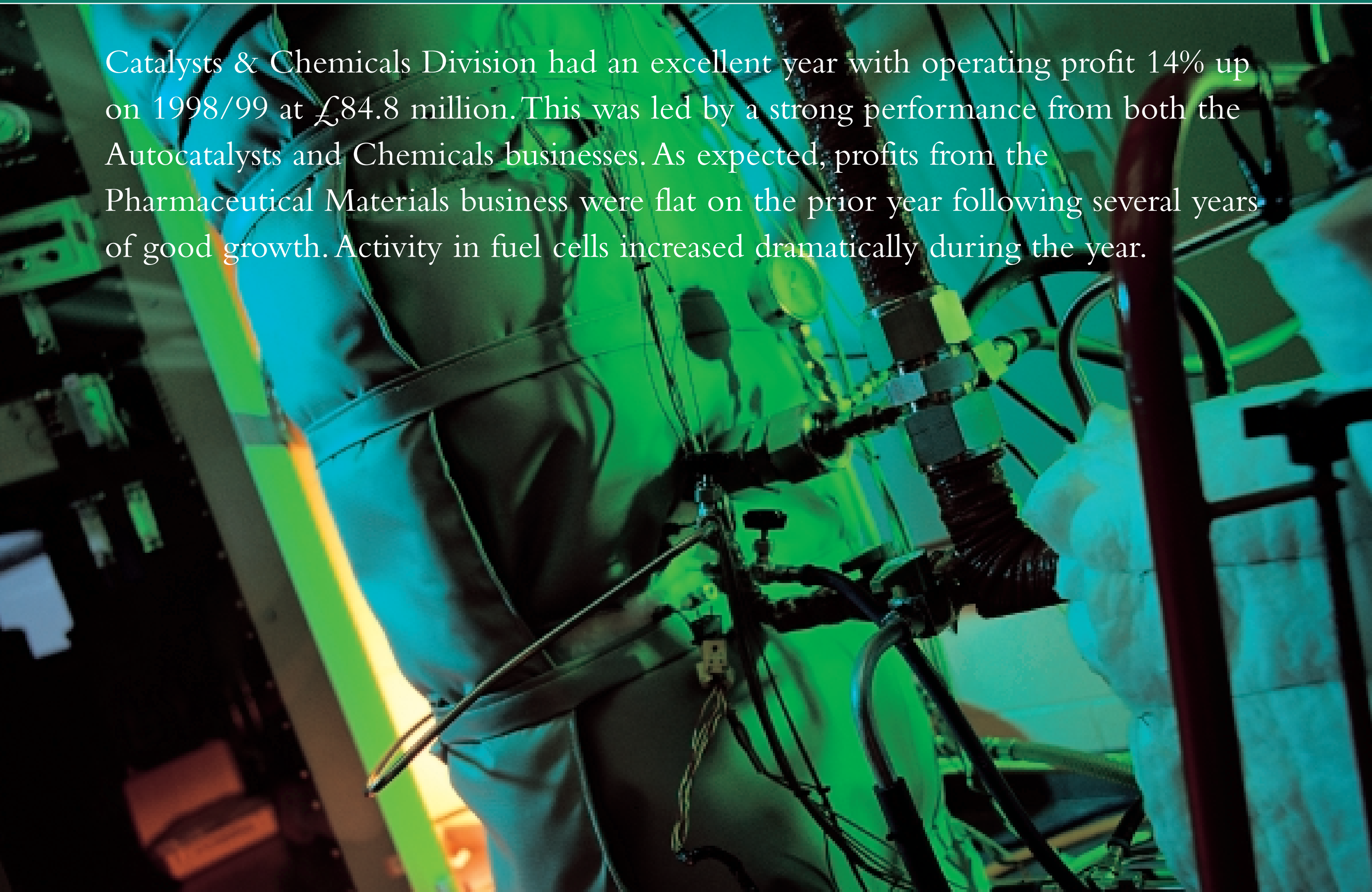
Our Structural Ceramics business manufactures colours, glazes and frits for the tile and sanitaryware industries, and includes our zircon business.

### Tableware

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

# Catalysts & Chemicals

Catalysts & Chemicals Division had an excellent year with operating profit 14% up on 1998/99 at £84.8 million. This was led by a strong performance from both the Autocatalysts and Chemicals businesses. As expected, profits from the Pharmaceutical Materials business were flat on the prior year following several years of good growth. Activity in fuel cells increased dramatically during the year.



Above
Testing the latest generation of fuel processors for residential fuel cells at Johnson Matthey's new fuel processor laboratory in Devon, USA

Left
Novel advanced polymer fibre catalyst supports developed by Oy Smoptech Ab

Right
Manufacturing autocatalysts at Johnson Matthey's production facility in Malaysia

Far Right
Chemists at Johnson Matthey Pharmaceutical Materials develop innovative chemical processes for the manufacture of active pharmaceutical ingredients

## Autocatalysts

The Autocatalyst business had an excellent year. The major vehicle markets of Europe and North America were buoyant with sales in Europe up around 5%, while in NAFTA vehicle sales were up 9% setting an all-time record of 19 million units. Sales in Japan were flat on the prior year and those of the developing economies of ASEAN, while recovering, were still below the pre-crisis levels of 1996. Car sales in South America were very poor. Overall, good growth in vehicle sales, combined with the impact of tighter legislation around the world, pushed global demand for autocatalysts up by 10%. Johnson Matthey's unit sales increased by 11%.

The continuing spread of emissions regulations worldwide and the tightening of standards in Europe and North America are the main drivers behind a substantial capital investment program. This includes a new, higher capacity plant in India and a new facility in China which is being established near Shanghai. While these countries currently represent only a small fraction of world vehicle demand, together India and China account for 40% of the world's population and both are very serious about tackling environmental pollution. Continued strong growth in demand for increasingly sophisticated autocatalysts in the developed economies of Europe and North America will be met from a new factory currently under construction in Royston, UK and further expansion of our Devon facility in the USA. Both factories will use new, state of the art processing technology which will enable the production of catalysts to higher specifications.

## Chemicals

The platinum group metal (pgm) chemicals and refining businesses in North America and Europe also had an excellent year with sales ahead of the good performance achieved in the prior year. There was continued strong demand for refining services driven by the increasing prices of the platinum group metals.

The Chemicals business' new manufacturing facilities for homogeneous catalysts and particulate, fixed bed catalysts in both the US and UK are exceeding expectations and are already approaching full capacity. The high throughput screening methods that Johnson Matthey has pioneered for catalysis over the last few years are providing a unique catalyst optimisation service for our customers. A plant to manufacture specialised heterogeneous catalysts for the bulk chemicals industry is close to completion and will provide additional sales, commencing next year. We have agreed a phased acquisition of Oy Smoptech Ab, a Finnish start-up company that has developed novel advanced polymer fibre catalyst supports. These will be combined with our pgm technology to launch a new generation of anchored homogeneous catalysts.

Demand for pgm chemicals as precursors for autocatalysts and petroleum refining catalysts is strong and other products are also contributing to growth in the chemicals business. Alfa Aesar, the research chemicals business continues to perform well in North America and is developing its Internet based sales activities.

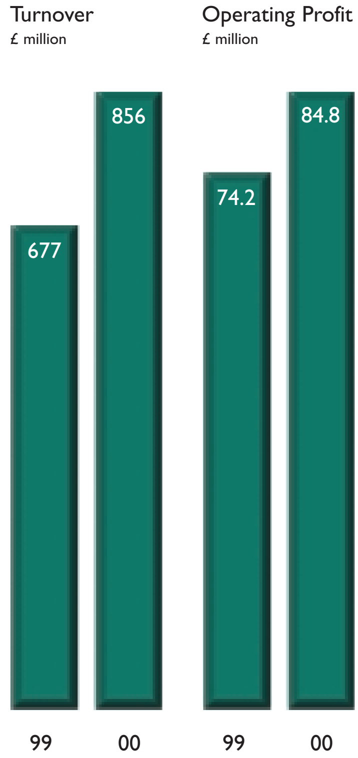
## Pharmaceutical Materials

Pharmaceutical Materials manufactures and markets a range of high value active pharmaceutical ingredients to both generic and research based pharmaceutical companies. The business has a significant niche presence in controlled drugs. 1999/2000 saw excellent growth in key established products, especially carboplatin, fentanyl and hydromorphone, while methylphenidate came under pressure due to increased competition for this generic product. Significant progress was made on several important new products as well as in two products in the later stages of clinical trials.

An important programme of investment in the growth of the business has continued during the year with the commencement of a major expansion of its facility in West Deptford, New Jersey. Construction of these expanded facilities, which will include both laboratories and state of the art manufacturing suites, is scheduled for completion in 2001.

## Fuel Cells

1999 was a year of exciting developments in fuel cells. While sales revenues are small, important collaborative relationships are being established with leading manufacturers and system developers in today's fuel cell industry, which will be crucial to the success of the business in the future. Johnson Matthey is already well positioned to be a major supplier of fuel cell catalysts and catalysed components to amongst others Ballard, XCELLSIS, General Motors and Plug Power. The company's fuel cell technology is well regarded throughout this rapidly growing industry. Over the next 12 months the business will focus on strengthening its ties with key suppliers and building robust manufacturing processes in preparation for expected major growth in demand for its products. A major expansion of Johnson Matthey's fuel cell research and development facilities is underway at Sonning Common, UK and a new fuel processor laboratory and pilot production unit has been established in Devon, USA.




**Research and Development**

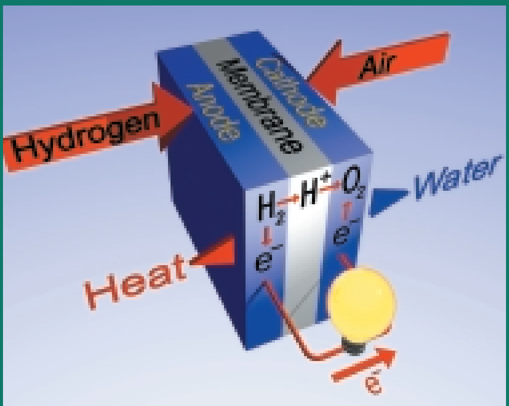
Catalysts & Chemicals Division's research is focused on providing customers with world leading technology at competitive prices. The Autocatalyst business has important R&D programmes to develop a range of catalyst systems to enhance customer choice including advanced platinum based alternatives to palladium only catalysts. Another major focus is the development of novel emissions systems for both light and heavy duty diesel engines in response to challenging legislation in both the US and Europe. Johnson Matthey's SCRT™ system, which combines its proven continuously regenerating trap (CRT™) technology with advanced selective catalytic reduction, has been hailed as a major breakthrough in this area. The business continues to make good progress in the development of high performance catalysts for gasoline direct injection and other lean burn engines. R&D in Pharmaceutical Materials focuses on developing manufacturing processes for new products and ensures that there is a continuous flow of products in the pipeline. In Chemicals major programmes include the development of new highly selective catalysts and ligand systems for pharmaceutical and fine chemicals applications. A major focus is the development of chiral catalysts for the manufacture of single isomer drugs.

# Johnson Matthey: The Catalyst behind Fuel Cells

Fuel cells are very much the power source for the new millennium. All of the leading names in the automotive industry have active fuel cell development programmes and many major utility and energy companies have also recognised their potential. Johnson Matthey is playing a vital role in bringing this exciting new technology to market.

## What are fuel cells?

A fuel cell is an electrochemical engine that converts the energy of a chemical reaction directly to electricity. Hydrogen and oxygen are combined over a catalyst to produce electricity and water. Johnson Matthey has been actively involved in fuel cell technology for many years, supplying the catalysts used in the phosphoric acid fuel cells used to provide electrical power and drinking water for both the Apollo and Shuttle space programmes. However the type of fuel cell best suited to mass market applications such as cars and for use in the home is the Polymer Electrolyte Membrane (PEM) fuel cell which operates at 80°c and is robust enough for these demanding applications.




## How does a PEM fuel cell work?

PEM fuel cells are essentially very simple. They have no moving parts. At their heart are two catalysed electrodes separated by a sheet of polymer. The catalyst is coated onto a sheet of special carbon fibre paper that acts as a gas diffusion layer. The catalyst layer is in contact with the polymer membrane. Hydrogen is supplied to one side of the cell (the anode) and oxygen to the other (the cathode). The membrane prevents the two gases from mixing but it also has the unique ability to conduct protons. The catalyst on the anode ionises the hydrogen gas and protons can then pass through the membrane and react with the oxygen in the presence of the catalyst on the cathode to form water. The reaction is completed by the hydrogen electron rejoining the proton via a wire, thus creating an electrical current.

The membrane and the two gas diffusion and catalyst layers are laminated together to create a Membrane Electrode Assembly (MEA). This is placed between two gas flow plates that distribute hydrogen and air to either side of the MEA. Together these five components form a single cell. Each cell generates about 0.7 volts so they are stacked together to add up to a usable 200 to 300 volts. This is called a Fuel Cell Stack.

## Do we need new forms of power generation?

Over 70% of the power that we use is consumed by our cars and in homes and offices. Producing power at the point of use is potentially very attractive but the technology used must be clean, quiet and efficient.

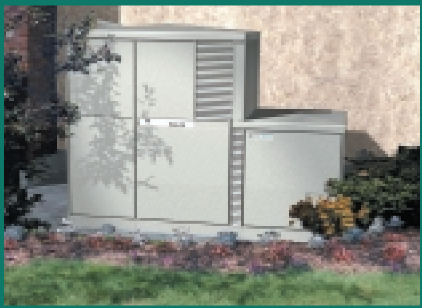
Fuel cells are clean enough for power to be generated at the point of use utilising a variety of fuels. When run on hydrogen, the fuel cell is a true 'zero emissions' source of power, emitting only pure water. They produce no particulates, are extremely quiet and can operate in the same room as people with almost no detrimental impact on the local environment. Fuel cells are thus ideally suited for use in micro Combined Heat and Power (CHP) applications in the home. In these applications 3 to 10 kilowatts of electricity can be generated by a fuel cell and the heat produced can be used to heat, or even air condition the building. The ability to utilise the heat greatly increases the efficiency of the fuel cell system and provides many benefits over electricity generated by central power stations and transmitted over long power lines.

## Johnson Matthey and fuel cells

Johnson Matthey is the world's leading producer of the specialised anode and cathode catalysts at the heart of the fuel cell. The company has committed many years of R&D to the development and optimisation of these catalysts and supplies a wide range to fuel cell manufacturers. It also has a great deal of expertise in the development and optimisation of the Membrane Electrode Assembly and aims to supply completed MEAs to customers. Each MEA design has different performance characteristics and JM has leading edge catalyst and materials technology to ensure the best possible performance from this key component. Much of the progress made in recent years towards commercialisation of fuel cell systems has resulted from this unrivaled expertise. But the story does not end there...

There is currently no infrastructure to distribute hydrogen to our homes and cars. Even if there were a means to fill up your car with hydrogen, current methods of storing it on board the vehicle would make the tank too big or too heavy to give it sufficient range or acceptable performance and still leave room for any passengers. So fuel cell cars will initially use a catalytic reformer to generate hydrogen from a liquid hydrocarbon fuel such as methanol. Similar systems will be used to generate hydrogen from natural gas for use in fuel cell powered micro CHP systems in homes and small offices.

Evaluating the performance of the latest fuel cells at Johnson Matthey's Technology Centre in the UK



A Plug Power residential fuel cell system (Photograph courtesy of Plug Power Inc.)

Johnson Matthey has developed patented fuel reformer technology known as HotSpot™ to generate hydrogen rich reformate that can be fed into a fuel cell, from methanol or natural gas. Development work on HotSpot™ reformers for gasoline, Liquid Petroleum Gas and other hydrocarbon fuels is ongoing. The reformate gas stream contains small amounts of carbon monoxide (CO) which can poison the fuel cell catalyst. A further, highly selective catalyst is used to clean up the CO without losing any of the hard won hydrogen.

Not all of the hydrogen that is fed into the fuel cell is converted into electricity and water. A small amount is contained in the exhaust gas from the anode and can be used to heat the fuel reformer via an anode exhaust burner. This is another specialised catalytic component for which Johnson Matthey has leading edge technology. A fifth catalyst is used to remove any unreacted hydrocarbons from the clean exhaust gas.

These five key catalytic stages will provide Johnson Matthey with net revenue opportunities that are an order of magnitude greater than those of its current autocatalyst business where JM provides the emission control catalyst only.

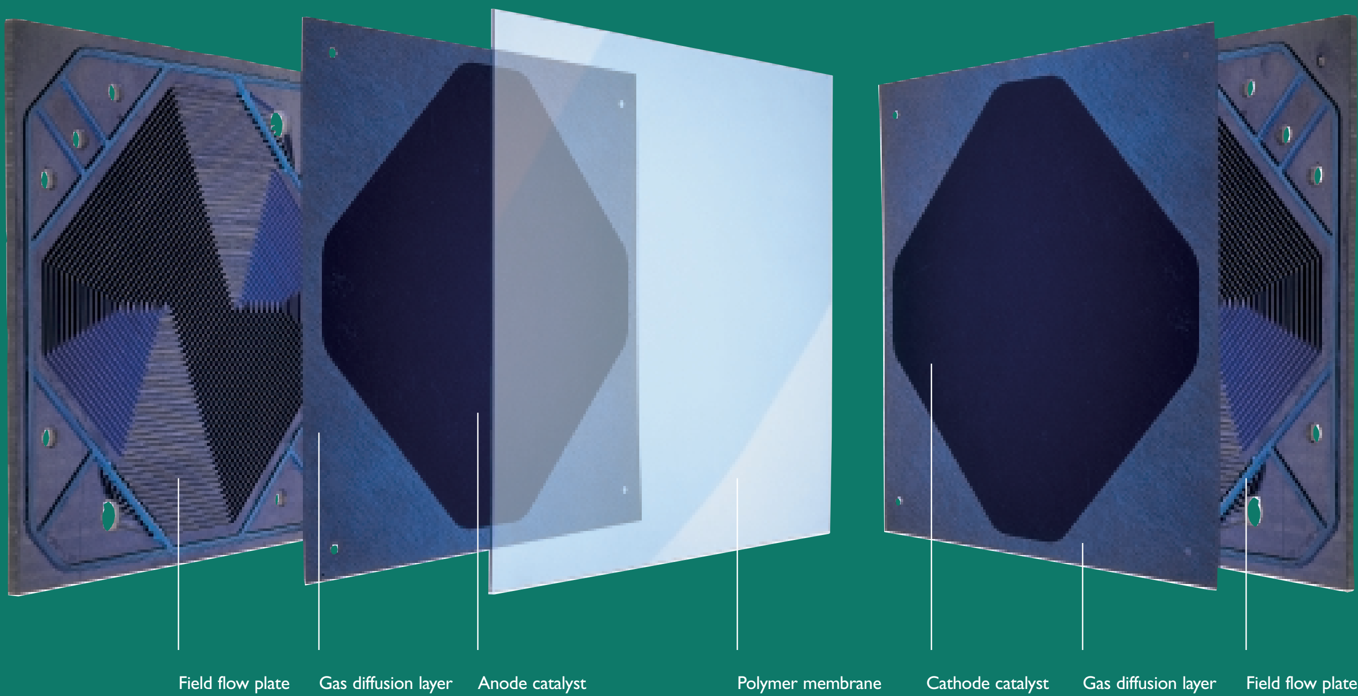
## When will we see fuel cells on our roads and in our homes?

The automobile industry is targeting to have the first "production" fuel cell vehicles on the road by 2005. XCELLSIS, a joint venture to manufacture fuel cell engines between DaimlerChrysler, Ford and Ballard Power Systems, believe they will have several thousand fuel cell vehicles on the road by 2005. The other car companies will also launch fuel cell vehicles at around this time. Industry estimates are that between 600,000 and 1 million fuel cell cars will be produced per year by 2010. Even at these levels, fuel cell cars will only represent 1 to 1.5 % of total world car production. Mass production of fuel cell cars will depend on the success of these first cars. Importantly, fuel cell cars will be more desirable than conventional cars as they will be more fun to drive and have more electronic features such as remotely controlled air conditioning and heating systems.

Fuel cell powered residential CHP units may well be commercially available sooner than cars. Leading developers of these residential systems such as Plug Power in the United States have announced that they plan to start marketing units in 2002 and will have 100,000 units in the market by 2003.


Ford's P2000 fuel cell prototype vehicle. A family sized car powered by a fuel cell (Photograph courtesy of Ford Motor Company)

## Inside a fuel cell



# Precious Metals

Precious Metals Division achieved operating profits of £45.4 million, 22% ahead of last year. The division encompasses Johnson Matthey's platinum marketing, trading and manufacturing businesses together with its global gold and silver refining and bullion product manufacturing operations.

The excellent performance was driven by very strong demand for the platinum group metals and related products. The gold and silver operations achieved good growth in refining volumes but profits were flat on prior year.


Above
Platinum sheet and grain

Left
Iridium alloy tipped spark plugs are used in applications ranging from aerospace to today's cars

Right
The year saw a surge in demand for platinum jewellery in China driven by growing enthusiasm for platinum among young consumers

Below
Johnson Matthey's small gold bars are used by jewellery manufacturers around the world

## Platinum

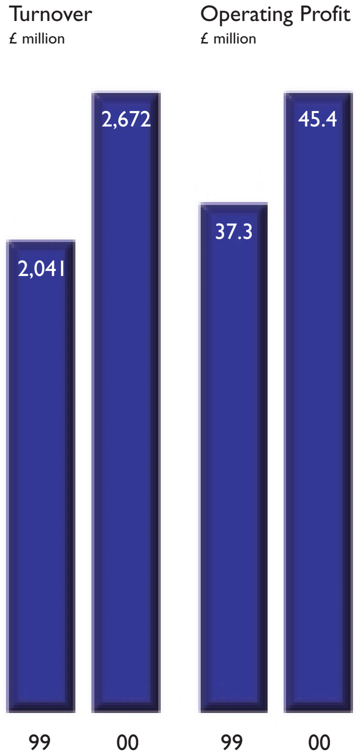
It was a remarkable year for the platinum group metals with record demand for both platinum and palladium coinciding with a further period of erratic Russian supplies caused by legal and administrative obstacles. Metal prices rose sharply as supply side deficits increased, although these were partially alleviated by the sales from the US National Defence stockpile. Platinum reached an 11 year high of $573 per ounce on 17th February 2000 and palladium attained an all-time record $800 per ounce on 21st February 2000.

Record jewellery and industrial demand were the key features of the platinum market during the year. The highlight of the jewellery sector was the surge in demand from manufacturers in China, which was up by over 50% on 1998/99 at almost a million ounces. This was driven by growing enthusiasm for platinum jewellery among young consumers coupled with a significant expansion of manufacturing facilities in China. A global trend to white metal has also boosted platinum jewellery sales worldwide.

Palladium demand reached record levels despite the rising price. Most of the growth occurred in the autocatalyst sector driven by tighter emission standards in Europe and North America, and some stockbuilding by the car companies against the growing use of palladium catalysts by the industry and uncertainty over Russian supplies. The year saw continued growth in demand from other catalytic applications, particularly in the chemical industry but there was a modest decline in demand from the electronics and dental sectors due to substitution.

Platinum's marketing operations benefited from the sales and trading opportunities provided by buoyant markets and volatile prices. The average price of platinum in 1999/2000 was $409 (1998/99 $368). Palladium averaged $425 up from $315 in 1998/99.

Platinum's manufacturing operations continued their good growth trend of recent years. Recovering demand from traditional glass and steel markets was augmented by strong progress in new product sectors, particularly in pgm coatings for a range of high technology, high temperature applications. Good growth was also seen in precision-engineered parts for the medical sector.



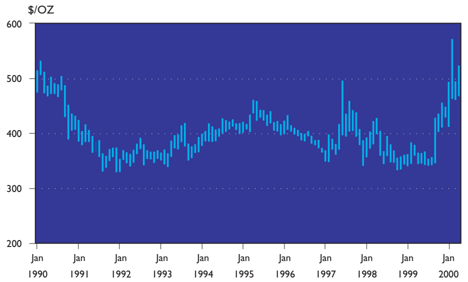

## Gold and Silver

Johnson Matthey's Gold and Silver business is the market leader in the refining of gold and silver and the supply of bullion products. Its operations are located in Salt Lake City (USA), Brampton (Canada), Royston (UK), Hong Kong and Melbourne (Australia).

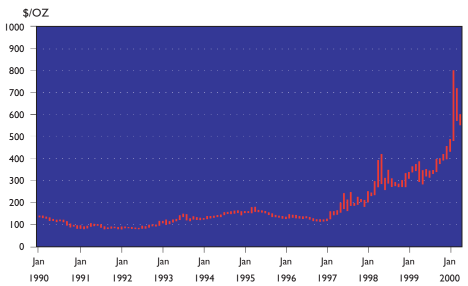
1999/2000 was a satisfactory year for Gold and Silver; the global business managed to maintain its profitability despite pressure on margins due to over capacity in the refining and bullion product markets. Flat global demand and supply liquidity maintained the downward pressure on the gold price which in turn slowed the pace of mine expansion.

There have been encouraging signs of recovery in jewellery and investment demand in the first quarter 2000 which, together with good growth in non-refining related business, provides Gold and Silver with a promising outlook for 2000/01.

### Monthly High/Low Platinum Prices




### Monthly High/Low Palladium Prices



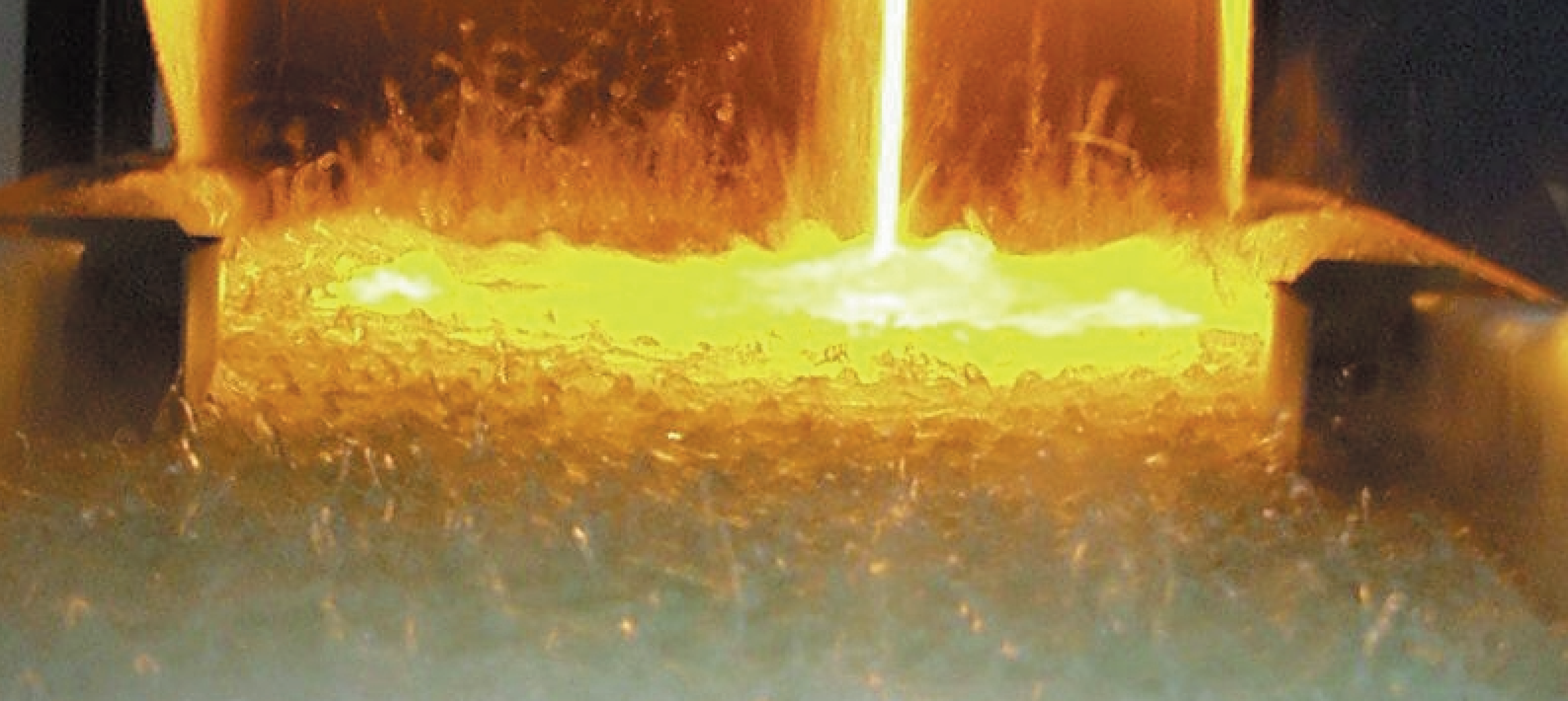

**Research and Development**

Platinum group metal coating technology continues to be a major focus of research and development effort in the Platinum business. Thin coatings of the platinum group metals find a wide range of applications as protective layers in a number of high temperature, corrosive industrial processes. Over the last year R&D has played an important role in expanding the application of Johnson Matthey's Advanced Coating Technology (ACT) in the glass industry. Development work is also focusing on the use of platinum group metals in cardiovascular therapy.

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

# Colours & Coatings

The Colours & Coatings Division continued to make good progress during the year achieving an 11% increase in operating profits to £27.9 million despite the adverse effect of exchange translation. Since the acquisition of 100% of the business in February 1998, the division has nearly doubled its profits.

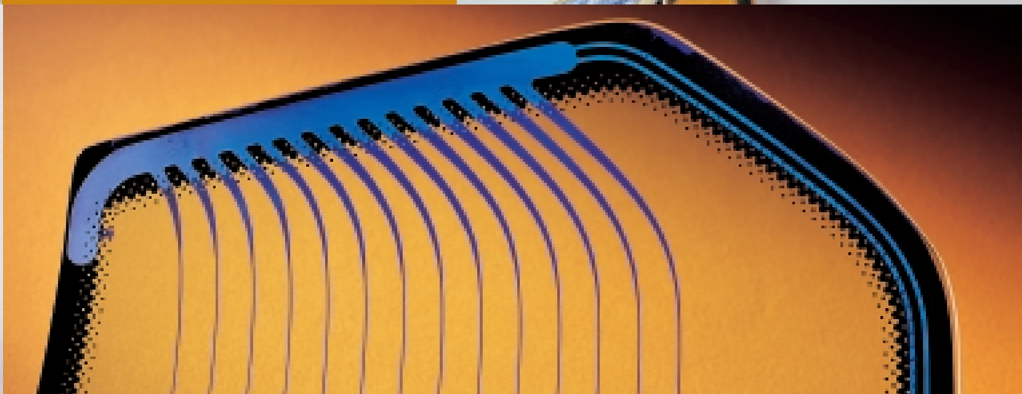


Above
Manufacturing frits used in the production of tiles (left) at Johnson Matthey's Frit Master Plant in Castellon, Spain

Right
The trend to infomal dining has led to the use of innovative colours and designs by tableware manufacturers around the world

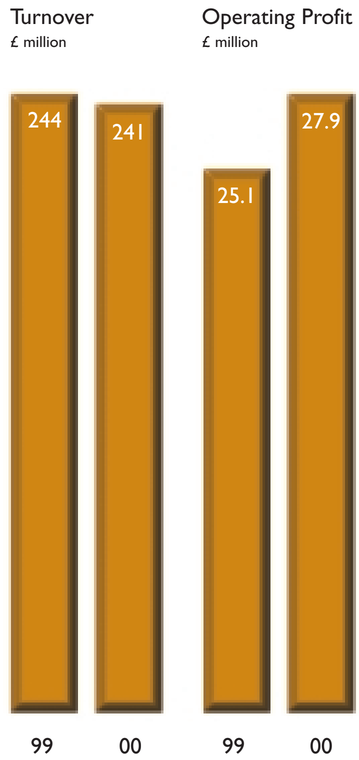
Below left
The Glass business based in Maastricht, Holland, manufactures a wide range of high technology products for decorating glass

Below right
Black obscuration and silver conductive enamels for automotive glass

The Colours & Coatings Division is one of the world's leading suppliers of inorganic colours and the associated frits, glazes and enamels by which they are applied to a wide range of substrates across a number of markets including automotive, glass, tile, tableware, plastics and surface coatings. The division is organised into four sectors reflecting its major markets: Structural Ceramics, which combines the Tile, Sanitaryware and Zircon businesses, Glass, Tableware and Pigments and Dispersions. Colours & Coatings has operations in 30 countries, with its major manufacturing based in Spain, Italy, the Netherlands and the UK. It is in the top three by market share in all of its major market segments.

1999/2000 has seen the continuation of the strategy of refocusing the division's resources away from declining or slower markets and investing in order to fully exploit faster growing markets, particularly those of its Tile and Glass businesses.




## Structural Ceramics

The Structural Ceramics sector achieved strong sales growth in the year and strong growth in operating profits. Recovering Asian and Brazilian markets underpinned another strong year for Tile operations in Spain and further improvement in Italy. The business' global frit manufacturing capacity is fully utilised and in September 1999 the board approved a £10 million investment in a new frit factory in Spain. Johnson Matthey's novel Atomker stain system for the manufacturing of highly fashionable gres porcellenato tiles has gained widespread recognition in the Italian market and with other leading tile manufacturers around the world. Manufacture of all base stains has now been consolidated within the Structural Ceramics sector, allowing an improved manufacturing strategy that will support the needs of the whole division. The Zircon business, which supplies milled zircon, a white pigment used extensively in frit and glaze systems, suffered from a continued fall in selling prices and profits were down on prior year. However, all of its plants were full through the year and prices appeared to be firming in the last quarter of 1999/2000. A new low cost zircon production facility in the US started production in February 2000.

## Glass

The Glass sector also had a very good year with good growth in profits on the back of a strong increase in sales. There was strong growth in demand for black obscuration enamels for automotive glass. The core European business based in Maastricht is at full capacity, while encouraging progress was made in growing market share in the US. Glass has had a very strong record in introducing new products in recent years, including improvements to its benchmark automotive neutral black and a market leading range of unleaded decorative colours. A major investment programme to expand the Maastricht site has been approved to support good prospects for future growth.

## Tableware

Profits in Tableware improved on prior year as a continuing fall in sales to UK manufacturers was offset by the benefits of cost reduction initiatives and increased sales to other markets. The UK tableware market now shows signs of having reached the bottom and there are growth opportunities with leading customers both in the UK and around the world. An exceptional charge has been taken this year to rationalise the business. This rationalisation has resulted in the closure of two sites, the announcement of the closure of a third and has supported the refocusing of sales and support resources on leading global accounts.

## Pigments and Dispersions

The core Pigments and Dispersions businesses had an excellent 1999/2000 and are well positioned for further growth, following the successful exit from organic pigment manufacture. Sales of cadmium, complex inorganic pigments and transparent iron oxide all showed strong growth, as did Micraflo, a novel encapsulated pigment technology for the construction plastics industry. The Dispersions business significantly increased output of printing inks, paints and wood finish products.

### Research and Development

Research for the Colours & Coatings Division is based at the Johnson Matthey Technology Centre and at its main European facilities. Research activities include fundamental studies into the base chemistry of the businesses' core products as well as new product development.

The introduction of new products and new application effects is an important part of the division's strategy for growth. Its customers' markets are fashion driven and so development programmes are closely linked to the need to develop innovative new ways of using colours and to match changing consumer tastes. Increasing environmental requirements are also leading to the development of robust lead free colour ranges, such as the new Arcopal glass range. Colours & Coatings works closely with its customers in order to lower their cost of ownership of its products while maintaining margins.

# 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 Group Managing Director retains overall board responsibility for Environment, Health and Safety (EHS) issues. EHS risks are reviewed by the EHS Committee, which meets every two months and reports to the board. The EHS Committee is chaired by the Group Managing Director and consists of divisional directors and the EHS Director. The EHS Committee has approved the group EHS policies. The policies, and accompanying guidance notes, reflect relevant legislation and best practice, and are issued to all site managers and EHS personnel. A full review of the policies is made triennially, with interim amendments made when needed. The overall aim is to ensure consistent standards at all JM sites around the world and to promote continuous improvement, based on careful risk assessment and comprehensive EHS management systems. The high level summary policies are set out adjacent.

Each of our locations around the world is required to formulate its own particular arrangements, including performance targets, to meet the objectives set out in the corporate policies and to ensure that all employees have received adequate training on the policies and their individual responsibilities. A number of current environmental projects are discussed on page 21.

The group EHS department audits all operating sites against the policies on a regular basis, with the frequency dependant on the nature of operations at the individual sites. During 1999/2000, 24 EHS audits were carried out with exit interviews held with site management on key points. Audit reports are distributed to site and divisional management, and important issues arising from audits are discussed by the EHS Committee. A further 20 occupational health visits were made by the Group Occupational Physician. A monthly report on site, divisional and group health and safety performance is prepared for discussion at the EHS Committee, and circulated to all site management. Environmental data is collected and analysed internally on an annual basis.

## Environment Policy

- 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 Policy

- 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.

Once again, a pair of swans has returned to Mossops Creek alongside Johnson Matthey's Brimsdown refinery to rear their young

During 1999, the Chemicals business unit at Royston, UK, initiated a four year £2 million project with the dual aims of reducing gaseous emissions, and minimising waste. The project to reduce gaseous emissions has involved, in the first instance, installation of additional abatement and monitoring plant. Ten-fold reductions in emissions of acid gases have already been achieved, with further planned improvements over the next phases. The waste minimisation aspect will focus on the recovery and recycling of waste streams throughout the processes. To date, a significant reduction in reagent consumption has been achieved in the platinum group metals refinery, together with a decrease in the numbers of effluent tankers transporting waste away from the site. Additional waste minimisation opportunities are actively being planned for the next phases of this project.

Johnson Matthey's Environmental Products business provides unique catalytic solutions to air quality problems caused by emissions from industrial processes and power generation plants. The opportunity to utilise this internal expertise was taken in a recent project to fit a selective catalytic reduction system at Johnson Matthey's autocatalyst plant at Devon, USA. The system has delivered not only a 92% reduction in NOx emissions, but also resulted in significant operational benefits.

This year, Noble Metals UK, part of the Precious Metals Division, became the second Johnson Matthey business unit to achieve ISO14001, joining the Chemicals business unit (Royston and Brimsdown sites, UK). As part of ISO14001, all employees receive training to ensure they are aware of environmental issues affecting the business, and progress is being made towards a number of targets for environmental improvements at the facility. Some projects, such as a review of the degreasing process, will result in a number of benefits including reductions in emissions, cost savings and a better workplace environment for employees.

Colours & Coatings have completed a project this year to reduce gaseous emissions during production of base colours. This multidisciplinary project brought together production management, sales, environmental management and research in a comprehensive review of the existing product range, looking at raw material selection, process optimisation and abatement systems. Where possible, products have been reformulated to avoid use of problematic ingredients, or improvements to process management have been made to reduce emissions. For the products where this has not been possible, abatement systems have been upgraded, and in a few cases products removed entirely from the product range.

# Board of Directors

## M B Dearden MA

Age 57; 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**

## P F Retief

Age 67; appointed a non-executive director in June 1993. Currently a director, previously Chairman, of Anglo American Platinum Corporation Limited. Formerly Chairman of Johannesburg Consolidated Investment Co Ltd. **A, M, N**

## N A P Carson BSc

Executive Director, Catalysts & Chemicals Age 43; joined Johnson Matthey in 1980; appointed Division Director, Catalytic Systems in 1997 after having held senior management positions in the Precious Metals Division as well as Catalytic Systems in both the UK and the US. Appointed Managing Director, Catalysts & Chemicals and an Executive Director in August 1999.

## H R Jenkins CBE

Age 66; appointed a non-executive director in January 1996 when he retired as a director of The Prudential Corporation plc where he was Chairman and Chief Executive of Prudential Portfolio Managers. Latterly Chairman of Thorn plc and currently Chairman of Development Securities Plc and 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 to 1999. 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 50; joined Johnson Matthey as Executive Director, Finance in September 1990 and assumed current job title in September 1995. Additionally responsible for Pharmaceutical Materials from July 1999. Currently a non-executive director of API Group Plc. Previously Group Treasurer of The BOC Group plc.

## H M P Miles OBE

Chairman Age 64; joined Johnson Matthey as a non-executive director in March 1990; appointed Chairman in June 1998. Currently a director of ING Baring Holdings Limited, Chairman of Korea-Europe Fund Plc and a non-executive director of BP Amoco plc, Balfour Beatty plc and other companies. Previously Chairman of Cathay Pacific Airways, Swire Group Hong Kong, a Director of HSBC, and John Swire & Sons Ltd, and a Vice President of the China Britain Business Council. **A, M, N**

## Committees of the Board

**A** Audit Committee

**M** Management Development and Remuneration Committee

**N** Nomination Committee

Left to Right: M B Dearden, P F Retief, N A P Carson, H R Jenkins, J N Sheldrick, H M P Miles, C R N Clark, D G Titcombe, C D Mackay, H E Fitzgibbons, D W Morgan, G D Wells

## C R N Clark MIM

Chief Executive Age 58; 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. Currently a non-executive director of FKI plc.

## D G Titcombe

Group Managing Director, Age 57; 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 and additionally responsible for Colours & Coatings from July 1999. Chairman of the Trustees of Johnson Matthey's UK pension scheme. Currently a non-executive director of Wagon plc.

## C D Mackay MBA, MA

Age 60; 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, a member of the Supervisory Board of Gucci Group NV and a member of the board of INSEAD. 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**

## H E Fitzgibbons BA JD

Age 63; appointed a non-executive director in May 1990. Currently Managing Director of Top Technology Ltd and several venture capital funds. Also a non-executive director of Trafficmaster Plc and AFA Systems Plc. **A, M, N**

## D W Morgan MA ACA

Executive Director, Group Corporate Development Age 42; joined Johnson Matthey in 1988 as a Division Finance Director. Has had responsibility for Finance and Planning in each of the group's divisions and was appointed Director of Corporate Development in 1995. Appointed an Executive Director in August 1999. Responsible for the group's Corporate Development activities and Legal and Secretarial affairs.

## G D Wells

Age 64; appointed a non-executive director in March 1998. Currently a non-executive director of Q Logic Corporation, Align-Rite International and Genus Inc. 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

**L C Pentz** Managing Director and President, CSD North America

**P N Hawker** Managing Director, CSD European Region

**D B MacDermot** Finance and Strategic Planning Director, Catalysts & Chemicals Division

**F K Sheffy** Vice President and General Manager, Pharmaceutical Materials

**R J Tait** Operations Director, Chemicals

**M T Durney** General Manager, Chemicals North America

**J C Frost** Director, Fuel Cell Business

**Y Katoh** Chairman, Japan

## Precious Metals

**K Green** Division Director

**M Bedford** General Manager, Noble Metals, Europe

**K T Burgoine** General Manager, Canada

**B J Doherty** Managing Director, Australasia

**J Fairley** General Manager, Gold and Silver, UK

**J D McKelvie** General Manager, Salt Lake City

**A M Myers** Director, Noble Metals

**B M O'Connell** Finance Director, Precious Metals Division

**W F Sandford** Director, Precious Metals Marketing

**M C F Steel** Market Research and Planning Director, Precious Metals Marketing

## Colours & Coatings

**C M Hood** Division Director

**V Ros** Managing Director, Structural Ceramics

**G A Hughes** Managing Director, Pigments and Dispersions

**J Murkens** Managing Director, Glass

**S P Murphy** Managing Director, Tableware

**T R Woolrych** Finance and Planning Director, Colours & Coatings Division

## Corporate

**G J Coates** Group Treasurer

**S Farrant** Company Secretary and Senior Legal Adviser

**I D Godwin** Group Corporate Communications Manager

**M J L Henkel** Group Taxation Manager

**B A Murrer** Director, Technology Centre

**I F Stephenson** Director, Group Systems and Environment, Health and Safety, Human Resources and Pensions

# 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 adjacent.

**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.

# Directors' Report

The directors submit to shareholders their one hundred and ninth annual report, together with the audited accounts of the group for the year ended 31st March 2000. Pages 1 to 37 are an integral part of the report.

## Principal Activities

The group's principal activities are summarised on page 11.

## Dividends

The interim dividend of 6.1 pence per share, up 0.4 pence, was paid in February 2000. A final dividend of 14.2 pence per share, up 0.9 pence, is being proposed to shareholders as Resolution 2 at the Annual General Meeting (AGM), making a total for the year of 20.3 pence, an increase of 7% over last year. Dividends for the year total £44.3 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 page 61.

In accordance with the resolution approved by shareholders at the 1999 Annual General Meeting, the company's share capital was reduced on 17th September 1999, by the cancellation of the 450,000 5% (prior to 6th April 1999, 3.5%) cumulative preference shares (300,000 of which had been issued) and the nominal value (£0.3 million) repaid to the shareholders.

The board has decided to seek shareholders' approval to renew the 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 24.

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.

45% of employees worldwide are shareholders in Johnson Matthey through the group's employee share schemes, which held 2,639,638 shares (1.19% of ordinary share capital) at 31st May 2000. A total of 677 current and former directors and employees hold options over 5,274,164 shares through the company's executive share option schemes. A total of 882,466 shares have been allocated to directors and key executives under the long term incentive plan.

# Directors' Report

## Directors

Details of the directors of the company are shown on pages 22 and 23. Mr N A P Carson and Mr D W Morgan, appointed to the board on 1st August 1999, offer themselves for election at the forthcoming AGM. In accordance with the company's Articles of Association, Mr D G Titcombe (who is employed on a service contract subject to two years' notice), Mr H M P Miles (Chairman) and Mr P F Retief retire by rotation and, being eligible, offer themselves for re-election at the AGM. Mr G D Wells, who was a director throughout the financial year, will retire from the board on 31st July 2000. Directors interests in the company's shares are detailed in the Remuneration Report on pages 30 to 37.

## Directors' Material Interests in Contracts

Other than service contracts, no director had any material interest in any contract of significance 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 2000:

| | |
|---|---|
| Schroder Investment Management Ltd | 17.33% |
| Fidelity Investments | 7.22% |

The directors are not aware of any other notifiable holdings of 3% or more 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 2000, the company's aggregate level of "creditor days" amounted to 6 days. Creditor days are calculated by dividing the aggregate of the amount 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 £208,000 (1999 £267,000) to charitable organisations, of which £168,000 (1999 £198,000) was in the UK. There were no political donations made in the year (1999 £ nil).

This report was approved by the directors on 6th June 2000 and is signed on their behalf by:

**Simon Farrant**
Company Secretary

# Corporate Governance

The company 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, audit and internal control of the group. This statement describes how the principles of the Code have been applied.

Throughout the year, the company has been in compliance with the provisions of the Code with the exception of the matter noted on page 29.

## Directors and the Board

The board is responsible to the company's 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, 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.

All directors submit themselves for re-election every three years.

## Committees of the Board

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 three 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 Director of Human Resources attend by invitation except when their own performance and remuneration are discussed.

## Directors' Remuneration

The Remuneration Report on pages 30 to 37, includes details of remuneration policies and of the remuneration of the directors.

# Corporate Governance

## 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 2000 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

The statement of directors' responsibilities in relation to the accounts is set out on page 37.

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

The group has adopted the transitional approach to Internal Control under the Combined Code as outlined in the letter from the London Stock Exchange to listed companies in September 1999. As a result the directors confirm that they have reviewed the effectiveness of the group's system of internal financial controls.

The existing risk management and internal control processes necessary to implement the guidance 'Internal Control: Guidance for Directors on the Combined Code' have been modified and a report on the application of the Internal Control principle D.2 will be included in the annual report and accounts for the year ending 31st March 2001.

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 three 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.

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 with the Combined Code

The item in the Code with which the company did not comply in full throughout the period together with the appropriate Code reference is stated below:

Three of 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.

The Committee's terms of reference are to determine on behalf of the board fair remuneration for the executive directors, 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 reviewed by the Committee in 1998 and consists of basic salary, annual bonus, a long term incentive plan and benefits as detailed below.

**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 150 or so most senior executives). The executive directors' bonus award is based on consolidated profit before tax (PBT) compared with the annual budget. An annual bonus payment of 30% of basic salary (prevailing at 31st March) is paid if the group meets the annual budget. This bonus 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 has discretion to vary the awards made. The bonus awarded to executive directors in 1999/2000 varied between 47% and 50% of salary at 31st March 2000.

**Term Plan** – The final payment due under this plan will be made in July 2000. It has now been replaced by the Long Term Incentive Plan. Awards under the Term Plan, 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 compounded for the three year period was realised. This entitled executive directors to an annual payment of 25.4% of salary for three years, starting in July 1998.

**Long Term Incentive Plan (LTIP)** – The LTIP, introduced in 1998, succeeds the Term Plan and is designed to achieve above average performance and growth. Shares are allocated to executive directors and key executives subject to performance conditions being met. The number of shares released to the individual is dependant upon growth in Johnson Matthey's total shareholder return (TSR) compared to the FTSE mid-250 over a three year performance period. 100% of the allocated shares will be released to the individual if the company's TSR is in the 75th percentile or above; 35% will be released at the 51st percentile. Pro-rata allocations will be made for performance between these percentiles. No shares will be released at or below 50th percentile performance. 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% p.a. over the period.

**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 scheme (under which the final grant was made in November 1994) and the 1995 schemes with the latter having a performance threshold target of eps growth of UK RPI plus 2% over 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 also 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 32.

**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** – Messrs Clark, Sheldrick and Titcombe are employed on contracts subject to two years' notice at any time, which the Committee considers appropriate in the overall context of their terms of employment. Messrs Carson and Morgan, who were appointed to the board on 1st August 1999, are employed on contracts subject to one year's notice at any time. In the event of early termination, the Committee strongly endorses the principle of requiring those directors on two years' notice to mitigate their loss.

## Remuneration

### Directors' Emoluments 1999/2000

| | Fees (£'000) | Salary (£'000) | Annual bonus (£'000) | Benefits (£'000) | Total excluding pension (£'000) | Total prior year excluding pension (£'000) |
|---|---|---|---|---|---|---|
| **Executive** | | | | | | |
| C R N Clark | - | 427 | 220 | 27 | 674 | 479 |
| N A P Carson | - | 107[2] | 75[1] | 14[2] | 196 | - |
| D W Morgan | - | 113[2] | 72[1] | 13[2] | 198 | - |
| J N Sheldrick | - | 271 | 122 | 16 | 409 | 294 |
| D G Titcombe | - | 244 | 128 | 22 | 394 | 280 |
| **Non-Executive** | | | | | | |
| H M P Miles (Chairman) | 150 | | | | | 127[4] |
| M B Dearden | 26[2] | | | | | – |
| H E Fitzgibbons | 28 | | | | | 28 |
| H R Jenkins | 28 | | | | | 28 |
| C D Mackay | 28 | | | | | 5[2] |
| P F Retief | 28 | | | | | 28 |
| G D Wells | 32[3] | | | | | 40[3] |

[1] including bonus prior to appointment [2] from date of appointment [3] including consultancy fees
[4] appointed chairman with effect from 9th June 1998

# Remuneration Report

The annual bonus is stated on an earned basis, i.e. in relation to performance in the year in question.

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 share participation scheme.

Executive directors may, with the consent of the board, accept external directorships 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.

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

| | Age as at 31st March 2000 | Years of service at 31st March 2000 | Directors contributions in the year (note 4) £'000 | Increase in accrued pension in the year (note 2) £'000 | Total accrued pension at 31st March 2000 (note 1) £'000 | Increase in the transfer value as at 31st March 2000 (note 3) £'000 |
|---|---|---|---|---|---|---|
| C R N Clark | 58 | 37 | 17 | 30 | 278 | 490 |
| N A P Carson | 42 | 19 | 4 | 13 | 56 | 127 |
| D W Morgan | 42 | 11 | 2 | 1 | 20 | 11 |
| J N Sheldrick | 50 | 9 | 4 | 3 | 25 | 43 |
| D G Titcombe | 57 | 39 | 10 | 23 | 158 | 380 |

**Notes:**

1 The entitlement shown under "Total accrued pension at 31st March 2000" is the pension which would be paid annually on retirement, based on pensionable service to 31st March 2000. The pension would however be subject to an actuarial reduction of 0.3% per month for each month that retirement precedes age 60.

2 The increase in accrued pension during the year excludes any increase for inflation. In the case of Mr Carson the increase also includes the salary increase on appointment to the board.

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 Members' contributions are at the general scheme rate of 4% of pensionable pay, i.e. basic salary excluding bonuses. Messrs Carson's and Morgan's contributions are calculated from the date of appointment to the board on 1st August 1999.

5 The salaries of Messrs Morgan and Sheldrick, who joined the scheme after 1989, were supplemented by 9.1% and 14.5% respectively in view of the impact of the 1989 statutory "earnings cap" on their JMEPS benefits.

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

## Term Plan

Payments to the executive directors under the rules of the plan were:

| | July 1999 | July 1998 |
|---|---|---|
| C R N Clark | £101,600 | £65,081 |
| N A P Carson | £25,756 | £19,812 |
| D W Morgan | £25,547 | £22,718 |
| J N Sheldrick | £56,388 | £49,847 |
| D G Titcombe | £56,388 | £49,847 |

The final payment will be made in July 2000.

## Directors' Interests

The interests of the directors in the shares of the company as at 31st March 2000, according to the register required to be kept by section 325(1) of the Companies Act 1985, were:

### 1 Ordinary Shares

| | **31st March 2000** | 31st March 1999 |
|---|---|---|
| C R N Clark | **28,020** | 28,470 |
| N A P Carson | **14,193** | 12,524* |
| M B Dearden | **2,000** | – |
| H E Fitzgibbons | **1,125** | 1,125 |
| H R Jenkins | **1,500** | 1,000 |
| C D Mackay | **12,500** | 12,500 |
| H M P Miles | **562** | 562 |
| D W Morgan | **20,268** | 8,207* |
| P F Retief | **500** | 500 |
| J N Sheldrick | **30,299** | 69,706 |
| D G Titcombe | **36,039** | 42,023 |
| G D Wells | **1,000** | 1,000 |

* at date of appointment

The directors are also deemed to be interested in the shares held by two employee benefit trusts (see note 17 on page 55).

# Remuneration Report

### 2 Share Options

As at 31st March 2000, 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 | 13.7.94 | 23,767 | 526.71 | 13.7.97 | 13.7.2004 | 178,306 |
| | 17.8.95 | 67,077 | 578.89 | 17.8.98 | 17.8.2005 | (1999: 198,325) |
| | 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 | |
| N A P Carson | 14.7.93 | 4,672 | 447.95 | 14.7.96 | 14.7.2003 | 91,070 |
| | 13.7.94 | 2,132 | 526.71 | 13.7.97 | 13.7.2004 | *(1999: 91,070) |
| | 17.8.95 | 12,435 | 578.89 | 17.8.98 | 17.8.2005 | |
| | 17.7.96 | 8,758 | 574.50 | 17.7.99 | 17.7.2006 | |
| | 6.1.97 | 17,500 | 553.00 | 6.1.2000 | 6.1.2007 | |
| | 17.7.97 | 11,574 | 556.00 | 17.7.2000 | 17.7.2007 | |
| | 14.7.98 | 15,964 | 524.00 | 14.7.2001 | 14.7.2008 | |
| | 22.7.99 | 18,035 | 585.50 | 22.7.2002 | 22.7.2009 | |
| D W Morgan | 16.7.92 | 10,315 | 410.39 | 16.7.95 | 16.7.2002 | 130,616 |
| | 14.7.93 | 12,086 | 447.95 | 14.7.96 | 14.7.2003 | *(1999: 152,143) |
| | 13.7.94 | 10,157 | 526.71 | 13.7.97 | 13.7.2004 | |
| | 17.8.95 | 33,518 | 578.89 | 17.8.98 | 17.8.2005 | |
| | 17.7.96 | 12,233 | 574.50 | 17.7.99 | 17.7.2006 | |
| | 6.1.97 | 19,000 | 553.00 | 6.1.2000 | 6.1.2007 | |
| | 14.7.98 | 15,835 | 524.00 | 14.7.2001 | 14.7.2008 | |
| | 22.7.99 | 17,472 | 585.50 | 22.7.2002 | 22.7.2009 | |
| 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 | (1999: 160,331) |
| | 17.7.96 | 30,776 | 574.50 | 17.7.99 | 17.7.2006 | |
| | 27.11.97 | 35,488 | 553.00 | 27.11.2000 | 27.11.2007 | |
| 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 | (1999: 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 | |

*at date of appointment

**Notes:**

a. Between 1st April 1999 and 31st March 2000 the following options were exercised:

| | Date of grant | Date of exercise | Options exercised | Exercise price (pence) | Market price on exercise (pence) |
|---|---|---|---|---|---|
| C R N Clark | 14.7.93 | 17.12.99 | 20,019 | 447.95 | 672.00 |
| D W Morgan | 11.7.90 | 3.12.99 | 10,169 | 276.53 | 684.00 |
| | 18.7.91 | 3.12.99 | 11,358 | 316.59 | 684.00 |

b. Gains made on exercise of options by directors during the year totalled £128,019 (1999 £ nil).

c. The market price of the company's shares at 31st March 2000 was 717.00 pence and the range during 1999/2000 was 462.00 pence to 835.00 pence.

### 3 LTIP Allocations

| | 31st March 1999 | Allocations during the year | 31st March 2000 |
|---|---|---|---|
| C R N Clark | 69,686 | 74,830 | 144,516 |
| N A P Carson | 8,833 | 27,211 | 36,044 |
| D W Morgan | 8,761 | 26,361 | 35,122 |
| J N Sheldrick | 38,676 | 41,531 | 80,207 |
| D G Titcombe | 38,676 | 43,418 | 82,094 |

Directors' interests at 1st June 2000 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, N A P Carson, D W Morgan, J N Sheldrick and D G Titcombe a further 348, 342, 332, 346 and 348 ordinary shares respectively.

## Former Directors

### Dr M J Cleare

Dr Michael Cleare, a US based director, retired from the board of Johnson Matthey on 9th July 1999. His contract of employment was subject to twenty four months notice. His emoluments for 1999/2000 until he retired from the board were as follows:

| Salary (£'000) | Annual bonus (£'000) | Benefits (£'000) | Total excluding pension (£'000) | Prior year (£'000) |
|---|---|---|---|---|
| 62 | – | 5 | 67 | 252 |

**Notes:**

1. Dr Cleare will continue to receive private medical insurance cover for life, as a benefit in accordance with the terms of his contract. The annual cost of this benefit is £3,248.
2. The emoluments shown above have been translated at the average exchange rate for 1999/2000.
3. Dr Cleare will be paid his salary of £235,878 per annum until 8th July 2000 and at that time will have received £44,072 as compensation for loss of benefits.

# Remuneration Report

### Term Plan

During August 1999 Dr Cleare also received two Term Plan payments of £59,913 each (total £119,826), one of which would normally have been paid in July 1999 and the other in July 2000.

### Share options

Between 1st April 1999 and 31st March 2000, Dr Cleare made a gain of £109,292 on the exercise of share options, as follows:

| Date of grant | Date of exercise | Options exercised | Exercise price (pence) | Market price on exercise (pence) |
|---|---|---|---|---|
| 13.7.94 | 8.12.99 | 10,157 | 526.71 | 700.00 |
| 1.12.95 | 8.12.99 | 20,000 | 533.00 | 700.00 |
| 17.7.96 | 13.1.2000 | 34,088 | 574.50 | 745.50 |

### LTIP

Dr Cleare retained his August 1998 allocation of 39,286 shares subject to the performance conditions and rules of the plan.

### Pension

Before retirement from the board Dr Cleare's pension entitlements were based on an annual notional UK salary. His notional salary for pension purposes is £253,250 per annum. Dr Cleare will receive an enhanced pension from 1st August 2000 of £150,750 per annum which will increase annually in line with the UK RPI, up to a maximum of 5% per annum. His pension was augmented by £15,693 per annum as compensation for loss of employment at a cost of £244,000. The increase in his accrued pension until he retired from the board was £719 with an increase in transfer value of £9,000.

### Mr I G Thorburn

Mr Gordon Thorburn retired through ill health from the board of Johnson Matthey on 21st July 1999 and as an employee on 31st July 1999. His contract of employment was subject to twenty four months notice. His emoluments for 1999/2000 until he retired from the board were as follows:

| Salary (£'000) | Annual bonus (£'000) | Benefits (£'000) | Total excluding pension (£'000) | Prior year (£'000) |
|---|---|---|---|---|
| 65 | – | 7 | 72 | 248 |

### Notes:

1. At the end of July Mr Thorburn was paid outstanding sickness pay to which he was entitled, as compensation, of £85,000 under the terms of his contract.
2. Mr Thorburn will continue to receive private medical insurance cover for life as a benefit at a cost of £2,158 per annum, in accordance with the terms of his contract.

### Term Plan

At the end of July 1999 Mr Thorburn also received two Term Plan payments of £53,340 each (total £106,680), one of which would normally have been paid in July 1999 and the other in July 2000.

### Share options

Between 1st April 1999 and 31st March 2000, Mr Thorburn made a gain of £99,146 on the exercise of share options, as follows:

| Date of grant | Date of exercise | Options exercised | Exercise price (pence) | Market price on exercise (pence) |
|---|---|---|---|---|
| 17.8.95 | 25.1.2000 | 44,840 | 578.89 | 800.00 |

### LTIP

Mr Thorburn retained his August 1998 allocation of 36,585 shares subject to the performance conditions and rules of the plan.

### Pension

Mr Thorburn's ill health pension on retirement was enhanced by the Trustees in accordance with the Trust Deed and Rules of the scheme. He received an ill health pension entitlement of £147,000 per annum. His pension will increase annually in line with the UK RPI up to a maximum of 5% per annum. The increase in Mr Thorburn's accrued pension between 31st March 1999 and his retirement date is £17,172 and the difference between the value of this pension at retirement and the deferred pension at 31st March 1999 was £344,000.

**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.

# Consolidated Profit and Loss Account

for the year ended 31st March 2000

| | NOTE | 2000 Before exceptional items and goodwill amortisation £ million | 2000 Exceptional items and goodwill amortisation £ million | 2000 Total £ million | 1999 Total restated £ million |
|---|---|---|---|---|---|
| **Turnover** | 1 | | | | |
| Continuing operations | | 3,769.0 | – | 3,769.0 | 2,962.7 |
| Discontinued operations | 3 | 97.0 | – | 97.0 | 422.7 |
| Group turnover | | 3,866.0 | – | 3,866.0 | 3,385.4 |
| **Operating profit** | 1 | | | | |
| Continuing operations before goodwill amortisation | | 146.5 | – | 146.5 | 124.7 |
| Goodwill amortisation | | – | (0.2) | (0.2) | – |
| Continuing operations before exceptional items | | 146.5 | (0.2) | 146.3 | 124.7 |
| Exceptional items | 2 | – | (9.8) | (9.8) | (1.9) |
| Total continuing operations | | 146.5 | (10.0) | 136.5 | 122.8 |
| Discontinued operations | 3 | (0.3) | – | (0.3) | 22.1 |
| Group operating profit | 4 | 146.2 | (10.0) | 136.2 | 144.9 |
| Share of profit in associates | | – | – | – | 0.3 |
| Total operating profit | | 146.2 | (10.0) | 136.2 | 145.2 |
| **Profit on sale - continuing operations** | | | | | |
| Profit on disposal of surplus properties | | – | 1.1 | 1.1 | 7.2 |
| **Profit on sale - discontinued operations** | | | | | |
| Sale of Electronic Materials | 2 | – | 28.5 | 28.5 | – |
| Sale of Organic Pigments | 2 | – | (6.2) | (6.2) | – |
| Sale of UK Minerals | | – | – | – | 1.6 |
| **Profit on ordinary activities before interest** | | 146.2 | 13.4 | 159.6 | 154.0 |
| Net interest | 5 | (2.4) | – | (2.4) | (15.9) |
| **Profit on ordinary activities before taxation** | 6 | 143.8 | 13.4 | 157.2 | 138.1 |
| Taxation | 7 | (40.4) | (4.9) | (45.3) | (31.9) |
| **Profit after taxation** | | 103.4 | 8.5 | 111.9 | 106.2 |
| Equity minority interests | | (0.2) | – | (0.2) | 0.7 |
| **Profit attributable to shareholders** | | 103.2 | 8.5 | 111.7 | 106.9 |
| Dividends | 9 | (44.3) | – | (44.3) | (41.3) |
| **Retained profit for the year** | 25 | 58.9 | 8.5 | 67.4 | 65.6 |

| | | pence | pence |
|---|---|---|---|
| **Earnings per ordinary share** | 8 | 51.4 | 49.3 |
| **Diluted earnings per ordinary share** | 8 | 51.0 | 49.3 |
| **Earnings per ordinary share excluding exceptional items and goodwill amortisation** | 8 | 47.5 | 44.3 |
| **Dividend per ordinary share** | 9 | 20.3 | 19.0 |

The notes on pages 45 to 67 form an integral part of the accounts.

# Consolidated and Parent Company Balance Sheets

as at 31st March 2000

| | NOTE | Group 2000 £ million | Group 1999 restated £ million | Parent company 2000 £ million | Parent company 1999 restated £ million |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Goodwill | 11 | **5.1** | 4.2 | **–** | – |
| Tangible fixed assets | 12 | **311.3** | 480.2 | **112.7** | 70.6 |
| Investments | 13 | **1.0** | 1.8 | **209.9** | 210.0 |
| | | **317.4** | 486.2 | **322.6** | 280.6 |
| **Current assets** | | | | | |
| Stocks | 15 | **253.2** | 243.7 | **149.6** | 87.7 |
| Debtors: due within one year | 16 | **333.5** | 336.4 | **546.0** | 537.5 |
| Debtors: due after one year | 16 | **97.9** | 94.0 | **238.0** | 351.2 |
| Short term investments | 17 | **16.3** | 9.2 | **12.2** | 4.9 |
| Cash at bank and in hand | 18 | **282.0** | 58.6 | **208.4** | 3.9 |
| | | **982.9** | 741.9 | **1,154.2** | 985.2 |
| **Creditors: Amounts falling due within one year** | | | | | |
| Borrowings and finance leases | 18 | **(46.2)** | (165.6) | **(24.5)** | (102.7) |
| Precious metal leases | 20 | **(60.6)** | (24.7) | **(76.8)** | (29.1) |
| Other creditors | 21 | **(315.6)** | (289.2) | **(602.4)** | (298.6) |
| **Net current assets** | | **560.5** | 262.4 | **450.5** | 554.8 |
| **Total assets less current liabilities** | | **877.9** | 748.6 | **773.1** | 835.4 |
| **Creditors: Amounts falling due after more than one year** | | | | | |
| Borrowings and finance leases | 18 | **(70.0)** | (114.6) | **(62.7)** | (106.8) |
| Other creditors | 21 | **(0.2)** | (1.1) | **(1.2)** | (0.3) |
| **Provisions for liabilities and charges** | 22 | **(47.8)** | (74.3) | **(17.9)** | (18.5) |
| **Net assets** | | **759.9** | 558.6 | **691.3** | 709.8 |
| **Capital and reserves** | | | | | |
| Called up share capital | 24 | **221.1** | 218.5 | **221.1** | 218.5 |
| Share premium account | 25 | **116.7** | 103.9 | **116.7** | 103.9 |
| Associates' reserves | 25 | **(0.1)** | 0.1 | **–** | – |
| Profit and loss account | 25 | **417.7** | 230.3 | **353.5** | 387.4 |
| **Shareholders' funds** | | **755.4** | 552.8 | **691.3** | 709.8 |
| **Equity minority interests** | | **4.5** | 5.8 | **–** | – |
| | | **759.9** | 558.6 | **691.3** | 709.8 |

The accounts were approved by the Board of Directors on 6th June 2000 and signed on its behalf by:

**C R N Clark**

Directors

**J N Sheldrick**

The notes on pages 45 to 67 form an integral part of the accounts.

# Consolidated Cash Flow Statement

for the year ended 31st March 2000

| | NOTE | 2000 £ million | 1999 £ million |
|---|---|---|---|
| **Reconciliation of operating profit to net cash inflow from operating activities** | | | |
| Operating profit | | 136.2 | 144.9 |
| Depreciation and amortisation charges | | 46.6 | 64.3 |
| Profit on sale of tangible fixed assets and investments | | (0.9) | (0.4) |
| (Increase) / decrease in owned stocks | | (26.7) | 4.8 |
| Increase in debtors | | (77.2) | (23.9) |
| Increase / (decrease) in creditors and provisions | | 52.3 | (13.7) |
| **Net cash inflow from operating activities** | | 130.3 | 176.0 |

## Cash Flow Statement

| | NOTE | 2000 £ million | 1999 £ million |
|---|---|---|---|
| **Net cash inflow from operating activities** | | 130.3 | 176.0 |
| **Dividends received from associates** | | 0.1 | 0.1 |
| **Returns on investments and servicing of finance** | 27 | (2.5) | (16.5) |
| **Taxation** | | (33.5) | (32.4) |
| **Capital expenditure and financial investment** | 27 | (65.7) | (61.4) |
| **Acquisitions and disposals** | | | |
| Acquisitions | 27 | (2.9) | (8.7) |
| Disposals | 27 | 393.7 | 4.4 |
| **Net cash inflow / (outflow) for acquisitions and disposals** | | 390.8 | (4.3) |
| **Equity dividends paid** | | (42.2) | (39.8) |
| **Net cash inflow before use of liquid resources and financing** | | 377.3 | 21.7 |
| **Management of liquid resources** | 27 | (169.8) | 4.9 |
| **Financing** | | | |
| Issue and purchase of share capital | 27 | 8.0 | (1.6) |
| Decrease in borrowings and finance leases | 27 | (163.7) | (22.4) |
| **Net cash outflow from financing** | | (155.7) | (24.0) |
| **Increase in cash in the period** | | 51.8 | 2.6 |

## Reconciliation of net cash flow to movement in net debt

| | NOTE | 2000 £ million | 1999 £ million |
|---|---|---|---|
| **Increase in cash in the period** | | 51.8 | 2.6 |
| Cash outflow from movement in borrowings and finance leases | 28 | 163.7 | 22.4 |
| Cash outflow / (inflow) from term deposits included in liquid resources | | 169.8 | (4.9) |
| Change in net debt resulting from cash flows | | 385.3 | 20.1 |
| Borrowings disposed of with subsidiaries | | 8.0 | – |
| Translation difference | 28 | (5.9) | (16.6) |
| **Movement in net debt in year** | | 387.4 | 3.5 |
| **Net debt at beginning of year** | 28 | (221.6) | (225.1) |
| **Net funds / (debt) at end of year** | 28 | 165.8 | (221.6) |

The notes on pages 45 to 67 form an integral part of the accounts.

# Total Recognised Gains and Losses

for the year ended 31st March 2000

| | 2000<br>£ million | 1999<br>restated<br>£ million |
|---|---|---|
| Profit attributable to shareholders | **111.7** | 106.9 |
| Currency translation differences on foreign currency net investments | **(5.6)** | 6.8 |
| Total recognised gains and losses relating to the year | **106.1** | 113.7 |
| Prior year adjustment | **(9.0)** | |
| **Total recognised gains and losses recognised since last annual report** | **97.1** | |

# Note of Historical Cost Profits and Losses

for the year ended 31st March 2000

There were no material differences between reported profits and losses and historical cost profits and losses on ordinary activities before tax for 2000 and 1999 (restated).

# Movement in Shareholders' Funds

for the year ended 31st March 2000

| | 2000<br>£ million | 1999<br>restated<br>£ million |
|---|---|---|
| Profit attributable to shareholders | **111.7** | 106.9 |
| Dividends | **(44.3)** | (41.3) |
| Retained profit for the year | **67.4** | 65.6 |
| Other recognised gains and losses relating to the year | **(5.6)** | 6.8 |
| New share capital subscribed | **15.7** | 2.8 |
| Preference shares cancelled | **(0.3)** | – |
| Goodwill written back on disposals | **125.4** | – |
| Net addition to shareholders' funds | **202.6** | 75.2 |
| Opening shareholders' funds (originally £561.8 million before deducting prior year adjustment of £9.0 million) | **552.8** | 477.6 |
| **Closing shareholders' funds** | **755.4** | 552.8 |

The notes on pages 45 to 67 form an integral part of the accounts.

# Report of the Auditors

to the members of Johnson Matthey Public Limited Company

We have audited the accounts on pages 38 to 41 and 43 to 67.

## Respective Responsibilities of Directors and Auditor

The directors are responsible for preparing the annual report. As described on page 37 this includes responsibility for preparing the accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, 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 group is not disclosed.

We review whether the statement on pages 27 to 29 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

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 judgements 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 2000 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
7th June 2000

# Accounting Policies

for the year ended 31st March 2000

**Accounting convention:** The accounts are prepared in accordance with applicable accounting standards under the historical cost convention.

**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:** 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.

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

# Accounting Policies

for the year ended 31st March 2000

**Goodwill:** Goodwill arising on acquisitions made after 1st April 1998 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 depreciation charge and accumulated depreciation of these properties would be immaterial and they are reviewed for impairment annually. 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.

**Change of accounting policies:** Under the provisions of FRS 15 - 'Tangible Fixed Assets', which the group adopted on 1st April 1999, the group has restated the carrying amount of tangible fixed assets to depreciated historic cost. Consequently the group has restated its comparatives for the year to 31st March 1999. The effect on operating profit is immaterial, but the profit on disposal of surplus properties has been increased by the difference between book value and historical cost at the date of disposal (£6.9 million). Most of this gain (£6.4 million) related to the disposal of the group's former head office site in Hatton Garden. The revaluation reserve, which was £9.0 million at 31st March 1999, has been eliminated. The current year profit on disposal of surplus properties has been increased by £0.7 million following the change in accounting policy.

# Notes on the Accounts

for the year ended 31st March 2000

## 1 Segmental information

| Activity analysis | Turnover 2000 £ million | Turnover 1999 restated £ million | Operating profit 2000 £ million | Operating profit 1999 restated £ million | Net operating assets 2000 £ million | Net operating assets 1999 restated £ million |
|---|---|---|---|---|---|---|
| Catalysts & Chemicals | **856.2** | 677.2 | **84.8** | 74.2 | **350.0** | 298.6 |
| Precious Metals | **2,671.6** | 2,041.3 | **45.4** | 37.3 | **76.5** | 75.5 |
| Colours & Coatings | **241.2** | 244.2 | **27.9** | 25.1 | **170.4** | 169.7 |
| Corporate | **–** | – | **(11.6)** | (11.6) | **(2.8)** | (18.3) |
| | **3,769.0** | 2,962.7 | **146.5** | 125.0 | **594.1** | 525.5 |
| Discontinued operations | **97.0** | 422.7 | **(0.3)** | 22.1 | **–** | 254.7 |
| **Total turnover** | **3,866.0** | 3,385.4 | | | | |
| Goodwill amortisation | | | **(0.2)** | – | | |
| Exceptional items included in total operating profit (note 2) | | | **(9.8)** | (1.9) | | |
| | | | **136.2** | 145.2 | **594.1** | 780.2 |
| Other exceptional items | | | **23.4** | 8.8 | | |
| Net interest | | | **(2.4)** | (15.9) | | |
| **Profit on ordinary activities before taxation** | | | **157.2** | 138.1 | | |
| Net cash / (borrowings and finance leases) | | | | | **165.8** | (221.6) |
| **Net assets** | | | | | **759.9** | 558.6 |

| Geographical analysis by origin | Turnover 2000 £ million | Turnover 1999 restated £ million | Operating profit 2000 £ million | Operating profit 1999 restated £ million | Net operating assets 2000 £ million | Net operating assets 1999 restated £ million |
|---|---|---|---|---|---|---|
| Europe | **2,450.5** | 2,087.7 | **52.2** | 58.1 | **365.3** | 350.6 |
| North America | **1,052.0** | 807.8 | **69.3** | 54.1 | **126.0** | 90.4 |
| Asia | **887.2** | 505.1 | **8.8** | 3.6 | **57.0** | 38.3 |
| Rest of the World | **195.8** | 159.5 | **16.2** | 9.2 | **45.8** | 46.2 |
| | **4,585.5** | 3,560.1 | **146.5** | 125.0 | **594.1** | 525.5 |
| Discontinued operations | **110.2** | 451.0 | **(0.3)** | 22.1 | **–** | 254.7 |
| | **4,695.7** | 4,011.1 | | | | |
| Less inter-segment sales | **(829.7)** | (625.7) | | | | |
| **Total turnover** | **3,866.0** | 3,385.4 | | | | |
| Goodwill amortisation | | | **(0.2)** | – | | |
| Exceptional items included in total operating profit (note 2) | | | **(9.8)** | (1.9) | | |
| | | | **136.2** | 145.2 | **594.1** | 780.2 |
| Other exceptional items | | | **23.4** | 8.8 | | |
| Net interest | | | **(2.4)** | (15.9) | | |
| **Profit on ordinary activities before taxation** | | | **157.2** | 138.1 | | |
| Net cash / (borrowings and finance leases) | | | | | **165.8** | (221.6) |
| **Net assets** | | | | | **759.9** | 558.6 |

## 1 Segmental information continued

| External turnover by geographical destination | 2000 £ million | 1999 restated £ million |
|---|---|---|
| Europe | **1,306.4** | 1,711.1 |
| North America | **1,261.0** | 1,147.4 |
| Asia | **1,083.9** | 349.3 |
| Rest of the World | **214.7** | 177.6 |
| **Total turnover** | **3,866.0** | 3,385.4 |

Turnover by destination relating to the United Kingdom amounted to £831.5 million (1999 £825.4 million).

The group sold its Electronic Materials Division and Organic Pigments businesses during the year and their results are reported as discontinued operations (note 3).

## 2 Exceptional items

An exceptional charge of £9.8 million (1999 £1.9 million) has been included in total operating profit. This comprises:

| | 2000 £ million | 1999 £ million |
|---|---|---|
| Cost of rationalising Tableware | **(9.8)** | – |
| Profit on sale of shares in Ballard Power Systems, Inc. | **–** | 3.0 |
| Loss on closure of Australian autocatalyst manufacturing business | **–** | (2.4) |
| Closure costs on withdrawal from plating and bushings manufacture | **–** | (2.5) |
| | **(9.8)** | (1.9) |

These charges arise in Europe (£9.2 million, 1999 £0.4 million credit), North America (£ nil, 1999 £0.3 million), Asia (£0.6 million, 1999 £0.1 million) and the Rest of the World (£ nil, 1999 £1.9 million).

The sale of the group's Electronic Materials Division produced a net profit of £28.5 million, and the sale of the group's Organic Pigments businesses produced a net loss of £6.2 million (note 30).

## 3 Discontinued operations

| | Turnover | | Operating profit | |
|---|---|---|---|---|
| | 2000 £ million | 1999 £ million | 2000 £ million | 1999 £ million |
| Electronic Materials (note 30) | **91.6** | 414.7 | **0.1** | 22.1 |
| Organic Pigments (note 30) | **5.4** | 6.3 | **(0.4)** | (0.3) |
| UK Minerals (note 30) | **–** | 1.7 | **–** | 0.3 |
| | **97.0** | 422.7 | **(0.3)** | 22.1 |

## 4 Group operating profit after exceptional items and goodwill amortisation

| | 2000 Continuing operations £ million | 2000 Discontinued operations £ million | 2000 Total £ million | 1999 Total £ million |
|---|---|---|---|---|
| Group turnover | 3,769.0 | 97.0 | 3,866.0 | 3,385.4 |
| Cost of materials sold | (3,271.0) | (33.7) | (3,304.7) | (2,658.6) |
| Net revenues | 498.0 | 63.3 | 561.3 | 726.8 |
| Other cost of sales | (238.0) | (57.2) | (295.2) | (435.9) |
| Gross profit | 260.0 | 6.1 | 266.1 | 290.9 |
| Distribution costs | (57.7) | (3.4) | (61.1) | (68.3) |
| Administrative expenses | (65.8) | (3.0) | (68.8) | (77.7) |
| **Group operating profit** | 136.5 | (0.3) | 136.2 | 144.9 |

Continuing operations include exceptional charges of £0.5 million (1999 £ nil) in cost of materials sold, £4.4 million (1999 £ nil) in other cost of sales, £2.4 million (1999 £ nil) in distribution costs and £2.5 million (1999 £1.9 million) in administrative expenses.

## 5 Net interest

| | 2000 £ million | 1999 £ million |
|---|---|---|
| Interest payable on bank loans and overdrafts | (14.1) | (14.1) |
| Interest payable on other loans | (1.2) | (6.6) |
| | (15.3) | (20.7) |
| Interest receivable from associates | 0.1 | 0.1 |
| Other interest receivable | 12.9 | 4.7 |
| Net interest - group | (2.3) | (15.9) |
| Share of interest receivable of associates | – | 0.1 |
| Share of interest payable of associates - payable to group | (0.1) | (0.1) |
| **Net interest** | (2.4) | (15.9) |

# Notes on the Accounts

for the year ended 31st March 2000

## 6 Profit on ordinary activities before taxation

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

| | | 2000 £ million | 1999 £ million |
|---|---|---|---|
| Research and development | | **37.3** | 37.2 |
| less external funding received | | **(2.7)** | (2.8) |
| Net research and development | | **34.6** | 34.4 |
| Depreciation | – on owned assets | **46.2** | 64.1 |
| | – on leased assets | **0.2** | 0.2 |
| Auditor's remuneration | – parent company | **0.3** | 0.3 |
| | – subsidiary undertakings | **0.7** | 0.8 |
| | – group | **1.0** | 1.1 |
| Other fees paid to auditor | – United Kingdom | **0.9** | 0.3 |
| | – Rest of the World | **0.5** | 0.5 |
| Operating lease rentals | – on plant and machinery | **2.3** | 4.3 |
| | – on other operating leases | **6.5** | 8.9 |

Directors' fees were £0.3 million (1999 £0.3 million) and other emoluments were £2.0 million (1999 £1.6 million). Details are given in the Remuneration Report on pages 30 to 37.

## 7 Taxation

| | 2000 £ million | 2000 £ million | 1999 £ million | 1999 £ million |
|---|---|---|---|---|
| **United Kingdom** | | | | |
| Corporation tax at 30% (1999 31%) | | **23.5** | | 39.3 |
| Double taxation relief | | **(0.3)** | | (13.7) |
| Net advance corporation tax set off in year | | **–** | | (6.6) |
| Current taxation for year | | **23.2** | | 19.0 |
| Deferred taxation for year | | **(0.6)** | | (0.9) |
| Adjustment for prior years | | **–** | | 3.7 |
| Prior year advance corporation tax set off | | **–** | | (9.5) |
| | | **22.6** | | 12.3 |
| **Overseas** | | | | |
| Taxation on income for the year | **19.4** | | 23.7 | |
| Withholding tax deductions on overseas income | **–** | | 1.1 | |
| Current taxation for year | **19.4** | | 24.8 | |
| Deferred taxation for year | **(1.6)** | | (1.3) | |
| | | **17.8** | | 23.5 |
| | | **40.4** | | 35.8 |
| Tax on cost of rationalising Tableware | | **(2.9)** | | – |
| Tax on profit on sale of Electronic Materials | | **9.9** | | – |
| Tax on loss on sale of Organic Pigments | | **(2.1)** | | – |
| ACT saving on foreign income dividends (FIDs) | | **–** | | (3.9) |
| **Total taxation** | | **45.3** | | 31.9 |

# Notes on the Accounts

for the year ended 31st March 2000

## 8 Earnings per ordinary share

Profit for the year attributable to shareholders, less preference dividends, is £111.7 million (1999 restated £106.9 million). This is divided by the weighted average number of shares in issue calculated as 217,458,190 (1999 216,947,859) to give basic earnings per share of 51.4 pence (1999 restated 49.3 pence).

Excluding exceptional items, the tax thereon, the benefit of the ACT saving on FIDs, and goodwill amortisation, earnings per share were 47.5 pence (1999 44.3 pence).

| | 2000 £ million | 1999 restated £ million |
|---|---|---|
| Attributable profit | 111.7 | 106.9 |
| Goodwill amortisation | 0.2 | – |
| Exceptional items | (13.6) | (6.9) |
| Tax thereon | 4.9 | – |
| ACT saving on FIDs | – | (3.9) |
| Adjusted profit | 103.2 | 96.1 |
| Earnings per share excluding exceptional items and goodwill amortisation | 47.5p | 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 and long term incentive plan. These adjustments give rise to an increase in the weighted average number of shares in issue of 1,457,427 (1999 58,902).

## 9 Dividends

| | 2000 £ million | 1999 £ million |
|---|---|---|
| 3.5% Cumulative preference dividend paid £6,986 (1999 £10,500) | – | – |
| Interim ordinary dividend paid - 6.1 pence per share (1999 5.7 pence per share) | 13.3 | 12.4 |
| Final ordinary dividend proposed - 14.2 pence per share (1999 13.3 pence per share) | 31.0 | 28.9 |
| **Total dividends** | 44.3 | 41.3 |

## 10 Employee information

### 10a Employee numbers

| | 2000 | 1999 restated |
|---|---|---|
| The average monthly number of employees during the year was as follows: | | |
| Catalysts & Chemicals | 2,585 | 2,370 |
| Precious Metals | 1,148 | 1,125 |
| Colours & Coatings | 2,148 | 2,288 |
| Research and Corporate | 235 | 225 |
| **Average number of employees - continuing** | 6,116 | 6,008 |
| Discontinued operations | 1,407 | 6,050 |
| **Average number of employees - total** | 7,523 | 12,058 |
| **Actual number of employees at 31st March** | 6,238 | 11,662 |

The number of temporary employees included above at 31st March 2000 was 266 (1999 310).

# Notes on the Accounts

for the year ended 31st March 2000

### 10b Employee costs

| | 2000 £ million | 1999 £ million |
|---|---|---|
| Wages and salaries | **169.7** | 239.7 |
| Social security costs | **19.8** | 25.0 |
| Other pension costs | **(1.9)** | (1.3) |
| **Total employee costs** | **187.6** | 263.4 |

### 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 related to Cookson Matthey Ceramics plc (CMC) which became a wholly owned subsidiary on 6th February 1998. The CMC group's UK pension scheme was also of the defined benefit type which required 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 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 represented 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%. On 1st April 1999 the CMC scheme was merged into the group's main UK scheme. A full actuarial valuation of the enlarged scheme is being undertaken as at 1st April 2000.

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.

# Notes on the Accounts

for the year ended 31st March 2000

## 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:

| | 2000 £ million | 1999 £ million |
|---|---|---|
| **United Kingdom** | | |
| Regular pension cost | **(9.6)** | (8.6) |
| Variation from regular cost | **9.1** | 9.9 |
| Interest on prepayment | **7.2** | 6.4 |
| Cost of post-retirement medical benefits | **(0.2)** | (0.2) |
| | **6.5** | 7.5 |
| **Overseas** | | |
| Cost of foreign pension schemes | **(3.8)** | (5.4) |
| Cost of post-retirement medical benefits | **(0.8)** | (0.8) |
| | **1.9** | 1.3 |

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 | |
|---|---|---|---|---|
| | 2000 £ million | 1999 £ million | 2000 £ million | 1999 £million |
| Prepaid pension costs in the UK | **97.7** | 92.5 | **97.7** | 92.5 |
| Provision for UK pensions | **–** | 1.5 | **–** | – |
| Provision for foreign pensions | **9.1** | 11.0 | **–** | – |
| Provision for post-retirement medical benefits - UK | **3.8** | 3.7 | **3.8** | 3.2 |
| Provision for post-retirement medical benefits - overseas | **11.4** | 14.6 | **–** | – |

## 11 Fixed assets – goodwill

| | Group £ million | Parent company £ million |
|---|---|---|
| **Cost** | | |
| At beginning of year | 4.2 | – |
| Additions (note 29) | 3.4 | 14.3 |
| Disposals (note 30) | (2.3) | – |
| At end of year | 5.3 | 14.3 |
| **Amortisation** | | |
| At beginning of year | – | – |
| Charge for the year | 0.2 | 14.3 |
| At end of year | 0.2 | 14.3 |
| **Net book value at 31st March 2000** | **5.1** | **–** |
| Net book value at 31st March 1999 | 4.2 | – |

# Notes on the Accounts

for the year ended 31st March 2000

### 12 Fixed assets – tangible assets

### 12a Group

| | Freehold land & buildings £ million | Short leasehold £ million | Plant & machinery £ million | Total £ million |
|---|---|---|---|---|
| **Cost** | | | | |
| At beginning of year (restated) | 160.2 | 18.6 | 601.8 | 780.6 |
| Purchases | 8.1 | 0.7 | 65.9 | 74.7 |
| Transferred from associate on cancellation of finance leases | – | – | 1.8 | 1.8 |
| Transferred to associate | – | – | (0.1) | (0.1) |
| Reclassifications | 0.6 | – | (0.6) | – |
| Disposals | (4.3) | (0.3) | (18.1) | (22.7) |
| Disposal of subsidiaries and businesses | (42.0) | (7.8) | (241.5) | (291.3) |
| Exchange adjustments | 2.1 | (0.3) | 6.2 | 8.0 |
| At end of year | 124.7 | 10.9 | 415.4 | 551.0 |
| **Depreciation** | | | | |
| At beginning of year (restated) | 37.4 | 7.2 | 255.8 | 300.4 |
| Charge for the year | 5.5 | 0.8 | 40.1 | 46.4 |
| Disposals | (1.6) | (0.1) | (15.7) | (17.4) |
| Disposal of subsidiaries and businesses | (7.8) | (3.5) | (83.9) | (95.2) |
| Exchange adjustments | 2.5 | – | 3.0 | 5.5 |
| At end of year | 36.0 | 4.4 | 199.3 | 239.7 |
| **Net book value at 31st March 2000** | **88.7** | **6.5** | **216.1** | **311.3** |
| Net book value at 31st March 1999 (restated) | 122.8 | 11.4 | 346.0 | 480.2 |

The net book value of tangible fixed assets includes £1.8 million (1999 £2.0 million) in respect of assets held under finance leases. Freehold land and buildings of £18.1 million included above are not depreciated.

### 12b Parent company

| | Freehold land & buildings £ million | Short leasehold £ million | Plant & machinery £ million | Total £ million |
|---|---|---|---|---|
| **Cost** | | | | |
| At beginning of year (restated) | 36.4 | 2.0 | 102.0 | 140.4 |
| Purchases | 3.5 | 0.2 | 21.4 | 25.1 |
| Acquisition of businesses from subsidiaries | 9.8 | – | 27.2 | 37.0 |
| Disposals | (0.8) | – | (7.9) | (8.7) |
| Disposal of business | (1.2) | – | (7.5) | (8.7) |
| At end of year | 47.7 | 2.2 | 135.2 | 185.1 |
| **Depreciation** | | | | |
| At beginning of year (restated) | 11.4 | 1.1 | 57.3 | 69.8 |
| Charge for the year | 1.9 | 0.2 | 9.4 | 11.5 |
| Disposals | – | – | (6.7) | (6.7) |
| Disposal of business | (0.2) | – | (2.0) | (2.2) |
| At end of year | 13.1 | 1.3 | 58.0 | 72.4 |
| **Net book value at 31st March 2000** | **34.6** | **0.9** | **77.2** | **112.7** |
| Net book value at 31st March 1999 (restated) | 25.0 | 0.9 | 44.7 | 70.6 |

Freehold land and buildings of £7.9 million included above are not depreciated.

### 13 Fixed assets – investments
### 13a Group

| | Investment in associates £ million | Unlisted investments £ million | Total £ million |
|---|---|---|---|
| At beginning of year | 0.6 | 1.2 | 1.8 |
| Additions | 0.3 | 0.2 | 0.5 |
| Disposed of with subsidiaries | – | (1.2) | (1.2) |
| Exchange adjustments | 0.1 | – | 0.1 |
| Losses retained for the year | (0.2) | – | (0.2) |
| **At end of year** | **0.8** | **0.2** | **1.0** |

### 13b Parent company

| | Cost of investment in subsidiary undertakings £ million |
|---|---|
| At beginning of year | 210.0 |
| Transferred to subsidiary | (0.1) |
| **At end of year** | **209.9** |

The principal subsidiary undertakings are shown on page 67.

### 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 600,000,000 | 33 | Italy |
| Metawave Video Systems Ltd | GBP 200 | 40 | UK |

Matthey Pharmaceutical Alkaloids, L.L.C., operating in the USA, of which the group has a 50% holding, has members' capital of US$468,000.

The group's cost of investment in associates amounted to £0.9 million (1999 £0.4 million).

### 14 Transactions with related parties

The group's related parties are its associates described in note 13c.

There were no transactions with Arora-Matthey Limited during the year (1999 £ nil).

During the year the group purchased £261,000 (1999 £ nil) of raw materials from Oximet SrL. Total balances payable to Oximet SrL at 31st March 2000 were £40,000 (1999 £ nil).

From 30th April 1999 (when Metawave Video Systems Ltd was formed) to 31st March 2000 the group made service charges of £615,000 to and purchases of electronic filters of £138,000 from Metawave Video Systems Ltd. Interest received on loans was £13,000. Total balances receivable from Metawave Video Systems Ltd at 31st March 2000 were £473,000 which includes a loan receivable after one year of £200,000.

During the year the group supplied finished opiate products to a value of £163,000 (1999 £207,000) to Matthey Pharmaceutical Alkaloids, L.L.C. and made service charges of £194,000 (1999 £281,000). The group purchased fixed assets at a cost of £459,000 (1999 £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 £50,000 (1999 £42,000) and interest income of £118,000 (1999 £98,000) were received. Interest received on other loans amounted to £50,000 (1999 £74,000). All the finance lease agreements, amounting to £1.8 million outstanding, were cancelled during the year and the assets returned to the group. There were no balances receivable from Matthey Pharmaceutical Alkaloids, L.L.C. at 31st March 2000 (1999 £2.3 million).

# Notes on the Accounts

for the year ended 31st March 2000

## 15 Stocks

| | Group | | Parent company | |
|---|---|---|---|---|
| | **2000** | 1999 | **2000** | 1999 |
| | **£ million** | £ million | **£ million** | £ million |
| Raw materials and consumables | **36.2** | 49.9 | **12.0** | 5.5 |
| Work in progress – precious metals | **128.7** | 90.5 | **110.9** | 70.1 |
| – other | **18.7** | 39.6 | **10.9** | 6.6 |
| Finished goods and goods for resale | **69.6** | 63.7 | **15.8** | 5.5 |
| **Total stocks** | **253.2** | 243.7 | **149.6** | 87.7 |

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 | |
|---|---|---|---|---|
| | **2000** | 1999 | **2000** | 1999 |
| | **£ million** | £ million | **£ million** | £ million |
| **Debtors: due within one year** | | | | |
| Trade debtors | **265.0** | 262.7 | **74.2** | 40.8 |
| Amounts owed by subsidiary undertakings | **–** | – | **442.6** | 486.4 |
| Amounts owed by associates | **0.3** | 0.9 | **–** | – |
| Other debtors | **31.2** | 29.1 | **15.8** | 5.4 |
| Payment owed for disposals (note 30) | **1.1** | 1.0 | **–** | – |
| Prepayments and accrued income | **35.9** | 42.7 | **13.4** | 4.9 |
| | **333.5** | 336.4 | **546.0** | 537.5 |
| **Debtors: due after one year** | | | | |
| Prepaid pensions | **97.7** | 92.5 | **97.7** | 92.5 |
| Amounts owed by subsidiary undertakings | **–** | – | **140.3** | 258.7 |
| Loan receivable from associate | **0.2** | – | **–** | – |
| Finance lease receivable from associate | **–** | 1.4 | **–** | – |
| Other debtors | **–** | 0.1 | **–** | – |
| | **97.9** | 94.0 | **238.0** | 351.2 |

## 17 Short term investments

| | Group | | Parent company | |
|---|---|---|---|---|
| | **2000** | 1999 | **2000** | 1999 |
| | **£ million** | £ million | **£ million** | £ million |
| Interest in own shares | **13.5** | 6.2 | **12.2** | 4.9 |
| Other | **2.8** | 3.0 | **–** | – |
| | **16.3** | 9.2 | **12.2** | 4.9 |

The interest in own shares represents the cost of the shares held by the group's two Employee Share Ownership Trusts (ESOTs). The ESOTs currently hold 2,705,445 shares which were purchased in the open market, and 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 £13,050,848 from the group. At 31st March 2000 the market value of the shares was £17,924,829. Mourant & Co., as trustees for the ESOTs, has waived its dividend entitlement.

## 18 Borrowings and finance leases

| | Group | | Parent company | |
|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 |
| | £ 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 | – | – |
| From two to five years | 0.5 | 0.5 | – | – |
| From one to two years | 0.1 | 0.5 | – | – |
| Bank and other loans repayable otherwise than by instalments | | | | |
| 6.36% US Dollar Bonds 2006 | 62.7 | 62.0 | 62.7 | 62.0 |
| Other after five years | 5.4 | 5.3 | – | – |
| From two to five years | – | 35.0 | – | 35.0 |
| From one to two years | 0.2 | 9.8 | – | 9.8 |
| Finance leases repayable | | | | |
| From two to five years | 0.8 | 1.1 | – | – |
| From one to two years | 0.3 | 0.3 | – | – |
| Borrowings and finance leases falling due after more than one year | 70.0 | 114.6 | 62.7 | 106.8 |
| **Borrowings and finance leases falling due within one year** | | | | |
| Bank and other loans | 45.9 | 165.3 | 24.5 | 102.7 |
| Finance leases | 0.3 | 0.3 | – | – |
| Borrowings and finance leases falling due within one year | 46.2 | 165.6 | 24.5 | 102.7 |
| **Total borrowings and finance leases** | 116.2 | 280.2 | 87.2 | 209.5 |
| Less cash and deposits | 282.0 | 58.6 | 208.4 | 3.9 |
| **Net (cash) / borrowings and finance leases** | (165.8) | 221.6 | (121.2) | 205.6 |

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 £ nil (1999 £0.7 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

| Financial liabilities | 2000 At fixed interest rates £ million | 2000 At floating interest rates £ million | 2000 Total £ million | 1999 At fixed interest rates £ million | 1999 At floating interest rates £ million | 1999 Total £ million |
|---|---|---|---|---|---|---|
| Sterling | – | 2.1 | 2.1 | 0.3 | – | 0.3 |
| US dollar | 62.7 | 39.6 | 102.3 | 62.0 | 168.2 | 230.2 |
| Euro | – | 6.0 | 6.0 | – | 22.8 | 22.8 |
| Australian dollar | – | 5.5 | 5.5 | – | 14.7 | 14.7 |
| Japanese yen | – | 9.2 | 9.2 | – | 14.6 | 14.6 |
| Other currencies | – | 7.2 | 7.2 | – | 6.0 | 6.0 |
| | 62.7 | 69.6 | 132.3 | 62.3 | 226.3 | 288.6 |

| Fixed rate financial liabilities | 2000 Weighted average interest rates % | 2000 Weighted average period for which rates are fixed Years | 1999 Weighted average interest rates % | 1999 Weighted average period for which rates are fixed Years |
|---|---|---|---|---|
| Sterling (preference shares) | – | – | 3.50 | * |
| US dollar | 6.36 | 6 | 6.36 | 7 |

* On 17th September 1999 the company's cumulative preference shares were cancelled and the nominal value (£0.3 million) repaid to the shareholders.

| The financial liabilities of the group comprised: | 2000 £ million | 1999 £ million |
|---|---|---|
| Total borrowings and finance leases | 116.2 | 280.2 |
| Borrowings generated by swaps | 15.9 | 7.0 |
| Other creditors falling due after more than one year | 0.2 | 1.1 |
| Cumulative preference shares | – | 0.3 |
| | 132.3 | 288.6 |

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

### 19a Interest rate risk continued

| Financial assets | 2000 At floating interest rates £ million | 2000 Interest free £ million | 2000 Total £ million | 1999 At floating interest rates £ million | 1999 Interest free £ million | 1999 Total £ million |
|---|---|---|---|---|---|---|
| Sterling | 251.7 | – | 251.7 | 16.4 | – | 16.4 |
| US dollar | – | – | – | 11.3 | – | 11.3 |
| Euro | 10.2 | – | 10.2 | 9.1 | – | 9.1 |
| Australian dollar | – | – | – | 0.8 | – | 0.8 |
| Japanese yen | 2.1 | – | 2.1 | 5.3 | – | 5.3 |
| Hong Kong dollar | 24.2 | – | 24.2 | 13.4 | – | 13.4 |
| Other currencies | 9.9 | 2.8 | 12.7 | 10.8 | 3.0 | 13.8 |
| | 298.1 | 2.8 | 300.9 | 67.1 | 3.0 | 70.1 |

| The financial assets of the group comprised: | 2000 £ million | 1999 £ million |
|---|---|---|
| Cash and deposits | 282.0 | 58.6 |
| Deposits generated by swaps | 15.9 | 7.0 |
| Debtors due after one year (excluding prepaid pensions) | 0.2 | 1.5 |
| Other short term investments | 2.8 | 3.0 |
| | 300.9 | 70.1 |

Floating rate financial assets comprise bank deposits bearing interest at commercial rates and a loan to an associate bearing interest based on the UK base rate plus 2%. 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

| | 2000 £ million | 1999 £ million |
|---|---|---|
| In one year or less, or on demand | 62.3 | 172.6 |
| In more than one year but not more than two years | 0.6 | 11.1 |
| In more than two years but not more than five years | 1.3 | 37.2 |
| In more than five years | 68.1 | 67.7 |
| | 132.3 | 288.6 |

### 19d Undrawn committed borrowing facilities

| | 2000 £ million | 1999 £ million |
|---|---|---|
| Expiring in one year or less | – | 87.1 |
| Expiring in more than one year but not more than two years | 5.0 | – |
| Expiring in more than two years | 35.0 | 12.9 |
| | 40.0 | 100.0 |

# Notes on the Accounts

for the year ended 31st March 2000

### 19e Fair value of financial instruments

| | 2000 Book value £ million | 2000 Fair value £ million | 1999 Book value £ million | 1999 Fair value £ million |
|---|---|---|---|---|
| Cash and deposits | **282.0** | **282.0** | 58.6 | 58.6 |
| Debtors due after one year (excluding prepaid pensions) | **0.2** | **0.2** | 1.5 | 1.5 |
| Other short term investments including warrants | **2.8** | **21.0** | 3.0 | 11.6 |
| Borrowings and finance leases falling due within one year | **(46.2)** | **(46.2)** | (165.6) | (165.6) |
| US Dollar Bonds | **(62.7)** | **(60.7)** | (62.0) | (63.4) |
| Other borrowings and finance leases falling after more than one year | **(7.3)** | **(7.3)** | (52.6) | (52.6) |
| Other creditors falling due after more than one year | **(0.2)** | **(0.2)** | (1.1) | (1.1) |
| Cumulative preference shares | **–** | **–** | (0.3) | (0.3) |
| Forward exchange contracts | **–** | **0.6** | – | (0.4) |
| | **168.6** | **189.4** | (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 six 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 1998 not recognised in 1998/99 | – | – | – |
| Gains and losses arising in 1998/99 not recognised in 1998/99 | 0.2 | 0.6 | (0.4) |
| Unrecognised gains and losses at 31st March 1999 | 0.2 | 0.6 | (0.4) |
| Gains / losses recognised in the year | 0.2 | 0.6 | (0.4) |
| Gains and losses arising before 31st March 1999 not recognised in 1999/2000 | – | – | – |
| Gains and losses arising in 1999/2000 not recognised in 1999/2000 | 0.7 | 0.1 | 0.6 |
| Unrecognised gains and losses at 31st March 2000 | **0.7** | **0.1** | **0.6** |
| Of which gains and losses expected to be recognised in the year to 31st March 2001 | 0.7 | 0.1 | 0.6 |

# Notes on the Accounts

for the year ended 31st March 2000

### 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 1.4% 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 1.5% 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 | |
|---|---|---|---|---|
| | **2000** | 1999 | **2000** | 1999 |
| | **£ million** | £ million | **£ million** | £ million |
| **Amounts falling due within one year** | | | | |
| Trade creditors | **139.6** | 136.7 | **34.1** | 11.9 |
| Amounts owed to subsidiary undertakings | **–** | – | **485.5** | 226.7 |
| Current corporation tax | **37.1** | 26.1 | **9.1** | 7.7 |
| Other taxes and social security costs | **5.8** | 6.0 | **3.3** | 0.8 |
| Other creditors | **28.9** | 27.9 | **7.1** | 3.6 |
| Accruals and deferred income | **73.2** | 63.6 | **32.3** | 19.0 |
| Dividends | **31.0** | 28.9 | **31.0** | 28.9 |
| **Total other creditors falling due within one year** | **315.6** | 289.2 | **602.4** | 298.6 |
| **Amounts falling due after more than one year** | | | | |
| Amounts owed to subsidiary undertakings | **–** | – | **1.2** | 0.3 |
| Other creditors | **0.2** | 1.1 | **–** | – |
| **Total other creditors falling due after more than one year** | **0.2** | 1.1 | **1.2** | 0.3 |

### 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 | 0.1 | 30.8 | 11.8 | 31.6 | 74.3 |
| Exchange adjustments | – | – | – | (0.1) | (0.1) |
| Utilised | (5.3) | (1.3) | (7.0) | – | (13.6) |
| Released | – | (0.2) | – | – | (0.2) |
| Transferred to prepayments | – | (1.5) | – | – | (1.5) |
| Transferred to current tax | – | – | – | (7.1) | (7.1) |
| Disposal of subsidiaries and businesses | – | (7.5) | (0.2) | (8.6) | (16.3) |
| Charge / (credit) for year | 9.8 | 4.0 | 0.7 | (2.2) | 12.3 |
| **At end of year** | **4.6** | **24.3** | **5.3** | **13.6** | **47.8** |

### 22b Parent company

| | Retirement benefits (note 10c) £ million | Other provisions £ million | Deferred taxation (note 23) £ million | Total £ million |
|---|---|---|---|---|
| At beginning of year | 3.2 | 6.0 | 9.3 | 18.5 |
| Utilised | – | (0.5) | – | (0.5) |
| Acquisition of businesses from subsidiaries | 0.4 | 0.1 | 2.6 | 3.1 |
| Disposal of business | (0.1) | – | – | (0.1) |
| Charge / (credit) for year | 0.3 | 2.2 | (5.6) | (3.1) |
| **At end of year** | **3.8** | **7.8** | **6.3** | **17.9** |

### 23 Deferred taxation

| | Group | | Parent company | |
|---|---|---|---|---|
| | **Provision £ million** | **Full potential liability £ million** | **Provision £ million** | **Full potential liability £ million** |
| Timing differences on fixed assets | **15.8** | **15.4** | **13.4** | **13.4** |
| Timing differences on stock | **(6.3)** | **(6.3)** | **(7.1)** | **(7.1)** |
| Deferred capital gains | **1.8** | **1.8** | **–** | **–** |
| Other timing differences | **2.3** | **1.4** | **–** | **–** |
| | **13.6** | **12.3** | **6.3** | **6.3** |

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

| | 2000 | | 1999 | |
|---|---|---|---|---|
| | **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 |
| Ordinary shares of £1 each | **291.6** | **221.1** | 291.6 | 218.2 |
| **Total called up share capital** | **291.6** | **221.1** | 292.0 | 218.5 |

The number of ordinary shares in issue at 31st March 2000 was 221,082,018 (1999 218,157,622).

During the year ended 31st March 2000, the company allotted 2,924,396 ordinary £1 shares to satisfy options exercised under its executive share option schemes as a result of which £12,818,339 was credited to the share premium account.

At 31st May 2000 there were 5,274,164 options outstanding under the company's executive share option schemes, exercisable at various times up to the year 2009 at prices from 316.59 pence per share to 632.00 pence per share.

At 31st May 2000 two allocations had been made under the company's long term incentive plan. The 1998 allocation of 441,488 shares and the 1999 allocation of 440,978 shares will mature at the end of their respective three year performance periods in July 2001 and July 2002. Should the performance conditions be satisfied, the number of shares allocated, or a proportion thereof, will be released to the participants.

Since 17th September 1999, when the company cancelled its cumulative preference shares, it has had no non-equity share capital.

## 25 Reserves

### 25a Group

| | Share premium account £ million | Associates' reserves £ million | Profit & loss account £ million |
|---|---|---|---|
| At beginning of year | 103.9 | 0.1 | 230.3 |
| Exchange adjustments | – | – | (5.6) |
| Premium on shares issued | 12.8 | – | – |
| Retained profit / (loss) for the year | – | (0.2) | 67.6 |
| Goodwill written back on disposals | – | – | 125.4 |
| **At end of year** | **116.7** | **(0.1)** | **417.7** |

At 31st March 2000, the cumulative amount of goodwill, net of goodwill relating to disposals, charged against profit and loss account was £46.0 million (1999 £171.4 million).

In the group accounts, £3.1 million of net exchange losses (1999 £5.8 million) on foreign currency borrowings have been offset in reserves against exchange gains on the translation of the related net investment in overseas subsidiaries.

### 25b Parent company

| | Share premium account £ million | Profit & loss account £ million |
|---|---|---|
| At beginning of year | 103.9 | 387.4 |
| Premium on shares issued | 12.8 | – |
| Retained loss for the year | – | (33.9) |
| **At end of year** | **116.7** | **353.5** |

The parent company's profit for the financial year was £10.4 million (1999 restated £103.7 million).

# Notes on the Accounts

for the year ended 31st March 2000

## 26 Commitments, guarantees and contingent liabilities

| | Group 2000 £ million | Group 1999 £ million | Parent company 2000 £ million | Parent company 1999 £ million |
|---|---|---|---|---|
| **Commitments** | | | | |
| Future capital expenditure contracted but not provided | 5.8 | 3.2 | 1.1 | 1.7 |
| Annual commitments under operating leases | | | | |
| Leases of land and buildings terminating | | | | |
| Within one year | 0.1 | 1.8 | – | 1.3 |
| In one to five years | 2.6 | 4.7 | 1.3 | 1.2 |
| Over five years | 1.9 | 2.1 | 1.2 | – |
| Other leases terminating | | | | |
| Within one year | 0.3 | 0.7 | 0.2 | 0.1 |
| In one to five years | 0.9 | 2.2 | 0.4 | 0.6 |
| Over five years | 0.1 | 0.2 | – | – |
| **Guarantees** | | | | |
| Guarantees of subsidiary undertakings' borrowings | – | – | 18.2 | 64.3 |
| Other guarantees | 4.9 | 1.0 | 4.9 | 0.6 |

## 27 Gross cash flows

### 27a Returns on investments and servicing of finance

| | 2000 £ million | 1999 £ million |
|---|---|---|
| Interest received | 13.1 | 4.6 |
| Interest paid | (15.6) | (20.9) |
| Dividends paid to minority shareholders | – | (0.2) |
| **Net cash outflow for returns on investments and servicing of finance** | (2.5) | (16.5) |

### 27b Capital expenditure and financial investment

| | 2000 £ million | 2000 £ million | 1999 £ million | 1999 £ million |
|---|---|---|---|---|
| Purchase of tangible fixed assets | | (74.1) | | (90.0) |
| Purchase of long term investment | | (0.2) | | – |
| Finance lease to associate | | (0.5) | | (0.6) |
| | | (74.8) | | (90.6) |
| Sale of tangible fixed assets | 6.2 | | 25.7 | |
| Sale of short term investments | 2.8 | | 3.5 | |
| Finance lease to associate capital repaid | 0.1 | | – | |
| | | 9.1 | | 29.2 |
| **Net cash outflow for capital expenditure and financial investment** | | (65.7) | | (61.4) |

## 27c Cash flows on acquisitions and disposals

| | | 2000 | | 1999 |
|---|---|---|---|---|
| | £ million | £ million | £ million | £ million |
| Investment in subsidiary undertakings | | – | | (0.4) |
| Purchase of minority interests (note 29) | | (2.9) | | – |
| Purchase of businesses | | – | | (8.3) |
| | | (2.9) | | (8.7) |
| Disposal of Electronic Materials (note 30) | 393.6 | | – | |
| Disposal of Organic Pigments (note 30) | 0.1 | | – | |
| Disposal of other subsidiary undertakings and businesses | – | | 2.9 | |
| Payment received for minority interest | – | | 1.5 | |
| | | 393.7 | | 4.4 |
| **Net cash flow for acquisitions and disposals** | | **390.8** | | **(4.3)** |

## 27d Management of liquid resources

| | 2000 | 1999 |
|---|---|---|
| | £ million | £ million |
| Cash paid into term deposits of less than one year | (170.3) | (3.7) |
| Cash withdrawn from term deposits of less than one year | 0.5 | 8.6 |
| **Net cash flow from management of liquid resources** | **(169.8)** | **4.9** |

## 27e Financing

| | | 2000 | | 1999 |
|---|---|---|---|---|
| | £ million | £ million | £ million | £ million |
| Issue of ordinary share capital | | 15.7 | | 2.8 |
| Purchase of own shares | | (7.7) | | (4.4) |
| | | 8.0 | | (1.6) |
| Decrease in borrowings falling due within one year | (126.6) | | (9.0) | |
| Decrease in borrowings falling due after more than one year | (36.8) | | (13.0) | |
| Capital element of finance lease rental payments | (0.3) | | (0.4) | |
| | | (163.7) | | (22.4) |
| **Net cash outflow from financing** | | **(155.7)** | | **(24.0)** |

## 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 | 58.6 | (20.7) | (144.6) | (113.2) | (1.7) | (221.6) |
| Cash flow | | | | | | |
| From cash and overdrafts | 53.9 | (2.1) | – | – | – | 51.8 |
| From borrowings and finance leases | – | – | 126.6 | 36.8 | 0.3 | 163.7 |
| From term deposits | 169.8 | – | – | – | – | 169.8 |
| Net cash flow | 223.7 | (2.1) | 126.6 | 36.8 | 0.3 | 385.3 |
| Disposed of with subsidiaries | – | – | 8.0 | – | – | 8.0 |
| Other non cash changes | – | – | (8.3) | 8.3 | – | – |
| Effect of foreign exchange rate changes | (0.3) | 0.2 | (5.0) | (0.8) | – | (5.9) |
| **At end of year** | **282.0** | **(22.6)** | **(23.3)** | **(68.9)** | **(1.4)** | **165.8** |

# Notes on the Accounts

for the year ended 31st March 2000

## 29 Acquisitions

**Metawave Video Systems Ltd**

On 30th April 1999 the group set up a joint venture company called Metawave Video Systems Ltd. The group contributed £0.6 million of assets for a 40% share, giving goodwill of £0.3 million. This has been accounted for as an associate.

**Ryoka Matthey Corporation**

By transactions effected on 1st April 1999 and 1st June 1999 the group acquired the 50% of Ryoka Matthey Corporation it did not already own for £2.8 million. The fair value of the minority interest was £0.5 million immediately prior to the acquisitions resulting in goodwill of £2.3 million. Ryoka Matthey Corporation was sold as part of the Electronic Materials disposal.

**Matthey Beyrand et Cie S.A. Minority Interest**

On 1st March 2000 the group purchased the remaining 20% minority interest in Matthey Beyrand et Cie S.A. for £0.7 million, all deferred. The fair value of the minority interest was £0.3 million immediately prior to the purchase, and costs incurred were £0.1 million, resulting in goodwill of £0.5 million.

**Johnson Matthey Ceramics (Thailand) Limited Minority Interest**

On 23rd August 1999 the group acquired the remaining 30% minority interest in Johnson Matthey Ceramics (Thailand) Limited in exchange for the forgiveness of a debt of £0.3 million, giving goodwill of £0.3 million.

## 30 Disposals

**Electronic Materials**

On 9th July 1999 the group announced it had agreed to sell its Electronic Materials Division to AlliedSignal Inc. and the sale was completed on 17th August 1999.

| Net assets disposed of were: | £ million |
|---|---|
| Goodwill | 2.3 |
| Tangible fixed assets | 191.3 |
| Investments | 1.2 |
| Stocks | 57.8 |
| Debtors and prepayments | 56.8 |
| Cash and bank overdrafts | 9.0 |
| Borrowings | (7.3) |
| Precious metal leases | (6.5) |
| Creditors and provisions | (56.5) |
| Minority interests | (0.2) |
| Goodwill previously written off to reserves | 123.7 |
| | 371.6 |
| Profit on disposal | 28.5 |
| | 400.1 |

| Satisfied by: | £ million |
|---|---|
| Cash | 409.5 |
| Costs incurred | (6.9) |
| Costs incurred – accrued | (2.5) |
| | 400.1 |

# Notes on the Accounts

for the year ended 31st March 2000

## 30 Disposals continued

Prior to disposal, Electronic Materials contributed £10.7 million to the group net cash flow from operating activities.

| | £ million |
|---|---|
| Operating profit | 0.1 |
| Depreciation charges | 8.6 |
| Decrease in owned stocks | 0.8 |
| Decrease in debtors | 13.1 |
| Decrease in creditors and provisions | (11.9) |
| Net cash inflow from operating activities | 10.7 |

Also prior to disposal, Electronic Materials paid £5.9 million in respect of tax, £10.7 million in respect of capital expenditure and financial investment, and £2.8 million in respect of acquisitions.

**Organic Pigments**

On 31st March 2000 the group sold its Organic Pigments businesses located in Venezuela and the USA to Dominion Colour Corporation and Continuous Link Color Inc. respectively.

| Net assets disposed of were: | £ million |
|---|---|
| Tangible fixed assets | 4.8 |
| Stocks | 1.2 |
| Debtors and prepayments | 1.3 |
| Borrowings | (0.7) |
| Creditors and provisions | (0.8) |
| Minority interests | (1.9) |
| Goodwill previously written off to reserves | 1.7 |
| | 5.6 |
| Loss on disposal | (6.2) |
| | (0.6) |

| Satisfied by: | £ million |
|---|---|
| Cash | 0.8 |
| Cash – deferred | 0.1 |
| Costs incurred | (0.7) |
| Costs incurred – accrued | (0.8) |
| | (0.6) |

**UK Minerals sold in the year ended 31st March 1999**

On 1st June 1998 the group sold its UK Minerals business for net proceeds of £5.0 million. £1.0 million of the sale proceeds remains in escrow pending completion of a land-swap arrangement relating to a road scheme at the business' premises.

# Principal Subsidiary Undertakings and Associates

| | Country of incorporation |
|---|---|
| **Europe** | |
| S.A. Johnson Matthey N.V. | Belgium |
| Johnson Matthey S.A. | France |
| Matthey Beyrand et Cie S.A. | 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 |
| **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 |

| | Country of incorporation |
|---|---|
| **Asia** | |
| Johnson Matthey Hong Kong Limited | Hong Kong |
| * Arora-Matthey Limited (40%) | India |
| Johnson Matthey India Private Limited (85%) | India |
| Johnson Matthey Japan, Inc. | USA |
| † Johnson Matthey Sdn. Bhd. (89%) | Malaysia |
| Johnson Matthey Ceramics (Malaysia) Sdn. Bhd. | Malaysia |
| Johnson Matthey (Singapore) Pte Limited | Singapore |
| **Africa** | |
| Johnson Matthey (Pty) Limited | South Africa |
| **Australasia** | |
| Johnson Matthey (Aust.) Limited | Australia |
| Johnson Matthey (NZ) Limited | New Zealand |
| **South America** | |
| † Johnson Matthey Argentina S.A. | Argentina |
| Johnson Matthey Ceramica Ltda | Brazil |

Except where otherwise stated, all companies are wholly owned.

* Associate (see note 13c on page 54).

† Investments held by parent company.

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

# Ten Year Record

| | 1991 £ million | 1992 £ million | 1993 £ million | 1994 £ million | 1995 £ million |
|---|---|---|---|---|---|
| **Turnover** | | | | | |
| Parent and subsidiaries | 1,728.1 | 1,744.5 | 1,853.7 | 1,955.0 | 2,177.8 |
| Share of joint ventures | – | – | – | – | 97.1 |
| Total | 1,728.1 | 1,744.5 | 1,853.7 | 1,955.0 | 2,274.9 |
| **Operating profit** | 62.3 | 62.9 | 71.6 | 81.6 | 100.4 |
| Goodwill amortisation | – | – | – | – | – |
| Exceptional items | 0.5 | (2.1) | – | – | – |
| **Total operating profit** | 62.8 | 60.8 | 71.6 | 81.6 | 100.4 |
| Other exceptional items | – | 4.4 | 3.7 | (11.7) | (0.7) |
| **Profit before interest** | 62.8 | 65.2 | 75.3 | 69.9 | 99.7 |
| Net interest | 3.2 | 1.9 | (1.5) | (4.6) | (4.3) |
| **Profit before taxation** | 66.0 | 67.1 | 73.8 | 65.3 | 95.4 |
| Taxation | (22.0) | (19.2) | (23.7) | (20.7) | (30.5) |
| Profit after taxation | 44.0 | 47.9 | 50.1 | 44.6 | 64.9 |
| Equity minority interests | (0.2) | (0.2) | (0.3) | (0.2) | (1.0) |
| Profit attributable to shareholders | 43.8 | 47.7 | 49.8 | 44.4 | 63.9 |
| Dividends | (16.7) | (17.9) | (19.1) | (21.8) | (25.9) |
| **Profit retained** | 27.1 | 29.8 | 30.7 | 22.6 | 38.0 |
| **Earnings per ordinary share (graph 1)** | 23.6p | 25.5p | 26.5p | 23.1p | 32.9p |
| **Earnings per ordinary share excluding exceptional items and goodwill amortisation (graph 2)** | 23.4p | 24.2p | 25.2p | 27.0p | 33.2p |
| **Dividend per ordinary share (graph 3)** | 9.25p | 9.65p | 10.3p | 11.4p | 13.5p |
| **Summary Balance Sheet** | | | | | |
| **Assets employed:** | | | | | |
| Goodwill | – | – | – | – | – |
| Tangible fixed assets | 189.2 | 219.7 | 263.1 | 281.1 | 256.1 |
| Fixed assets investments / joint ventures / associates | 8.7 | 5.1 | 1.1 | 1.1 | 70.9 |
| Stocks | 217.8 | 148.6 | 155.0 | 153.6 | 153.2 |
| Debtors and short term investments | 165.3 | 163.4 | 185.7 | 207.2 | 190.9 |
| Other creditors and provisions | (339.8) | (273.2) | (232.8) | (242.1) | (207.5) |
| | 241.2 | 263.6 | 372.1 | 400.9 | 463.6 |
| **Financed by:** | | | | | |
| Net borrowings and finance leases / (cash) | 22.1 | 9.9 | 90.6 | 76.1 | 102.4 |
| Retained earnings | 30.6 | 64.7 | 90.3 | 129.0 | 167.5 |
| Share capital and share premium | 188.1 | 188.5 | 190.3 | 194.4 | 195.7 |
| Equity minority interests | 0.4 | 0.5 | 0.9 | 1.4 | (2.0) |
| **Capital employed** | 241.2 | 263.6 | 372.1 | 400.9 | 463.6 |
| **Cumulative goodwill taken directly to reserves** | 39.6 | 41.2 | 49.6 | 50.5 | 57.5 |
| **Return on assets** | 21.6% | 21.5% | 19.7% | 18.7% | 20.6% |

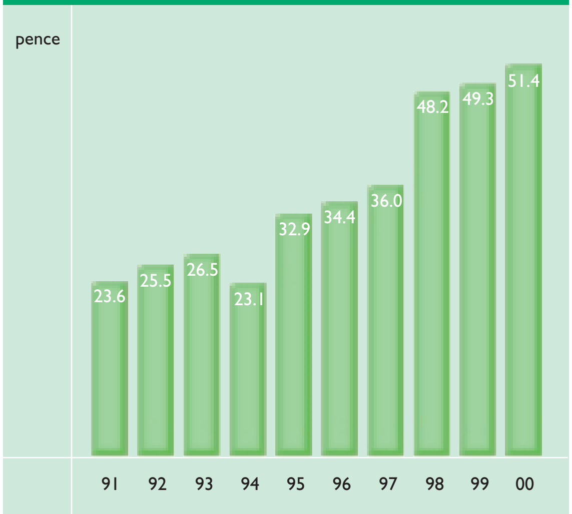
(Total operating profit before exceptional items and goodwill amortisation / average capital employed and cumulative goodwill taken directly to reserves)

1999 and prior years have been restated to reflect changes in accounting policies. The earnings per ordinary share for 1995 and prior years have been adjusted for the bonus element in the 1 for 8 rights issue made on 19th September 1995.

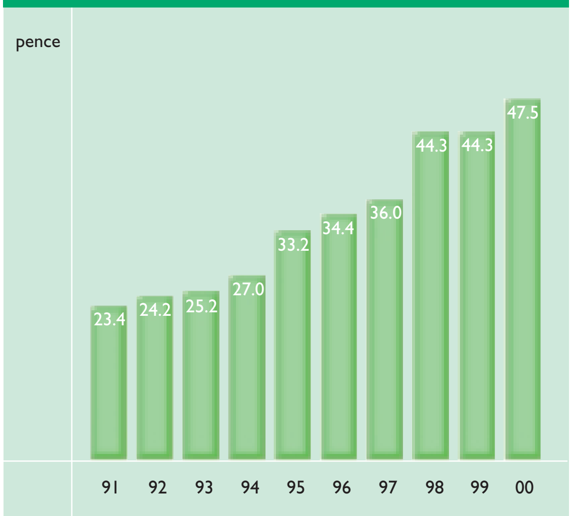
# Ten Year Record

| 1996<br>£ million | 1997<br>£ million | 1998<br>£ million | 1999<br>£ million | **2000**<br>**£ million** |
|---|---|---|---|---|
| 2,528.9 | 2,423.2 | 3,138.8 | 3,385.4 | **3,866.0** |
| 156.7 | 156.9 | 128.8 | – | **–** |
| 2,685.6 | 2,580.1 | 3,267.6 | 3,385.4 | **3,866.0** |
| 111.0 | 116.3 | 139.2 | 147.1 | **146.2** |
| – | – | – | – | **(0.2)** |
| – | – | (4.5) | (1.9) | **(9.8)** |
| 111.0 | 116.3 | 134.7 | 145.2 | **136.2** |
| – | – | 4.4 | 8.8 | **23.4** |
| 111.0 | 116.3 | 139.1 | 154.0 | **159.6** |
| (8.8) | (8.0) | (9.0) | (15.9) | **(2.4)** |
| 102.2 | 108.3 | 130.1 | 138.1 | **157.2** |
| (30.5) | (29.2) | (25.2) | (31.9) | **(45.3)** |
| 71.7 | 79.1 | 104.9 | 106.2 | **111.9** |
| (1.7) | (1.2) | (0.3) | 0.7 | **(0.2)** |
| 70.0 | 77.9 | 104.6 | 106.9 | **111.7** |
| (31.4) | (33.6) | (38.7) | (41.3) | **(44.3)** |
| 38.6 | 44.3 | 65.9 | 65.6 | **67.4** |
| 34.4p | 36.0p | 48.2p | 49.3p | **51.4p** |
| 34.4p | 36.0p | 44.3p | 44.3p | **47.5p** |
| 14.5p | 15.5p | 17.8p | 19.0p | **20.3p** |
| – | – | – | 4.2 | **5.1** |
| 321.7 | 337.7 | 461.5 | 480.2 | **311.3** |
| 100.4 | 84.2 | 4.2 | 1.8 | **1.0** |
| 196.6 | 184.7 | 244.8 | 243.7 | **253.2** |
| 232.2 | 252.6 | 381.1 | 439.6 | **447.7** |
| (284.2) | (267.5) | (382.8) | (389.3) | **(424.2)** |
| 566.7 | 591.7 | 708.8 | 780.2 | **594.1** |
| 134.2 | 143.7 | 225.1 | 221.6 | **(165.8)** |
| 119.6 | 131.0 | 158.0 | 230.4 | **417.6** |
| 313.6 | 316.8 | 319.6 | 322.4 | **337.8** |
| (0.7) | 0.2 | 6.1 | 5.8 | **4.5** |
| 566.7 | 591.7 | 708.8 | 780.2 | **594.1** |
| 150.3 | 156.3 | 171.4 | 171.4 | **46.0** |
| 17.9% | 15.9% | 17.1% | 16.1% | **18.4%** |

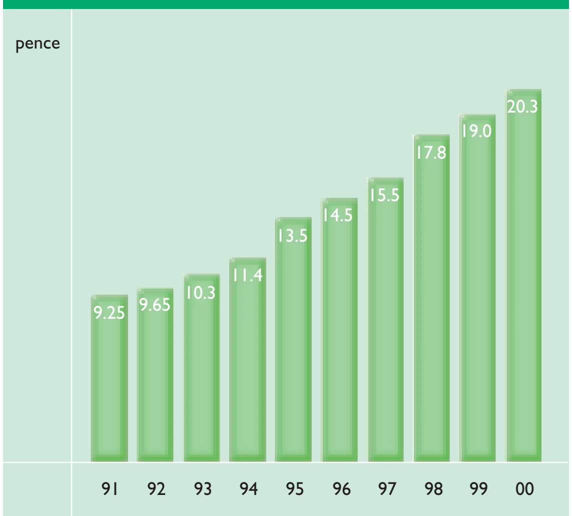
1 Earnings per share




2 Earnings per share excluding exceptionals




3 Dividends per share



# Shareholder Information

## Shareholder Analysis

Analysis of ordinary shareholders

| By category | Number of shares | Percentage |
|---|---|---|
| Pension funds | 123,164,792 | 55.71 |
| Insurance companies | 37,119,671 | 16.79 |
| Investment and Unit Trusts | 36,544,857 | 16.53 |
| Individuals | 6,544,028 | 2.96 |
| Charities | 11,142,534 | 5.04 |
| Other | 6,566,136 | 2.97 |
| | 221,082,018 | 100.00 |

| By size of holding | Number of holdings | Percentage | Number of shares | Percentage |
|---|---|---|---|---|
| 1-1,000 | 4,856 | 56.38 | 2,255,037 | 1.02 |
| 1,001-10,000 | 3,064 | 35.58 | 7,981,061 | 3.61 |
| 10,001-100,000 | 448 | 5.20 | 15,895,797 | 7.19 |
| 100,001-1,000,000 | 200 | 2.32 | 60,465,932 | 27.35 |
| 1,000,001-5,000,000 | 42 | 0.49 | 92,279,634 | 41.74 |
| 5,000,001 and over | 3 | 0.03 | 42,204,557 | 19.09 |
| | 8,613 | 100.00 | 221,082,018 | 100.00 |

## Low Cost Share Dealing Service

A low cost share dealing service is available through the UBS Warburg Corporate Share Dealing Service provided by The Share Centre. This service allows shareholders to buy and sell Johnson Matthey 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 890844 (email info@share.co.uk).

## 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.

## Dividend Mandate

Dividends can be paid directly into shareholders' bank or building society accounts. Shareholders wishing to take advantage of this facility should contact Lloyds TSB Registrars or complete the dividend mandate form attached to their dividend cheque.

## American Depository Receipts

The company has an unlisted American Depository Receipt programme administered by The Bank of New York. For further information, please telephone Mr Julio Lugo at The Bank of New York on +1 (212) 815-2175 (email jlugo@bankofny.com) or visit The Bank of New York's website at www.adrbny.com.

## Share price information

Information on the company's share price is available on the Johnson Matthey website: www.matthey.com.

# Company Details

## Registered and Head Office

2-4 Cockspur Street
Trafalgar Square
London SW1Y 5BQ
Telephone: 020 7269 8400
Internet address: www.matthey.com
E-mail: jmpr@matthey.com

Registered in England – Number 33774

## Professional Advisers

### Auditor

KPMG Audit Plc
8 Salisbury Square
London EC4Y 8BB

### Registrars

Lloyds TSB Registrars
The Causeway
Worthing
West Sussex BN99 6DA
Telephone: 01903 502541

### Lawyers

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Exchange House
Primrose Street
London EC2A 2HS

Taylor Joynson Garrett
50 Victoria Embankment
Blackfriars
London EC4Y 0DX

### Brokers

UBS Warburg
1 Finsbury Avenue
London EC2M 2PP

Credit Suisse First Boston de Zoete & Bevan Limited
One Cabot Square
London E14 4QJ

# Financial Calendar 2000

**23rd June**

Final ordinary dividend record date

**19th July**

109th Annual General Meeting (AGM)

**7th August**

Payment of final dividend subject to declaration at the AGM

**30th November**

Announcement of results for six months ending 30th September 2000

Johnson Matthey's commitment to care for the environment is embedded in its corporate culture and extends through every operational activity, the processes employed and the materials used. Production of this year's annual report is no exception. The laminate on the cover was made using a process free of toxic emissions, the introductory pages are printed on paper manufactured in Switzerland in compliance with the world's most stringent environmental standards, and the accounts section pages are printed on elemental chlorine free paper produced in Germany from sustainable forests.

Designed and produced by Liebling & Cross