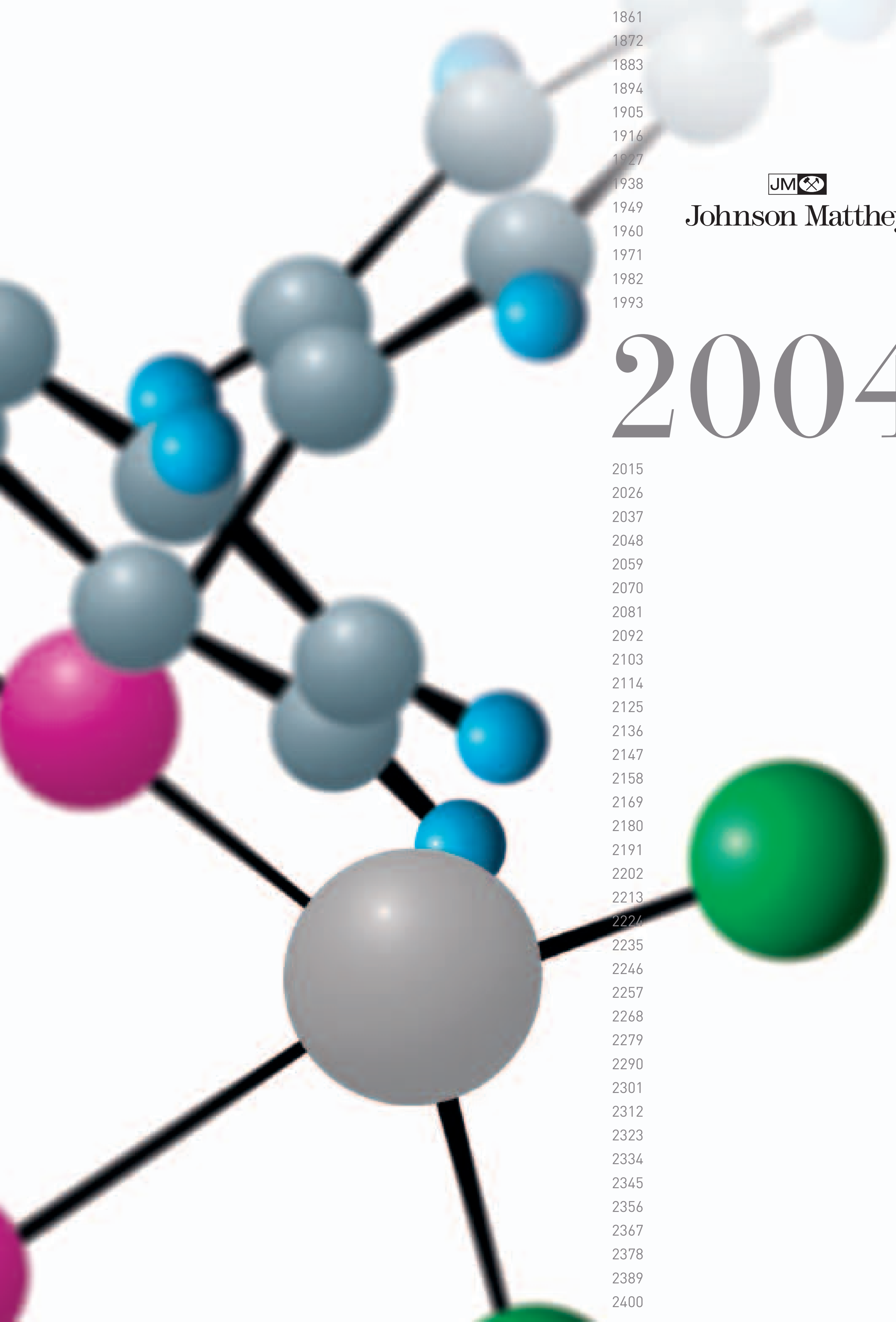
Annual Report & Accounts



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Johnson Matthey

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Front cover design:

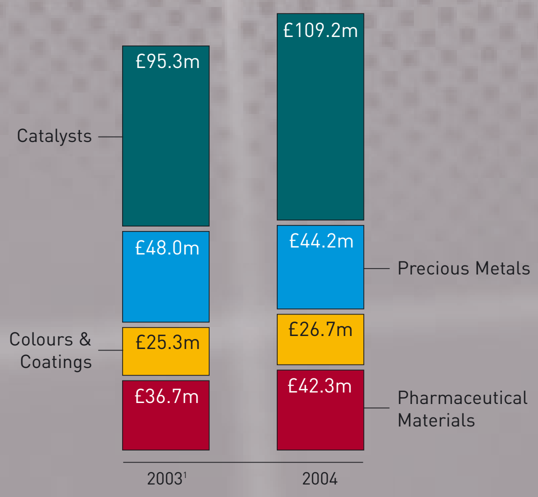
Pictorial structure of the molecule dichloro(1,1'-bis(diphenylphosphino)ferrocene) palladium (II), one of a wide range of platinum group metal catalysts available from Johnson Matthey.
Johnson Matthey was founded in 1817.

	2004	2003 restated[1]	% change
Turnover	£4,493m	£4,324m	+4
Sales excluding precious metals	£1,224m	£1,159m	+6
Operating profit	£188.3m	£167.9m	+12
Profit before tax	£178.0m	£173.5m	+3
Earnings per share	56.0p	55.4p	+1
Before Exceptional Items and Goodwill Amortisation:			
Operating profit	£206.0m	£189.2m	+9
Profit before tax	£195.7m	£189.9m	+3
Earnings per share	64.0p	61.8p	+4
Dividend per share	26.4p	25.5p	+4

[1] Restated for FRS 17

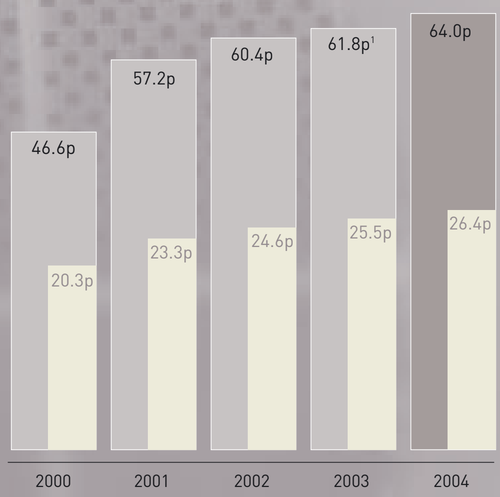
Financial Highlights 2004

Divisional Operating Profit



Earnings Per Share Before Exceptional Items and Goodwill Amortisation

Dividend Per Share



Chairman's Statement

"The company's most important investment will always be the one it makes in its people. We place an absolute priority on the continuing development of our management talent and the skills of all our employees."

Michael Miles OBE
Chairman

I am pleased to report to shareholders that despite some quite strong headwinds, generated by the weak US dollar and the challenging conditions in some of our markets, Johnson Matthey made good progress in 2003/04.

The board's commitment to investment in research & development and manufacturing technology has enabled the company to remain at the forefront of the high technology industries that it serves and to continue its record of growth.

In 2003/04 we took a number of important steps in the strategic development of the group. The former Synetix businesses, which were acquired from ICI last year, have been successfully integrated into Johnson Matthey's Process Catalysts and Technologies business. These businesses have not only made a good contribution to the year but provide important opportunities for the group's future growth, especially in catalysts for the emerging gas to liquids market, an area where we have begun a significant programme of investment. The year also witnessed a further example of our strategy of making bolt-on acquisitions in core areas of activity with the acquisition of AMC in the United States which further enhances Catalysts Division's product portfolio.

The board is also committed to investment in growth markets around the world. Asia continues to be a major focus. In Shanghai, we are increasing capacity at our autocatalyst manufacturing facility to serve the rapidly growing Chinese vehicle market. In Japan, we achieved significant sales of retrofit heavy duty diesel catalysts. In India, we constructed a new platinum group metal catalyst manufacturing facility to serve the fast growing pharmaceutical and speciality chemical markets in that region.

The company's most important investment will always be the one it makes in its people. We place an absolute priority on the continuing development of our management talent and the skills of all our employees to enable them to perform to the highest standards to meet the challenges of the future. On behalf of the board I would like to thank all of our employees around the world for their hard work and dedication during the year.

I would like to welcome two new executive directors who joined the board in August 2003; Pelham Hawker, Executive Director, Environmental Catalysts and Technologies and Larry Pentz, Executive Director, Process Catalysts and Technologies. Both have made important contributions to recent developments in Johnson Matthey's Catalysts Division. Pelham has overseen a period of strong growth and technological change in our autocatalyst business and Larry has undertaken a leading role in the successful integration of the former Synetix businesses since their acquisition from ICI.

Johnson Matthey is very fortunate to have a strong group of independent directors who bring to the board many years of invaluable experience of international business from across a wide range of industrial sectors. I would also like to thank them for their valuable contribution during the year.

In July 2003 we announced that Chris Clark, our Chief Executive, will retire following this year's Annual General Meeting in July after 42 years with Johnson Matthey, the last six as Chief Executive. Chris has had a long and distinguished career with Johnson Matthey since joining the company in 1962. He has great experience of all of the group's operations and has run all of its major businesses. Chris has made an outstanding contribution to Johnson Matthey. As Chief Executive he has overseen the evolution of the group into a world leading speciality chemicals company. Through his strong leadership, Chris has steered the company through a successful period of strategic change and growth. As I said at the time of his appointment as Chief Executive in June 1998, I can think of no person better suited to have undertaken this task. On behalf of the whole board, and indeed all of us at Johnson Matthey, I would like to thank Chris for the key role that he has played in the development and success of the group and wish him all the best for a well deserved, long and very happy retirement.

As we also announced last July, Chris Clark will be succeeded as Chief Executive by Neil Carson, Executive Director, Catalysts and Precious Metals. Neil has 23 years of experience of working at Johnson Matthey and will be an excellent successor to Chris. The board is particularly pleased to have been able to appoint its new Chief Executive from within the company.

Your board is fully committed to reporting on Johnson Matthey's corporate social responsibility performance. Once again, this year's annual report features a review of the company's policies and performance in this important area. This is to be found on pages 24 to 28. Our comprehensive web based corporate social responsibility report was published last year for the first time. This report has been very well received and has generated a good deal of valuable feedback from shareholders. The 2004 edition of our corporate social responsibility report can be accessed on Johnson Matthey's corporate website at www.matthey.com.

I am very pleased that Johnson Matthey continues to make good progress towards our goal of delivering superior shareholder value. I remain confident that with our talented staff and our commitment to investment in research & development and world leading manufacturing technology, your company is well positioned to deliver continued growth in the years ahead.

Michael Miles OBE
Chairman

Chief Executive's Statement

"Johnson Matthey made good progress in 2003/04. Operating profit before exceptional items and goodwill amortisation was 9% up on prior year despite the fall in the value of the US dollar."

Chris Clark
Chief Executive

Johnson Matthey made good progress in 2003/04. Operating profit before exceptional items and goodwill amortisation was 9% up on prior year despite the fall in the value of the US dollar. Both Catalysts and Pharmaceutical Materials divisions achieved 15% profit growth. We continue to see excellent prospects for both these divisions and we have increased our investment in research and development to take full advantage of anticipated market growth over the next few years.

Our Catalysts Division has leading positions in market segments which will expand rapidly in the next few years. These include catalysts for heavy duty diesel (HDD) emission control, where legislation is due to take full effect in 2007 in the USA and 2008 in Europe, and catalysts for the gas to liquids process which uses a series of different catalytic steps to convert stranded natural gas to sulphur free diesel fuel.

We are increasing our investment in R&D to support these opportunities, and are also selectively looking at possible acquisitions to expand our range of catalyst products. We are pleased to have concluded the acquisition of AMC in March 2004, which strengthens our position in the pharmaceutical and speciality chemicals catalyst markets.

As well as growing revenues we are also focusing on improving efficiency. In these results we have taken a £12.7 million exceptional provision to improve efficiency across the Catalysts Division. One element of this relates to restructuring our platinum group metal (pgm) refining business, which has been adversely affected by the downturn in the palladium market. In addition, we will be phasing out our older autocatalyst manufacturing process technology now that precision coating technology has been fully installed in all our worldwide autocatalyst manufacturing plants. We expect this rationalisation programme to reduce costs in the division by £8 million in 2005/06.

Diesel emission control continues to be a focus for environmentalists and regulators worldwide and remains a key priority for us. The market for diesel cars is mainly in Europe where we have increased our market share. Whilst oxidation catalysts remain the key current product, there is growing interest in the use of soot filter technology for particulate emission control and we have been nominated for several important customer programmes.

Worldwide, Johnson Matthey's award winning Continuously Regenerating Trap (CRT®) technology is the most widely used method of controlling particulate emissions from heavy duty diesel vehicles already on the road. New regulations in both Europe and the USA will drive the need for engine makers to fit catalyst technologies to new HDD vehicles starting in 2005. In the last few years we have increased the resource needed to support these customers and the benefits of this strategy are now coming through in contracts for future business.

The acquisition of Synetix from ICI in 2002 has led to a major expansion of Process Catalysts and Technologies (PCT). The former Synetix businesses are now fully integrated and we are building on the opportunities presented by merging Johnson Matthey's leading precious metals catalysis technology with Synetix's leading base metals catalyst technology. One example of this is the opening in May 2004 of a new precious metals catalyst manufacturing facility at Taloja in India. The acquisition of ICI India's catalyst business provided Johnson Matthey with a strong presence in base metal catalysts in the region, to which we have now been able to add precious metals catalyst manufacturing.

The acquisition of AMC for $43 million in March 2004 was another important step in strengthening our position in the worldwide catalyst market. AMC is based in Tennessee, USA and is the global market leader in Sponge Nickel™ catalysts. These nickel catalysts are extensively used in hydrogenation and reductive alkylation reactions throughout the pharmaceutical industry as well as in a wide range of other chemical processes. They are often the first catalyst to be evaluated when designing a new process and the acquisition widens our catalyst product offering to this important market.

The Fuel Cells business continues to make encouraging progress both in the scale up of membrane electrode assembly (MEA) manufacturing at its facility in Swindon, UK and in collaborative programmes with key customers and suppliers. Johnson Matthey Fuel Cells has been awarded £3.2 million in funding by the Department of Trade and Industry as part of the Government's commitment to the development of renewable energy and to the building of a world class fuel cell industry in the United Kingdom. This grant has been given for a major three year programme to develop the next generation of MEAs for automotive applications and will see the Fuel Cells business working in collaboration with a number of key suppliers as well as leading global automobile manufacturers.

We announced in November 2003 that we had renewed our long term contracts with Anglo Platinum which extends the relationship well into the next decade. The revised terms of these renewed contracts came into effect on 1st January 2004 and resulted in a reduction in Precious Metals Division's income in the final quarter of roughly £1.5 million. As demand for platinum grows this shortfall will be more than offset by increased volumes, and the renewed contracts with Anglo Platinum firmly underpin the longer term growth of the division.

The fundamentals for platinum remain very robust. Demand will continue to be driven by its use in autocatalysts, particularly as diesels continue to take a growing share of the light duty vehicle market in Europe and as heavy duty diesel legislation begins to take effect around the world. While jewellery demand has been impacted by the high price of platinum, it remains remarkably resilient and we are seeing signs of improved demand from the manufacturers. The platinum producers are increasing their output to meet this growing demand and move the market closer to equilibrium.

Palladium demand is also expected to increase, benefiting from growth in consumption by the auto manufacturers. However, supplies are expected to rise substantially as South African producers expand their output and the palladium market is expected to continue to remain in surplus.

As we also announced in November, the Board has reviewed the group's strategy for the Structural Ceramics and Speciality Coatings businesses which form the majority of Colours & Coatings Division. A process is now underway to consider offers for those two businesses. We expect to make a further announcement in the next few months.

Pharmaceutical Materials Division enjoyed another very successful year. At West Deptford in the USA we have expanded the product range with two new platinum anticancer products performing well in 2003/04. The patent for carboplatin which we manufacture for Bristol-Myers

Squibb will expire this year and we anticipate the contribution from this product will fall. However, we expect to see an increased contribution from other products, including semi-synthetic opiates where we will benefit from the new morphine and codeine extraction facility at West Deptford. Our Edinburgh based business, Macfarlan Smith, has achieved excellent growth over the last three years and we are continuing to invest in new capacity there to meet anticipated future growth. We have completed a new facility to produce a range of specialist products (mainly highly potent analgesics) which we expect to make a useful contribution this year. At Pharm-Eco we have commissioned the new small scale manufacturing suites at Devens in Massachusetts, USA which are being used to manufacture products for clinical trials.

Financial Highlights

Sales for the financial year ending 31st March 2004 rose by 4% to £4.5 billion. Excluding the value of precious metals sales increased by 6% to £1.2 billion.

Operating profit before exceptional items and goodwill amortisation rose by 9% to £206.0 million despite adverse exchange translation. Profit before tax, exceptional items and goodwill amortisation increased by 3% to £195.7 million.

Earnings per share before exceptional items and goodwill amortisation rose by 4% to 64.0 pence and we are recommending that the dividend for the year is increased by the same percentage to a total of 26.4 pence.

Operations

Catalysts Division's sales rose by 5% to £1,143 million despite the fall in the average palladium price and the weaker US dollar. Sales excluding the value of precious metals rose by 10% to £720 million. The division's operating profit increased by 15% to £109.2 million benefiting from a full year's contribution from the former Synetix businesses.

Environmental Catalysts and Technologies (ECT), which encompasses Johnson Matthey's worldwide autocatalyst, heavy duty diesel and stationary source emission control businesses, achieved strong profit growth in Asia and good growth in Europe, but profits declined in the US. Our autocatalyst business in Asia benefited from strong growth in the Chinese market where sales of light duty vehicles (cars and vans) rose by 37% in 2003. Car sales in Europe were flat but demand for diesel cars continues to grow and now represents 46% of all cars sold. Johnson Matthey has leading technology in diesel emission control and we increased our share of this growing market. In North America our domestic customers' share of the NAFTA market declined and inventories were trimmed by lowering production, reducing demand for autocatalysts.

Sales of heavy duty diesel products were ahead of prior year in all three regions with particularly strong sales in Japan in the first half of the year supported by an incentive programme from the Tokyo Metropolitan Government. Sales of HDD catalysts to original equipment manufacturers continued to grow in the USA and we increased our investment in joint development programmes with the major manufacturers worldwide, gaining several programmes that will enter commercial production from 2005/06.

Process Catalysts and Technologies, which sells catalysts to the chemicals, pharmaceutical, oil and gas and other markets, was well ahead benefiting from the contribution from the former Synetix businesses. The integration of those businesses into Johnson Matthey has progressed very well and results are in line with our expectations at the time of the acquisition. Sales and profits from process catalysts were well up on prior year, despite weakness in some parts of the market. Platinum group metal refining was adversely affected by the weak palladium and rhodium prices and profits were down. Research Chemicals, our catalogue business, continued to achieve good growth.

Our Fuel Cells business made encouraging progress. Revenues showed significant growth on prior year, reducing the net expense for the year to £11.5 million (down 12%). Much of the growth this year has come from sales to the automotive sector as more prototype fuel cell powered vehicles have been developed for durability testing.

Precious Metals Division's sales grew by 3% to £2,956 million with a recovery in the second half of the year reflecting strong demand and higher prices for platinum. Operating profit for the year fell by 8% to £44.2 million, as a result of subdued trading conditions for palladium and rhodium for most of the year, and the impact of the renewed contracts with Anglo Platinum in the final quarter.

> *"In the next few years we should start to see significant benefits from Johnson Matthey's investment in new product areas."*

Demand for platinum remained strong and the average price of the metal for Johnson Matthey's financial year 2003/04 was $744 per ounce, an increase of 27% over 2002/03. Purchases for use in autocatalysts increased robustly in response to further growth in diesel car sales in Europe. In addition, North American car companies stepped up their purchases of platinum having largely depleted inventories of the metal the year before. However, platinum demand from the Chinese jewellery market dropped after almost a decade of rapid growth, as the rise in the platinum price reduced profit margins throughout the industry.

In contrast with platinum, the average price of palladium was $200 per ounce, 34% below the average in 2002/03, and trading conditions remained subdued for most of the year. Physical demand for palladium began to recover from the fall in the previous year, with purchases by the auto and electronics industries increasing significantly. The surplus between supply and demand, however, widened considerably as Russian sales of palladium recovered and South African production was expanded.

The division's platinum fabrication businesses achieved further growth with good demand for both medical components and industrial products. Operating profit for the gold refining businesses was down on last year with the stronger gold price having little immediate impact on mine output.

Colours & Coatings Division's sales were very similar to last year at £254 million. Operating profit rose by 6% to £26.7 million with an improvement in margins.

The glass coatings business achieved good growth in sales and profits benefiting from new product introductions and market share gains. The Structural Ceramics sector, which sells largely to the tile industry, experienced weaker demand for most of the year and profits were down, but demand picked up in the final quarter and the outlook is now much stronger. Profits for Speciality Coatings were well up on prior year, benefiting from the rationalisation programme undertaken in 2002/03.

Pharmaceutical Materials Division's sales rose by 9% to £140 million despite the impact of the weaker US dollar. The division's operating profit increased by 15% to £42.3 million.

The division's US business at West Deptford, NJ achieved strong growth in the year, benefiting from an expanded range of platinum based anticancer compounds. One new product has recently been launched and another is in phase three clinical trials. The new opiate extraction facility was completed in the year and is now operational. Macfarlan Smith also achieved excellent growth in profits benefiting from increasing sales of high margin specialist opiates. Additional capacity is being installed to meet future growth. Pharm-Eco experienced the industry-wide drop in demand for contract research in the first quarter of the year but was able to respond by gaining new business and its performance in the second half of the year was much stronger.

Outlook In 2004/05 we expect to see further growth in Catalysts and Pharmaceutical Materials. However, exchange translation may be adverse if the US dollar remains at its current level.

In the next few years we should start to see significant benefits from Johnson Matthey's investment in new product areas, including heavy duty diesel catalysts which represents a major opportunity once legislation comes into force in 2007 and 2008. In Pharmaceutical Materials we have a strong worldwide position in the manufacture of controlled drugs and complex molecules, such as prostaglandins, where the generic market should see significant growth. Excellent progress is also being made in other long term growth markets, such as gas to liquids catalysts and fuel cells, where revenues are expected to grow in the years ahead.

Overall, supported by a strong balance sheet, the group is very well positioned to deliver good long term growth.

Chris Clark
Chief Executive

Financial Review

"Johnson Matthey's balance sheet remains strong with shareholders' funds rising by £74.9 million to £862.2 million and gearing of 45%."

John Sheldrick
Group Finance Director

Review of Results Total sales for the financial year ending 31st March 2004 rose by 4% to £4.5 billion. Sales excluding the value of precious metals rose by 6% to £1.2 billion.

Operating profit before exceptional items and goodwill amortisation increased by 9% to £206.0 million, despite the effects of adverse exchange translation. The group has adopted FRS 17, the new accounting standard for pensions, and last year's results have been restated accordingly. Divisional results are discussed in the Chief Executive's Statement on pages 4 to 7, and in the individual divisional reports on pages 16 to 23.

Interest also rose, partly reflecting higher average borrowings following the acquisition of Synetix, but also as a consequence of the change to FRS 17 and the reduction in pension fund surplus at 31st March 2003. Profit before tax, exceptional items and goodwill amortisation rose by 3% to £195.7 million.

Earnings per share before exceptional items and goodwill amortisation increased by 4% to 64.0 pence.

Exceptional items gave rise to a net credit of £2.1 million before tax, compared with a £2.7 million charge last year. Goodwill amortisation increased by £6.1 million to £19.8 million reflecting the full year's ownership of Synetix which was acquired in November 2002. After exceptional items and goodwill amortisation, profit before tax rose by 3% to £178.0 million. Earnings per share on the same basis increased by 1% to 56.0 pence.

The board is recommending to shareholders a final dividend of 18.2 pence, making a total dividend for the year of 26.4 pence, an increase of 4%. The proposed dividend would be covered 2.4 times by earnings before exceptional items and goodwill amortisation.

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 (PMD). 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, return on investment is high.

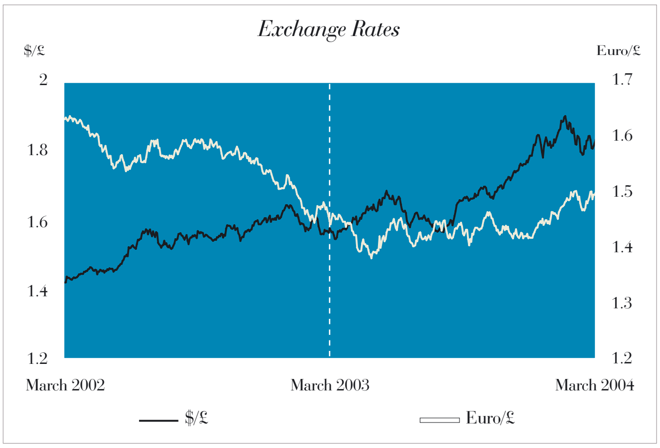
To provide a more useful measure of return on sales, the adjacent table shows sales by division excluding the value of precious metals. Total sales excluding precious metals were £1,224 million which was 6% up on last year and return on these sales averaged 16.8% which was 0.5% up on 2002/03 (restated for FRS 17). The group's target for each of its divisions is to achieve a return on sales excluding precious metals in excess of 10%. All four divisions were ahead of that target in 2003/04.

Catalysts achieved 10% growth in sales excluding precious metals benefiting from a full year's ownership of former Synetix businesses. A significant proportion of the division's operations are located in the USA, and both sales and profits were adversely affected by exchange translation as a result of the decline in value of the US dollar. Margins improved, benefiting from sales of new, technologically advanced products.

PMD's sales excluding precious metals were down 9% reflecting subdued trading conditions for palladium and rhodium for most of the year and the impact of the renewed contracts with Anglo Platinum in the final quarter.

Colours & Coatings' sales were very similar to last year but margins improved as a result of good growth in our glass coatings business, which has higher margins than other parts of the division.

Pharmaceutical Materials achieved 8% growth in sales excluding precious metals, despite adverse exchange translation, with good growth in sales of platinum anticancer compounds and opiates. Margins improved at our Edinburgh based business, Macfarlan Smith, as a result of increased sales of high margin specialist opiates.



	Sales excluding precious metals 2004 £ million	Sales excluding precious metals 2003 £ million	Return on sales excluding precious metals 2004 %	Return on sales excluding precious metals 2003 restated %
Catalysts	**720**	652	**15.2**	14.6
Precious Metals	**121**	132	**36.7**	36.4
Colours & Coatings	**252**	253	**10.6**	10.0
Pharmaceutical Materials	**131**	122	**32.2**	30.1
	1,224	1,159	**16.8**	16.3

Return on Investment We set a target of 20% for the pre-tax return on assets (ROA) for all our businesses. For the group as a whole ROA was 16.2% (see pages 70 and 71) compared with 16.8% in 2002/03. The decline in the overall return reflects the impact of the acquisition of Synetix which is expected to take a few years to meet the group's target.

On a post tax basis the return on invested capital was 11.4% which was above the estimated weighted average cost of capital (WACC) for the group of 8%. The margin above the cost of capital for the year was 3.4%, which was below last year's restated figure of 3.8% but still satisfactory.

Exceptional Items and Goodwill Amortisation Exceptional items included in operating profit gave rise to a net credit of £2.1 million.

The group benefited by £14.8 million from the settlement of litigation with Research Corporation and Research Corporation Technologies, Inc. relating to royalties earned under a licence agreement with Bristol-Myers Squibb Company in respect of carboplatin.

This exceptional credit was partly offset by a charge of £12.7 million for the rationalisation of Catalysts Division. The rationalisation costs relate to the reorganisation of PCT's pgm refining business and the phasing out of ECT's older autocatalyst process technology now that precision coating technology has been fully installed across the group. This rationalisation is expected to improve the division's profits by £8 million in 2005/06.

Goodwill amortisation increased by £6.1 million to £19.8 million, reflecting the full year's ownership of the former Synetix businesses, which were acquired in November 2002.

Interest The group's net interest charge rose by £3.1 million to £16.3 million as a result of the increase in average net borrowings following the acquisition of Synetix. The average interest rate was lower than last year benefiting from lower US dollar interest rates and reduced rates on gold leases.

The group has adopted FRS 17, the new accounting standard for pensions. Under FRS 17 the net return on retirement benefits assets and liabilities fell by £7.9 million to £6.0 million. The drop reflected the fall in the value of the pension fund surplus in 2002/03 as measured on 31st March 2003, when the world equity markets were particularly depressed. Equity markets recovered somewhat in 2003/04 and the group's UK pension fund surplus has increased. The net return on retirement benefits assets and liabilities is likely to be roughly £3 million higher in 2004/05.

Exchange Rates Over a third of the group's profits were made in North America, mainly in the USA. The average rate for the US dollar weakened significantly, from \$1.55/£ in 2002/03 to \$1.69/£ in 2003/04, which reduced reported group profit before tax by £6.7 million.

The group has significant operations in several euro-zone countries and in South Africa whose currencies have strengthened against sterling. The group benefited by £2.4 million from the translation of profits made in euros, of which £1.7 million related to Colours & Coatings, but the euro's strength also had a negative impact on demand for that division's products. The overall impact of the appreciation of the South African rand was negative. The products the group manufactures in South Africa are generally for export with pricing mainly related to euros and US dollars, whereas costs are in rands, and margins were adversely affected by currency movements.

Taxation The group's tax charge increased by £4.2 million to £57.9 million. The increase largely reflected higher profits. The group's average tax rate on profit before tax, exceptional items and goodwill amortisation rose slightly from 29.7% to 29.8%.

Cash Flow Johnson Matthey's net cash flow from operations increased by 13% to £259.7 million. Capital expenditure was £13.4 million lower than prior year at £113.1 million and represented 1.8 times depreciation. We are planning to spend at a lower rate in 2004/05 although still maintaining investment to support future growth opportunities. Free cash flow for the group (after dividends, but before acquisitions and share purchases) was strong at £29.9 million.

The group spent £18.4 million on acquisitions (mainly AMC) and made a net purchase of shares (for the employee share ownership trusts) which cost £8.5 million, leaving a net cash inflow of £3.0 million.

After taking into account favourable exchange translation of £6.1 million on the group's foreign currency borrowings (mainly US dollars), and £1.1 million of loan notes issued to acquire subsidiaries, net borrowings fell by £8.0 million to £394.5 million. Johnson Matthey's balance sheet remains strong with shareholders' funds rising by £74.9 million to £862.2 million and gearing (net borrowings / shareholders' funds and minority interests) of 45%. The comparative figures for last year have been restated for FRS 17 and UITF 38, under which shares held in employee share ownership trusts are accounted for in the same way as treasury shares. Restated for these new accounting standards, last year's gearing was 50%.

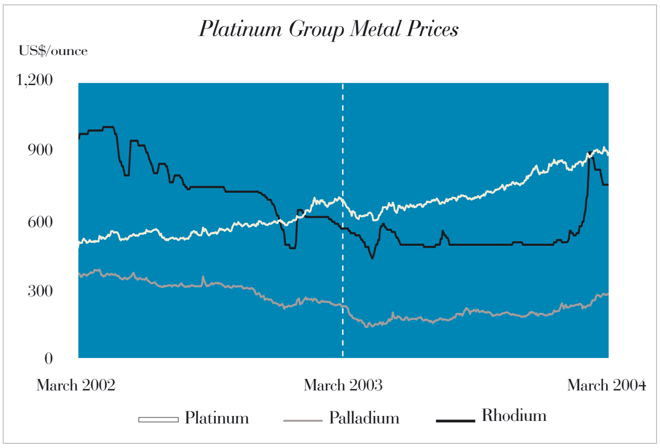
Pensions For the financial year 2003/04 the group has adopted FRS 17, and the figures for 2002/03 have been restated accordingly. The value of the assets in the group's pension funds increased significantly in 2003/04, partly reflecting the recovery in equity prices from their depressed levels at 31st March 2003. The surplus on the group's UK schemes increased by £42.6 million to £43.3 million at 31st March 2004 after taking into account the results of the triennial actuarial revaluation (see page 51).

Worldwide, including provisions for the group's post-retirement healthcare schemes and pension related deferred tax assets and liabilities, the group had a net surplus of £3.5 million on retirement benefits net assets compared with a net deficit of £25.4 million at 31st March 2003.

Financing The group financed the acquisition of Synetix on 1st November 2002 out of additional borrowings. Initially this was done using bank facilities. Most of this additional debt was refinanced on 26th March 2003 with the proceeds of a long term private placement bond issue. The issue included a range of maturities, from 7 to 12 years, and comprised £40 million in sterling bonds and $230 million in US dollar bonds. Some $65 million of the dollar bonds were swapped into sterling to raise a total of £81.1 million of fixed rate sterling with an average maturity of just under 10 years at an average interest cost (including fees) of 5.15%. The remaining $165 million of bonds issued had a 12 year maturity and a fixed rate interest cost in dollars (including fees) of 4.98%. This part of the issue was swapped into floating rate dollars to provide attractively priced variable rate debt.

At 31st March 2004 the maturity profile of the group's debt was as follows:

Borrowings and Finance Leases	**31st March 2004**		31st March 2003	
	£ million	**%**	£ million	%
Over ten years	**111.3**	**22**	126.6	25
Five to ten years	**66.6**	**13**	67.5	14
Two to five years	**210.9**	**42**	151.1	30
One to two years	**65.7**	**13**	111.2	22
Within one year	**46.5**	**10**	46.5	9
Gross borrowings	**501.0**	**100**	502.9	100
Less: cash and deposits	**106.5**		100.4	
Net borrowings	**394.5**		402.5	



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 At 31st March 2004 the group had net borrowings of £394.5 million. Some 35% of this debt is at fixed rates with an average interest rate of 5.6%. The remaining 65% of the group's net borrowings are funded on a floating rate basis. A 1% change in all interest rates would have a 1.4% impact on group profit before tax. This is within the range the board regards as acceptable.

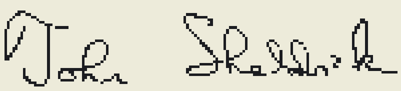
Liquidity Policy The group's policy on funding capacity is to ensure that we always have sufficient long term funding and committed bank facilities in place to meet foreseeable peak borrowing requirements. The group has committed bank facilities of £280 million. Borrowings drawn under these facilities at 31st March 2004 amounted to £219.8 million. 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 59).

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 2004 are shown on page 61.

Precious Metal 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 stocks are unhedged because of the lack of liquidity in the platinum market.



John Sheldrick
Group Finance Director

Board of Directors

H M P Miles
Chairman

C R N Clark
Chief Executive

J N Sheldrick
Group Finance Director

C D Mackay
Non-Executive Director

M B Dearden
Non-Executive Director

N A P Carson
Executive Director

H M P Miles OBE
Chairman, age 68; joined Johnson Matthey as a non-executive director in March 1990; appointed Chairman in June 1998. Currently Chairman of Schroders plc and a non-executive director of BP plc and other companies. Previously Chairman of Cathay Pacific Airways, Swire Group Hong Kong, a director of HSBC, John Swire & Sons Limited and ING Baring Holdings Limited, and a Vice President of the China Britain Business Council. N

C R N Clark MIM, CIMgt
Chief Executive, age 62; 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 and Deputy Chairman of Rexam PLC.

J N Sheldrick MA, MSc, FCMA, FCT
Group Finance Director, age 54; 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. Previously Group Treasurer of The BOC Group plc and a non-executive director of API Group Plc.

C D Mackay MBA, MA
Age 64; appointed a non-executive director in January 1999. Currently Chairman of TDG plc and a member of the board of INSEAD. Previously Chairman of the Eurotunnel Group and Group Chief Executive and Deputy Chairman of Inchcape plc. Has also served on a number of boards including those of HSBC Holdings plc, British Airways plc, Gucci Group NV and Thistle Hotels plc. A, M, N

M B Dearden MA
Age 61; appointed a non-executive director in April 1999. Currently Chairman of Minova International Limited and The Brick Business Ltd, a non-executive director of The Weir Group Plc and Travis Perkins plc. Previously Chief Executive of Castrol International and a main board director of Burmah Castrol plc. A, M, N

N A P Carson BSc
Executive Director, Catalysts and Precious Metals, age 47; 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 to the board as Managing Director, Catalysts & Chemicals in August 1999 and additionally assumed board level responsibility for Precious Metals Division in August 2002. Currently a non-executive director of Avon Rubber plc.

D W Morgan
Executive Director

I C Strachan
Non-Executive Director

A M Thomson
Non-Executive Director

R J W Walvis
Non-Executive Director

P N Hawker
Executive Director

L C Pentz
Executive Director

D W Morgan MA, ACA
Executive Director, Group Corporate Development, Central Research and Colours & Coatings, age 46; joined Johnson Matthey in 1988 as a Division Finance Director. Appointed an executive director in August 1999. Responsible for the group's Corporate Development activities and Legal and Secretarial affairs. In addition, assumed board level responsibility for Colours & Coatings Division and the company's central research activities in August 2002. Currently a member of the International Advisory Board of Conduit Ventures Limited. Previously a non-executive director of RiverSoft plc.

I C Strachan
Age 61; appointed a non-executive director in January 2002. Currently Chairman of Instinet Group Inc. and a director of Reuters Group plc, Transocean Inc., Xstrata plc and Rolls Royce Group plc. Previously Deputy Chairman of Invensys Plc, Chief Executive of BTR plc and Deputy Chief Executive of Rio Tinto plc. A, M, N

A M Thomson MA, CA
Age 57; appointed a non-executive director in September 2002. Currently Finance Director of Smiths Group plc. He was previously Finance Director of the Rugby Group PLC and a non-executive director of Laporte PLC. Prior to that he had held a succession of senior financial positions with Courtaulds, Raychem Ltd. and Rockwell International. A, M, N

R J W Walvis
Age 57; appointed a non-executive director in September 2002. Currently a non-executive director of Balfour Beatty plc, an Adviser to Amerada Hess Corporation Inc. and Chairman of the Supervisory Board of Allianz Nederland Group NV. He was previously Chairman, Global Corporate Centre, Shell International Limited and prior to that held a series of senior management positions within the Royal Dutch Shell Group. A, M, N

P N Hawker BSc, PhD
Executive Director, Environmental Catalysts and Technologies, age 50; joined Johnson Matthey in 1985 as Research & Development Manager. Appointed an executive director in August 2003. Previously, he was Managing Director, Autocatalysts Europe and appointed Division Director, Environmental Catalysts and Technologies in January 2001.

L C Pentz BS ChE, MBA
Executive Director, Process Catalysts and Technologies, age 48: joined Johnson Matthey in 1984; appointed Division Director, Process Catalysts and Technologies in 2001 after having held a series of senior management positions within Catalysts Division in the US. Appointed Executive Director, Process Catalysts and Technologies in August 2003.

Committees of the Board

A *Audit Committee*
M *Management Development and Remuneration Committee*
N *Nomination Committee*

Other Senior Management

Catalysts

S M Christley Division Finance Director,
Environmental Catalysts and Technologies

J B Fowler President,
Environmental Catalysts and Technologies, North America

P C Framp Managing Director,
Environmental Catalysts and Technologies, Europe

J F Walker Managing Director,
Environmental Catalysts and Technologies, Asia

B J Cooper Vice President,
Environmental Catalysts and Technologies, Heavy Duty Diesel

G P Otterman Division Finance Director,
Process Catalysts and Technologies

M T Durney Vice President and General Manager,
Process Catalysts and Technologies, North America and Asia

R M Kilburn Vice President,
Polymers, Chemical Catalysts and Edible Oils

S P Murphy Managing Director,
Process Catalysts and Technologies, Europe

B C Singelais Director,
Research Chemicals

N Whitley Vice President,
Ammonia, Methanol, Oil and Gas

J C Frost Director,
Fuel Cells

Precious Metals

W F Sandford Division Director

B M O'Connell Division Finance Director

M Bedford Director,
Precious Metals Marketing

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

A M Myers Director,
Noble Metals

J D McKelvie Vice President,
Gold and Silver, North America

Colours & Coatings

C M Hood Division Director

N P H Garner Division Finance Director

V Ros Managing Director,
Structural Ceramics

J Murkens Managing Director,
Glass

T R Woolrych Managing Director,
Speciality Coatings

Pharmaceutical Materials

F K Sheffy Division Director

A J Caruso Division Finance Director

J B Friederichsen General Manager,
West Deptford

D S Mercer Managing Director,
Macfarlan Smith

S A Zahr General Manager,
Pharm-Eco Laboratories

Corporate

G J Coates Group Treasurer

S Farrant Company Secretary and Senior Legal Adviser

I D Godwin Group Corporate Communications Manager

V E Gough Group Reporting Controller

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

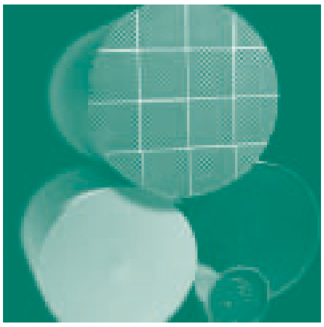
Divisional Structure

Johnson Matthey

has operations in 34 countries and employs around 7,500 people worldwide.

It is organised into four global divisions:

Catalysts



Precious Metals

Colours & Coatings

Pharmaceutical Materials

Environmental Catalysts and Technologies (ECT)

ECT comprises Johnson Matthey's global autocatalyst, heavy duty diesel and stationary source emission control businesses. We are a world leading manufacturer of catalysts for vehicle exhaust emission control and a leader in catalyst systems for the reduction of volatile organic compound emissions from industrial processes. Manufacturing takes place in the USA, UK, Belgium, Mexico, Argentina, South Africa, Malaysia, India and China. R&D facilities are in the USA, UK, Sweden, Japan and Brazil.

Process Catalysts and Technologies (PCT)

PCT manufactures base and precious metal process catalysts, fine chemicals and electrochemical products. Our platinum group metal (pgm) refining business recovers spent catalysts and other secondary material and also refines primary pgms from global mining operations. Manufacturing facilities are in the UK, USA, Germany, India and China. Our Research Chemicals business is based in the USA and UK.

Fuel Cells

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

Our Precious Metals Division is organised into two groups; Platinum and Gold and Silver, and incorporates Johnson Matthey's precious metals marketing, fabrication and gold and silver 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 Anglo Platinum, 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 a 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 a leading manufacturer of high purity small gold bars for investment and jewellery manufacture. Gold and silver refining operations are located in the UK, USA, Canada and Hong Kong.

Colours & Coatings Division is ranked among the world's top integrated suppliers of decorative products and associated raw materials for ceramics and glass. The division is structured into three businesses; Glass, Structural Ceramics and Speciality Coatings, 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.

Structural Ceramics

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

Speciality Coatings

Speciality Coatings supplies colours, glazes, decals and decorative precious metal products to manufacturers of fine china in the UK and around the world. It also produces a wide range of inorganic pigments and pigment dispersions for use in printing inks, paints, automotive finishes, woodstains and plastics.

Pharmaceutical Materials Division is a global, integrated supplier of active pharmaceutical ingredients, which provides services to pharmaceutical companies through every phase of the development of a new product.

Serving their respective markets in the US and Europe, the division's West Deptford and Macfarlan Smith operations provide customers with bulk manufacturing services from phase three clinical trials through commercialisation of a patented or generic drug. The division has leading positions in the manufacture of controlled substances and platinum based anticancer drugs.

The division's Pharm-Eco Laboratories business provides contract research and development and small scale manufacturing services from pre-clinical through to phase three clinical trials.

The Cascade Biochem business is focused on the manufacture of prostaglandins and other complex molecules as active pharmaceutical ingredients for the pharmaceutical industry.

Catalysts

Catalysts Division encompasses three global businesses: Environmental Catalysts and Technologies (ECT), Process Catalysts and Technologies (PCT) and Fuel Cells.

Environmental Catalysts and Technologies ECT, Johnson Matthey's worldwide autocatalyst, heavy duty diesel (HDD) and stationary source emission control business, performed well despite disappointing car markets in Europe and the US. Our autocatalyst business in Asia benefited from strong growth in the Chinese vehicle market where light vehicle sales were 37% up on 2003 and we are increasing capacity at our Shanghai plant. Car sales in Europe were flat on last year, although sales of diesel vehicles continued to grow. Diesels now account for 46% of all cars sold in Europe and our leading diesel emission control technology has enabled us to increase our share of this growing market. In the US our business was down as our domestic customers lost market share and they reduced their demand for autocatalysts. Whilst oxidation catalysts remain the key current product for diesel cars there is increasing interest among car makers in the use of soot filter technology to control particulate emissions, an area where we are winning new business. During the year we gained a major share of a large HDD retrofit programme in Japan and sales of HDD emission control devices were also well ahead of last year in the US and Europe. New regulations in both Europe and the US will result in original equipment makers fitting exhaust pollution control technologies to new HDD vehicles from 2005. In recent years we have invested in significant resources to support them in their development activities and this is beginning to result in new business. Our R&D centre in Japan was established ten years ago to support Japanese automakers and their global operations. This year we commissioned our first manufacturing capacity in Japan within our existing facility. During the year further expansion was carried out at our factory in South Africa and we completed a major upgrade of our European technology centre, including state of the art engine and vehicle testing facilities. This investment will allow us to continue to develop market leading technologies to meet forthcoming emission legislation.

Process Catalysts and Technologies

PCT performed well in 2003/04 with sales strongly ahead of last year, reflecting a full year's contribution from the former Synetix businesses. During the year we completed the reorganisation of PCT, fully integrating the former Synetix businesses and aligning all of its activities with its global markets to which we offer a full range of both base metal and platinum group metal (pgm) catalysts. In March 2004 we further enhanced our product portfolio with the acquisition of AMC, the market leading supplier of Sponge Nickel™ catalysts which are extensively used in the pharmaceutical and speciality chemicals industries and are often the first catalysts to be evaluated when designing a new chemical process. The former Synetix businesses have continued to perform in line with our expectations. The AMOG (ammonia, methanol, oil and gas) business achieved strong sales growth in the oil refineries market, although sales to the North American ammonia market were depressed by high natural gas feedstock prices. In gas to liquids (GTL) we have increased our commitment to the development of catalyst technology and have sold our first commercial quantities of Fischer Tropsch catalyst to a leader in the GTL market. The PCEO (polymers, chemical catalysts, and edible oils) business was adversely affected by the falling US dollar and

rising nickel prices but has continued to invest, expanding capacity to meet future growth plans. The pgm catalyst business also performed very well with particularly good growth in sales of heterogeneous catalysts. During the year we completed construction of a pgm catalyst manufacturing plant in India to serve rapidly growing demand in the region, particularly from the pharmaceutical industry. The pgm refining business, however, was down with activity throughout the year impacted by low palladium and rhodium prices. The Research Chemicals business once again achieved good growth. It continued to strengthen its distribution channels and during the year completed expansion of its North American facility.

Fuel Cells The Fuel Cells business made good progress during the year and is developing very much in line with our plans. Our dedicated membrane electrode assembly (MEA) manufacturing facility at Swindon, UK is providing a world class rapid prototyping and integrated MEA manufacturing service to our customers and preparations are in place to further expand capacity in time to meet growth in customer demand. The automobile industry continues to invest heavily in fuel cells and demonstration fleets continue to expand around the world. Johnson Matthey Fuel Cells has been awarded £3.2 million in funding by the UK Government for a three year programme to develop the next generation of MEAs for automotive applications.

Turnover £1,143m

£1,083m (2003)

Operating profit £109.2m

£95.3m (2003)

Catalysts Division

produced a good performance in 2003/04 with operating profits 15% up on prior year

at £109.2 million

Research & Development

ECT's R&D is focused on enhancing our ability to cost effectively meet promulgated emissions standards. This may result in offering a product that uses 10% less precious metal than our competition, it might mean that we can meet standards with a smaller catalytic converter or the depth of our understanding of emission control systems may enable a customer to solve an emissions problem without major re-engineering. Whatever the benefits of buying from Johnson Matthey, our commitment to investing in technology is clear. PCT's R&D targets the development of both novel catalysts and scaleable, well defined preparative methods. One programme for the development of highly selective catalysts and ligands for specialised fine chemical applications has led to a new range of immobilised precious metal homogeneous catalysts which demonstrate good chiral selectivity for a number of commercially important reactions. PCT has also initiated a major new R&D programme in the area of GTL catalyst technology for the manufacture of sulphur free diesel fuel from natural gas.

Precious Metals

Platinum The price of platinum climbed throughout much of 2003/04, rising from a low of $603/oz in April 2003 to reach $923/oz in March 2004. The average price was $744/oz, an increase of 27% on 2002/03. Much of the stimulus for higher prices came from the buying of platinum futures by hedge funds and other investors.

Total demand for platinum grew only marginally in 2003/04. Purchases of platinum for use in autocatalysts increased robustly as further strong growth in diesel car sales led to greater use of platinum based catalysts in Europe. In addition, North American car companies stepped up their purchases, having largely depleted inventories of the metal the year before. However, platinum demand from the Chinese jewellery market dropped after almost a decade of rapid growth, as the strong rise in the price reduced profit margins for manufacturers and retailers.

Supplies of platinum expanded faster than demand; higher production in South Africa and Zimbabwe and an increase in Russian sales outweighed a drop in North American output. The deficit between supply and demand consequently narrowed.

The palladium price improved from a low of $144/oz in April 2003 to $288/oz in March 2004. Even more than platinum, the price was strongly influenced by hedge funds and other speculators who accumulated very large long positions over the course of the year.

Physical demand for palladium in 2003/04 began to recover from the slump of the previous year. Purchases of the metal by the auto and electronics industries picked up, with manufacturers having used substantial volumes of palladium from inventories in the previous year. The surplus of supply over demand, however, widened considerably. Russian shipments of palladium rebounded as production was fully sold, a significant proportion of output having been held back from the market in 2002/03, and South African production expanded.

Rhodium usage grew strongly in 2003/04, driven by an increase in average autocatalyst loadings ahead of tighter emission legislation. However, the level of purchases made by auto makers was dampened by continued run down of inventories. Following a strong increase in producer sales, the surplus between supply and demand widened and the average price of rhodium dropped to $541/oz, 27% lower than in 2002/03.

Profits for the division's marketing and trading operations were down on 2002/03. Income in the final quarter was impacted by the renewed long term contracts with Anglo Platinum, which took effect on 1st January 2004. This, together with continuing weak prices and trading margins for palladium and rhodium, more than offset good income from the buoyant platinum market.

The division's pgm manufacturing activities continued their profitable growth during the year. August 2003 saw the opening of a new factory in San Diego, California for the production of precision machined parts for medical applications. This new facility provides increased capacity as demand for these products continues to grow. Further investment to expand capacity and increase the product range is planned for 2004/05. Demand for our pgm wire products for medical and industrial applications was buoyant throughout the year.

Gold and Silver Profits from our worldwide gold and silver refining operations were down on last year. The rally in the gold price, which gathered momentum in 2002, continued throughout 2003 and by the end of the year the price had risen a further 20% to finish at $416/oz. This rise stimulated increased secondary supplies, with strong dishoarding across the Asian region whenever the price spiked. Our refinery in Hong Kong again benefited from the increased business levels. Although world primary gold production remained flat in 2003, North American mine output fell to the lowest level in over a decade, ensuring that margins remained under pressure. While refining volumes were similar to the previous year, financial performance was impacted by the fall in the value of the US dollar.

Precious Metals Division's

operating profits for the year fell by 8% to

£44.2 million

Turnover £2,956m

£2,857m (2003)

Operating profit £44.2m

£48.0m (2003)

Research & Development

The division's global research and development programmes continue in several important areas. Work continues on catalysts for ammonia oxidation designed to improve conversion efficiencies whilst minimising the production of unwanted by-products, which act as greenhouse gases. Products have been formulated and are now being commercialised utilising technology jointly developed with Johnson Matthey's Process Catalysts and Technologies business. Initial results show great promise and the products are attracting a very high level of industry interest. Our programme of collaborative work with spark plug companies to develop novel alloys for higher spark plug efficiency is also achieving commercial success. Further work continues in this area.

Colours & Coatings

The Colours & Coatings Division is organised into three market facing sectors: Structural Ceramics serving the tile, sanitaryware and related construction markets; Glass serving specialised applications in the automotive, architectural and container glass markets; and Speciality Coatings supplying the tableware and plastics markets as well as a range of pigments and surface coatings markets. All business sectors serve the full range of international markets and the division has a presence in all major geographical regions, with core production sites in Spain, the Netherlands, Italy, Brazil, the UK, Malaysia, India, China and the USA.

2003/04 was a mixed year with the Structural Ceramics and Speciality Coatings markets impacted by difficult trading conditions but continued good growth in the Glass sector. The rationalisation of the division's activities, completed last year, has helped support underlying profitability in the face of these challenging market conditions and the business is well placed to benefit from the market upturn which began to materialise in the last quarter of 2003/04.

Structural Ceramics Sales in 2003/04 were down on prior year, affected by continued weakness in the large Southern European tile markets. Margins were impacted by the weakness of the US dollar, particularly in the growing Asian market and operating profits were down. However, with the investments made in recent years, Structural Ceramics is now one of the lowest cost producers in the world and is well positioned to benefit from anticipated future growth in the developing markets of Eastern Europe, the Middle East and China and any future upturn in domestic European demand.

Glass In the Glass business, sales continued to grow substantially during 2003/04 in flat market conditions. New product development continued to underpin the sector's success with the introduction this year of recyclable automotive enamels, highly conductive silver pastes and unleaded architectural enamels. The business has also expanded into new geographic markets in Eastern Europe, Russia and China, which has contributed to strong revenue growth. Operating profits were well ahead of last year. Glass continues to focus on process improvements and production efficiencies, which are key to maintaining margins in an increasingly competitive environment. Going forward, we anticipate that core markets will be relatively flat and future success will depend upon continued high investment in R&D and our focus on increasing market share through new product development and enhanced customer service. The business is well positioned to meet these challenges.

Speciality Coatings Speciality Coatings is split broadly into two market facing segments: the Pigments & Dispersions businesses, which supply the surface coatings and

plastics industries; and the Tableware business, which supplies glazes, decorative precious metals and decal products. The general trend within the tableware market away from highly decorative, fine ware and towards more casual dining shows no signs of abating. This has resulted in the continued decline of the high margin UK market. Pigments & Dispersions also had a challenging year with poor demand for wood stains from the US market, caused mainly by the weakness of the dollar, which has impacted on profitability. However the business is well positioned for growth in 2004/05, driven by further expansion of its range of Micraflo® free flowing pigment concentrates for plastics and the launch of Solaplex™, a novel yellow pigment that provides an environmentally friendly alternative to lead-chrome and cadmium based materials.

Colours & Coatings Division's
operating profits rose by 6%
this year to £26.7 million,
with good growth in glass coating products.

Turnover £254m
£256m (2003)

Operating profit £26.7m
£25.3m (2003)

Research & Development

The Colours & Coatings Division continues to place great emphasis on product and process development, both of which are key to our ability to grow sales and sustain margins. Considerable resources are dedicated to research both at the Johnson Matthey Technology Centre based at Sonning, UK, and at the major European facilities in the Netherlands, Italy, Spain and UK. The research structure, focused on the core areas of fundamental chemistry, cost reduction technologies and product development has continued to deliver innovative solutions for the market during the year. These include the development of a new and novel yellow pigment, high conductivity silver pastes, and a new decorative precious metal product for tableware based on fundamentally more controllable chemistry. Going forward, management remains focused on delivering a pipeline of market driven research and product developments to underpin future profitability.

Pharmaceutical Materials

Pharmaceutical Materials Division provides a full range of manufacturing services for active pharmaceutical ingredients (APIs) throughout a drug's life cycle. Pharm-Eco (US) provides contract chemistry and manufacturing services for drugs in the early and middle phases of their development cycle as well as contract manufacturing for low volume and potent APIs. As products reach late stages of development and commercial approval, both West Deptford (US) and Macfarlan Smith (UK) provide commercial scale manufacturing services along with regulatory support for active pharmaceutical ingredients. The division manufactures products for both the branded and generic markets. Cascade Biochem is a world leader in the chemistry of prostaglandins, and provides a full range of services for these complex niche products. In addition to achieving good sales and profit growth during 2003/04, Pharmaceutical Materials developed important opportunities for future growth by key collaborations between its business units.

West Deptford The West Deptford business manufactures high value APIs, predominantly controlled substances and metal based pharmaceuticals. West Deptford's products are used to treat cancer, chronic pain and attention deficit hyperactivity disorder and include both generic and proprietary drugs. Progress was made in key growth areas during the year. Several new products were commercialised, including an important new platinum based anticancer drug. The facility expansion completed last year is now in full production and incorporates the extraction of narcotic raw materials for key opiate products. These new products, along with the cost efficiencies obtained from the extraction process, will enable West Deptford to improve its market share in the US opiates market.

Macfarlan Smith Macfarlan Smith, located in Edinburgh, UK, is a world leader in the manufacture and sale of controlled drugs, especially opiates. During the year the business continued its record of good growth, improving both profits and market share. Overall, sales volumes of opiate products increased with particularly strong growth in sales of codeine as well as several key specialist opiate products. In support of this growth, our programme of capacity expansion at Macfarlan Smith has continued this year with the addition of both large scale and small scale specialist capacity. The business also successfully completed its first product approval inspection by the US Food and Drug Administration. This will greatly enhance our US sales force's ability to market several Macfarlan Smith products, including some in the late stages of development, in the US market.

Pharm-Eco Pharm-Eco, with two facilities near Boston, USA, is a leading provider of small scale manufacturing and contract chemistry services in support of the development of new drugs. Pharm-Eco's manufacturing business experienced good growth during the year. To provide additional capacity for future growth, we completed installation of the first two reactor suites in the production area of Pharm-Eco's Devens, Massachusetts facility. The business' performance has also improved due to ongoing expansion of its technical expertise. During 2003/04 we substantially increased our capabilities in the areas of chemical, especially chiral, separations, catalyst screening and the handling of highly potent molecules. Pharm-Eco also made a substantial contribution to the development of products for other Pharmaceutical Materials businesses, particularly prostaglandin products for Cascade Biochem.

Cascade Biochem Cascade Biochem, with facilities in Reading, UK and Cork, Ireland, made important progress in the commercialisation of its broad range of prostaglandin products. In collaboration with the process development and scale-up capabilities of Pharm-Eco, Cascade completed development of six prostaglandin products during the year. Additionally, process development for its first veterinary prostaglandin product began late in the year and will continue in 2004/05. It also concluded commercial agreements for the long term supply of several of its products to a major US generic company. In support of this commercial progress, Cascade's Cork facility completed the first phase of an expansion program. A second phase is planned for 2004/05.

Pharmaceutical Materials Division

produced another set of strong results in 2003/04 with operating profit 15% up on last year at £42.3 million

Turnover £140m

£128m (2003)

Operating profit £42.3m

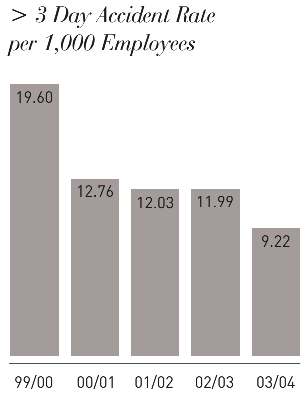
£36.7m (2003)

Research & Development

Pharmaceutical Materials Division's R&D is focused on commercial products to be manufactured and marketed by the division's four business units. Technology required for the manufacture of commercial scale products includes primarily the development of chemical manufacturing processes and methods for the analysis of these products. This technology is essential to achieve competitive market positions and to obtain regulatory approval for products. Contract drug development services offered by Pharm-Eco include medicinal chemistry, process development and initial scale-up of potential new drugs. Each of Pharmaceutical Materials Division's businesses has developed substantial chemical know-how in its respective market niches and they collaborate closely on new technical challenges. Combined with Johnson Matthey's core expertise in catalysis, chiral catalysis and organometallic chemistry, the division offers the pharmaceutical marketplace a unique range of R&D capabilities.

Corporate Social Responsibility

"The application of Johnson Matthey's leading technology and its commitment to operational excellence make significant contributions to sustainable development."



Johnson Matthey operates according to well established ethical, social and environmental policies. Over the last year the board has led a number of initiatives to improve our operational performance in these areas. Details of these initiatives can be found in the Johnson Matthey corporate social responsibility (CSR) review and are presented here in summary. The full report can be found at www.matthey.com.

The corporate social responsibility disclosure follows the guidelines issued by the Association of British Insurers and the format recommended by the Global Reporting Initiative has been used to guide the development of the corporate social responsibility review. As outlined in the Corporate Governance section (page 31) the board has embedded corporate social responsibility into its risk management process. Corporate social responsibility is championed at the highest level at Johnson Matthey and the board has reviewed and endorsed the full report.

Johnson Matthey has a culture of constant improvement in all aspects of performance. In this area improvement is driven through corporate policies, a comprehensive management system and the commitment of our staff. There are three key policy areas which provide the framework for the management of corporate social responsibility: the Environment, Health and Safety policies; the Employment policies; and the Business Integrity and Ethics policy.

Johnson Matthey Products

Many of our products have a particularly positive social and environmental benefit. They range from anticancer compounds to our autocatalyst technologies, which improve air quality around the world. In addition, our fuel cell technologies aim to make a significant contribution to the generation of clean energy and security of supply.

Product safety is critical to Johnson Matthey and sophisticated systems are in place to ensure that a high level of protection is afforded to our customers.

Whilst Johnson Matthey's main contribution to sustainable development will be through the excellence of our products we also seek to achieve similar levels of excellence in the management of the business and in the quality of our manufacturing operations. Our expertise in processing valuable precious metal materials provides us with a core competence in the conservation, re-use and recycling of natural resources, principles which are now applied throughout our business.

Environment, Health and Safety

Johnson Matthey is firmly committed to managing its activities throughout the group so as to provide the highest level of protection to the environment and to safeguard the health and safety of its employees, customers and the community.

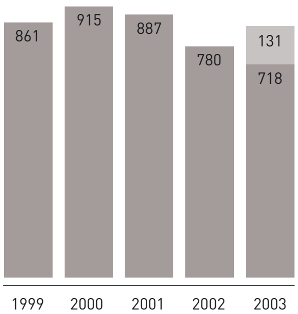
The company's Environment, Health and Safety (EHS) policies provide the guiding principles that ensure high standards are achieved at all sites around the world and afford a means of promoting continuous improvement based on careful risk assessment and comprehensive EHS management systems. These policies, summarised in the company's policy statement (page 26) are reviewed at regular intervals. This work has given greater emphasis to formal management systems, which bring a systematic improvement in performance. Corporate policies provide a framework for all Johnson Matthey businesses to formulate site specific policies to meet local requirements.

EHS compliance audits are an integral part of Johnson Matthey's corporate EHS management system. 69 facilities from our operations worldwide are included in the audit programme. 30 audits have been carried out in 2003 (2002 – 32). Formal exit interviews with local site management are a feature of the audits and audit reports are reviewed by the Chief Executive's Committee with routine follow up on any outstanding issues. During the year further site visits were made to oversee health surveillance programmes by the Group Occupational Physician.

Over the past year Johnson Matthey has undertaken a number of initiatives to improve environmental and health and safety performance. This has included considerable investment in manufacturing processes to reduce safety risks, improvements to planning of site health and safety actions and the installation of new emission control technology.

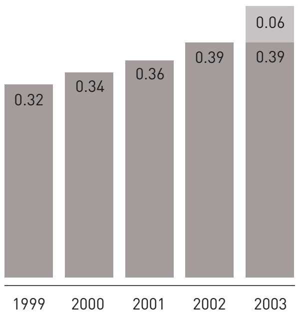
*Total Acid Gas Emissions**

Tonnes SO_2 equivalent



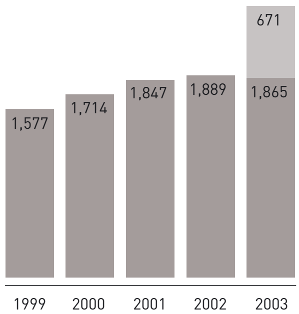
*Total Global Warming Potential**

Million tonnes CO_2 equivalent



*Total Water Supply**

Thousands m^3



* On an equivalent basis, over the last year, key environmental emissions have reduced. For the first time the data now includes emissions due to the Synetix and other smaller acquisitions. This growth in the business has given rise to increases in emissions for the year which are highlighted on the graphs in the lighter shade. Plans are in place to return emissions to a downward trend. The environmental data is for the calendar year.

ISO 14001 Over the past year significant strides have been made in the implementation of ISO 14001. This progress has been led by the Environmental Catalysts and Technologies business where a programme to certify the entire business has been initiated. At present 16 sites are certified to the standard with a further two sites in the final stages of assessment. 45% of our staff work at sites with ISO 14001 accreditation, representing some 3,554 people.

Training Training is vital to ensuring continuous improvements in health and safety at all our sites. Over the past year staff of all grades have received training. There is a wide range of courses available to staff including courses on managing safely and site safety practices. Our major sites employ health and safety training specialists. Expert external trainers supplement in house capabilities where necessary.

Target Setting One of the key aims of Johnson Matthey's EHS policies is to demonstrate continuous improvement in EHS performance. The group performance against targets is shown below. The targets are set in line with the UK Health and Safety Executive Revitalising Health and Safety initiative with a baseline year of 2000 for our worldwide operations.

1 Reduction of working days lost by 15% by 2004 and by 30% by 2010.

   Target – 35,639 working days lost per 100,000 employees

   Actual – 30,630 working days lost per 100,000 employees

2 Reduction in the incidence rate of major injuries by 5% by 2004 and 10% by 2010.

   Target – 1,862 > 3 day accidents per 100,000 employees

   Actual – 922 > 3 day accidents per 100,000 employees

Given current performance we will be revising our future targets in the next year.

A group wide review of environmental performance is undertaken annually.

Targets are also set locally by business units to drive improvement in environmental, health and safety. Typical targets include:

> Reduction in waste or emissions to air or water.

> Reduction in energy or commodity use.

> Training of a certain number of employees on EHS issues.

> Undertaking a certain number of inspection programmes.

> Reviewing a target number of risk assessments and implementing new controls.

Supply Chains Johnson Matthey supports the principles set out within the United Nations Universal Declaration of Human Rights and International Labour Organisation Core Conventions. Management of supply chains and contractor activities is a core component of the group EHS management system. Whilst we are confident of the human rights performance of our own operations we recognise that business practices in the supply chain are not always transparent and represent a risk that must be managed.

Community Activities The CSR review includes details of the community activities carried out by Johnson Matthey. In the UK the charity of the year programme has so far raised £30,000 for Diabetes UK. The company also supports many other charities locally and nationally through donations, employee time or loans of company facilities. As noted in the Directors' Report, total charitable giving in 2003/04 was £313,000.

Verification The board and audit committee review CSR issues as part of the company's risk management processes. A review of site based environment, health and safety reporting systems forms part of the group environmental, health and safety audit programme. The board believes that the measures taken to review the CSR information provide a suitable level of confidence without external audit. Johnson Matthey utilises external specialists where specific CSR issues are identified.

Environment, Health and Safety Policy Statement

Johnson Matthey is firmly committed to managing its activities throughout the group so as to provide the highest level of protection to the environment and to safeguard the health and safety of its employees, customers and the community.

The company's Environment, Health and Safety policies have been widely disseminated and provide the guiding principles necessary to ensure that high standards are achieved at all sites around the world. They also afford a means of promoting continuous improvement based on careful risk assessment and comprehensive EHS management systems, against which all sites are audited.

This policy and its associated procedures are designed to achieve the following corporate objectives:

> That all locations meet legal and group environment, health and safety requirements.

> That the design, manufacture and supply of products is undertaken so as to satisfy the highest standards of health, safety, environmental protection and resource efficiency.

> That management systems are effective in maintaining standards and fulfilling the challenge of securing continuous improvement in environmental, health and safety performance.

In order to achieve these objectives we will:

> Provide leadership and commitment as an expression of the importance that the board and the senior management team places on EHS issues.

> Ensure accountability by holding corporate management and senior executives within each operating division and business unit responsible for EHS performance.

> Provide the financial and human resources to allow EHS issues to be given an appropriate level of priority.

> Provide good communication internally and externally and encourage employee involvement and cooperation at all levels in the organisation in meeting EHS objectives.

> Ensure competence on EHS matters through education, training and awareness at all levels in the organisation, including creating an understanding of individual responsibilities for health and safety and the environment.

> Undertake assessments to identify the risks to health, safety and the environment from company operations and ensure that appropriate control measures are implemented.

> Ensure that new investments are designed and operated to the latest standards so as to eliminate or minimise risks to health, safety and the environment.

> Investigate incidents to identify the root cause and take action to prevent recurrence.

> Promote programmes to achieve energy and resource efficiency.

> Set key corporate objectives and performance targets that can be measured and assessed, reporting results in a meaningful and transparent way both internally and externally.

> Undertake regular EHS inspections and internal audits of operations, and review performance to ensure continuous improvement in EHS management.

The group EHS management system will be reviewed regularly to ensure that it reflects international best practice and our growing understanding of the practical application of sustainable development.

Employment Policies and Business Integrity and Ethics Policy Statement

Employment Policies

Equal Opportunities It is the policy of the group to recruit, train and manage employees who meet the requirements of the job, regardless of gender, ethnic origin, age or religion. Employees who become disabled and disabled people are offered employment consistent with their capabilities.

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.

Training and Development of People Policy

> 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.

Employee Relations and Communication 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.

Business Integrity and Ethics Policy Statement

A reputation for integrity has been a cornerstone of Johnson Matthey's business since it was founded by Percival Norton Johnson in 1817. It gives customers the confidence that the company's products meet the standards claimed for them and that they may safely entrust their own precious metals to Johnson Matthey for processing and safe keeping. Employees at all levels are required to protect Johnson Matthey's reputation for integrity.

The company strives to maintain the highest standards of ethical conduct and corporate responsibility worldwide through the application of the following principles:

> Compliance with national and international laws and regulations is required as a minimum standard.
> Reputable business practices must be applied worldwide.
> Conflicts of interest must be declared and appropriate arrangements made to ensure those with a material interest are not involved in the decision making process.
> Improper payments of any kind are prohibited, similarly no gift whose value is material and which may be interpreted as a form of inducement should be accepted or offered by Johnson Matthey employees.
> Reporting of business performance should be undertaken in such a way that senior management is fully and properly informed concerning the business' true performance, risks and opportunities in a timely manner.
> Ethical issues must be dealt with in an efficient and transparent manner.
> A positive contribution to society as a whole, and specifically the communities in which we operate, must be ensured.
> We must seek to influence our suppliers to operate to similar high standards as ourselves.

We support the principles set out within the United Nations Universal Declaration of Human Rights and International Labour Organisation Core Conventions.

All employees have a duty to follow the principles set out in this policy statement. It is the responsibility of directors and senior management to ensure that all employees who directly or indirectly report to them are fully aware of Johnson Matthey's policies and values in the conduct of the company's businesses. It is also the responsibility of directors and senior management to lead by example and to demonstrate the highest standards of integrity in carrying out their duties on behalf of the company. These issues are further safeguarded through corporate governance processes and monitoring by the board and sub-committees to the board.

Celebrating 30 years of Johnson Matthey autocatalysts

When the first car to be fitted with a catalytic converter rolled off a production line in the USA in 1974, it was a huge landmark for both the platinum group metals markets and the global auto industry. In 2004 Johnson Matthey celebrates 30 years in the development of autocatalysts.

1950s…

Automotive exhaust emissions are proved to be a major source of photochemical smog in Los Angeles.

1960s…

The first federal emission standards to control pollution from automobiles are set in the US in 1965. These targets are met without catalysts.

1970s…

- In 1970, US Congress substantially lowers vehicle emissions limits and lead is phased out in gasoline in the USA from 1972 onwards.
- Johnson Matthey files a patent in 1971 covering the use of a rhodium promoted platinum catalyst to control NOx and gaseous organic compounds.
- In 1972, Johnson Matthey proves to the Environmental Protection Agency that the US emissions regulations can be met using rhodium-platinum catalysts.
- The first cars fitted with oxidation catalysts reach showrooms in the USA in 1975; unleaded gasoline is widely available.
- Japanese vehicle emissions standards to control HC, CO and NOx come into effect in 1976.
- US Clean Air Act amendments made in 1977 agree to tighten emissions standards further from 1981 onwards.
- Increased substrate surface area helps to improve pollution conversion efficiency of catalysts.

1980s…

- More sophisticated 'three-way' catalytic converters are introduced in 1981 to meet strict NOx limits.
- Performance of three-way catalytic converters significantly enhanced by use of improved oxygen storage materials (based on cerium dioxide) in catalyst washcoats.
- Vehicle emissions regulations introduced in Australia, incentives introduced in Germany.

1990s…

- In 1990, Johnson Matthey files a patent covering the use of NO_2 to reduce the combustion temperature of diesel particulate matter in a filter, a system subsequently commercialised as the Continuously Regenerating Trap (CRT®).
- New legislation introduced in Japan in 1991 sets much more stringent vehicle NOx emissions limits.
- European Union emissions regulations that necessitate the use of catalytic converters (Euro 1) come into effect from 1993.
- In 1996, European Union emissions regulations tighten as Euro 2 standards are applied. Californian Low Emission Vehicle (LEV) standards come into force, emphasising the cold-start control of pollutants; palladium based catalysts found to be particularly suited to controlling HC emissions on engine start-up.
- Further improvements made in substrate surface area of catalysts.
- National Low Emissions Vehicle (NLEV) emissions standards take effect in the USA from 1999, requiring very substantial reductions in NOx.

2000 Onwards

- EU emissions standards for all road vehicles become more stringent with introduction of Euro 3 regulations in 2000.
- A substantial retrofit programme is created by the Tokyo Metropolitan Government in a move to improve particulate pollution from diesel trucks and buses in the city.
- Diesel car sales in Europe surpass six million vehicles for the first time.
- Phase in of US Tier II emissions standards begins in 2004. These mandate further large reductions in NOx and particulate matter emissions. Tier II compliant vehicles are up to 99% cleaner than vehicles sold in the 1960s.
- Regulations will be introduced in the EU and USA between 2005 and 2010 which will create a significant new original equipment market for exhaust aftertreatment products.

Directors' Report

The directors submit to shareholders their one hundred and thirteenth annual report, together with the audited accounts of the group for the year ended 31st March 2004. Pages 1 to 38 are an integral part of the report.

Principal Activities

The group's principal activities are summarised on page 15.

Dividends

The interim dividend of 8.2 pence per share, up 0.4 pence, was paid in February 2004. A final dividend, which will be paid as an ordinary dividend, of 18.2 pence per share, up 0.5 pence, is being proposed to shareholders as Resolution 3 at the Annual General Meeting (AGM), making a total for the year of 26.4 pence, an increase of 4% over last year. Dividends for the year total £57.4 million.

A low cost Dividend Reinvestment Plan is in place for the benefit of shareholders. This allows them to purchase additional shares in Johnson Matthey with their dividend payment. Further information and a mandate can be obtained from the Company Secretary at the company's registered office.

Share Capital

Allotments of ordinary shares of £1 each of the company were made during the year as set out in note 25 on page 63.

The board will again seek shareholders' approval to renew the annual authority for the company to make purchases of its own ordinary shares through the market. No shares were purchased under this authority during the year ended 31st March 2004.

Employee Share Schemes

4,636 current and former employees, representing approximately 63% of employees worldwide as at 31st March 2004, are shareholders in Johnson Matthey through the group's employee share schemes, which held 3,507,288 shares (1.59% of ordinary share capital) at 31st March 2004. A total of 834 current and former executives hold options over 6,183,642 shares through the company's executive share option schemes.

Directors

Details of the directors of the company are shown on pages 12 and 13. Dr P N Hawker and Mr L C Pentz, both appointed to the board on 1st August 2003, offer themselves for election at the forthcoming AGM. In accordance with the company's Articles of Association, Mr M B Dearden, Mr C D Mackay, Mr J N Sheldrick and Mr I C Strachan retire by rotation and, being eligible, offer themselves for re-election at the AGM.

Directors' Material Interests in Contracts

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

Substantial Shareholdings

The company has been advised of the following interest in its ordinary share capital as at 28th May 2004:

Schroder Investment Management Ltd	7.66%	Legal & General Assurance Society Ltd	4.38%
Merrill Lynch Investment Managers	7.61%	Deutsche Asset Management	3.74%
Scottish Widows Investment Partnership Ltd	4.96%	AXA Investment Managers UK Ltd	3.05%

Auditors

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 auditors 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 2004, the company's aggregate level of 'creditor days' amounted to 5 days. Creditor days are calculated by dividing the aggregate of the amounts which were owed to trade creditors at the end of the year by the aggregate of the amounts the company was invoiced by suppliers during the year and multiplying by 365 to express the ratio as a number of days.

Donations

During the year the group donated £313,000 (2003 £323,000) to charitable organisations, of which £279,000 (2003 £299,000) was in the UK. There were no political donations made in the year (2003 £ nil).

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.

This report was approved by the directors on 1st June 2004 and is signed on their behalf by:

S. Farrant

Simon Farrant
Company Secretary

Corporate Governance

Statement of Compliance with the Combined Code

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, internal control and audit. This statement describes how the principles of the Code have been applied. The group was in compliance with the provisions of the Code throughout the year.

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 and is ultimately responsible for social, environmental and ethical matters. The board met eight times in the year and delegated 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, five other executive directors and five independent non-executive directors. Following the retirement of Mr C R N Clark at the company's Annual General Meeting (AGM) to be held on 20th July 2004, half of the board, excluding the Chairman, will comprise independent non-executive directors. The Chairman's other commitments are disclosed on page 12. The roles of Chairman and Chief Executive are separate. The Chairman leads the board, ensuring that each director, particularly the independent non-executive directors, is able to make an effective contribution. He monitors, with assistance from the Company Secretary, the information distributed to the board to ensure that it is sufficient, accurate, timely and clear. The Chief Executive maintains day-to-day management responsibility for the company's operations, implementing group strategies and policies agreed by the board.

Mr C D Mackay was appointed Senior Independent Director upon the retirement of Mr H R Jenkins on 16th July 2003. The role of non-executive directors is to enhance the independence and objectivity of the board's deliberations and decisions. All non-executive directors are independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgment. The executive directors have specific responsibilities, which are detailed on pages 12 and 13, and have direct responsibility for all operations and activities.

All directors submit themselves for re-election at least once every three years. The board composition allows for changes to be made with minimum disruption. The board annually reviews the senior managers and their succession and development plans.

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 at least monthly. It comprises the executive directors and four senior executives of the company.

The **Audit Committee** is a sub-committee of the board whose purpose is to assist the board in the effective discharge of its responsibilities for financial reporting and corporate control. The Committee meets quarterly and, since the retirement of Mr H R Jenkins on 16th July 2003, is chaired by Mr A M Thomson. It comprises all the independent non-executive directors with the Chairman, the Chief Executive, the Group Finance Director and the external and internal auditors attending by invitation. A report from the Committee on its activities is given on page 32.

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 the Chairman and all the independent 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 executive directors. The Committee is chaired by Mr C D Mackay and comprises all the independent non-executive directors. The Committee meets at least four times per year. The Chairman attends by invitation. The Chief Executive also attends by invitation except when his own performance and remuneration are discussed.

Attendance at board and board committee meetings in 2003/04 was as follows:

	Full Board		MDRC		Nomination Committee		Audit Committee	
Director	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
H M P Miles	8	8	5[1]	6[3]	1	1	2[1]	4[3]
C R N Clark	8	8	–	6[3]	–	1[3]	–	4[3]
N A P Carson	8	8	–	3[3]	–	–	–	–
M B Dearden	8	8	7	7	1	1	4	3
P N Hawker	5	4	–	–	–	–	–	–
H R Jenkins[2]	3	3	3	3	1	1	1	1
C D Mackay	8	8	7	7	1	1	4	3
D W Morgan	8	8	–	–	–	–	–	–
L C Pentz	5	5	–	–	–	–	–	–
J N Sheldrick	8	8	–	–	–	–	–	4[3]
I C Strachan	8	7	7	6	1	1	4	4
A M Thomson	8	7	7	7	1	1	4	4
R J W Walvis	8	8	7	7	1	1	4	3

[1] Mr Miles ceased to be a member of the Audit Committee and the MDRC on 25th November 2003.
[2] Retired July 2003.
[3] Includes meetings attended by invitation for all or part of meeting.

Corporate Governance

Directors' Remuneration

The Remuneration Report on pages 33 to 38 includes details of remuneration policies and of the remuneration of the directors.

Relations with Shareholders

The board considers effective communication with shareholders, whether institutional investors, private or employee shareholders, to be extremely important.

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. These reports are posted on Johnson Matthey's website (www.matthey.com). At the same time, executive directors give presentations on the results to institutional investors, analysts and the media in London and other international centres. Copies of major presentations are also posted on the company's website.

The company's Annual General Meeting 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 2004 AGM are set out in the notice of the meeting enclosed with this annual report.

There is a programme of regular dialogue with major institutional shareholders and fund managers. The Chairman and the Senior Independent Director are always available to shareholders on all matters relating to governance.

Accountability, Audit and Control

The statement of directors' responsibilities in relation to the accounts is set out on page 38.

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

The group has in place a comprehensive annual budgeting process including forecasts for the next two years. Variances from budget are closely monitored.

The board has overall responsibility for the group's system of internal controls and for reviewing its effectiveness. The internal control systems 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.

There is a continuous process for identifying, evaluating and managing the significant risks faced by the company which has been in place during the year under review and up to the date of approval of the annual report and accounts. The board regularly reviews this process.

The assessment of group and strategic risks is reviewed by the board and updated on an annual basis. At the business level the processes to identify and manage the key risks are an integral part of the control environment. Key risks and internal controls are the subject of regular reporting to the Chief Executive's Committee.

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 of the integrity of the financial information reported to the board. The Audit Committee approves the plans for internal audit reviews and 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 provide assurance on the maintenance of financial and non-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.

The directors confirm that the system of internal control for the year ended 31st March 2004 and the period up to 31st May 2004 has been established in accordance with the Turnbull Guidance included with the Code and that they have reviewed the effectiveness of the system of internal control.

Corporate Social Responsibility

Measures to ensure responsible business conduct and the identification and assessment of risks associated with social, ethical and environmental matters are managed in conjunction with all other business risks and reviewed at regular meetings of the board and Chief Executive's Committee.

A summary report on the group's policies and targets for corporate social responsibility is set out on pages 24 to 28. A full version of the report is available on the company's website.

The identification, assessment and management of environment, health and safety (EHS) risks are standing items at the Chief Executive's Committee. Performance is monitored using monthly statistics and detailed site audit reports. An annual review of EHS performance is undertaken by the board.

Risks from employment and people issues are identified and assessed by the Chief Executive's Committee and reported through to the board.

Employment contracts, handbooks and policies specify acceptable business practices and the group's position on ethical issues. The Group Control Manual and security manuals provide further operational guidelines to reinforce these.

The Audit Committee reviews risks associated with corporate social responsibility on an annual basis and monitors performance through the annual control self-assessment process conducted by the internal audit function.

Audit Committee Report

Role of the Audit Committee

The Audit Committee is a sub-committee of the board whose responsibilities include:

> Reviewing the interim and full year accounts and results announcements of the company and any other formal announcements relating to the company's financial performance and recommending them to the board for approval;

> Reviewing the group's systems for internal financial control and risk management;

> Monitoring and reviewing the effectiveness of the company's internal audit function and considering regular reports from Internal Audit on internal financial controls and risk management;

> Considering the appointment of the external auditors; overseeing the process for their selection; and making recommendations to the board in relation to their appointment (to be put to shareholders for approval at a general meeting);

> Monitoring and reviewing the effectiveness and independence of the external auditors, agreeing the nature and scope of their audit, their remuneration, and considering their reports on the company's accounts and systems of internal financial control and risk management.

The full terms of reference of the Audit Committee are provided on our website at www.matthey.com.

Composition of the Audit Committee

The Audit Committee comprises all the independent non-executive directors. Biographical details of the independent directors are set out on pages 12 and 13. Their remuneration is set out on page 34. The Chairman of the Audit Committee is Mr A M Thomson who took over from Mr H R Jenkins following his retirement from the board at the Annual General Meeting on 16th July 2003. The group Chairman, Mr H M P Miles, stepped down as a member of the Audit Committee on 25th November 2003 and now attends by invitation. The Chief Executive, Group Finance Director, Head of Internal Audit and external auditors (KPMG Audit Plc) attend Audit Committee meetings by invitation. The Committee also meets separately with the Head of Internal Audit and with the external auditors without management being present. The Company Secretary, Mr S Farrant, is secretary to the Audit Committee.

Main Activities of the Audit Committee

The Audit Committee met four times during the financial year ended 31st March 2004. At its meeting on 29th May 2003 the Committee reviewed the company's preliminary announcement of the results for the financial year ended 31st March 2003, and the draft report and accounts for that year. The Committee received reports from the internal auditors on control matters and the external auditors on the conduct of their audit, their review of the accounts, including accounting policies and areas of judgment, and their comments on risk management and control matters. The Committee also reviewed the group's corporate social responsibility (CSR) review which is available on our website at www.matthey.com.

The Audit Committee met on 31st July 2003 to receive a presentation by the external auditors setting out their audit approach and procedures, including matters relating to scope, auditor independence and audit fees. Following this presentation, and further discussion and review, the Committee recommended to the board that KPMG Audit Plc should be re-appointed as the company's external auditors.

At its meeting on 25th November 2003 the Audit Committee reviewed the company's interim results, the half year report and the external auditors' review.

At its meeting on 25th February 2004 the Audit Committee reviewed management's and internal audit's reports on the effectiveness of the company's systems for internal financial control and risk management. In addition the Committee reviewed and approved revised policies on whistleblowing and ethics.

Independence of External Auditors

Both the board and the external auditors have for many years had safeguards to avoid the possibility that the auditors' objectivity and independence could be compromised. Our policy in respect of services provided by the external auditors is as follows:

> Audit related services – the external auditors are invited to provide services which, in their position as auditors, they must or are best placed to undertake. It includes formalities relating to borrowings, shareholders' and other circulars, various other regulatory reports and work in respect of acquisitions and disposals.

> Tax consulting – in cases where they are best suited, we use the external auditors. All other significant tax consulting work is put out to tender.

> General consulting – in recognition of public concern over the effect of consulting services on auditors' independence, our policy is that the external auditors are not invited to tender for general consulting work.

Internal Audit

During the year the Audit Committee reviewed the performance of the internal audit function, the findings of the audits completed during the year, the department's resource requirements and also approved the internal audit plan for the year ending 31st March 2005.

A M Thomson
Chairman of the Audit Committee

Remuneration Report

Remuneration Report to Shareholders

Management Development and Remuneration Committee and its Terms of Reference

The Management Development and Remuneration Committee of the board comprises all the non-executive directors of the company, other than the group Chairman, as set out on pages 12 and 13. Mr Jenkins retired from the Committee on 16th July 2003 and Mr Miles stepped down from the Committee on 25th November 2003.

The Committee's terms of reference are to determine on behalf of the board competitive remuneration for the executive directors, which recognises their individual contributions to the company's overall performance. The Committee believes strongly that remuneration policy should be completely aligned with shareholder interests. In addition the Committee assists the board in ensuring that the senior management of the group are recruited, developed and remunerated in an appropriate fashion.

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 maximise shareholder value, it is necessary to have a competitive pay and benefits structure. The Committee also recognises that there is a highly competitive market for successful executives and that the provision of appropriate rewards for superior performance is vital to the continued growth of the business. To assist with this the Committee appoints and receives advice from independent remuneration consultants on the pay and incentive arrangements prevailing in comparably sized industrial companies in each country in which Johnson Matthey has operations. During the year such advice was received from The Hay Group, which also provided advice on job evaluation, and the Monks Partnership. Watson Wyatt provided actuarial services. The Committee also receives recommendations from the Chief Executive on the remuneration of those reporting to him as well as advice from the Director of Human Resources. Total potential rewards are earned through the achievement of demanding performance targets based on measures that represent the best interests of shareholders.

The remuneration policy was reviewed by the Committee in 2002 and consists of basic salary, annual bonus, a long term incentive plan, share options and other benefits as detailed below. Salaries are based on median market rates with incentives providing the opportunity for upper quartile total remuneration, but only for achieving outstanding performance. Following a further comprehensive review by the Committee in 2003/04, which included advice from independent consultants, changes are proposed to the annual bonus, long term incentive plan and share options. These require shareholder approval and are the subject of a separate circular.

Executive directors' remuneration consists of the following:

Basic Salary – which is in line with the median market salary for each director's responsibilities as determined by independent surveys. Basic salary is normally reviewed on 1st August each year and the Committee takes into account individual performance and promotion during the year. Where an internal promotion takes place, the median salary relative to the market would usually be reached over a period of a few years, which can give rise to higher than normal salary increases while this is being achieved.

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 group's 150 or so most senior executives). The executive directors' bonus award is based on consolidated profit before tax, exceptional items and goodwill amortisation (PBT) compared with the annual budget. The board of directors rigorously reviews the annual budget to ensure that the budgeted PBT is sufficiently stretching. 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 50% of basic salary if the group achieves PBT of 107.5% of budget. There is a provision that a maximum 105% of basic salary may be paid to the Chief Executive and 85% to other executive directors if 125% of budgeted PBT is achieved. PBT must reach 95% 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 2003/04 was 42.5% of salary at 31st March 2004.

Long Term Incentive Plan (LTIP) – which was introduced in August 1998, is designed to achieve above average performance and growth. Shares are allocated to directors and key executives subject to performance conditions. For shares allocated in the years 1998, 1999 and 2000 the number of shares released to the individual was dependent upon growth in Johnson Matthey's relative total shareholder return (TSR) compared with the FTSE 250 over a three year performance period. 100% of the allocated shares will be released to the individual if the company's relative TSR is in the 75th percentile or above. Between 35% and 100% of the allocated shares will be released pro rata between the 50th and the 75th 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 increase in UK RPI plus 2% p.a. over the performance period before any release is made.

In 2001 shareholder approval was obtained for certain changes to the LTIP. The LTIP will continue to provide for the release of half of the allocated shares based on the company's relative TSR and EPS measures, as described above. The other half of the allocation will be released subject to the achievement of absolute TSR growth over a three year period. Under this test no shares will be released should the absolute TSR growth be less than 30%. 100% of the allocated shares will be released should the absolute TSR growth be 45% or more. Pro rata allocations will be made for absolute TSR growth between 30% and 45%.

On 12th June 2002 Johnson Matthey moved into the FTSE 100, and as a consequence of this the Committee decided that a comparator group of those companies ranked 51 – 150 in the FTSE index would be more appropriate than the FTSE 250 previously used. Hence the August 2002 and 2003 allocations will be tested against this revised comparator group for that half of the allocation subject to the relative TSR test.

Remuneration Report

Executive Remuneration Policy (continued)

Share Options – option grants were not made to executive directors in the years 1998, 1999 and 2000. 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 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.

Following the review by independent remuneration consultants, the Committee obtained shareholder approval in 2001 for the introduction of a new employee share option scheme, known as the Johnson Matthey 2001 Share Option Scheme. The executive directors and approximately 800 employees are awarded an annual grant of share options under the terms of this scheme. For executive directors the Committee will award options each year up to a maximum value equal to basic annual salary. The options will only be exercisable upon the achievement of appropriate performance targets. The performance target is EPS growth of UK RPI plus 4% p.a. over any three year period. The Committee has discretion to alter the performance targets for future options, but not so as to make the targets less challenging, and would only do so after consultation with institutional investors.

Pensions – all the executive directors are members of the Johnson Matthey Employees Pension Scheme in the UK, with the exception of Mr Pentz who is a member of the Johnson Matthey Inc. Salaried Employees Pension Plan in the US. Under the UK 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 schemes. Details of the individual arrangements for executive directors are given on page 37.

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

Service Contracts – Mr Clark was appointed to the board on 1st March 1990, Mr Sheldrick on 1st September 1990, Messrs Carson and Morgan on 1st August 1999 and Dr Hawker and Mr Pentz on 1st August 2003. All are employed on contracts subject to one year's notice at any time. On early termination of their contracts the directors would normally be entitled to 12 months' salary and benefits.

Non-executive directors' remuneration consists of fees, which are set following advice taken from independent consultants. They are reviewed at three year intervals.

Remuneration

Directors' Emoluments 2003/04

	Fees £'000	Salary £'000	Annual bonus £'000	Benefits £'000	Total excluding pension £'000	Total prior year excluding pension[10] £'000
Executive						
C R N Clark[8]	–	603	264	30	897	819
N A P Carson[9]	–	283	128	23	434	366
P N Hawker[1]	–	127	54	10	191	–
D W Morgan	–	233	102	25	360	320
L C Pentz[1] [2]	–	146	52	53	251	–
J N Sheldrick	–	317	138	12	467	426
Total	**–**	**1,709**	**738**	**153**	**2,600**	**1,931**
Non-Executive[3]						
H M P Miles (Chairman)	180			20	200	198
M B Dearden	33			–	33	33
H R Jenkins[4]	12			–	12	37
C D Mackay	37[5]			–	37	33
I C Strachan	33			–	33	33
A M Thomson	36[6]			–	36	17[7]
R J W Walvis	33			–	33	17[7]
Total	**364**			**20**	**384**	**368**

Notes:

(1) Appointed August 2003.

(2) Mr Pentz's emoluments are based on US basic salary adjusted for the cost of living differential in the UK including UK taxation. He will be provided, for two years only, with an expatriation package commensurate with the company's policy on international assignments, including accommodation costs, education expenses and relocation expenses. One-off costs associated with Mr Pentz's move to the UK were £24,316. These costs are not included in the above table.

(3) Non-executive fees were last reviewed on 1st April 2001 for all non-executives and on 1st October 2001 for the Chairman.

(4) Retired July 2003. Includes £4,000 per annum for chairmanship of the Audit Committee.

(5) Includes £4,000 per annum for chairmanship of the Management Development and Remuneration Committee.

(6) Includes £4,000 per annum for chairmanship of the Audit Committee. Appointed July 2003.

(7) Appointed September 2002.

(8) Mr Clark is a non-executive director of Rexam PLC and FKI plc. His annual fees are £90,000 from Rexam PLC and £35,000 from FKI plc. These amounts are excluded from the table above and retained by him.

(9) Mr Carson is a non-executive director of Avon Rubber plc. His annual fee is £25,000. This amount is excluded from the table above and retained by him.

(10) Excludes emoluments of £281,000 for directors who retired in the year ended 31st March 2003.

Remuneration Report

Directors' Interests

The interests of the directors as at 31st March 2004 in the shares of the company according to the register required to be kept by section 325(1) of the Companies Act 1985, were:

1 Ordinary Shares

	31st March 2004	31st March 2003
C R N Clark	17,840	65,770
N A P Carson	44,959	36,773
M B Dearden	2,000	2,000
P N Hawker	7,034	6,703[1]
C D Mackay	12,500	12,500
H M P Miles	562	562
D W Morgan	35,396	34,913
L C Pentz	9,442	8,686[1]
J N Sheldrick	52,355	91,860
I C Strachan	1,000	1,000
A M Thomson	2,056	2,000
R J W Walvis	1,000	1,000

[1] at date of appointment

The directors are also deemed to be interested in the shares held by two employee share ownership trusts (see note 27 on page 64).

2 Share Options

As at 31st March 2004, 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	18.7.01	48,938	1083.00	18.7.04	18.7.11	
	17.7.02	65,895	865.00	17.7.05	17.7.12	114,833
						(2003: 156,212)
N A P Carson	14.7.98	15,964	524.00	14.7.01	14.7.08	
	22.7.99	18,035	585.50	22.7.02	22.7.09	
	18.7.01	19,391	1083.00	18.7.04	18.7.11	
	17.7.02	28,901	865.00	17.7.05	17.7.12	
	17.7.03	33,407	898.00	17.7.06	17.7.13	115,698
						(2003: 82,291)
P N Hawker	19.7.00	6,130	942.00	19.7.03	19.7.10	
	18.7.01	10,253	1083.00	18.7.04	18.7.11	
	17.7.02	15,606	865.00	17.7.05	17.7.12	
	17.7.03	21,158	898.00	17.7.06	17.7.13	53,147
						(2003: 53,147[1])
D W Morgan	14.7.98	15,835	524.00	14.7.01	14.7.08	
	22.7.99	17,472	585.50	22.7.02	22.7.09	
	18.7.01	18,098	1083.00	18.7.04	18.7.11	
	17.7.02	25,433	865.00	17.7.05	17.7.12	
	17.7.03	26,726	898.00	17.7.06	17.7.13	103,564
						(2003: 108,071)
L C Pentz	14.7.98	12,981	524.00	14.7.01	14.7.08	
	22.7.99	12,158	585.50	22.7.02	22.7.09	
	19.7.00	8,224	942.00	19.7.03	19.7.10	
	18.7.01	12,952	1083.00	18.7.04	18.7.11	
	17.7.02	17,730	865.00	17.7.05	17.7.12	
	17.7.03	22,185	898.00	17.7.06	17.7.13	86,230
						(2003: 86,230[1])
J N Sheldrick	27.11.97	35,488	553.00	27.11.00	27.11.07	
	18.7.01	25,854	1083.00	18.7.04	18.7.11	
	17.7.02	34,682	865.00	17.7.05	17.7.12	
	17.7.03	36,191	898.00	17.7.06	17.7.13	132,215
						(2003: 96,024)

[1] at date of appointment

Directors' Interests (continued)

2 Share Options (continued)

Notes:

a Between 1st April 2003 and 31st March 2004 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	17.7.96	1.8.03	41,379	574.50	908.00
P N Hawker	22.7.99	18.7.03	9,299	585.50	907.00
D W Morgan	17.7.96	1.8.03	12,233	574.50	903.97
	6.1.97	1.8.03	19,000	553.00	903.97
L C Pentz	17.7.97	24.7.03	10,879	556.00	895.00

b Gains made on exercise of options by directors during the year totalled £311,763 (2003: £1,318,863).

c The closing market price of the company's shares at 31st March 2004 was 879.5 pence and the range during 2003/04 was 763.5 pence to 1055 pence.

3 LTIP Allocations

Number of allocated shares:

	As at 31st March 2003	Allocations during the year	Shares released during the year	Allocations lapsed during the year	As at 31st March 2004
C R N Clark	188,617	–	33,889	21,667	133,061
N A P Carson	65,819	33,936	12,991	8,305	78,459
P N Hawker	25,219[1]	21,493	2,471	1,580	42,661
D W Morgan	60,399	27,149	12,285	7,854	67,409
L C Pentz	30,693[1]	22,537	3,315	2,120	47,795
J N Sheldrick	85,804	36,764	18,103	11,574	92,891

[1] and at date of appointment

On 1st August 2003 the 2000 LTIP allocation was released to participants. The company's TSR performance relative to the FTSE 250 was in the 60th percentile during the periods under measurement and EPS performance targets as described on page 33 were also achieved. The outcome was that EPS increased by 34.3% over the performance period compared to the minimum target of 12.0%. 61% of the shares were therefore released in accordance with the rules as approved by shareholders. This resulted in the following gains:

	Number of shares released	Share price when released (pence)	Gain £
C R N Clark	33,889	900.3	305,103
N A P Carson	12,991	900.3	116,958
P N Hawker	2,471	900.3	22,246
D W Morgan	12,285	900.3	110,602
L C Pentz	3,315	900.3	29,845
J N Sheldrick	18,103	900.3	162,981

Directors' interests at 28th May 2004 were unchanged from those listed above with the following exceptions:

The Trustees of the Johnson Matthey Share Incentive Plan have purchased on behalf of Messrs Clark, Carson, Hawker, Morgan and Sheldrick a further 84 ordinary shares each.

The Trustees of the Johnson Matthey Salaried Employees Savings Investment Plan (US) have purchased a further 236 ordinary shares on behalf of Mr Pentz.

Remuneration Report

Pensions

Pensions and life assurance benefits for UK 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. 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 and the State Second Pension. With the agreement of the scheme actuary, the company paid contributions to JMEPS of 10% of basic salaries during the year.

In previous years' accounts, disclosure of directors' pension benefits has been made under the requirement of the Financial Services Authority Listing Rules. These rules are still in place, but it is now also necessary to make disclosures in accordance with the Directors' Remuneration Report Regulations 2002. The information below sets out the disclosures under the two sets of requirements.

a. Financial Services Authority Listing Rules

	Age at 31st March 2004	Years of service at 31st March 2004	Director's contributions to JMEPS during the year[1] £'000	Increase in accrued pension during the year (net of inflation)[2] £'000 pa	Total accrued pension at 31st March 2004[3] £'000 pa	Total accrued pension at 31st March 2003 £'000 pa	Transfer value of increase (less director's contributions)[4] £'000	FURBS contribution in the year[5] £'000	FURBS related tax payments[5] £'000
C R N Clark	62	41	–	26	433	396	460	–	–
N A P Carson	46	23	11	24	129	103	184	–	–
P N Hawker[6]	50	17	5	18	80	61	180	–	–
D W Morgan	46	15	4	2	32	29	14	55	37
J N Sheldrick	54	13	4	2	38	34	27	76	51
L C Pentz[6] [7]	48	19	–	(2)	35	37	(8)	–	–

b. Directors' Remuneration Report Regulations 2002

	Years of service at 31st March 2004	Director's contributions to JMEPS during the year[1] £'000	Increase in accrued pension during the year £'000 pa	Total accrued pension at 31st March 2004[3] £'000 pa	Transfer value of accrued pension at 31st March 2004[4] £'000	Transfer value of accrued pension at 31st March 2003[4] £'000	Increase in transfer value (less director's contributions) £'000	FURBS contribution for the year[5] £'000	FURBS related tax payment[5] £'000
C R N Clark	41	–	37	433	7,625	6,968	657	–	–
N A P Carson	23	11	26	129	1,065	654	400	–	–
P N Hawker[6]	17	5	19	80	810	545	260	–	–
D W Morgan	15	4	3	32	252	176	72	55	37
J N Sheldrick	13	4	4	38	475	356	115	76	51
L C Pentz[6] [7]	19	–	(2)	35	118	112	6	–	–

Notes:

(1) Members' contributions are at the general scheme rate of 4% of pensionable pay, i.e. basic salary excluding bonuses. In accordance with the JMEPS' rules, Mr Clark ceased contributing to the scheme on attaining his normal retirement date at age 60.

(2) The increase in accrued pension during the year excludes any increase for inflation from 31st March 2003.

(3) The entitlement shown under "Total accrued pension at 31st March 2004" is the pension which would be paid annually on retirement, based on pensionable service to 31st March 2004. The pension would, however, be subject to an actuarial reduction of 0.3% per month for each month that retirement precedes age 60.

(4) The transfer values have 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 values for any discretionary benefits that have been or may be awarded under JMEPS. The transfer values in the Directors' Remuneration Report Regulations 2002 have been calculated at the start and the end of the year and, therefore, take into account market movements.

(5) The JMEPS' benefits and contributions for Messrs Morgan and Sheldrick are restricted by reference to the 'earnings cap' imposed by the Finance Act No. 2, 1989. Contributions have therefore been paid to Funded Unapproved Retirement Benefit Schemes (FURBS) established by the company, independently of JMEPS, with effect from 1st April 2000. The purpose of each FURBS is to provide retirement and death benefits in relation to basic salary in excess of the earnings cap. Because FURBS are not exempt approved under Chapter I of Part XIV of the Income & Corporation Taxes Act 1988, payments have been made to meet the tax liabilities in respect of these contributions.

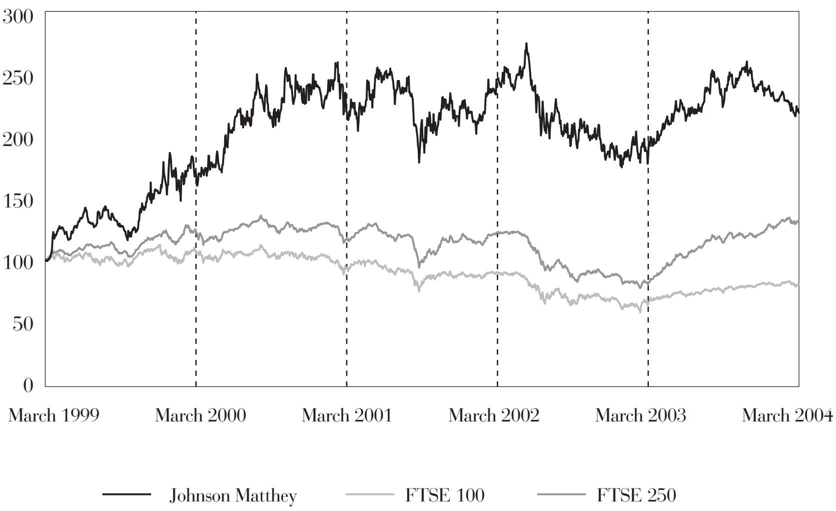
(6) Dr Hawker and Mr Pentz were appointed to the board with effect from 1st August 2003. Pensions shown are the amounts accrued since appointment. The contributions are those that have been paid since appointment.

(7) Mr Pentz is a US citizen and is not a member of the UK pension scheme. Instead, he is a member of the US salaried pension plan, which is a non-contributory defined benefit arrangement. The entitlements shown in the tables are those arising out of his membership of this arrangement converted into sterling by reference to the exchange rates on 31st July 2003 and 31st March 2004. The reduction in accrued pension is the result of exchange rate differences. Mr Pentz is also a member of a savings plan (401k), to which the company contributed $8,000 between 1st August 2003 and 31st March 2004. This is not included in the tables above but is included in his benefits in the table on page 34.

Remuneration Report

Johnson Matthey Total Shareholder Return, FTSE 100 and FTSE 250 rebased to 100

(31st March 1999 to 31st March 2004)



C D Mackay

Chairman of the Management Development and Remuneration Committee

Responsibility of Directors

for the preparation of the accounts

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

> select suitable accounting policies and apply them consistently;

> make judgments and estimates that are reasonable and prudent;

> state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts;

> prepare the accounts on the going concern basis unless it is inappropriate to presume that the group will continue in business.

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

Report of the Independent Auditors

to the members of Johnson Matthey Public Limited Company

We have audited the accounts on pages 40 to 69. We have also audited the tabulated information and related footnotes set out in the directors' remuneration report on pages 33 to 38 disclosing the directors' emoluments and compensation, share options, long term incentive plan, pensions and other matters specified by Part 3 of Schedule 7A to the Companies Act 1985.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

The directors are responsible for preparing the annual report and the directors' remuneration report. As described on page 38 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 whether the accounts and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. 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 30 and 31 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, 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 the unaudited part of the directors' remuneration report, 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 and the part of the directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts and the part of the directors' remuneration report to be audited 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 and the part of the directors' remuneration report to be audited.

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 2004 and of the profit of the group for the year then ended; and
- > the accounts and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London
2nd June 2004

Consolidated Profit and Loss Account

for the year ended 31st March 2004

	Notes	2004 Before exceptional items and goodwill amortisation £ million	2004 Exceptional items and goodwill amortisation £ million	2004 Total £ million	2003 Before exceptional items and goodwill amortisation restated £ million	2003 Total restated £ million
Turnover	1	4,492.9	–	4,492.9	4,323.9	4,323.9
Operating profit	1					
Before goodwill amortisation		205.3	–	205.3	188.7	188.7
Goodwill amortisation		–	(19.7)	(19.7)	–	(13.7)
Before exceptional items		205.3	(19.7)	185.6	188.7	175.0
Exceptional items	2	–	2.1	2.1	–	(7.4)
Group operating profit	5	205.3	(17.6)	187.7	188.7	167.6
Share of profit in associates		0.7	–	0.7	0.5	0.5
Goodwill amortisation on associates		–	(0.1)	(0.1)	–	–
Share of exceptional items in associates	2	–	–	–	–	(0.2)
Total operating profit		206.0	(17.7)	188.3	189.2	167.9
Profit on sale of continuing operations						
Sale of an interest in Johnson Matthey Fuel Cells Limited		–	–	–	–	10.9
Exchange of Australian gold operations for share of AGR Matthey		–	–	–	–	(6.0)
Profit on ordinary activities before interest		206.0	(17.7)	188.3	189.2	172.8
Net interest	3	(16.3)	–	(16.3)	(13.2)	(13.2)
Net return on retirement benefits assets and liabilities	4	6.0	–	6.0	13.9	13.9
Profit on ordinary activities before taxation	6	195.7	(17.7)	178.0	189.9	173.5
Taxation	8	(58.3)	0.4	(57.9)	(56.4)	(53.7)
Profit after taxation		137.4	(17.3)	120.1	133.5	119.8
Minority interests	26	1.7	–	1.7	0.4	0.4
Profit attributable to shareholders		139.1	(17.3)	121.8	133.9	120.2
Dividends	9	(57.4)	–	(57.4)	(55.5)	(55.5)
Retained profit for the year	27	81.7	(17.3)	64.4	78.4	64.7

		pence		pence	restated pence	restated pence
Earnings per ordinary share						
Basic	10	64.0		56.0	61.8	55.4
Diluted	10	63.7		55.8	61.4	55.1
Dividend per ordinary share	9	26.4		26.4	25.5	25.5

The notes on pages 46 to 69 form an integral part of the accounts.

Consolidated and Parent Company Balance Sheets

as at 31st March 2004

	Notes	Group 2004 £ million	Group 2003 restated £ million	Parent company 2004 £ million	Parent company 2003 restated £ million
Fixed assets					
Goodwill	*12*	**377.1**	373.4	**106.6**	110.0
Tangible fixed assets	*13*	**608.1**	601.1	**200.2**	196.1
Investments	*14*	**5.5**	6.4	**462.0**	463.4
		990.7	980.9	**768.8**	769.5
Current assets					
Stocks	*16*	**417.3**	438.4	**268.8**	232.8
Debtors: due within one year	*17*	**387.4**	365.7	**556.9**	599.3
Debtors: due after more than one year	*17*	**–**	–	**320.9**	344.5
Short term investments	*18*	**1.6**	1.5	**–**	–
Cash at bank and in hand	*19*	**106.5**	100.4	**2.7**	33.4
		912.8	906.0	**1,149.3**	1,210.0
Creditors: amounts falling due within one year					
Borrowings and finance leases	*19*	**(46.5)**	(46.5)	**(16.4)**	(27.5)
Precious metal leases	*21*	**(127.4)**	(128.0)	**(142.5)**	(107.9)
Other creditors	*22*	**(358.9)**	(382.6)	**(750.3)**	(757.4)
Net current assets		**380.0**	348.9	**240.1**	317.2
Total assets less current liabilities		**1,370.7**	1,329.8	**1,008.9**	1,086.7
Creditors: amounts falling due after more than one year					
Borrowings and finance leases	*19*	**(454.5)**	(456.4)	**(448.4)**	(450.3)
Other creditors	*22*	**(0.7)**	(0.6)	**(103.4)**	(153.0)
Provisions for liabilities and charges	*23*	**(47.4)**	(49.3)	**(18.9)**	(13.8)
Net assets excluding retirement benefits assets and liabilities		**868.1**	823.5	**438.2**	469.6
Retirement benefits net assets	*11*	**31.5**	1.5	**–**	–
Retirement benefits net liabilities	*11*	**(28.0)**	(26.9)	**(9.3)**	(7.0)
Net assets including retirement benefits assets and liabilities		**871.6**	798.1	**428.9**	462.6
Capital and reserves					
Called up share capital	*25*	**220.6**	219.5	**220.6**	219.5
Share premium account	*27*	**137.1**	131.8	**137.1**	131.8
Capital redemption reserve	*27*	**4.9**	4.9	**4.9**	4.9
Shares held in employee share ownership trusts	*27*	**(28.8)**	(14.8)	**(28.4)**	(14.4)
Associates' reserves	*27*	**(0.5)**	0.1	**–**	–
Profit and loss account	*27*	**528.9**	445.8	**94.7**	120.8
Shareholders' funds		**862.2**	787.3	**428.9**	462.6
Minority interests	*26*	**9.4**	10.8	**–**	–
		871.6	798.1	**428.9**	462.6

The accounts were approved by the Board of Directors on 1st June 2004 and signed on its behalf by:

C R N Clark
J N Sheldrick

Directors

The notes on pages 46 to 69 form an integral part of the accounts.

Consolidated Cash Flow Statement

for the year ended 31st March 2004

Reconciliation of operating profit to net cash inflow from operating activities

	Notes	2004 £ million	2003 restated £ million
Operating profit		**187.7**	167.6
Depreciation, amortisation and net loss on disposal of fixed assets and investments		**83.5**	68.6
Net retirement benefit charge less contributions		**1.0**	(6.7)
Decrease / (increase) in owned stocks		**17.3**	(7.7)
(Increase) / decrease in debtors		**(41.7)**	13.9
Increase / (decrease) in creditors and provisions		**11.9**	(5.8)
Net cash inflow from operating activities		**259.7**	229.9

Cash Flow Statement

	Notes	2004 £ million	2003 restated £ million
Net cash inflow from operating activities		**259.7**	229.9
Dividends received from associates		**0.5**	0.1
Returns on investments and servicing of finance	*28*	**(16.4)**	(13.4)
Taxation		**(43.1)**	(42.4)
Capital expenditure and financial investment	*28*	**(114.4)**	(124.7)
Acquisitions and disposals			
Acquisitions	*28*	**(18.4)**	(271.2)
Disposals	*28*	**–**	22.4
Net cash outflow for acquisitions and disposals		**(18.4)**	(248.8)
Equity dividends paid		**(56.4)**	(54.0)
Net cash flow before use of liquid resources and financing		**11.5**	(253.3)
Management of liquid resources	*28*	**1.1**	1.0
Financing			
Issue and purchase of share capital	*28*	**(8.5)**	2.8
Increase in borrowings and finance leases	*28*	**6.3**	259.7
Net cash (outflow) / inflow from financing		**(2.2)**	262.5
Increase in cash in the period		**10.4**	10.2

Reconciliation of net cash flow to movement in net debt

	Notes	2004 £ million	2003 restated £ million
Increase in cash in the period		**10.4**	10.2
Cash inflow from movement in borrowings and finance leases	*29*	**(6.3)**	(259.7)
Cash inflow from term deposits included in liquid resources		**(1.1)**	(1.0)
Change in net debt resulting from cash flows		**3.0**	(250.5)
Borrowings acquired with subsidiaries		**–**	(0.4)
Loan notes (issued) / cancelled to acquire subsidiaries	*29*	**(1.1)**	(6.8)
Translation difference	*29*	**6.1**	14.2
Movement in net debt in year		**8.0**	(243.5)
Net debt at beginning of year	*29*	**(402.5)**	(159.0)
Net debt at end of year	*29*	**(394.5)**	(402.5)

The notes on pages 46 to 69 form an integral part of the accounts.

Total Recognised Gains and Losses

for the year ended 31st March 2004

	2004 £ million	2003 restated £ million
Profit attributable to shareholders	**121.8**	120.2
Currency translation differences on foreign currency net investments and related loans	**(23.8)**	(1.7)
Taxation on translation differences on foreign currency loans	**16.8**	8.3
Actuarial gain / (loss) on retirement benefits assets and liabilities	**36.1**	(136.6)
Taxation on actuarial gain / loss on retirement benefits assets and liabilities	**(11.0)**	42.8
Total recognised gains and losses relating to the year	**139.9**	33.0
Prior year adjustment	**(108.3)**	
Total recognised gains and losses since last annual report	**31.6**	

There were no material differences between reported profits and losses and historical cost profits and losses on ordinary activities before tax for 2004 and 2003.

Movement in Shareholders' Funds

for the year ended 31st March 2004

	2004 £ million	2003 restated £ million
Profit attributable to shareholders	**121.8**	120.2
Dividends	**(57.4)**	(55.5)
Retained profit for the year	**64.4**	64.7
Other recognised gains and losses relating to the year	**18.1**	(87.2)
New share capital subscribed	**6.4**	4.4
Purchase of shares for employee share ownership trusts (ESOTs)	**(14.9)**	(1.6)
Shares in ESOTs utilised for long term incentive plan	**0.9**	1.6
Movement in long term incentive plan	**–**	(2.3)
Goodwill written back on set up of AGR Matthey	**–**	5.4
Net movement in shareholders' funds	**74.9**	(15.0)
Opening shareholders' funds (originally £895.6 million before prior year adjustment of £108.3 million)	**787.3**	802.3
Closing shareholders' funds	**862.2**	787.3

The notes on pages 46 to 69 form an integral part of the accounts.

Accounting Policies

for the year ended 31st March 2004

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.

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 11. 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 or accruals and released to the profit and loss account, net of any realised gains, on a straight line basis over the remaining term of the option when the outcome becomes certain.

> Interest rate swaps are occasionally used to hedge the group's exposure to movements in 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 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.

Goodwill: Goodwill arising on acquisitions made after 1st April 1998 is capitalised and amortised on a straight line basis over the estimated useful economic life, which is 20 years or less if it is considered appropriate. 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 3.33% (or at higher rates based on the life of the lease); freehold buildings 3.33%; and plant and equipment 10% to 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.

Accounting Policies

for the year ended 31st March 2004

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 or backwardation. 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 on all timing differences that have originated but not reversed by the balance sheet date and which could give rise to an obligation to pay more or less tax in the 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 the defined contribution schemes is charged to the profit and loss account as incurred.

For defined benefit schemes, the group recognises the net assets or liabilities of the schemes in the balance sheet, net of any related deferred tax liability or asset. The changes in scheme assets and liabilities, based on actuarial advice, are recognised as follows:

> The current service cost, based on the most recent actuarial valuation, is deducted in arriving at operating profit.

> The interest cost, based on the present value of scheme liabilities and the discount rate at the beginning of the year and amended for changes in scheme liabilities during the year, is included as interest.

> The expected return on scheme assets, based on the fair value of scheme assets and expected rates of return at the beginning of the year and amended for changes in scheme assets during the year, is included as interest.

> Actuarial gains and losses, representing differences between the expected return and actual return on scheme assets, differences between the actuarial assumptions underlying the scheme liabilities and actual experience during the year, and changes in actuarial assumptions, are recognised in the statement of total recognised gains and losses.

> Past service costs are spread evenly over the period in which the increases in benefit vest and are deducted in arriving at operating profit. If an increase in benefits vests immediately, the cost is recognised immediately.

> Gains or losses arising from settlements or curtailments not covered by actuarial assumptions are included in operating profit.

Employee share ownership trusts (ESOTs) and long term incentive plan (LTIP): The cost of shares held by the ESOTs are deducted in arriving at shareholders' funds until they vest unconditionally in employees. The cost to the group of the LTIP is recognised on a straight line basis over the period to which the performance criteria relate, adjusted for changes in the probability of performance criteria being met or conditional awards lapsing. The creditor arising from the charge is deducted in arriving at shareholders' funds.

Changes in accounting policies: Under the provisions of Financial Reporting Standard (FRS) 17 – 'Retirement Benefits', which the group adopted on 1st April 2003, the group has restated its accounts to reflect the revised recognition of its retirement benefits schemes and the resultant changes to deferred tax and amounts recognised in the profit and loss account and statement of total recognised gains and losses. Consequently, the group has restated its comparatives for the year ended 31st March 2003. The effect is to decrease the profit after taxation by £1.8 million in the year ended 31st March 2003. The group's net assets at 31st March 2003 have decreased by £95.7 million. No calculation has been performed of the effect on the results for the year ended 31st March 2004 because it was not considered practicable.

Under the provisions of Urgent Issues Task Force (UITF) Abstract 38 – 'Accounting for ESOP Trusts', which the group adopted on 1st April 2003, the group has restated its accounts to recognise amounts related to the group's ESOTs and LTIP as a component of shareholders' funds. The effect is to decrease short term investments by £13.8 million and to decrease other creditors falling due within one year by £1.2 million, resulting in net assets decreasing by £12.6 million at 31st March 2003. There is no effect on the profit and loss account.

Notes on the Accounts

for the year ended 31st March 2004

1 *Segmental information*

	Turnover		Operating profit		Net operating assets	
	2004	2003	**2004**	2003 restated	**2004**	2003 restated
	£ million	£ million	**£ million**	£ million	**£ million**	£ million
Activity analysis						
Catalysts	**1,142.7**	1,083.4	**109.2**	95.3	**819.7**	747.2
Precious Metals	**2,956.4**	2,857.1	**44.2**	48.0	**19.0**	48.4
Colours & Coatings	**254.1**	255.7	**26.7**	25.3	**204.7**	210.3
Pharmaceutical Materials	**139.7**	127.7	**42.3**	36.7	**281.4**	281.3
Corporate	**–**	–	**(16.4)**	(16.1)	**(62.2)**	(61.2)
	4,492.9	4,323.9	**206.0**	189.2	**1,262.6**	1,226.0
Goodwill amortisation (note 12)			**(19.7)**	(13.7)		
Goodwill amortisation on associates			**(0.1)**	–		
Exceptional items included in operating profit (note 2)			**2.1**	(7.6)		
			188.3	167.9	**1,262.6**	1,226.0
Profit on sale of continuing operations			**–**	4.9		
Net interest			**(16.3)**	(13.2)		
Net return on retirement benefits assets and liabilities			**6.0**	13.9		
Profit on ordinary activities before taxation			**178.0**	173.5		
Net borrowings and finance leases					**(394.5)**	(402.5)
Net assets excluding retirement benefits assets and liabilities					**868.1**	823.5
Retirement benefits net assets / (liabilities)					**3.5**	(25.4)
Net assets including retirement benefits assets and liabilities					**871.6**	798.1

	Turnover		Operating profit		Net operating assets	
	2004	2003	**2004**	2003 restated	**2004**	2003 restated
	£ million	£ million	**£ million**	£ million	**£ million**	£ million
Geographical analysis by origin						
Europe	**3,235.1**	2,964.7	**81.0**	59.3	**916.6**	871.9
North America	**965.7**	1,082.2	**72.3**	87.3	**229.4**	234.4
Asia	**838.1**	844.7	**19.3**	12.4	**55.4**	74.6
Rest of the World	**277.6**	234.2	**33.4**	30.2	**61.2**	45.1
	5,316.5	5,125.8	**206.0**	189.2	**1,262.6**	1,226.0
Less inter-segment sales	**(823.6)**	(801.9)				
Total turnover	**4,492.9**	4,323.9				
Goodwill amortisation (note 12)			**(19.7)**	(13.7)		
Goodwill amortisation on associates			**(0.1)**	–		
Exceptional items included in operating profit (note 2)			**2.1**	(7.6)		
			188.3	167.9	**1,262.6**	1,226.0
Profit on sale of continuing operations			**–**	4.9		
Net interest			**(16.3)**	(13.2)		
Net return on retirement benefits assets and liabilities			**6.0**	13.9		
Profit on ordinary activities before taxation			**178.0**	173.5		
Net borrowings and finance leases					**(394.5)**	(402.5)
Net assets excluding retirement benefits assets and liabilities					**868.1**	823.5
Retirement benefits net assets / (liabilities)					**3.5**	(25.4)
Net assets including retirement benefits assets and liabilities					**871.6**	798.1

1 Segmental information *(continued)*

	2004 £ million	2003 £ million
External turnover by geographical destination		
Europe	**2,011.4**	1,800.2
North America	**1,144.8**	1,228.7
Asia	**1,020.0**	1,023.0
Rest of the World	**316.7**	272.0
Total turnover	**4,492.9**	4,323.9

Turnover by destination relating to the United Kingdom amounted to £1,255.4 million (2003 £1,050.3 million).

2 Exceptional items

An exceptional credit of £2.1 million (2003 charge of £7.6 million) has been included in operating profit. This comprises:

	2004 £ million	2003 £ million
Litigation settlement (Pharmaceutical Materials)	**14.8**	–
Cost of integrating Synetix	**–**	(6.5)
Other Catalysts' rationalisation costs	**(12.7)**	(4.8)
Profit on sale of unhedged palladium	**–**	5.1
Cost of rationalising Australian operations following the set up of AGR Matthey	**–**	(1.2)
Exceptional items in group operating profit	**2.1**	(7.4)
Share of exceptional items in associates – AGR Matthey	**–**	(0.2)
Exceptional items in total operating profit	**2.1**	(7.6)

These charges arise in Europe (£10.5 million, 2003 £4.8 million), North America (credit £13.7 million, 2003 charge £1.4 million), Asia (£0.2 million, 2003 £ nil) and Rest of the World (£0.9 million, 2003 £1.4 million).

3 Net interest

	2004 £ million	2003 £ million
Interest payable on bank loans and overdrafts	**(9.0)**	(8.5)
Interest payable on other loans	**(17.2)**	(13.6)
	(26.2)	(22.1)
Interest receivable from associates	**–**	0.2
Other interest receivable	**10.2**	9.0
Net interest – group	**(16.0)**	(12.9)
Share of interest payable by associates – payable to group	**–**	(0.2)
Share of interest payable by associates – other	**(0.3)**	(0.1)
Net interest	**(16.3)**	(13.2)

4 Net return on retirement benefits assets and liabilities

	2004 £ million	2003 restated £ million
Expected return on scheme assets	**37.5**	46.4
Interest on scheme liabilities	**(31.5)**	(32.5)
Net return on retirement benefits assets and liabilities	**6.0**	13.9

5 *Group operating profit after exceptional items and goodwill amortisation*

	2004 £ million	2003 restated £ million
Turnover	**4,492.9**	4,323.9
Cost of materials sold	**(3,725.8)**	(3,620.7)
Net revenues	**767.1**	703.2
Other cost of sales	**(402.6)**	(355.0)
Gross profit	**364.5**	348.2
Distribution costs	**(83.2)**	(74.5)
Administrative expenses	**(93.6)**	(106.1)
Group operating profit	**187.7**	167.6

Exceptional credits of £ nil (2003 £5.1 million) are included in cost of materials sold and £12.7 million (2003 charge of £5.7 million) in administrative expenses, and exceptional charges of £10.5 million (2003 £5.1 million) are included in other cost of sales and £0.1 million (2003 £1.7 million) in distribution costs. Goodwill amortisation of £19.7 million (2003 £13.7 million) is included in administrative expenses.

6 *Profit on ordinary activities before taxation*

		2004 £ million	2003 restated £ million
Profit on ordinary activities before taxation is arrived at after charging / (crediting):			
Research and development		**56.6**	52.4
less external funding received		**(2.1)**	(2.3)
Net research and development		**54.5**	50.1
Depreciation	– on owned assets	**62.9**	54.1
	– on leased assets	**0.4**	0.3
Operating lease rentals	– on plant and machinery	**3.6**	2.8
	– on other operating leases	**6.7**	6.5

Directors' fees were £0.4 million (2003 £0.4 million) and other emoluments were £2.6 million (2003 £2.2 million). Details are given in the Remuneration Report on pages 33 to 38.

7 *Fees paid to auditors*

			2004 £ million	2004 £ million	2003 restated £ million	2003 restated £ million
Audit services	– statutory audit	– parent company		**0.3**		0.4
		– subsidiary undertakings		**0.6**		0.6
				0.9		1.0
	– audit-related regulatory services			**0.1**		0.1
Total fees for audit services				**1.0**		1.1
Further assurance services	– due diligence		**0.2**		0.1	
	– statutory compliance work		**0.1**		0.1	
Total fees for further assurance services				**0.3**		0.2
Tax services	– compliance		**0.2**		0.3	
	– advisory services		**0.1**		–	
Total fees for tax services				**0.3**		0.3
Other services	– financial information technology			**–**		0.3
Total fees paid to group auditors				**1.6**		1.9

Included above are non-audit fees paid to auditors and their associates in the United Kingdom of £0.3 million (2003 £0.4 million).

8 Taxation

8a Analysis of tax charge in the year

	2004	2004	2003 restated	2003 restated
	£ million	£ million	£ million	£ million
Current tax				
UK corporation tax on profits for the year		**27.8**		17.3
Adjustment for prior years		**(2.0)**		0.3
		25.8		17.6
Double taxation relief		**(0.7)**		(0.8)
		25.1		16.8
Foreign tax on profits for the year	**30.0**		26.1	
Adjustment for prior years	**(3.0)**		(0.6)	
		27.0		25.5
Total current tax		**52.1**		42.3
Deferred tax				
Origination and reversal of timing differences	**6.1**		13.7	
Changes in tax rates and laws	**–**		(0.2)	
Adjustment to estimated recoverable amount of deferred tax assets arising in prior years	**–**		0.6	
Total deferred tax		**6.1**		14.1
Associates		**0.1**		–
Total taxation before tax on exceptional items and goodwill amortisation		**58.3**		56.4
Tax on goodwill amortisation – current tax		**(2.0)**		(0.7)
Tax on exceptional items included in total operating profit – current tax		**6.2**		0.3
Tax on exceptional items included in total operating profit – deferred tax		**(4.6)**		(2.3)
Total taxation		**57.9**		53.7

8b Factors affecting tax charge for the year

The tax assessed for the year is lower than the standard rate of corporation tax in the UK. The differences are as follows:

	2004 £ million	2003 restated £ million
Profit on ordinary activities before taxation, exceptional items and goodwill amortisation	**195.7**	189.9
Taxation charge at UK corporation tax rate of 30% (2003 30%)	**58.7**	57.0
Effects of:		
Overseas tax rates	**2.1**	2.6
Pension credits and contributions	**(3.0)**	(7.3)
Provisions	**1.0**	(3.8)
Capital allowances for the year in excess of depreciation	**(7.9)**	(12.4)
Stock adjustments	**8.3**	6.7
Expenses not deductible for tax purposes	**0.7**	1.4
Net utilisation of tax losses	**0.2**	(1.0)
Adjustments for prior years	**(5.0)**	(0.3)
Research and development credits	**(1.8)**	(1.4)
Other	**(1.2)**	0.8
Current tax charge for the year	**52.1**	42.3

8c Factors that may affect future tax charges

The overall tax rate would be likely to rise if the proportion of profits in overseas territories were to increase reflecting the higher corporation tax rates in those countries in which the group operates. In addition the tax rate would be impacted by the extent to which losses are available to offset taxable income.

No deferred tax is recognised on the unremitted earnings of overseas subsidiaries and associates other than in the case of the group's captive insurance company where cumulative deferred tax of £0.4 million (credit for the year £0.1 million) has been provided on an accrued dividend.

The group has unprovided deferred tax on capital gains of £65.9 million relating to intra group loans. This potential tax will not crystallise until the loans are repaid and there is no intention to do so. The group also has an unrecognised deferred tax asset on approximately £58.1 million of gross capital losses. Should the gains ever crystallise the losses could be offset against them. The net unprovided deferred tax is approximately £2.3 million.

9 Dividends

	2004 £ million	2003 £ million
Interim ordinary dividend paid – 8.2 pence per share (2003 7.8 pence per share)	**17.9**	17.0
Final ordinary dividend proposed – 18.2 pence per share (2003 17.7 pence per share)	**39.5**	38.5
Total dividends	**57.4**	55.5

10 Earnings per ordinary share

Profit for the year attributable to shareholders is £121.8 million (2003 restated £120.2 million). This is divided by the weighted average number of shares in issue calculated as 217,629,033 (2003 216,938,883) to give basic earnings per share of 56.0 pence (2003 restated 55.4 pence).

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 778,267 (2003 1,279,946), giving diluted earnings per share of 55.8 pence (2003 restated 55.1 pence).

Before exceptional items, goodwill amortisation and the tax thereon, basic earnings per share were 64.0 pence (2003 restated 61.8 pence) and diluted earnings per share were 63.7 pence (2003 restated 61.4 pence).

	2004 £ million	2003 restated £ million
Attributable profit	**121.8**	120.2
Goodwill amortisation	**19.8**	13.7
Exceptional items	**(2.1)**	2.7
Tax thereon	**(0.4)**	(2.7)
Adjusted profit	**139.1**	133.9
Earnings per share before exceptional items and goodwill amortisation		
Basic	**64.0p**	61.8p
Diluted	**63.7p**	61.4p

11 Employee information

11a Employee numbers

	2004	2003
The average monthly number of employees during the year was as follows:		
Catalysts	**4,120**	3,702
Precious Metals	**939**	1,174
Colours & Coatings	**1,571**	1,739
Pharmaceutical Materials	**581**	534
Corporate and Central Research	**228**	226
Average number of employees	**7,439**	7,375
Actual number of employees at 31st March	**7,524**	7,505

The number of temporary employees included above at 31st March 2004 was 133 (2003 234).

11b Employee costs

	2004 £ million	2003 restated £ million
Wages and salaries	**214.3**	209.1
Social security costs	**22.9**	20.6
Other retirement benefits costs	**25.1**	23.9
Total employee costs	**262.3**	253.6

11c Retirement benefits

(i) Group

The group operates defined benefit pension schemes and post-retirement medical benefits schemes in the UK and the US. Full actuarial valuations were carried out at 1st April 2003 for the UK pension scheme and 30th June 2003 for the US pension schemes and the valuations of all the UK and US schemes were updated to 31st March 2004 by qualified independent actuaries. For the UK pension scheme the group made company contributions of £13.9 million (2003 £12.2 million) in the year, being regular contributions of £7.6 million (2003 £6.2 million) at a rate of 10% of pensionable pay and special contributions of £6.3 million (2003 £6.0 million). Contributions for the year ending 31st March 2005 have been agreed at a rate of 15% of pensionable pay. On 1st April 2003 the Meconic defined benefits pension scheme was merged into the group's UK pension scheme, contributions to it in the year ended 31st March 2003 were £0.7 million. Contributions to the US pension schemes amounted to £6.0 million (2003 £11.5 million). Contributions to the post-retirement medical benefits schemes were £0.1 million (2003 £0.3 million) in the UK and £0.4 million (2003 £0.4 million) in the US. The group operates a number of other small defined benefit schemes around the world which are not material and their net liabilities were £1.9 million (2003 restated £0.8 million). The group also operates a number of defined contribution schemes around the world and makes payments to employees' personal pension plans, the cost to the group of the contributions was £2.0 million (2003 £1.4 million) and the outstanding contributions at 31st March 2004 were £0.1 million (2003 £0.1 million).

The main assumptions were:

	2004 UK schemes %	2004 US schemes %	2003 UK schemes %	2003 US schemes %	2002 UK schemes %	2002 US schemes %
Rate of increase in salaries	**4.00**	**4.25**	3.75	4.25	4.75	4.50
Rate of increase in pensions in payment	**2.50**	**–**	2.25	–	2.75	–
Discount rate	**5.50**	**6.00**	5.40	6.25	5.80	7.25
Inflation	**2.50**	**2.75**	2.25	2.75	2.75	3.50
Current medical benefits cost trend rate	**5.50**	**10.50**	5.00	9.50	5.50	10.00
Ultimate medical benefits cost trend rate	**5.50**	**5.00**	5.00	5.00	5.50	5.00

11c Retirement benefits *(continued)*

(i) Group (continued)

The assets in the schemes and the expected rates of return were:

	UK pension scheme Expected long term rate of return %	UK pension scheme Value £ million	UK post-retirement medical benefits scheme value £ million	US pension schemes Expected long term rate of return %	US pension schemes Value £ million	US post-retirement medical benefits scheme value £ million
At 31st March 2004						
Equities	**8.00**	**338.2**	**–**	**8.50**	**35.8**	**–**
Bonds	**5.00**	**224.9**	**–**	**4.50**	**23.8**	**–**
Property	**6.25**	**36.5**	**–**		**–**	**–**
Total market value of assets		**599.6**	**–**		**59.6**	**–**
Present value of scheme liabilities		**(556.3)**	**(9.3)**		**(69.3)**	**(15.5)**
Surplus / (deficit) in scheme		**43.3**	**(9.3)**		**(9.7)**	**(15.5)**
Related deferred tax (liability) / asset		**(13.0)**	**–**		**3.7**	**5.9**
Net retirement benefits asset / (liability)		**30.3**	**(9.3)**		**(6.0)**	**(9.6)**
At 31st March 2003 (restated)						
Equities	8.00	320.8	–	8.50	32.7	–
Bonds	4.75	122.8	–	4.50	21.8	–
Property	6.25	34.7	–		–	–
Total market value of assets		478.3	–		54.5	–
Present value of scheme liabilities		(477.6)	(8.2)		(70.5)	(13.2)
Surplus / (deficit) in scheme		0.7	(8.2)		(16.0)	(13.2)
Related deferred tax (liability) / asset		(0.2)	1.2		6.1	5.0
Net retirement benefits asset / (liability)		0.5	(7.0)		(9.9)	(8.2)
At 31st March 2002 (restated)						
Equities	8.00	416.1	–	9.00	33.5	–
Bonds	5.30	144.7	–	5.50	22.4	–
Property	6.80	33.7	–		–	–
Total market value of assets		594.5	–		55.9	–
Present value of scheme liabilities		(483.7)	(4.7)		(61.6)	(10.9)
Surplus / (deficit) in scheme		110.8	(4.7)		(5.7)	(10.9)
Related deferred tax (liability) / asset		(33.2)	0.1		2.2	4.1
Net retirement benefits asset / (liability)		77.6	(4.6)		(3.5)	(6.8)

These are included in the balance sheet as:

	2004 Retirement benefits net assets £ million	**2004 Retirement benefits net liabilities £ million**	**2004 Total £ million**	2003 Retirement benefits net assets restated £ million	2003 Retirement benefits net liabilities restated £ million	2003 Total restated £ million
UK pension scheme	**30.3**	**–**	**30.3**	0.5	–	0.5
UK post-retirement medical benefits scheme	**–**	**(9.3)**	**(9.3)**	–	(7.0)	(7.0)
US pension schemes	**–**	**(6.0)**	**(6.0)**	–	(9.9)	(9.9)
US post-retirement medical benefits scheme	**–**	**(9.6)**	**(9.6)**	–	(8.2)	(8.2)
Other schemes	**1.2**	**(3.1)**	**(1.9)**	1.0	(1.8)	(0.8)
Total	**31.5**	**(28.0)**	**3.5**	1.5	(26.9)	(25.4)

11c Retirement benefits *(continued)*

(i) Group (continued)

The amounts charged to operating profit were:

	UK pensions £ million	UK post-retirement medical benefits £ million	US pensions £ million	US post-retirement medical benefits £ million
Year ended 31st March 2004				
Current service cost after employee contributions	**(15.8)**	**(0.3)**	**(3.2)**	**(0.5)**
Past service cost	**(0.3)**	**–**	**(0.5)**	**–**
Total operating charge	**(16.1)**	**(0.3)**	**(3.7)**	**(0.5)**
Year ended 31st March 2003 (restated)				
Current service cost after employee contributions	(16.0)	(0.2)	(2.4)	(0.3)
Past service cost	–	–	(0.1)	(0.1)
Gain on settlement	–	0.1	–	–
Total operating charge	(16.0)	(0.1)	(2.5)	(0.4)

The amounts credited / (charged) to interest were:

	UK pensions £ million	UK post-retirement medical benefits £ million	US pensions £ million	US post-retirement medical benefits £ million
Year ended 31st March 2004				
Expected return on scheme assets	**33.9**	**–**	**3.5**	**–**
Interest on scheme liabilities	**(26.2)**	**(0.4)**	**(4.0)**	**(0.8)**
Net return on retirement benefit assets and liabilities	**7.7**	**(0.4)**	**(0.5)**	**(0.8)**
Year ended 31st March 2003 (restated)				
Expected return on scheme assets	42.6	–	3.8	–
Interest on scheme liabilities	(27.4)	(0.2)	(4.1)	(0.8)
Net return on retirement benefit assets and liabilities	15.2	(0.2)	(0.3)	(0.8)

The amounts recognised in the statement of total recognised gains and losses were:

	UK pensions £ million	UK post-retirement medical benefits £ million	US pensions £ million	US post-retirement medical benefits £ million
Year ended 31st March 2004				
Actual return less expected return on scheme assets	**68.2**	**–**	**6.5**	**–**
Experience losses arising on scheme liabilities	**(20.3)**	**–**	**(0.4)**	**(0.2)**
Changes in assumptions underlying present value of scheme liabilities	**(10.6)**	**(0.5)**	**(3.0)**	**(3.4)**
Actuarial gain / (loss) in total recognised gains and losses	**37.3**	**(0.5)**	**3.1**	**(3.6)**
Year ended 31st March 2003 (restated)				
Actual return less expected return on scheme assets	(152.9)	–	(9.7)	–
Experience gains / (losses) arising on scheme liabilities	3.3	(3.5)	(0.2)	(0.3)
Changes in assumptions underlying present value of scheme liabilities	39.0	–	(10.0)	(2.3)
Actuarial loss in total recognised gains and losses	(110.6)	(3.5)	(19.9)	(2.6)

11c Retirement benefits (continued)

(i) Group (continued)

The movements in the surplus / (deficit) were:

	UK pensions £ million	UK post-retirement medical benefits £ million	US pensions £ million	US post-retirement medical benefits £ million
Surplus / (deficit) at 1st April 2002 (restated)	110.8	(4.7)	(5.7)	(10.9)
Current service cost after employee contributions	(16.0)	(0.2)	(2.4)	(0.3)
Past service cost	–	–	(0.1)	(0.1)
Gain on settlement	–	0.1	–	–
Acquisitions	(11.6)	–	0.1	–
Company contributions	12.9	0.3	11.5	0.4
Net return on retirement benefit assets and liabilities	15.2	(0.2)	(0.3)	(0.8)
Actuarial loss	(110.6)	(3.5)	(19.9)	(2.6)
Exchange adjustments	–	–	0.8	1.1
Surplus / (deficit) at 31st March 2003 (restated)	0.7	(8.2)	(16.0)	(13.2)
Current service cost after employee contributions – in operating profit	(15.8)	(0.3)	(3.2)	(0.5)
Current service cost after employee contributions – capitalised	(0.2)	–	–	–
Past service cost	(0.3)	–	(0.5)	–
Acquisitions	–	–	(0.5)	–
Company contributions	13.9	0.1	6.0	0.4
Net return on retirement benefit assets and liabilities	7.7	(0.4)	(0.5)	(0.8)
Actuarial gain / (loss)	37.3	(0.5)	3.1	(3.6)
Exchange adjustments	–	–	1.9	2.2
Surplus / (deficit) at 31st March 2004	**43.3**	**(9.3)**	**(9.7)**	**(15.5)**

History of experience gains and losses is as follows:

	UK pensions	UK post-retirement medical benefits	US pensions	US post-retirement medical benefits
Year ended 31st March 2004				
Difference between expected and actual return on scheme assets:				
amount (£ million)	**68.2**	**–**	**6.5**	**–**
percentage of scheme assets	**11.4%**	**–**	**10.9%**	**–**
Experience losses on scheme liabilities:				
amount (£ million)	**(20.3)**	**–**	**(0.4)**	**(0.2)**
percentage of present value of scheme liabilities	**(3.6%)**	**–**	**(0.6%)**	**(1.3%)**
Total amount recognised in statement of total recognised gains and losses:				
amount (£ million)	**37.3**	**(0.5)**	**3.1**	**(3.6)**
percentage of present value of scheme liabilities	**6.7%**	**(5.4%)**	**4.5%**	**(23.2%)**
Year ended 31st March 2003 (restated)				
Difference between expected and actual return on scheme assets:				
amount (£ million)	(152.9)	–	(9.7)	–
percentage of scheme assets	(32.0%)	–	(17.8%)	–
Experience gains / (losses) on scheme liabilities:				
amount (£ million)	3.3	(3.5)	(0.2)	(0.3)
percentage of present value of scheme liabilities	0.7%	(42.7%)	(0.3%)	(2.3%)
Total amount recognised in statement of total recognised gains and losses:				
amount (£ million)	(110.6)	(3.5)	(19.9)	(2.6)
percentage of present value of scheme liabilities	(23.2%)	(42.7%)	(28.2%)	(19.7%)

(ii) Parent company

The company's pension scheme is a defined benefit scheme which includes employees of the company and some of its UK subsidiaries. Consequently the company is unable to identify its share of the underlying assets and liabilities and so the company accounts for its contributions to the scheme as if it were a defined contribution scheme. The cost of the company's contributions to the scheme amounted to £12.1 million (2003 £11.9 million).

The company also operates the UK post-retirement medical benefits scheme (note 11c(i)) which includes some of its employees and a few employees of its UK subsidiaries. The costs of this scheme are borne by the company and so the scheme's liabilities are included in the company's balance sheet.

12 Fixed assets – goodwill

	Group £ million	Parent company £ million
Cost		
At beginning of year (restated)	394.3	126.7
Additions (note 31)	28.8	3.6
Exchange adjustments	(6.1)	–
At end of year	417.0	130.3
Amortisation		
At beginning of year	20.9	16.7
Charge for the year	19.7	7.0
Exchange adjustments	(0.7)	–
At end of year	39.9	23.7
Net book value at 31st March 2004	**377.1**	**106.6**
Net book value at 31st March 2003 (restated)	373.4	110.0

Goodwill amortisation of £11.4 million (2003 £5.5 million) arises in Catalysts, £0.1 million (2003 £0.1 million) in Precious Metals, £8.0 million (2003 £7.9 million) in Pharmaceutical Materials and £0.2 million (2003 £0.2 million) in Colours & Coatings. Geographically £17.3 million (2003 £11.7 million) arises in Europe, £1.6 million (2003 £1.6 million) in North America and £0.8 million (2003 £0.4 million) in Asia.

13 Fixed assets – tangible assets

13a Group

	Freehold land & buildings £ million	Long & short leasehold £ million	Plant & machinery £ million	Total £ million
Cost				
At beginning of year	197.6	16.0	730.1	943.7
Purchases	38.7	2.1	72.3	113.1
Acquisitions and fair value adjustments	0.8	–	(7.1)	(6.3)
Reclassifications	0.8	–	(0.8)	–
Transfer to current assets	(5.9)	–	(0.5)	(6.4)
Disposals	(0.2)	(0.4)	(10.0)	(10.6)
Exchange adjustments	(12.2)	(0.9)	(42.0)	(55.1)
At end of year	219.6	16.8	742.0	978.4
Depreciation				
At beginning of year	47.3	6.5	288.8	342.6
Charge for the year	6.2	0.9	56.2	63.3
Fair value adjustments	–	–	(2.6)	(2.6)
Reclassifications	0.2	–	(0.2)	–
Transfer to current assets	(0.7)	–	(0.2)	(0.9)
Disposals	–	(0.4)	(8.3)	(8.7)
Exchange adjustments	(3.2)	(0.4)	(19.8)	(23.4)
At end of year	49.8	6.6	313.9	370.3
Net book value at 31st March 2004	**169.8**	**10.2**	**428.1**	**608.1**
Net book value at 31st March 2003	150.3	9.5	441.3	601.1

The net book value of tangible fixed assets includes £4.1 million (2003 £4.5 million) in respect of assets held under finance leases.

13b Parent company

	Freehold land & buildings £ million	Long & short leasehold £ million	Plant & machinery £ million	Total £ million
Cost				
At beginning of year	63.8	2.2	240.4	306.4
Purchases	7.1	–	27.3	34.4
Fair value adjustments	–	–	(4.2)	(4.2)
Transfer to current assets	(5.9)	–	(0.5)	(6.4)
Disposals	(0.1)	(0.3)	(1.1)	(1.5)
At end of year	64.9	1.9	261.9	328.7
Depreciation				
At beginning of year	17.6	1.8	90.9	110.3
Charge for the year	2.4	0.2	19.8	22.4
Fair value adjustments	–	–	(2.4)	(2.4)
Transfer to current assets	(0.7)	–	(0.2)	(0.9)
Disposals	–	(0.3)	(0.6)	(0.9)
At end of year	19.3	1.7	107.5	128.5
Net book value at 31st March 2004	**45.6**	**0.2**	**154.4**	**200.2**
Net book value at 31st March 2003	46.2	0.4	149.5	196.1

The net book value of tangible fixed assets includes £4.1 million (2003 £4.5 million) in respect of assets held under finance leases.

14 Fixed assets – investments

14a Group

	Investment in associates – net assets £ million	Investment in associates – goodwill £ million	Investments listed on overseas stock exchanges £ million	Unlisted investments £ million	Other loans £ million	Total £ million
At beginning of year	3.5	1.5	0.5	0.7	0.2	6.4
Additions	–	–	–	0.2	–	0.2
Disposals	(0.5)	–	(0.5)	–	–	(1.0)
Provided	–	–	–	–	(0.2)	(0.2)
Losses retained for the year	(0.1)	(0.1)	–	–	–	(0.2)
Exchange adjustments	0.2	0.1	–	–	–	0.3
At end of year	**3.1**	**1.5**	**–**	**0.9**	**–**	**5.5**

The market value of investments listed on overseas stock exchanges was £ nil (2003 £1.0 million).

14b Parent company

	Other loans £ million	Cost of investment in subsidiary undertakings £ million	Total £ million
At beginning of year	0.2	463.2	463.4
Additions	–	(1.2)	(1.2)
Provided	(0.2)	–	(0.2)
At end of year	**–**	**462.0**	**462.0**

The principal subsidiary undertakings are shown on page 69.

14c Associates

The group's associates are Oximet SrL incorporated in Italy, which has €312,000 of issued share capital of which the group has a 33% interest, and AGR Matthey, which is a partnership operating in Australia in which the group has a 20% interest. The group's cost of investment in its associates amounted to £4.3 million (2003 £4.4 million).

15 Transactions with related parties

The group's related parties are its associates described in note 14c. Arora-Matthey Limited was an associate until its disposal on 31st March 2004.

During the year the group supplied chemical products to a value of £75,000 to Arora-Matthey Limited (2003 thermocouple products £5,000).

During the year the group purchased £284,000 (2003 £146,000) of raw materials from and made service charges of £18,000 (2003 £ nil) to Oximet SrL. Total balances payable to Oximet SrL at 31st March 2004 were £138,000 (2003 £72,000).

During the year the group sold precious metal for £ nil (2003 £4.1 million) to and bought £0.1 million (2003 £1.6 million) of precious metal from AGR Matthey. The group also made service charges of £1.2 million (2003 £1.9 million) to and received £ nil (2003 £0.2 million) of interest from AGR Matthey. Total balances receivable from AGR Matthey at 31st March 2004 were £ nil (2003 £0.7 million).

16 Stocks

	Group		Parent company	
	2004 £ million	2003 £ million	**2004 £ million**	2003 £ million
Raw materials and consumables	**59.2**	57.7	**17.6**	15.6
Work in progress – precious metals	**206.4**	227.0	**217.7**	192.7
– other	**29.3**	31.1	**8.0**	7.7
Finished goods and goods for resale	**122.4**	122.6	**25.5**	16.8
Total stocks	**417.3**	438.4	**268.8**	232.8

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

Parent company precious metals includes net metal lent to subsidiary undertakings.

17 Debtors

	Group		Parent company	
	2004 £ million	2003 restated £ million	**2004 £ million**	2003 restated £ million
Debtors: due within one year				
Trade debtors	**320.2**	317.7	**96.3**	87.6
Amounts owed by subsidiary undertakings	**–**	–	**434.8**	491.0
Amounts owed by associates	**–**	0.7	**–**	–
Other debtors	**37.9**	22.4	**14.1**	10.5
Refunds due for acquisitions	**–**	5.0	**–**	4.7
Deferred tax assets (note 24)	**5.4**	1.7	**–**	–
Prepayments and accrued income	**23.9**	18.2	**11.7**	5.5
	387.4	365.7	**556.9**	599.3
Debtors: due after more than one year				
Amounts owed by subsidiary undertakings	**–**	–	**320.9**	344.5

18 Short term investments

	Group 2004 £ million	Group 2003 restated £ million	Parent company 2004 £ million	Parent company 2003 restated £ million
Investments listed on the London Stock Exchange	**–**	–	**–**	–
Investments listed on overseas stock exchanges	**1.6**	1.5	**–**	–
	1.6	1.5	**–**	–

The market value of investments listed on the London Stock Exchange was £0.1 million (2003 £ nil) and on overseas stock exchanges £6.0 million (2003 £2.5 million).

19 Borrowings and finance leases

	Group 2004 £ million	Group 2003 £ million	Parent company 2004 £ million	Parent company 2003 £ million
Borrowings and finance leases falling due after more than one year				
Bank and other loans repayable by instalments				
From two to five years	**0.6**	0.3	**–**	–
From one to two years	**0.7**	0.2	**–**	–
Bank and other loans repayable otherwise than by instalments				
4.95% US Dollar Bonds 2015	**111.3**	126.6	**111.3**	126.6
5.17% Sterling Bonds 2013	**40.0**	40.0	**40.0**	40.0
4.25% US Dollar Bonds 2010	**19.0**	19.0	**19.0**	19.0
6.36% US Dollar Bonds 2006	**54.4**	63.3	**54.4**	63.3
Other after five years	**4.7**	5.4	**–**	–
Other from two to five years	**155.2**	86.8	**155.2**	86.7
From one to two years	**64.6**	110.6	**64.6**	110.5
Finance leases repayable				
After five years	**2.9**	3.1	**2.9**	3.1
From two to five years	**0.7**	0.7	**0.7**	0.7
From one to two years	**0.4**	0.4	**0.3**	0.4
Borrowings and finance leases falling due after more than one year	**454.5**	456.4	**448.4**	450.3
Borrowings and finance leases falling due within one year				
Bank and other loans	**46.2**	46.2	**16.1**	27.2
Finance leases	**0.3**	0.3	**0.3**	0.3
Borrowings and finance leases falling due within one year	**46.5**	46.5	**16.4**	27.5
Total borrowings and finance leases	**501.0**	502.9	**464.8**	477.8
Less cash and deposits	**106.5**	100.4	**2.7**	33.4
Net borrowings and finance leases	**394.5**	402.5	**462.1**	444.4

The loans are denominated in various currencies and bear interest at commercial rates. Of the 4.95% US Dollar Bonds 2015 US$35.0 million have been swapped into sterling at 5.15% and US$165.0 million have been swapped into floating rate US dollars. All the 4.25% US Dollar Bonds 2010 have been swapped into sterling at 4.93%.

20 Financial risk management

The group's approach to managing financial risk is described in the Financial Review on page 11.

20a Interest rate risk

	2004 At fixed interest rates £ million	2004 At floating interest rates £ million	2004 Total £ million	2003 At fixed interest rates £ million	2003 At floating interest rates £ million	2003 Total £ million
Financial liabilities						
Sterling	**85.5**	**193.8**	**279.3**	85.7	100.0	185.7
US dollar	**54.4**	**141.1**	**195.5**	63.3	222.7	286.0
Euro	**–**	**83.8**	**83.8**	–	106.4	106.4
Japanese yen	**–**	**25.6**	**25.6**	–	25.3	25.3
Chinese renminbi	**–**	**8.2**	**8.2**	–	8.0	8.0
South African rand	**–**	**7.4**	**7.4**	–	–	–
Other currencies	**–**	**4.6**	**4.6**	–	2.8	2.8
	139.9	**464.5**	**604.4**	149.0	465.2	614.2

	2004 Weighted average interest rates %	2004 Weighted average period for which rates are fixed Years	2003 Weighted average interest rates %	2003 Weighted average period for which rates are fixed Years
Fixed rate financial liabilities				
Sterling	**5.15**	**9**	5.15	10
US dollar	**6.36**	**2**	6.36	3

The financial liabilities of the group comprised:

	2004 £ million	2003 £ million
Total borrowings and finance leases	**501.0**	502.9
Borrowings generated by swaps	**95.7**	103.7
Non-equity minority interests	**7.0**	7.0
Other creditors falling due after more than one year	**0.7**	0.6
	604.4	614.2

Floating rate financial liabilities comprise bank borrowings, overdrafts and preference shares issued to minority shareholders bearing interest and dividends at commercial rates.

	2004 At floating interest rates £ million	2004 Interest free £ million	2004 Total £ million	2003 At floating interest rates £ million	2003 Interest free £ million	2003 Total £ million
Financial assets						
Sterling	**135.6**	**–**	**135.6**	158.6	–	158.6
US dollar	**44.6**	**0.9**	**45.5**	15.3	1.2	16.5
Hong Kong dollar	**4.2**	**–**	**4.2**	12.2	–	12.2
South African rand	**3.3**	**–**	**3.3**	5.2	–	5.2
Brazilian real	**3.3**	**–**	**3.3**	3.2	–	3.2
Other currencies	**11.2**	**1.6**	**12.8**	9.8	1.5	11.3
	202.2	**2.5**	**204.7**	204.3	2.7	207.0

20a Interest rate risk *(continued)*

The financial assets of the group comprised:

	2004 £ million	2003 £ million
Cash and deposits	**106.5**	100.4
Deposits generated by swaps	**95.7**	103.7
Fixed assets investments listed on overseas stock exchanges	**–**	0.5
Fixed assets investments unlisted	**0.9**	0.7
Fixed assets investments other loans	**–**	0.2
Short term investments listed on overseas stock exchanges	**1.6**	1.5
	204.7	207.0

Floating rate financial assets comprise bank deposits bearing interest at commercial rates. Interest free financial assets are shares held in publicly quoted companies and an investment in Conduit Ventures Fund.

20b 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.

20c Maturity of financial liabilities

	2004 £ million	2003 £ million
In one year or less, or on demand	**142.2**	150.2
In more than one year but not more than two years	**66.4**	111.8
In more than two years but not more than five years	**210.9**	151.1
In more than five years	**184.9**	201.1
	604.4	614.2

20d Undrawn committed borrowing facilities

	2004 £ million	2003 £ million
Expiring in one year or less	**–**	40.0
Expiring in more than one year but not more than two years	**25.4**	31.2
Expiring in more than two years	**34.8**	138.3
	60.2	209.5

20e 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 in all interest rates would have a 1.4% impact on group profit before tax. This is within the range the board 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 US. A 5 cent (3.0%) movement in the average exchange rate for the US dollar against sterling has a 1.2% 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.

20f *Fair value of financial instruments*

	2004 Book value £ million	2004 Fair value £ million	2003 Book value £ million	2003 Fair value £ million
Cash and deposits	**106.5**	**106.5**	100.4	100.4
Fixed assets investments listed on overseas stock exchanges	**–**	**–**	0.5	1.0
Fixed assets investments unlisted	**0.9**	**0.9**	0.7	0.7
Fixed assets investments other loans	**–**	**–**	0.2	0.2
Short term investments listed on the London Stock Exchange	**–**	**0.1**	–	–
Short term investments listed on overseas stock exchanges	**1.6**	**6.0**	1.5	2.5
Borrowings and finance leases falling due within one year	**(46.5)**	**(46.5)**	(46.5)	(46.5)
US Dollar Bonds 2006, 2010 and 2015	**(184.7)**	**(190.3)**	(208.9)	(215.2)
Sterling Bonds 2013	**(40.0)**	**(38.6)**	(40.0)	(40.0)
Other borrowings and finance leases falling due after more than one year	**(229.8)**	**(229.8)**	(207.5)	(207.5)
Other creditors falling due after more than one year	**(0.7)**	**(0.7)**	(0.6)	(0.6)
Non-equity minority interests	**(7.0)**	**(7.0)**	(7.0)	(7.0)
Interest rate swaps	**–**	**2.2**	–	–
Forward exchange contracts	**–**	**8.8**	–	(0.5)
	(399.7)	**(388.4)**	(407.2)	(412.5)

The fair value of listed investments is based on market value. The fair values of the bonds and interest rate swaps are calculated by discounting future cash flows to net present values using appropriate market interest rates prevailing at the year end. The fair value of 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 size, short term nature or the fact that they bear interest at floating rates.

20g *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. Interest rate swaps are occasionally used to hedge the group's exposure to movements in 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.

	Gains £ million	Losses £ million	Total net gains / (losses) £ million
Unrecognised gains and losses at 31st March 2002	0.3	0.1	0.2
Gains / losses recognised in the year	0.3	0.1	0.2
Gains and losses arising before 31st March 2002 not recognised in 2002/03	–	–	–
Gains and losses arising in 2002/03 not recognised in 2002/03	0.3	0.8	(0.5)
Unrecognised gains and losses at 31st March 2003	0.3	0.8	(0.5)
Gains / losses recognised in the year	0.3	0.8	(0.5)
Gains and losses arising before 31st March 2003 not recognised in 2003/04	–	–	–
Gains and losses arising in 2003/04 not recognised in 2003/04	11.0	–	11.0
Unrecognised gains and losses at 31st March 2004	**11.0**	**–**	**11.0**
Of which gains and losses expected to be recognised in the year to 31st March 2005	8.9	–	8.9

21 *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 fall due.

22 Other creditors

	Group 2004 £ million	Group 2003 restated £ million	Parent company 2004 £ million	Parent company 2003 restated £ million
Amounts falling due within one year				
Trade creditors	**151.5**	180.6	**34.1**	44.7
Amounts owed to subsidiary undertakings	**–**	–	**630.8**	617.0
Amounts owed to associates	**0.1**	0.1	**–**	–
Current corporation tax	**42.3**	32.6	**0.1**	4.1
Other taxes and social security costs	**12.4**	7.1	**3.6**	3.9
Other creditors	**34.1**	32.8	**10.4**	12.2
Accruals and deferred income	**79.0**	90.9	**31.8**	37.0
Dividends	**39.5**	38.5	**39.5**	38.5
Total other creditors falling due within one year	**358.9**	382.6	**750.3**	757.4
Amounts falling due after more than one year				
Amounts owed to subsidiary undertakings	**–**	–	**103.4**	153.0
Other creditors	**0.7**	0.6	**–**	–
Total other creditors falling due after more than one year	**0.7**	0.6	**103.4**	153.0

23 Provisions for liabilities and charges

23a Group

	Rationalisation provisions £ million	Other provisions £ million	Deferred taxation (note 24) £ million	Total £ million
At beginning of year (restated)	9.0	6.7	33.6	49.3
Charge / (credit) for year	12.7	6.6	(2.7)	16.6
Acquisitions and fair value adjustments	–	0.2	0.9	1.1
Utilised	(6.1)	(1.5)	–	(7.6)
Released	–	(0.1)	–	(0.1)
Credit to total recognised gains and losses	–	–	(11.1)	(11.1)
Exchange adjustments	(0.1)	(0.4)	(0.3)	(0.8)
At end of year	**15.5**	**11.5**	**20.4**	**47.4**

The rationalisation provisions relate to Catalysts Division and are expected to be fully spent by 2006.

23b Parent company

	Rationalisation provisions £ million	Other provisions £ million	Deferred taxation (note 24) £ million	Total £ million
At beginning of year (restated)	2.6	3.6	7.6	13.8
Charge / (credit) for year	6.3	2.8	(2.2)	6.9
Utilised	(1.6)	(0.2)	–	(1.8)
At end of year	**7.3**	**6.2**	**5.4**	**18.9**

The rationalisation provisions relate to Catalysts Division and are expected to be fully spent by 2006.

24 Deferred taxation

	Group 2004 £ million	Group 2003 restated £ million	Parent company 2004 £ million	Parent company 2003 restated £ million
Timing differences on				
Fixed assets	**48.3**	29.6	**20.4**	17.3
Stocks	**(13.0)**	(9.7)	**(13.0)**	(9.7)
Translation differences on foreign currency loans	**(21.0)**	1.9	**–**	–
Other	**0.7**	10.1	**(2.0)**	–
	15.0	31.9	**5.4**	7.6
Deferred tax assets (note 17)	**5.4**	1.7	**–**	–
Deferred tax provisions (note 23)	**20.4**	33.6	**5.4**	7.6
	15.0	31.9	**5.4**	7.6

25 Called up share capital

	Authorised Number	Authorised £ million	Allotted, called up and fully paid Number	Allotted, called up and fully paid £ million
Ordinary shares of £1 each				
At beginning of year	291,550,000	291.6	219,487,344	219.5
Executive share option schemes – options exercised	–	–	1,118,192	1.1
At end of year	**291,550,000**	**291.6**	**220,605,536**	**220.6**

At 31st March 2004 there were 6,183,642 options outstanding under the group's executive share option schemes, exercisable at various times up to the year 2013 at prices from 314.98 pence per share to 1083.00 pence per share.

At 31st March 2004 three allocations had been made under the company's long term incentive plan which had yet to mature. The 2001 allocation of 350,015 shares, the 2002 allocation of 386,493 shares and the 2003 allocation of 429,240 shares will mature at the end of their respective three year performance periods in July 2004, July 2005 and July 2006. Should the performance conditions be satisfied, the number of shares allocated, or a proportion thereof, will be released to the participants.

The company has no non-equity share capital.

26 Minority interests

	Equity £ million	Non-equity £ million	Total £ million
At beginning of year	3.8	7.0	10.8
Share of retained (loss) / profit for the year	(2.0)	0.3	(1.7)
Dividends	(0.1)	(0.3)	(0.4)
Purchase of remaining minority interest in Oy Smoptech AB (note 31)	0.7	–	0.7
At end of year	**2.4**	**7.0**	**9.4**

27 Reserves

27a Group

	Share premium account £ million	Capital redemption reserve £ million	Shares held in employee share ownership trusts £ million	Associates' reserves £ million	Profit & loss account £ million
At beginning of year (restated)	131.8	4.9	(14.8)	0.1	445.8
Exchange adjustments	–	–	–	–	(7.0)
Premium on shares issued	5.3	–	–	–	–
Purchase of shares	–	–	(14.9)	–	–
Shares utilised	–	–	0.9	–	–
Actuarial gain on retirement benefits assets and liabilities	–	–	–	–	25.1
Transfers	–	–	–	(0.5)	0.5
Retained profit / (loss) for the year	–	–	–	(0.1)	64.5
At end of year	**137.1**	**4.9**	**(28.8)**	**(0.5)**	**528.9**

At 31st March 2004 the cumulative amount of goodwill, net of goodwill relating to disposals, charged against profit and loss account was £40.6 million (2003 £40.6 million).

At 31st March 2004 the profit and loss account includes £3.5 million relating to the net retirement benefits asset (2003 restated £25.4 million net retirement benefits liability).

In the group accounts, £22.5 million of net exchange gains (2003 £12.9 million) on foreign currency borrowings have been offset in reserves against exchange losses on the translation of the related net investment in overseas subsidiaries.

At 31st March 2004 the group's employee share ownership trusts (ESOTs) held 3,530,743 shares (2003 2,146,449 shares) with a market value of £31.1 million (2003 £15.8 million) which had not yet vested unconditionally in employees. The shares were purchased in the open market and are held in trust for employees participating in the group's executive share option schemes and long term incentive plan. Mourant & Co., as trustees for the ESOTs, has waived its dividend entitlement. At 31st March 2004 7,349,390 shares (2003 6,939,967 shares) were under option or had been conditionally gifted to employees.

27b Parent company

	Share premium account £ million	Capital redemption reserve £ million	Shares held in employee share ownership trusts £ million	Profit & loss account £ million
At beginning of year (restated)	131.8	4.9	(14.4)	120.8
Premium on shares issued	5.3	–	–	–
Purchase of shares	–	–	(14.9)	–
Shares utilised	–	–	0.9	–
Actuarial loss on retirement benefits liability	–	–	–	(0.5)
Retained loss for the year	–	–	–	(25.6)
At end of year	**137.1**	**4.9**	**(28.4)**	**94.7**

The parent company's profit for the financial year was £31.8 million (2003 restated £52.8 million).

At 31st March 2004 the profit and loss account includes £9.3 million relating to the net retirement benefits liability (2003 restated £7.0 million).

At 31st March 2004 the company's ESOT held 3,466,162 shares (2003 2,081,868 shares) with a market value of £30.5 million (2003 £15.3 million) which had not yet vested unconditionally in employees. The shares were purchased in the open market and are held in trust for employees participating in the group's executive share option schemes and long term incentive plan. Mourant & Co., as trustees for the ESOT, has waived its dividend entitlement.

28 Gross cash flows

28a Returns on investments and servicing of finance

	2004 £ million	2003 £ million
Interest received from associates	**–**	0.2
Interest received	**10.2**	9.0
Interest paid	**(26.5)**	(22.4)
Dividends paid to minority shareholders	**(0.1)**	(0.2)
Net cash flow for returns on investments and servicing of finance	**(16.4)**	(13.4)

28b Capital expenditure and financial investment

	£ million	2004 £ million	£ million	2003 £ million
Purchase of tangible fixed assets		**(116.2)**		(126.3)
Purchase of long term investments		**(0.2)**		(0.2)
		(116.4)		(126.5)
Sale of tangible fixed assets	**0.5**		1.1	
Sale of long term investments	**1.5**		0.2	
Sale of short term investments	**–**		0.5	
		2.0		1.8
Net cash outflow for capital expenditure and financial investment		**(114.4)**		(124.7)

28c Cash flows on acquisitions and disposals

	£ million	2004 £ million	£ million	2003 £ million
Investment in Synetix (note 31)		**1.6**		(267.0)
Investment in AMC (note 31)		**(20.7)**		–
Investment in subsidiary undertakings (note 31)		**0.2**		(3.7)
Cash and overdrafts acquired (note 31)		**1.1**		0.1
Purchase of minority interests (note 31)		**(0.6)**		(0.6)
		(18.4)		(271.2)
Sale of an interest in fuel cells subsidiary	**–**		20.0	
Exchange of Australian gold operations for share of AGR Matthey	**–**		1.5	
Disposal of French print business	**–**		(0.1)	
Disposal of UK Minerals business	**–**		1.0	
		–		22.4
Net cash flow for acquisitions and disposals		**(18.4)**		(248.8)

28d Management of liquid resources

	2004 £ million	2003 £ million
Cash paid into term deposits of less than one year	**(0.1)**	(0.3)
Cash withdrawn from term deposits of less than one year	**1.2**	1.3
Net cash flow from management of liquid resources	**1.1**	1.0

28e Financing

	£ million	2004 £ million	£ million	2003 £ million
Issue of ordinary share capital		**6.4**		4.4
Purchase of own shares		**(14.9)**		(1.6)
		(8.5)		2.8
Decrease in borrowings falling due within one year	**(4.4)**		(21.5)	
Increase in borrowings falling due after more than one year	**10.9**		282.4	
Capital element of finance lease rental payments	**(0.2)**		(1.2)	
		6.3		259.7
Net cash flow from financing		**(2.2)**		262.5

29 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	100.4	(11.5)	(34.7)	(452.2)	(4.5)	(402.5)
Cash flow						
From cash and overdrafts	14.2	(3.8)	–	–	–	10.4
From borrowings and finance leases	–	–	4.4	(10.9)	0.2	(6.3)
From term deposits	(1.1)	–	–	–	–	(1.1)
Net cash flow	13.1	(3.8)	4.4	(10.9)	0.2	3.0
Loan notes cancelled (note 31)	–	–	1.1	–	–	1.1
Loan notes issued to acquire AMC (note 31)	–	–	(1.1)	(1.1)	–	(2.2)
Other non cash changes	–	–	(2.1)	2.1	–	–
Effect of foreign exchange rate changes	(7.0)	(0.2)	1.7	11.6	–	6.1
At end of year	**106.5**	**(15.5)**	**(30.7)**	**(450.5)**	**(4.3)**	**(394.5)**

30 Commitments, guarantees and contingent liabilities

	Group 2004 £ million	Group 2003 £ million	Parent company 2004 £ million	Parent company 2003 £ million
Commitments				
Future capital expenditure contracted but not provided	**11.5**	17.5	**2.8**	5.0
Annual commitments under operating leases				
Leases of land and buildings terminating				
Within one year	**0.8**	2.1	**–**	1.3
In one to five years	**4.0**	4.2	**1.5**	1.7
Over five years	**1.6**	1.2	**0.5**	0.2
Other leases terminating				
Within one year	**0.8**	0.9	**0.3**	0.2
In one to five years	**2.8**	1.9	**1.1**	0.8
Over five years	**0.1**	0.1	**–**	–
Guarantees				
Guarantees of subsidiary undertakings' borrowings and precious metal leases	**–**	–	**51.9**	41.9
Other guarantees	**–**	0.4	**–**	0.2

31 Acquisitions

Activated Metals and Chemicals, Inc.

On 30th March 2004 the group acquired the Activated Metals and Chemicals, Inc. group of companies (AMC). AMC provides catalysts for pharmaceutical, chemical and industrial applications and has operations in Tennessee, USA. Its post acquisition results will be included in Catalysts. This has been accounted for by acquisition accounting. AMC's profit after taxation and minority interests in its last financial year to 31st December 2003 was £1.0 million and in the period from that date to the date of acquisition was £0.6 million.

The assets and liabilities acquired were:

	Book values immediately prior to acquisition £ million	Fair value adjustments Revaluations £ million	Consistency of accounting policies £ million	Other £ million	Fair value at time of acquisition £ million
Tangible fixed assets	1.7	–	(0.3)	–	1.4
Stocks	1.7	(0.2)	–	–	1.5
Debtors and prepayments	3.1	–	–	–	3.1
Cash at bank and in hand	1.1	–	–	–	1.1
Creditors falling due within one year	(0.7)	–	–	(2.2)	(2.9)
Provisions for liabilities and charges	–	–	–	(0.1)	(0.1)
Total net assets acquired	6.9	(0.2)	(0.3)	(2.3)	4.1
Goodwill on acquisition					19.4
					23.5

Satisfied by:	£ million
Purchase consideration – cash	20.5
Purchase consideration – loan notes	2.2
Purchase consideration – outstanding	0.4
Purchase consideration – deferred and contingent	0.1
Costs incurred – cash	0.2
Costs incurred – accrued	0.1
	23.5

The revaluation fair value adjustments to stocks reflect the write down to estimated realisable value. The fair value adjustments to achieve consistency of accounting policies in tangible fixed assets is to move them onto the group's depreciation policies. The other fair value adjustments to creditors falling due within one year and provisions for liabilities and charges are to include items not previously recognised.

The deferred consideration is contingent on future profits of one part of AMC.

Process catalyst business of Arora-Matthey Limited

On 31st March 2004 the group purchased a process catalyst business from Arora-Matthey Limited for £0.4 million and the group's investment in the shares in Arora-Matthey Limited. The cash consideration is outstanding at the year end. The equity accounted value of the group's investment in Arora-Matthey Limited was £0.5 million immediately prior to the transaction. This has been accounted for by acquisition accounting and resulted in goodwill of £0.9 million.

Oy Smoptech AB minority interest

On 31st March 2004 the group acquired the remaining 49.3% of Oy Smoptech AB for £0.6 million. The fair value of the minority interest immediately prior to the purchase was a liability of £0.7 million resulting in goodwill of £1.3 million.

Synetix acquired in the year ended 31st March 2003

On 1st November 2002 the group acquired the Synetix division of ICI and the estimated goodwill disclosed in the accounts for the year ended 31st March 2003 was £191.4 million. This has been restated to £195.7 million following the adoption of FRS 17. During the year a refund of £1.9 million was received and costs of £0.3 million accrued last year were paid. Goodwill has now been revised by £10.3 million to £206.0 million to reflect further fair value adjustments mainly to the estimated realisable value of debtors and tangible fixed assets.

31 *Acquisitions* *(continued)*

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

On 17th October 2002 the group acquired Cascade Biochem Limited. During the year the fair values of some of the assets were adjusted by £0.2 million and the estimate of deferred consideration was reduced by £2.0 million. Consequently, goodwill was reduced by £1.8 million.

VSF Resin & Varnish Limited acquired in the year ended 31st March 2003

On 11th February 2003 the group acquired VSF Resin & Varnish Limited. During the year £0.1 million of deferred consideration was paid and the remaining deferred consideration was reduced by £0.2 million. Consequently, goodwill was reduced by £0.2 million.

Pharm-Eco Laboratories, Inc. acquired in the year ended 31st March 2002

On 20th April 2001 the group acquired Pharm-Eco Laboratories, Inc. During the year the remaining outstanding escrow claim of £0.3 million was received.

Avocado Research Chemicals Limited acquired in the year ended 31st March 2002

On 7th February 2002 the group acquired Avocado Research Chemicals Limited. During the year loan notes of £1.1 million were cancelled. Consequently, goodwill was reduced by £1.1 million.

Principal Subsidiary Undertakings and Associates

	Country of incorporation
Europe	
S.A. Johnson Matthey N.V.	Belgium
Cascade Biochem Limited	Eire
+ Avocado Research Chemicals Limited	England
+ Cascade Biochem Limited	England
+ Johnson Matthey Fuel Cells Limited (82.5%)	England
Johnson Matthey S.A.	France
Johnson Matthey GmbH	Germany
Johnson Matthey Italia S.p.A.	Italy
Johnson Matthey BV	Netherlands
Johnson Matthey Ceramica (Portugal) Lda	Portugal
+ Macfarlan Smith Limited	Scotland
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 Inc.	USA
Johnson Matthey Catalog Company Inc.	USA
Johnson Matthey Fuel Cells, Inc. (82.5%)	USA
Pharm-Eco Laboratories, Inc.	USA

	Country of incorporation
Asia	
Johnson Matthey Ceramics (Jiangsu) Co. Ltd.	China
Johnson Matthey (Shanghai) Chemicals Limited	China
Johnson Matthey Hong Kong Limited	Hong Kong
Johnson Matthey India Private Limited (90%)	India
Johnson Matthey Chemicals India Private Limited	India
Johnson Matthey Japan, Inc.	USA
+ Johnson Matthey Sdn. Bhd. (92%)	Malaysia
Johnson Matthey Ceramics (Malaysia) Sdn. Bhd.	Malaysia
Africa	
Johnson Matthey (Pty) Limited	South Africa
Australasia	
* AGR Matthey (20%)	Australia
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 14c on page 57).

\+ Investments held directly by parent company.

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

Ten Year Record

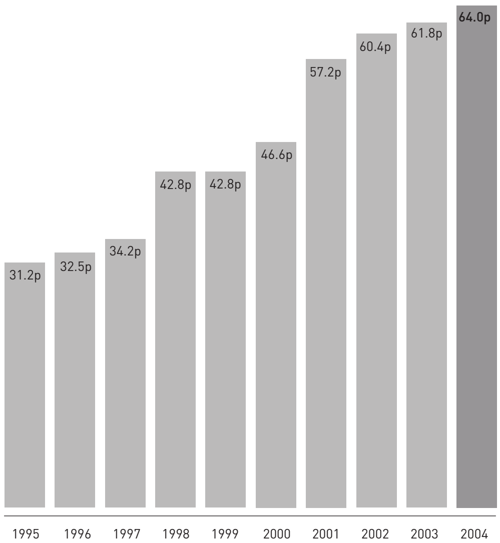
	1995 £ million	1996 £ million	1997 £ million	1998 £ million	1999 £ million
Turnover					
Parent and subsidiaries	2,177.8	2,528.9	2,423.2	3,138.8	3,385.4
Share of joint ventures	97.1	156.7	156.9	128.8	–
Total	2,274.9	2,685.6	2,580.1	3,267.6	3,385.4
Operating profit before exceptional items and goodwill amortisation	100.4	111.0	116.3	139.2	147.1
Goodwill amortisation	–	–	–	–	–
Exceptional items	–	–	–	(4.5)	(1.9)
Total operating profit	100.4	111.0	116.3	134.7	145.2
Other exceptional items	(0.7)	–	–	4.4	8.8
Profit before interest	99.7	111.0	116.3	139.1	154.0
Net interest	(4.3)	(8.8)	(8.0)	(9.0)	(15.9)
Net return on retirement benefits assets and liabilities	–	–	–	–	–
Profit before taxation	95.4	102.2	108.3	130.1	138.1
Taxation	(34.3)	(34.3)	(33.0)	(28.5)	(35.1)
Profit after taxation	61.1	67.9	75.3	101.6	103.0
Minority interests	(1.0)	(1.7)	(1.2)	(0.3)	0.7
Profit attributable to shareholders	60.1	66.2	74.1	101.3	103.7
Dividends	(25.9)	(31.4)	(33.6)	(38.7)	(41.3)
Profit retained	34.2	34.8	40.5	62.6	62.4
Earnings per ordinary share (graph 2)	30.9p	32.5p	34.2p	46.7p	47.8p
Earnings per ordinary share before exceptional items and goodwill amortisation (graph 1)	31.2p	32.5p	34.2p	42.8p	42.8p
Dividend per ordinary share (graph 3)	13.5p	14.5p	15.5p	17.8p	19.0p
Summary Balance Sheet					
Assets employed:					
Goodwill	–	–	–	–	4.2
Tangible fixed assets	256.1	321.7	337.7	461.5	480.2
Fixed assets investments / joint ventures / associates	70.9	100.4	84.2	4.2	1.8
Stocks	153.2	196.6	184.7	244.8	243.7
Debtors and short term investments	190.9	231.7	252.5	379.8	434.0
Other creditors and provisions	(223.4)	(304.0)	(291.1)	(409.8)	(418.8)
Retirement benefits net assets / (liabilities)	–	–	–	–	–
	447.7	546.4	568.0	680.5	745.1
Financed by:					
Net borrowings and finance leases / (cash)	102.4	134.2	143.7	225.1	221.6
Retained earnings	151.6	99.8	107.8	130.9	200.9
Share capital, share premium, capital redemption and shares held in ESOTs	195.7	313.1	316.3	318.4	316.8
Minority interests	(2.0)	(0.7)	0.2	6.1	5.8
Capital employed	447.7	546.4	568.0	680.5	745.1
Cumulative goodwill taken directly to reserves	57.5	150.3	156.3	171.4	171.4
Return on assets (Operating profit before exceptional items and goodwill amortisation / average capital employed and cumulative goodwill taken directly to reserves)	21.3%	18.5%	16.4%	17.7%	16.6%

Figures for 2003 have been restated for the adoption of FRS 17 – 'Retirement Benefits'. Prior year figures have not been restated for FRS 17 because comparatives are not available. Apart from this, 2003 and prior years have been restated to reflect all changes in accounting policies.

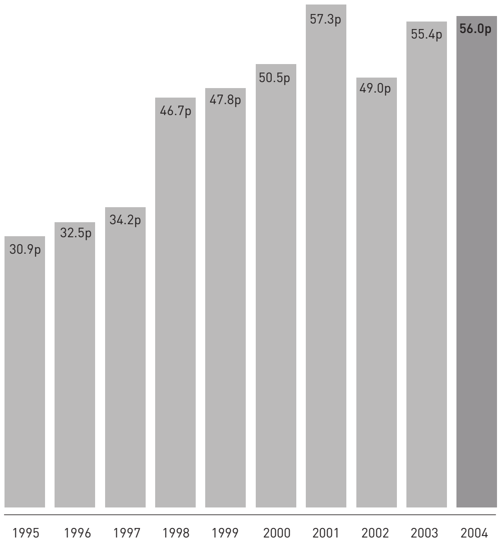
Ten Year Record

2000 £ million	2001 £ million	2002 £ million	2003 £ million	**2004 £ million**
3,866.0	5,903.7	4,830.1	4,323.9	**4,492.9**
–	–	–	–	**–**
3,866.0	5,903.7	4,830.1	4,323.9	**4,492.9**
146.2	175.0	193.3	189.2	**206.0**
(0.2)	(0.3)	(6.8)	(13.7)	**(19.8)**
(9.8)	(0.6)	(18.1)	(7.6)	**2.1**
136.2	174.1	168.4	167.9	**188.3**
23.4	1.1	(5.6)	4.9	**–**
159.6	175.2	162.8	172.8	**188.3**
(2.4)	5.3	(6.1)	(13.2)	**(16.3)**
–	–	–	13.9	**6.0**
157.2	180.5	156.7	173.5	**178.0**
(47.3)	(54.2)	(50.2)	(53.7)	**(57.9)**
109.9	126.3	106.5	119.8	**120.1**
(0.2)	(0.6)	0.3	0.4	**1.7**
109.7	125.7	106.8	120.2	**121.8**
(44.3)	(51.3)	(53.2)	(55.5)	**(57.4)**
65.4	74.4	53.6	64.7	**64.4**
50.5p	57.3p	49.0p	55.4p	**56.0p**
46.6p	57.2p	60.4p	61.8p	**64.0p**
20.3p	23.3p	24.6p	25.5p	**26.4p**
5.1	8.6	182.6	373.4	**377.1**
311.3	386.8	495.1	601.1	**608.1**
1.0	1.0	2.7	6.4	**5.5**
253.2	278.8	414.3	438.4	**417.3**
434.7	522.9	456.0	367.2	**389.0**
(452.5)	(534.7)	(584.4)	(560.5)	**(534.4)**
–	–	–	(25.4)	**3.5**
552.8	663.4	966.3	1,200.6	**1,266.1**
(165.8)	(139.9)	159.0	402.5	**394.5**
389.2	465.9	466.4	445.9	**528.4**
324.9	332.8	337.0	341.4	**333.8**
4.5	4.6	3.9	10.8	**9.4**
552.8	663.4	966.3	1,200.6	**1,266.1**
46.0	46.0	46.0	40.6	**40.6**
19.3%	26.8%	22.5%	16.8%	**16.2%**

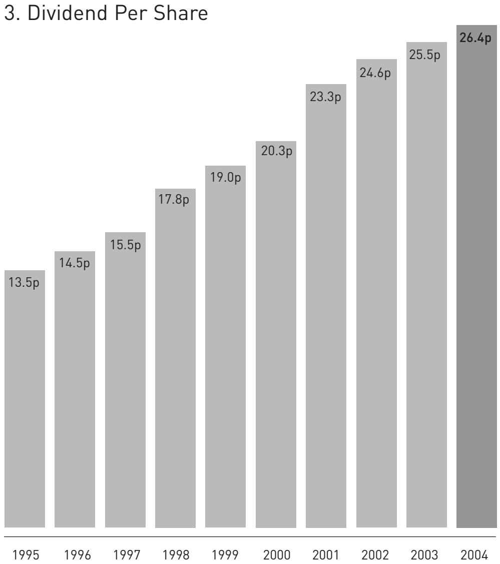
1. Earnings Per Share Before Exceptional Items and Goodwill Amortisation



2. Earnings Per Share



3. Dividend Per Share



Shareholder Information

Analysis of ordinary shareholders as at 28th May 2004

By category	Number of shares	Percentage
Pension funds	109,736,609	49.74
Insurance Companies	58,514,587	26.52
Investment and Unit Trusts	29,220,212	13.25
Individuals	14,882,037	6.75
Other	8,256,811	3.74
	220,610,256	100.00

By size of holding	Number of holdings	Percentage	Number of shares	Percentage
1-1,000	8,474	66.57	3,833,716	1.74
1,001 – 10,000	3,461	27.19	8,754,501	3.97
10,001 – 100,000	527	4.14	17,951,183	8.13
100,001 – 1,000,000	217	1.71	67,215,730	30.47
1,000,001 – 5,000,000	45	0.35	93,267,742	42.28
5,000,001 and over	5	0.04	29,587,384	13.41
	12,729	100.00	220,610,256	100.00

Low Cost Share Dealing Service

A low cost share dealing service is 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, P.O. Box 2000, Aylesbury, Bucks HP21 8ZB telephone: 01296 414141 (e-mail info@share.co.uk).

Dividends

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. A Dividend Reinvestment Plan (DRIP) is also available for the benefit of shareholders. Further information can be obtained from the Company Secretary at the company's registered office.

American Depositary Receipts

Johnson Matthey has a sponsored Level 1 American Depositary Receipt (ADR) programme which The Bank of New York administers and for which it acts as Depositary. Each ADR represents two Johnson Matthey ordinary shares. The ADRs trade in the US over-the-counter (OTC) market under the symbol JMPLY. When dividends are paid to shareholders, the Depositary converts such dividends into US dollars, net of fees and expenses, and distributes the net amount to ADR holders. For enquiries, The Bank of New York can be contacted on 001 610 382 7836 or 001 888 BNY ADRS (toll free for calls made in the US only). They can also be contacted by e-mail at shareowners@bankofny.com or via their website at www.adrbny.com.

Share price and group information

Information on the company's current share price together with copies of the group's annual and interim reports and major presentations to analysts and institutional shareholders are available on the Johnson Matthey website: www.matthey.com. For capital gains tax purposes the mid-market price of the company's ordinary shares on 31st March 1982 was 253 pence.

Financial calendar 2004

11th June
Final ordinary dividend record date

20th July
113th Annual General Meeting (AGM)

3rd August
Payment of final dividend subject to declaration at the AGM

25th November
Announcement of results for six months ending 30th September 2004

3rd December
Interim dividend record date

4th February 2005
Interim dividend payment date

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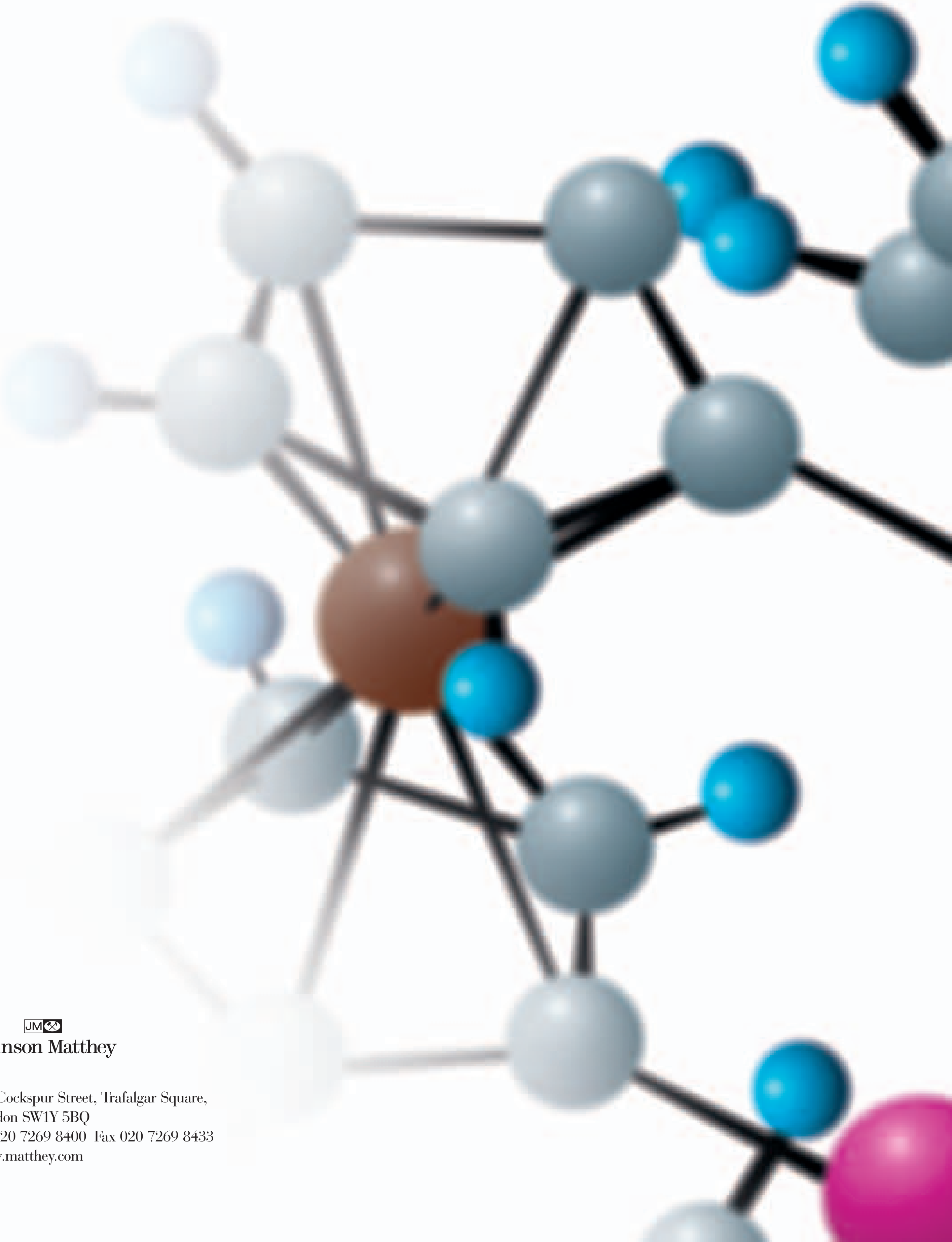

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