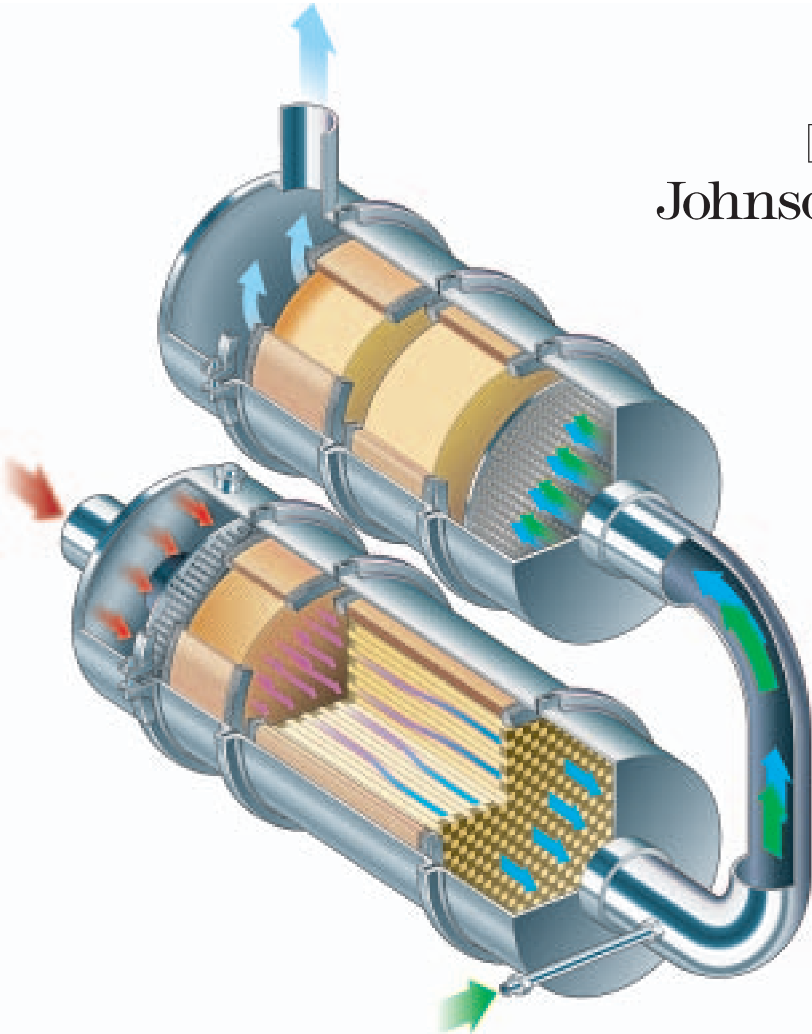
Annual Report & Accounts

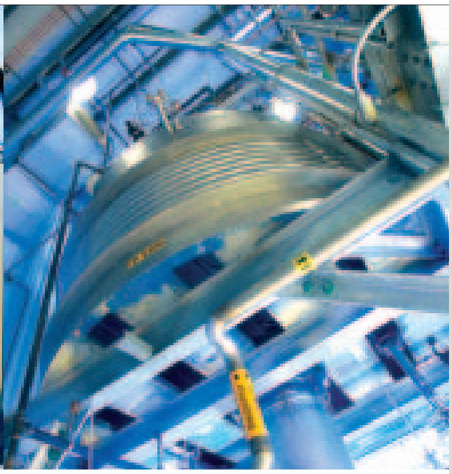


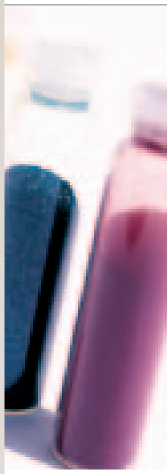
Johnson Matthey

2005

Cautionary Statement

The operating and financial review and certain other sections of this annual report contain forward looking statements that are subject to risk factors associated with, amongst other things, the economic and business circumstances occurring from time to time in the countries and sectors in which the group operates. It is believed that the expectations reflected in these statements are reasonable but they may be affected by a wide range of variables which could cause actual results to differ materially from those currently anticipated.





Contents

Front cover:
SCRT® technology, which combines our benchmark Continuously Regenerating Trap (CRT®) system with selective catalytic reduction (SCR) to reduce emissions of hydrocarbons (HC), carbon monoxide (CO), particulate matter (PM) and oxides of nitrogen (NOx) from heavy duty diesel (HDD) vehicles. The SCRT® system is part of Johnson Matthey's 'tool box' of HDD emission control technologies which will enable our customers to meet continuously tightening emissions standards around the world (see pages 32 and 33).

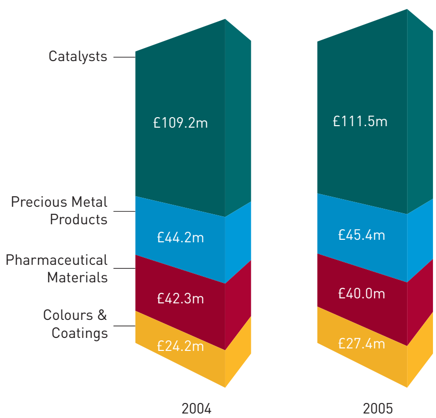
Financial Highlights

2005

Summary Results

	Year to 31st March 2005	2004	% change
Statutory Basis:			
Turnover	**£4,639m**	£4,493m	+3
Profit before tax	**£131.0m**	£178.0m	-26
Earnings per share	**40.6p**	56.0p	-28
Before Exceptional Items and Goodwill Amortisation:			
Profit before tax	**£204.0m**	£195.7m	+4
Earnings per share	**67.1p**	64.0p	+5
Dividend per share	**27.7p**	26.4p	+5

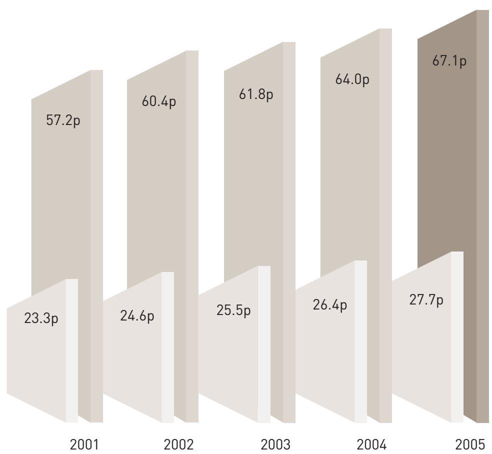
Divisional
Operating Profit[1]



[1] Excluding discontinued operations, exceptional items and goodwill amortisation

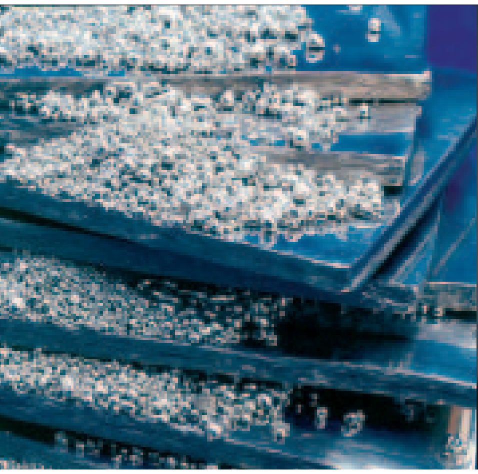
Earnings per Share Before Exceptional Items and Goodwill Amortisation

Dividend per Share



Chairman's Statement

Michael Miles OBE Chairman



Johnson Matthey performed well in 2004/05. We have continued the strategic development of the group, particularly our investment in new product development which will support the growth of our businesses in the years to come.

Major investment programmes include heavy duty diesel (HDD) catalysts, where we are working in collaboration with leading HDD engine manufacturers to help them meet continuously tightening emissions legislation around the world. We are also investing in the expansion of our production facilities to manufacture catalysed soot filters (CSFs) for light duty diesel vehicles. In our Pharmaceutical Materials Division we are investing in our opiates business and in the development of our portfolio of prostaglandin products, both of which have good growth prospects over the next few years. Catalysts for the production of hydrogen and for the gas to liquids process are the focus of investment in our process catalysts business. Fuel cells represent an important long term growth opportunity for Johnson Matthey and we are currently investing in the development of the next generation of materials and products for automotive fuel cell applications.

The board appointed Neil Carson Chief Executive of the company in July last year following the retirement of Chris Clark. He has had a good first year, providing strong leadership and successfully executing our strategy for the continued profitable growth of Johnson Matthey. This, and the strength of our team of executive directors, clearly illustrates the success of our commitment to developing management talent and appointing senior positions from within the company. Johnson Matthey is also fortunate to have a strong group of independent directors who bring to your board a wealth of experience of international business from a wide cross section of industrial sectors. I would like to thank them for their wise counsel and the valuable contribution that they have made during the year.

In this year's annual report we have included an Operating and Financial Review (OFR) to provide shareholders with more information on the drivers of our businesses, operating performance and developments during the year.

The OFR includes a detailed review of the group's research and development activities on pages 13 to 15. Your board is fully committed to investing in R&D to ensure that Johnson Matthey remains at the leading edge of the high technology industries that it serves. The board also has a longstanding commitment to report on Johnson Matthey's performance in matters of corporate social responsibility. The OFR features a detailed review of the company's policies and performance in this important area which can be found on pages 24 to 33 of this annual report. This year also sees the publication of the third edition of our comprehensive web report on corporate social responsibility. This continues to be well received and generates a good deal of useful feedback from shareholders; it can be accessed on Johnson Matthey's corporate website at www.matthey.com.

After seven years as Chairman of Johnson Matthey I will be retiring from the board during the coming year when we have appointed a successor. This process is underway, an important part of which has been consultations with our major shareholders.

I have much enjoyed my time as Chairman of Johnson Matthey. Good progress has been made since my appointment in June 1998. Over this period both earnings per share and the dividend have grown significantly and the group has evolved into a leading speciality chemicals company with strong positions in catalysis, precious metals, pharmaceutical materials and other specialist chemicals markets.

I am most grateful for the excellent support that I have received from Johnson Matthey staff at all levels of the organisation. The skill and professionalism of our staff is a reflection of the most important investment that the company makes; that which we make in our 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 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 2004/05 and for the support that they have given me during my years as Chairman.

Johnson Matthey continues to make excellent progress towards delivering superior value to its shareholders. The company is in good shape and I am confident that it is very well positioned to achieve strong growth over the years ahead.

Michael Miles,

Michael Miles OBE
Chairman

Operating and Financial Review

Neil Carson Chief Executive

Strategy and Objectives

Johnson Matthey's strategic intent is to achieve consistent growth in earnings by concentrating on the development of high added value products and services in areas where our expertise provides a competitive edge, particularly in catalysis, precious metals, fine chemicals and materials technology.

The group's financial objectives are:

- To achieve consistent and above average growth in earnings per share. Over the last ten years Johnson Matthey has increased its earnings per share before exceptional items and goodwill amortisation at a compound annual growth rate of 8.4% p.a. (see pages 86 and 87).
- To grow dividends in line with earnings while maintaining dividend cover at about two and a half times to ensure sufficient funds are retained to support organic growth. Over the last ten years Johnson Matthey has increased its dividend at a compound annual growth rate of 7.5% p.a. Dividend cover for 2004/05 was 2.4 times (see page 19).
- To deliver a return on investment above the group's cost of capital. We estimate Johnson Matthey's post tax cost of capital is currently about 8%. The group's post tax return on assets for 2004/05 was 3.4% above that at 11.4%.
- We set a pre-tax target of 20% for return on assets for all of our divisions with a minimum threshold of being ahead of our cost of capital (11.3% on a pre-tax basis). Precious Metal Products achieved a return in excess of 20% in 2004/05. Each of the other divisions' return on assets was between the cost of capital and the 20% target (see page 18). In 2004/05 the group's overall pre-tax return was 16.1%.

The board's strategies to achieve these financial objectives are:

- Focus the business on the group's core skills in catalysis, precious metals and fine chemicals.
- Position the group in growth markets where our core skills are applicable. Catalysis is a key technology in many developing markets for the 21st century, particularly those concerned with protecting the environment such as in emission control, cleaner fuel and the hydrogen economy. Catalysis is also important in the manufacture of active pharmaceutical ingredients where Johnson Matthey has a strong niche position in the growing markets for generic pain killers and other controlled drugs, as well as platinum based anticancer compounds. Johnson Matthey's expertise and international strength in precious metals, particularly platinum group metals, was the starting point for many of our businesses. The market for platinum has grown steadily for many decades and demand is expected to grow significantly over the next ten years.
- Differentiate ourselves by using our world class technology. We will continue to invest significantly in research and development to develop new products and manufacturing processes. Technology is the key driver for most of our businesses and Johnson Matthey has a strong science base with technical centres located in all our major markets.
- Maintain strong relationships with our major customers, suppliers, government bodies and other stakeholders by investing resources on joint projects to ensure the group is well positioned for future market development.
- Continue to invest in Johnson Matthey's employees to ensure they are well trained, motivated and encouraged to meet the challenges of the future.

In the near term our main focus will be to deliver the major organic growth opportunities we have been investing in over the last few years. These include emission controls for new heavy duty diesel (HDD) vehicles (trucks and buses); further opportunities in light duty diesel vehicles including catalysed soot filters (CSFs); new catalyst technology for hydrogen production and gas to liquids (GTL) and new products for Pharmaceutical Materials. We believe the group is particularly well positioned for organic growth over the next few years. In the longer term fuel cell components remain an exciting market opportunity.

Our funding policy is to maintain a strong balance sheet with conservative gearing and use cash generated to invest in organic growth and bolt-on acquisitions. Where cash generated exceeds our investment requirements we will return the money to shareholders either in the form of share buy-backs or special dividends.

Review of Results 2004/05

Johnson Matthey made good progress in 2004/05 with profit before tax, exceptional items and goodwill amortisation up 4% despite adverse exchange translation. Earnings per share before exceptional items and goodwill amortisation increased by 5%.

On a constant currency basis both Catalysts and Precious Metal Products Divisions achieved 6% growth in operating profit. Pharmaceutical Materials was 2% down as a result of the expiry of the carboplatin patent while Colours & Coatings continued its good recovery with profits 17% up.

Cash generation was good with a net £16.1 million used to buy back shares and net borrowings reduced by £24.9 million. The group is well positioned to benefit from organic growth over the next few years and we have also taken action to improve the returns on underperforming assets.

Total sales grew by 3% to £4,639 million. At constant exchange rates sales grew by 7% with most of the increase coming from more buoyant trading conditions for platinum group metals and higher average prices. Sales excluding the value of precious metals fell by 2% to £1,200 million. This fall partly reflected the impact of exchange translation but also lower pass through costs for autocatalyst substrates.

Operating profit before exceptional items and goodwill amortisation rose by 1% to £208.1 million. Adverse exchange translation reduced profits by £8.0 million compared with 2003/04 mainly because of the fall in the value of the US dollar which averaged $1.85/£ compared with $1.69/£ for the last financial year. Translated at last year's exchange rates, operating profit before exceptional items and goodwill amortisation increased by 5%.

Interest was £3.0 million lower than last year as a result of lower average borrowings and more favourable average interest rates, particularly for platinum. The return on retirement benefits assets and liabilities improved by £3.2 million reflecting the increased funding surplus at 31st March 2004.

Profit before tax, exceptional items and goodwill amortisation increased by 4% to £204.0 million. Earnings per share before exceptional items and goodwill amortisation rose by 5% to 67.1 pence benefiting from a more favourable average tax rate.

Total exceptional items amounted to £51.9 million. Most of this charge related to the loss on disposal of Pigments & Dispersions and the restructuring of underperforming assets. We expect that this process will ultimately generate £50 million of additional cash which we are using to buy back shares.

Taking into account exceptional costs and goodwill amortisation, profit before tax on a statutory basis fell by £47.0 million to £131.0 million and earnings per share were 15.4 pence lower at 40.6 pence.

The board is recommending to shareholders a final dividend of 19.0 pence, making a total dividend for the year of 27.7 pence, an increase of 5%, which is in line with the growth in earnings per share before exceptional items and goodwill amortisation.

Outlook

The outlook for the next few years is very encouraging. We expect the group to achieve good top line growth from the introduction of new products and also generate cash.

The group's profits were higher in the first half of 2004/05 than in the second half, partly as a result of exchange translation. In 2005/06 we expect this trend to be reversed, with most of the growth coming in the second half of the year.

The much publicised problems in the US car industry are likely to have some impact on Johnson Matthey's results in the first half of 2005/06. We expect car production to be down in the US in our first half which will reduce demand for autocatalysts in that region. However, both Europe and Asia are now bigger car producing regions than the US and Johnson Matthey's businesses in those regions are continuing to see good demand which should more than offset the shortfall in the US. In the first half of 2005/06 we expect profits in our Pharmaceutical Materials Division will be down on the equivalent period in 2004/05 when we were still benefiting from the carboplatin patent, which expired in October 2004.

Despite these factors the underlying growth trend is favourable. HDD legislation in Europe will begin to have an impact in October 2005 and we expect to see demand for aftertreatment devices from original equipment manufacturers start to grow in the second half of the year. We also expect sales of catalysed soot filters for light duty diesel vehicles to grow during the year. Pharmaceutical Materials should benefit from new product launches in early 2006.

Earnings per share will also benefit from the share buy-backs we have undertaken using the proceeds generated by our programme to improve the returns on underperforming assets. We expect to purchase an additional £25 million of shares in the first half of 2005/06. We have completed our review of underperforming assets and do not expect any further exceptional rationalisation costs in 2005/06.

Operating and Financial Review

Operations

Johnson Matthey has operations in 34 countries and employs around 7,400 people. It is organised into four global divisions: Catalysts, Precious Metal Products, Pharmaceutical Materials and Colours & Coatings.

Catalysts Division

Description of the Business

Catalysts Division consists of three global businesses:

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, Japan, 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, UK and Germany.

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

Performance in 2004/05

Catalysts Division's sales rose by 4% to £1,184 million. At constant exchange rates the increase was 7%. Sales excluding the value of precious metals fell by 3% to £698 million. At constant exchange rates sales excluding the value of precious metals rose slightly. Sales growth was held back by lower pass through substrate costs associated with the increasing proportion of diesel catalysts sold.

The division's operating profit increased by 2% to £111.5 million. At constant exchange rates operating profit grew by 6%.

Environmental Catalysts and Technologies
Environmental Catalysts and Technologies achieved good growth in profits in autocatalysts, with all the growth coming in Europe and Asia. Profits were lower in North America. In Johnson Matthey's financial year global light duty vehicle sales grew by 2.9%, with most of the growth arising in Asia where sales rose by 4.1%. Sales in Europe increased by 1.7%, with most of the growth coming in Eastern Europe. In North America light duty vehicle sales were slightly up but domestic production fell by 1.8% with an increased number of imports mainly from Asia.

Light Vehicle Sales and Production

		Year to 31st March 2005 millions	2004 millions	change %
North America	Sales	19.46	19.35	0.6%
	Production	15.56	15.85	-1.8%
Europe	Sales	17.98	17.68	1.7%
	Production	20.30	19.90	2.0%
Asia	Sales	13.68	13.14	4.1%
	Production	21.10	19.70	7.1%
Global	Sales	62.09	60.36	2.9%
	Production	63.00	60.80	3.6%

Source: Global Insight

ECT's strong performance in Europe reflected the continued growth in diesel car sales where Johnson Matthey has leading technology. For the year to 31st March 2005 diesel car sales in Western Europe accounted for nearly half the market for cars. There is increasing focus on reducing particulate emissions from diesel vehicles in Europe and Johnson Matthey has been working closely with many of the leading car companies to develop catalysed soot filters (CSFs) which remove particles from diesel exhaust emissions. CSFs are likely to be required on all diesel cars in Europe from 2010, but many car manufacturers plan to fit these devices much earlier. We are investing in new production capacity to manufacture CSFs and expect sales to grow in 2005/06.

Our autocatalyst businesses in Asia benefited from strong demand. In India, where Johnson Matthey has a strong market position, car sales grew by 25% while the growth rate in car sales slowed in China but was still 12.5% up on prior year. We are expanding our factory in Shanghai and we have also put in a new production facility next to our technical centre in Japan. This has been well received by customers and we expect to see additional sales in Japan in 2005/06. In North America car production fell, particularly in the final quarter of our financial year when domestic production was down 4.5%. Autocatalyst volumes were also down and Johnson Matthey's profits in the region were lower than last year. In South America vehicle production showed a strong recovery and our facility in Argentina was well ahead of prior year.

Figure 1

HDD On Road Regulation Development

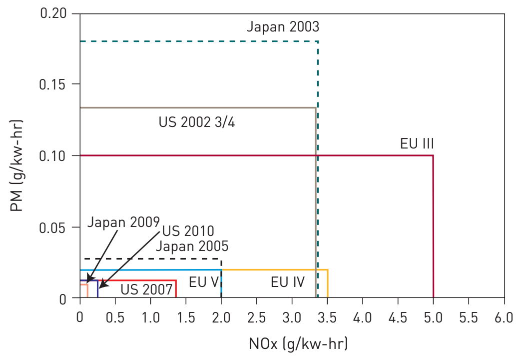
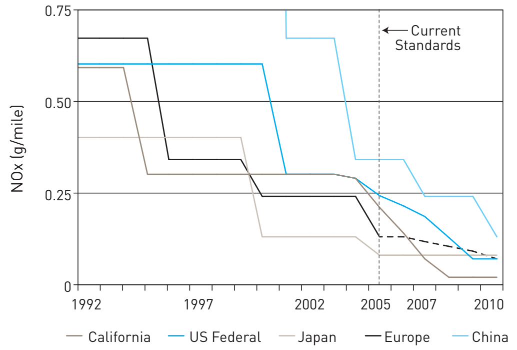


Figure 2

Light Duty Petrol-engined Vehicle NOx Emission Standards



In 2003/04 ECT benefited from strong sales of heavy duty diesel (HDD) retrofit products in Japan supported by an incentive programme from the Tokyo Metropolitan Government. There were no similar sized programmes in 2004/05 and consequently revenues from HDD retrofit products were down. The outlook for HDD sales to original equipment makers is very encouraging. New legislation on HDD vehicle emissions (EU IV) will come into effect in Europe for new models in October 2005 and for all new vehicles in October 2006. New legislation in the US starts in January 2007. The great majority of truck and bus manufacturers will be using aftertreatment devices to meet this legislation and Johnson Matthey has leading technology to meet the new standards.

Tightening emissions standards worldwide are the most important driver of ECT's business. Following closely behind these first waves of on road heavy duty diesel emissions regulations are a series of tighter standards which will come into effect in Europe, Japan and the United States over the next five years. These are illustrated in figure 1 and require major reductions in the emissions of both particulate matter (PM) and oxides of nitrogen (NOx). This presents significant challenges for manufacturers of HDD engines and vehicles. While engine modifications can often be used to lower the level of one of these pollutants, this results in an increase in the other. For example an engine can often be made to run at a lower temperature to reduce NOx emissions but this will result in higher emissions of PM. As legislation tightens it will force the use of highly sophisticated catalyst systems. It is estimated that by the end of 2008, this HDD legislation will have created a market for catalysts worth $600 million per annum in sales excluding the value of precious metals.

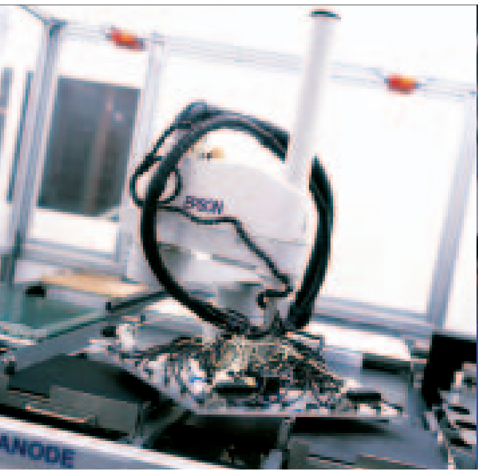
The success of Johnson Matthey's Continuously Regenerating Trap (CRT®) technology in retrofit programmes has established the CRT® technology as the benchmark for control of hydrocarbons (HC), carbon monoxide (CO) and PM emissions from heavy duty diesel vehicles. This has resulted in the generation of millions of hours of operating data on a wide variety of HDD engines and places the company in a strong position to assist HDD original equipment manufacturers as they prepare to meet tougher emissions standards.

Control of NOx emissions from diesel engines presents some formidable challenges as diesel exhaust contains a great deal of oxygen and thus is a strongly oxidising atmosphere. The removal of NOx, however, requires a reducing atmosphere (one containing very little oxygen) or a reductant that can selectively reduce the NOx in the presence of excess oxygen. Therefore, in order to achieve the reduction of all four pollutants (HC, CO, PM and NOx) it is necessary to use highly sophisticated systems. There is no single solution to fit all applications. Johnson Matthey has a full 'tool box' of HDD emission control technologies which will enable customers to meet continuously tightening standards, whichever approach they choose.

In addition to on road HDD emissions legislation, which will undoubtedly continue to tighten beyond 2010, there is also legislation in place in the European Union and the United States that will take effect from 2011 requiring off road or 'non road' vehicles such as construction, mining and agricultural equipment to meet the same tight emissions standards. This is an additional new market that will be of a similar size to the on road HDD market and will have similar technology requirements. Again Johnson Matthey is well positioned to benefit from this legislation.

Emissions standards for light duty gasoline and diesel vehicles also continue to tighten around the world. Figure 2 illustrates legislated limits for emissions of NOx in the world's major car markets. Emission standards for HC and CO are also following this worldwide trend and, as outlined above, there is

Operating and Financial Review



increasing focus on particulate emissions from diesels in Europe. This will undoubtedly spread to other parts of the world as the use of light duty diesel engines increases. Continuously tightening emissions standards bring new technical challenges to our customers which require innovative, high performance catalysts to meet them. This will drive the growth of our autocatalyst business well into the next decade and beyond.

Process Catalysts and Technologies

Process Catalysts and Technologies performed well in 2004/05 with sales and profits comfortably ahead of the previous year. At the end of last year we announced the acquisition of the AMC group of companies (AMC), the market leading supplier of Sponge Nickel™ catalysts located in Tennessee, USA. Sponge Nickel™ catalysts 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 AMC business, now Johnson Matthey Catalysts, Tennessee, performed in line with our expectations and made a welcome contribution in its first full year of ownership.

Our other catalyst businesses also had a good year, nowhere more so than the Ammonia, Methanol, Oil and Gas (AMOG) business which saw strong growth in income from both licensing and catalyst sales and another excellent performance from its gas processing and purification segments. The development of a new class leading methanol flowsheet came a stage closer with the formation of OneSynergy™, a partnership with Davy Process Engineering and Aker Kvaerner to take advantage of Johnson Matthey's new catalyst and process technologies for both methanol synthesis and reforming chemistry.

The dramatic rise in the price of oil has continued to focus investment on the economic use of natural gas, both as a precursor for transport fuel and as a petrochemical intermediate. This, coupled with increased demand for hydrogen in oil refineries worldwide driven by the need to reduce the sulphur content of fuels, has and will continue to drive demand for the AMOG business' products and will allow it to grow ahead of general economic indicators.

The high price of oil also benefited Tracerco, PCT's oil processing services business which saw record demand during 2004/05. In addition to increased sales of services and equipment to production platforms and refineries, Tracerco continues to benefit from good demand for its hydrocarbon tagging products. This results from action taken by various governments around the world to detect and prevent fuel adulteration.

High oil prices also help to boost interest in the gas to liquids process, which turns often stranded natural gas into sulphur free diesel fuel for which there is a growing market driven by tightening fuel standards. During the year we have made progress in developing our technologies for the two key stages of this process; syngas generation and Fischer Tropsch catalysis.

Our Polymers, Chemical Catalysts and Edible Oils (PCEO) business recovered from the effect of last year's rapid rise in nickel prices and hydrogenation catalysts in general had a good year. Market overcapacity and anticipation of the expiry of a key patent softened income in polymers but important successes in a number of new product areas look likely to stabilise this business in the near term.

The platinum group metal refining business continued to be adversely affected by the weak palladium price and overcapacity in the market. After an extensive review we decided to restructure the business in the UK and reduce the intake of low grade materials which had left us with large quantities of residues which are difficult to process. An exceptional charge of £10.2 million has been taken to cover the cost of this rationalisation. One objective of the restructuring will be to reduce the quantity of precious metals held in the refinery and thereby release over £20 million of cash from inventory reduction.

Our Research Chemicals business continued its recent record of strong growth in 2004/05. During the course of the year we acquired the operations of Lancaster Synthesis from Clariant AG. The acquisition was temporarily delayed as a result of a serious fire at Lancaster's UK premises in late July. However the deal was completed at the end of September at a significantly reduced cost. The Lancaster business represents a good fit with our Research Chemicals business and excellent progress has been made in integrating stock and order management systems while maintaining the value of the Lancaster brand with its strong market franchise.

Fuel Cells

The annual cost of our Fuel Cells business reduced by £1.1 million to £10.4 million. The market for stationary fuel cells has not grown as quickly as our customers had expected but developments in automotive fuel cells continue to be very encouraging. At this stage in the development of fuel cells the emphasis is very much on establishing durability in real world applications. This inevitably takes time, particularly for a number of the stationary applications for which durability requirements are very demanding.

During the year we transferred most of our UK fuel cell activities including product development to our facility at Swindon, while longer term research remains at our technology centre at Sonning Common. This will allow the business to operate more efficiently with integrated marketing, product development and production teams based at Swindon working in close collaboration with key customers to meet nearer term targets, while the research group at Sonning Common focuses on the next generation of materials needed for mass automotive markets in the future.

The first fuel cell vehicles to be manufactured in any quantity will be powered by hydrogen. In California, the State government is taking action to develop a network of filling stations for hydrogen powered vehicles. The success of hybrid cars has shown that customers are prepared to pay a premium for environmentally friendly vehicles. Most of the world's major car companies are continuing to invest heavily in the development of fuel cell vehicles as concerns over fuel security, global warming and air quality become more pressing.

Precious Metal Products Division

Description of the Business

Precious Metal Products Division is organised into two groups:

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. Gold and silver refining operations are located in the USA, Canada and Hong Kong.

Performance in 2004/05

Precious Metal Products Division's sales grew by 4% to £3,069 million, reflecting more buoyant trading conditions for platinum group metals (pgm) and higher average prices. At constant exchange rates sales grew by 8%. Operating profit increased by 3% to £45.4 million, despite the revised terms of the renewed contracts with Anglo Platinum and adverse exchange translation. At constant exchange rates operating profit was 6% up.

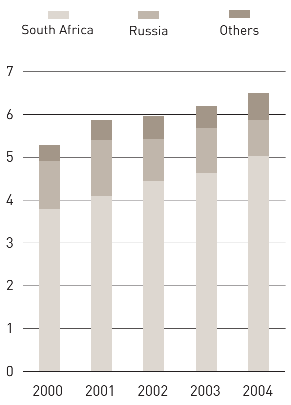
Platinum

The price of platinum reached its peak for 2004/05 of $937/oz in April, a 24 year high, driven by good physical demand and substantial speculative interest. After a sharp correction in late April and early May, which saw the price fall back to $783/oz, the price of platinum followed an upward trend for the rest of the year. The average price was $848/oz, a 14% increase on 2003/04.

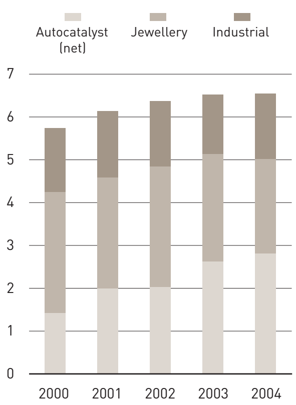
Total consumption of platinum edged up marginally in 2004/05, with the autocatalyst sector underpinning demand. The increase in market share of diesel cars in Europe and tightening emission controls for diesel powered trucks in Japan were key drivers. However, purchases of platinum for jewellery manufacture fell in 2004/05 as a result of the strength and volatility of the platinum price. Demand in the key Chinese market declined, while consumption in North America and Japan also suffered.

Operating and Financial Review

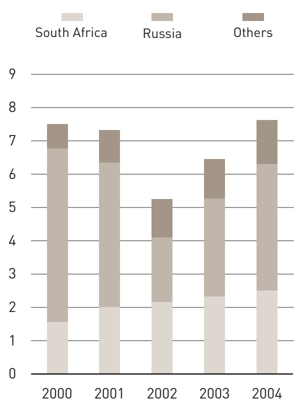
Supply of Platinum 2000-2004
Million oz



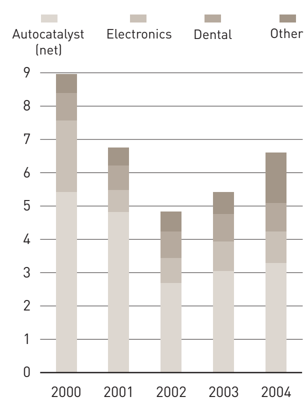
Demand for Platinum 2000-2004
Million oz



Supply of Palladium 2000-2004
Million oz



Demand for Palladium 2000-2004
Million oz



Supplies of platinum expanded faster than demand as South African output exceeded 5 million oz for the first time. Although platinum demand again exceeded supplies, the market deficit was reduced to the lowest level for six years.

The palladium price also reached its peak for 2004/05 in April, touching $333/oz as investors extended their already substantial long positions. However, production and stocks were more than adequate to meet demand and the price fell back to a low of $178/oz in December. The average price for the year was $219/oz, an increase of 9% on 2003/04.

Physical demand for palladium climbed steeply in 2004/05. Most of this increase came from the jewellery sector, led by the rapid development of palladium jewellery manufacturing in China. Demand in the autocatalyst sector was also up as US car companies increased their market purchases, having run down their stocks in 2003.

Growth in demand was almost exactly matched by a rise in supplies, particularly from Russia where a considerable volume of metal was sold from government stocks. Total supplies exceeded demand by a significant margin, leaving palladium in surplus for the fourth consecutive year.

The price of rhodium staged a sharp recovery in 2004/05. Growing auto demand and increased speculative interest resulted in a tight and illiquid market. The average price more than doubled to $1,203/oz in 2004/05, reaching a peak of $1,665/oz in February 2005.

Despite the revised terms of the new Anglo Platinum contract and adverse foreign currency translation, profits from the division's marketing and trading operations were higher than in 2003/04. Commission income benefited from higher average metal prices and trading margins improved as a result of more favourable platinum and rhodium markets.

The division's pgm manufacturing business continued its profitable growth, benefiting from good customer service and technical leadership. Demand for our pgm catalyst, sheet and wire products for industrial applications was strong throughout the year. Our medical parts business, based in California, also recorded excellent growth. Increased usage of nitinol in medical device applications in both Europe and the US, resulted in a strong demand for products from our San Jose factory.

Business levels at our precision machining factory in San Diego, where we completed our first full year since relocating to an expanded facility, were also strong. To increase our product offering of key medical device components, we acquired, in May 2004, a manufacturer of medical hypotubes based in Temecula, California. The business had a very successful first year and we are now well positioned at all of our production facilities to take advantage of continued growth in the medical devices market.

Gold and Silver

In September 2004 the board took the decision to close the group's UK gold and silver refinery. Tight refining margins and the weaker US dollar resulted in a loss in 2003/04 of £1.6 million after metal interest and a similar performance in the first five months of 2004/05. The closure was completed on schedule, by the end of March 2005, at a cost of £13.2 million. As part of the closure programme a significant proportion of the customers from our UK refinery were successfully transferred to our refineries in Salt Lake City and Toronto, where spare capacity existed. This boosted profits in North America which finished ahead of 2003/04. Refining volumes in Hong Kong were good in 2004/05 but fell short of the exceptional prior year levels. However, sales of Johnson Matthey group products into the burgeoning Chinese economy more than compensated for this.

Pharmaceutical Materials Division

Description of the Business

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

The division's Macfarlan Smith (UK) and West Deptford (USA) businesses provide a full range of commercial scale manufacturing services for APIs to both generic and branded pharmaceutical companies. Both businesses specialise in the manufacture of low volume, high value products, especially controlled drugs.

Pharma Services (USA) provides contract research and development and manufacturing services to pharmaceutical companies from pre-clinical through to commercial launch.

The Pharmaceutical Materials Ireland business specialises in the manufacture of prostaglandin APIs, which are very low volume, high value, chemically complex molecules.

Performance in 2004/05

Pharmaceutical Materials Division's sales fell by 6% to £132 million. Adjusting for exchange translation the drop in sales was 2%. The fall in sales reflected lower selling prices for carboplatin, which went off patent in October 2004, and lower revenues from contract research, partly offset by increasing sales of controlled drugs. Operating profit fell by 5% to £40.0 million partly as a result of adverse exchange translation. At constant exchange rates the fall in operating profit was 2%, in line with the drop in sales.

Macfarlan Smith

Macfarlan Smith, which is based in Edinburgh, UK and manufactures controlled drugs for sale to generic pharmaceutical companies, performed well in the year. Sales and profits were both ahead of last year with most of the growth coming from high margin specialist opiate products. The world market for drugs to manage severe pain is growing at around 6% per annum as medicine is able to treat more acute conditions; the world's population ages; and people are generally less tolerant of pain. Overall growth of the opiates market is driven primarily by the introduction of new applications and new dosage forms for specialist opiates such as oxycodone, hydromorphone and buprenorphine, the markets for some of which are growing at double digit rates.

Macfarlan Smith's new facility to manufacture low volume, high potency products (mainly analgesics), which we announced last year, has made a valuable contribution to profits in its first year of operation and we expect to achieve further growth in this specialist market in 2005/06. During the year we continued our programme of capacity expansion at the Macfarlan Smith site, particularly in support of growth in specialist opiates.

West Deptford

As anticipated, our active pharmaceutical ingredient manufacturing business in the US, which is based in West Deptford, NJ, saw its profits fall in the second half of 2004/05 as the contribution from carboplatin was reduced following the expiry of the patent in October 2004. Now that the patent has expired we expect to supply to both Bristol-Myers Squibb and generic producers but at lower margins. Sales of other products grew, including opiates where we have successfully transferred manufacturing technology from Macfarlan Smith.

Growth in sales of opiate drugs will continue as an increasing number of customers obtain regulatory approvals to market products containing APIs manufactured at West Deptford. Sales of non-opiate controlled drugs also improved during the year and significant progress was made on the development of several attractive generic products which will reach commercialisation over the next few years.

Pharma Services

During the year we changed the name of Pharm-Eco to Pharma Services to better reflect its market segment. Although manufacturing continued to grow, contract research revenues were down in the second half of the year and profits were below last year.

In 2004/05 Pharma Services increased its investment in the development of several low volume, generic APIs. While these will take several years to reach commercial approval this will serve to broaden the portfolio of the Pharma Services business and counteract the somewhat lumpy profile of the contract research and development side of the business.

Ireland

During 2004/05 Cascade Biochem, which we acquired in 2002, was consolidated into its Cork, Ireland facility and renamed Pharmaceutical Materials Ireland. The business has continued to expand its customer base and geographic coverage during the year. Regulatory filings of new generic products containing our prostaglandin APIs have been made by our customers and are currently in review stages. Our products are also being qualified for new generic drug dosage forms targeted for sale in major world markets.

Operating and Financial Review

Colours & Coatings Division

Description of the Business

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 two businesses; Colour Technologies and Ceramics.

Ceramics

Headquartered in Spain, our Ceramics business is a leading global supplier of raw materials and intermediate products to the ceramic industries. The business has a presence in all the major geographical regions with core manufacturing facilities in Spain, Italy, UK, Brazil, USA, Malaysia, India and China.

Colour Technologies

Headquartered in the Netherlands, our Colour Technologies business manufactures black obscuration and silver conductive enamels for automotive glass. It also makes colours, enamels and decorative precious metal products for other glass applications such as bottles and architectural glass as well as for tableware and other ceramic applications.

Performance in 2004/05

We restructured Colours & Coatings Division during the year following the sale of Pigments & Dispersions in September 2004 for £22.2 million (after costs). Several other sites are in the process of being closed, the largest of which is the division's decal factory in Stoke-on-Trent. An exceptional charge of £10.3 million has been taken to cover the cost of these closures. The decorative precious metals, glass coatings and tableware businesses have been renamed Colour Technologies and will be transferred to Precious Metal Products Division and included in that division's results next year. The remaining business, Structural Ceramics, has been renamed Ceramics and will be shown as a stand alone division in 2005/06.

Sales for the division, excluding Pigments & Dispersions, rose by 8% in 2004/05 to £242 million. At constant exchange rates sales grew by 12%. Operating profit increased by 13% to £27.4 million. At constant exchange rates profits grew by 17%.

Ceramics

Our Ceramics business had sales of £166 million and contributed about two thirds of the profits of the division. It supplies decorative materials for ceramic products, mainly to the tile industry. The business achieved good growth in sales and profits in 2004/05. Demand for tiles in the Western European market was flat and the strength of the euro adversely impacted European tile producers who are major exporters to other parts of the world. More than 50% of the tiles manufactured in Italy and Spain are exported outside the euro zone. As a consequence, prices and volumes in Europe remained under pressure. However, there was good growth in China, India and Brazil where Johnson Matthey has production facilities and is well represented. Demand was also strong in Eastern Europe, especially Poland and Russia, and our sales into the region showed good growth.

The Ceramics business is realising the benefits of investments made in recent years to position it as one of the lowest cost, high quality producers in the world. While growth rates in the more mature markets like Western Europe are modest, the business is strongly cash generative and there are a number of important growth opportunities in Eastern Europe, the Middle East and Asia. During 2004/05 the Ceramics business started work on the expansion of its manufacturing facility in China and it has plans for further expansion in both China and India over the next few years to meet rapidly growing demand in the Asia region.

Colour Technologies

Colour Technologies performed well in 2004/05. Sales to the automotive sector increased, particularly sales of both black obscuration enamels and conductive silver paste. This was mainly due to increased market penetration in the United States and South America and the launch of innovative new products with enhanced technical and processing characteristics. Demand for decorative products for other glass applications was also up, benefiting from new product introductions which are helping the business to consolidate its market leading position in this segment.

During the year Colour Technologies launched new ranges of lead free enamels for architectural and appliance glass applications and the business remains fully committed to minimising the environmental impact of its products. Towards the end of the year it launched ranges of inorganic inks for both ink jet and digital printing applications.

Following the announcement of the closure of the decal factory in Stoke-on-Trent, the ceramic side of Colour Technologies' business has been refocused on a much reduced range of decorative products for the tableware industry. Sales into this industry in 2004/05 were at the same level as the prior year, despite the continued contraction of the UK tableware market. Going forward, the business has a small flexible team with innovative products and a commitment to world class technical support and it is hoped that it will see a return to growth from this much reduced base.



Research & Development

Research and development is the lifeblood of Johnson Matthey's high technology businesses. We maintain a high level of R&D expenditure to ensure the continuous flow of new products and technologies to provide our customers with cost effective solutions to legislated and technical requirements. In 2004/05 Johnson Matthey spent £58.2 million on research and development.

Johnson Matthey Technology Centre

The Johnson Matthey Technology Centre (JMTC), located at Sonning Common, UK is the group's main centre for longer term research. It employs over 120 scientists, specialists in the fields of catalysis, precious metals, materials science and many other disciplines in which Johnson Matthey operates. JMTC has state of the art facilities for preparing and testing catalysts and other products as well as a world class analytical science group, equipped with the latest tools to characterise and understand the materials with which Johnson Matthey works.

In addition to projects directly sponsored by the operating divisions to meet their long term objectives, JMTC also runs a set of core science projects to extend the group's knowledge of the science at the heart of many of its businesses, particularly in the fields of catalyst engineering, modelling, preparation and characterisation. This knowledge can then be applied to accelerate and improve product development across the group.

JMTC works in close collaboration with an extensive network of technology centres and development groups within Johnson Matthey's global businesses. Examples of two long term projects currently underway at JMTC are described below followed by a review of R&D activities within the operating divisions.

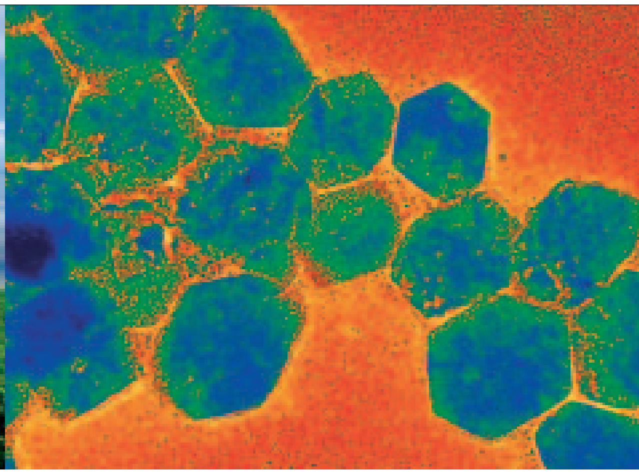
Emissions Control

Over the next five years, advanced compression-ignition engines are expected to deliver much better fuel economy than the engines currently available. Apart from lowering carbon dioxide emissions, the new engines will produce very low SOx (oxides of sulphur) emissions by running on ultra low sulphur diesel, biodiesel and gas to liquids (GTL) fuels. Even so, their exhausts will still contain the other common pollutants from internal combustion engines; carbon monoxide, hydrocarbons, NOx (oxides of nitrogen) and particulates.

At the Johnson Matthey Technology Centre we are already designing exhaust aftertreatment systems for 2010 and beyond, when conventional three-way gasoline and diesel catalysts will no longer meet the demands of new engine technologies. The experience that we have gained over 30 years means that we have an extensive knowledge base on which to build our designs. By inputting performance measurements into mathematical models, we are even able to predict how potential catalysts would perform on vehicles that do not yet exist.

Among the technologies we are developing is a very simple strategy for destroying NOx. Known as hydrocarbon-SCR, this technology does not require a special reductant to be carried on board the vehicle, but relies on a small amount of fuel being injected into the exhaust. Our biggest challenge is to avoid the fuel immediately combusting. In order to achieve this we are engineering a catalyst surface that provides a reaction pathway for the fuel molecules to react with NOx, before they can react with oxygen.

Operating and Financial Review



Hydrogen

Using hydrogen in a fuel cell allows electricity to be produced without passing through a combustion process. Ultimately the hydrogen must come from a renewable source but society can still reap the benefits of using hydrogen as a fuel (improved air quality and reduced dependence on a single fuel source) even if it is produced from non-renewable resources. Johnson Matthey research is successfully extending existing processes and developing new catalyst materials to allow a wide range of different feed stocks to be converted into hydrogen. These include difficult feed stocks such as diesel as well as carbon neutral biofuels.

The purity of the hydrogen produced is also an issue as carbon monoxide (CO), a by-product of hydrogen production from hydrocarbon reforming, is a potent poison of conventional fuel cell catalysts. Our research teams are working both to improve the performance of fuel processors in order to reduce the level of CO generated and to develop novel fuel cell electrocatalysts that possess a degree of CO tolerance.

In the longer term, radically different technologies will emerge to power the hydrogen economy, such as catalytic water splitting and solar reforming. All pose real technical challenges, but open up new applications for Johnson Matthey's core technologies in catalysis, coatings and purification. The Johnson Matthey Technology Centre is collaborating with experienced partners in European Union sponsored projects across these areas. Such participation allows us to explore these new business opportunities and to build relationships with other technology leaders from their outset.

A key enabling technology for fuel cell powered vehicles is the development of a safe and efficient on board hydrogen store. This is a pressing technical need as the car companies move toward the commercialisation of fuel cell cars. Johnson Matthey has wide ranging expertise in nanoparticles, coatings and materials processing as well as a great deal of experience in the area of hydrogen storage and use. These skills have been brought together at JMTC to address this important challenge. In conjunction with a group of UK and European universities we have developed new techniques for alloying and activating magnesium to produce a solid state hydrogen store that operates at significantly lower temperatures than could previously have been achieved. We have now run a fuel cell coupled with a demonstration hydrogen store, giving us valuable insight into the heat balance required in a full size system.

Catalysts Division

Environmental Catalysts and Technologies continues to invest in state of the art equipment and dedicated personnel for the development and testing of catalysts to fulfil its customers' needs for products which meet ever tightening emissions legislation around the world. Through this investment in R&D, Johnson Matthey has become a leader in diesel emission control technologies for both heavy and light duty diesel applications. For heavy duty diesel applications we offer a complete 'tool box' of high technology solutions to meet tightening emissions limits for both oxides of nitrogen (NOx) and particulates. We are also at the leading edge of catalysed soot filter technology for removal of particulates from light duty diesel exhausts. In addition, Johnson Matthey continues to invest in the development of improved products for the treatment of exhaust from gasoline engines.

During the year our R&D facility in Kitsuragawa, Japan was significantly expanded, with the addition of a new CVS testing facility for 'on vehicle' catalyst evaluation and test cells for catalyst ageing. This investment supports Johnson Matthey's growing business with Asian vehicle manufacturers.

Process Catalysts and Technologies has focused its research activities around a number of core science projects.

The intent is to gain critical mass in developing key generic technologies which can be applied to more than one product group. With a widely diverse palette of catalyst manufacturing and development tools PCT has seen significant benefits from this approach.

One area of focus is steam reforming. Here, we have commissioned a major new investment in testing capacity which will underpin the science behind developments in syngas preparation for both gas to liquids and methanol process designs. We are also investing in an R&D project aimed at developing more efficient routes for manufacturing polyesters. Development work, in collaboration with a number of customers, focused on the reduction of the trans-fatty acids content of hydrogenated oils is beginning to win new business.

During the year the Fuel Cells business moved all of its product development activities, the majority of which had previously been carried out at the Johnson Matthey Technology Centre at Sonning Common, to its new manufacturing facility in Swindon, UK. This reflects the organisation of R&D across the Johnson Matthey group where development work is carried out within the operating divisions and longer term, fundamental research is carried out at the Johnson Matthey Technology Centre. JMTC now has a greater responsibility for the fundamental science of fuel cells. This work is critical to the business' success in the long term fuel cells market. The Fuel Cells business and its JMTC based research group are working closely with customers and suppliers to demonstrate that the advanced materials they currently have under development will meet the demands of future mass markets. This is particularly true in the area of catalysis where increased stability and higher activity are key goals.

Precious Metal Products Division

Precious Metal Products Division's global research and development programmes focus on several key areas of new product and technology development. Work continues on catalysts for ammonia oxidation which reduce the formation of unwanted by-products, in particular nitrous oxide. The Kyoto Treaty, which was ratified by a number of countries in February 2005, lists nitrous oxide as one of five greenhouse gases. With significant financial incentives available for reducing emissions, this has created a high level of interest within the division's customer base. Products that utilise technology jointly developed with Process Catalysts and Technologies are performing well in customer trials. We expect to commercialise these in 2005/06.

The division has also increased its R&D effort on new medical alloys. In particular we are focusing on novel alloys to improve strength, flexibility, magnetic resonance imaging (MRI) compatibility and radiopacity for a wide range of medical device applications.

Pharmaceutical Materials Division

Pharmaceutical Materials Division's research and development 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 Johnson Matthey Pharma Services 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.

Colours & Coatings Division

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 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. Some examples include new ranges of lead free enamels for architectural and appliance glass applications and inorganic inks for both ink jet and digital printing applications. Going forward, management remains focused on delivering a pipeline of market driven research and product developments to underpin future profitability.

Operating and Financial Review

John Sheldrick Group Finance Director

Financial Review

Introduction

Johnson Matthey made good progress in 2004/05 with profit before tax, exceptional items and goodwill amortisation up by 4% to £204.0 million despite adverse exchange translation. Earnings per share before exceptional items and goodwill amortisation rose by 5% to 67.1 pence benefiting from a more favourable tax rate.

Taking into account exceptional costs and goodwill amortisation, profit before tax on a statutory basis fell by £47.0 million to £131.0 million and earnings per share were 15.4 pence lower at 40.6 pence.

Cash generation was good with net borrowings reduced by £24.9 million and gearing 2.8% lower at 42.5%. The board is recommending a 5% increase in the dividend for the year in line with the growth in earnings. In addition, we are using the proceeds of the programme to improve the returns on underperforming assets to buy back shares. A total of 2.5 million shares were purchased in 2004/05 at a cost of £25.2 million and we plan to buy a similar amount in 2005/06 which should be earnings enhancing.

Sales and Margins

Total sales grew by 3% to £4,639 million, despite the impact of adverse exchange translation. On a constant currency basis sales rose by 7% with most of the increase coming from more buoyant conditions for platinum group metals and higher average prices.

Johnson Matthey's turnover is heavily impacted by the high value of precious metals included in the group's products, particularly in Precious Metal Products Division. The total value of sales varies each year according to metal prices, the mix of metals sold and the level of trading activity. The value of the precious metals included in sales is generally separately invoiced and payment made within a short period. Consequently, although return on sales (operating profit / total external sales) for the precious metals businesses is low, return on investment is high.

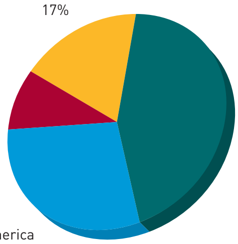
To provide a more useful measure of return on sales, the table below shows return on sales by division excluding the value of precious metals. Total sales excluding precious metals were £1,200 million which was 2% down on last year. At constant exchange rates sales excluding precious metals grew by 2%. Sales trends for the individual divisions are discussed on pages 6 to 12.

Return on Sales excluding Precious Metals

	Sales excluding precious metals		Return on sales excluding precious metals	
	2005	2004 restated	**2005**	2004 restated
	£ million	£ million	**%**	%
Catalysts	**698**	720	**16.0**	15.2
Precious Metal Products	**124**	121	**36.6**	36.7
Pharmaceutical Materials	**125**	131	**32.1**	32.2
Colours & Coatings	**241**	222	**11.4**	10.9
	1,188	1,194	**17.5**	17.0
Discontinued	**12**	30	**3.3**	8.4
Total Group	**1,200**	1,224	**17.3**	16.8

Geographical Split

Operating profit 2004/05



Operating Profit

Before exceptional items and goodwill amortisation

	Year to 31st March 2005 £ million	2004 restated £ million	change %	2005 at 2004 exchange rates[1] £ million	change %
Catalysts	**111.5**	109.2	+2	115.8	+6
Precious Metal Products	**45.4**	44.2	+3	46.8	+6
Pharmaceutical Materials	**40.0**	42.3	-5	41.5	-2
Colours & Coatings	**27.4**	24.2	+13	28.4	+17
Corporate	**(16.6)**	(16.4)		(16.8)	
Continuing operations	**207.7**	203.5	+2	215.7	+6
Discontinued operations	**0.4**	2.5		0.4	
Operating profit	**208.1**	206.0	+1	216.1	+5

[1] excluding South African rand

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 2004/05.

The return for the group improved by 0.5% to 17.3%. The improvement in Catalysts reflects the lower pass through costs for substrates. Colours & Coatings margins improved reflecting the benefit of restructuring and the disposal of the low margin Pigments & Dispersions business.

Operating Profit / Exchange Translation

Operating profit before exceptional items and goodwill amortisation rose by 1% to £208.1 million. Growth in profits was again adversely affected by exchange translation.

The main impact of exchange rate movements on the group's results comes from the translation of foreign subsidiaries' profits into sterling. Around 30% of the group's profits were made in North America, mainly in the USA. The US dollar weakened significantly from an average rate of \$1.69/£ in 2003/04 to an average of \$1.85/£ in 2004/05. The average rate for the euro also weakened from €1.44/£ to €1.47/£. The South African rand strengthened from R12.11/£ to R11.53/£ but the translational benefit of that rise was more than offset by the adverse impact of the stronger rand on operating margins. Excluding the rand, exchange translation reduced operating profit by £8.0 million, which is equivalent to 4% of operating profit before exceptional items and goodwill amortisation.

Operating profit by division, before exceptional items and goodwill amortisation, is shown in the following table adjusted for exchange translation (excluding the South African rand).

Translated at last year's exchange rates, operating profit before exceptional items and goodwill amortisation increased by 5%.

On a constant currency basis both Catalysts and Precious Metal Products divisions achieved 6% growth in operating profit. Pharmaceutical Materials was 2% down as a result of the expiry of the carboplatin patent while Colours & Coatings continued its good recovery with profits 17% up. A detailed review of the progress of each division is included on pages 6 to 12.

Exceptional Items

Exceptional items for the year amounted to £51.9 million which included a rationalisation charge of £10.2 million to restructure our underperforming UK platinum group metal refining business and a £10.3 million charge for closing a number of former Colours & Coatings' sites following the sale of Pigments & Dispersions and the restructuring of that division. The remaining items were announced in the first half of the year and include a loss of £15.2 million on sale of the Pigments & Dispersions business, of which £5.8 million related to goodwill previously written off to reserves; the closure of the UK gold and silver bullion refinery at a cost of £13.2 million and £3.0 million of acquisition integration costs.

Interest

The group's net interest charge fell by £3.0 million to £13.3 million, benefiting from lower average borrowings, particularly in the second half of the year. Metal financing costs were also favourable with interest rates for platinum below the high levels experienced in 2003/04. Average precious metal leases were reduced following the closure of the UK gold and silver refinery in September 2004.

Operating and Financial Review

The return on retirement benefits assets and liabilities improved by £3.2 million. This credit is shown separately under FRS 17 (the pension accounting standard adopted by the group last year). The rise reflected the increase in the pension fund surplus at 31st March 2004.

Taxation

The group's tax charge fell by £13.9 million to £44.0 million. The reduction largely related to tax relief on the exceptional costs incurred in the year. Before exceptional items and goodwill amortisation the average tax rate for the year fell slightly from 29.8% to 29.2% with an increase in tax credits received on research and development expenditure.

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 16.1% which is similar to last year. We expect to see a gradual improvement in the return over the next few years as the benefits of organic growth and actions to improve the returns on underperforming assets come through.

The return on assets for the individual divisions were as follows:

Return on Assets

	Average net operating assets employed[1]		Return on assets[2]	
	2005	2004	**2005**	2004
	£ million	£ million	**%**	%
Catalysts	**819**	783	**13.6**	13.9
Precious Metal Products	**22**	34	**202.7**	131.2
Pharmaceutical Materials	**282**	281	**14.2**	15.0
Colours & Coatings	**171**	180	**16.0**	13.4
Continuing Businesses	**1,294**	1,278	**17.3**	17.2
Discontinued	**15**	28	**2.6**	9.0
Corporate	**(57)**	(73)	**n/a**	n/a
Total Group	**1,252**	1,233	**16.1**	16.2

[1] Average of opening and closing net operating assets as shown in note 1 on the accounts on page 57.

[2] Operating profit before exceptional items and goodwill amortisation divided by average net operating assets, before net borrowings and finance leases and after writing back goodwill taken directly to reserves.

On a post tax basis the return on invested capital was 11.4% (applying the group's underlying tax rate of 29.2% to operating profit in the calculation above). The estimated weighted average cost of capital (WACC) for the group is 8%. The margin above the cost of capital for the year was 3.4% which was the same as last year.

Cash Flow

Johnson Matthey's net cash flow for the year was strong at £23.5 million. After taking into account £1.4 million of exchange translation, net borrowings fell by £24.9 million to £369.6 million. Gearing (net borrowings / shareholders' funds and minority interests) fell by 2.8% from 45.3% at 31st March 2004 to 42.5% at 31st March 2005.

Net Cash Flow

	2005	2004
	£ million	£ million
Cash flow from operations	**231.3**	259.7
Interest / tax / dividends	**(124.2)**	(115.4)
Capex / investment	**(86.8)**	(114.4)
Free cash flow	**20.3**	29.9
Acquisitions / disposals	**19.3**	(18.4)
Shares bought	**(16.1)**	(8.5)
Net cash flow	**23.5**	3.0

The group received £23.3 million from disposals and paid £4.0 million for acquisitions. The proceeds received from the disposals have been used to buy back shares. During the year we purchased 2.5 million of Johnson Matthey shares at an average price of £10.06. This included 0.9 million of shares for the group's employee share ownership trust. The cash outflow on share purchases in the year was £19.3 million, with a further £5.9 million paid in April 2005. The group received £3.2 million of proceeds from the exercise of share options by employees to give an overall net outflow on shares bought / issued in the year of £16.1 million. Excluding acquisitions, disposals and share transactions the group generated a free cash flow of £20.3 million.

Net cash flow from operations was £28.4 million lower than last year at £231.3 million. Capital expenditure incurred was £17.6 million lower than last year at £95.5 million which represented 1.4 times depreciation, down from 1.8 times last year. The net cash outflow on capital expenditure and financial investment in the year was £86.8 million, which was less than the level of capital expenditure incurred, reflecting the timing of the expenditure and the inclusion of £4.1 million received from the sale of assets.

Capital Expenditure to Depreciation

	Year to 31st March 2005 Capital expenditure £ million	Depreciation £ million	Capex / depreciation (times)
Catalysts	62.4	39.2	1.6
Precious Metal Products	7.2	5.2	1.4
Pharmaceutical Materials	16.8	9.6	1.8
Colours & Coatings	6.7	10.5	0.6
Corporate / Research	2.4	2.0	1.2
Total Group	**95.5**	**66.5**	**1.4**

Major projects included expansion of ECT's production facilities in the UK, South Africa, Japan and China; investment in catalyst manufacturing for PCT at Clitheroe, UK; and further investment in new capacity at Macfarlan Smith in Edinburgh.

Pensions

The surplus on the group's UK pension scheme increased by £2.5 million to £45.8 million at 31st March 2005. The investment performance of the fund for the year was good but the benefit of this was largely offset by changes in the discount rate and the inflation assumption used in valuing liabilities.

Worldwide, including provisions for the group's post-retirement healthcare schemes and pension related deferred tax assets and liabilities, the group had a net deficit of £1.1 million on retirement benefits net assets compared with a net surplus of £3.5 million at 31st March 2004.

International Financial Reporting Standards

For the financial year ending 31st March 2006 we will be reporting our results under International Financial Reporting Standards (IFRS). On pages 80 to 84 we have set out how the group's income statement, balance sheet and segmental results for the financial year to 31st March 2005 would look under the new standards.

Capital Structure

As discussed on page 5 our funding policy is to maintain a strong balance sheet with conservative gearing and use cash generated to invest in organic growth and bolt-on acquisitions. Gearing of 42.5% at 31st March 2005 is in line with this policy.

We expect to invest at a rate of about 1.5 times depreciation on capital expenditure over the next few years, depending on market growth. In addition we will continue to grow dividends in line with earnings growth while maintaining cover at about two and a half times. The board is recommending to shareholders a final dividend for 2004/05 of 19.0 pence, making a total for the year of 27.7 pence, an increase of 5%, which is in line with the growth in earnings per share before exceptional items and goodwill amortisation. The dividend for the year would be covered 2.42 times by earnings before exceptional items and goodwill amortisation.

Given the strong cash flow achieved by the group, both the future capital investment and the increasing dividend can be funded out of internally generated funds. Moreover, the group should also be able to generate additional cash to finance bolt-on acquisitions. Where cash generated exceeds our investment requirements we will return the money to shareholders either in the form of share buy-backs or special dividends. In 2004/05 we purchased £25.2 million of Johnson Matthey shares and we plan to buy a similar amount in the first half of 2005/06.

Borrowings

Since the acquisition of Synetix from ICI for £265.7 million in November 2002 net borrowings have been gradually reduced from £402.5 million at 31st March 2003 to £369.6 million at 31st March 2005. The long term debt put in place in March 2003 to finance the acquisition, comprising bonds of £40 million and US$230 million, still has between five and ten years to run until maturity. Ten year fixed rate debt of US$100 million issued in April 1996 now has one year left until it matures and steps will be taken during 2005/06 to refinance this borrowing.

There has been little change in the funding profile of the group during the year although the proportion of the group's gross debt held by the parent has fallen from 93% at 31st March 2004 to 76% at 31st March 2005, following the increase of £108.8 million in the debt of an overseas subsidiary to fund the repayment of an intra group loan.

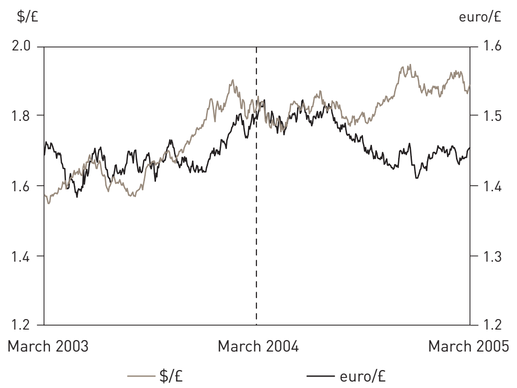
At 31st March 2005 the maturity profile of the group's debt was as follows:

Borrowings and Finance Leases

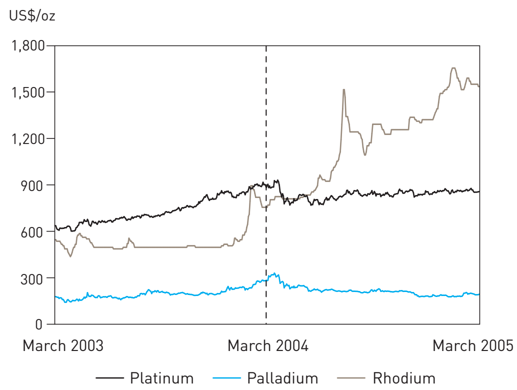
	31st March 2005 £ million	%	31st March 2004 £ million	%
Over ten years	–	–	111.3	22
Five to ten years	156.0	35	66.6	13
Two to five years	165.7	37	210.9	42
One to two years	89.8	20	65.7	13
Within one year	36.8	8	46.5	10
Gross borrowings	448.3	100	501.0	100
Less: cash on deposit	78.7		106.5	
Net borrowings	**369.6**		394.5	

Operating and Financial Review

Exchange Rates



Platinum Group Metal Prices



Financial Risk Management and Treasury Policies

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 2005 the group had net borrowings of £369.6 million. Some 37% of this debt is at fixed rates with an average interest rate of 5.6%. The remaining 63% of the group's net borrowings are funded on a floating rate basis. A 1% change in all interest rates would have a 1.1% impact on profit before tax, exceptional items and goodwill amortisation. This is within the range the board regards as acceptable.

Liquidity

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. Johnson Matthey's borrowings generally do not exhibit large seasonal variations. In addition to long term debt of £411.5 million, the group has committed bank facilities of £290 million of which £181.9 million was drawn at 31st March 2005, down from £219.8 million at 31st March 2004 as a result of the favourable net cash flow during the year. The group also has a number of uncommitted facilities, including metal leases, and overdraft lines at its disposal.

Foreign Currency Risk

Johnson Matthey's operations are located in 34 countries, providing global coverage. The majority of its profits are earned outside the UK with the largest single investment being in the USA. In order to protect the group's sterling balance sheet and reduce cash flow risk the group has financed most of its investment in the USA, Europe and Japan by borrowing US dollars, euros and yen respectively. Although a large element of this funding is obtained by directly borrowing the relevant currency, some is achieved through currency swaps which can be more efficient and reduce costs and credit exposure. 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 2005 are shown on page 72.

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.

Risks and Uncertainties

There are a number of potential risks and uncertainties which could have a material impact on the group's long term performance.

Technological Change and Patents

Much of the group's business is focused on selling products which are technologically advanced or employ technologically advanced processes in their manufacture. In most cases these products are subject to continuous improvement as new technology is developed. The group is exposed to the risk that if it does not keep up with changes in the market place its products will no longer be competitive. This is both a threat and an opportunity since Johnson Matthey can gain business as well as lose it. The group's strategy to meet this risk is to invest significantly in research and development to maintain or achieve leadership positions in those markets which offer sufficient added value to justify the long term investment required.

The group's results are also impacted by the status of patents. These include patents which the group itself registers and maintains, as well as the benefits that arise from the expiry of third party patents. All the group's divisions have registered intellectual property which confers significant competitive advantage and acts as a barrier to new entrants into its markets. Pharmaceutical Materials Division supplies active pharmaceutical ingredients to generic manufacturers and can benefit when patents expire. If actual patent lives differ from the group's expectations, such as by being extended or successfully challenged, this can affect the group's results. The group has established policies both to monitor its existing patent portfolio and those of third parties, taking action if necessary to enforce any infringement.

Legislation

Much of the stimulus for the development and growth of Johnson Matthey's products arises from new legislation governing the environmental or health impact of its customers' products in different jurisdictions worldwide. This is most significant for Environmental Catalysts and Technologies where historic and future growth depends on global tightening of emissions limits for on road and off road vehicles. Legislation is also relevant for some of the group's other businesses. Process Catalysts and Technologies manufactures products to remove contaminants or to produce particularly pure chemicals. Colour Technologies is supported by legislation phasing out lead, cadmium and other heavy metals from glass and ceramic glazes. The development of the fuel cells industry is also impacted by clean air regulations and the drive towards zero emissions within both local and national legislation.

Whilst the group has benefited considerably from the development of such legislation its growth could be adversely affected if the pace of legislative change slowed significantly. Johnson Matthey monitors the development of legislation globally and coordinates its development work to ensure it can achieve greatest advantage from each new requirement. Regular reviews are undertaken at the business and group level to monitor growth and to investigate other areas of potential if legislation slows.

Global, Political and Economic Conditions

Johnson Matthey operates in over 30 countries around the world including several within Africa, Asia and Latin America. While benefiting from the opportunities and growth in these regions the group is exposed to the economic, political and business risks associated with such international operations. The group encounters different legal and regulatory requirements including those for taxation, environmental, operational and competitive matters. It is exposed to the effect of political risk which can include sudden changes in regulations, expropriation of assets, imposition of trade barriers and wage controls, limits on the export of currency and volatility of prices, taxes and currencies. The group is exposed to possible natural catastrophe risk, for example through major earthquake or flood, and possible terrorist action. Management monitor such risks, maintaining adequate insurance cover and amending business procedures as appropriate to mitigate any exposure while remaining in compliance with local and group requirements.

Environmental Liabilities

The environmental laws of various jurisdictions impose actual and potential obligations on the group to remediate contaminated sites, both those currently owned and, also in some cases, those which have been sold. Johnson Matthey's environmental policies are set out on page 28. The group incurs costs annually in meeting these obligations and also maintains provisions for potential liabilities. If existing provisions are inadequate to cover any liabilities or the associated costs arising from environmental obligations this could materially impact the group's results.

Commercial Relationships

Johnson Matthey benefits from close commercial relationships with a number of key customers and suppliers. The loss of any of these key customers or suppliers, or a significant worsening in commercial terms could have a material impact on the group's results.

Johnson Matthey devotes significant resources to supporting these relationships to ensure they continue to operate satisfactorily. From time to time the group undertakes surveys of customer satisfaction which are reviewed by the board. Some of the relationships are supported by long term contracts, notably the group's relationship with Anglo Platinum.

Foreign Exchange

Johnson Matthey operates globally with the majority of the group's operating profit earned outside the UK. It has significant investments outside the UK with the single largest investment being in the USA. As such the group is exposed to movements in exchange rates between sterling and other world currencies, particularly the US dollar, which could adversely or positively impact results. The group's policies for managing its foreign currency exposures are set out in more detail on page 20.

Precious Metal Prices and Controls

A large proportion of the group's activities involve managing precious metals which have inherent risks associated with them in addition to bringing valuable business opportunities.

While the group could be vulnerable to a global disruption in the supply of platinum group metals, it has access to world markets for these metals and is not dependent on any one source for obtaining supplies for operations.

Precious metals have high prices which can fluctuate significantly and this can have a material impact on Johnson Matthey's results. The group's policies for managing this risk are set out in more detail on page 20. The high value of precious metals means that any process losses could be material and there remains the possibility of theft or fraud. Johnson Matthey has extensive experience in operating with precious metals and employs strict security, assay and other process controls and reviews to minimise any exposure. Policies are reviewed regularly by the Chief Executive's Committee and reported to the Audit Committee.

Pensions

The group's defined benefit pension funds are well funded with the main UK and US funds showing a net surplus at 31st March 2005 of £24.9 million after tax (see page 62). However, this position is exposed to the risk of changes in interest rates and the market values of investments as well as inflation and increasing longevity of the members. These risks are mitigated by paying appropriate contributions into the funds and through an investment asset allocation policy which has a high level of probability of avoiding a material deficit based on the results of an asset / liability matching study.

Customer Market Dynamics

The group sells products to manufacturers who in turn use these products to serve a diverse range of end markets. The group's performance is therefore impacted by the dynamics of its customers' end markets and their performance within these markets. A significant loss of market share at or by a major automotive customer could negatively impact the group's results. The group also has exposure to the wider automotive sector as a whole which is served by a number of the group's divisions. While global car production levels have some effect on the sales of Johnson Matthey's products, other factors such as tightening emissions legislation and the increasing technical demands from catalysts play a more significant role.

Another key end market is for pharmaceutical products, with Pharmaceutical Materials providing materials used in the manufacture of controlled drugs and anticancer pharmaceuticals. Johnson Matthey's performance is influenced both by growth in these markets and by the market share of its key customers.

Risks are mitigated by monitoring both industry developments and market share at customers to prevent the group from becoming unduly dependent on any single customer.

Competitor Risk

The group operates in highly competitive markets. Significant product innovations, technical advances or the intensification of price competition could all adversely affect the group's results. Johnson Matthey invests significant resources in research and development in order to ensure the introduction of both new products and improved production processes to allow the group to be at the forefront of its chosen markets. The group also continually works to streamline its cost base to ensure it remains competitive.

Litigation and Investigations

The group is subject to a broad range of laws, regulations and standards in each of the jurisdictions in which it operates. Failure to comply properly with these laws, regulations and standards could significantly damage the reputation and performance of Johnson Matthey.

Regular internal reviews are undertaken to assess compliance with local and group policies, and provisions are made to rectify or compensate for any breaches. In the ordinary course of business, Johnson Matthey is subject to inspections and monitoring by certain regulatory or enforcement bodies and by the quality departments of some of its major customers. If existing provisions are inadequate to cover any liabilities arising from such investigations this could materially impact the group's results.

Energy and Raw Materials

The group's products contain a broad array of raw materials and its operations require significant levels of energy, notably electricity and natural gas. Any increases or volatility in prices and any significant decrease in the availability of energy or raw materials could affect the group's results. Johnson Matthey coordinates its global purchasing activities to obtain the best possible prices and uses hedging and other contractual means where appropriate to minimise this risk and to benefit where possible.

Credit Risk

Within certain divisions, the group derives a significant proportion of its revenue from sales to major customers. Sales to individual customers are frequently high if the value of precious metals is included in the price. The failure of any such company to honour its debts could materially impact the group's results.

Johnson Matthey derives significant benefit from trading with its large customers and manages the risk at many levels. Each business and division has a credit committee that regularly monitors its exposure. The Audit Committee receives a report every six months that details all significant credit limits, amounts due and amounts significantly overdue within the group and the relevant actions being taken. As at 31st March 2005, no single outstanding balance exceeded 1% of the group's market capitalisation.

Resources

Johnson Matthey has significant resources to support its core businesses. These have been built up over many years and provide barriers to entry to new competitors in the key markets which the group serves. Johnson Matthey continues to invest in all the areas listed below to maintain its leading market positions.

Employees

Johnson Matthey's most important resource is its people. We have a highly qualified workforce with many of our employees having trained in science and technology. We employ a high proportion of PhDs not only in our research centres but also in many different management positions throughout the company. Johnson Matthey has a low staff turnover (see pages 29 and 30), with many employees staying with the company for their whole careers. We place great emphasis on recruitment and training and our policies in these areas are set out on page 29.

Research & Development

One of the group's strategies is to differentiate ourselves by using our world class technology. We invest significantly in research and development to develop new products and manufacturing processes. We have a group technology centre located at Sonning Common in the UK which is focused on longer term research and has a worldwide reputation for excellence in catalysis and precious metals technology. In addition we have major research centres at Royston and Billingham in the UK located close to some of our major businesses. Worldwide we have technical centres in many countries including the US, Japan, Sweden, the Netherlands and Italy.

Johnson Matthey's R&D activities are described in more detail on pages 13 to 15.

Patents and Know-how

Many of the inventions and intellectual property developed as a result of our investment in R&D are patented, and we maintain a large number of families of patents to support our businesses. Equally important is know-how where the group has an extensive knowledge base, particularly in the areas of catalysis and precious metals, which can be used to develop new products and services to meet customer needs.

Commercial Relationships

Many of our businesses provide products and services to other companies and we have developed close working relationships with many of our customers and work in collaboration with them to develop new products. We also have a long standing relationship with Anglo Platinum, the world's largest platinum miner, which has lasted for many decades. Through this relationship Johnson Matthey and Anglo Platinum have developed new markets for platinum group metals which have supported the expansion of the platinum industry over many years.

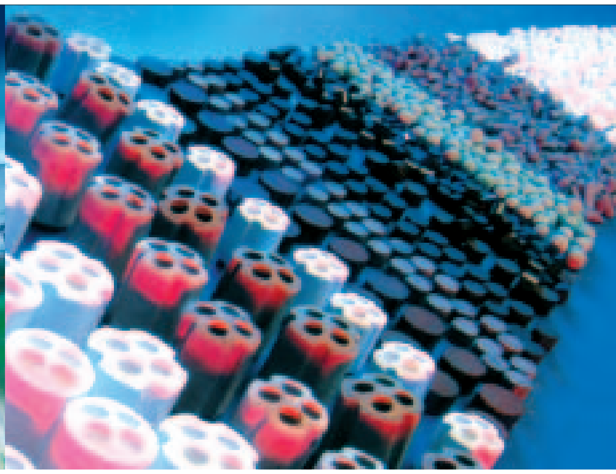
Manufacturing Technology

Over the last decade the group has invested heavily in new manufacturing capacity and technology. Capital expenditure has run at a high multiple of depreciation (see pages 18 and 19). As a result of this investment the group has developed an infrastructure of modern facilities located close to our major markets around the world.

Market Position and Reputation

Johnson Matthey is generally ranked number one or two in the major markets in which it operates. The group is a world leader in catalysis and precious metals which provides a strong basis for future development. The company started in 1817 and has a worldwide reputation in the precious metals industry for technical expertise and integrity. Our semi-annual publication 'Platinum' is acknowledged to be the most comprehensive source of information on the platinum industry. We also publish the 'Platinum Metals Review', a leading journal of scientific research on the platinum group metals.

Operating and Financial Review



Corporate Social Responsibility

Johnson Matthey is committed to the continuing improvement of corporate social responsibility (CSR) performance and to making a positive contribution to a sustainable future through the excellence of its products, people and management practices. The company makes a significant contribution to sustainable development through the application of leading technology and its commitment to operational excellence. The company's reputation and the management of associated CSR risks is of paramount importance in protecting the interests of shareholders, employees, customers and the communities in which we have facilities.

Johnson Matthey operates according to well established ethical, social and environmental policies. Over the last year a number of initiatives have been undertaken to improve our operational performance in these areas. Details of these initiatives can be found in the Johnson Matthey corporate social responsibility report and are presented here in summary. The full report can be found on the company's website 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 report. As outlined in the Corporate Governance section (see page 40) 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 continuous 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.

In the US this year, a compliance committee of Johnson Matthey Inc. has been formed to further the objectives of Johnson Matthey's corporate social responsibility policy of reducing the risks associated with potential breaches of business integrity, ethics and other company policies and violation of applicable laws and regulations.

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 clean generation of electricity and security of energy supply. In the management and control of emissions from heavy duty diesel (HDD) vehicles such as trucks and buses, Johnson Matthey has developed a 'tool box' of technologies. These developments offer our customers a range of solutions to respond to the new legislation coming into effect around the world from October 2005, which requires major reductions in the emissions of both particulate matter and oxides of nitrogen from HDD vehicles. Johnson Matthey's emission control technology for trucks and buses is described in further detail on pages 32 and 33.

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 applied throughout our business.

Stakeholder Engagement

Johnson Matthey undertakes a wide range of engagement activities focused on communication with individuals and organisations who are impacted by its operations or who may impact on the Johnson Matthey business, both at corporate and divisional level. These include shareholders, fund managers, employees, customers, communities and national and international trade associations. The company plays an active role within the Chemical Industries Association (CIA) with representation on the CIA Council and other strategy boards. Johnson Matthey has also continued to play a lead role through its participation in a number of trade associations and government bodies. The company is also actively involved with national and local government to inform the development of policy in other areas where Johnson Matthey technology and products can play a pivotal role, for example, in improving air quality and facilitating the transition to a hydrogen economy.

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 28) 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.

During 2004 a comprehensive review of the group EHS management system was undertaken which generated a number of policies and guidance on new environmental, health and safety issues.

Central to this work was the adoption of progressive policies to more closely meet the changing occupational health needs of a modern workforce. As a result a new health management strategy is being implemented across the group. This involves building on the strength of existing systems to protect employee health from workplace health hazards and investing more in programmes to enhance the productivity and well-being of employees. A group EHS mental well-being policy has also been updated in recognition of this as an emerging risk factor, crucial to the welfare of employees and their contribution to successful business performance.

These policies are in the process of being communicated group wide. The policies form the bedrock of the Johnson Matthey EHS management system and provide the standards against which all EHS audits are undertaken.

EHS compliance audits are an integral part of Johnson Matthey's corporate EHS management system. 78 sites worldwide are included in the audit programme. 27 in-depth audits have been carried out in 2004/05. Formal exit interviews with local site management are a feature of the audits. Audit reports are rated as routine, important and very important. All important and very important reports are reviewed by the Chief Executive's Committee and appropriate follow up is taken on any outstanding issues. Further site visits are made by the Group Occupational Physician on a routine basis.

ISO 14001

Over the past year continued progress has been made in the implementation of ISO 14001, in line with our target of achieving registration at all major manufacturing sites by 2010. Across the group, 53% of our staff now work at sites with ISO 14001 (an increase of 8% on 2003/04), representing some 4,127 people. Over the past year the Environmental Catalysts and Technologies business successfully completed a programme to certify all its business units to ISO 14001 and all its manufacturing sites to the international quality standard ISO/TS 16949:2002. This standard combines many aspects of quality, environmental, health and safety management under one fully integrated management system.

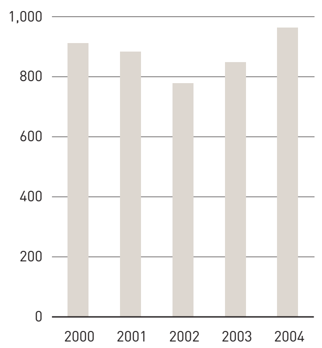
Regulation

New regulation continues to be introduced at a considerable pace, particularly in Europe.

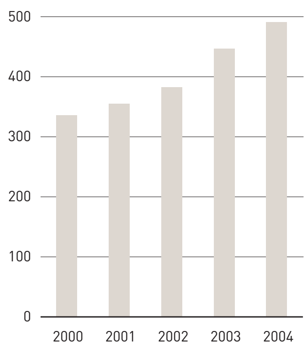
It is vital that the company continues to keep abreast of the latest developments and that the implications for the business are fully understood. Given the increasing legislative complexity, a senior manager with specific responsibility for this area was appointed during the year.

Operating and Financial Review

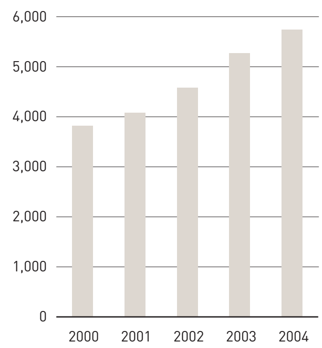
Total Acid Gas Emissions
Tonnes SO_2 equivalent



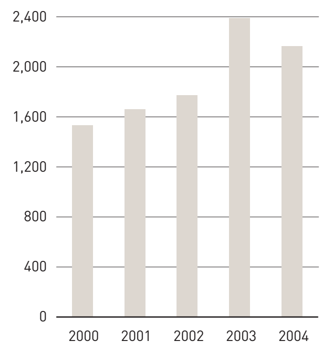
Total Global Warming Potential
Tonnes CO_2 equivalent ('000)



Energy Consumption
GJ ('000)



Water Consumption
Thousands m^3



REACH (Registration, Evaluation and Authorisation of Chemicals) is a current priority and the impact of the regulations and cost associated with implementation are under constant review. Relationships are being formed with other companies in the sector to ensure that the assessment and testing burden is reduced to a minimum. REACH will be implemented over a protracted time period, 12 years, and the costs to Johnson Matthey are estimated to be about £10 million over that period. Many Johnson Matthey products are below the proposed volume threshold or are outside the scope of the directive.

Johnson Matthey has participated in the Climate Change Agreements in the UK and the associated trading scheme, where carbon credits have been generated as a result of energy savings made within the business. The EU Emissions Trading Scheme was introduced in January 2005 and allocations were made for three sites within Europe, one in the UK and two in Spain. However, the UK site will remain within the UK trading scheme under the opt-out arrangements.

Training

Training is vital to ensuring continuous improvements in environment, health and safety at all our sites. Over the past year staff of all grades have received training from the wide range of courses available, including courses on managing safely and site safety practices. A feature of the current year has been the emphasis placed on process hazard assessment training at all levels in the business. Our major sites employ environment, health and safety training specialists. Expert external trainers supplement in house capabilities where necessary.

Environmental, Health and Safety Performance

Johnson Matthey undertakes a comprehensive annual review of group environmental performance covering all manufacturing and research and development facilities. Over the last five years some of the key indicators, such as energy consumption and emissions to air, have risen. This includes the incremental effects of a number of acquisitions during the period including Macfarlan Smith and Synetix. Programmes are in place to ensure that all emissions and waste streams are minimised against a general background of business expansion. Group performance over the last five years is shown in the graphs above.

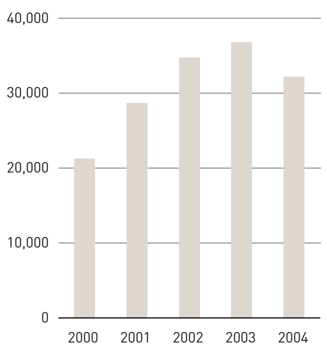
Johnson Matthey is committed to continuous improvement in all aspects of environmental, health and safety performance. Over the past year Johnson Matthey has undertaken a number of initiatives to improve performance. As with prior years this has included considerable investment in manufacturing processes where the opportunity has been taken to reduce inherent safety risks, provide improvements to planning of site health and safety actions, improve resource efficiency and introduce the latest emission abatement technology.

Accidents are actively monitored and detailed statistics are compiled monthly at a group level. Our performance has shown an improvement over the past year with a reduction in the incidence of greater than three day accidents from 9.22 to 6.39 per 1,000 employees per year. During the same period there was a decrease in the number of days lost per 1,000 employees from 306 to 248.

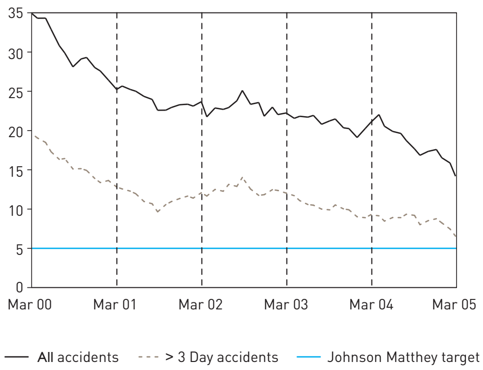
A group wide review of health and safety practices was completed during the year which examined ways to increase the rate of improvement in health and safety performance across Johnson Matthey and reduce the incidence of dangerous occurrences. As a direct result of this review the Chief Executive's Committee launched a new initiative to drive further improvements in health and safety performance. This initiative has yielded positive results, further details of which are available in the 2004/05 CSR report on the company's website at www.matthey.com.

Total Waste

Tonnes waste



Annual Accident Rate per 1,000 Employees



The Group Occupational Physician visits Johnson Matthey sites to evaluate the content, performance and standards of health surveillance and management programmes, where applicable.

All business units undertake an annual health management review and set improvement targets. Johnson Matthey ensures that all types of occupational illness conditions are identified, assessed, investigated and reported by each business unit with prevention being the primary driver of performance. The collection and validation of reliable occupational health data across the business has been problematic in the past, as it is not always possible to attribute some conditions solely to work related factors. However measures have been taken to improve the quality of data. Currently the occupational health incident rate is 6.75 per 1,000 employees per year. This includes conditions associated with mental well-being.

Johnson Matthey has continued to develop arrangements to support the prevention and management of the impact of HIV infection on the workforce of the Germiston plant in South Africa. A peer education programme has been implemented and confidential voluntary counselling and testing facilities are provided. Subsidised treatment, managed through a private health insurance scheme, is provided as a health benefit to all employees.

Environmental, Health and Safety Targets

One of the key aims of Johnson Matthey's EHS policies is to demonstrate continuous improvement in EHS performance.

During the year and in prior years Johnson Matthey adopted corporate health and safety targets in line with the UK Health and Safety Executive (HSE) Revitalising Health and Safety Initiative for the reduction of the incidence of major injuries and working days lost as a direct result of accidents in the workplace. Performance against these targets was referenced to health and safety performance during the year 2000 as a baseline for the group and required the following:

- Reduction in the incidence rate of major injuries by 5% by 2004 and 10% by 2010.
- Reduction in the number of working days lost by 15% by 2004 and by 30% by 2010.

The group's performance has been well in advance of these targets and the Chief Executive's Committee has decided that working to these is no longer sufficiently challenging. This performance is clearly demonstrated on the graph above which shows the marked improvement over the last few years.

The philosophy is that any accident is unacceptable and that seeking to achieve a zero accident rate should be our aspiration. In improving performance a target of achieving a group greater than three day accident rate below 5.00 per 1,000 employees per year by 2008 or earlier has been adopted. Achieving this medium term target will rely on close management control of all issues influencing health and safety.

To ensure these targets are realised further initiatives have been put in place. A fully updated version of the group EHS management system is being issued to all sites. During 2005 we will implement a new web-based accident and incident reporting system at all our major operating sites group wide. This will assist local business units with the recording and collation of monthly statistics and provide a powerful tool in the ongoing monitoring and management of health and safety across the group. Safety improvement plans, generated last year, will be strengthened and broadened to include both health and environmental risk issues. Additional multi-business seminars will be held on key risk issues.

Setting corporate targets in the aggregate is extremely difficult given the diversity of Johnson Matthey's business.

A more effective route is to recognise the individual characteristics of each business unit and require that targets are set and achieved at this level. Typical site targets are as follows:

- 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.

Johnson Matthey seeks to comply fully with all environmental laws and regulations at all times and without exception. The company incurred one prosecution in 2004 resulting in a fine of £7,500 following the accidental discharge of contaminated water during decommissioning of the Meir site in the UK. The company admitted liability and cooperated fully with the Environment Agency.

Environment, Health and Safety Policy Statement

Johnson Matthey is firmly committed to managing its activities throughout the group so as to protect the environment and 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 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 manufacture and supply of products is undertaken so as to satisfy world class standards of health, safety, environmental management 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, 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 incorporate best practice and promote innovation through their design and operation 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 audits of operations, and review performance, to ensure continuous improvement in EHS management.

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

Human Capital Management

Johnson Matthey's people are the group's most valuable resource. We are committed to recruiting high calibre employees and providing them with the information, training and working environment they need in order to perform at the highest standards. We encourage all our employees to develop to their maximum potential and we are committed to supporting them with effective human resources policies and practices that are strategically linked to the needs of our business and our customers.

Implementation of Johnson Matthey Human Resources Policies

Johnson Matthey people policies are implemented through the corporate human resources standards which set requirements for operations throughout the group to follow. These standards are supported by detailed regional procedures and / or business unit procedures. Policies reflect both regional best practice and local legislation. Site specific human resources policies and procedures are communicated to staff at inductions and through staff handbooks. Human resources policies and risks are examined by the Chief Executive's Committee.

Employment Policies

Equal Opportunities

It is the policy of the group to recruit, train and develop employees who meet the requirements of the job, regardless of gender, ethnic origin, age, religion or sexual orientation. Disabled people and employees who become disabled are offered employment consistent with their capabilities. The business values the diversity of its people and employment applications are welcomed from all sections of the community including minority groups.

Training and Development of People

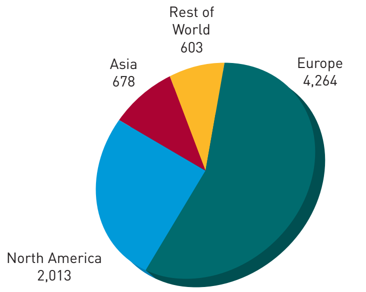
Johnson Matthey recognises the importance of recruiting the very highest calibre of employees, training them to achieve challenging standards in the performance of their jobs, and developing them to their maximum potential.

Our policy requires careful and regular reviews of organisation structure, succession planning 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 objectives to:

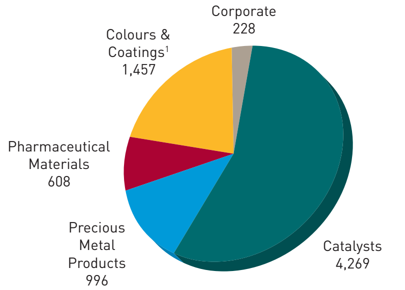
- Ensure highest standards in the recruitment of employees.
- Assess training needs in the light of job requirements.
- Ensure relevance of training and link with business goals.
- Employ and evaluate effective and efficient training methods.
- Promote from within, from high potential pools of talent.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

Operating and Financial Review

Total Employees by Region
Average headcount for calendar year 2004

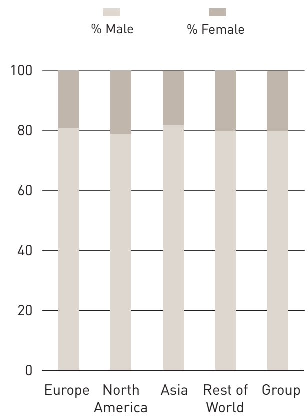


Total Employees by Division
Average headcount for calendar year 2004

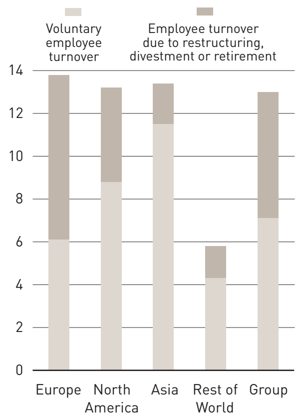


[1]includes Pigments & Dispersions

Gender by Region
As at 31st December 2004



Employee Turnover by Region
For calendar year 2004 (%)



Johnson Matthey recognises the need to maintain its ability to recruit well qualified staff to support the development of the business in new and emerging markets. This challenge will be met through appropriate manpower planning, local recruitment and the encouragement of international mobility. An increasing level of training and development activity within Asia is being established to reflect the growing importance of this region to the business.

Johnson Matthey continues to have a steady requirement for high calibre graduate recruits to meet immediate technical and commercial job needs and for development to meet future management requirements throughout the group. The combination of direct scientific contact with key university departments and a streamlined recruitment procedure ensures a reliable supply of high calibre applicants worldwide.

Employee Relations and Communication

The quality of its employee relationships is a priority for Johnson Matthey. The company has a low voluntary staff turnover (7.1% in the calendar year 2004) with many employees staying with the company for their whole careers.

Johnson Matthey recognises the importance of effective employee communications and particularly the value of face to face dialogue. Information and comment is exchanged with employees through the company's in house magazine, regular news bulletins, presentations to staff and team briefings. Employees are also encouraged to access the company's intranet and website.

Over the last year there have been no disputes with unions that have resulted in lost time. Johnson Matthey has continued to work hard to maintain good and constructive relations with all recognised trade unions.

Johnson Matthey facilities have established procedures through which employees can raise employment related issues for meaningful consideration and resolution. The group whistleblowing procedures provide a route for issues and concerns to be raised within the company. Protection is ensured for employees making disclosures.

The company supports employee share ownership and where practicable offers employees the opportunity to participate in share ownership plans which provide the facility to purchase company shares with a company funded matching component. Employees in eight countries worldwide are able to contribute to a company share ownership plan or a 401k approved savings investment plan. Through these ownership plans Johnson Matthey employees collectively held 1.6% of the company's shares at 31st March 2005. During the year the company's annual share matching contribution amounted to 2.1% of profit before tax, exceptional items and goodwill amortisation.

Johnson Matthey also sponsors pension plans for employees of its operations throughout the world. These pension plans are a mixture of defined benefit or defined contribution pension arrangements, savings schemes and provident funds designed to provide appropriate retirement benefits based on local laws, custom and market practice.

Activities over the Last Year

There have been a number of key development initiatives at Johnson Matthey sites during the past year.

Improvements to employee communications have focused on the use of site satisfaction and attitude surveys as a means of strengthening and enhancing the dialogue with employees.

A particular focus of these activities has been the further development of flexible working arrangements and the promotion of employee wellness through lifestyle awareness, health education and screening programmes.

Social and Ethical Matters

Business Integrity and Ethics Policy Statement

A reputation for integrity has been a cornerstone of Johnson Matthey's business since Percival Norton Johnson founded it 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 that 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 to 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 of the board.

Supply Chains

Management of the supply chain 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.

Over the past year opportunities for integration of ethical issues into supplier assessment have been examined through the procurement process and as a direct result of this the supplier assessment documentation within a number of business units was revised to include ethical issues.

Community Engagement Activities

Johnson Matthey is actively involved in programmes worldwide that promote good community relations to foster a relationship of understanding, trust and credibility. Guidance on site requirements is detailed in the group EHS management system.

An annual review of community engagement activities across the group has been carried out and shows that 98% of all Johnson Matthey operations with over 50 employees participate in activities within their local communities. These activities are wide ranging and include charitable giving, support for educational projects, the advancement of science and economic regeneration projects. Johnson Matthey employees also participate in activities or hold community related roles outside of the work environment. The company is supportive of this broader community engagement, allowing employees time off during working hours as appropriate.

Over the next year, community engagement activity plans at sites worldwide will be supported by further development of group guidelines and their implementation, as well as sharing of best practice. A review of site community engagement activities will be conducted once again and we will focus on how best to measure and improve the impact of our community involvement.

Charitable Programmes

Johnson Matthey's long history of support for charitable causes is matched today through programmes at both a group and a business unit level. The causes supported are aligned to issues to which the Johnson Matthey business makes a contribution and issues on which employees are passionate.

In 2004/05, Johnson Matthey supported 37 charitable causes through its corporate annual donations programme. These included support for organisations working in the areas of arts and the environment, medical and health, science and education and social welfare. 67% of these corporate donations were in support of medical and health related causes. A total of 21 additional charitable causes received one-off donations through the corporate programme during the year. The company has a long association with the Royal London Society for the Blind, dating back to 1838 and continues to provide substantial support.

In the UK, Johnson Matthey continues to operate its annual Charity of the Year programme and employee views are considered when deciding on the charity. Help the Hospices was chosen as our charity of the year for 2004/05 and further details on the partnership are available in the CSR report. Johnson Matthey sites around the world also lend support to many other charities locally and nationally through donations, employee time or loans of company facilities.

In response to the Asian Tsunami disaster, Johnson Matthey has matched donations made by its employees worldwide in support of appeals for aid in the immediate aftermath of the disaster. Under this programme the company matched £35,000 in donations given by its employees, thus resulting in a combined total of £70,000. Johnson Matthey has also pledged US$100,000 to go towards a specific reconstruction project in the affected area and is in consultation at present with major charities and contacts in the region to identify a project where our donation can do the most good.

In the financial year to 31st March 2005 Johnson Matthey donated £349,000 to charitable organisations. This figure only includes donations made by Johnson Matthey and does not include payroll giving, donations made by staff or employee time.

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.

Case Study

Cleaning Up Heavy Duty Diesels – Leading Emission Control Technology for Trucks and Buses

Diesel engines have long been dominant in heavy duty vehicle applications. They are extremely fuel efficient and thus offer major improvements in fuel economy over their petrol equivalents. Diesels are also incredibly durable, a major advantage for vehicles that often travel hundreds of thousands of miles in a year.

There is, however, growing awareness worldwide of the adverse effects of diesel exhaust emissions, especially the particulates they contain, on human health as well as their impact on the environment. In Europe, emission standards for light duty diesel vehicles have been met by the use of diesel oxidation catalysts (DOCs) since the mid 1990s which convert harmful unburned hydrocarbons (HC) and carbon monoxide (CO) to carbon dioxide and water. DOCs also help to reduce particulate emissions by trapping and destroying some particulate on the surface of the catalyst. However, there is growing interest in the use of catalysed soot filters (CSFs) to effectively remove particulates from light duty diesel engines. This technology has already been adopted by leading vehicle manufacturers and is likely to be needed to meet future emissions standards.

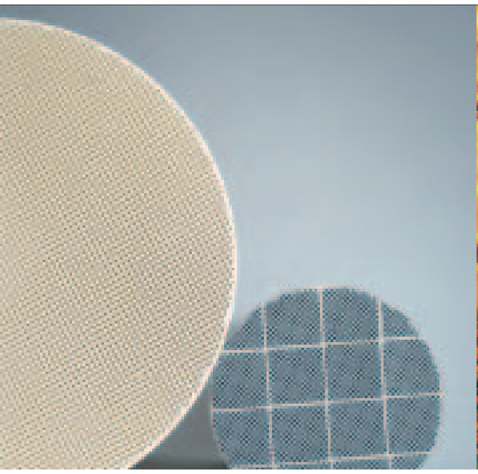
Benchmark Technology

While national HDD emissions standards have thus far not required the fitting of catalysts to trucks and buses, there has been a growing retrofit market around the world. This has resulted from local governments, city or regional authorities requiring vehicles operating in city centres to meet tougher emission standards than those that apply nationally. These local regulations have tended to focus mainly on PM emissions as these are very visible as black smoke and there is growing evidence of a correlation between particulate levels in the air and deaths from respiratory illnesses. Johnson Matthey's Continuously Regenerating Trap (CRT®) technology has been very successful in these retrofit programmes around the world and has emerged as the benchmark technology for control of HC, CO and PM emissions from HDD vehicles.

The success of the CRT® has resulted in the generation of millions of hours of operating data on a wide variety of HDD engines. This places Johnson Matthey in a very strong position to help the HDD original equipment manufacturers to meet the much tougher emissions standards coming into effect over the next few years.

The Johnson Matthey 'Tool Box'

Control of NOx emissions from diesel engines presents some formidable challenges as diesel exhaust contains a great deal of oxygen and is thus a strongly oxidising atmosphere. While this is suited to dealing with HC and CO emissions and burning off the soot particles that are trapped in filter systems such as the CRT®, the removal of NOx, however, requires a reducing atmosphere (one containing very little oxygen). In order to achieve the reduction of all four regulated pollutants from a HDD vehicle (HC, CO, PM and NOx) it is necessary to use highly sophisticated systems. There is no one solution to fit all applications, yet Johnson Matthey has a full 'tool box' of HDD emission control technologies which will enable customers to meet continuously tightening standards, whichever approach they choose.



As outlined on page 7, it is possible to tackle NOx emissions using engine modifications including exhaust gas recirculation (EGR), where some of the exhaust is cooled and fed back into the engine to lower the engine temperature and reduce the formation of NOx. No catalysts are involved in EGR technology. The use of EGR has an impact on fuel economy, something that is critical to the economics of operating fleets of trucks and buses and it can also increase the formation of particulates. As legislation tightens, EGR can be used in combination with DOC or CRT® technology in order to meet the standards. Johnson Matthey's combination of EGR and the CRT® is known as EGRT®. This technology will reduce CO, HC and PM emissions by over 90% and NOx emissions by around 40%.

Another proven way to tackle NOx emissions is the use of selective catalytic reduction (SCR). This has been used for many years to reduce NOx emissions from stationary sources such as large generators. SCR uses catalysts to reduce NOx to nitrogen (N_2) where a reducing agent (typically ammonia in the form of urea) is injected into the exhaust. A small catalyst is placed after the SCR catalyst to clean up any of the reducing agent that passes through. The use of SCR rather than EGR to control NOx on a HDD vehicle can result in more than 4% better fuel economy, a big benefit for fleet operators. However it requires the addition of an extra tank and dosing system for the reducing agent which adds cost and also requires the driver to fill up the urea tank. SCR can be used to control NOx emissions from HDD engines on its own but as legislation gets tighter it can be used in combination with the CRT® to achieve greater than 90% reductions in all four pollutants. This system, which is illustrated on the front cover, is called SCRT® and Johnson Matthey has demonstrated its effectiveness on a US long distance truck that has covered 125,000 kilometres with no loss of conversion efficiency.

As legislation continues to tighten in markets where the authorities would prefer a 'fit and forget' solution to high performance NOx control, one that does not require the vehicle operator to fill a separate additive tank, the use of NOx adsorber catalysts is an attractive solution. These are very clever catalysts, originally developed for use on gasoline direct injection and other lean burn engines, that adsorb NOx on their surface under normal diesel operating conditions and reduce that stored NOx to N_2 when a reducing agent, this time diesel fuel, is injected into the exhaust. This can be used in combination with a particulate trap such as a catalysed CRT® (CCRT®) to achieve greater than 90% conversion of CO, HC, PM and NOx without the need for a separate tank of reducing agent and the additional costs and operator action that this requires.

With leading technology in this area, Johnson Matthey is very well positioned to benefit from the substantial new market for HDD emission control catalysts that will develop over the next few years as a result of the continuously tightening legislation controlling the emissions of these vehicles.

Board of Directors

1. H M P Miles
2. N A P Carson
3. J N Sheldrick
4. C D Mackay
5. M B Dearden
6. D W Morgan
7. I C Strachan
8. A M Thomson
9. R J W Walvis
10. P N Hawker
11. L C Pentz

H M P Miles OBE
Chairman, age 69; 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

N A P Carson BSc
Chief Executive, age 48; 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. Appointed Chief Executive in July 2004. Previously a non-executive director of Avon Rubber plc.

J N Sheldrick MA, MSc, FCMA, FCT
Group Finance Director, age 55; joined Johnson Matthey as Executive Director, Finance in September 1990 and assumed current job title in September 1995. Held additional responsibility for Pharmaceutical Materials Division from July 1999 until July 2004. Previously Group Treasurer of The BOC Group plc and a non-executive director of API Group Plc. Currently a non-executive director of GKN plc.

C D Mackay MBA, MA
Age 65; 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 62; appointed a non-executive director in April 1999. Currently Chairman of Minova International Limited and 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

D W Morgan MA, ACA
Executive Director, Group Corporate Development, age 47; 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.

I C Strachan
Age 62; appointed a non-executive director in January 2002. Currently Chairman of Instinet Group Inc. and a non-executive 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 58; 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 58; 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, Process Catalysts and Technologies, age 52; joined Johnson Matthey in 1985 as Research & Development Manager and was subsequently Managing Director, Autocatalysts Europe and Division Director, Environmental Catalysts and Technologies. Appointed Executive Director, Environmental Catalysts and Technologies in August 2003 and to his current position in July 2004.

L C Pentz BS ChE, MBA
Executive Director, Environmental Catalysts and Technologies, age 50; 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 and to his current position in July 2004.

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

A M Myers *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

D W Prest *Director, Heavy Duty Diesel,*
Environmental Catalysts and Technologies

N P H Garner *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

G P Otterman *Managing Director,*
Process Catalysts and Technologies, Europe

B C Singelais *Director,*
Research Chemicals

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

S P Murphy *Director of Business Development,*
Process Catalysts and Technologies

J C Frost *Director,*
Fuel Cells

Precious Metal Products

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

C C Howlett *General Manager,*
Noble Metals, UK

J D Malanga *General Manager,*
Noble Metals, North America

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

H Yap *Managing Director,*
Precious Metal Products, Hong Kong

Pharmaceutical Materials

F K Sheffy *Division Director*

A J Caruso *Division Finance Director*

J B Fowler *Vice President and General Manager,*
West Deptford

D S Mercer *Managing Director,*
Macfarlan Smith

S A Zahr *General Manager,*
Pharma Services

Colours & Coatings

V Ros *Managing Director,*
Ceramics

S J O'Toole *Finance Director,*
Ceramics

J J W Murkens *Managing Director,*
Colour Technologies

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*

T Hassan *Group Business Development Director*

I B C Huddart *Group Taxation Manager*

B A Murrer *Director,*
Technology Centre

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

Directors' Report

The directors submit to shareholders their one hundred and fourteenth annual report, together with the audited accounts of the group for the year ended 31st March 2005. Pages 1 to 49 are an integral part of the report.

Principal Activities

A review of the group's activities and of the development of its businesses and an indication of likely future developments are set out in the Operating and Financial Review on pages 4 to 33.

Dividends

The interim dividend of 8.7 pence per share (2004 8.2 pence) was paid in February 2005. The directors recommend a final dividend of 19.0 pence per share (2004 18.2 pence) making a total for the year of 27.7 pence per share (2004 26.4 pence). Dividends for the year total £59.8 million.

A dividend reinvestment plan is in place which allows shareholders to purchase additional shares in the company with their dividend payment. Further information and a mandate can be obtained from Lloyds TSB Registrars whose details are set out on page 85.

Share Capital

Details of shares allotted during year are set out in note 25 on page 74.

At the Annual General Meeting on 20th July 2004 shareholders approved a resolution for the company to make purchases of its own shares up to a maximum number of 22,061,026 ordinary shares of £1 each. The resolution remains valid until the conclusion of this year's annual general meeting. In its 2004 Interim Report, the company announced its intention to use the cash generated from the proceeds of the programme to improve the returns on underperforming assets to buy back shares. During the period from 28th February 2005 to 16th March 2005 the company purchased 1,604,000 of its ordinary shares of £1 each for an aggregate consideration of £16.3 million. All of the purchased shares were cancelled. The directors consider that these purchases were in the best interests of shareholders generally and have resulted in an increase in earnings per share. The board will seek shareholders' approval to renew the annual authority for the company to make purchases of its own ordinary shares through the market.

Employee Share Schemes

At 31st March 2005 4,020 current and former employees, representing approximately 55% of employees worldwide, were shareholders in Johnson Matthey through the group's employee share schemes, which held 3,471,313 shares (1.58% of issued share capital). A total of 836 current and former executives held options over 7,282,342 shares through the company's executive share option schemes.

Directors

Details of the directors of the company are shown on pages 34 and 35. Mr D W Morgan, Mr A M Thomson and Mr R J W Walvis retire by rotation at the forthcoming AGM and, being eligible, offer themselves for re-election.

Directors' Interests

Details of directors' remuneration, service contracts and interests in the shares of the company are set out in the Remuneration Report on pages 43 to 48.

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

Substantial Shareholders

In accordance with sections 198 to 208 of the Companies Act 1985, the company has been advised of the following interests in its issued share capital as at 27th May 2005:

Scottish Widows Investment Partnership Limited	5.45%
Legal & General Investment Management Limited	3.29%
AXA Investment Managers Limited	3.06%
Morley Fund Management Limited	3.01%

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 2005, the company's aggregate level of 'creditor days' amounted to five 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.

Directors' Report

Donations

During the year the group donated £349,000 (2004 £313,000) to charitable organisations, of which £280,000 (2004 £279,000) was in the UK. There were no political donations made in the year (2004 £ nil).

Directors' Indemnities

The company has granted indemnities to directors under Deed Polls dated 11th May 2004 (in respect of the non-executive directors of the company) and 20th July 2004 (in respect of the executive directors of the company, directors of its subsidiaries and directors of any company to which a group company has nominated or appointed them as directors). These provisions were in force during the year ended 31st March 2005 and remain in force as at the date of this report.

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.

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.

This report was approved by the Board of Directors on 31st May 2005 and is signed on its 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 with the exception of the following matters. For the period from 1st April 2004 to 20th July 2004 the number of executive directors exceeded the number of independent non-executive directors (see below). Also, the board has taken the view that it is not necessarily practical, efficient or desired by shareholders for the Chairman to discuss governance and strategy direct with major shareholders nor for the Senior Independent Director to attend meetings with major shareholders in order to learn their issues and concerns unless such discussions are requested by shareholders. The methods by which major shareholders' views are communicated to the board as a whole are discussed under 'Relations with Shareholders' below.

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 held seven meetings in the year and in addition met separately to review the group's long term strategy. The board delegates specific responsibilities to board committees, as described below. The board reviews the key activities of the business and receives papers and presentations to enable it to do so effectively. The Company Secretary is responsible to the board, and is available to individual directors, in respect of board procedures.

Mr N A P Carson was appointed Chief Executive on the retirement of Mr C R N Clark on 20th July 2004. The board has since comprised the Chairman, the Chief Executive, four other executive directors and five independent non-executive directors. The Chairman's other commitments are disclosed on page 34. The roles of Chairman and Chief Executive are separate. The Chairman leads the board, ensuring that each director, particularly the 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 is the Senior Independent Director. The role of non-executive directors is to enhance 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 34 and 35, 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.

During the year the board undertook a formal evaluation of its performance and the performance of its committees and the individual directors. A questionnaire, prepared by the Chairman with the assistance of the Company Secretary, was completed by all directors other than the Chairman. The questionnaire focused on the operation of the board, its committees and individual directors' contributions. A summary of the responses was prepared by the Company Secretary and discussed at a board meeting. In addition, during the year, led by the Senior Independent Director, the non-executive directors met without the Chairman present to consider evaluation of the Chairman's performance.

Committees of the Board

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

The **Audit Committee** is a sub-committee of the board whose purpose is to assist the board in the effective discharge of its responsibilities for financial reporting and corporate control. The Committee meets quarterly and 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 41.

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 also comprises all the independent non-executive directors. A report from the Committee on its activities is given on page 42.

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 Chief Executive and the Director of Human Resources attend by invitation except when their own performance and remuneration are discussed. Further details are set out in the Remuneration Report on pages 43 to 48.

Corporate Governance

Committees of the Board (continued)

Attendance at the board and board committee meetings in 2004/05 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	7	7	–	–	1	1	–	–
C R N Clark[(1)]	3	3	–	2[(2)]	–	–	–	1[(2)]
N A P Carson	7	7	–	4[(2)]	–	–	–	3[(2)]
M B Dearden	7	7	5	5	1	1	4	4
P N Hawker	7	7	–	–	–	–	–	–
C D Mackay	7	7	5	5	1	1	4	3
D W Morgan	7	7	–	–	–	–	–	–
L C Pentz	7	7	–	–	–	–	–	–
J N Sheldrick	7	7	–	–	–	–	–	4[(2)]
I C Strachan	7	7	5	4	1	1	4	4
A M Thomson	7	7	5	4	1	1	4	4
R J W Walvis	7	7	5	5	1	1	4	3

(1) Retired July 2004.

(2) Includes meetings attended by invitation for all or part of meeting.

Directors' Remuneration

The Remuneration Report on pages 43 to 48 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 (AGM) 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 for questions, formally during the AGM and informally afterwards. Details of the 2005 AGM are set out in the notice of the meeting enclosed with this annual report.

Contact with major shareholders is essentially maintained by the Chief Executive and the Group Finance Director, who ensure that their views are communicated to the board as a whole. The board believes that appropriate steps have been taken during the year to ensure that the members of the board, and in particular the non-executive directors, develop an understanding of the issues and concerns of major shareholders about the company. The board is provided with brokers' reports and feedback from shareholder meetings on a six-monthly basis. A further step taken has been the canvassing of major shareholders' views for the board in a detailed investor survey conducted by external consultants in September 2004. The results of the survey were discussed by the board on 27th September 2004. The board intends that such a review be carried out periodically, although not necessarily annually. The views of the top ten shareholders were canvassed by the Senior Independent Director for the MDRC in respect of changes to remuneration prior to the 2004 AGM. Consultation with shareholders is also currently underway in respect of the proposed succession of the Chairman, Mr H M P Miles. The board has taken the view that these methods, taken together, are a practical and efficient way both for the Chairman to keep in touch with major shareholder opinion on governance and strategy and for the Senior Independent Director to learn the views of major shareholders and to develop a balanced understanding of their issues and concerns. The Chairman and the Senior Independent Director are available to attend meetings with major shareholders if requested.

Accountability, Audit and Control

The Statement of Directors' responsibilities in relation to the accounts is set out on page 49.

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.

Corporate Governance

Accountability, Audit and Control (continued)

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 2005 and the period up to 31st May 2005 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 the Chief Executive's Committee.

A review of the group's policies and targets for corporate social responsibility is set out on pages 24 to 33. 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 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, agreeing their remuneration, and considering their reports on the company's accounts, reports to shareholders and systems of internal financial control and risk management.

The full terms of reference of the Audit Committee are provided on the company's 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 34 and 35. Their remuneration is set out on page 45. The Chairman of the Audit Committee is Mr A M Thomson. The group Chairman, 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 2005. At its meeting on 26th May 2004 the Committee reviewed the company's preliminary announcement of its results for the financial year ended 31st March 2004, 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) report which is available on the company's website at www.matthey.com.

The Audit Committee met on 27th July 2004 to receive reports on internal controls from both the internal and external auditors and a paper detailing the group's treasury policies. The external auditors also presented their proposed fees and scope for the forthcoming year. The Committee also reviewed the performance of both the internal and external auditors.

At its meeting on 22nd November 2004 the Audit Committee reviewed the company's interim results, the half year report and the external auditors' review.

At its meeting on 25th January 2005 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 a paper on the impact of International Financial Reporting Standards on the group's accounts.

Independence of External Auditors

Both the board and the external auditors have for many years had safeguards in place 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 2006.

On behalf of the Committee:

A M Thomson
Chairman of the Audit Committee

Nomination Committee Report

This report provides details of the role of the Nomination Committee and the work it has undertaken during the year.

Role of the Nomination Committee

The Nomination Committee is a sub-committee of the board whose purpose is to advise the board on the appointment and, if necessary, dismissal of executive and non-executive directors. The full terms of reference of the Nomination Committee are provided on the company's website at www.matthey.com.

Composition of the Nomination Committee

The Nomination Committee comprises all the independent non-executive directors together with the group Chairman. The quorum necessary for the transaction of business is two, each of whom must be an independent non-executive director. Biographical details of the independent directors and the Chairman are set out on pages 34 and 35. Their remuneration is set out on page 45.

The group Chairman acts as the Chairman of the Committee, although the Chairman may not chair the Committee when it is dealing with the matter of succession to the Chairmanship of the company. A non-executive director may not chair the Committee when it is dealing with a matter relating to that non-executive director.

Only members of the Committee have the right to attend Committee meetings. However, other individuals such as the Chief Executive, the Director of Human Resources and external advisers may be invited to attend for all or part of any meeting, as and when appropriate.

The Director of Human Resources, Mr I F Stephenson, acts as secretary to the Committee.

The Committee has the authority to seek any information that it requires from any officer or employee of the company or its subsidiaries.
In connection with its duties, the Committee is authorised by the board to take such independent advice (including legal or other professional advice, at the company's expense) as it considers necessary, including requests for information from or commissioning investigations by external advisers.

Main Activities of the Nomination Committee

There were no board appointments in the year under review. The last appointments to the board were of Dr P N Hawker and Mr L C Pentz on 1st August 2003.

The group Chairman, Mr H M P Miles will be retiring from the board in the coming year once a successor has been found. The Nomination Committee has been conducting a process to identify a successor with the assistance of external search consultants. Open advertising is not being used. The Nomination Committee met once during the financial year ended 31st March 2005 in connection with the process for the selection of a successor to Mr Miles. The Committee has appointed a sub-committee comprising Mr M B Dearden and Mr A M Thomson to progress the selection process.

On behalf of the Committee:

Michael Miles

Michael Miles OBE
Chairman of the Nomination 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 independent non-executive directors of the company as set out on pages 34 and 35. The group Chairman is not a member of the Committee.

The Committee's terms of reference include determination on behalf of the board of fair remuneration for the executive directors and the group Chairman, 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 Director of Human Resources, Mr I F Stephenson, acts as secretary to the Committee. The full terms of reference of the Committee are available on the company's website at www.matthey.com.

Non-executive directors' remuneration is determined by the board, within the limits prescribed by the company's Articles of Association. The remuneration consists of fees, which are set following advice taken from independent consultants and are reviewed at three year intervals.

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 is reviewed by the Committee annually. Remuneration consists of basic salary, annual bonus, a long term incentive plan, share options and other benefits. 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 comprehensive review by the Committee in 2004, which included advice from independent consultants, and after extensive consultation with the company's major institutional investors, shareholder approval was obtained for changes to the long term incentive plan and the share option scheme.

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 160 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 65% of basic salary if the group achieves PBT of 107.5% of budget. There is a provision that a maximum 100% of basic salary may be paid to the Chief Executive and other executive directors if 115% of budgeted PBT is achieved. PBT must reach 95% of budget for a minimum bonus of 15% to be payable. The Committee has discretion to vary the awards made. The bonus awarded to executive directors in 2004/05 was 64.5% of salary at 31st March 2005.
- **Long Term Incentive Plan (LTIP) –** which was established in 1998 and is designed to achieve above average performance and growth. It allows share allocations of up to a maximum of 125% of basic annual salary each year to directors and executives. The allocation in 2004 was 100% of basic annual salary for executive directors and 125% for the Chief Executive. The release of the share allocation is subject to the achievement of certain stretching performance targets measured over the three year period from the date of allocation.

  Share allocations made prior to 2004 – Share allocations made prior to 2004 are subject to the achievement of performance targets which contain two components – relative total shareholder return (TSR) and absolute TSR.

  The first component (50% of the allocation) compares the company's TSR over the three year performance period with that of a comparator group. The comparator group comprises those companies placed 51-150 in the FTSE Index. For share allocations made in 2001 the comparator group comprised those companies placed in the FTSE 250 Index. All of the shares are released if the company ranks in the 75th percentile or above. Between 35% and 100% of the allocated shares are released on a straight line basis if the company ranks between the 50th and 75th percentile. None of the shares are released if the company ranks in the 50th percentile or below. In addition, the company's earnings per share (EPS) must be at least equal to the increase in UK RPI plus 2% per annum over the three year performance period before any release is made.

  The second component (50% of the allocation) measures absolute TSR. All of the shares are released if the absolute TSR growth over the three year performance period is 45% or more. Pro rata allocations on a straight line basis of between 50% and 100% are released if absolute TSR growth is between 30% and 45%. Half of the allocated shares are released if TSR growth is 30%. No shares are released for TSR growth of less than 30%.

Executive Remuneration Policy (continued)

Share allocations made from 2004 onwards – In 2004 shareholder approval was obtained to change the LTIP performance target. The change followed recommendations made by the Committee resulting from its review of the company's executive remuneration undertaken with the help of the Hay Group. The change was one of a number of changes made to executive incentives, effective for the 2004/05 financial year, as a means of recruiting and retaining key employees and of providing an incentive and focus for further improving the company's performance over the coming years. The effect of the change was that, for allocations made in 2004 onwards, the release of shares is subject entirely to a relative TSR performance target. This compares the company's TSR over the three year performance period with that of a comparator group which comprises those companies placed 51-150 in the FTSE Index. All of the allocated shares are released if the company ranks in the 75th percentile or above. Between 35% and 100% of the shares are released on a straight line basis if the company ranks between the 50th and 75th percentile. None of the shares are released if the company ranks in the 50th percentile or below. In addition, the company's EPS must be at least equal to the increase in UK RPI plus 2% per annum over the three year performance period before any release is made.

- **Share Options –** Since 2001 options have been granted under the Johnson Matthey 2001 Share Option Scheme (the 2001 Scheme). Options are granted at the market value of the company's shares at the time of grant and are subject to performance targets over a three year period. Options may be exercised upon satisfaction of the relevant performance targets. Approximately 800 employees are granted options under the 2001 Scheme each year.

  Options granted prior to 2004 – Prior to 2004, options granted to the executive directors under the 2001 Scheme were up to a maximum of 100% of basic annual salary each year. Such options can only be exercised if the company's normalised EPS has grown by at least UK RPI plus 4% per annum over any three consecutive years during the life of the option. These options are subject to annual retesting until they lapse on the tenth anniversary of grant.

  There are also options outstanding under the Johnson Matthey 1995 UK and Overseas Executive Share Option Scheme. The last option grant under this scheme was made in 2000. All options were granted in annual tranches up to the maximum permitted of four times earnings and were subject to a performance target of EPS growth of UK RPI plus 2% over the three year performance period. Option grants were not made to executive directors in the years 1998, 1999 and 2000.

  Options granted from 2004 onwards – In 2004 shareholder approval was obtained for certain changes to the 2001 Scheme. The changes followed the review of the company's executive remuneration by the Committee, as referred to above. As a result of the changes, grants made in 2004 onwards are no longer eligible for retesting and are subject to a three year performance target of EPS growth of UK RPI plus 3% per annum from the date of grant. If the performance target is not met at the end of the three year performance period, the options will lapse. In addition, to reduce the cost calculated under the International Financial Reporting Standard IFRS 2 – 'Share-based Payment', gains are capped at 100% of the grant price.

  Additional changes introduced in 2004 provide a further incentive to executive directors to deliver growth. The Committee now has the discretion to award grants greater than 100% of basic annual salary. Grants above this threshold are, however, subject to increasingly stretching performance targets. Grants between 100% and 125% of basic annual salary are subject to EPS growth of UK RPI plus 4% per annum and grants between 125% and 150% of basic annual salary are subject to EPS growth of UK RPI plus 5% per annum. In 2004 the executive directors were granted options equal to 150% of salary.

- **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 pages 47 and 48.

- **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 –** The executive directors 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.

Directors' Emoluments 2004/05

	Date of service agreement	Date of appointment	Salary £'000	Annual bonus £'000	Benefits £'000	Total excluding pension £'000	Total prior year excluding pension £'000
Executive							
N A P Carson (1)	1.8.99	1.8.99	400	290	24	714	434
P N Hawker	1.8.03	1.8.03	209	141	16	366	191 (5)
D W Morgan	1.8.99	1.8.99	256	170	31	457	360
L C Pentz (2)	24.2.91	1.8.03	295	125	120	540	251 (5)
J N Sheldrick (3)	24.11.97	3.9.90	342	226	13	581	467
Total Continuing Directors			1,502	952	204	2,658	1,703
C R N Clark (4)	24.11.97	1.3.90	207	133	14	354	897
Total			**1,709**	**1,085**	**218**	**3,012**	**2,600**

Directors' Emoluments 2004/05 (continued)

	Date of letter of appointment	Date of appointment	Fees £'000	Benefits £'000	Total excluding pension £'000	Total prior year excluding pension £'000
Non-Executive [6]						
H M P Miles (Chairman)	26.2.90	1.3.90	220	8[7]	228	200
M B Dearden	5.1.99	1.4.99	40	–	40	33
C D Mackay	5.1.99	27.1.99	45[8]	–	45	37
I C Strachan	10.12.01	23.1.02	40	–	40	33
A M Thomson	1.8.02	24.9.02	45[9]	–	45	36
R J W Walvis	1.8.02	24.9.02	40	–	40	33
H R Jenkins [10]			–	–	–	12
Total			**430**	**8**	**438**	**384**

Notes

(1) Mr Carson was a non-executive director of Avon Rubber plc until 20th January 2005. His annual fee was £25,000. This amount is excluded from the table above and retained by him.

(2) Mr Pentz's emoluments are based on US basic salary adjusted for the cost of living differential in the UK including UK taxation. The company has agreed to provide him, for two years only from 1st January 2004, with an expatriation package commensurate with the company's policy on international assignments, including accommodation costs, education expenses and relocation expenses.

(3) Mr Sheldrick was appointed a non-executive director of GKN plc on 20th December 2004. His annual fee is £40,000. This amount is excluded from the table above and retained by him.

(4) Mr Clark retired as a director of the company on 20th July 2004. Mr Clark was a non-executive director of Rexam PLC and FKI plc. His annual fees were £90,000 from Rexam PLC and £37,000 from FKI plc. These amounts are excluded from the table above and were retained by him.

(5) Appointed August 2003.

(6) Non-executive fees were last reviewed on 1st April 2004 for the Chairman and all non-executives.

(7) Mr Miles received a benefit related to the use of a company car for part of the year.

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

(9) Includes £5,000 per annum for chairmanship of the Audit Committee.

(10) Mr Jenkins retired in July 2003.

Directors' Interests

The interests of the directors as at 31st March 2005 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 2005	31st March 2004
N A P Carson	50,484	44,959
M B Dearden	2,000	2,000
P N Hawker	7,544	7,034
C D Mackay	12,500	12,500
H M P Miles	562	562
D W Morgan	35,873	35,396
L C Pentz	10,614	9,442
J N Sheldrick	52,907	52,355
I C Strachan	1,000	1,000
A M Thomson	2,116	2,056
R J W Walvis	1,000	1,000

All of the above interests were beneficial. The executive directors are also deemed to be interested in shares held by two employee share ownership trusts (see note 27 on page 74).

Directors' interests as at 27th May 2005 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 Carson, Hawker, Morgan and Sheldrick a further 78 ordinary shares each.

The Trustees of the Johnson Matthey Salaried Employees Savings Investment Plan (US) have purchased a further 304 ordinary shares on behalf of Mr Pentz.

Directors' Interests (continued)

2. Share Options

As at 31st March 2005, individual holdings under the company's executive share option schemes were as set out below. Options are not granted to 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
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	
	21.7.04	75,678	892.00	21.7.07	21.7.14	191,376
						(2004 115,698)
C R N Clark	18.7.01	48,938	1083.00	18.7.04	17.1.06	
	17.7.02	65,895	865.00	1.8.04	17.1.06	114,833[1]
						(2004 114,833)
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	
	21.7.04	36,746	892.00	21.7.07	21.7.14	89,893
						(2004 53,147)
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	
	21.7.04	44,397	892.00	21.7.07	21.7.14	147,961
						(2004 103,564)
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	
	21.7.04	34,857	892.00	21.7.07	21.7.14	121,087
						(2004 86,230)
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	
	21.7.04	58,861	892.00	21.7.07	21.7.14	191,076
						(2004 132,215)

Notes

[1] At date of retirement as a director (20th July 2004). In accordance with the rules of the 2001 Scheme, Mr Clark's options became exercisable upon the cessation of his employment and will lapse on 17th January 2006. These options can be exercised subject to the relevant performance conditions being met.

There were no share option exercises during the year.

The closing market price of the company's shares at 31st March 2005 was 989 pence and the range during 2004/05 was 841.5 pence to 1058 pence.

The terms and conditions of the above options are summarised on page 44.

Directors' Interests (continued)

3. LTIP Allocations

Number of allocated shares:

	As at 31st March 2004	Allocations during the year	Market price at date of allocation (pence)	Shares released during the year	Allocations lapsed during the year[1]	As at 31st March 2005
N A P Carson	78,459	63,273	889	–	20,251	121,481
C R N Clark	133,061	–	–	–	–	133,061[2]
P N Hawker	42,661	24,578	889	–	9,518	57,721
D W Morgan	67,409	29,696	889	–	18,901	78,204
L C Pentz	47,795	23,314	889	–	12,023	59,086
J N Sheldrick	92,891	39,370	889	–	27,001	105,260

Notes

[1] Shares allocated in 2001 reached their three year maturity on 1st August 2004. As the relevant performance conditions were not met all of the shares lapsed.

[2] At date of retirement as a director (20th July 2004). On 1st August 2004, Mr Clark's 2001 allocation of 63,886 shares lapsed (see note (1) above).

Pensions

Pensions and life assurance benefits for four of the 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 Second Pension. With the agreement of the scheme actuary, the company paid contributions to JMEPS of 15% of basic salaries during the year. Pension and life assurance benefits for Mr Pentz are provided through the Johnson Matthey Inc. Salaried Employees Pension Plan for employees in the United States.

Disclosure of directors' pension benefits has been made under the requirements of the United Kingdom Listing Authority Listing Rules and in accordance with the Directors' Remuneration Report Regulations 2002. The information below sets out the disclosures under the two sets of requirements.

a. United Kingdom Listing Authority Listing Rules

	Age as at 31st March 2005	Years of service at 31st March 2005	Director's contributions to JMEPS in the year[1] £'000	Increase in accrued pension during the year (net of inflation)[2] £'000 pa	Total accrued pension as at 31st March 2005[3] £'000 pa	Total accrued pension as at 31st March 2004 £'000 pa	Estimated transfer value of increase (less director's contributions)[4] £'000	FURBS contribution in the year[5] £'000	FURBS related tax payments[5] £'000
N A P Carson	47	24	16	70	203	129	682	–	–
C R N Clark[6]	63	41	–	20	453	433	342	–	–
P N Hawker	51	19	8	15	98	80	168	–	–
D W Morgan	47	16	4	3	36	32	21	61	40
J N Sheldrick	55	14	4	3	41	38	37	82	55
L C Pentz[7]	49	20	–	1	36	35	11	–	–

b. Directors' Remuneration Report Regulations 2002

	Director's contributions to JMEPS in the year[1] £'000	Increase in accrued pension during the year £'000 pa	Total accrued pension as at 31st March 2005[3] £'000 pa	Estimated transfer value of accrued pension as at 31st March 2005[4] £'000	Transfer value of accrued pension at 31st March 2004[4] £'000	Estimated increase in transfer value (net of director's contribution) £'000	FURBS contribution in the year[5] £'000	FURBS related tax payments[5] £'000
N A P Carson	16	74	203	2,038	1,065	957	–	–
C R N Clark[6]	–	20	453	7,912	7,625	287	–	–
P N Hawker	8	18	98	1,185	810	367	–	–
D W Morgan	4	4	36	345	252	89	61	40
J N Sheldrick	4	3	41	606	475	127	82	55
L C Pentz[7]	–	1	36	141	118	23	–	–

Remuneration Report

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 age of 60.

(2) The increase in accrued pension during the year excludes any increase for inflation since 31st March 2004.

(3) The entitlement shown under 'Total accrued pension at 31st March 2005' is the pension which would be paid annually on retirement, based on pensionable service to 31st March 2005. 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 account of market movements. During the course of the year the actuarial basis used within the JMEPS for the purpose of determining transfer values in accordance with Actuarial Guidance Note 11 was amended, resulting in an increase in transfer value amounts. The transfer values quoted have been calculated using the actuarial bases which applied at each reporting date. Therefore part of the increase in the transfer values will be due to the change in basis.

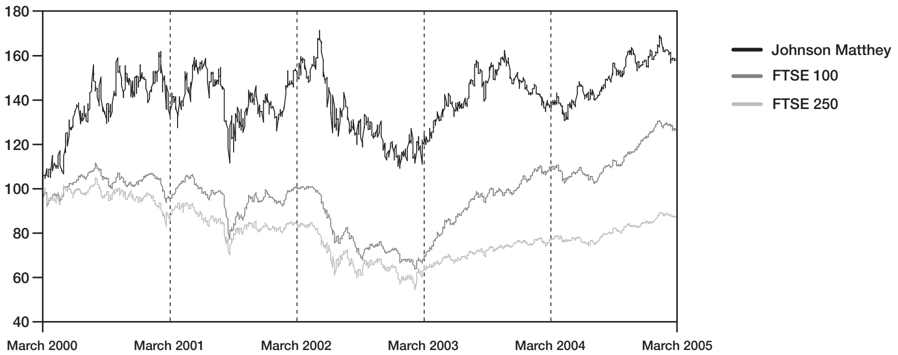
(5) The JMEPS' benefits and contributions for Messrs Morgan and Sheldrick are restricted by reference to the 'earnings cap' imposed by the Finance Act No. 2, 1989. Contributions have therefore been paid to Funded Unapproved Retirement Benefit Schemes (FURBS) established by the company, independently 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) Mr Clark retired from employment on 31st July 2004, aged 62 years. The data shown in the tables above cover the period from 1st April to 31st July 2004.

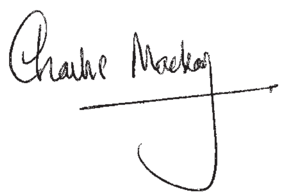
(7) Mr Pentz is a US citizen and is not a member of the UK pension scheme. Instead he is a member of the US salaried pension plan, which is a non-contributory defined benefit arrangement. The entitlements shown in the tables are those arising out of his membership of this arrangement converted into sterling by reference to the exchange rates on 31st March 2004 and 31st March 2005. Mr Pentz is also a member of a savings plan (401k), to which the company contributed $10,000 during the year. This is not included in the tables above, but is included in his benefits in the table on page 44.

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

The following graph charts total cumulative shareholder return of the company for the five year period from 31st March 2000 to 31st March 2005 against the FTSE 100 and the FTSE 250, as the most appropriate comparator groups, with each rebased to 100 at 1st April 2000. Johnson Matthey joined the FTSE 100 on 12th June 2002.



The Remuneration Report was approved by the Board of Directors on 31st May 2005 and signed on its behalf by:



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.

Consolidated Profit and Loss Account

for the year ended 31st March 2005

	Notes	2005 Before exceptional items and goodwill amortisation £ million	2005 Exceptional items and goodwill amortisation £ million	2005 Total £ million	2004 Before exceptional items and goodwill amortisation restated £ million	2004 Total restated £ million
Turnover	1					
Continuing operations		**4,626.2**	**–**	**4,626.2**	4,463.0	4,463.0
Discontinued operations	32	**12.3**	**–**	**12.3**	29.9	29.9
Group turnover		**4,638.5**	**–**	**4,638.5**	4,492.9	4,492.9
Operating profit	1					
Continuing operations before goodwill amortisation		**206.9**	**–**	**206.9**	202.8	202.8
Goodwill amortisation		**–**	**(20.9)**	**(20.9)**	–	(19.5)
Continuing operations before exceptional items		**206.9**	**(20.9)**	**186.0**	202.8	183.3
Exceptional items	2	**–**	**(23.5)**	**(23.5)**	–	2.1
Total continuing operations		**206.9**	**(44.4)**	**162.5**	202.8	185.4
Discontinued operations	32	**0.4**	**–**	**0.4**	2.5	2.5
Goodwill amortisation on discontinued operations		**–**	**(0.1)**	**(0.1)**	–	(0.2)
Group operating profit	5	**207.3**	**(44.5)**	**162.8**	205.3	187.7
Share of profit in associates		**0.8**	**–**	**0.8**	0.7	0.7
Goodwill amortisation on associates		**–**	**(0.1)**	**(0.1)**	–	(0.1)
Total operating profit		**208.1**	**(44.6)**	**163.5**	206.0	188.3
Loss on closure of continuing operations	2	**–**	**(13.2)**	**(13.2)**	–	–
Loss on sale of discontinued operations	2	**–**	**(15.2)**	**(15.2)**	–	–
Profit on ordinary activities before interest		**208.1**	**(73.0)**	**135.1**	206.0	188.3
Net interest	3	**(13.3)**	**–**	**(13.3)**	(16.3)	(16.3)
Net return on retirement benefits assets and liabilities	4	**9.2**	**–**	**9.2**	6.0	6.0
Profit on ordinary activities before taxation	6	**204.0**	**(73.0)**	**131.0**	195.7	178.0
Taxation	8	**(59.6)**	**15.6**	**(44.0)**	(58.3)	(57.9)
Profit after taxation		**144.4**	**(57.4)**	**87.0**	137.4	120.1
Minority interests	26	**1.2**	**–**	**1.2**	1.7	1.7
Profit attributable to shareholders		**145.6**	**(57.4)**	**88.2**	139.1	121.8
Dividends	9	**(59.8)**	**–**	**(59.8)**	(57.4)	(57.4)
Retained profit for the year	27	**85.8**	**(57.4)**	**28.4**	81.7	64.4

	Notes	pence		pence	pence	pence
Earnings per ordinary share						
Basic	10	**67.1**		**40.6**	64.0	56.0
Diluted	10	**66.9**		**40.5**	63.7	55.8
Dividend per ordinary share	9	**27.7**		**27.7**	26.4	26.4

The notes on pages 57 to 79 form an integral part of the accounts.

Consolidated and Parent Company Balance Sheets

as at 31st March 2005

	Notes	Group 2005 £ million	Group 2004 £ million	Parent company 2005 £ million	Parent company 2004 £ million
Fixed assets					
Goodwill	12	**354.2**	377.1	**234.5**	106.6
Tangible fixed assets	13	**604.9**	608.1	**232.8**	200.2
Investments	14	**6.6**	5.5	**460.5**	462.0
		965.7	990.7	**927.8**	768.8
Current assets					
Stocks	16	**416.5**	417.3	**233.4**	268.8
Debtors: due within one year	17	**364.2**	387.4	**936.5**	556.9
Debtors: due after more than one year	17	**–**	–	**318.0**	320.9
Short term investments	18	**0.6**	1.6	**–**	–
Cash at bank and in hand	19	**78.7**	106.5	**15.2**	2.7
		860.0	912.8	**1,503.1**	1,149.3
Creditors: amounts falling due within one year					
Borrowings and finance leases	19	**(36.8)**	(46.5)	**(42.1)**	(16.4)
Precious metal leases	21	**(102.1)**	(127.4)	**(101.2)**	(142.5)
Other creditors	22	**(342.9)**	(358.9)	**(758.8)**	(750.3)
Net current assets		**378.2**	380.0	**601.0**	240.1
Total assets less current liabilities		**1,343.9**	1,370.7	**1,528.8**	1,008.9
Creditors: amounts falling due after more than one year					
Borrowings and finance leases	19	**(411.5)**	(454.5)	**(297.6)**	(448.4)
Other creditors	22	**(0.7)**	(0.7)	**(198.3)**	(103.4)
Provisions for liabilities and charges	23	**(61.9)**	(47.4)	**(37.0)**	(18.9)
Net assets excluding retirement benefits assets and liabilities		**869.8**	868.1	**995.9**	438.2
Retirement benefits net assets	11	**33.5**	31.5	**–**	–
Retirement benefits net liabilities	11	**(34.6)**	(28.0)	**(10.0)**	(9.3)
Net assets including retirement benefits assets and liabilities		**868.7**	871.6	**985.9**	428.9
Capital and reserves					
Called up share capital	25	**219.5**	220.6	**219.5**	220.6
Share premium account	27	**139.8**	137.1	**139.8**	137.1
Capital redemption reserve	27	**6.5**	4.9	**6.5**	4.9
Shares held in employee share ownership trusts	27	**(37.7)**	(28.8)	**(37.3)**	(28.4)
Associates' reserves	27	**(0.2)**	(0.5)	**–**	–
Profit and loss account	27	**533.5**	528.9	**657.4**	94.7
Shareholders' funds		**861.4**	862.2	**985.9**	428.9
Minority interests	26	**7.3**	9.4	**–**	–
		868.7	871.6	**985.9**	428.9

The accounts were approved by the Board of Directors on 31st May 2005 and signed on its behalf by:

N A P Carson
J N Sheldrick Directors

The notes on pages 57 to 79 form an integral part of the accounts.

Consolidated Cash Flow Statement

for the year ended 31st March 2005

Reconciliation of operating profit to net cash inflow from operating activities

	Notes	2005 £ million	2004 £ million
Operating profit		**162.8**	187.7
Depreciation, amortisation and net profit on disposal of fixed assets and investments		**86.0**	83.5
Net retirement benefits charge less contributions		**1.2**	1.0
(Increase) / decrease in owned stocks		**(38.2)**	17.3
Decrease / (increase) in debtors		**9.1**	(41.7)
Increase in creditors and provisions		**10.4**	11.9
Net cash inflow from operating activities		**231.3**	259.7

Cash Flow Statement

	Notes	2005 £ million	2004 £ million
Net cash inflow from operating activities		**231.3**	259.7
Dividends received from associates		**0.2**	0.5
Returns on investments and servicing of finance	28	**(13.1)**	(16.4)
Taxation		**(52.9)**	(43.1)
Capital expenditure and financial investment	28	**(86.8)**	(114.4)
Acquisitions and disposals			
Acquisitions	28	**(4.0)**	(18.4)
Disposals	28	**23.3**	–
Net cash inflow / (outflow) for acquisitions and disposals		**19.3**	(18.4)
Equity dividends paid		**(58.4)**	(56.4)
Net cash flow before use of liquid resources and financing		**39.6**	11.5
Management of liquid resources	28	**9.9**	1.1
Financing			
Issue and purchase of share capital	28	**(16.1)**	(8.5)
(Decrease) / increase in borrowings and finance leases	28	**(50.6)**	6.3
Net cash outflow from financing		**(66.7)**	(2.2)
(Decrease) / increase in cash in the period		**(17.2)**	10.4

Reconciliation of net cash flow to movement in net debt

	Notes	2005 £ million	2004 £ million
(Decrease) / increase in cash in the period		**(17.2)**	10.4
Cash outflow / (inflow) from movement in borrowings and finance leases	29	**50.6**	(6.3)
Cash inflow from term deposits included in liquid resources		**(9.9)**	(1.1)
Change in net debt resulting from cash flows		**23.5**	3.0
Loan notes (issued) / cancelled to acquire subsidiaries	29	**–**	(1.1)
Translation difference	29	**1.4**	6.1
Movement in net debt in year		**24.9**	8.0
Net debt at beginning of year	29	**(394.5)**	(402.5)
Net debt at end of year	29	**(369.6)**	(394.5)

The notes on pages 57 to 79 form an integral part of the accounts.

Total Recognised Gains and Losses

for the year ended 31st March 2005

	2005 £ million	2004 £ million
Profit attributable to shareholders	**88.2**	121.8
Currency translation differences on foreign currency net investments and related loans	**(1.9)**	(23.8)
Taxation on translation differences on foreign currency loans	**2.0**	16.8
Actuarial (loss) / gain on retirement benefits assets and liabilities	**(15.5)**	36.1
Taxation on actuarial loss / gain on retirement benefits assets and liabilities	**3.6**	(11.0)
Total recognised gains and losses relating to the year	**76.4**	139.9
Prior year adjustment	**–**	(108.3)
Total recognised gains and losses since previous annual report	**76.4**	31.6

There were no material differences between reported profits and losses and historical cost profits and losses on ordinary activities before tax for 2005 and 2004.

Movement in Shareholders' Funds

for the year ended 31st March 2005

	2005 £ million	2004 £ million
Profit attributable to shareholders	**88.2**	121.8
Dividends	**(59.8)**	(57.4)
Retained profit for the year	**28.4**	64.4
Other recognised gains and losses relating to the year	**(11.8)**	18.1
New share capital subscribed	**3.2**	6.4
Purchase of own shares	**(16.3)**	–
Purchase of shares for employee share ownership trusts (ESOTs)	**(8.9)**	(14.9)
Shares in ESOTs utilised for long term incentive plan	**–**	0.9
Movement in long term incentive plan	**(1.2)**	–
Goodwill written back on sale of Pigments & Dispersions business	**5.8**	–
Net movement in shareholders' funds	**(0.8)**	74.9
Opening shareholders' funds	**862.2**	787.3
Closing shareholders' funds	**861.4**	862.2

The notes on pages 57 to 79 form an integral part of the accounts.

Report of the Independent Auditors

to the members of Johnson Matthey Public Limited Company

We have audited the accounts on pages 50 to 53 and 55 to 79. We have also audited the tabulated information and related footnotes set out in the directors' remuneration report on pages 43 to 48 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 49 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 regarding directors' remuneration and transactions with the group is not disclosed.

We review whether the corporate governance statement on pages 38 to 40 reflects the company's compliance with the nine provisions of the 2003 FRC 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 2005 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
31st May 2005

Accounting Policies

for the year ended 31st March 2005

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 20. 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, when the outcome becomes certain on a straight line basis over the remaining term of the option.
- 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.

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.

Accounting Policies

for the year ended 31st March 2005

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.

Notes on the Accounts

for the year ended 31st March 2005

1 Segmental information

	Turnover 2005 £ million	Turnover 2004 restated £ million	Operating profit 2005 £ million	Operating profit 2004 restated £ million	Net operating assets 2005 £ million	Net operating assets 2004 restated £ million
Activity analysis						
Catalysts	**1,183.6**	1,142.7	**111.5**	109.2	**818.7**	819.7
Precious Metal Products	**3,068.7**	2,956.4	**45.4**	44.2	**25.7**	19.0
Pharmaceutical Materials	**131.8**	139.7	**40.0**	42.3	**282.5**	281.4
Colours & Coatings	**242.1**	224.2	**27.4**	24.2	**168.5**	174.2
Corporate	**–**	–	**(16.6)**	(16.4)	**(56.0)**	(62.2)
	4,626.2	4,463.0	**207.7**	203.5	**1,239.4**	1,232.1
Discontinued operations	**12.3**	29.9	**0.4**	2.5	**–**	30.5
	4,638.5	4,492.9	**208.1**	206.0	**1,239.4**	1,262.6
Goodwill amortisation (note 12)			**(21.0)**	(19.7)		
Goodwill amortisation on associates			**(0.1)**	(0.1)		
Exceptional items included in total operating profit (note 2)			**(23.5)**	2.1		
			163.5	188.3	**1,239.4**	1,262.6
Loss on closure of continuing operations			**(13.2)**	–		
Loss on sale of discontinued operations			**(15.2)**	–		
Net interest			**(13.3)**	(16.3)		
Net return on retirement benefits assets and liabilities			**9.2**	6.0		
Profit on ordinary activities before taxation			**131.0**	178.0		
Net borrowings and finance leases					**(369.6)**	(394.5)
Net assets excluding retirement benefits assets and liabilities					**869.8**	868.1
Retirement benefits net (liabilities) / assets					**(1.1)**	3.5
Net assets including retirement benefits assets and liabilities					**868.7**	871.6

	Turnover 2005 £ million	Turnover 2004 restated £ million	Operating profit 2005 £ million	Operating profit 2004 restated £ million	Net operating assets 2005 £ million	Net operating assets 2004 restated £ million
Geographical analysis by origin						
Europe	**3,269.1**	3,209.5	**91.0**	79.0	**862.3**	890.5
North America	**1,041.7**	961.9	**62.1**	72.0	**253.1**	227.4
Asia	**999.7**	837.6	**19.0**	19.4	**68.4**	55.2
Rest of the World	**257.0**	272.2	**35.6**	33.1	**55.6**	59.0
	5,567.5	5,281.2	**207.7**	203.5	**1,239.4**	1,232.1
Discontinued operations	**14.2**	33.4	**0.4**	2.5	**–**	30.5
	5,581.7	5,314.6	**208.1**	206.0	**1,239.4**	1,262.6
Less inter-segment sales	**(943.2)**	(821.7)				
Total turnover	**4,638.5**	4,492.9				
Goodwill amortisation (note 12)			**(21.0)**	(19.7)		
Goodwill amortisation on associates			**(0.1)**	(0.1)		
Exceptional items included in total operating profit (note 2)			**(23.5)**	2.1		
			163.5	188.3	**1,239.4**	1,262.6
Loss on closure of continuing operations			**(13.2)**	–		
Loss on sale of discontinued operations			**(15.2)**	–		
Net interest			**(13.3)**	(16.3)		
Net return on retirement benefits assets and liabilities			**9.2**	6.0		
Profit on ordinary activities before taxation			**131.0**	178.0		
Net borrowings and finance leases					**(369.6)**	(394.5)
Net assets excluding retirement benefits assets and liabilities					**869.8**	868.1
Retirement benefits net (liabilities) / assets					**(1.1)**	3.5
Net assets including retirement benefits assets and liabilities					**868.7**	871.6

1 Segmental information (continued)

	2005 £ million	2004 £ million
External turnover by geographical destination		
Europe	**2,039.6**	2,011.4
North America	**997.5**	1,144.8
Asia	**1,229.8**	1,020.0
Rest of the World	**371.6**	316.7
Total turnover	**4,638.5**	4,492.9

Turnover by destination relating to the United Kingdom amounted to £1,251.4 million (2004 £1,255.4 million).

The group sold its Pigments & Dispersions business (part of Colours & Coatings) during the year (note 32) and so its results are reported as discontinued operations.

2 Exceptional items

An exceptional charge of £23.5 million (2004 credit of £2.1 million) has been included in total operating profit. This comprises:

	2005 £ million	2004 £ million
Cost of integrating the business of Activated Metals and Chemicals, Inc. (AMC) (Catalysts)	**(1.0)**	–
Cost of integrating the business of Lancaster Synthesis Limited (Catalysts)	**(2.0)**	–
Colours & Coatings rationalisation costs	**(10.3)**	–
UK pgm refining rationalisation (Catalysts)	**(10.2)**	–
Litigation settlement (Pharmaceutical Materials)	**–**	14.8
Other Catalysts' rationalisation costs	**–**	(12.7)
Exceptional items in total operating profit	**(23.5)**	2.1

These charges arise in Europe (£21.8 million, 2004 £10.5 million), North America (£1.7 million, 2004 credit £13.7 million), Asia (£ nil, 2004 £0.2 million) and Rest of the World (£ nil, 2004 £0.9 million).

The loss on closure of continuing operations of £13.2 million relates to the closure of the gold and silver bullion refinery in Royston, UK.

The loss on sale of discontinued operations of £15.2 million relates to the sale of the Pigments & Dispersions business (note 32).

3 Net interest

	2005 £ million	2004 £ million
Interest payable on bank loans and overdrafts	**(18.8)**	(9.0)
Interest payable on other loans	**(13.4)**	(17.2)
	(32.2)	(26.2)
Other interest receivable	**19.2**	10.2
Net interest – group	**(13.0)**	(16.0)
Share of interest payable by associates – other	**(0.3)**	(0.3)
Net interest	**(13.3)**	(16.3)

4 Net return on retirement benefits assets and liabilities

	2005 £ million	2004 £ million
Expected return on scheme assets	**45.2**	37.5
Interest on scheme liabilities	**(36.0)**	(31.5)
Net return on retirement benefits assets and liabilities	**9.2**	6.0

5 Group operating profit after exceptional items and goodwill amortisation

	2005 Continuing operations £ million	2005 Discontinued operations £ million	2005 Total £ million	2004 Continuing operations restated £ million	2004 Discontinued operations restated £ million	2004 Total £ million
Turnover	**4,626.2**	**12.3**	**4,638.5**	4,463.0	29.9	4,492.9
Cost of materials sold	**(3,874.9)**	**(4.7)**	**(3,879.6)**	(3,713.6)	(12.2)	(3,725.8)
Net revenues	**751.3**	**7.6**	**758.9**	749.4	17.7	767.1
Other cost of sales	**(404.3)**	**(5.5)**	**(409.8)**	(391.3)	(11.3)	(402.6)
Gross profit	**347.0**	**2.1**	**349.1**	358.1	6.4	364.5
Distribution costs	**(84.7)**	**(1.0)**	**(85.7)**	(80.8)	(2.4)	(83.2)
Administrative expenses	**(99.8)**	**(0.8)**	**(100.6)**	(91.9)	(1.7)	(93.6)
Group operating profit	**162.5**	**0.3**	**162.8**	185.4	2.3	187.7

Exceptional charges of £1.1 million (2004 £ nil) are included in cost of materials sold, £20.8 million (2004 £10.5 million) in other cost of sales, £1.6 million (2004 £0.1 million) in distribution costs and £ nil (2004 credit of £12.7 million) in administrative expenses. Goodwill amortisation of £20.9 million (2004 restated £19.5 million) is included in administrative expenses for continuing operations and £0.1 million (2004 restated £0.2 million) for discontinued operations.

6 Profit on ordinary activities before taxation

		2005 £ million	2004 £ million
Profit on ordinary activities before taxation is arrived at after charging / (crediting):			
Research and development		**58.2**	56.6
less external funding received		**(4.3)**	(2.1)
Net research and development		**53.9**	54.5
Depreciation	– on owned assets	**66.1**	62.9
	– on leased assets	**0.4**	0.4
Operating lease rentals	– on plant and machinery	**2.6**	3.6
	– on other operating leases	**5.2**	6.7

Directors' fees were £0.4 million (2004 £0.4 million) and other emoluments were £3.0 million (2004 £2.6 million). Details are given in the Remuneration Report on pages 43 to 48.

7 Fees paid to auditors

			2005 £ million	2005 £ million	2004 £ million	2004 £ million
Audit services	– statutory audit	– parent company		**0.4**		0.3
		– subsidiary undertakings		**0.6**		0.6
				1.0		0.9
	– audit-related regulatory reporting			**0.2**		0.1
Total fees for audit services				**1.2**		1.0
Further assurance services	– due diligence		**0.2**		0.2	
	– statutory compliance work		**–**		0.1	
Total fees for further assurance services				**0.2**		0.3
Tax services	– compliance		**0.2**		0.2	
	– advisory services		**0.1**		0.1	
Total fees for tax services				**0.3**		0.3
Total fees paid to group auditors				**1.7**		1.6

Included above are non-audit fees paid to auditors and their associates in the United Kingdom of £0.2 million (2004 £0.3 million).

8 Taxation

8a Analysis of tax charge in the year

	£ million	2005 £ million	£ million	2004 £ million
Current tax				
UK corporation tax on profits for the year		**27.0**		27.8
Adjustment for prior years		**0.8**		(2.0)
		27.8		25.8
Double taxation relief		**(7.2)**		(0.7)
		20.6		25.1
Foreign tax on profits for the year	**30.6**		30.0	
Adjustment for prior years	**(3.1)**		(3.0)	
		27.5		27.0
Total current tax		**48.1**		52.1
Deferred tax				
Origination and reversal of timing differences	**13.3**		6.1	
Adjustment to estimated recoverable amount of deferred tax assets arising in prior years	**(1.8)**		–	
Total deferred tax		**11.5**		6.1
Associates		**–**		0.1
Total taxation before tax on exceptional items and goodwill amortisation		**59.6**		58.3
Tax on goodwill amortisation – current tax		**(1.9)**		(2.0)
Tax on exceptional items included in total operating profit – current tax		**(7.1)**		6.2
Tax on exceptional items included in total operating profit – deferred tax		**0.1**		(4.6)
Tax on loss on closure of continuing operations – current tax		**(4.0)**		–
Tax on loss on closure of continuing operations – deferred tax		**0.1**		–
Tax on loss on sale of discontinued operations – current tax		**(3.3)**		–
Tax on loss on sale of discontinued operations – deferred tax		**0.5**		–
Total taxation		**44.0**		57.9

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:

	2005 £ million	2004 £ million
Profit on ordinary activities before taxation, exceptional items and goodwill amortisation	**204.0**	195.7
Taxation charge at UK corporation tax rate of 30% (2004 30%)	**61.2**	58.7
Effects of:		
Overseas tax rates	**2.3**	2.1
Pension credits and contributions	**(1.2)**	(3.0)
Provisions	**(5.0)**	1.0
Capital allowances for the year in excess of depreciation	**(3.1)**	(7.9)
Stock adjustments	**(3.5)**	8.3
Expenses not deductible for tax purposes	**0.7**	0.7
Net utilisation of tax losses	**(0.7)**	0.2
Adjustments for prior years	**(2.3)**	(5.0)
Research and development credits	**(2.3)**	(1.8)
Other	**2.0**	(1.2)
Current tax charge for the year	**48.1**	52.1

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 generally 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. The group will benefit from recent tax rate reductions in South Africa, Mexico and the Netherlands and proposed reductions, if made, in Germany and India.

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 £0.8 million (2004 £0.4 million) has been provided on an accrued dividend.

9 Dividends

	2005 £ million	2004 £ million
Interim ordinary dividend paid – 8.7 pence per share (2004 8.2 pence per share)	**18.9**	17.9
Final ordinary dividend proposed – 19.0 pence per share (2004 18.2 pence per share)	**40.9**	39.5
Total dividends	**59.8**	57.4

10 Earnings per ordinary share

Profit for the year attributable to shareholders is £88.2 million (2004 £121.8 million). This is divided by the weighted average number of shares in issue calculated as 217,005,241 (2004 217,629,033) to give basic earnings per share of 40.6 pence (2004 56.0 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 497,097 (2004 778,267), giving diluted earnings per share of 40.5 pence (2004 55.8 pence).

Before exceptional items, goodwill amortisation and the tax thereon, basic earnings per share were 67.1 pence (2004 64.0 pence) and diluted earnings per share were 66.9 pence (2004 63.7 pence).

	2005 £ million	2004 £ million
Attributable profit	**88.2**	121.8
Goodwill amortisation	**21.1**	19.8
Exceptional items	**51.9**	(2.1)
Tax thereon	**(15.6)**	(0.4)
Adjusted profit	**145.6**	139.1
Earnings per share before exceptional items and goodwill amortisation		
Basic	**67.1p**	64.0p
Diluted	**66.9p**	63.7p

11 Employee information

11a Employee numbers

	2005	2004
The average monthly number of employees during the year was as follows:		
Catalysts	**4,300**	4,120
Precious Metal Products	**1,028**	939
Pharmaceutical Materials	**610**	581
Colours & Coatings	**1,242**	1,295
Corporate and Central Research	**231**	228
Average number of employees – continuing	**7,411**	7,163
Discontinued operations	**121**	276
Average number of employees – total	**7,532**	7,439
Actual number of employees at 31st March	**7,354**	7,524

The number of temporary employees included above at 31st March 2005 was 90 (2004 133).

11b Employee costs

	2005 £ million	2004 £ million
Wages and salaries	**223.8**	214.3
Social security costs	**23.5**	22.9
Other retirement benefits costs	**22.3**	25.1
Total employee costs	**269.6**	262.3

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 2004 for the US pension schemes and the valuations of all the UK and US schemes were updated to 31st March 2005 by qualified independent actuaries. For the UK pension scheme the group made company contributions of £13.1 million (2004 £13.9 million) in the year, being regular contributions of £12.0 million (2004 £7.6 million) at a rate of 15% of pensionable pay and special contributions of £1.1 million (2004 £6.3 million). Contributions for the year ending 31st March 2006 have been agreed at a rate of 20% of pensionable pay. Contributions to the US pension schemes amounted to £5.5 million (2004 £6.0 million). Contributions to the post-retirement medical benefits schemes were £0.2 million (2004 £0.1 million) in the UK and £0.4 million (2004 £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 £6.1 million (2004 £1.9 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 £2.6 million (2004 £2.0 million) and the outstanding contributions at 31st March 2005 were £0.1 million (2004 £0.1 million).

The main assumptions were:

	2005 UK schemes %	2005 US schemes %	2004 UK schemes %	2004 US schemes %	2003 UK schemes %	2003 US schemes %
Rate of increase in salaries	**4.30**	**4.25**	4.00	4.25	3.75	4.25
Rate of increase in pensions in payment	**2.80**	**–**	2.50	–	2.25	–
Discount rate	**5.40**	**5.75**	5.50	6.00	5.40	6.25
Inflation	**2.80**	**2.75**	2.50	2.75	2.25	2.75
Current medical benefits cost trend rate	**5.80**	**9.50**	5.50	10.50	5.00	9.50
Ultimate medical benefits cost trend rate	**5.80**	**5.00**	5.50	5.00	5.00	5.00

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

	UK pension scheme		UK post-retirement medical benefits scheme value £ million	US pension schemes		US post-retirement medical benefits scheme value £ million
	Expected long term rate of return %	Value £ million		Expected long term rate of return %	Value £ million	
At 31st March 2005						
Equities	**8.00**	**368.6**	**–**	**8.00**	**40.4**	**–**
Bonds	**4.90**	**249.0**	**–**	**4.50**	**23.7**	**–**
Property	**6.25**	**41.8**	**–**		**–**	**–**
Total market value of assets		**659.4**	**–**		**64.1**	**–**
Present value of scheme liabilities		**(613.6)**	**(10.0)**		**(75.7)**	**(15.9)**
Surplus / (deficit) in scheme		**45.8**	**(10.0)**		**(11.6)**	**(15.9)**
Related deferred tax (liability) / asset		**(13.7)**	**–**		**4.4**	**6.0**
Net retirement benefits asset / (liability)		**32.1**	**(10.0)**		**(7.2)**	**(9.9)**

11c Retirement benefits (continued)

(i) Group (continued)

	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						
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)

These are included in the balance sheet as:

	2005 Retirement benefits net assets £ million	**2005 Retirement benefits net liabilities £ million**	**2005 Total £ million**	2004 Retirement benefits net assets £ million	2004 Retirement benefits net liabilities £ million	2004 Total £ million
UK pension scheme	**32.1**	**–**	**32.1**	30.3	–	30.3
UK post-retirement medical benefits scheme	**–**	**(10.0)**	**(10.0)**	–	(9.3)	(9.3)
US pension schemes	**–**	**(7.2)**	**(7.2)**	–	(6.0)	(6.0)
US post-retirement medical benefits scheme	**–**	**(9.9)**	**(9.9)**	–	(9.6)	(9.6)
Other schemes	**1.4**	**(7.5)**	**(6.1)**	1.2	(3.1)	(1.9)
Total	**33.5**	**(34.6)**	**(1.1)**	31.5	(28.0)	3.5

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 2005				
Current service cost after employee contributions	**(17.1)**	**(0.3)**	**(3.2)**	**(0.6)**
Past service cost	**(1.1)**	**–**	**–**	**–**
Curtailment gains	**1.8**	**–**	**–**	**–**
Total operating charge	**(16.4)**	**(0.3)**	**(3.2)**	**(0.6)**
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)

11c Retirement benefits (continued)

(i) Group (continued)

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 2005				
Expected return on scheme assets	**40.2**	**–**	**4.1**	**–**
Interest on scheme liabilities	**(29.9)**	**(0.5)**	**(4.0)**	**(0.8)**
Net return on retirement benefits assets and liabilities	**10.3**	**(0.5)**	**0.1**	**(0.8)**
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 benefits assets and liabilities	7.7	(0.4)	(0.5)	(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 2005				
Actual return less expected return on scheme assets	**26.6**	**–**	**(1.1)**	**–**
Experience gains / (losses) arising on scheme liabilities	**0.8**	**0.4**	**(0.6)**	**(0.9)**
Changes in assumptions underlying present value of scheme liabilities	**(33.8)**	**(0.5)**	**(2.9)**	**1.0**
Actuarial (loss) / gain in total recognised gains and losses	**(6.4)**	**(0.1)**	**(4.6)**	**0.1**
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)

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 2003	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)
Current service cost after employee contributions – in operating profit	(17.1)	(0.3)	(3.2)	(0.6)
Current service cost after employee contributions – capitalised	(0.2)	–	–	–
Past service cost	(1.1)	–	–	–
Curtailment gains in exceptional items included in operating profit	1.8	–	–	–
Curtailment gains in other exceptional items	2.1	–	–	–
Company contributions	13.1	0.2	5.5	0.4
Net return on retirement benefit assets and liabilities	10.3	(0.5)	0.1	(0.8)
Actuarial (loss) / gain	(6.4)	(0.1)	(4.6)	0.1
Exchange adjustments	–	–	0.3	0.5
Surplus / (deficit) at 31st March 2005	**45.8**	**(10.0)**	**(11.6)**	**(15.9)**

11c Retirement benefits (continued)

(i) Group (continued)

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 2005				
Difference between expected and actual return on scheme assets:				
amount (£ million)	**26.6**	**–**	**(1.1)**	**–**
percentage of scheme assets	**4.0%**	**–**	**(1.7%)**	**–**
Experience gains / (losses) on scheme liabilities:				
amount (£ million)	**0.8**	**0.4**	**(0.6)**	**(0.9)**
percentage of present value of scheme liabilities	**0.1%**	**4.0%**	**(0.8%)**	**(5.7%)**
Total amount recognised in statement of total recognised gains and losses:				
amount (£ million)	**(6.4)**	**(0.1)**	**(4.6)**	**0.1**
percentage of present value of scheme liabilities	**(1.0%)**	**(1.0%)**	**(6.1%)**	**0.6%**
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				
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 £12.3 million (2004 £12.1 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	417.0	130.3
Additions, fair value adjustments and adjustments to consideration (note 31)	0.6	–
Acquisition of businesses from subsidiaries	–	141.6
Disposals	(2.3)	(0.2)
Exchange adjustments	(0.9)	–
At end of year	414.4	271.7
Amortisation		
At beginning of year	39.9	23.7
Charge for the year	21.0	13.7
Disposals	(0.6)	(0.2)
Exchange adjustments	(0.1)	–
At end of year	60.2	37.2
Net book value at 31st March 2005	**354.2**	**234.5**
Net book value at 31st March 2004	377.1	106.6

Goodwill amortisation of £13.0 million (2004 £11.4 million) arises in Catalysts, £0.1 million (2004 £0.1 million) in Precious Metal Products, £7.8 million (2004 £8.0 million) in Pharmaceutical Materials and £0.1 million (2004 £0.2 million) in Colours & Coatings. Geographically £17.7 million (2004 £17.3 million) arises in Europe, £2.4 million (2004 £1.6 million) in North America and £0.9 million (2004 £0.8 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	219.6	16.8	742.0	978.4
Purchases	13.3	1.7	80.5	95.5
Acquisitions	–	–	0.3	0.3
Reclassifications	8.0	(2.2)	(5.8)	–
Disposals	(2.1)	(0.1)	(29.2)	(31.4)
Disposal of business	(4.9)	–	(24.0)	(28.9)
Exchange adjustments	(2.0)	0.2	(4.6)	(6.4)
At end of year	231.9	16.4	759.2	1,007.5
Depreciation				
At beginning of year	49.8	6.6	313.9	370.3
Charge for the year	6.8	1.0	58.7	66.5
Reclassifications	1.1	(1.1)	–	–
Disposals	(0.9)	–	(20.2)	(21.1)
Disposal of business	(0.7)	–	(9.4)	(10.1)
Exchange adjustments	(0.6)	(0.1)	(2.3)	(3.0)
At end of year	55.5	6.4	340.7	402.6
Net book value at 31st March 2005	**176.4**	**10.0**	**418.5**	**604.9**
Net book value at 31st March 2004	169.8	10.2	428.1	608.1

The net book value of tangible fixed assets includes £3.7 million (2004 £4.1 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	64.9	1.9	261.9	328.7
Purchases	2.9	–	39.3	42.2
Reclassifications	0.8	–	(0.8)	–
Acquisition of businesses from subsidiaries	5.6	–	47.9	53.5
Disposals	(1.8)	–	(24.1)	(25.9)
Disposal of business	(4.9)	–	(22.8)	(27.7)
At end of year	67.5	1.9	301.4	370.8
Depreciation				
At beginning of year	19.3	1.7	107.5	128.5
Charge for the year	2.5	0.1	23.3	25.9
Acquisition of businesses from subsidiaries	0.2	–	8.9	9.1
Disposals	(0.7)	–	(15.3)	(16.0)
Disposal of business	(0.7)	–	(8.8)	(9.5)
At end of year	20.6	1.8	115.6	138.0
Net book value at 31st March 2005	**46.9**	**0.1**	**185.8**	**232.8**
Net book value at 31st March 2004	45.6	0.2	154.4	200.2

The net book value of tangible fixed assets includes £3.7 million (2004 £4.1 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	Unlisted investments £ million	Total £ million
At beginning of year	3.1	1.5	0.9	5.5
Additions	–	–	1.0	1.0
Profit retained for the year	0.3	(0.1)	–	0.2
Exchange adjustments	(0.1)	–	–	(0.1)
At end of year	**3.3**	**1.4**	**1.9**	**6.6**

14b Parent company

	Cost of investment in subsidiary undertakings £ million
At beginning of year	462.0
Written off	(1.5)
At end of year	**460.5**

The principal subsidiary undertakings are shown on page 79.

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 £4.6 million (2004 £4.3 million).

15 Transactions with related parties

The group's related parties are its associates described in note 14c.

During the year the group purchased £537,000 (2004 £284,000) of raw materials from and made service charges of £18,000 (2004 £18,000) to Oximet SrL. Total balances payable to Oximet SrL at 31st March 2005 were £152,000 (2004 £138,000).

During the year the group made service charges of £ nil (2004 £1.2 million) to AGR Matthey.

16 Stocks

	Group		Parent company	
	2005 £ million	2004 £ million	**2005 £ million**	2004 £ million
Raw materials and consumables	**63.1**	59.2	**21.6**	17.6
Work in progress – precious metals	**187.5**	206.4	**160.2**	217.7
– other	**34.7**	29.3	**19.9**	8.0
Finished goods and goods for resale	**131.2**	122.4	**31.7**	25.5
Total stocks	**416.5**	417.3	**233.4**	268.8

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	
	2005 £ million	2004 £ million	**2005 £ million**	2004 £ million
Debtors: due within one year				
Trade debtors	**321.7**	320.2	**117.5**	96.3
Amounts owed by subsidiary undertakings	**–**	–	**790.3**	434.8
Other debtors	**21.3**	37.9	**3.6**	14.1
Current corporation tax	**–**	–	**15.9**	–
Deferred tax assets (note 24)	**0.8**	5.4	**–**	–
Prepayments and accrued income	**20.4**	23.9	**9.2**	11.7
	364.2	387.4	**936.5**	556.9
Debtors: due after more than one year				
Amounts owed by subsidiary undertakings	**–**	–	**318.0**	320.9

18 Short term investments

	Group		Parent company	
	2005 £ million	2004 £ million	**2005 £ million**	2004 £ million
Investments listed on the London Stock Exchange	**–**	–	**–**	–
Investments listed on overseas stock exchanges	**0.6**	1.6	**–**	–
	0.6	1.6	**–**	–

The market value of investments listed on the London Stock Exchange was £0.1 million (2004 £0.1 million) and on overseas stock exchanges £1.4 million (2004 £6.0 million).

19 Borrowings and finance leases

	Group 2005 £ million	Group 2004 £ million	Parent company 2005 £ million	Parent company 2004 £ 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	**–**	–
From one to two years	**0.6**	0.7	**–**	–
Bank and other loans repayable otherwise than by instalments				
4.95% US Dollar Bonds 2015	**108.9**	111.3	**108.9**	111.3
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	**52.9**	54.4	**52.9**	54.4
Other after five years	**4.5**	4.7	**–**	–
Other from two to five years	**145.9**	155.2	**37.1**	155.2
From one to two years	**36.0**	64.6	**36.0**	64.6
Finance leases repayable				
After five years	**2.6**	2.9	**2.6**	2.9
From two to five years	**0.8**	0.7	**0.8**	0.7
From one to two years	**0.3**	0.4	**0.3**	0.3
Borrowings and finance leases falling due after more than one year	**411.5**	454.5	**297.6**	448.4
Borrowings and finance leases falling due within one year				
Bank and other loans	**36.5**	46.2	**41.8**	16.1
Finance leases	**0.3**	0.3	**0.3**	0.3
Borrowings and finance leases falling due within one year	**36.8**	46.5	**42.1**	16.4
Total borrowings and finance leases	**448.3**	501.0	**339.7**	464.8
Less cash and deposits	**78.7**	106.5	**15.2**	2.7
Net borrowings and finance leases	**369.6**	394.5	**324.5**	462.1

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 20.

20a Interest rate risk

	2005 At fixed interest rates £ million	**2005 At floating interest rates £ million**	**2005 Total £ million**	2004 At fixed interest rates £ million	2004 At floating interest rates £ million	2004 Total £ million
Financial liabilities						
Sterling	**85.2**	**73.5**	**158.7**	85.5	193.8	279.3
US dollar	**52.9**	**227.8**	**280.7**	54.4	141.1	195.5
Euro	**–**	**176.1**	**176.1**	–	83.8	83.8
Japanese yen	**–**	**25.1**	**25.1**	–	25.6	25.6
Chinese renminbi	**–**	**6.8**	**6.8**	–	8.2	8.2
South African rand	**–**	**0.3**	**0.3**	–	7.4	7.4
Other currencies	**–**	**2.1**	**2.1**	–	4.6	4.6
	138.1	**511.7**	**649.8**	139.9	464.5	604.4

20a Interest rate risk (continued)

	2005 Weighted average interest rates %	2005 Weighted average period for which rates are fixed Years	2004 Weighted average interest rates %	2004 Weighted average period for which rates are fixed Years
Fixed rate financial liabilities				
Sterling	**5.15**	**8**	5.15	9
US dollar	**6.36**	**1**	6.36	2

The financial liabilities of the group comprised:

	2005 £ million	2004 £ million
Total borrowings and finance leases	**448.3**	501.0
Borrowings generated by swaps	**193.8**	95.7
Non-equity minority interests	**7.0**	7.0
Other creditors falling due after more than one year	**0.7**	0.7
	649.8	604.4

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

	2005 At floating interest rates £ million	2005 Interest free £ million	2005 Total £ million	2004 At floating interest rates £ million	2004 Interest free £ million	2004 Total £ million
Financial assets						
Sterling	**217.8**	**–**	**217.8**	135.6	–	135.6
US dollar	**15.5**	**1.9**	**17.4**	44.6	0.9	45.5
Euro	**9.9**	**–**	**9.9**	–	–	–
Japanese yen	**4.2**	**–**	**4.2**	–	–	–
Brazilian real	**5.1**	**–**	**5.1**	3.3	–	3.3
Swiss franc	**4.4**	**–**	**4.4**	2.4	–	2.4
Hong Kong dollar	**3.4**	**–**	**3.4**	4.2	–	4.2
Other currencies	**12.2**	**0.6**	**12.8**	12.1	1.6	13.7
	272.5	**2.5**	**275.0**	202.2	2.5	204.7

The financial assets of the group comprised:

	2005 £ million	2004 £ million
Cash and deposits	**78.7**	106.5
Deposits generated by swaps	**193.8**	95.7
Fixed assets investments unlisted	**1.9**	0.9
Short term investments	**0.6**	1.6
	275.0	204.7

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

	2005 £ million	2004 £ million
In one year or less, or on demand	230.6	142.2
In more than one year but not more than two years	90.4	66.4
In more than two years but not more than five years	165.7	210.9
In more than five years	163.1	184.9
	649.8	604.4

20d Undrawn committed borrowing facilities

	2005 £ million	2004 £ million
Expiring in more than one year but not more than two years	54.0	25.4
Expiring in more than two years	54.1	34.8
	108.1	60.2

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 1.1% impact on profit before tax, exceptional items and goodwill amortisation. 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 (2.7%) movement in the average exchange rate for the US dollar against sterling has a 0.8% impact on total operating profit before exceptional items and goodwill amortisation. The group is also exposed to the euro. A 5 cent (3.4%) movement in the average exchange rate for the euro against sterling has a 0.6% impact on total operating profit before exceptional items and goodwill amortisation. 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

	2005 Book value £ million	2005 Fair value £ million	2004 Book value £ million	2004 Fair value £ million
Cash and deposits	78.7	78.7	106.5	106.5
Fixed assets investments unlisted	1.9	1.9	0.9	0.9
Short term investments listed on the London Stock Exchange	–	0.1	–	0.1
Short term investments listed on overseas stock exchanges	0.6	1.4	1.6	6.0
Borrowings and finance leases falling due within one year	(36.8)	(36.8)	(46.5)	(46.5)
US Dollar Bonds 2006, 2010 and 2015	(180.8)	(179.2)	(184.7)	(190.3)
Sterling Bonds 2013	(40.0)	(38.8)	(40.0)	(38.6)
Other borrowings and finance leases falling due after more than one year	(190.7)	(190.7)	(229.8)	(229.8)
Other creditors falling due after more than one year	(0.7)	(0.7)	(0.7)	(0.7)
Non-equity minority interests	(7.0)	(7.0)	(7.0)	(7.0)
Interest rate swaps	–	(4.1)	–	2.2
Forward exchange contracts	–	3.4	–	8.8
	(374.8)	(371.8)	(399.7)	(388.4)

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 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
Gains / losses recognised in the year	8.9	–	8.9
Gains and losses arising before 31st March 2004 not recognised in 2004/05	2.1	–	2.1
Gains and losses arising in 2004/05 not recognised in 2004/05	2.0	4.8	(2.8)
Unrecognised gains and losses at 31st March 2005	**4.1**	**4.8**	**(0.7)**
Of which gains and losses expected to be recognised in the year to 31st March 2006	4.1	0.7	3.4

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		Parent company	
	2005 £ million	2004 £ million	**2005 £ million**	2004 £ million
Amounts falling due within one year				
Trade creditors	**153.9**	151.5	**30.1**	34.1
Amounts owed to subsidiary undertakings	**–**	–	**621.6**	630.8
Amounts owed to associates	**0.2**	0.1	**–**	–
Current corporation tax	**10.1**	42.3	**–**	0.1
Other taxes and social security costs	**6.2**	12.4	**3.5**	3.6
Other creditors	**34.3**	34.1	**17.4**	10.4
Accruals and deferred income	**97.3**	79.0	**45.3**	31.8
Dividends	**40.9**	39.5	**40.9**	39.5
Total other creditors falling due within one year	**342.9**	358.9	**758.8**	750.3
Amounts falling due after more than one year				
Amounts owed to subsidiary undertakings	**–**	–	**198.3**	103.4
Other creditors	**0.7**	0.7	**–**	–
Total other creditors falling due after more than one year	**0.7**	0.7	**198.3**	103.4

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	15.5	11.5	20.4	47.4
Charge for year	39.2	1.4	7.0	47.6
Utilised	(29.7)	(1.8)	–	(31.5)
Released	–	(3.8)	–	(3.8)
Charge to total recognised gains and losses	–	–	4.9	4.9
Transferred to deferred tax assets	–	–	(2.5)	(2.5)
Exchange adjustments	–	(0.1)	(0.1)	(0.2)
At end of year	**25.0**	**7.2**	**29.7**	**61.9**

The rationalisation provisions relate to Catalysts Division, Colours & Coatings Division and Precious Metal Products Division and are expected to be fully spent by 2007.

23b Parent company

	Rationalisation provisions £ million	Other provisions £ million	Deferred taxation (note 24) £ million	Total £ million
At beginning of year	7.3	6.2	5.4	18.9
Charge / (credit) for year	38.0	0.3	(0.1)	38.2
Acquisition of businesses from subsidiaries	–	–	5.7	5.7
Utilised	(25.0)	–	–	(25.0)
Released	–	(0.8)	–	(0.8)
At end of year	**20.3**	**5.7**	**11.0**	**37.0**

The rationalisation provisions relate to Catalysts Division, Colours & Coatings Division and Precious Metal Products Division and are expected to be fully spent by 2007.

24 Deferred taxation

	Group		Parent company	
	2005 £ million	2004 £ million	**2005 £ million**	2004 £ million
Timing differences on				
Fixed assets	**52.4**	48.3	**24.8**	20.4
Stocks	**(13.6)**	(13.0)	**(14.7)**	(13.0)
Translation differences on foreign currency loans	**(14.5)**	(21.0)	**–**	–
Other	**4.6**	0.7	**0.9**	(2.0)
	28.9	15.0	**11.0**	5.4
Deferred tax assets (note 17)	**0.8**	5.4	**–**	–
Deferred tax provisions (note 23)	**29.7**	20.4	**11.0**	5.4
	28.9	15.0	**11.0**	5.4

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	220,605,536	220.6
Purchase of own shares	–	–	(1,604,000)	(1.6)
Executive share option schemes – options exercised	–	–	521,170	0.5
At end of year	**291,550,000**	**291.6**	**219,522,706**	**219.5**

At 31st March 2005 there were 7,282,342 options outstanding under the group's executive share option schemes, exercisable at various times up to the year 2014 at prices from 314.98 pence per share to 1083.00 pence per share.

At 31st March 2005 three allocations had been made under the company's long term incentive plan which had yet to mature. The 2002 allocation of 377,252 shares, the 2003 allocation of 387,110 shares and the 2004 allocation of 441,480 shares will mature at the end of their respective three year performance periods in August 2005, August 2006 and August 2007. 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	2.4	7.0	9.4
Share of retained (loss) / profit for the year	(1.5)	0.3	(1.2)
Dividends	(0.2)	(0.3)	(0.5)
Purchase of remaining minority interest in Johnson Matthey India Private Limited (note 31)	(0.4)	–	(0.4)
At end of year	**0.3**	**7.0**	**7.3**

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	137.1	4.9	(28.8)	(0.5)	528.9
Exchange adjustments	–	–	–	–	0.1
Premium on shares issued	2.7	–	–	–	–
Purchase of shares	–	1.6	(8.9)	–	(16.3)
Movement in long term incentive plan	–	–	–	–	(1.2)
Actuarial loss on retirement benefits assets and liabilities	–	–	–	–	(11.9)
Goodwill written back on sale of Pigments & Dispersions business	–	–	–	–	5.8
Retained profit for the year	–	–	–	0.3	28.1
At end of year	**139.8**	**6.5**	**(37.7)**	**(0.2)**	**533.5**

At 31st March 2005 the cumulative amount of goodwill, net of goodwill relating to disposals, charged against profit and loss account was £34.8 million (2004 £40.6 million).

At 31st March 2005 the profit and loss account includes £1.1 million relating to the net retirement benefits liability (2004 £3.5 million relating to the net retirement benefits asset).

In the group accounts, £2.7 million of net exchange gains (2004 £22.5 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 2005 the group's employee share ownership trusts (ESOTs) held 4,426,743 shares (2004 3,530,743 shares) with a market value of £43.8 million (2004 £31.1 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 2005 8,488,184 shares (2004 7,349,390 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 trust £ million	Profit & loss account £ million
At beginning of year	137.1	4.9	(28.4)	94.7
Premium on shares issued	2.7	–	–	–
Purchase of shares	–	1.6	(8.9)	(16.3)
Movement in long term incentive plan	–	–	–	(1.2)
Actuarial loss on retirement benefits liability	–	–	–	(0.1)
Retained profit for the year	–	–	–	580.3
At end of year	**139.8**	**6.5**	**(37.3)**	**657.4**

The parent company's profit for the financial year was £640.1 million (2004 £31.8 million).

At 31st March 2005 the profit and loss account includes £10.0 million relating to the net retirement benefits liability (2004 £9.3 million).

At 31st March 2005 the company's ESOT held 4,362,162 shares (2004 3,466,162 shares) with a market value of £43.1 million (2004 £30.5 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

	2005 £ million	2004 £ million
Interest received	**19.2**	10.2
Interest paid	**(32.1)**	(26.5)
Dividends paid to minority shareholders	**(0.2)**	(0.1)
Net cash flow for returns on investments and servicing of finance	**(13.1)**	(16.4)

28b Capital expenditure and financial investment

	£ million	**2005 £ million**	£ million	2004 £ million
Purchase of tangible fixed assets		**(89.9)**		(116.2)
Purchase of long term investments		**(1.0)**		(0.2)
		(90.9)		(116.4)
Sale of tangible fixed assets	**0.9**		0.5	
Sale of long term investments	**–**		1.5	
Sale of short term investments	**3.2**		–	
		4.1		2.0
Net cash outflow for capital expenditure and financial investment		**(86.8)**		(114.4)

28c Cash flows on acquisitions and disposals

	2005 £ million	2005 £ million	2004 £ million	2004 £ million
Purchase of businesses (note 31)		**(3.1)**		–
Investment in AMC (note 31)		**(0.5)**		(20.7)
Investment in Synetix		**–**		1.6
Investment in subsidiary undertakings		**–**		0.2
Cash and overdrafts acquired		**–**		1.1
Purchase of minority interests (note 31)		**(0.4)**		(0.6)
		(4.0)		(18.4)
Disposal of Pigments & Dispersions business (note 32)	**23.4**		–	
Cash disposed of with Pigments & Dispersions business (note 32)	**(0.1)**		–	
		23.3		–
Net cash flow for acquisitions and disposals		**19.3**		(18.4)

28d Management of liquid resources

	2005 £ million	2004 £ million
Cash paid into term deposits of less than one year	**(2.1)**	(0.1)
Cash withdrawn from term deposits of less than one year	**12.0**	1.2
Net cash flow from management of liquid resources	**9.9**	1.1

28e Financing

	2005 £ million	2005 £ million	2004 £ million	2004 £ million
Issue of ordinary share capital		**3.2**		6.4
Purchase of own shares		**(19.3)**		(14.9)
		(16.1)		(8.5)
Decrease in borrowings falling due within one year	**(9.4)**		(4.4)	
(Decrease) / increase in borrowings falling due after more than one year	**(40.9)**		10.9	
Capital element of finance lease rental payments	**(0.3)**		(0.2)	
		(50.6)		6.3
Net cash flow from financing		**(66.7)**		(2.2)

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	106.5	(15.5)	(30.7)	(450.5)	(4.3)	(394.5)
Cash flow						
From cash and overdrafts	(17.8)	0.6	–	–	–	(17.2)
From borrowings and finance leases	–	–	9.4	40.9	0.3	50.6
From term deposits	(9.9)	–	–	–	–	(9.9)
Net cash flow	(27.7)	0.6	9.4	40.9	0.3	23.5
Other non cash changes	–	–	(0.7)	0.7	–	–
Effect of foreign exchange rate changes	(0.1)	0.2	0.2	1.1	–	1.4
At end of year	**78.7**	**(14.7)**	**(21.8)**	**(407.8)**	**(4.0)**	**(369.6)**

30 Commitments, guarantees and contingent liabilities

	Group 2005 £ million	Group 2004 £ million	Parent company 2005 £ million	Parent company 2004 £ million
Commitments				
Future capital expenditure contracted but not provided	**7.5**	11.5	**4.9**	2.8
Annual commitments under operating leases				
Leases of land and buildings terminating				
Within one year	**1.2**	0.8	**0.6**	–
In one to five years	**2.7**	4.0	**0.8**	1.5
Over five years	**1.7**	1.6	**0.2**	0.5
Other leases terminating				
Within one year	**0.5**	0.8	**0.3**	0.3
In one to five years	**2.3**	2.8	**1.1**	1.1
Over five years	**–**	0.1	**–**	–
Guarantees				
Guarantees of subsidiary undertakings' borrowings and precious metal leases	**–**	–	**142.1**	51.9
Guarantees of associates' borrowings and precious metal leases	**2.1**	–	**–**	–

31 Acquisitions

Lancaster Synthesis Limited

On 30th September 2004 the group acquired the business of Lancaster Synthesis Limited (Lancaster) from Clariant AG. Lancaster manufactures and distributes organic compounds for research and development purposes and is headquartered in Morecambe, UK. It has been fully integrated with the group's existing catalogue businesses and so its post acquisition results are not identifiable and are included in Catalysts. This has been accounted for by acquisition accounting.

The assets and liabilities acquired were:

	Book values immediately prior to acquisition £ million	Fair value adjustments: Revaluations £ million	Fair value adjustments: Consistency of accounting policies £ million	Fair value adjustments: Other £ million	Fair value at time of acquisition £ million
Tangible fixed assets	**0.8**	**(0.7)**	**–**	**–**	**0.1**
Stocks	**9.5**	**(6.8)**	**0.1**	**–**	**2.8**
Debtors and prepayments	**0.8**	**–**	**–**	**–**	**0.8**
Creditors falling due within one year	**(0.1)**	**(0.1)**	**(0.1)**	**(0.6)**	**(0.9)**
Total net assets acquired	**11.0**	**(7.6)**	**–**	**(0.6)**	**2.8**
Goodwill on acquisition					**–**
					2.8

Satisfied by:	£ million
Purchase consideration – cash	**2.3**
Costs incurred – cash	**0.5**
	2.8

The revaluation fair value adjustments to tangible fixed assets, stocks and creditors reflect the write down to estimated realisable value. The fair value adjustments to achieve consistency of accounting policies in stocks and creditors are reclassifications. The other fair value adjustments to creditors are to include items not previously recognised.

Johnson Matthey India Private Limited minority interest

On 27th August 2004 the group acquired the remaining 10% of Johnson Matthey India Private Limited for £0.4 million. The fair value of the minority interest immediately prior to the purchase was £0.4 million.

Medical hypotube manufacturing business

On 1st May 2004 the group acquired a medical hypotube manufacturing business based in California, USA from Burkey Machine and Tool Corporation for £0.3 million. The fair value of the assets acquired was £0.1 million resulting in goodwill of £0.2 million. This has been accounted for by acquisition accounting.

31 Acquisitions (continued)

Activated Metals and Chemicals, Inc. acquired in the year ended 31st March 2004

On 30th March 2004 the group acquired the Activated Metals and Chemicals, Inc. group of companies (AMC) and the estimated goodwill disclosed in the accounts for the year ended 31st March 2004 was £19.4 million. During the year further fair value adjustments have been made to include creditors not previously recognised of £0.8 million and deferred consideration was increased by £0.1 million. These increase goodwill by £0.9 million. Also, during the year £0.4 million of outstanding consideration and £0.1 million of accrued costs were paid.

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 estimate of deferred consideration was reduced by a further £0.5 million. Consequently, goodwill was reduced by £0.5 million.

32 Disposals

Sale of Pigments & Dispersions business

On 1st September 2004 the group sold its Pigments & Dispersions business to Rockwood Pigments (UK) Limited.

Net assets disposed of were:	£ million
Goodwill	1.5
Tangible fixed assets	18.8
Stocks	13.0
Debtors and prepayments	8.5
Cash at bank and in hand	0.1
Group loans	(1.2)
Creditors falling due within one year	(7.5)
	33.2
Goodwill previously written off directly to reserves	5.8
Pension curtailment gain	(1.6)
Loss on disposal	(15.2)
	22.2

Satisfied by:	£ million
Consideration – cash	25.1
Costs incurred – cash	(2.9)
	22.2

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
+Johnson Matthey Fuel Cells Limited (82.5%)	England
Johnson Matthey SAS	France
Johnson Matthey GmbH	Germany
Johnson Matthey Italia S.p.A.	Italy
Johnson Matthey BV	Netherlands
Johnson Matthey Ceramica (Portugal) Lda	Portugal
Johnson Matthey Ceramics S.A.	Spain
Almiberia S.A.	Spain
Johnson Matthey 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
Johnson Matthey Pharmaceutical Materials, 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	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 67).
+Investments held directly by parent company.

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

IFRS Restatement (Unaudited)

Introduction

Johnson Matthey currently prepares its results under UK Generally Accepted Accounting Principles (UK GAAP). Following a European Union Regulation issued in 2002, the group will be reporting its results in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union from 1st April 2005 and so in its annual report and accounts for the year ending 31st March 2006 all its financial information will be presented under IFRS. This restatement presents the group's results converted from UK GAAP to IFRS for the year ended 31st March 2005.

Overview of impact on results for the year ended 31st March 2005

	UK GAAP	IFRS	% change
Profit before tax	£131.0m	£167.4m	+28
Earnings per share	40.6p	53.0p	+31
Net assets	£868.7m	£929.1m	+7

Reconciliations of profit before tax and net assets

	Notes	£ million
Profit before tax under UK GAAP for the year ended 31st March 2005		131.0
Discontinued operations	*a*	14.9
Goodwill amortisation	*b*	20.9
Goodwill amortisation on associates	*b*	0.1
Development capitalised in the year	*c*	5.4
Amortisation of capitalised development	*c*	(1.1)
Share options and long term incentive plan	*d*	(4.1)
Employee benefits	*e*	0.3
Profit before tax under IFRS		167.4
Net assets under UK GAAP as at 31st March 2005		868.7
Goodwill amortisation	*b*	20.9
Goodwill amortisation on associates	*b*	0.1
Net capitalised development	*c*	15.5
Bid value adjustment for post-employment schemes' assets	*e*	(2.0)
Additional accruals for other short term and long term employee benefits	*e*	(3.5)
Deferred tax adjustments	*g*	(11.5)
Dividends	*h*	40.9
Net assets under IFRS		929.1

Basis of preparation

The restatement has been prepared on the basis of all IFRS and Standard Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC) interpretations currently issued by the International Accounting Standards Board (IASB) effective for 2005/06 reporting and adopted by the European Union. In addition, the IASB issued an amendment to IAS 19 – 'Employee Benefits' in December 2004 which permits the full recognition of actuarial gains or losses that occur in the year outside the income statement in a similar way to FRS 17 under UK GAAP. Johnson Matthey has decided to adopt this amendment in 2005/06 and so has prepared this restatement on this basis. The IASB is still issuing standards and interpretations which Johnson Matthey may decide to adopt in 2005/06 and so there may be further adjustments to the restatement of the results for the year ended 31st March 2005 which do not appear in this restatement.

IFRS Consolidated Income Statement (Unaudited)

for the year ended 31st March 2005

	Notes	UK GAAP £ million	IFRS adjustments: Discontinued operations £ million	IFRS adjustments: Associates £ million	IFRS adjustments: Other £ million	**IFRS £ million**
Revenue		4,638.5	(12.3)	–	–	**4,626.2**
Cost of materials sold		(3,878.5)	4.7	–	–	**(3,873.8)**
Net revenues		760.0	(7.6)	–	–	**752.4**
Other cost of sales	*c, e*	(389.0)	5.5	–	10.9	**(372.6)**
Gross profit		371.0	(2.1)	–	10.9	**379.8**
Distribution costs	*e*	(84.1)	1.0	–	1.6	**(81.5)**
Administrative expenses	*d, e*	(79.6)	0.7	–	(2.8)	**(81.7)**
Goodwill amortisation	*b*	(21.0)	0.1	–	20.9	**–**
Acquisition integration costs		(3.0)	–	–	–	**(3.0)**
Rationalisation costs		(20.5)	–	–	–	**(20.5)**
Loss on sale of discontinued operations	*a*	(15.2)	15.2	–	–	**–**
Loss on closure of UK gold and silver bullion refinery		(13.2)	–	–	–	**(13.2)**
Operating profit		134.4	14.9	–	30.6	**179.9**
Finance costs	*f*	(13.3)	–	0.3	–	**(13.0)**
Net return on retirement benefits assets and liabilities	*e*	9.2	–	–	(9.2)	**–**
Share of profit of associates	*b, f*	0.7	–	(0.3)	0.1	**0.5**
Profit before tax		131.0	14.9	–	21.5	**167.4**
Income tax expense	*g*	(44.0)	(2.7)	–	(0.3)	**(47.0)**
Profit for the year from continuing operations		87.0	12.2	–	21.2	**120.4**
Loss for the year from discontinued operations	*a*	–	(6.4)	–	–	**(6.4)**
Profit for the year		87.0	5.8	–	21.2	**114.0**
Attributable to:						
Equity holders of the parent company		88.2	5.8	–	21.0	**115.0**
Minority interest	*c*	(1.2)	–	–	0.2	**(1.0)**
		87.0	5.8	–	21.2	**114.0**

	pence
Earnings per ordinary share attributable to the equity holders of the parent company	
Continuing operations	
Basic	**55.9**
Diluted	**55.8**
Total	
Basic	**53.0**
Diluted	**52.9**

IFRS Consolidated Balance Sheet (Unaudited)

as at 31st March 2005

	Notes	UK GAAP £ million	IFRS adjustments £ million	**IFRS £ million**
Assets				
Non-current assets				
Property, plant and equipment	*c*	604.9	(11.9)	**593.0**
Goodwill	*b*	354.2	20.9	**375.1**
Other intangible assets	*c*	–	27.4	**27.4**
Investments in associates	*b*	4.7	0.1	**4.8**
Deferred income tax assets	*g*	0.8	2.4	**3.2**
Available-for-sale investments		1.9	–	**1.9**
Retirement benefit net assets	*e*	33.5	11.7	**45.2**
Total non-current assets		1,000.0	50.6	**1,050.6**
Current assets				
Inventories	*i, j*	416.5	(109.2)	**307.3**
Current income tax assets	*g*	–	2.2	**2.2**
Trade and other receivables		363.4	–	**363.4**
Available-for-sale investments		0.6	–	**0.6**
Other current assets	*j*	–	7.1	**7.1**
Cash and cash equivalents		78.7	–	**78.7**
Total current assets		859.2	(99.9)	**759.3**
Total assets		1,859.2	(49.3)	**1,809.9**
Liabilities				
Current liabilities				
Trade and other payables	*h*	(332.8)	38.5	**(294.3)**
Precious metal leases	*i*	(102.1)	102.1	**–**
Current income tax liabilities	*g*	(10.1)	(2.2)	**(12.3)**
Borrowings and finance leases		(36.8)	–	**(36.8)**
Short term provisions	*j*	–	(26.5)	**(26.5)**
Total current liabilities		(481.8)	111.9	**(369.9)**
Non-current liabilities				
Borrowings and finance leases		(411.5)	–	**(411.5)**
Deferred income tax liabilities	*e, g*	(29.7)	(16.9)	**(46.6)**
Employee benefits obligations	*e, j*	(34.6)	(13.6)	**(48.2)**
Long term provisions	*j*	(32.2)	28.3	**(3.9)**
Trade and other payables		(0.7)	–	**(0.7)**
Total non-current liabilities		(508.7)	(2.2)	**(510.9)**
Total liabilities		(990.5)	109.7	**(880.8)**
Net assets		868.7	60.4	**929.1**
Equity				
Share capital		219.5	–	**219.5**
Share premium		139.8	–	**139.8**
Shares held in employee share ownership trusts		(37.7)	–	**(37.7)**
Other reserves		6.3	–	**6.3**
Retained earnings		533.5	60.2	**593.7**
		861.4	60.2	**921.6**
Minority interest	*c*	7.3	0.2	**7.5**
Total equity		868.7	60.4	**929.1**

IFRS Segmental Information (Unaudited)

for the year ended 31st March 2005

By business segment

For the the year ending 31st March 2006 the group will be organised into four operating divisions – Catalysts, Precious Metal Products, Pharmaceutical Materials and Ceramics. Each division comprises a reportable segment under IFRS. These divisions are different to those currently reported in the group's UK GAAP accounts (note l).

	Catalysts £ million	Precious Metal Products £ million	Pharmaceutical Materials £ million	Ceramics £ million	Eliminations £ million	Total £ million
Sales to external customers	1,157.2	3,171.0	131.8	166.2	–	4,626.2
Inter-segment sales	34.8	496.2	0.2	9.5	(540.7)	–
Total revenue	1,192.0	3,667.2	132.0	175.7	(540.7)	4,626.2
External sales excluding the value of precious metals	672.1	224.8	124.6	166.2	–	1,187.7
Segment result before one-off items	122.5	52.0	39.8	18.8	–	233.1
Acquisition integration costs	(3.0)	–	–	–	–	(3.0)
Rationalisation costs	–	(16.8)	–	(3.7)	–	(20.5)
Loss on closure of UK gold and silver bullion refinery	–	(13.2)	–	–	–	(13.2)
Segment result	119.5	22.0	39.8	15.1	–	196.4
Unallocated corporate expenses						(16.5)
Operating profit						179.9
Finance costs						(13.0)
Share of profit of associates						0.5
Profit before tax						167.4
Income tax expense						(47.0)
Profit for the year from continuing operations						120.4
Loss for the year from discontinued operations						(6.4)
Profit for the year						114.0
Segment assets	907.2	237.1	326.5	155.7	(15.6)	1,610.9
Investments in associates	–	4.7	–	0.1	–	4.8
Unallocated corporate assets						194.2
Total assets						1,809.9
Segment liabilities	142.3	79.9	22.1	32.3	(15.6)	261.0
Unallocated corporate liabilities						619.8
Total liabilities						880.8
Segment capital expenditure	64.4	13.4	16.8	2.8	–	97.4
Capital expenditure on discontinued operations						1.1
Corporate capital expenditure						2.4
Total capital expenditure						100.9
Segment depreciation and amortisation	36.0	13.2	9.6	6.0	–	64.8
Depreciation on discontinued operations						0.8
Corporate depreciation						2.0
Total depreciation and amortisation						67.6
Significant non-cash expenses other than depreciation	0.7	7.8	–	–	–	8.5

By geographical segment

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

	Europe £ million	North America £ million	Asia £ million	Rest of the World £ million	Eliminations £ million	Total £ million
External sales by geographical destination	2,032.6	995.8	1,228.7	369.1	–	4,626.2
Carrying value of segment assets by location	1,234.2	378.4	141.6	86.4	(30.7)	1,809.9
Capital expenditure by location of assets	58.4	27.0	8.6	6.9	–	100.9

Notes on the IFRS Restatement (Unaudited)

for the year ended 31st March 2005

Major differences between UK GAAP and IFRS

a) Under IFRS 5 – 'Non-current Assets Held for Sale and Discontinued Operations' the post tax profit of discontinued operations and the post tax loss on disposal of those operations are disclosed as a single amount towards the bottom of the income statement. Also, under IFRS 1 – 'First-time Adoption of International Financial Reporting Standards' goodwill recognised under previous GAAP as a deduction from equity is not transferred to the income statement on disposal of the subsidiary.

b) Under IFRS 3 – 'Business Combinations' amortisation of goodwill is no longer required but instead annual impairment reviews have to be performed. Johnson Matthey has elected to take advantage of the exemption allowed under IFRS 1 not to recalculate goodwill for all business combinations. Therefore the group has not adjusted its carrying amount of goodwill at 1st April 2004 (the group's date of transition) from that previously disclosed under UK GAAP. The only adjustment to goodwill on the balance sheet is to reverse all amortisation charged since 1st April 2004.

c) Under IAS 38 – 'Intangible Assets' the group has to capitalise all development expenditure which meet the recognition criteria laid down in the standard and then amortise the asset over its useful life once it is available for use. Under UK GAAP Johnson Matthey did not capitalise any development expenditure. Under IFRS, assets have been recognised in Catalysts Division for some development expenditure on heavy duty diesel catalysts and fuel cell components. The group believes that all other development expenditure is for incremental improvements to existing processes or for projects in an early stage of development and so no assets have been recognised.

   In addition, under IAS 38 any capitalised software that is not an integral part of the related hardware is reclassified from property, plant and equipment to intangible assets.

d) Under IFRS 2 – 'Share-based Payment' the group has to recognise a charge to income in respect of the fair value of outstanding share options granted to employees and shares allocated to employees under the long term incentive plan after 7th November 2002. The fair value has been calculated using an adjusted Black-Scholes options valuation model and is charged to income over the relevant vesting periods, adjusted to reflect actual and expected levels of vesting.

e) As Johnson Matthey has already adopted FRS 17, the recent UK GAAP standard for post retirement benefits, the only adjustments needed for post-employment benefits under IAS 19 – 'Employee Benefits' are to put the net return on retirement benefits assets and liabilities into operating profit, to change the market value of the pension schemes' assets from mid-market value to bid value on the balance sheet and to move the deferred tax balances on the net post-employment assets / obligations to deferred tax.

   The other adjustments under IAS 19 are to accrue for paid annual leave and other short and long term employee benefits.

f) Under IAS 28 – 'Investments in Associates' the group's share of the profit of its associates is shown on a post tax basis, unlike UK GAAP where the group's share of the operating profit of its associates is shown and the group's share of its associates' interest and tax are shown in finance costs and income tax expense respectively.

g) Under IAS 12 – 'Income Taxes' the group will be providing for deferred tax on capital gains rolled over, capital gains on intra group loans and capital losses which it did not provide for under UK GAAP. Other adjustments are to provide for deferred tax on the other IFRS accounting changes. Also, IAS 12 does not allow the offset of tax assets and liabilities and so the group has grossed up its current tax assets and liabilities and its deferred tax assets and liabilities.

h) Under IAS 10 – 'Events After the Balance Sheet Date' dividends declared after the balance sheet date are not recognised as a liability on the balance sheet and so the group's final dividend has not been provided for on the balance sheet.

i) Under IAS 17 – 'Leases' the group's precious metal leases are categorised as operating leases and so they, and the related inventory, are removed from the balance sheet and will be reported as a note on the accounts.

j) There are a number of other reclassifications on the balance sheet mainly to separate out current and non-current assets and liabilities in accordance with IAS 1 – 'Presentation of Financial Statements'.

k) Johnson Matthey has taken advantage of the exemption allowed under IFRS 1 not to restate comparative information in its accounts for the year ending 31st March 2006 to comply with IAS 32 – 'Financial Instruments: Disclosure and Presentation', IAS 39 – 'Financial Instruments: Recognition and Measurement' and IFRS 4 – 'Insurance Contracts'. From 1st April 2005 the group will use hedge accounting for interest rate and foreign currency instruments that meet the relevant hedging relationship criteria.

l) When Johnson Matthey presents its segmental results for the year ending 31st March 2006 Colour Technologies, which currently forms part of Colours & Coatings Division, will be transferred to Precious Metal Products Division. Ceramics, which comprises the remaining part of Colours & Coatings Division, will be shown as a separate segment. Platinum group metal refining, currently part of Catalysts Division, will also be transferred to Precious Metal Products Division. The segmental information under IFRS for the year ended 31st March 2005 shown on page 83 reflects the divisional structure that will appear in next year's accounts.

Shareholder Information

Analysis of ordinary shareholders as at 30th April 2005

By category

	Number of shares	Percentage
Pension Funds	108,608,824	49.47
Insurance Companies	49,915,443	22.74
Investment and Unit Trusts	29,743,093	13.55
Individuals	8,402,377	3.83
Other	22,863,978	10.41
	219,533,715	100.00

By size of holding	Number of holdings	Percentage	Number of shares	Percentage
1-1,000	8,844	68.17	4,061,666	1.85
1,001 – 10,000	3,363	25.92	8,443,234	3.85
10,001 – 100,000	509	3.92	17,590,407	8.01
100,001 – 1,000,000	207	1.60	67,358,477	30.68
1,000,001 – 5,000,000	46	0.36	98,463,484	44.85
5,000,001 and over	4	0.03	23,616,447	10.76
	12,973	100.00	219,533,715	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 which allows shareholders to purchase additional shares in the company. Further information can be obtained from Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA. Telephone 0870 600 3970. They can also be contacted via their website at www.shareview.co.uk.

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 2005

10th June
Final ordinary dividend record date

19th July
114th Annual General Meeting (AGM)

2nd August
Payment of final dividend subject to declaration at the AGM

23rd November
Announcement of results for six months ending 30th September 2005

Ten Year Record

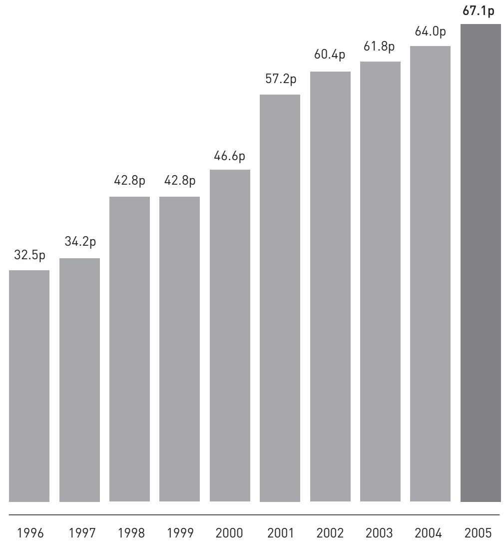
	1996 £ million	1997 £ million	1998 £ million	1999 £ million	2000 £ million
Turnover					
Parent and subsidiaries	2,528.9	2,423.2	3,138.8	3,385.4	3,866.0
Share of joint ventures	156.7	156.9	128.8	–	–
Total	2,685.6	2,580.1	3,267.6	3,385.4	3,866.0
Operating profit before exceptional items and goodwill amortisation	111.0	116.3	139.2	147.1	146.2
Goodwill amortisation	–	–	–	–	(0.2)
Exceptional items	–	–	(4.5)	(1.9)	(9.8)
Total operating profit	111.0	116.3	134.7	145.2	136.2
Other exceptional items	–	–	4.4	8.8	23.4
Profit before interest	111.0	116.3	139.1	154.0	159.6
Net interest	(8.8)	(8.0)	(9.0)	(15.9)	(2.4)
Net return on retirement benefits assets and liabilities	–	–	–	–	–
Profit before taxation	102.2	108.3	130.1	138.1	157.2
Taxation	(34.3)	(33.0)	(28.5)	(35.1)	(47.3)
Profit after taxation	67.9	75.3	101.6	103.0	109.9
Minority interests	(1.7)	(1.2)	(0.3)	0.7	(0.2)
Profit attributable to shareholders	66.2	74.1	101.3	103.7	109.7
Dividends	(31.4)	(33.6)	(38.7)	(41.3)	(44.3)
Profit retained	34.8	40.5	62.6	62.4	65.4
Earnings per ordinary share before exceptional items and goodwill amortisation (graph 1)	32.5p	34.2p	42.8p	42.8p	46.6p
Earnings per ordinary share (graph 2)	32.5p	34.2p	46.7p	47.8p	50.5p
Dividend per ordinary share (graph 3)	14.5p	15.5p	17.8p	19.0p	20.3p
Summary Balance Sheet					
Assets employed:					
Goodwill	–	–	–	4.2	5.1
Tangible fixed assets	321.7	337.7	461.5	480.2	311.3
Fixed assets investments / joint ventures / associates	100.4	84.2	4.2	1.8	1.0
Stocks	196.6	184.7	244.8	243.7	253.2
Debtors and short term investments	231.7	252.5	379.8	434.0	434.7
Other creditors and provisions	(304.0)	(291.1)	(409.8)	(418.8)	(452.5)
Retirement benefits net assets / (liabilities)	–	–	–	–	–
	546.4	568.0	680.5	745.1	552.8
Financed by:					
Net borrowings and finance leases / (cash)	134.2	143.7	225.1	221.6	(165.8)
Retained earnings	99.8	107.8	130.9	200.9	389.2
Share capital, share premium, capital redemption and shares held in ESOTs	313.1	316.3	318.4	316.8	324.9
Minority interests	(0.7)	0.2	6.1	5.8	4.5
Capital employed	546.4	568.0	680.5	745.1	552.8
Cumulative goodwill taken directly to reserves	150.3	156.3	171.4	171.4	46.0
Return on assets (Operating profit before exceptional items and goodwill amortisation / average capital employed and cumulative goodwill taken directly to reserves)	18.5%	16.4%	17.7%	16.6%	19.3%

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.

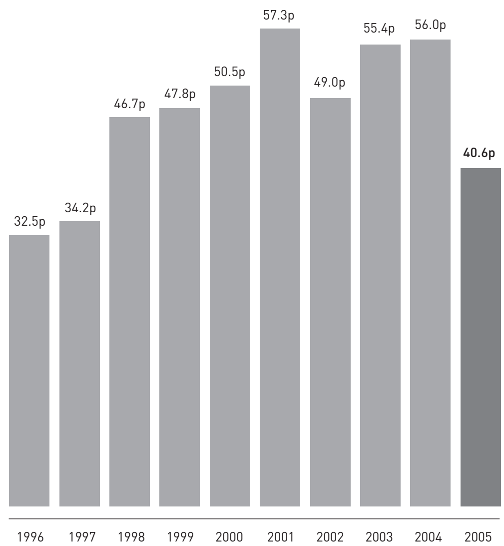
Ten Year Record

2001 £ million	2002 £ million	2003 £ million	2004 £ million	**2005 £ million**
5,903.7	4,830.1	4,323.9	4,492.9	**4,638.5**
–	–	–	–	**–**
5,903.7	4,830.1	4,323.9	4,492.9	**4,638.5**
175.0	193.3	189.2	206.0	**208.1**
(0.3)	(6.8)	(13.7)	(19.8)	**(21.1)**
(0.6)	(18.1)	(7.6)	2.1	**(23.5)**
174.1	168.4	167.9	188.3	**163.5**
1.1	(5.6)	4.9	–	**(28.4)**
175.2	162.8	172.8	188.3	**135.1**
5.3	(6.1)	(13.2)	(16.3)	**(13.3)**
–	–	13.9	6.0	**9.2**
180.5	156.7	173.5	178.0	**131.0**
(54.2)	(50.2)	(53.7)	(57.9)	**(44.0)**
126.3	106.5	119.8	120.1	**87.0**
(0.6)	0.3	0.4	1.7	**1.2**
125.7	106.8	120.2	121.8	**88.2**
(51.3)	(53.2)	(55.5)	(57.4)	**(59.8)**
74.4	53.6	64.7	64.4	**28.4**
57.2p	60.4p	61.8p	64.0p	**67.1p**
57.3p	49.0p	55.4p	56.0p	**40.6p**
23.3p	24.6p	25.5p	26.4p	**27.7p**
8.6	182.6	373.4	377.1	**354.2**
386.8	495.1	601.1	608.1	**604.9**
1.0	2.7	6.4	5.5	**6.6**
278.8	414.3	438.4	417.3	**416.5**
522.9	456.0	367.2	389.0	**364.8**
(534.7)	(584.4)	(560.5)	(534.4)	**(507.6)**
–	–	(25.4)	3.5	**(1.1)**
663.4	966.3	1,200.6	1,266.1	**1,238.3**
(139.9)	159.0	402.5	394.5	**369.6**
465.9	466.4	445.9	528.4	**533.3**
332.8	337.0	341.4	333.8	**328.1**
4.6	3.9	10.8	9.4	**7.3**
663.4	966.3	1,200.6	1,266.1	**1,238.3**
46.0	46.0	40.6	40.6	**34.8**
26.8%	22.5%	16.8%	16.2%	**16.1%**

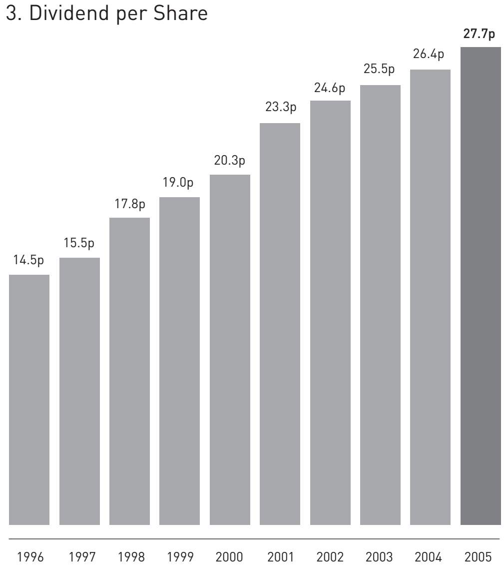
1. Earnings per Share Before Exceptional Items and Goodwill Amortisation



2. Earnings per Share



3. Dividend per Share



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Johnson Matthey is grateful to the following for their help in providing illustrations:
Harry Winston / Felix Baumgartner
Ceramiche Ragno

The paper used in this report is manufactured using virgin fibre from sustainable forests, using ECF (elementally chlorine free) processes which carries the PEFC (Pan European Forestry Commission) certification.

Natural components are used as binding agents and processes are energy efficient, controlled by local government agencies.

Designed and produced by **MAGEE**
Printed by CTD Printers Ltd

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