2011

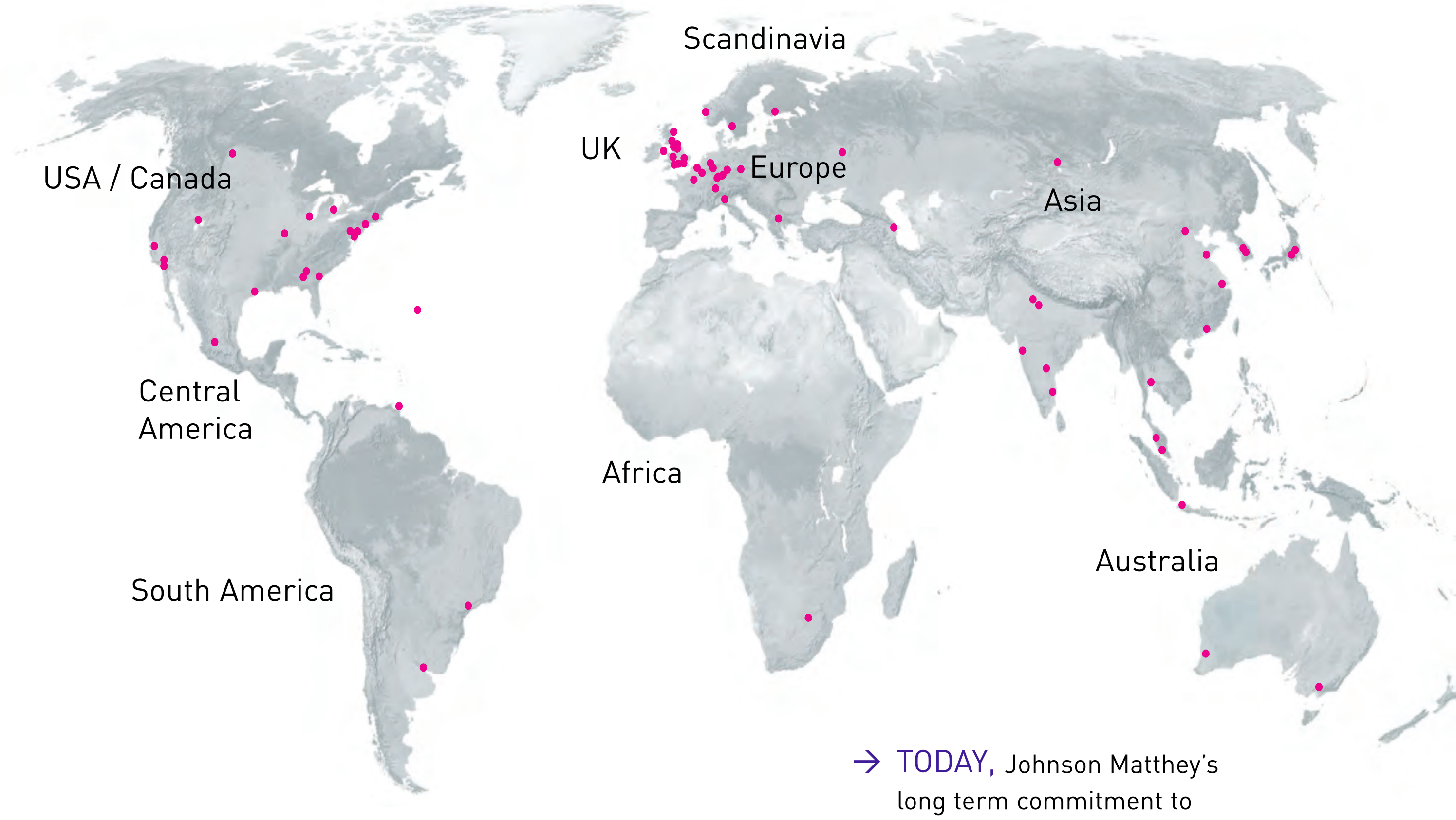
ANNUAL REPORT & ACCOUNTS

Johnson Matthey

→ JOHNSON MATTHEY IS A SPECIALITY CHEMICALS COMPANY AND A WORLD LEADER IN ADVANCED MATERIALS TECHNOLOGY.

The group focuses on its core skills in catalysis, precious metals, fine chemicals and process technology, developing products that enhance the quality of life for millions of people around the world. The group has operations in over 30 countries and employs around 9,700 people. Johnson Matthey's operations are organised into three global divisions: Environmental Technologies, Precious Metal Products and Fine Chemicals.

WHERE WE OPERATE



→ TODAY, Johnson Matthey's long term commitment to investment in research and development, as well as in new manufacturing technologies and production facilities enables the company to exploit the potential for growth in many of its key product areas.

CAUTIONARY STATEMENT

The Business 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.

The Group at a Glance

Our Divisional Structure

Johnson Matthey

Environmental Technologies	Precious Metal Products	Fine Chemicals
Emission Control Technologies Process Technologies Fuel Cells	Services *– Platinum Marketing and Distribution* *– Refining* Manufacturing *– Noble Metals* *– Colour Technologies* *– Catalysts and Chemicals*	API Manufacturing *– Macfarlan Smith* *– Pharmaceutical Materials and Services* Research Chemicals

Environmental Technologies Division is a global supplier of catalysts and related technologies for applications which benefit the environment such as pollution control, cleaner fuel, more efficient use of hydrocarbons and the hydrogen economy.

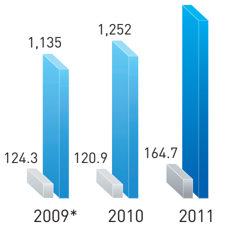
Key Statistics

Return on sales excluding precious metals	10.5%
Return on invested capital (ROIC)	11.5%
Capital expenditure	£90.1m
Capex / depreciation	1.1
Average invested capital	£1,435m
Employees	5,569

Sales Excluding Precious Metals

Underlying Operating Profit

£ million



Johnson Matthey has a longstanding international reputation as a leader in the application of precious metals. **Precious Metal Products Division** is at the heart of these activities focused on the marketing, distribution, fabrication and refining of precious metals and their products and the manufacture of catalysts and precious metal chemicals.

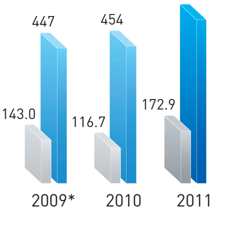
Key Statistics

Return on sales excluding precious metals	31.9%
Return on invested capital (ROIC)	55.9%
Capital expenditure	£26.1m
Capex / depreciation	1.1
Average invested capital	£309m
Employees	2,711

Sales Excluding Precious Metals

Underlying Operating Profit

£ million



Fine Chemicals Division is a global supplier of active pharmaceutical ingredients, fine chemicals and other speciality chemical products and services to a wide range of chemical and pharmaceutical industry customers and research institutes.

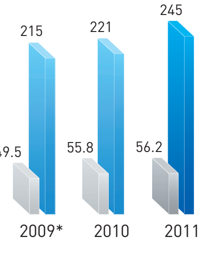
Key Statistics

Return on sales excluding precious metals	22.9%
Return on invested capital (ROIC)	13.7%
Capital expenditure	£16.0m
Capex / depreciation	0.9
Average invested capital	£409m
Employees	1,089

Sales Excluding Precious Metals

Underlying Operating Profit

£ million



* Excluding inter-segment sales.

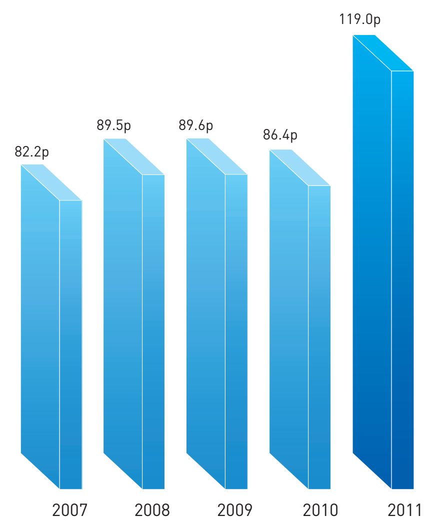
JOHNSON MATTHEY PERFORMED STRONGLY IN 2010/11 with good growth in its major markets. All of the group's businesses performed well, marking a return to strong growth for the group.

Financial Highlights 2011

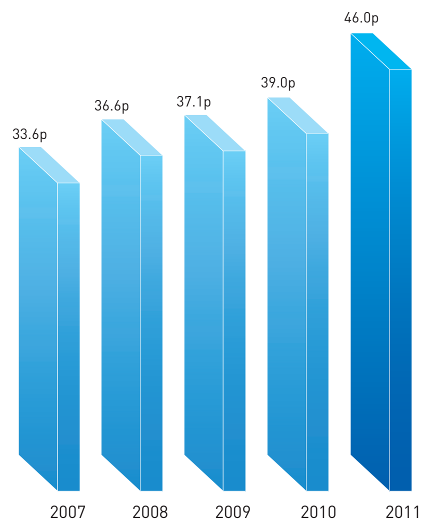
	Year to 31st March 2011	2010	% change
Revenue	**£9,985m**	£7,839m	+27
Sales excluding precious metals	**£2,280m**	£1,886m	+21
Profit before tax	**£260.6m**	£228.5m	+14
Total earnings per share	**85.6p**	77.6p	+10
Underlying*:			
Profit before tax	**£345.5m**	£254.1m	+36
Earnings per share	**119.0p**	86.4p	+38
Dividend per share	**46.0p**	39.0p	+18

* Before amortisation of acquired intangibles, major impairment and restructuring charges, profit or loss on disposal of businesses and, where relevant, related tax effects.

Underlying Earnings per Share



Dividend per Share



Contents

Our **2011** Annual Report & Accounts is divided into three sections...

1. **Report of the Directors:** this section contains the Business Review summarising the group's activities, strategy and performance during the year. It also contains information on the group's corporate governance.
2. **Accounts:** this section includes the consolidated and parent company accounts and related notes, as well as the statement on responsibility of directors and the auditor's report.
3. **Other Information:** this section provides further information for shareholders, a glossary and an index to help the reader locate information in the relevant sections.

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REPORT OF THE DIRECTORS

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Chairman's Statement

Sir John Banham
Chairman

I am delighted to report, in what will be my final statement to you as Chairman, that Johnson Matthey performed very well in 2010/11 benefiting from good demand for its products, strong precious metal prices and the actions that the management team took during the recession to reduce costs and improve the efficiency of your company's operations.

As I outlined in my statement to you last year, the board, the executive management team and employees at all levels seized the opportunities presented by the economic crisis. As a result Johnson Matthey not only performed relatively well during the downturn but returned to strong growth in 2010/11, with underlying earnings per share up 38% to a record 119.0 pence. This represents a compound annual growth rate of more than 10% over the five years that I have been Chairman, despite the impact of the recession in 2008 and 2009.

Our strategy has served us well and I have no doubt that this year's strong performance results from the fundamental strength of your company and the actions that we have taken over several years. Johnson Matthey has stuck to its global organic growth strategy, underpinned by heavy and increasing investment in research and development. This has been complemented by a number of successful bolt-on acquisitions that have expanded the group's product portfolio and the range of industries and markets that it serves and have made an important contribution to our growth.

Despite the recession, we have continued to invest in new, highly efficient manufacturing capacity, for example completing our emission control catalyst manufacturing plants in Macedonia, to supply both light and heavy duty catalysts to the European market, and Smithfield, Pennsylvania, to serve the North American heavy duty diesel market. As markets have recovered, we are now seeing the benefits of our investments in world class manufacturing facilities to meet the demand for our products around the world.

During the recession, the company took early and decisive action to reduce costs. However, this was not done at the expense of research and development, which provides the high technology products and manufacturing processes that enable us to maintain market leadership and underpins the future growth of our business. Rather than cutting our R&D investment we have continued to increase it. Over the next few years our R&D spend is targeted to rise from £109.8 million to around £135 million a year. As you will see in the Group Strategy section on pages 8 to 13, part of this additional investment is to generate major new business opportunities.

Sustainability 2017, our group wide programme to make Johnson Matthey more sustainable, is also playing an important role in the success of your company. It provides a focus for improving the performance of our operations, the development of new sustainable products and for investment in our people and culture around the world. As I have travelled around the company, I continue to be impressed by the commitment of Johnson Matthey's employees at all levels to Sustainability 2017. We have set some very challenging targets, for example to halve the key resources that we use per unit of output, but given the dedication of our people and the spirit of innovation that is evident throughout the group, I believe that our sustainability efforts will underpin future business growth. You can read a summary of progress towards our Sustainability 2017 goals on pages 45 to 55. Full details will be presented in the group's Sustainability Report which will be published on our website in July.

My term of office as Chairman of Johnson Matthey comes to an end at the close of this year's Annual General Meeting (AGM) in July. In January 2011 we announced the appointment of my successor, Tim Stevenson OBE, who joined the board as a non-executive director and Chairman Designate with effect from 29th March 2011. He will be standing for election at the AGM. Tim has had a most distinguished career and is a very experienced chairman; he is currently Chairman of The Morgan Crucible Company plc and was Chairman of Travis Perkins plc from November 2001 to May 2010. He is ideally qualified to chair the board through the next phase of your company's development and will continue its successful record of delivering superior value to shareholders.

In January the company also announced the appointment of Alan Ferguson as a non-executive director with effect from 13th January 2011. He was previously Chief Financial Officer and an executive director of Lonmin Plc and prior to that was Group Finance Director of The BOC Group. Alan has a wealth of international financial experience including in the precious metals and automotive industries and he is already making a strong contribution to the work of the board. Full biographical details of both Tim Stevenson and Alan Ferguson are shown on pages 56 and 57.

With effect from the close of this year's AGM, Alan Thomson and Robert Walvis will retire from the board, both of them having served as non-executive directors of Johnson Matthey for nine years. Since joining the board both Alan and Robert have made invaluable contributions to the strategic development and governance of the company. Alan Thomson has served as Chairman of the Audit Committee for eight years and has also been our Senior Independent Director for the last three years. Robert Walvis has served as the Chairman of the company's Management Development and Remuneration Committee for the last three years. We are extremely fortunate to have had the benefit of their vast experience of both UK and international business and I would like to thank them for the valuable contributions that they have both made to the work of the board. On behalf of all of us at Johnson Matthey I would like to wish Alan and Robert all the very best for the future.

Following these retirements, Alan Ferguson will succeed Alan Thomson as Chairman of the Audit Committee and Michael Roney, who has been a non-executive director since June 2007, will be appointed the Senior Independent Director and will also take over chairmanship of the Management Development and Remuneration Committee.

It has always been my belief that the most important investment that a company makes is the one that it makes in its people. I have never ceased to be impressed by the enthusiasm, professionalism and dedication of Johnson Matthey's employees at all levels of the organisation. On your behalf I would like to thank all of them, around the world, for their contribution to the success of your company.

It has been a privilege to be Chairman of Johnson Matthey over the last five years. It is a great company with strong market and technology drivers, excellent people and a robust strategy that will ensure continued growth. Johnson Matthey is well positioned to grow in the next five years supported by strong positions in our core markets. The drivers for our business remain firmly in place and the group is committed to continue to invest in both infrastructure and R&D. The outlook beyond five years is also positive.

Sir John Banham
Chairman

Chief Executive's Statement

Neil Carson
Chief Executive

I am pleased to say that Johnson Matthey performed strongly in 2010/11, recovering throughout the year from the effects of the recession that impacted the first half of last year's results. All of the group's businesses performed well with sales excluding precious metals (sales) substantially ahead of last year. Underlying operating profit was also well up and 2010/11 marked a return to strong growth for the group.

Our Environmental Technologies Division performed well in the year. The division's Emission Control Technologies business benefited from good growth in light duty vehicle production around the world and the recovery in the proportion of diesel cars produced in Europe. Its heavy duty diesel (HDD) business recovered very well with robust sales throughout 2010/11 in Europe and strong growth in the United States in the second half as the truck market recovered. Our Process Technologies business performed well with good growth in its Ammonia, Methanol and Gas business. Intercat, Inc., which was acquired in November 2010, made a good contribution to sales in the final quarter and Davy Process Technology (DPT) had another strong year.

Precious Metal Products Division also achieved very good results. Its Services businesses benefited from robust precious metal prices throughout the year and its Manufacturing businesses saw strong demand across the wide range of industries that they serve.

Fine Chemicals Division performed well with good sales growth in its Active Pharmaceutical Ingredient (API) Manufacturing businesses. Its global Research Chemicals business also grew well in the year.

For the group as a whole, revenue was up 27% on last year at £10.0 billion and sales were 21% higher than last year at £2.3 billion. Underlying profit before tax was 36% up at £345.5 million. The group's underlying return on sales increased to 16.1% from 14.4% last year, benefiting from operational leverage as plant utilisation across the group increased as a result of the strong demand for our products and from the continued management actions that we have taken to reduce costs.

During the summer and autumn of 2010 we carried out a comprehensive review of the group's strategy for the next ten years.

As a result of this review process, the board agreed a ten year strategy to deliver superior growth in value for Johnson Matthey shareholders. Importantly, the key elements of our strategy remain unchanged: continued focus on leading edge catalysis, maintaining differentiation through technology, recognition that our strong position in platinum group metals remains an intrinsic part of the group and the maintenance of a primary focus on organic growth. However, following this strategy review, we are increasing our efforts to identify new opportunities underpinned by our core chemistry, recognising that Johnson Matthey's key attributes provide a focus for investment, placing increased emphasis on manufacturing excellence and focusing further on tackling the challenge of integrating Johnson Matthey's culture across our expanding global operations. Further details of the review process and of our group strategy are presented on pages 8 to 13.

Sustainability

Sustainability remains a key element of our strategy for future growth and we have continued to focus on sustainability efforts across our businesses this year. Our Sustainability 2017 Vision sets out our direction and aspirations in this area and includes challenging targets to support business growth. It is now just over three years since the launch of our vision and during the year we undertook a detailed review of our sustainability strategy. The review confirmed support throughout the company for Sustainability 2017 and highlighted several areas where we are now working to evolve the strategy, as detailed on page 48 of this annual report.

We have continued to realise considerable savings through our sustainability programme and maintain our focus on developing the next generation of products to enable our customers to improve their sustainability footprint and their competitiveness. Many of Johnson Matthey's products and technologies have a beneficial impact on the environment, human health and wellbeing and these products generated a major proportion of Johnson Matthey's profit this year. The sustainability benefit of our products is an important aspect of our sustainability strategy and work is underway to better assess the impact of our products in the market place.

Our employees continue to show great enthusiasm for Sustainability 2017 and there are a huge number of initiatives underway at sites around the world. Thanks to their efforts we have continued to make steady progress towards our Sustainability 2017 aspirations and remain committed to building a sustainable business for the future.

Outlook

At this time last year we commented on the short term uncertainties in our markets. This year confidence in our markets is more robust and after our strong performance in 2010/11, the group is expected to make further good progress in the current year.

Environmental Technologies Division is well placed for continued growth. For the year as a whole, Emission Control Technologies should benefit from higher global car production, particularly in Asia, but there may be a temporary hiatus in the first half of our year following the Japanese earthquake and its consequences on our customers' supply chain. This is however expected to reverse by the second half of 2011/12. The increasingly important North American HDD truck market has started 2011/12 well and is expected to continue to improve. In addition, the action commenced this year to reduce our autocatalyst manufacturing capacity in Europe will lower our costs. Higher rare earth prices will however adversely impact the business, particularly in the first half of the year. Process Technologies will benefit from a full year's contribution from the Intercat business. Furthermore, demand for its syngas catalysts and DPT's licensing services remains strong, particularly in China.

Precious Metal Products Division supplies products and services to a wide range of industries and therefore its performance is influenced by a number of different market drivers. The Manufacturing businesses have started the year well with good demand across our markets, particularly from the automotive, LED and glass sectors. In 2010/11 the division's Services businesses benefited from higher pgm and gold prices and while they have been quite volatile recently, they remain strong. Indeed, platinum, palladium and gold in the first two months of 2011/12 have averaged $1,795/oz, $756/oz and $1,493/oz respectively, approximately 7%, 47% and 27% higher than in the same period last year. The division delivered very strong growth in 2010/11 and with demand expected to remain robust this year, we expect it to show further growth in 2011/12.

We also expect that Fine Chemicals Division will continue to grow steadily in 2011/12 benefiting from increasing demand for our APIs, new product introductions and the additional capacity following the acquisition of the Conshohocken, USA plant in November 2010.

As we detailed in our presentation to analysts and investors in February 2011, the drivers that will provide superior earnings growth for the group in our existing markets are expected to remain strong for at least the next five years. Beyond that, we are confident that these markets will continue to deliver growth. As a technology company, being at the forefront of research and development is vital to satisfy our customers' needs and to exploit new market opportunities. We are increasing our investment in R&D in order to target new areas of future growth for our business. We are confident that the combination of our existing strengths and the investments that we are making now will position the group well for longer term growth.

Neil Carson
Chief Executive

STRATEGY IN ACTION

→ Opportunities in Hydrogen Catalysts

Emissions regulations provide growth opportunities for hydrogen catalysts in Johnson Matthey's Process Technologies business. Hydrogen gas is used by petroleum refiners to remove sulphur and improve the quality of fuels and Johnson Matthey has a leading position in the supply of the catalysts used to produce hydrogen.

As regulations on sulphur levels in fuels tighten globally and as the proportion of heavier dirtier crude oil in refinery feedstocks increases, refiners will need more hydrogen to remove sulphur and other contaminants to meet legislated fuel specifications.

Estimates suggest growth rates of 6% to 8% for the hydrogen market over the next five years as demand increases, particularly in Asia. This is good news for Johnson Matthey as we already command a strong position in hydrogen catalysts with a 35% average market share. Our strong presence in Asia and good relationships with the major industrial gas companies that supply hydrogen to petroleum refineries mean that we are well placed to benefit from the trend towards lower sulphur levels in fuels around the world.

Group Activities

Business Review

Johnson Matthey is a global speciality chemicals company. We serve our customer base from operations in over 30 countries and employ around 9,700 people worldwide. The group is organised into three global divisions:

→ Environmental Technologies
→ Precious Metal Products
→ Fine Chemicals

Environmental Technologies is a global supplier of catalysts and related technologies for applications which benefit the environment such as pollution control, cleaner fuel, more efficient use of hydrocarbons and the hydrogen economy. The division comprises three businesses:

- Emission Control Technologies is a global leader in catalytic systems for emissions control from vehicles and industrial processes.
- Process Technologies serves the world's chemical, oil, gas and refining industries. It manufactures catalysts, provides specialist services and designs and licenses chemical processes.
- Johnson Matthey Fuel Cells develops and manufactures catalysts and catalysed components for a wide range of clean energy fuel cell systems.

Precious Metal Products' activities comprise the marketing, distribution, refining and recycling of platinum group metals (pgms) and the refining of gold and silver. It also fabricates products using precious metals and related materials and manufactures pgm and base metal catalysts and pgm chemicals.

Fine Chemicals is a global supplier of active pharmaceutical ingredients, fine chemicals and other speciality chemical products and services to a wide range of chemical and pharmaceutical industry customers and industrial and academic research organisations.

→ Manufacturing pgm salts at our facility in Macedonia which produces both light and heavy duty vehicle catalysts for the European market.

→ Our Conshohocken, USA facility was acquired in November 2010 and provides additional manufacturing capacity and capability for active pharmaceutical ingredients.

Group Strategy

Business Review

Technology leadership forms the basis of Johnson Matthey's strategy to deliver superior long term growth.

Johnson Matthey is a leading speciality chemicals company underpinned by science, technology and our people. A leader in sustainable technologies, many of the group's products enhance the quality of life of millions through their beneficial impact on the environment, human health and wellbeing. The world has changed a lot since Johnson Matthey's foundation in 1817. From its early days as a precious metals assayer, the company has always sought to build on its strengths and respond to changing global needs. Today the group continues to apply its expertise in science to develop world leading products and technologies for customers around the world.

Johnson Matthey's strategy is central to its success and during 2010/11 the group carried out an extensive examination and review of its business strategy for the next ten years. This important piece of work has established the direction of the group over the next decade and outlines the actions it will take to achieve its goals.

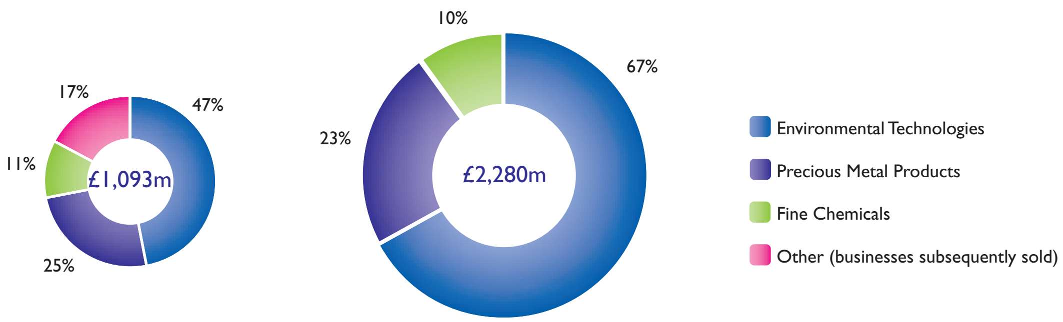
The Strategy Review Process

The multi step review firstly considered how the group has evolved over the last decade in the face of some of the most severe economic conditions. The common features of a successful Johnson Matthey business were then defined and the group's key strengths were considered. The review then identified the global 'megatrends' impacting the world around us and considered how and why these are important in driving future growth for Johnson Matthey. The strategic role of research and development (R&D) was examined together with the structure and investment required to drive future growth into new business areas. As a result of the process, a ten year strategy to deliver superior growth has been established as detailed on pages 12 and 13.

Johnson Matthey – Ten Years to Today

Johnson Matthey has evolved its business portfolio over the last decade as illustrated below. Sales excluding the value of precious metals (sales) have more than doubled during that time and through a combination of organic growth and a series of key acquisitions and divestments, the group has successfully delivered good growth in shareholder value through its strategic focus on environmental technologies.

Evolution of the Johnson Matthey Group – Sales 2001/02 to 2010/11

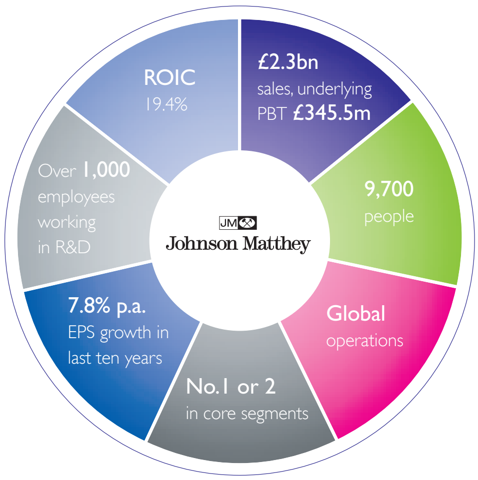


→ Around 11% of the group's employees work in research and development.

Today Johnson Matthey is a world leader holding number one or two positions in its core markets and with operations across the globe. It has around 9,700 employees, with more than 1,000 of these working in R&D. In the early part of the decade the group delivered good growth in profit before tax and earnings per share. This was followed by several years of particularly strong growth up to the recession. Whilst profit and earnings growth both flattened during the economic downturn, Johnson Matthey weathered the storm extremely well, supported by its diverse portfolio of businesses and global reach. Going forward, with recovery in the group's markets, future prospects for growth are good.

In 2010/11 the group has reported sales of £2.3 billion and underlying profit before tax of £345.5 million. Its return on invested capital (ROIC) was 19.4%, close to our target of exceeding 20%. Over the ten year period to 31st March 2011, growth in underlying earnings per share (EPS) was 7.8% p.a., a solid performance against the backdrop of the recent global recession.

JOHNSON MATTHEY TODAY



Definition of a Successful Johnson Matthey Business

Establishing the common features of a successful Johnson Matthey business was an important aspect of the strategy review process. It helps us to understand what makes the company successful and also provides a focus for future investment decisions. The process identified the common attributes of our most successful operations and revealed a number of consistent and interdependent features as shown below.

Johnson Matthey Attributes

Starting at the top of the diagram above and working round clockwise, many of our businesses have an **environmental focus and / or are driven by regulation**, be it to provide products that enable our customers to meet lower emissions legislation, or the manufacture and supply of controlled substances etc. This opens up a number of markets where the group can apply its **core chemistry skills in platinum group metals (pgms) and catalysis** to develop products and technologies for its customers. We build deep relationships with our customers and this, together with our strong scientific knowledge, enables us to establish a **good understanding of our markets and our customers**. This in turn provides the basis from which to make informed decisions about how we **invest in technology and product development**. Through continued investment Johnson Matthey has maintained **differentiation through technology**, developing and manufacturing its products which is key to growing the business and maintaining a competitive edge. As a result, the group has been able to achieve **leading industry positions with high margin products** which, in combination with the other attributes, ensures that many of the markets in which we participate have **high barriers to entry** and provide an attractive platform for the future.

These common attributes are interdependent, with each attribute supporting the next. Equally important are the group's **people and culture** which are, in essence, the 'glue' that binds these attributes together. The culture of an organisation is not easy to define, but there is a distinctive culture across Johnson Matthey, irrespective of division, business, function or geographic location, and we recognise this culture as a particular strength.

The group believes that it must embrace the challenge of sustaining and integrating this culture as it continues to grow its international operations.

Whilst these attributes highlight the common features of a successful business within the group, the board recognises that these are not the sole determinant of a good Johnson Matthey business. However, identifying and recognising these attributes provides a good understanding of what makes the group successful and acts as a valuable focus for future investment decisions.

Key Strengths – What Makes Johnson Matthey Greater than the Sum of its Parts?

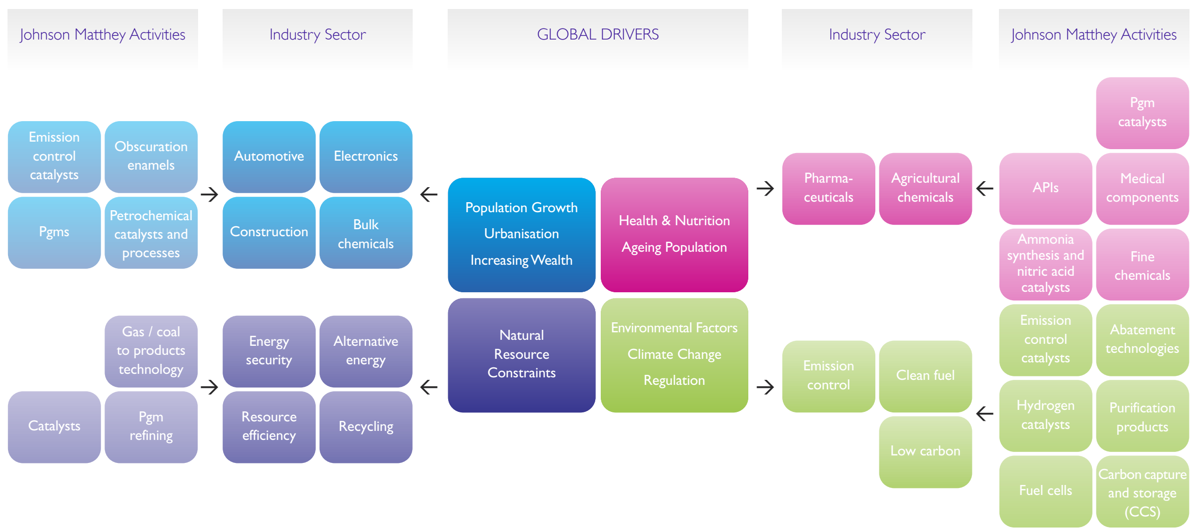
Taken in isolation however, Johnson Matthey's list of attributes may also be applied to many other organisations. So why do they translate into success for us? Johnson Matthey has several key strengths which, in combination with its attributes, make the group 'greater than the sum of its parts'.

As we have stated before, Johnson Matthey is a leading technology based company. This leadership is made possible by our **expertise in the fundamental science** that underpins our technologies. This expertise includes catalysis, materials science, the chemistry of pgms, nanotechnology and manufacturing science and our competence in these key areas lies at the very heart of what we do. A **deep involvement in and understanding of pgms** is a unique feature of Johnson Matthey where our expertise in refining, pgm chemistry and the dynamics of pgm markets supports many of our business activities. A further strength is our **ability to maximise the synergies** across our activities to derive enhanced value. Our Process Technologies business provides evidence of this 'synergy in action' where the complementary offering of chemical process technology and the catalyst(s) for that process means we are able to optimise the performance of both of these areas, providing superior performance and value to our customers.

Over the years we have developed **trusted partnerships with our customers, regulators and other stakeholders**. As such, we have a detailed understanding of relevant regulatory matters and considerable expertise in handling materials, especially pgms and controlled substances. We place huge emphasis on establishing strong relationships with our customers and through this have developed a fundamental understanding of what our products do for them, what their needs are today and what they may be going forward. This enables us to make better products both now and in the future.

Our final key strength is our **reputation**, built up over almost two hundred years of operation. It gives our customers, shareholders, employees and many other stakeholders the confidence that we are a well managed and credible business that takes its responsibilities seriously. Our reputation provides a solid foundation for future growth and as such we must safeguard and build on it going forward.

GLOBAL DRIVERS IMPACTING THE CHEMICAL INDUSTRY



How do Global Drivers Impact on Johnson Matthey?

Having analysed the shape of the business today and established the attributes and strengths that underpin our success, the next stage of the strategy review process considered the macro level global drivers impacting the chemical industry. The major global drivers (which were based on trends identified by Goldman Sachs Global Investment Research) we identified as having a major impact on Johnson Matthey's businesses are:

- Population growth, urbanisation, increasing wealth
- Health and nutrition, ageing population
- Natural resource constraints
- Environmental factors, climate change, regulation

The process examined each global driver in turn, identifying firstly which industry sectors would be impacted by the global driver and then mapping each industry sector to the relevant areas of Johnson Matthey's business. From this a picture was developed connecting the macro level global trends with the group's current activities as illustrated above. The global drivers impacting the chemical industry will drive underlying growth in many of our businesses. For example projected population growth rates and increasing urbanisation and wealth, particularly in emerging markets, will drive an increase in the number of cars on our roads and therefore links through to growth in Johnson Matthey's automotive emission control business. Similarly, projections on how natural resources will become more depleted provides estimates on demand for recycling which in turn will benefit the group's Pgm Refining business. Data relating to how people are living longer will provide growth projections on the use of pharmaceuticals which will impact Johnson Matthey's Active Pharmaceutical Ingredient (API) Manufacturing businesses, and so on.

These global level trends will support the future growth of our business. However, underpinned by our business attributes and key strengths, the board believes that Johnson Matthey is well positioned to deliver **superior growth** at rates in excess of the underlying growth resulting from the global trends.

All four global level trends provide opportunities for growth across Johnson Matthey's divisions over the next decade and case study examples to illustrate these are included throughout this report.

STRATEGY IN ACTION

→ Environmental Factors, Climate Change, Regulation

Emissions Regulations – Opportunities in Hydrogen Catalysts (page 6)

Low Carbon, Emission Control and Clean Fuel – Opportunities in Fuel Cells (page 18)

Emissions Regulations – Opportunities in Emission Control (page 24)

Low Carbon Markets – Opportunities in Low Carbon (page 44)

→ Natural Resource Constraints

Opportunities in Pgm Refining (page 14)

Energy Security and Alternative Energy – Opportunities in Gas / Coal to Products (page 25)

→ Health & Nutrition, Ageing Population

Opportunities in Precious Metal Products (page 32)

Pharmaceuticals – Opportunities in Fine Chemicals and APIs (page 33)

→ Population Growth, Urbanisation, Increasing Wealth

Opportunities in Precious Metal Products (page 32)

R&D Focus for Further Growth

As illustrated in the case studies in this report, major global drivers will provide opportunities for Johnson Matthey to develop and grow its existing business areas over the next ten years. The strategy review process has reconfirmed that R&D is a key element in realising these opportunities and over the next few years the group is planning to increase its annual investment in R&D by around a third. In addition, the review has also identified opportunities to leverage the group's R&D expertise to further accelerate growth in the coming decade.

As a result, Johnson Matthey is increasing its focus on new business development and its investment in R&D. We have established a team whose goal is to target further growth from a series of new business areas with the aim of developing a major new division for Johnson Matthey. It is envisaged that these areas will build on the group's established attributes and areas of expertise and will draw on our existing commercial interests. The process to identify, evaluate and develop these new business areas is now underway and we have initially planned to increase our investment in R&D by up to a further £5 million p.a. to support this work.

This new initiative is also aligned with Johnson Matthey's Sustainability 2017 aspirations to build a more sustainable business for the future. Further details are provided in the Sustainability section on pages 45 to 55. A major driver of Sustainability 2017 is to apply our innovation and R&D expertise to develop improved and more efficient products and solutions for our customers. In doing this we can enhance our customers' performance and reduce their sustainability footprint, which in turn will improve our competitiveness, profitability and deliver growth for Johnson Matthey in the future.

Our Strategy for Future Growth

The board has agreed a ten year strategy to deliver superior growth in value for Johnson Matthey as summarised in the table on page 13.

As highlighted in this table, key elements of the strategy remain unchanged:

- The group will continue to **focus on leading edge catalysis**, driven by major global trends such as improving air quality, energy security, sustainability and development in emerging markets.
- The group will maintain **differentiation through technology** supported by enhanced investment in R&D in its core market areas.
- A **strong position in platinum group metals** will remain an intrinsic part of the group.
- Our primary focus will be **organic growth**. The group will however, maintain its strategy of making bolt-on acquisitions in core areas where they will accelerate organic growth.

In addition, the review process identified four key elements where increasing emphasis going forward will help deliver further value:

- The group will target **development of new opportunities** underpinned by our core chemistry expertise in materials science and surface chemistry.
- The **Johnson Matthey attributes**, outlining what makes a successful Johnson Matthey business, will be used to provide a focus for investment and for growing new business.

→ Research and development of the latest process catalysts at our Billingham, UK facility.

- The group will place increased emphasis on **manufacturing excellence** to ensure it operates with the highest technology and highest efficiency. Johnson Matthey has recently launched a group wide Manufacturing Excellence Initiative to capture and develop manufacturing best practice across all divisions of the group around the world. The rewards for achieving world class manufacturing operations are high, assuring the best quality products for our customers at the lowest possible cost. In addition, the initiative will support the group in achieving its Sustainability 2017 goals for lower carbon, resource efficiency and waste reduction. There will also be further sustainability benefits in terms of employee development and in health and safety.
- The group recognises the value of its **people and culture**. In working towards growing the business, the group will focus further on tackling the challenge of integrating the Johnson Matthey culture across its expanding global operations.

Conclusions

The board believes that the group has the right strategy to deliver long term value. Johnson Matthey is well positioned to grow in the next five years supported by strong positions in our core markets. The drivers for our business remain firmly in place and the group is committed to continue to invest in both infrastructure and R&D. The outlook beyond five years is also positive. Global drivers show a good fit with Johnson Matthey's technologies and we have systems in place to monitor the changing landscape in which the group operates. We have the capacity to invest to maximise the benefit of the opportunities that will arise and our proven R&D approach will deliver commercial success.

Summary

After almost 200 years of operation Johnson Matthey is a strong business underpinned by science, technology and the contribution of everyone who works in it. The strategy review process confirmed that the group is heading in the right direction for its third century of operation and that Johnson Matthey is well positioned for long term growth.

OUR STRATEGY IN SUMMARY

Key elements unchanged:

→ Continued focus on leading edge catalysis

→ Maintain differentiation through technology

→ Strong position in pgms remains an intrinsic part of group

→ Primary focus is organic growth

Increased emphasis on:

→ Developing new opportunities underpinned by core chemistry

→ Johnson Matthey attributes provide focus for investment

→ Manufacturing excellence

→ People and culture

STRATEGY IN ACTION

→ Opportunities in Pgm Refining

Constraints on natural resources and the focus on resource efficiency are important drivers for growth in Johnson Matthey's Pgm Refining business. Population growth and environmental factors will also have a significant impact.

Our pgm refineries in Brimsdown, UK and West Deptford, USA concentrate on high grade refining and focus on two key sectors. The first is material which comes back for recycling from customers who have purchased products from other businesses in Johnson Matthey. Growth in this sector will be linked to that of the group as a whole and the industries that it serves. The second sector is autocatalyst scrap recycling where we currently hold around a 40% share of the global market. Growth in autocatalyst scrap recycling, especially of palladium, is expected to be at double digit rates over the next few years. With increasing concerns over the availability of natural resources and a strong position in refining, Johnson Matthey is well placed for future growth.

Group Performance Review

Business Review

	Year to 31st March 2011 £ million	2010 £ million	% change
Revenue	**9,985**	7,839	+27
Sales excluding precious metals	**2,280**	1,886	+21
Operating profit	**281.2**	250.6	+12
Profit before tax	**260.6**	228.5	+14
Total earnings per share	**85.6p**	77.6p	+10
Underlying*:			
Operating profit	**366.2**	271.8	+35
Profit before tax	**345.5**	254.1	+36
Earnings per share	**119.0p**	86.4p	+38

* Before amortisation of acquired intangibles, major impairment and restructuring charges, profit or loss on disposal of businesses and, where relevant, related tax effects.

Sales

Revenue for the year ended 31st March 2011 was 27% up on last year at £10.0 billion driven by good sales activity and robust metal prices. The group's sales excluding precious metals (sales) were 21% higher than last year at £2.3 billion. Translated at constant exchange rates (last year's results translated at this year's average exchange rates), revenue for the year was 26% ahead and sales grew by 19%.

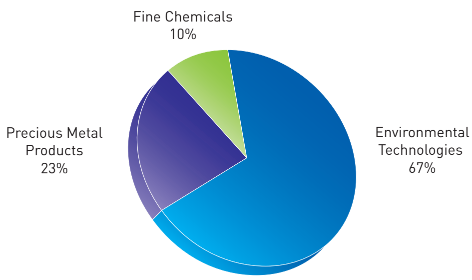
Operating Profit

For the group as a whole, underlying operating profit (before amortisation of acquired intangibles, major impairment and restructuring charges) was 35% higher than last year at £366.2 million, while underlying profit before tax was 36% up at £345.5 million. At constant exchange rates underlying operating profit would have been 33% higher than last year. The group's underlying return on sales increased to 16.1% from 14.4% last year, benefiting from operational leverage as plant utilisation across the group increased as a result of the strong demand for our products and from continued management actions to reduce costs.

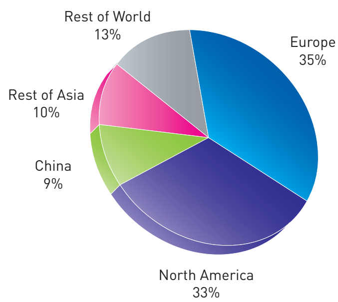
This year we have taken an impairment and restructuring charge of £71.8 million in respect of the closure of Environmental Technologies' autocatalyst manufacturing facility in Brussels, Belgium to reduce overcapacity in our European autocatalyst business and also of the closure of the Vertec business, which ceased operation on 31st March 2011. This charge has been excluded from underlying profit.

The performance of the individual businesses is explained in more detail on pages 19 to 31 in the Operations Review.

Sales Excluding Precious Metals by Division

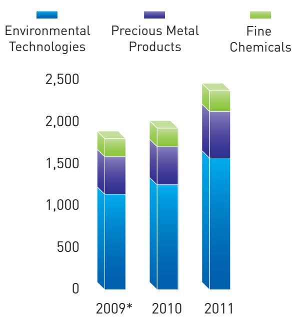


Sales Excluding Precious Metals by Destination



Divisional Sales Excluding Precious Metals

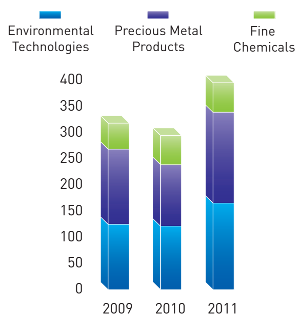
£ million



* Excluding inter-segment sales.

Divisional Underlying Operating Profit

£ million



Group Key Performance Indicators

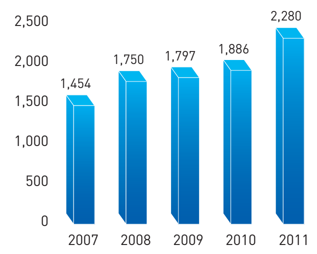
Business Review

→ Johnson Matthey uses a range of key performance indicators (KPIs) to monitor the group's performance over time in line with its strategy.

These principal KPIs, together with the group's performance against them in 2010/11, are described below:

Sales Excluding Precious Metals

£ million

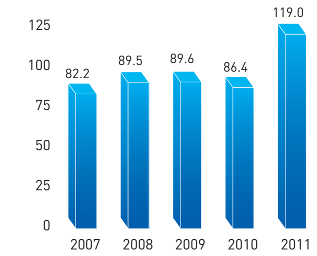


Monitoring sales provides a measure of the growth of the business. In measuring the growth of the group, we focus on sales excluding the value of precious metals because total revenue can be heavily distorted by year on year fluctuations in precious metal prices. Not only that, in many cases variations in the value of the precious metal contained within our products are passed directly on to our customers.

In 2010/11 sales excluding precious metals grew by 21% reflecting good growth in our markets as described in the Operations Review on pages 19 to 31.

Underlying Earnings per Share

Pence



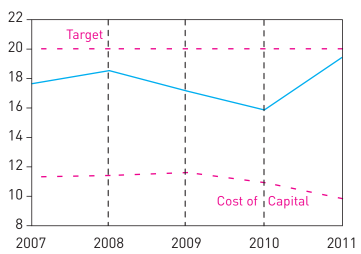
Underlying earnings per share is the principal measure used by the board to assess the overall profitability of the group. The following items are excluded from underlying earnings because they can distort the trend in measuring results:

- Amortisation and impairment of intangible assets arising on acquisition of businesses (acquired intangibles).
- Major impairment or restructuring charges.
- Profit or loss on disposal of businesses.
- Tax on the above and major tax items arising from changes in legislation.

This year underlying earnings per share rose by 38% to 119.0 pence supported by a strong performance across the group. Further details are provided in the Operations Review on pages 19 to 31.

Return on Invested Capital

%

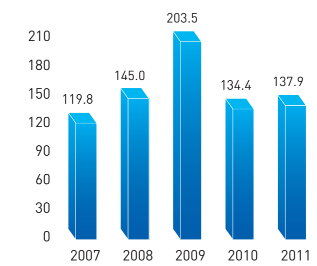


In a business as capital intensive as Johnson Matthey's, profitability alone is a poor measure of performance; it is possible to generate good operating margins but poor value for shareholders if assets are not used efficiently. Return on invested capital (ROIC) is therefore used alongside profit measures to ensure focus upon the efficient use of the group's assets. ROIC is defined for the group as underlying operating profit divided by average capital employed (equity plus net debt). ROIC for individual divisions is calculated using average segmental net assets as the denominator.

The group's ROIC increased from 15.8% to 19.4%, close to our target of 20%.

Capital Expenditure

£ million

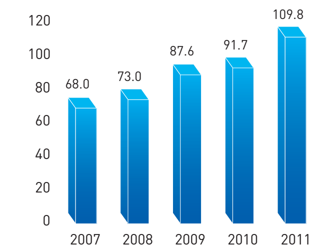


To enable the group to continue to grow, Johnson Matthey invests significant amounts in maintaining and improving our existing plants and in adding new facilities to provide additional capacity where necessary. All new capital expenditure is subject to detailed review to ensure that its investment case passes internal hurdles. Annual capital expenditure is measured as the cost of property, plant and equipment and intangible assets purchased during the year. The ratio of capital expenditure to depreciation gives an indication of the relative level of investment.

In 2010/11 the group's capital expenditure was £137.9 million which represented 1.1 times depreciation (2009/10 1.2).

Gross Research and Development Expenditure

£ million

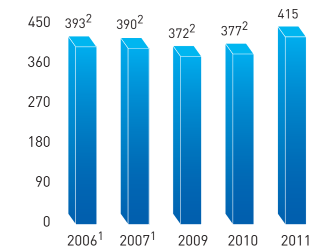


Johnson Matthey is fundamentally a technology company. To maintain our competitive position, we need to keep investing in research and development. Whilst absolute levels of research and development expenditure do not necessarily indicate how successful we are, that success rapidly feeds through to higher sales as lead times in our business can be quite short.

In 2010/11 the group increased its research and development expenditure by 20% to £109.8 million. Further details are given in the Research and Development section on pages 42 and 43.

Sustainability – Global Warming Potential

Tonnes CO_2 equivalent ('000)

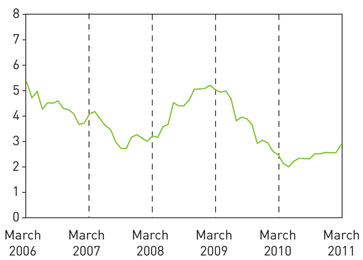


[1] Calendar year. [2] Restated.

We measure our progress towards achieving carbon neutrality by looking at the group's total global warming potential (GWP). Total GWP is based on our direct and indirect energy usage and CO_2 equivalence which provide a strong platform for monitoring the impacts associated with energy use in our operations. We are working to broaden the scope of our GWP measurement to include all aspects of our business and to consider the beneficial impacts of our products and services.

This year the group's GWP increased from 377,000 to 415,000 tonnes CO_2 equivalent as a result of increased production and the addition of new manufacturing facilities. Further information on the group's GWP is given in the Sustainability section on pages 45, 46, 48, 54 and 55.

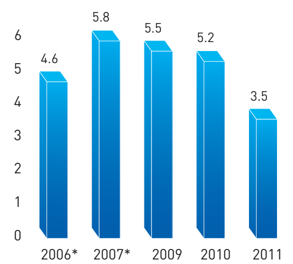
Safety – Annual Rate of >3 Day Accidents per 1,000 Employees



Johnson Matthey is a manufacturing business and a significant proportion of our employees work in production environments with chemicals and process machinery. Rigorous safety systems apply across all facilities and are essential if the group is to avoid accidents which could cause injury to people or damage to our property, both of which can impact the group's performance. We actively manage our safety performance through monitoring the incidence and causes of accidents that result in more than three days lost time.

The group's annual accident rate of greater than three day accidents increased slightly during the year to 2.88 per 1,000 employees. Actions taken to improve our safety performance are described in more detail in the Sustainability section on pages 53 to 55.

Occupational Health – Annual Incidence of Occupational Illness Cases per 1,000 Employees



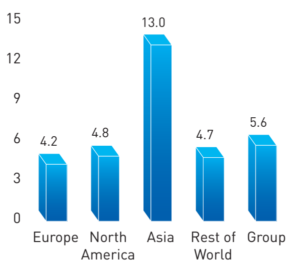
* Calendar year.

The health and wellbeing of our employees is a priority for Johnson Matthey and we are committed to minimising workplace related negative health effects. We manage our performance in this area by measuring the number of occupational illness cases arising as a result of exposure to workplace health hazards.

The annual incidence of occupational illness cases fell this year to 3.5 per 1,000 employees as a result of initiatives underway to promote employee wellbeing across the group. Further details are provided in the Sustainability section on pages 54 and 55.

Voluntary Employee Turnover

%



The success of Johnson Matthey is partly dependent upon the extent that we are able to attract and retain talented employees. This means that being an attractive employer is a prerequisite in a competitive environment. We monitor our success in retaining our staff using voluntary employee turnover statistics.

In 2010/11 the group's voluntary employee turnover increased very slightly to 5.6% from 5.4% in 2009/10. This remains low compared to industry standards.

STRATEGY IN ACTION

→ Opportunities in Fuel Cells

We believe that fuel cells are central to the development of a low carbon economy. They generate electricity cleanly and efficiently and the science and technology involved fit well with Johnson Matthey's core skills in catalysis, materials science and precious metals.

Johnson Matthey has targeted the key catalytic components of the fuel cell – the membrane electrode assembly (MEA) – as our primary product and has invested in fuel cell technology for a number of years, developing the catalyst technology which will be critical to success. Our development and manufacturing centre in Swindon, UK has enabled us to participate in early fuel cell markets.

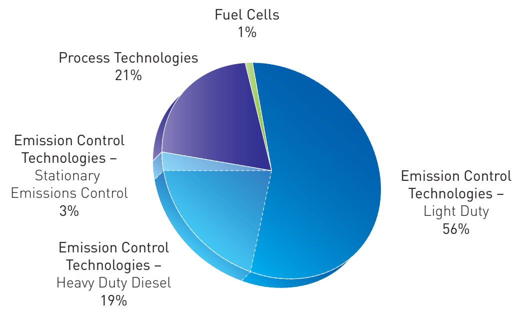
By 2020 we anticipate that the market for MEAs could be around £1 billion p.a. in sales excluding precious metals and whilst cars represent the largest potential market, stationary and direct methanol fuel cell markets also provide attractive opportunities. With good growth potential across all fuel cell markets supported by global trends and advancing technology, Johnson Matthey is well placed to participate in them all.

	Year to 31st March 2011 £ million	2010 £ million	% change	% at constant rates
Revenue	**2,708**	2,062	+31	+29
Sales (excluding precious metals)	**1,566**	1,252	+25	+23
Underlying operating profit	**164.7**	120.9	+36	+33
Return on sales	**10.5%**	9.7%		
Return on invested capital (ROIC)	**11.5%**	9.4%		

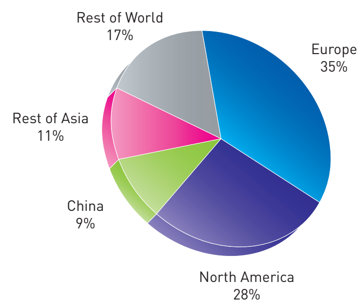
Key Statistics

Capital expenditure	**£90.1m**	Average invested capital	**£1,435m**
Capex / depreciation	**1.1**	Employees	**5,569**

Sales Excluding Precious Metals

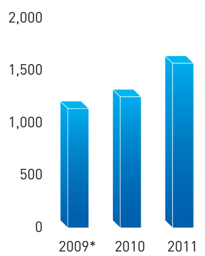


Sales Excluding Precious Metals by Destination



Divisional Sales Excluding Precious Metals

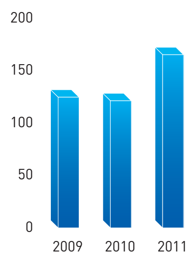
£ million



* Excluding inter-segment sales.

Divisional Underlying Operating Profit

£ million



Description of the Business

Emission Control Technologies (ECT)

ECT comprises Johnson Matthey's global autocatalyst, heavy duty diesel and stationary emissions 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 emissions from industrial processes. Manufacturing plants are located in the UK, Germany, Macedonia, Russia, USA, Mexico, Argentina, South Africa, Japan, Malaysia, India, China and South Korea. R&D facilities are in the USA, UK, Germany, Sweden, Japan, China, South Korea and Brazil.

Process Technologies

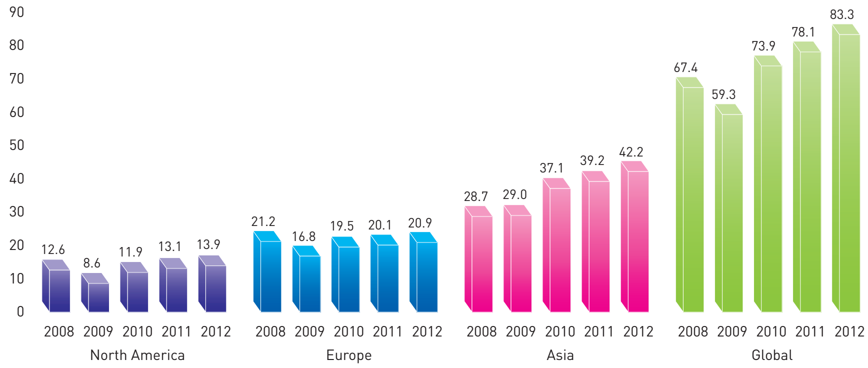
Process Technologies manufactures speciality catalysts, absorbents and additives for the methanol, ammonia, hydrogen, gas / coal to products, oil refineries and gas processing industries. Davy Process Technology (DPT) develops chemical process technologies and licenses them to customers in the oil, gas and petrochemical industries. Tracerco is a specialist measurement business that provides process diagnostic services through a broad range of analytical techniques and instrumentation. Process Technologies serves customers around the world and has manufacturing sites in the UK, USA, India and China, supported by technology development facilities in the UK and the US and technical offices in all of the key markets worldwide.

Fuel Cells

Johnson Matthey has a world leading position in the development and manufacture of catalysts and catalysed components for fuel cells.

Light Duty Vehicle Production Outlook – 2008-2012 (calendar years)

Million



Source: IHS Global Insight (March 2011)

Performance in 2010/11

Environmental Technologies Division performed well in 2010/11 achieving good growth throughout the year. Revenue grew 31% to £2,708 million; sales excluding precious metals (sales) were 25% ahead at £1,566 million and underlying operating profit was 36% ahead at £164.7 million. Translated at constant exchange rates, the division's sales increased by 23% and underlying operating profit by 33%.

Environmental Technologies Division's return on sales for the year increased by 0.8% to 10.5%. ECT's overall return on sales improved primarily because the heavy duty diesel business returned to profit after making a small loss last year. Its light duty business' return on sales increased compared with last year despite higher costs resulting from continued overcapacity in Europe. We have addressed this overcapacity with the closure of the Brussels plant which led to the impairment charge detailed on page 15. ECT's return on sales was also adversely impacted by the performance of the Stationary Emissions Control (SEC) business which made an operating loss in the year. Process Technologies' return on sales was the same as last year.

The division's ROIC improved from 9.4% to 11.5% primarily as the result of the increase in profitability and plant utilisation. The division's ROIC is expected to improve further as plant utilisation rates continue to increase.

Emission Control Technologies

Emission Control Technologies' sales grew by 25% to £1,218 million. At constant exchange rates, sales were up 23%. Sales of both light duty and heavy duty catalysts grew strongly throughout the year.

Light Duty Catalysts

Our light duty catalyst business, which represented 72% of ECT's sales in the year, grew strongly with sales up 16% to £879 million.

Estimated Light Vehicle Sales and Production

		Year to 31st March **2011** **millions**	2010 millions	change %
North America	Sales	**14.5**	13.0	+11.5
	Production	**12.4**	9.8	+26.5
Total Europe	Sales	**18.6**	18.6	–
	Production	**19.9**	18.2	+9.3
Asia	Sales	**30.2**	26.9	+12.3
	Production	**37.1**	32.4	+14.5
Global	Sales	**73.2**	67.3	+8.8
	Production	**75.7**	66.2	+14.4

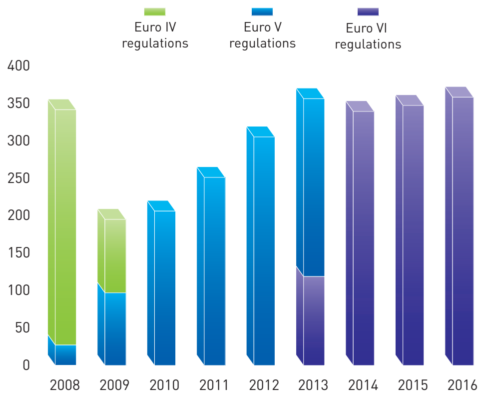
Source: IHS Global Insight

In Johnson Matthey's financial year to 31st March 2011, global light duty vehicle sales grew by 9% to 73.2 million vehicles. Global production grew by 14% reflecting a rebuilding of inventories. Our light duty catalyst sales benefited from strong growth in key markets, such as North America and China, and from a recovery in sales of diesel cars in Europe. Sales volumes of light duty autocatalysts grew by 26% in the year, exceeding the growth in global car production, as a result of ECT's strong positions in emerging markets in Asia.

Our sales in Europe of £544 million, which represent 62% of our light duty catalyst sales, increased in line with growth in vehicle production. Around 6.8 million diesel cars were sold in western Europe in the year. These represent some 52% of total car sales, up from 49% last year, of which about 90% were fitted with diesel particulate filters (DPFs). All new diesel cars sold in the European Union have been required to be fitted with DPFs since January 2011, although most vehicles were fitted earlier than this. As a result of the complex systems required to meet these diesel emissions standards, a diesel car represents approximately five times the catalyst value of an equivalent gasoline vehicle for Johnson Matthey. In North America production was up 27% and our sales grew in line with this to £167 million.

Western Europe Truck Sales

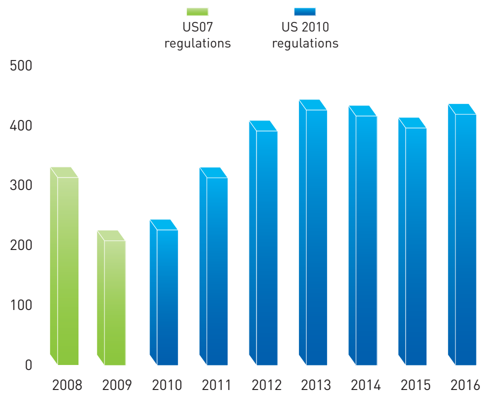
Thousands of units



Source: JD Power and Johnson Matthey (March 2011)

US Class 4-8 Truck Sales

Thousands of units



Source: JD Power and Johnson Matthey (March 2011)

In Asia, our business grew strongly with sales up 37% to £167 million. Whilst light duty vehicle production in China grew by 17%, in India by 28% and in South East Asia by 35%, Johnson Matthey's sales in these countries grew at a faster rate, partly as a result of strengthening our market positions.

The earthquake that struck Japan on 11th March 2011 affected ECT's manufacturing facility and technical centre at Kitsuregawa. Whilst there was no structural damage to the buildings, there was temporary disruption to production and development work on the site. Despite this, the business suffered no loss of sales through inability to supply or support its customers. The team at Kitsuregawa did an excellent job, working long hours in difficult conditions to get the facility back on line.

Since mid 2010, prices of rare earth raw materials have been increasing dramatically following the imposition of export quotas by the Chinese government. The main rare earth material that we use is cerium oxide, which is used to provide oxygen storage capabilities in catalysts for gasoline vehicles. Whilst to date we have experienced no problems in obtaining supplies of rare earth materials, ECT has taken steps to reduce the impact of their rising cost by a combination of thrifting, substitution for cheaper raw materials and imposing price surcharges on customers. However, due to the magnitude and speed of the cost increases, ECT's results have been adversely affected by around £5 million in 2010/11 and the impact in 2011/12 could be around £15 million to £20 million.

On 31st January 2011 it was announced that ECT had entered into statutory formal consultation with the employees at its Brussels facility regarding the closure of its manufacturing plant there. Whilst regrettable, this action is necessary to address overcapacity in the business' European manufacturing base. The cost of this closure is estimated to be around £57 million, of which around two thirds will be a cash cost. The cash cost is primarily made up of employee related payments and environmental and site remediation costs. The closure will significantly improve regional plant utilisation and should pay back within three years. It is hoped that this closure will be concluded in the first half of 2011/12.

During the year ECT completed the construction of a new research and development facility in Shanghai to service the needs of both local and global original equipment manufacturers (OEMs) in the rapidly growing Chinese market. It also commenced expansion of its autocatalyst plants in India and Malaysia.

Heavy Duty Diesel

Sales of heavy duty diesel (HDD) catalysts grew very strongly to £296 million, an increase of 71%. Our HDD business, which manufactures catalysts for trucks, buses and non-road vehicles, recovered well after last year's small loss.

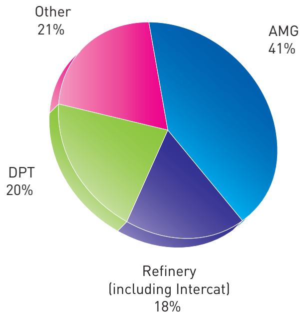
Estimated HDD Truck Sales and Production

		Year to 31st March 2011 thousands	2010 thousands	change %
North America	Sales	**289.3**	251.0	+15.3
	Production	**298.4**	235.8	+26.5
EU	Sales	**251.9**	197.4	+27.6
	Production	**357.9**	201.4	+77.7

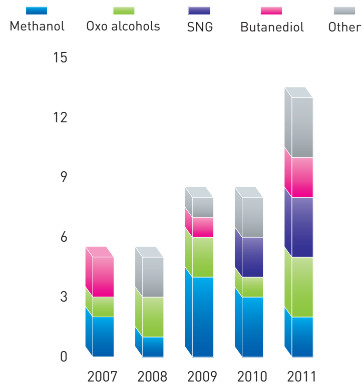
Source: J D Power

Sales of heavy duty diesel trucks in the US recovered slowly early in our financial year but grew steadily in our second half. All sales in the US are now of the more complex technologies required to meet the US 2010 legislation that came into force last year and which has significantly increased the catalyst content per truck. As a result, our sales grew significantly ahead of the growth of US truck production and were up 74% to £194 million. In Europe, truck sales recovered quickly from the global downturn and our sales were up 61% at £91 million. Johnson Matthey continued to maintain a more than 65% share of the HDD catalyst market. During the year the business commenced shipments to OEMs in China and India, ahead of legislation that will come into force for on road vehicles in the next few years. Sales also commenced to non-road OEMs, such as manufacturers of construction, mining and agricultural equipment, in the USA and Europe where legislation is being phased in between 2011 and 2015.

Process Technologies' Sales Excluding Precious Metals



Davy Process Technology – Projects Awarded



Stationary Emissions Control
ECT's SEC systems business which manufactures catalysts and supplies systems for reducing emissions in a wide range of applications including power generation, industrial processes, coal fired power plants and marine applications had a difficult year. The business was impacted by the lag effect from the deferral of major capital projects during the recession and sales were down by 9% to £43 million. As a result, the SEC business made an operating loss of £9.6 million in the year. Management actions have been put in place to address this underperformance.

Process Technologies

Process Technologies continued to grow strongly in 2010/11 with sales of £337 million, up 24% on the prior year. Intercat, Inc., a supplier of speciality additives to the petroleum refining industry, was acquired in November 2010 and contributed sales of £18 million in the five months that it was part of the group, in line with our expectations at the time of acquisition. Intercat significantly enhances Process Technologies' technical strength and product offering in the large market for refinery catalysts and the integration process is going well.

Sales of the catalysts, absorbents and additives manufactured by the Ammonia, Methanol, Gas (AMG) and the Refinery (including Intercat) businesses were £201 million, 23% up on the prior year. Excluding Intercat, sales would have been 12% up. The year saw particularly strong sales to methanol customers, up 57% to £49 million, including sales to a number of new plants in China and the Middle East which were licensed by DPT in recent years and commissioned this year. The first commercial sales of Apico™, our new methanol synthesis catalyst, were made in the year. Its performance in these customers' plants is demonstrating the benefits we expected.

Sales of catalysts to hydrogen plants were up 20% on the previous year at £48 million due to increased demand for diesel as economies emerged from recession and the continued trend toward processing heavier, dirtier crude oil in refineries. Demand for gas purification products used to remove contaminants such as mercury and sulphur species from gas streams, was however down 8% owing to reduced investment in large gas processing projects. Legislation requiring lower sulphur fuels continues to gain momentum around the world, particularly in South America, Asia and the Former Soviet Union. This supports continued demand for our hydrogen catalysts and purification products.

Process Technologies benefited from continued activity on projects to convert gas or coal into chemicals where some countries, particularly China in the case of coal, are seeking to enhance their energy security by utilising their own natural energy resources to reduce their reliance on imported oil and gas. China continues to develop coal based technologies to manufacture methanol, ammonia, substitute natural gas (SNG) and for making olefins, a core chemical feedstock. In the year, Baotou Shenhua Coal Chemicals Co Ltd commissioned the world's largest coal to methanol to olefins plant at its Baotou facility in Inner Mongolia using DPT technology and Johnson Matthey's catalysts for the large methanol plant.

DPT had another very good year, with sales of £66 million, securing licence and engineering contracts for a total of 13 plants during 2010/11. The business continued its success in China, winning contracts for a new methanol plant, three oxo alcohols plants and two speciality chemicals plants. In addition DPT won contracts for a further three large SNG plants in China, including the supply of Johnson Matthey's catalysts. The business is now also seeing large Chinese chemical and coal companies placing repeat orders for new plants. In addition it licensed and successfully commissioned a new combined reforming process for a methanol complex in Egypt and won contracts for three natural detergent alcohols (NDA) plants, two in Indonesia and one in Malaysia.

→ Intercat, a supplier of speciality additives to the petroleum refining industry, was acquired in November 2010.

DPT continues to invest in developing its technology portfolio. During the year it licensed further improvements in its core butanediol and oxo alcohols processes and completed development of a fixed bed Fischer Tropsch process for gas to liquids, in collaboration with BP. The business also successfully developed its new COMPRESS™ pure terephthalic acid (PTA) technology in partnership with the Dow Chemical Company which is now available for license. DPT is also working to utilise sustainable feedstocks in some of its core technologies. During the year it entered into a collaboration with Myriant Technologies covering the use of succinic acid as a bioderived feedstock for the production of several important chemical intermediates. The business has also integrated its proprietary technologies into the flowsheets for future biodiesel plants.

Process Technologies continues to pursue other technology opportunities which have the potential to increase energy efficiency and reduce carbon dioxide emissions, including development of technologies for high efficiency reforming. In the area of gas to liquids technology, the business made catalyst sales of more than £5 million for development catalysts for customers' pilot plants.

Tracerco's sales were 1% down on prior year with a difficult trading environment in the upstream oil and gas market where its customers have significantly reduced capital expenditure.

Fuel Cells

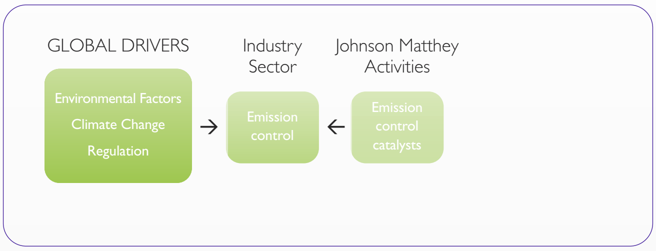
The Fuel Cells business made further progress in 2010/11 with growth in sales as its customers recovered from the effects of the recession. In particular the expected introduction of the use of natural gas fuelled systems to power buildings, an area where Johnson Matthey is a leading supplier of fuel cell components, developed well and is poised for further growth in 2011/12.

Electric vehicles and particularly battery powered cars were much in the news this year leading some commentators to discount the prospects for hydrogen powered fuel cell vehicles. During the year a number of independent reports have been issued explaining the complementary nature of battery and fuel cell vehicles in meeting global needs for fuel security, clean air and low carbon emissions. Our own expectations of an initial introduction of fuel cell cars in 2014/15 followed by steady growth from that point remain unchanged.

We continue to invest in the business and are confident of its long term prospects. The net expense of the business fell £0.5 million to £4.9 million in 2010/11.

STRATEGY IN ACTION

→ Opportunities in Emission Control



Continued growth in global light duty vehicle production, especially in Asia, and new and tightening legislation around the world will all drive increased value for Johnson Matthey. Whilst car companies have a number of options on how they achieve lower pollution levels, ultimately, tighter legislation and the desire to lower pgm loadings will require improved catalyst technology, ensuring continued catalyst value growth for Johnson Matthey.

In Europe, the popularity of diesel powered cars has led to the introduction of legislation to control emissions of particulate matter (soot) and the need for new catalyst products. Under current legislated standards (Euro 5) for diesel cars, the catalysts required are considerably more complex than those for gasoline cars, equating to approximately five times more value for Johnson Matthey. As we move towards Euro 6 standards in 2014, catalyst value will increase further as more demands are placed on the technical performance requirements of the catalyst system.

Additional greenhouse gas regulations will also provide opportunities and carbon dioxide is increasingly viewed as a new pollutant. A product of fuel combustion, carbon dioxide cannot be catalytically transformed. It can however be reduced by consumers deciding to purchase more fuel efficient engines and by car companies making powertrain developments on their vehicles. These developments include hybrid and electric vehicles, the use of direct injection systems, turbochargers and stop / start or other new engine technologies. All will require emission control modifications and all, apart from consumers buying smaller engine cars and battery powered vehicles, will result in a net benefit in catalyst value for Johnson Matthey.

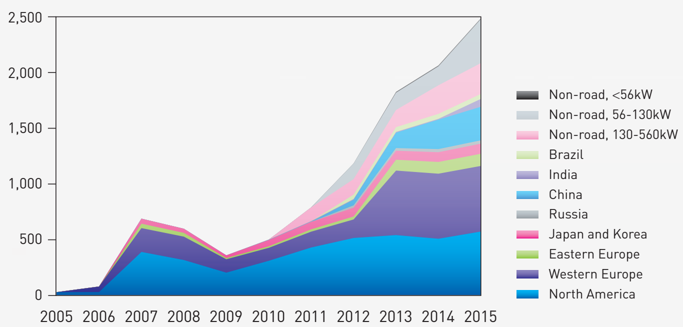
In heavy duty diesel (HDD), increasing vehicle numbers and new and tighter legislation will impose higher technical demands on the emission control systems required. Technologies must cope with controlling oxides of nitrogen and particulate matter to extremely low levels and this inevitably results in increasing value for Johnson Matthey. Further opportunities for growth in HDD catalyst markets are expected as legislation will soon be extended to cover non-road vehicles such as construction equipment and agricultural tractors. As a result, we estimate the market size for HDD catalysts to triple to around $2.5 billion in sales excluding precious metals, per year by the end of our 2014/15 financial year. Johnson Matthey continues to maintain a strong market share in HDD catalysts and so is well placed to benefit from future growth in demand.

Over the next decade, legislation will demand lower pollution levels from light and heavy duty engines and new regulations will be introduced to control emissions from other sources such as ships and trains. These will require novel and improved catalyst technology and Johnson Matthey is investing in R&D to maintain its leading position in this growing market. We now have eight R&D facilities and around 50 engine test cells around the world with about 500 employees working on emissions control R&D. As growth in demand continues alongside more demanding performance criteria for our products, our scientists are working to develop more efficient catalysts with lower pgm usage to ensure we maintain our world leading position in emission control.

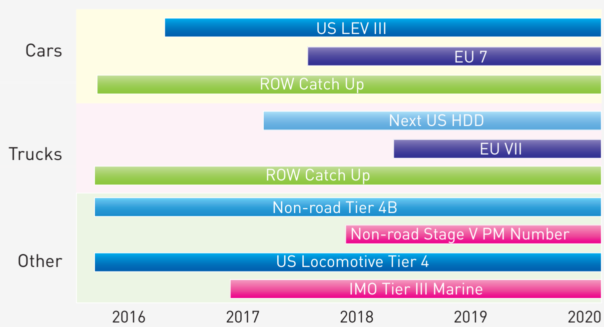
A $2.5 billion Market by the end of 2014/15

Sales excluding precious metals

$ million

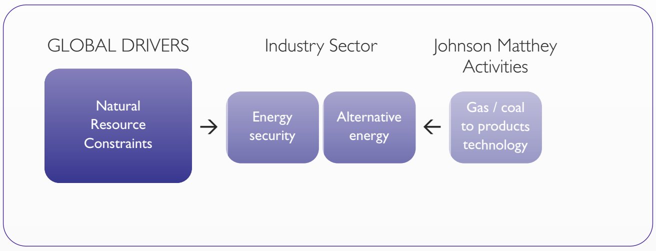


Emissions Regulations – Further Tightening to Come



STRATEGY IN ACTION

→ Opportunities in Gas / Coal to Products



With ever increasing concerns over the availability of natural resources, countries around the world remain focused on ensuring their energy security and continue to seek to reduce their dependence on the use of imported oil.

These concerns are driving interest in the conversion of coal, gas and biomass to useful products and this presents exciting opportunities for growth in both catalysts and technology for Johnson Matthey's Process Technologies business.

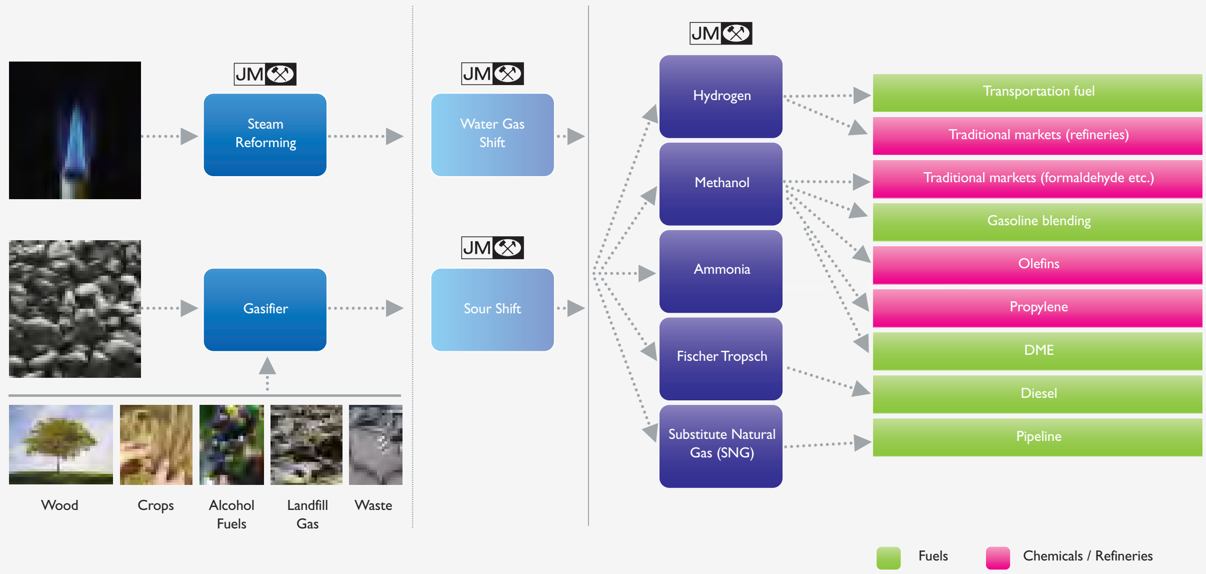
In coal rich countries like China there is increasing use of coal as a substitute for imported natural gas and oil to produce both electricity and products for industrial consumption or energy use. There is particular interest in converting coal to methanol in China where methanol is used not only as a chemical building block, but is also blended with gasoline and used to power vehicles. Johnson Matthey has a strong position in methanol globally, with around a 45% market share in both the catalysts and process technology required for its manufacture. Furthermore, the introduction of our new methanol synthesis catalyst, Apico™, in June 2009 ensures we are well positioned to benefit from the growing demand for methanol in China and around the world.

Johnson Matthey also has catalysts and technology for converting coal into substitute natural gas (SNG). This is of particular importance in countries such as China which have low natural gas reserves and lots of coal. The methane gas produced by this process can be put straight into natural gas pipelines for easy transportation and thus offers a means to debottleneck coal supply in some of China's remote mining areas as well as helping to secure the country's energy supply. Johnson Matthey has already secured technology licensing projects for four SNG projects in the country and supplies catalysts to an SNG project in the US.

As illustrated in the figure below, coal, gas and a variety of biomass can, with the right catalysts and technology, be transformed into various fuels and a number of useful chemical products. Johnson Matthey's technologies play a crucial role at several stages, enabling alternative routes to vital products.

As increasing concerns over energy security and the drive towards alternative energy sources remain major key global issues we expect to see further development and growth in demand for Johnson Matthey's process technology and catalysts over the coming years.

Coal, Gas and Biomass to Products

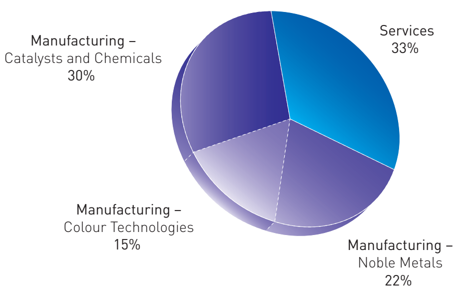


	Year to 31st March 2011 £ million	2010 £ million	% change	% at constant rates
Revenue	**8,270**	6,198	+33	+32
Sales (excluding precious metals)	**541**	454	+19	+18
Underlying operating profit	**172.9**	116.7	+48	+47
Return on sales	**31.9%**	25.7%		
Return on invested capital (ROIC)	**55.9%**	46.8%		

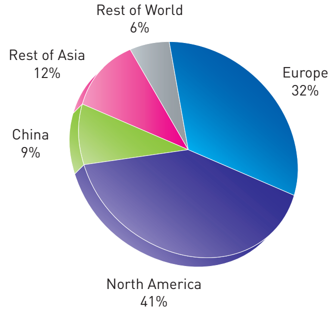
Key Statistics

Capital expenditure	**£26.1m**	Average invested capital	**£309m**
Capex / depreciation	**1.1**	Employees	**2,711**

Sales Excluding Precious Metals

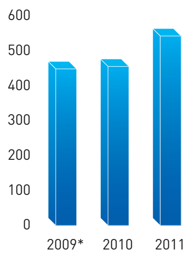


Sales Excluding Precious Metals by Destination



Divisional Sales Excluding Precious Metals

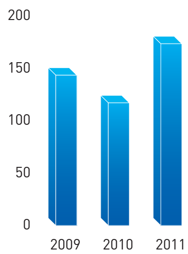
£ million



* Excluding inter-segment sales.

Divisional Underlying Operating Profit

£ million



Description of the Business

Precious Metal Products Division's activities comprise two main areas: Services businesses and Manufacturing businesses.

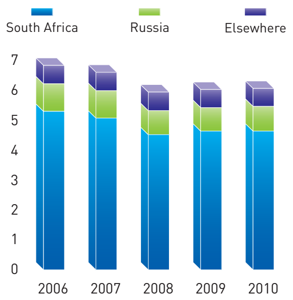
Services Businesses
The activities of our Services businesses comprise the marketing, distribution, refining and recycling of platinum group metals (pgms) and the refining of gold and silver. It consists of two businesses:

Platinum Marketing and Distribution
The business includes our worldwide platinum marketing and distribution activities. Marketing is headquartered in Royston, UK with support facilities in Philadelphia, USA and Hong Kong. We are the world's leading distributor of pgms and the sole marketing agent for Anglo Platinum, the world's largest producer of platinum.

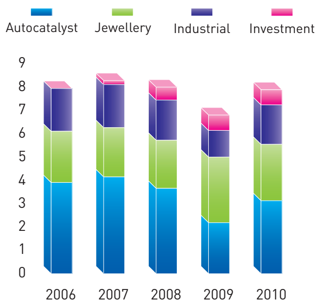
Refining
Our Pgm Refining and Recycling business recovers pgms from spent catalysts and other secondary materials and refines primary pgms from global mining operations. It has facilities in the UK and USA.

Our Gold and Silver refining business comprises our gold and silver refining and bullion manufacturing operations. The business serves the world's mining industries and recycles secondary scrap material. Its operations are located in the USA and Canada.

Supply of Platinum
2006-2010
Million oz

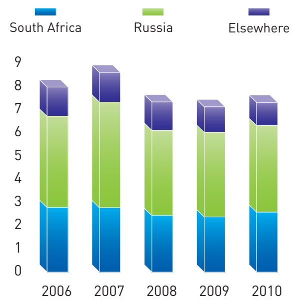


Gross Demand for Platinum
2006-2010*
Million oz

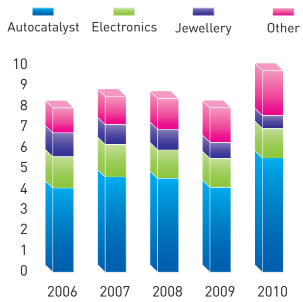


* Recycling of scrapped autocatalysts, electronics and jewellery contributed 1.83 million oz of platinum in 2008, 1.41 million oz in 2009 and 1.84 million oz in 2010.

Supply of Palladium
2006-2010
Million oz



Gross Demand for Palladium
2006-2010**
Million oz



** Recycling of scrapped autocatalysts, electronics and jewellery contributed 1.62 million oz of palladium in 2008, 1.43 million oz in 2009 and 1.85 million oz in 2010.

Manufacturing Businesses

The activities of the Manufacturing businesses include the fabrication of products using precious metals and related materials, pgm and base metal catalysts and pgm chemicals. There are three Manufacturing businesses:

Noble Metals

Noble Metals produces a wide range of precious metal and other fabricated products for industrial and medical applications. Johnson Matthey is the market leader in pgm fabricated products for industrial applications. Manufacturing takes place in the UK and USA.

Colour Technologies

Headquartered in the Netherlands, our Colour Technologies business manufactures black obscuration enamels and silver conductive materials 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. Manufacturing takes place in the Netherlands, USA and South Korea.

Catalysts and Chemicals

Catalysts and Chemicals manufactures precious and base metal catalysts and fine chemicals. Manufacturing takes place in the UK, USA, Germany, India and China.

Performance in 2010/11

Precious Metal Products Division's (PMPD's) revenue increased by 33% to £8,270 million, boosted by higher pgm prices and increased demand across all its businesses. Sales excluding the value of precious metals (sales) were 19% higher at £541 million. Underlying operating profit was 48% up at £172.9 million, reflecting strong profit growth in all of the division's businesses. Translated at constant exchange rates, sales increased by 18% and underlying operating profit was 47% higher than last year.

Services Businesses

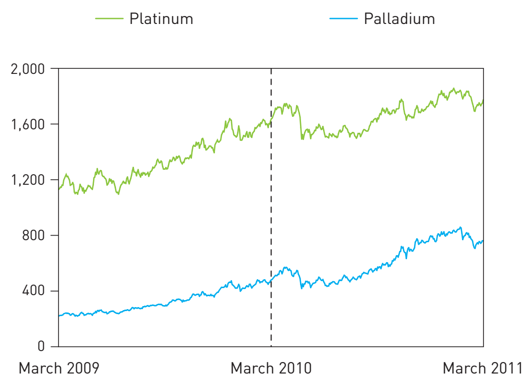
Sales in our Services businesses, representing 33% of PMPD's total sales, grew by 20% to £180 million. Profit in 2010/11 also increased, supported by higher pgm prices and continued good demand for precious metal refining services.

Platinum Marketing and Distribution

Global demand for platinum increased by 16% in the calendar year 2010. Demand from the autocatalyst sector increased by 43% following a strong recovery in car manufacturing in most key markets, with a notable recovery in diesel market share in Europe after a poor year in 2009. Jewellery demand fell by 14% in 2010 after an exceptional year in 2009. The Chinese market remained relatively robust but could not match the previous year when low prices encouraged a very high level of stock building. With positive supply demand fundamentals and broadly rising prices, physical investment demand remained strong, particularly through Exchange Traded Funds (ETFs). Supplies of platinum increased modestly with South African production continuing to be challenged by high costs and unplanned interruptions. The market tightened overall and finished the year close to balance.

With the platinum surplus seen in 2009 disappearing and broadly positive investment sentiment prevailing, the platinum price enjoyed a largely rising trend in 2010. After starting the year at $1,644/oz, a sharp downward correction occurred in May due to the European sovereign debt crisis. Platinum recovered to reach a high point for the year in February 2011 of $1,864/oz, having averaged $1,672/oz for the financial year, an increase of 24%.

Platinum and Palladium Prices
US$/oz



Rhodium Price
US$/oz

Palladium demand increased by 24% in 2010 driven by higher levels of vehicle production in developing markets such as China. Autocatalyst demand increased by 35% overall, with continuing substitution of platinum by palladium in both gasoline and some diesel formulations. Physical investment demand proved particularly buoyant, up 74%, with heavy and sustained investment in US based ETF products. With supplies of palladium failing to match increased demand, the market moved into substantial deficit.

The price of palladium responded robustly to the favourable supply demand dynamics and investment sentiment. Having opened at $479/oz, the price of palladium nearly doubled to a high point of $860/oz in February 2011 and averaged $616/oz for the year, 90% up on 2009/10.

The rhodium market was mostly subdued in the 2010/11 financial year, in spite of improved demand as the global car market recovered. The rhodium market remained over supplied and temporary spikes in the price could not be sustained. The price opened at $2,575/oz and briefly rallied to a high point of $2,975/oz in April 2010 before drifting to the sidelines for much of the year, averaging $2,420/oz, an increase of 25% on last year's average.

Refining

Our Refining businesses had a very strong year. All of our refineries benefited from good intakes of material throughout the year and high metal prices.

Despite the end of the various vehicle scrappage schemes around the world, volumes of scrap autocatalyst material for recycling by our Pgm Refining business have continued to increase with volumes up by 32% in the year. The business was able to agree extensions to long term contracts with a number of key customers, while its focus on capacity management and operational improvements at both of its pgm refineries continued in order to reduce the amount of metal tied up in the refining circuits.

In our Gold and Silver business, both our Canadian and US refineries had a very strong year with throughputs at record levels, up 19% on last year, and improved margins. Gold and silver prices climbed steadily throughout the year, averaging $1,295/oz and $24/oz, an increase of 26% and 52% respectively over the prior year. This had the effect of further stimulating both primary and secondary refining although there are signs that demand for carat gold scrap recycling from jewellers and collectors is slowing. Demand for products such as gold and silver bars was also very high. The business introduced a number of operational improvements in the year to reduce bottlenecks in both its refineries in order to improve metal throughput and to reduce backlogs.

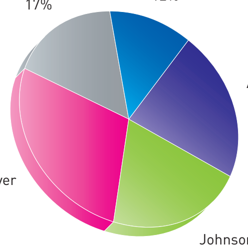
Manufacturing Businesses

Sales in our Manufacturing businesses, representing 67% of PMPD's total sales, grew by 19% to £361 million. Profit was also well ahead of prior year.

Noble Metals

Our Noble Metals business saw a strong recovery from the global downturn with sales 29% ahead of last year at £120 million. Both its European and North American businesses saw strong demand for pgms in automotive applications where we have gained market share and introduced new technology. Demand for fertilisers around the world also drove good demand for fabricated pgm products such as platinum alloy gauzes for the production of nitric acid. Industrial products account for around 64% of Noble Metals' sales.

Refining Businesses' Sales Excluding Precious Metals by Market



→ Platinum gauze catalyst for nitric acid manufacture and catalyst pellets for the abatement of nitrous oxide from nitric acid plants.

The business maintained the strong position that it has established in recent years in the market for nitrous oxide (N_2O) abatement catalysts. Revenue from this sector has been increasing as the price of carbon has risen on the back of the recovery in the global economy. The installation of the first N_2O abatement catalyst system in the United States is scheduled this year.

Sales of medical products (approximately 36% of Noble Metals' sales) were also well up on last year with good growth in precision machined platinum parts and nitinol shape memory alloys for use in medical devices. The acquisition of the fabricated products business of the former AGR Matthey partnership in Australia has added revenue from the highly specialised medical parts that it manufactures as well as providing opportunities for sales of other Noble Metals' products in the region.

Colour Technologies

Colour Technologies had a steady year with sales up by 6% to £82 million. The business saw good growth in its sales of obscuration enamels for automotive glass and silver pastes for heated rear windows which represent around 56% of its sales. Sales of these products increased in line with growth in global automobile production and were especially strong in China. Sales of decorative products experienced mixed fortunes with demand for decorative precious metal products impacted by the high gold price, however sales of colour products for decorative applications were strong, particularly into markets in Asia. The business is significantly increasing its investment in R&D to develop a range of new products.

Catalysts and Chemicals

Catalysts and Chemicals had a good year with sales up by 20% at £159 million reflecting growth in all of its business areas as a result of the general improvement in the global economy, particularly in the chemical and automotive markets. The rate of recovery accelerated in the second half of the year, particularly due to demand for precious metal salts for the automotive sector. Growth was especially good in Asia with China continuing to contribute strongly. Following the commissioning of its new sponge nickel catalyst manufacturing facility in Shanghai last year the business has now commenced a major project to construct a new plant there to manufacture pgm catalysts for the growing pharmaceutical industry in China.

Operations Review → Fine Chemicals Division

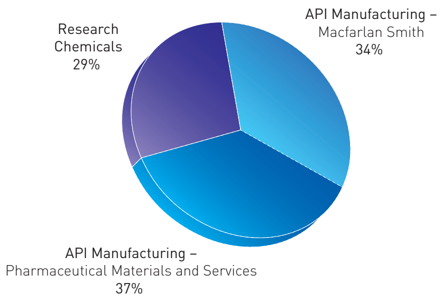
Business Review

	Year to 31st March 2011 £ million	2010 £ million	% change	% at constant rates
Revenue	**255**	223	+14	+13
Sales (excluding precious metals)	**245**	221	+11	+10
Underlying operating profit	**56.2**	55.8	+1	-1
Return on sales	**22.9%**	25.3%		
Return on invested capital (ROIC)	**13.7%**	13.4%		

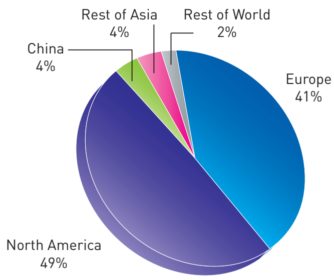
Key Statistics

Capital expenditure	**£16.0m**	Average invested capital	**£409m**
Capex / depreciation	**0.9**	Employees	**1,089**

Sales Excluding Precious Metals

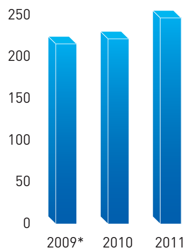


Sales Excluding Precious Metals by Destination



Divisional Sales Excluding Precious Metals

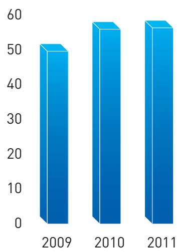
£ million



* Excluding inter-segment sales.

Divisional Underlying Operating Profit

£ million



Description of the Business

Fine Chemicals Division is a global supplier of active pharmaceutical ingredients, fine chemicals and other speciality chemical products and services to a wide range of pharmaceutical and chemical industry customers and to industrial and academic research organisations.

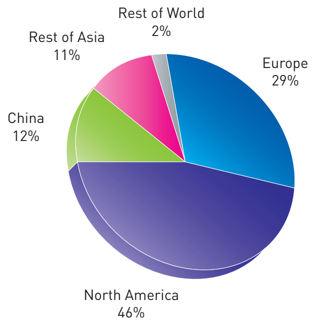
API Manufacturing

Our API Manufacturing businesses supply active pharmaceutical ingredients (APIs) and intermediate products for the pharmaceutical and fine chemical industries and provide contract research services to the pharmaceutical industry. Macfarlan Smith, based in Edinburgh, UK is the world's leading manufacturer of opiate alkaloids which are used for pain management and other pharmaceutical applications. Our US based Pharmaceutical Materials and Services business specialises in the manufacture of APIs for controlled drugs and for platinum based anticancer treatments. It also provides a full range of commercial scale manufacturing services for APIs to both generic and branded pharmaceutical companies.

Research Chemicals

The Research Chemicals business is a globally integrated supplier of speciality inorganic and organic chemicals. The business supplies chemicals into both industry and research institutions in small scale research quantities, via its catalogue, and bulk scale shipments. It operates under the Alfa Aesar brand name and is based in the UK, USA, Germany, China and India. The operations in the UK and China have manufacturing capability servicing the catalogue and the needs of external bulk scale customers and provide custom synthesis of key pharmaceutical intermediates for both external and internal customers.

Research Chemicals' Sales Excluding Precious Metals by Destination



Performance in 2010/11

Fine Chemicals Division had a good year. Revenue increased by 14% to £255 million and sales excluding precious metals (sales) grew by 11% to £245 million. The division's underlying operating profit was 1% ahead of 2009/10. Sales grew by 15% and underlying operating profit by 16% if the one-off benefit to sales and underlying operating profit of US $12 million from the launch of the generic version of ADDERALL XR® in April 2009 is excluded from last year's results. At constant currencies, sales were 10% ahead and underlying operating profit 1% down. Fine Chemicals' return on sales fell by 2.4% to 22.9% as a result of the impact of last year's one-off benefit from the launch of the generic version of ADDERALL XR®. If that were excluded, return on sales grew slightly from 22.7% to 22.9%.

API Manufacturing Businesses

The division's API Manufacturing businesses, representing 71% of Fine Chemicals' sales, had a good year with sales up by 14% to £173 million and strong growth in operating profit excluding last year's one-off benefit.

Macfarlan Smith

Macfarlan Smith achieved growth in all key areas of its business and had a steady year, benefiting from strong demand for its specialist opiate products, such as buprenorphine and naloxone, in both Europe and North America. Generic demand for methylphenidate, used to treat attention deficit hyperactivity disorder (ADHD), and fentanyl base, used in the management of acute pain, was also strong and resulted in good growth in these products during the year. The business saw an improvement in the availability of key narcotic raw materials during the year, however, supplies were still tight. Overall, Macfarlan Smith's sales were 4% ahead of last year at £83 million.

In December 2010, Macfarlan Smith's joint venture, Hebei Aoxing API Pharmaceutical Company Limited, formed in conjunction with the Chinese pharmaceutical manufacturing company Hebei Aoxing Pharmaceutical Group Co Limited, was granted a business licence by the Chinese authorities. The joint venture company will manufacture and supply narcotic APIs to the rapidly growing market in China.

Pharmaceutical Materials and Services

The division's Pharmaceutical Materials and Services business had a good year with sales up 26% at £90 million excluding last year's one-off benefit. Its contract research business recovered from an operating loss in 2009/10 to deliver a profit this year driven by improved plant utilisation and a successful focus on supporting internal development work for the Fine Chemicals Division. The business benefited from the restructuring that was implemented last year which has greatly reduced its reliance on new drug development work for smaller customers, who tend to be impacted by the economic cycle and the availability of venture capital funding.

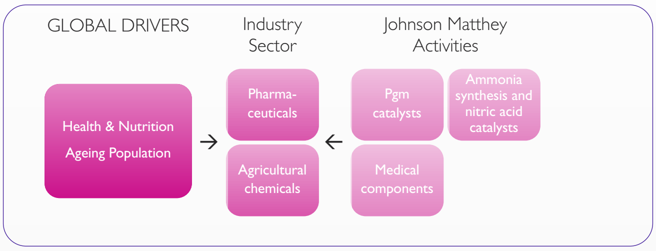
The manufacturing business benefited from strong growth in sales of oxaliplatin, used in the treatment of cancer, and amphetamine salts for the treatment of ADHD. In November 2010 the business acquired large scale pharmaceutical manufacturing assets in Conshohocken, Pennsylvania, USA together with certain ongoing business from Lonza Inc. This site, which is close to the group's existing facilities in West Deptford, New Jersey, will provide the business, and Fine Chemicals Division as a whole, with significantly enhanced manufacturing capacity and capabilities. It will enable continued growth of our controlled substance API business in the US and will provide additional capacity to support customers of its contract research business as they move into commercial scale production.

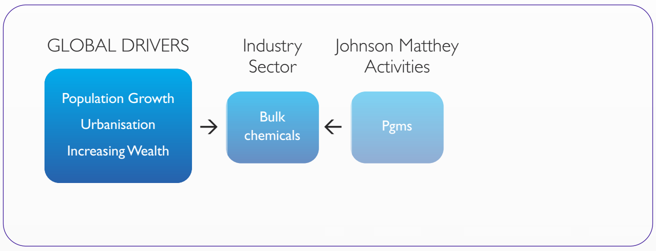
Research Chemicals

The Research Chemicals business continued to recover from the effects of the economic slowdown. Sales were 17% ahead of prior year at £72 million. All regions saw growth in the year with North America and Asia performing particularly well. Asia continues to be a key focus for the business with China and Korea again delivering good sales growth. The business' new warehouse and distribution centre in Hyderabad, India, which opened in March 2010, made a good contribution to this year's performance. In January 2011 the new Alfa Aesar catalogue for 2011 to 2013 was launched. The business' range has further expanded to include an additional 4,000 new products, a number of which are sourced from Alfa Aesar Synmax, its manufacturing joint venture based in Yantai, China which commenced operations in March 2010.

STRATEGY IN ACTION

→ Opportunities in Precious Metal Products





Health and nutrition trends, a growing and ageing population and increasing wealth all drive growth in the markets for pharmaceuticals and agricultural chemicals and in turn provide opportunities for Johnson Matthey's Precious Metal Products Division's (PMPD's) Manufacturing businesses.

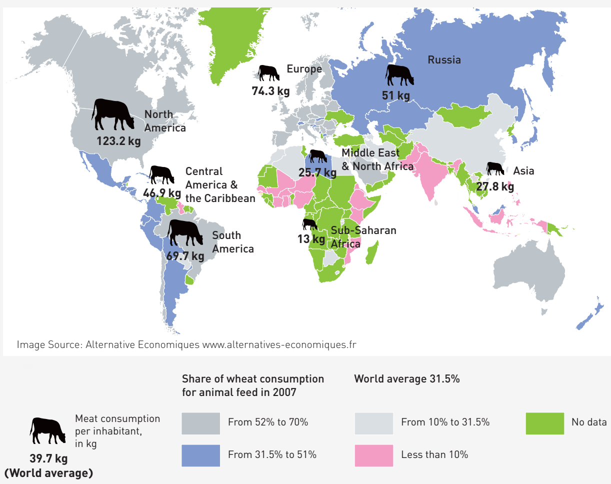
In the fertiliser industry we supply pgm catalysts to convert ammonia into nitric acid for fertilisers. Whilst nutrition trends are a driver, so are population growth and increasing wealth. As people get wealthier they start to consume more meat. Interestingly, considerably more crops – and hence more fertiliser – are required to feed a cow to feed a human than would be required to feed crops directly to humans. In China for example, the average person consumes around 25kg of meat each year compared to the 123kg consumed, on average, by a person in North America. As wealth increases in China we have seen meat consumption increase and the fertiliser industry there has doubled over the last four years.

Nitrous oxide (N_2O), a powerful greenhouse gas with a potency of 310 times that of carbon dioxide (CO_2), is formed as a by-product of nitric acid production for fertilisers. Under the Kyoto agreement companies in the developing world can claim CO_2 credits for reducing greenhouse gas emissions from their nitric acid plants and Johnson Matthey, together with Yara International, have developed a very effective N_2O abatement catalyst for this purpose. Johnson Matthey has leading positions in both nitric acid catalysts and N_2O abatement products and with increasing use of fertiliser globally driven by population growth and increasing wealth, the group is well positioned to benefit.

In the food industry our nickel catalysts are used in the production of edible oils and artificial sweeteners and we have also recently developed a new pgm based product called e+™ which is used to help delay the ripening of fresh fruit and extend its life. Over ripening in fruit is a big issue and every day huge amounts are destroyed because they simply have not been consumed in time. Certain types of fruit emit significant amounts of ethylene which accelerates their ripening and e+™ technology works by absorbing this ethylene and delaying the ripening process. The e+™ product, developed in conjunction with Anglo Platinum and currently being trialled in the supply chain, is available as stickers and sachets that can easily be applied to the packaging and boxes used to transport and display fresh produce. Work so far has shown that in some cases its use can extend the lifetime of fruit by up to one month if applied as soon as the fruit is picked.

In the area of health, PMPD's Manufacturing businesses offer a variety of products for a wide range of applications. For example the division's medical products business manufactures highly intricate products from pgm alloys and other materials which are used as components in medical devices for cardiac and other forms of minimally invasive surgery. As a result of growing and ageing populations with increasingly unhealthy lifestyles, demand for these treatments – and our components – continues to grow.

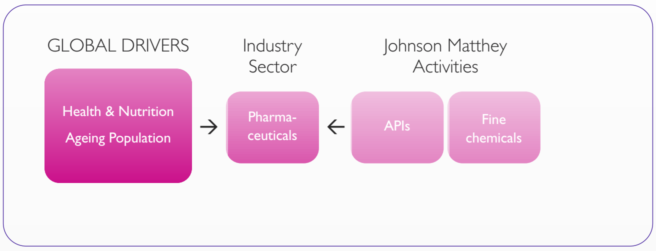
Increasing Wealth Drives Increasing Meat Consumption



e+™ is Used to Delay the Ripening and Extend the Life of Fresh Fruit

STRATEGY IN ACTION

→ Opportunities in Fine Chemicals and APIs



People around the world are living longer. Unfortunately, as a result, many will suffer from chronic diseases and will require more drug therapy. In addition, continued economic development, particularly in Asia, will give governments there the ability to provide more and improved healthcare. This, together with increasing demand from doctors and patients, will further drive demand for pharmaceutical products.

In Johnson Matthey, our API Manufacturing businesses, which have leading positions in narcotic based pain therapy, are well placed to benefit from these global drivers over the coming years. Johnson Matthey specialises in the manufacture of higher value API products and our strong position in this niche area has contributed in part to growth ahead of market rates in recent years. Today, the majority of our sales are to customers in the US and Europe, highlighting the opportunity for future growth in emerging markets.

The global pain therapy market is an attractive area for Johnson Matthey where we hold a strong position in opiate based APIs. These markets have significant barriers to entry as a result of the high degree of regulation and tight controls over the import and export of raw materials. Globally, this is a key therapeutic area as demand for products, which are mainly used to treat severe long term pain, increases as the ageing population continues to grow.

Johnson Matthey is also focused on the supply of APIs for generic, rather than branded, pharmaceutical products with around 80% of our sales to generic markets. There are commercial advantages from being first to market with generic actives and Johnson Matthey is well positioned.

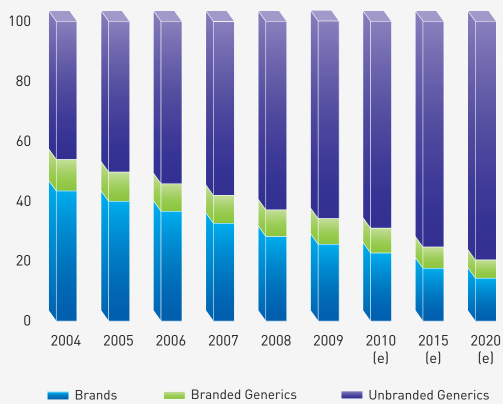
Our contract research business in Boston, USA equips us with the skills and expertise to expedite chemistry development of APIs for our generic customers, thus differentiating us from some of our competitors. Furthermore, our recent acquisition of the Conshohocken plant in Pennsylvania, USA more than doubles our API manufacturing capacity. As a result we are now even better placed to respond to market expansion in high volume, complex intermediates and APIs and to build on our market share in the US.

Economic development in emerging markets like China and India will drive growth in the use of pharmaceuticals and the current compound annual growth rate of 15% is forecast to continue at similar rates for the next few years at least. At present, pharmaceutical based pain therapy is much under utilised in emerging markets. In China for example, only 22 narcotic drugs are available compared to over 120 in the West and over the last five years Chinese narcotic consumption has tripled, albeit from a low base. Whilst there has been historical reticence to the use of opiates, this is now changing and China is experiencing some 20% growth in pharmaceuticals. Johnson Matthey has recently established Hebei Aoxing API Pharmaceutical Company Limited, a joint venture with Chinese company Hebei Aoxing Pharmaceutical Group Co Limited. The joint venture's business licence was granted in December 2010 and drug licence applications have been made. In terms of infrastructure, we have buildings and utilities in place with reactors due to go in shortly. This joint venture will equip us well to participate further in the opportunities for growth in the use of narcotics in China.

Growth in Generic Pharmaceutical Products in the USA

Total Prescriptions Dispensed

% of market share

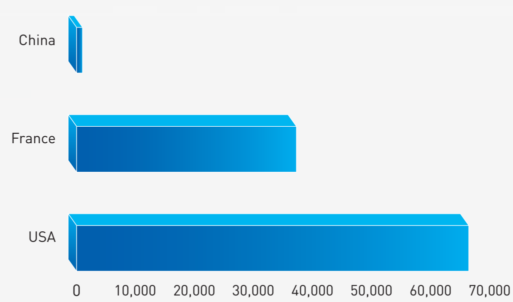


Source: IMS and Johnson Matthey estimates

Pharmaceutical Based Pain Therapy is Currently Underutilised in Emerging Markets

Illustrative Morphine per Capita Consumption between China and Other Countries

Grams / million population



Profit before Tax

Underlying profit before tax rose by 36% to £345.5 million. Profit before tax was 14% higher at £260.6 million. Items excluded from underlying operating profit were:

- an impairment and restructuring charge of £71.8 million in respect of the closure of ECT's manufacturing facility in Brussels and the Vertec business. On 31st January 2011 it was announced that ECT had entered into statutory formal consultation with the employees at its Brussels facility regarding the closure of its manufacturing plant there. On 31st March 2011, the group formally closed the Vertec business on the Haverton manufacturing site in Billingham, UK; and
- amortisation of acquired intangibles of £13.2 million. This was £3.3 million higher than 2009/10 mainly following the acquisition of Intercat.

Underlying Profit Reconciliation

	Year to 31st March 2011			Year to 31st March 2010		
	Profit before tax £ million	Income tax expense £ million	Profit from continuing operations £ million	Profit before tax £ million	Income tax expense £ million	Profit from continuing operations £ million
Underlying basis	345.5	(91.7)	253.8	254.1	(71.2)	182.9
Amortisation of acquired intangibles	(13.2)	4.1	(9.1)	(9.9)	2.7	(7.2)
Major impairment / restructuring:						
Closure of autocatalyst facility in Brussels	(57.0)	8.1	(48.9)	–	–	–
Closure of Vertec business	(14.8)	3.5	(11.3)	–	–	–
Impairment loss in Fine Chemicals facility in USA	–	–	–	(11.3)	4.2	(7.1)
Dissolution of associate	0.1	–	0.1	(4.4)	–	(4.4)
Reported basis	260.6	(76.0)	184.6	228.5	(64.3)	164.2

Exchange Rates

The main impact of exchange rate movements on the group's results comes from the translation of foreign subsidiaries' profits into sterling as the group does not hedge the impact on the income statement or balance sheet of these translation effects. The group's underlying operating profit at constant exchange rates is shown in the table below:

Underlying Operating Profit

	Year to 31st March 2011 £ million	2010 £ million	change %	2010 at 2011 exchange rates £ million	change %
Environmental Technologies	**164.7**	120.9	+36	123.4	+33
Precious Metal Products	**172.9**	116.7	+48	117.5	+47
Fine Chemicals	**56.2**	55.8	+1	56.5	-1
Corporate	**(27.6)**	(21.6)		(21.5)	
Total group	**366.2**	271.8	+35	275.9	+33

During the year, sterling weakened against both the US dollar and the Chinese renminbi and this increased reported group underlying operating profit for the year by £1.8 million and £1.0 million respectively. Sterling, on the other hand, strengthened against the euro and this decreased reported group underlying operating profit by £1.1 million.

Sterling also weakened in the year against the South African rand. However, the catalysts manufactured by our South African business are ultimately for export and the impact of movements in the rand on margins more than offsets the translational effect.

Overall, excluding the South African rand, exchange translation increased the group's underlying operating profit by £4.1 million compared with 2009/10.

Of the group's underlying operating profit that is denominated in overseas currencies the average exchange rates during 2010/11 were:

	Share of 2010/11 non-sterling denominated underlying operating profit	Average exchange rate 2010/11	2009/10
US dollar	40%	1.555	1.595
Euro	26%	1.176	1.129
Chinese renminbi	12%	10.43	10.89
South African rand	6%	11.18	12.46

Going forward, each one cent change in the average US dollar exchange rate and each one cent change in the euro exchange rate have approximately a £0.6 million and £0.5 million effect respectively on underlying operating profit in a full year.

Return on Sales

The group's return on sales benefited from higher returns generated by Environmental Technologies and Precious Metal Products Divisions. However, higher corporate costs and lower returns from Fine Chemicals Division resulted in a net increase in the group's return on sales of 1.7% to 16.1%.

Return on Sales

	Sales excluding precious metals 2011 £ million	2010 £ million	Return on sales [1] 2011 %	2010 %
Environmental Technologies	**1,566**	1,252	**10.5**	9.7
Precious Metal Products	**541**	454	**31.9**	25.7
Fine Chemicals	**245**	221	**22.9**	25.3
Less inter-segment sales	**(72)**	(41)	**n/a**	n/a
Total group	**2,280**	1,886	**16.1**	14.4

[1] Underlying operating profit divided by sales excluding precious metals.

Return on Invested Capital

The group's return on invested capital (ROIC) improved significantly from 15.8% to 19.4%. Underlying operating profit was £94.4 million higher than last year at £366.2 million and average invested capital was £168 million higher at £1,885 million. At 19.4%, the group's ROIC is well ahead of our pre-tax cost of capital, which we estimate to be 9.7%.

Our target is to achieve a group ROIC above 20% on a pre-tax basis. This year we made very good progress towards that target as the group's profitability increased substantially. Looking forward, the outlook for the group remains encouraging and, as we have already invested in the plants necessary to meet much of the expected demand across our markets, we are well placed to achieve our ROIC target as plant utilisation increases.

Return on Invested Capital

	Average invested capital [1] 2011 £ million	2010 £ million	Return on invested capital [2] 2011 %	2010 %
Environmental Technologies	**1,435**	1,281	**11.5**	9.4
Precious Metal Products	**309**	249	**55.9**	46.8
Fine Chemicals	**409**	417	**13.7**	13.4
Corporate / other	**(268)**	(230)	**n/a**	n/a
Total group	**1,885**	1,717	**19.4**	15.8

[1] Average of opening and closing segmental net assets as shown in note 1 on the accounts on pages 86 and 87. For the group, the average of opening and closing equity plus net debt.

[2] Underlying operating profit divided by average invested capital.

Interest

The group's net finance costs increased by £1.3 million to £20.7 million as a result of higher average borrowings in the year.

Approximately 54% of the group's net debt at 31st March 2011 has fixed interest rates averaging approximately 5.1%.

Taxation

The group's total tax charge for the year was £76.0 million, a tax rate of 29.2% on profit before tax (2009/10 28.1%).

The effective tax rate on underlying profit before tax was 26.5% (2009/10 28.0%). This reduction was primarily due to the continued increase in the share of profit from lower tax jurisdictions.

Earnings per Share

Underlying earnings per share (before amortisation of acquired intangibles, major impairment and restructuring charges, profit or loss on disposal of businesses and related tax effects) increased by 32.6 pence, or 38%, to 119.0 pence. Total earnings per share were 85.6 pence, 10% up on last year.

Dividend

In view of the group's strong performance in 2010/11 the board is recommending an 18% increase in the total dividend for the year. This comprises of a final dividend of 33.5 pence which, together with the interim dividend of 12.5 pence, gives a total dividend for the year of 46.0 pence (2009/10 39.0 pence). At this level, the dividend would be covered by underlying earnings per share 2.6 times, up from 2.2 times last year. Subject to approval by shareholders, the final dividend will be paid on 2nd August 2011 to ordinary shareholders on the register as at 10th June 2011, with an ex-dividend date of 8th June 2011.

Pensions

At 31st March 2011 the group's principal defined benefit pension scheme in the UK was in deficit by £60.6 million (94% funded) on an IFRS basis compared with a deficit of £156.9 million at 31st March 2010. The £96.3 million decrease in the deficit was principally due to an increase in the market value of the scheme's assets. Worldwide, the group has other similar defined benefit pension scheme arrangements, some of which are in deficit (total deficit £35.0 million) and others in surplus (total surplus £3.8 million).

Worldwide, including provisions for the group's post-retirement healthcare schemes, the group had a net deficit of £130.4 million on employee benefit obligations at 31st March 2011 (2010 £245.7 million).

In 2010/11 the company commenced deficit funding contributions to the UK scheme under a ten year recovery plan agreed last year with the Trustees. During the year the company made deficit funding payments of £28.1 million to the scheme, which included an accelerated payment of £5.0 million in respect of contributions planned for 2011/12 in order to take advantage of certain tax benefits. The group's normal ongoing contribution to the UK scheme in 2010/11 was £22.0 million (2009/10 £23.1 million), making total cash contributions to the scheme in the year of £50.1 million.

In July 2010, the UK government announced a change in the measure of inflation used to determine statutory minimum increases to pensions from RPI to CPI. The effect of this change on the benefits of deferred pensioners, the only group impacted, is to reduce the UK scheme's liabilities as at 31st March 2011 by approximately £13 million before tax. This change has been accounted for within equity.

Cash Flow

During the year ended 31st March 2011 net cash flow from operating activities was £123.9 million (2009/10 £275.7 million). Demand for our products and the price of precious metals continued to grow and as a result the group's working capital requirement increased substantially. Working capital, excluding the element that relates to precious metals, increased by £67.4 million. Working capital days at 31st March 2011 increased to 60 days from 57 days last year. Higher precious metal prices and increased activity also increased working capital by £215.9 million.

During the year our capital expenditure was £137.9 million (of which £137.4 million was cash spent in the year) which equated to 1.1 times depreciation. In the year, £90.1 million, or 65% of the total, was incurred by Environmental Technologies Division with the principal investments being to increase autocatalyst manufacturing capacity and to add testing facilities in Shanghai, China and to add additional capacity at our manufacturing plants in the UK and India to make process catalysts for our Ammonia, Methanol and Gas business. In Precious Metal Products Division, the largest investment is the construction of a new pgm catalyst plant in Shanghai, China, to support the anticipated future growth in the Chinese pharmaceutical market.

We anticipate that capital expenditure will average approximately 1.3 times depreciation for the next few years. However, we retain the capacity to invest in further growth opportunities as they arise.

The group's free cash flow was an outflow of £25.5 million (2009/10 an inflow of £123.7 million).

Capital Structure

In the year ended 31st March 2011 net debt rose by £166.0 million to £639.4 million and the group's EBITDA (on an underlying basis) rose by 28% from £382.7 million to £489.4 million. Net debt / EBITDA for the year was 1.3 times but if the post tax pension deficit of £70.0 million is included within net debt, the ratio would increase to 1.4 times. Interest cover (underlying operating profit / net finance costs) was 17.7 times (2009/10 14.0 times).

Borrowings

	31st March 2011 £ million	31st March 2011 %	31st March 2010 £ million	31st March 2010 %
Five to ten years	**181.0**	**24**	99.6	15
Two to five years	**330.4**	**44**	383.3	59
One to two years	**40.6**	**5**	56.1	9
Within one year	**206.3**	**27**	113.5	17
Gross borrowings (net of swaps)	**758.3**	**100**	652.5	100
Less: cash and deposits	**118.9**		179.1	
Net debt	**639.4**		473.4	

Treasury Policies

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 its underlying business activities and the financing of those activities. The group does not undertake any speculative 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 2011 the group had net borrowings of £639.4 million. Some 54% of this debt was at fixed rates with an average interest rate of 5.1%. The remaining 46% of the group's net borrowings was funded on a floating rate basis. A 1% change in all interest rates would have a 0.9% impact on underlying profit before tax. This is within the range the board regards as acceptable.

Foreign Currency Risk

Johnson Matthey's operations are located in over 30 countries, providing global coverage. The significant amount of its profit is earned outside the UK. 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 and Europe by borrowing US dollars and euros respectively. Although much of this funding is obtained by directly borrowing the relevant currency, a part is achieved through currency swaps which can be more efficient and reduce costs. To a lesser extent the group has also financed a portion of its investment in China, Japan and South Africa using currency borrowings and swaps. 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 in a bid situation. Details of the contracts outstanding on 31st March 2011 are shown on pages 110 and 111.

Precious Metal Prices

Fluctuations in precious metal prices can have a significant impact on Johnson Matthey's financial results. Our policy for all 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.

Liquidity and Going Concern

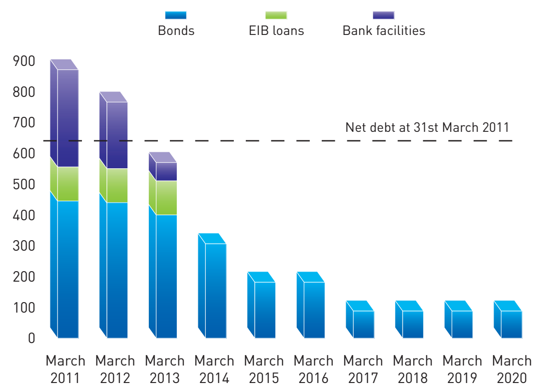
The group's policy on funding capacity is to ensure that we always have sufficient long term funding and committed bank facilities in place to meet foreseeable peak borrowing requirements. At 31st March 2011 the group had cash and deposits of £118.9 million and £169.7 million of undrawn committed bank facilities available to meet future funding requirements. The group also has a number of uncommitted facilities, including overdrafts and metal lease lines, at its disposal.

Gross borrowings (net of related swaps) of £758.3 million at 31st March 2011 included £554.6 million of debt arranged under long term bond issues and long term funding from the European Investment Bank (EIB). Of this, only £5.3 million falls due to be repaid in the 15 months to 30th June 2012 (the going concern period). The group's committed bank facilities have a range of maturities with £141.2 million expiring after 30th June 2012. The maturity dates of the group's debt and borrowing facilities are illustrated in the table on page 36 and the chart below.

Maturity Profile of Debt Facilities

At 31st March 2011 exchange rates

£ million



The directors have assessed the future funding requirements of the group and the company and compared it to the level of long term debt and committed bank facilities for the 15 months from the balance sheet date. The assessment included a sensitivity analysis on the key factors which could affect future cash flow and funding requirements. Having undertaken this work the directors are of the opinion that the group has adequate resources to fund its operations for the foreseeable future and so determine that it is appropriate to prepare the accounts on a going concern basis.

Risks and Uncertainties

Business Review

The effective identification and management of risks and opportunities across the group is necessary to ensure the delivery of the group's strategic objectives. The group's approach to risk management is aimed at the early identification of key risks and the taking of action to remove or reduce the likelihood of those risks occurring and their effect.

The board has overall responsibility for ensuring that risk is effectively managed across the group. However, the board has delegated to the Audit Committee the responsibility for reviewing the effectiveness of the group's system of internal control and procedures for the identification, assessment, management and reporting of risk.

Risk Description	Description	Impact
STRATEGIC		
Failure to identify new business opportunities	The group's existing activities are well placed to deliver good growth over the coming years. New business areas could help to sustain the group's growth beyond that period.	Failure to identify new business areas may impact the ability of the group to continue to grow in the long term.
Inability to deliver anticipated benefits from acquisitions	The group's strategy is based upon organic growth. However, acquisitions may help to accelerate the achievement of strategic goals. The realisation of anticipated benefits depends upon the performance of acquired businesses after acquisition and their successful integration into the group.	A successful acquisition requires significant management attention on its integration. This diversion of management could adversely impact the rest of the business. In addition, an unsuccessful integration of the acquired business could result in the failure to realise the expected benefits and hence impact the group's results.
Changes to future environmental legislation	Approximately 50% of the group's revenue is driven by environmental legislation, particularly legislation over emissions from light and heavy duty vehicles. Further tightening of global emissions legislation generally requires improved technological solutions and the extension of emissions legislation to new applications can create opportunities for the group.	A curtailment in environmental legislation around the world could limit the group's growth potential and undermine profit margins.
Technological change	Johnson Matthey operates in highly competitive markets in which technology is a key to success. Constant product innovation is critical to maintain competitive advantage.	Failure to keep up with changes in the market place could result in a lack of competitive products and erosion of margins and / or loss of market share.
MARKET		
Global political and economic conditions	The global nature of the group's business exposes it to risk arising from economic, political and legislative change in the countries in which we operate.	A sustained period of economic weakness in our markets could have a material adverse effect upon the group's results. The group has no influence upon changes in inflation, interest rates or other economic factors affecting its business. In addition, the possibility of political unrest and legal or regulatory changes also exist in countries in which the group operates.
Commercial relationships	The group has well established long term relationships with a number of customers and suppliers. Maintaining good relationships with customers and suppliers enables the group to enhance the quality of service to its customers.	The group has high market shares in many of the markets in which it operates. The deterioration in the relationship with, or ultimately the loss of, a key customer or supplier could have a material impact on the group's results.

The group has in place a process for the continuous review of its risks. As part of that process, each business reviews its risks and its mitigation strategies. Each risk is allocated an owner who has the authority and responsibility for assessing, monitoring and managing it. The most significant risks identified are then collated into a Group Risk Register. The Group Risk Register is reviewed by the Chief Executive's Committee. Each individual risk is considered and the status and progression of mitigation plans are monitored. The Group Risk Register is reviewed by the board twice a year.

The table below sets out what the board believes to be the principal risks and uncertainties facing the group, the mitigating actions for each, and an update on any change in the profile of each risk during the course of 2010/11.

Mitigation	Changes since 2010 Annual Report
• Each business prepares a ten year strategic plan to review demand in existing markets and potential new opportunities. • The group continues to invest in research for new products and technologies. • Following the ten year strategy review, a new team has been established to review larger scale potential opportunities.	The group's investment in R&D has increased during the year by £18.1 million to £109.8 million. The new team has been established with the remit of identifying new business areas with significant long term growth potential that are consistent with the group's existing core competencies.
• The group has clearly defined criteria for suitable acquisition targets and substantial due diligence is carried out before any acquisition is made. • A dedicated team is appointed to manage the integration process and regular monitoring of the performance of newly acquired businesses is carried out.	The only significant acquisition made during the year was the purchase of Intercat, Inc. in November 2010. This has strengthened the group's position in the petroleum refining catalyst market and has a clear fit with our Process Technologies business. The integration is going well but it is too early to assess whether the business will realise the anticipated benefits.
• The group maintains a diverse product portfolio. • Forthcoming changes in emissions regulations are well understood and our products are designed to meet these increased requirements. • Profit margins can be maintained with ongoing improvements in technology to reduce the cost and improve the effectiveness of our products. • Regular reviews are undertaken to monitor areas of new potential legislation.	There has been no material change in emissions regulations in any of the group's major markets.
• The group continues to invest in its products through research and development. • There is constant innovation and development in cooperation with our key customers. • The group invests in its people to ensure that it maintains a high level of relevant scientific expertise.	There has been no major change in the risk profile during the year.
• The group maintains a balanced portfolio of businesses to reduce the impact of a change to any one market. • Management monitors the performance of our businesses across the world at both business and group level.	The group's strong performance this year reflects the continuing recovery of its businesses since the recession in the group's developed markets. The political unrest in the Middle East could disrupt our Process Technologies businesses. There has, however, been no material impact in the current year and any potential long term impact is still unknown.
• Some of the group's key relationships are supported by long term contracts, notably the group's relationship with Anglo Platinum. • A broad customer base is maintained to prevent the group from becoming unduly dependent on any single customer. • Industry developments and market shares are constantly monitored. • We actively manage our customer relationships at all levels to ensure a high quality of service.	No significant changes have arisen in this risk.

Risks and Uncertainties

Risk Description	Description	Impact
FINANCIAL		
Movements in raw material prices	The group uses a variety of raw materials, including precious metals, in its products. In some circumstances, in the short term it may not be possible to pass on higher raw material prices to our customers. In addition, higher prices that are passed on to our customers could result in substitution or replacement of our products with cheaper alternatives.	Raw material prices can fluctuate significantly and have an impact on Johnson Matthey's results.
Pension scheme funding	The group operates a number of defined benefit pension schemes. In some cases, the schemes' actuaries have estimated that actuarial deficits exist and in those cases the group has agreed deficit recovery plans.	Actuarial deficits could be adversely affected by changes in interest rates, the market values of investments, as well as inflation and increasing longevity of the schemes' members. A further increase in actuarial deficits could result in increased costs to meet the pension schemes' liabilities.
OPERATIONAL		
Changes to health, safety, environment and other regulations and standards	In common with similar manufacturing companies, the group operates in an environment that is subject to numerous health, safety and environmental laws, regulations and standards.	Changes made to applicable laws, regulations or standards could adversely impact the group's manufacturing capability or indeed, the marketability of our products.
Availability of raw materials	The group uses many raw materials within its manufacturing processes. Several raw materials are available from only a limited number of countries and / or suppliers.	Disruption to the supply of raw materials, most notably platinum group metals, rare earths or narcotic raw materials, could adversely affect the group's profit. This may be due to increased prices or because our ability to manufacture and supply product to customers may be impacted.
Recruitment and retention of high quality staff	The group relies upon its ability to recruit, train and develop employees around the world with the necessary range of skills and experience to meet its stated objectives.	The lack of an appropriately skilled workforce could adversely impact the group's ability to perform in line with expectations.
Security	On any given day the group has significant quantities of high value precious metals or highly regulated substances on site and in transit, the security of which is critical.	The value of any precious metal process losses could be material to the group and any loss of a highly regulated substance could result in the removal of our licence to operate. In addition, in both cases there remains the possibility of theft or fraud.
Intellectual property	The group operates in markets in which the generation and application of technology and know how can give competitive advantage. The protection of that intellectual property allows that advantage to be maintained. Careful monitoring of competitors' intellectual property is required to ensure that breaches of their rights are not made by the group.	Failure to establish the group's intellectual property rights or to identify third parties' intellectual property rights could undermine the group's competitive advantage. Alternatively, not noting the expiration of patents held by third parties could mean the loss of potential business opportunities.

Mitigation	Changes since 2010 Annual Report
• The cost of precious metals that are used as raw materials in the group's products is generally passed directly on to customers and any price exposure is hedged. • Innovation that allows ongoing thrifting of precious metals in our products limits the impact of higher prices on our customers.	The most significant change since last year concerns rare earth materials. Supply constraints have resulted in price rises for these commodities, which have exposed the group to reduced margins on some products although these were not material to the group's results. Going forward, the group is reviewing its supply arrangements with customers to identify the most cost effective solutions for both them and Johnson Matthey.
• The performance of the group's pension schemes are regularly reviewed by both the company and the trustees of the schemes, taking actuarial and investment advice as applicable. • Where possible, appropriate pension scheme assets are held to match movements in the schemes' liabilities.	The deficit on the group's principal defined benefit pension scheme in the UK was £60.6 million in 2010/11, compared to £156.9 million last year.
• The group carries out regular internal reviews to ensure compliance with group policies and applicable laws, regulations and standards. • Changes in legislation are carefully monitored and if required, the composition of our products is amended to comply with latest legislation.	The registration deadline for REACH phase I came into effect from 1st December 2010 and the group materially met the requirements for its qualifying products. The group is also reviewing its products containing vanadium, primarily in its Colour Technologies business, to identify potential alternatives in the event of any tightening of regulations in this area.
• Although most of the world's platinum is mined in South Africa, the group has access to world markets for platinum and other precious metals and is not dependent on any one source for obtaining supplies. • Appropriate sourcing arrangements are in place for other key raw materials to ensure that the group is not dependent on any one supplier. • Where possible the group enters into long term supply arrangements to limit the exposure to significant movements in raw material prices.	As mentioned above, the supply of rare earth materials has been constrained during the year although this has only had a price impact on the group and has not affected our ability to manufacture. No other material changes to raw material supply have arisen.
• The group has a targeted graduate recruitment programme. • Global training and management development processes are in place. • Regular reviews of management succession plans are carried out. • Global remuneration policies are in place to ensure appropriate rewards to motivate and retain staff.	The group has a low level of voluntary employee turnover. A triennial review of executive remuneration has recently been completed to ensure that our executive remuneration packages are competitive. Global graduate recruitment processes are being reviewed in 2011/12.
• The group has highly developed security, assay and other process controls. • Annual security audits are carried out across the group. • Insurance cover is maintained for losses from theft or fraud.	There has been no evidence of any material losses in the year and the group's security processes remain robust.
• The group has established policies for registering patents and for monitoring its existing patent portfolio and those of third parties. • A substantial part of the group's intellectual property is know how and this is protected through non-disclosure agreements and other legal measures.	There has been no change in the year.

Research & Development

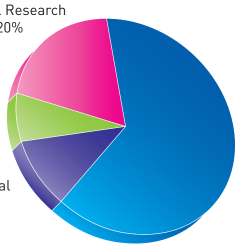
Business Review

Investment in research and development (R&D) is a key element of Johnson Matthey's strategy for growth, enabling the group to differentiate itself using its world class technology. As reinforced in the group's strategy review (pages 8 to 13), R&D investment is vital to maintaining expertise and leadership in the fundamental science of catalysis, materials chemistry and platinum group metals (pgms) that underpins the development of new products and manufacturing processes. In 2010/11 Johnson Matthey spent £109.8 million gross on R&D.

Over 1,000 employees work in R&D representing some 11% of the total workforce and include many highly skilled scientists and engineers. Around 80% of our R&D staff work within the group's businesses in dedicated R&D and technical centres around the world. At business and division level, work is mainly focused on delivery of shorter term business specific projects or to address particular market developments or customer needs.

Johnson Matthey also has central capability on strategic R&D working on behalf of all of the group's businesses. This group technology centre operates across two sites in the UK (Sonning Common and Billingham) and employs around 200 people.

Research and Development Employees



R&D Structure

R&D activities in the group technology centre are broadly divided into four categories; core science, divisional projects, sponsored university programmes and collaborative external projects. This combination of internal research and collaboration ensures we have access to the very latest technology and develop relationships with leading scientists around the world.

We maintain a close link between the four categories of our central R&D activities and with the development work carried out directly by Johnson Matthey's businesses. This interaction is key in ensuring the rapid transfer of technology to support the continued development of new products and services for our customers.

R&D Core Competence – Control at the Atomic Scale

Over the years we have developed a core competence in controlling materials at the atomic scale which gives us the ability to fine tune their properties in a number of different ways. This expertise underpins the development of new, better performing products across all our business activities, be it emission control catalysts for vehicles or high technology inks for large scale glass printing applications.

In the simplest sense we can anchor particles to other materials in a highly dispersed way which makes them very active. We can apply this technique across a range of our activities to optimise the use and performance of expensive metals in our catalyst products. In addition, we have developed techniques to control the size of these anchored particles and in doing so, can tailor both their activity and selectivity towards chemical reactions. Our highly skilled scientists can manipulate these particles further to control the actual shape of the anchored species. Shapes include cubes, tetrapods, rods and wires and the preparation of these differing geometries opens up opportunities to use these materials in new applications.

The application of molecular modelling techniques also enables us to design and develop higher performance, more resource efficient materials. Our modelling work includes studies of 'core shell' catalysts where a core of one metal or alloy is encased with a layer of different atoms to impart advantageous properties or minimise the use of expensive materials. We have put modelling theory into practice and have synthesised a range of core shell systems where, through careful choice of the core particles, it is actually possible to improve the activity of the shell particles to give higher efficiency than using either particle type on its own. Core shell technology is of particular interest to Johnson Matthey in our efforts to maximise the activity of pgm species whilst using a minimum amount of these valuable metals. It finds application in a number of Johnson Matthey's business activities including our Fuel Cells business where reducing metal loading and enhancing activity of our catalysts is key in driving down costs and commercialising new products.

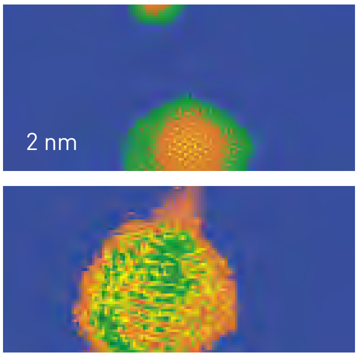
Science in Action

Our R&D activities provide the foundation for bringing new products and technologies to market and we have systems in place to expedite our new product development processes. Below are three examples of research projects nearing commercialisation.

Sustainable Fuels – Biomass Feedstocks for Next Generation Biofuels

There is interest globally in the development of fuels produced from biomass as a sustainable alternative to petrochemical derived fuels. There are many potential biomass feedstocks and at Johnson Matthey we are exploring a number of different systems including waste cellulose from wood processing or agricultural residues, pyrolysis oil derived from a variety of sources and algae, a high yield, non-food source. Each feedstock requires very different technologies for conversion into fuel and all align well with Johnson Matthey's core skills. In our work on waste cellulose we are applying our expertise in syngas purification and conversion whilst conversion of pyrolysis oil requires us to study processes analogous to those used in refineries such as purification, deoxygenation, isomerisation and cracking.

In our work on algae, which are highly efficient producers of triglycerides, Johnson Matthey is developing multifunctional catalysts capable of converting triglyceride components into hydrocarbon fuels. This patented technology creates further options for the utilisation of bioderived non-food sources for generating fuels.



→ Modelling and synthesis of core shell particles allows us to develop higher activity, more resource efficient materials.

→ Solid state nuclear magnetic resonance (NMR) spectroscopy is one of the state of the art characterisation techniques used for the development of new materials.

Gas / Coal to Synthetic Fuels – Development of Syngas and Fischer Tropsch Technology

There is continued interest in the conversion of coal or natural gas into synthetic fuels as a route to a clean and secure source of energy. These gas to liquids (GTL) and coal to liquids (CTL) technologies represent multi stage catalytic processes which will operate on both large world scale plants as well as smaller scale plants using synthesis gas from biomass or methane sources as feedstocks. Key processes include syngas generation from coal or gas and Fischer Tropsch synthesis to catalytically convert hydrogen and carbon monoxide into fuels. The catalysts, reactor designs and process technologies required align strongly with the underlying science in Johnson Matthey's Process Technologies business and we are engaged in a number of different projects in this field. Our dedicated Manufacturing Science Centre (MSC) in Billingham, UK provides us with an invaluable scale up link between laboratory based catalyst research and full scale production allowing us to optimise our manufacturing processes. The MSC has been involved with customer projects to develop Fischer Tropsch catalysts for a variety of scales, reactors and feedstocks, manufacturing pilot scale quantities for testing at customers' sites. Optimising catalyst performance and process technology in combination will be crucial to the commercial viability of large scale CTL and GTL plants. We are drawing on the synergies between our catalyst and process technology R&D activities to develop superior performance solutions for the production of synthetic fuels.

Market Evolution for Direct Methanol Fuel Cells

A combination of modelling, clever preparative chemistry and a deep understanding of how a fuel cell membrane electrode assembly (MEA) works in practice has led to the development of more economically viable systems for direct methanol fuel cell (DMFC) applications. Over the last six years the knowledge gained from a series of research projects focused on dramatically improving the activity of the pgm component in DMFC systems has enabled significant increases in the power output per cost of these products. The development of these more cost efficient solutions has earned Johnson Matthey a leading position in the supply of MEAs to the global DMFC market.

R&D for Future Growth

As outlined in the Group Strategy section on pages 8 to 13, major global drivers provide significant opportunities for Johnson Matthey to grow and develop its existing business areas over the next ten years and R&D will play an important role in realising these opportunities. To support this business development, the group is increasing its annual investment in R&D by around a third. In addition, work is also underway to leverage our R&D expertise to further accelerate growth in a series of new business areas over the next decade. This initiative aims to develop a major new division for Johnson Matthey which builds on the company's established attributes, areas of expertise and existing commercial interests. The process to identify, evaluate and develop new business areas is now underway and we have initially planned to increase our investment in R&D by up to a further £5 million p.a. in support of this work.

STRATEGY IN ACTION

→ Opportunities in Low Carbon

Whilst some debate remains over the detrimental impact of carbon dioxide (CO_2) on our planet, global CO_2 emissions continue to grow and structural change, in the form of government intervention and / or new technologies is required to limit the increase.

Low carbon markets are developing with some now at the early stages of commercialisation. Some of these markets are potentially very large (e.g. fuel cells) and the technologies that will be required play very much to Johnson Matthey's strengths.

Johnson Matthey already has a range of core technologies for low carbon applications which will develop further over the next five years. We are working on renewable and low carbon energy technologies such as advanced biofuels and catalysts and fuel cells for combined heat and power applications. In addition, we have commercial and development products for greenhouse gas abatement and are working on syngas technology which can play a part in carbon capture and storage processes. With many opportunities for Johnson Matthey in this area, our scientists are actively working on developing the key enabling technologies for a lower carbon world.

Sustainability

Business Review

Johnson Matthey is a leader in sustainable technologies and many of the group's products enhance the quality of life for millions through their beneficial impact on the environment, human health and wellbeing.

Sustainability is a key element of our strategy for future growth where the resource efficient, environmentally responsible manufacturing of products that deliver sustainability benefits can leverage commercial advantage for the group.

The group's Sustainability 2017 Vision, launched in December 2007, sets out our direction and aspirations for building a more sustainable business and includes challenging targets to support business growth. Our aims are to at least double our underlying earnings per share whilst achieving carbon neutrality, zero waste to landfill and halving the key resources that we consume per unit of output by 2017, the 200th anniversary of Johnson Matthey's foundation. The full statement is available on the company's website at www.matthey.com/sustainability. Some of the progress we have made towards achieving the vision is presented in summary in this report. Further details can be found in Johnson Matthey's 2010/11 Sustainability Report which will be published on the website in July 2011.

Johnson Matthey's sustainability strategy is underpinned by **two business drivers**, **five key elements** and **seven sustainability targets**.

Two Business Drivers

There are two key business drivers for sustainability. The first focuses on our internal operations and on designing and manufacturing our products more efficiently using fewer resources. This approach helps us to reduce our costs and at the same time reduces our impact on the planet. The second driver concerns our products and services and focuses on developing improved, more efficient products for our customers. By doing this we can enhance our customers' performance and improve their sustainability footprint which will improve our competitiveness. Together these drivers support the development of products and services which have a beneficial impact on the planet, be it through human health, social or environmental improvements.

Five Key Elements

Growing our business through sustainability is not only about our operations and products. We are also committed to best practice in governance, to creating a positive working environment for employees and to being a responsible partner for our customers, suppliers and communities. Sustainability is managed across the group according to five elements: financial; governance; social; health and safety; and environment as illustrated below.

The Elements of Sustainability

Seven Sustainability Targets

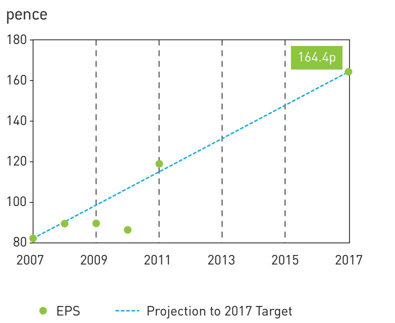
We have established seven challenging targets and aspirations to support our Sustainability 2017 Vision as illustrated below. Progress towards these is detailed on pages 46 and 47. We have developed appropriate key performance indicators to enable us to monitor performance and data is reported relative to a baseline year which, unless stated, is taken as our performance in 2006/07.

Challenging aspirational targets:

- → At least double earnings per share
- → Achieve carbon neutrality
- → Achieve zero waste to landfill
- → Halve key resources consumed per unit of output
- → Reduce annual incidence of occupational illness cases by at least 30% over the five years to 2013/14
- → Achieve a zero 'greater than three day accidents' safety target
- → Implement ISO 14001 at all manufacturing sites by 2010

Progress Towards Sustainability

At Least Double Underlying Earnings per Share (EPS) – On Track

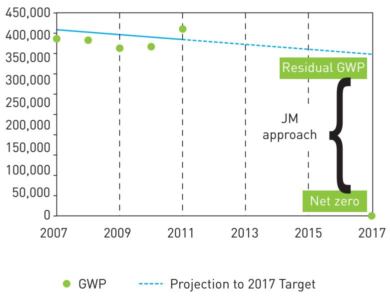


For Johnson Matthey, profitability and sustainability are inextricably linked. This target is of particular importance as performance against all our other sustainability indicators can have an impact on profitability. The first three years of the Sustainability 2017 programme coincided with the severe global recession which impacted Johnson Matthey's performance. Despite this the group weathered the storm extremely well as a result of its diverse portfolio of businesses, global spread and the contribution of sustainability initiatives. Based upon performance to date we believe the group is on track to meet its target. This will be supported by the many opportunities for growth in our businesses over the years ahead as described in the Group Strategy section on pages 8 to 13 and in the case study examples throughout this report.

Achieve Carbon Neutrality* – Action Required

Total Global Warming Potential

Tonnes CO_2 equivalent



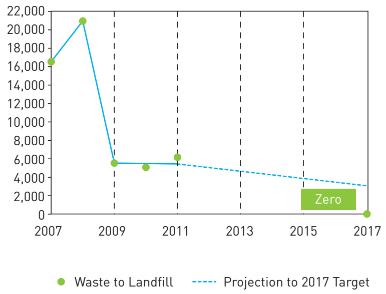
For Johnson Matthey the working definition of carbon neutrality states: Achieving carbon neutrality means that through a transparent process of (1) calculating emissions, (2) reducing those emissions and (3) 'offsetting' residual emissions, our net carbon emissions equal zero.

We have robust processes in place to calculate our carbon dioxide (CO_2) emissions (measured according to the group's total global warming potential (GWP)) and since the launch of Sustainability 2017, group facilities have been engaged in a wide range of energy efficiency initiatives to reduce our total CO_2 emissions. Businesses are also setting energy reduction targets as part of their annual sustainability plans to drive further progress. We have been very successful in improving our energy efficiency and every year have been able to demonstrate reductions in energy use per unit of output since the launch of Sustainability 2017. Yet despite the excellent initiatives underway, we are faced with the challenge of driving down our absolute CO_2 emissions whilst at the same time growing our business. In 2010/11 our total GWP has increased by 6% against the 2006/07 baseline year as production increased in response to increased market demand, several new plants came fully on line and we acquired new manufacturing facilities. Technical programmes are underway to further improve the energy efficiency of our processes. Alongside this we are developing an approach to address our carbon neutrality aspiration of achieving net zero carbon. This approach does not rely on the purchase of external offsets and will underpin and encourage the development of new low carbon and clean technology products for our customers. We plan to audit our products, especially those introduced since the launch of Sustainability 2017, and evaluate their contribution to broader sustainability issues. Although still in its conceptual stages, the establishment of this approach would drive emissions reductions and new product development in Johnson Matthey and ultimately support the generation of new sustainable products for our customers – the second key business driver for Sustainability 2017. Further details on our performance against this target will be presented in the Sustainability Report.

* Data for 2007 and 2008 is for year ended 31st December 2006 and 2007 respectively.

Achieve Zero Waste to Landfill* – Good Progress

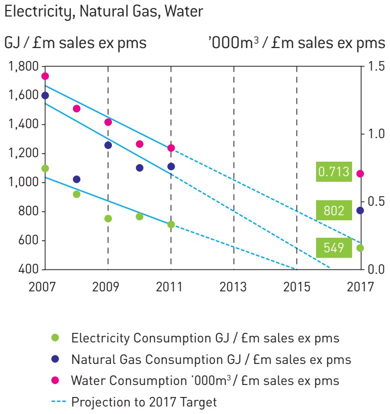
Tonnes



The amount of waste sent to landfill has fallen by 63% since the baseline year. It is noted however, that in the first full year of Sustainability 2017 we saw a substantial decrease in the amount of waste sent to landfill as a result of new European regulations. This decrease was driven mainly by these regulations with only a small contribution from initiatives in the group. We are making good progress towards our target although in 2010/11 waste to landfill has increased slightly on last year as a result of business growth. We are working on a number of approaches to bridge the gap to 2017 including the application of lean manufacturing principles, recycling, improving our loss to yield ratios and the introduction of reuse technologies which can convert our waste into energy. In the future we would look to broaden the scope of this particular goal to reduce all waste, not just waste to landfill. That said, progress to date is good and we believe we are on track to deliver further financial savings, improved manufacturing efficiency and reduced environmental burden through striving towards zero waste to landfill.

* Data for 2007 and 2008 is for year ended 31st December 2006 and 2007 respectively.

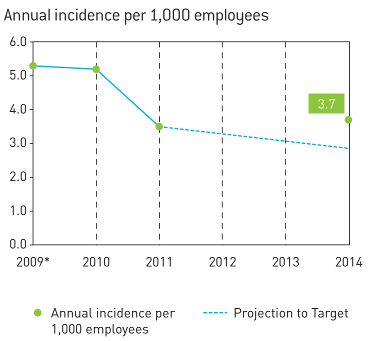
Halve Key Resources per Unit of Output* – On Track



Resource efficiency is the first key business driver of Sustainability 2017. Our goal is to cut consumption of key resources per £ million of sales excluding the value of precious metals by 50% by 2017. In 2008 the top three key resources were identified for each facility in Johnson Matthey and electricity consumption, natural gas consumption and water use emerged clearly as the most significant to the majority of the group. In all three cases, we are making very good progress. Against the baseline year, electricity consumption per unit of output is down 35%, natural gas consumption per unit of output has reduced by 30% and water use per unit of output is 37% lower. As a result, the group is on track to meet the 2017 targets. This performance has been achieved through applying lean manufacturing principles, optimising energy use and by introducing water recycling and harvesting projects. Work is underway to maintain progress through further process optimisation initiatives and the integration of new, more resource efficient manufacturing technologies where possible. We continue to review which resources are most significant to the group.

* Data for 2007 and 2008 is for year ended 31st December 2006 and 2007 respectively.

Reduce Annual Incidence of Occupational Illness Cases by at Least 30% by 2013/14* – Target Achieved



The health and wellbeing of everyone in Johnson Matthey is a major priority and the company is committed to minimising workplace related negative health effects. In 2010/11 there was a significant reduction in the annual incidence of occupational illness cases to 3.5 cases per 1,000 employees, down from 5.2 cases per 1,000 employees in 2009/10. This beats the target to reduce the annual incidence of occupational illness cases by at least 30% (to 3.7 cases or less per 1,000 employees) by 2013/14. Further details on how this has been achieved and plans to maintain performance over the year ahead are provided on pages 54 and 55.

* Baseline is data for calendar year 2008.

Achieve a Zero 'Greater Than Three Day Accidents' Target – Action Required

Growing our business through sustainability is not only about our operations and products. Protecting the health, safety and wellbeing of our employees has always been a key priority in Johnson Matthey and it is their contribution that will underpin the growth of our business in the years ahead. In 2008/09 we saw a disappointing increase in our lost time accident rate but prompt action was taken to revitalise our accident prevention processes. As a result, our rate of occupational accidents involving lost time had fallen to its lowest reported level by March 2010. Our performance has reached a plateau during 2010/11 with an increase in accident rates by the end of the year as shown in the graph on page 53. A number of initiatives are underway to encourage further reductions and are described further on page 54. Any accident is unacceptable and the group continues to focus hard on progressing towards a target of zero accidents.

Implement ISO 14001 at all Manufacturing Sites by 2010 – Target Not Met

Operating our business in an environmentally responsible way is a cornerstone of sustainability. The ISO 14001 environmental management system provides a solid foundation for achieving and maintaining high standards and for driving improved performance. All of the group's major manufacturing sites are required to implement ISO 14001 with a target of achieving registration by 2010. By 31st March 2011, all but one of our major manufacturing sites had achieved registration with the remaining site on track to do so in 2011/12. Newly commissioned / acquired businesses will work towards achieving compliance with ISO 14001, which will normally be expected within two years.

Sustainability Strategy Review

In February 2011 the group undertook a detailed review of its sustainability strategy. The Chief Executive's Committee and around a further 30 representatives from across the group participated in the one day session. The session focused on two areas, aligned with the two business drivers of Sustainability 2017:

- Review of strategy and progress to date, identification of priority actions and strategy development to 2017 and beyond.
- Examination of potential new markets outside of our current core focus to identify new growth opportunities for the company. Opportunities in a number of sustainability related areas were explored including agriculture, biomass, energy and healthcare. This important piece of work underpins our second driver of Sustainability 2017 – to develop new, more sustainable products. It also supports the business development and R&D work underway to drive growth in a series of new business areas and develop a major new division for Johnson Matthey.

Nothing was raised during the strategy review to suggest that Johnson Matthey should radically change direction or significantly change its Sustainability 2017 targets. The fundamental strategy, based on the two business drivers and five elements of a sustainable business, was supported and a number of areas to evolve the strategy were identified as outlined below.

- **Carbon Neutrality:** It was agreed that there are challenges associated with understanding and communicating the definitions and boundaries associated with carbon neutrality, including how we articulate the sustainability benefits of our products and results of life cycle assessments. The group should therefore clarify what is meant by carbon neutrality and communicate this to improve understanding.
- **Resource Use per Unit of Output:** Whilst £ million of sales excluding the value of precious metals is an appropriate unit of output at a group level, the unit of output should be examined at business level to identify the most suitable metric for individual businesses. Key resources should also be revisited to assess if other resources (other than electricity, natural gas and water) have a material impact. The importance of these resources not only by monetary cost but according to other factors such as scarcity, volumes used, health / safety impact or environmental burden should also be considered.
- **Internal Communication and Sharing Good Practice:** Internal communication and sharing good practice on sustainability was highlighted as an area for improvement. It was felt that we have some of the right tools in place and action should be taken to more effectively promote their use. This issue is of particular importance as the group continues to grow both in employee numbers and geographically.
- **Scope of Targets:** Johnson Matthey does not have specific targets for social performance including employee performance metrics and community activities. These social aspects are an important part of building a sustainable business and the group should consider broadening its targets to include them.
- **Impact of Products in the Market Place:** The benefits of our products and services in the market place are an important aspect of Johnson Matthey's sustainability strategy. The group will develop an approach to assess the impact of our products in use, building on the ongoing life cycle analysis work. In 2010/11 a 'Life Cycle Experts' group was established and a cross business programme is already progressing to quantify the sustainability benefits of our products in specific applications and markets. The first study is now underway on the life cycle of platinum group metals (pgms) from mine to use in an autocatalyst, recycling and then refining to recover the pgms. The experts group is also determining further products and applications for future studies as we continue our work to demonstrate the benefits of our products on the environment, resource efficiency and on human health and wellbeing.

Based on the conclusions and actions arising from the strategy review, the group sustainability team is now developing a plan to address the issues identified and to further develop the group's long term sustainability strategy.

Managing Sustainability

Sustainability is embedded into Johnson Matthey's routine management processes, including risk management processes. All of the group's businesses are required to develop, implement and report progress on their own sustainability plans as part of the group's annual financial budgeting process. These plans have the common corporate objectives as their foundation and are tailored to the businesses' own specific operations. This approach encourages commitment at a local level and takes advantage of Johnson Matthey's culture and methods of working.

As previously described on page 45, sustainability is managed across the group according to five elements: financial; governance; social; health and safety; and environment.

Financial

Financial viability is a key element of sustainability. Continued growth in profit is an important aspiration of our Sustainability 2017 Vision and we have set a target to more than double our underlying earnings per share by 2017. Details of our progress are outlined in the Financial Review section on pages 34 to 36, in the Group Key Performance Indicators section on pages 16 and 17 and in the Five Year Record on page 126.

The two key business drivers of our vision are about being more efficient with the resources we use and designing new products that help our customers to be more sustainable. Using fewer resources as a business will save us money. It will enable us to maintain or improve our margins and allow us to invest more in R&D, manufacturing and infrastructure. We have started to evaluate the monetary savings realised by our businesses through implementation of their Sustainability 2017 plans and estimate that savings of up to £25 million have been achieved since the launch of the programme. These savings have been achieved as a result of a large number of initiatives across all our businesses.

Designing innovative new products for our customers will allow us to maintain or strengthen our competitive position in the markets we serve today and benefit from the growth opportunities in emerging markets within the sustainability sector. In 2010/11 a major proportion of profit was generated by products that directly benefit the environment or enhance human health and wellbeing.

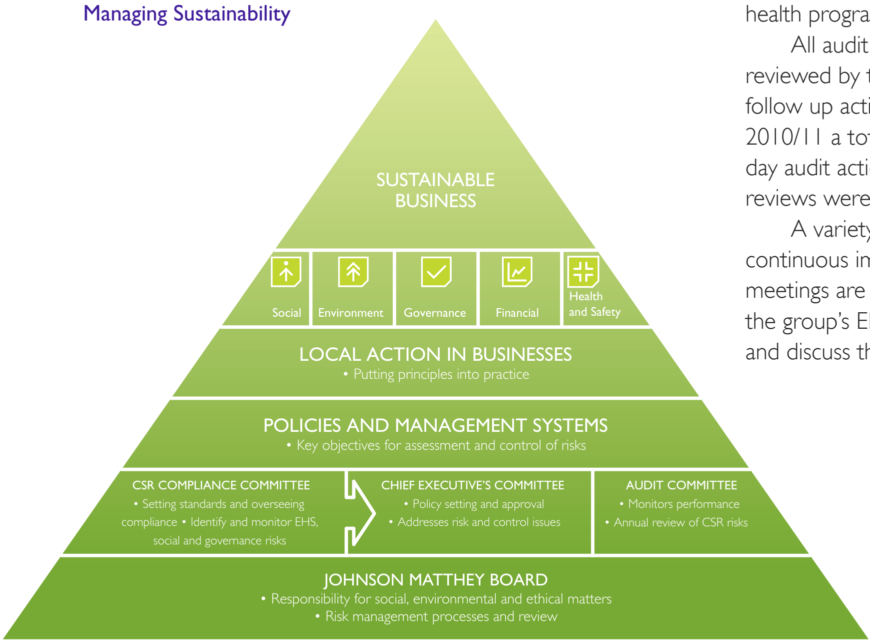
We continue to work towards obtaining more robust evaluations of the financial benefits of our sustainability programme and on establishing further metrics to monitor the financial impact of sustainability initiatives on business performance.

Governance

Good governance is a cornerstone of sustainability and the group has well established processes, policies and management systems to support this which apply to all operations worldwide. Legal requirements are a minimum standard and in many cases our policies and systems are in advance of these. Johnson Matthey has policies in the areas of Environment, Health and Safety (EHS); Employment; and Business Integrity and Ethics which provide the framework for managing environmental, social and governance matters. These are presented on the company's website at www.matthey.com/sustainability. Further details of our management processes, policies, initiatives and progress can be found on our website and in the Sustainability Report and are presented here in summary.

As outlined in the Corporate Governance section (page 61) the board has embedded environmental, social and governance matters into its risk management processes and formally reviews the area once a year. These matters are monitored by the CSR Compliance Committee, a sub-committee of the Chief Executive's Committee. A description of the role of the CSR Compliance Committee can be found on page 61.

Managing Sustainability



Policies and Management Systems – Environment, Health and Safety

Johnson Matthey is committed to providing the highest level of protection to the environment and to safeguarding the health and safety of its employees, customers, communities and other stakeholders. This is supported by policies, a comprehensive management system, governance, careful risk assessment, auditing and training which promote continuous improvement and ensure that high standards are achieved at sites worldwide. In addition, all facilities have developed local policies to meet international, national, local and corporate requirements.

The EHS policy is a written statement, formulated and agreed by the Chief Executive's Committee and approved by the board. Signed by the Chief Executive, it is available at all sites, is published on the website and forms the basis of the group EHS management system.

The group EHS management system is available to all employees via the group intranet. It is regularly reviewed and, together with the corporate policies and objectives, it defines accountability and sets the standards against which conformance audits are assessed. During 2010/11 a comprehensive review of the management system was undertaken to ensure that our policies, standards and guidance are up to date, reflect legislative updates and meet ongoing EHS requirements in our businesses.

EHS compliance audits are conducted to maintain continuous improvement and all Johnson Matthey operated manufacturing and research and development facilities are included in the audit programme. Audit frequency for each facility is determined by the scale, inherent risk and past performance of the operation. Audits are carried out by experienced ISO qualified EHS professionals and controlled by the Group EHS Assurance Director. Health management reviews are undertaken every three to four years at all operational sites. They are conducted by the Director of Group Health who provides consulting advice to support the prioritisation and planning of programmes to optimise workplace health and promote workforce sustainability. In addition, all businesses undertake annual health management improvement planning to adjust health programmes to meet changing business needs.

All audit reports, including health management reviews, are reviewed by the CSR Compliance Committee and appropriate follow up actions are taken on outstanding issues. During 2010/11 a total of 30 detailed compliance audits and seven one day audit action reviews were completed. Health management reviews were conducted at 15 facilities.

A variety of training programmes are in place to support continuous improvement in EHS performance and regular meetings are held in Europe, North America and Asia to enable the group's EHS professionals to network, share best practice and discuss the impact of future EHS legislation.

Regulatory Matters and Product Stewardship

The group successfully completed all the planned first tier substance registrations within our corporate EU REACH compliance programme this year. Significant progress has also been made in other projects and we continued to participate in industry consortia to support our work. We expect that the majority of our next phase of registrations will be in place well ahead of the REACH regulatory deadlines, so as to support our customers.

Our businesses have made further progress in the transition to the Globally Harmonised System (GHS) for chemical classification and hazard communication. Work has included updates to product safety datasheets and hazard labelling to comply with the new EU Classification, Labelling and Packaging Regulation and similar activities were undertaken to meet equivalent regulations in other regions.

The comprehensive training update programme at our North American facilities on the US Toxic Substances Control Act (TSCA) is now fully complete.

As part of our commitment to the safe management of chemicals throughout their life cycle, Johnson Matthey has commenced a voluntary programme to establish expanded product safety assessments for designated priority products. This aligns with the International Council of Chemical Associations' (ICCA) best practices.

No notifications of significant health effects at end user level involving our products and no major incidents or environmental releases during product transportation and distribution were recorded during 2010/11. On 30th August 2010 Johnson Matthey Inc. Emission Control Technologies (Heavy Duty Diesel) settled an agreed penalty of $55,000 with the California Air Resources Board (CARB) in respect of a product mislabelling infringement. Actions have been taken by the business to prevent recurrence.

Policies and Management Systems – Human Resources

The group's human resources standards are progressive, consistent and aimed at bringing out the best in our people. Group policies are supported by detailed regional and individual business procedures which are regularly updated to 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 and the CSR Compliance Committee.

The group's policies on equal opportunities and training are published on the website at www.matthey.com/sustainability and are detailed below.

Our Equal Opportunities Policy is to recruit, train and develop employees who meet the requirements of the job role, regardless of gender, ethnic origin, age, religion, sexual orientation or disability. The policy recognises that people with disabilities can often be denied a fair chance at work because of misconceptions about their capabilities and seeks to enhance the opportunities available by attempting, wherever possible, to overcome obstacles, such as the need to modify equipment, restructure jobs or to improve access to premises, provided such action does not compromise health and safety standards. Similarly, employees who become disabled during their employment will be offered employment opportunities consistent with their capabilities. We value the diversity of our people as a core component of a sustainable business and employment applications are welcomed and encouraged from all sections of the community including minority groups.

The Management Development and Remuneration Committee of the board takes a special interest in ensuring compliance with the Training and Development Policy objectives in order 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.

During the year, a ten year human resources strategy has been developed to support business growth over the next decade. In the coming year, significant recruitment in our operations in Asia will be a particular focus as our businesses in the region continue to expand.

Policies and Management Systems – Business Integrity and Ethics

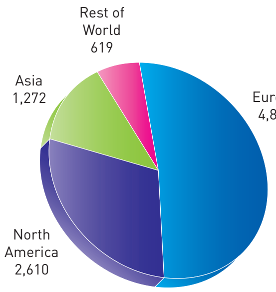
Johnson Matthey strives to maintain the highest standards of ethical conduct and corporate responsibility worldwide to ensure we act with integrity, transparency and with care for the rights of the individual. The group's principles are set out in the Business Integrity and Ethics Policy and issues are further safeguarded through corporate governance processes and monitoring by the board and its committees. The policy applies to all the group's employees and is presented on the website.

Compliance training is provided to employees to support their understanding of and commitment to group policies in order to protect and enhance the company's reputation. The training educates managers in their responsibilities for employees, commercial contracts and company assets and is delivered globally via online learning programmes and seminars. Online compliance training for employees across our global businesses relating to the UK Bribery Act 2011, Anti Money Laundering and Competition is being developed and in the US, local training on compliance with this Act is already underway.

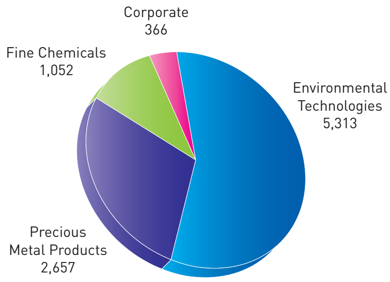
All facilities have established policies and procedures for employees to raise employment related issues for consideration and resolution. A confidential and secure 'whistleblowing' website and telephone helpline are also in place to give all employees additional means to raise any issue of personal concern.

Management of supply chain and contractor activities is a core component of the ISO 9000 and ISO 14000 series of standards. Supply chain and contractor management questionnaires are a requirement of achieving and maintaining registration and as such, ISO registered Johnson Matthey operations require the completion of appropriate questionnaires. For those operations without ISO registration, the group EHS management system provides policy and guidance on supply chain management and contractor control.

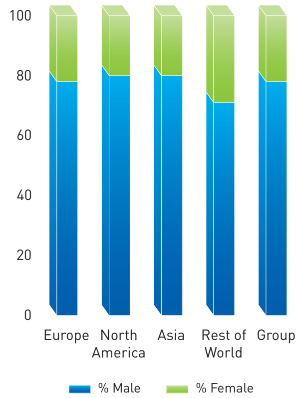
Total Employees by Region
Average headcount for 2010/11



Total Employees by Division
Average headcount for 2010/11



Gender by Region
As at 31st March 2011



In May 2010 the group published its Ethical and Sustainable Procurement Policy which is available on the website. The policy provides clear guidance on various topics including those relating to the selection of suppliers, auditing against standards and ethical conduct with suppliers.

Johnson Matthey is confident of the human rights performance of its own operations but recognises that business practices in the supply chain are not always transparent and represent a risk that must be managed. Every effort is made to ensure the issues are managed effectively. We support the principles defined within the United Nations Universal Declaration of Human Rights and the International Labour Organisation Core Conventions including the conventions in relation to child labour, forced labour, non-discrimination, freedom of association and collective bargaining. Compliance with and respect for these core principles are integrated within the risk assessment procedures and impact assessments which are undertaken when entering into business in a new territory and within the due diligence processes when making an acquisition or entering a joint venture.

During the year Johnson Matthey's North American businesses developed a Conflict Free Minerals Policy in response to reports on the role of conflict minerals in financing human rights violations in the Democratic Republic of the Congo. The policy was published in March 2011 and is available on the website.

Social

Recruitment, Training, Development and Diversity

Johnson Matthey's employees are respected as the group's most valuable resource and play a vital role in building a sustainable business. We are committed to recruiting high calibre employees and providing them with the information, training and working environment they need to perform to the highest standards. All employees are encouraged to develop to their maximum potential, supported by human resources policies and practices that are strategically linked to the needs of the business and our customers.

The skills, qualities and wellbeing of employees underpin the group's success. An effective, streamlined recruitment procedure supports the steady requirement for high calibre graduates and career foundation training programmes are in place to engage new recruits. We also offer training and development programmes at middle and senior manager levels. Employees from acquired businesses are actively encouraged to attend programmes to expose them to the wider group culture and help them integrate. Our extensive portfolio of training is delivered at our facilities around the world and programmes include presentations from senior executives to anchor the course content to the company's strategies and progress.

During the year we have reviewed our existing training and development programmes and, as a result, additional programmes have been added. We have introduced a sustainability awareness seminar to support and engage employees in our sustainability strategy, improve their understanding of our sustainability goals and enable them to plan their contributions towards achieving local and corporate sustainability objectives. An online version of this seminar has also been developed and is currently being trialled. We also identified the need to provide more specific development opportunities for managers in our manufacturing operations and a new global manufacturing and leadership programme has been launched to address this.

Our aim is to retain high potential and high performing staff. Providing career development opportunities for employees assists in staff retention and in turn, succession planning and the sustainability of management. Recruiting well qualified staff is vital to support business development, particularly in new and emerging markets such as in Asia, and this is achieved by appropriate manpower planning, local recruitment and the encouragement of international and cross divisional mobility. The group has a management skills inventory database to help to identify and match suitably qualified internal candidates to promotional and development opportunities globally and / or across our divisions as we strive to place the right people with the right skills in the right places. Beyond satisfying the immediate business needs, the company is committed to developing a more internationally diverse workforce to support its global business.

During the year we took part in a consultation with the UK Border Agency in relation to the UK government's plans in relation to immigration restrictions. This continues to be an important issue for UK based businesses seeking to recruit the best people into roles in the UK and moving existing employees from outside the UK into UK businesses.

The group's gender balance improved slightly this year to 78% male and 22% female.

Employee Relations, Communication and Engagement

The quality of our employee relations is a priority for Johnson Matthey and the company is proud of the high level of commitment and loyalty from its employees. We have a consistently low voluntary staff turnover (5.6% in 2010/11, see page 17) with many employees staying with the company for their whole careers.

Effective two way communication with employees is important and in particular, face to face dialogue. Communication on matters of interest to employees is exchanged through the in house magazines, attitude surveys, regular news bulletins, presentations and team briefings. Employees are also encouraged to access the group's corporate intranet, sustainability intranet and website. As part of our ongoing programme of employee attitude surveys, this year our Process Technologies business carried out a survey amongst its 1,200 employees around the world.

The company supports employee share ownership and employees have the opportunity to participate in share ownership plans, where practicable. Under these plans, employees can buy shares in the company which are matched by a company funded component. Employees in six countries are able to contribute to a company share ownership plan or a 401k approved savings investment plan. Through these ownership plans Johnson Matthey's current and former employees collectively held 1.84% of the company's shares at 31st March 2011.

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

The group has recovered well from the global economic slowdown which forced us to reduce employee numbers in 2008/09. In 2010/11 the group's average employee headcount has increased by 9% on prior year.

Johnson Matthey continues to maintain good and constructive relations with all recognised trade unions which collectively represent 38% of all group employees worldwide. During 2010/11 no working time was lost within the group due to employee action.

The corporate sickness absence rate during 2010/11 was 2.1% which is unchanged from 2009/10. We continue to encourage our businesses to invest in sustainable health and wellness programmes to support the longer term health, wellbeing and performance of our employees. During the year a new web based health assessment package was launched to employees in the UK which provides advice on improving health and wellbeing based on their answers to an online questionnaire.

Community Investment

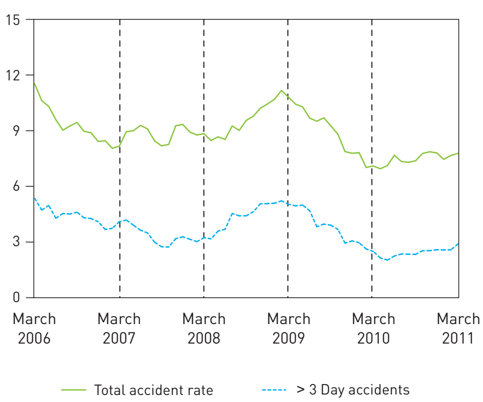
Johnson Matthey has a strong tradition for good community relations and the company and its employees are actively involved in programmes worldwide. We have an important contribution to make to the economic development of our local communities, not only as an employer but also through collaboration and investment, both financial and in kind. Johnson Matthey is a member of the London Benchmarking Group (LBG).

Guidance on site requirements for community relations is detailed in the group EHS management system and a review of community investment activities across the group is carried out each year. In 2010/11, the review indicates that 93% (all but three) of Johnson Matthey's operations with over 50 employees participated in activities within their local communities. This is slightly down on last year, mainly as a result of new manufacturing facilities that commenced full operation in 2010/11 not yet having established community investment programmes. The review also demonstrates that a higher proportion of sites with over 50 employees have planned community investment activities for the year ahead.

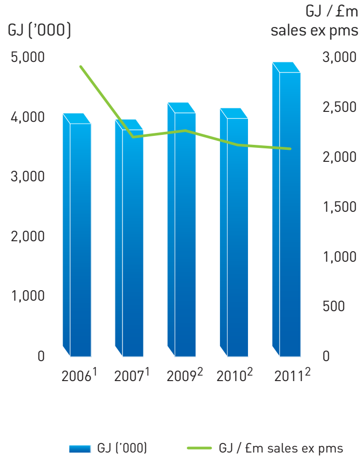
Community activities at our sites are wide ranging and include charitable giving, support for educational projects, the advancement of science and economic regeneration projects. Employees also participate in activities or hold community related roles outside of the work environment. The company is supportive of this broader community engagement, allowing employees time off during working hours as appropriate. In efforts to further encourage volunteering amongst employees, benchmarking studies on the approach taken by other companies have been conducted this year. As a result, a group wide volunteering policy is being developed which will be issued during 2011/12. This forms part of a broader programme of work now underway to establish a more formal community investment strategy for the group. This will continue in 2011/12 with the aim of establishing a community investment strategy and policy during the year to support our operations around the world in developing their community programmes.

Johnson Matthey's long history of support for charitable causes continues today through group and business programmes. The causes we support reflect the areas in which the group's technologies have a benefit and the issues which strike a chord with our employees. At a group level, Johnson Matthey operates a charitable donations programme which includes support for organisations working in the areas of environment, medical and health, science and education, social welfare and international development. The programme includes an annual donations scheme where a number of charities are selected triennially and receive a donation from the company each year for a three year period. In 2010/11 48 charitable causes received an annual donation through this scheme. The group's programme also considers individual requests for support throughout the year and a further 58 charitable organisations received donations on this basis in the year. The group also has a specific programme of support focused on promoting the understanding and awareness of science among children and young people and began work on a number of new projects this year.

Annual Accident Rate per 1,000 Employees



Energy Consumption



	GJ ('000)	GJ / £ million sales excluding precious metals
2006[1]	3,890	2,907
2007[1]	3,787	2,200
2009[2]	4,070	2,265
2010[2]	4,001[3]	2,121[3]
2011[2]	4,749	2,083

[1] Calendar year.
[2] Financial year.
[3] Restated.

Johnson Matthey continues to select a charity partner to focus support on one particular cause and employee views are considered when identifying the charity. The group is supporting the British Heart Foundation and other national heart federations around the world in a partnership that will run to the end of 2011/12. Further details on the partnership are available in the Sustainability Report.

Johnson Matthey's global sites also lend support to many other charities locally and nationally through donations, employee time or loans of company facilities. In response to the earthquake and tsunami which struck Japan in March 2011, Johnson Matthey's employees and businesses across the globe have rallied together, raising funds to support relief efforts in Japan. At a corporate level Johnson Matthey has donated £10,000 to The Japanese Red Cross (via The British Red Cross) to support the charity's relief efforts in the immediate aftermath of the disaster. Johnson Matthey's operations around the world have also offered support to their national Red Cross or Red Crescent Movements or other charitable relief agencies working in Japan. For example, our Royston and Brimsdown sites in the UK held a special fundraising day to raise money for the British Red Cross' work in Japan. Employees at the two sites were encouraged to wear items of red clothing and make a donation at one of the donation points around the sites. The majority of staff came to work dressed in something red – from red socks to red nail polish. The day was a great success and raised vital funds to support efforts in Japan. As the situation in Japan continues to develop, we are also consulting with our colleagues at Johnson Matthey in Japan to discuss developments and identify appropriate local charitable initiatives to support longer term rebuilding and rehabilitation work in the country.

In the financial year to 31st March 2011 Johnson Matthey donated £517,000 to charitable organisations, up 13% on prior year. This figure only includes donations made by Johnson Matthey and does not include payroll giving, donations made by staff or employee time. The company made no political donations in the year. We will continue to support a wide range of charitable causes in 2011/12.

Stakeholder Engagement

Johnson Matthey has a wide range of stakeholders with an interest in hearing from or working with the company. These include customers, employees, suppliers, fund managers, shareholders, communities, governments, non-governmental organisations (NGOs) and national and international trade associations. We aim to provide meaningful and transparent communications to meet the needs of all stakeholder groups and deliver information to them in the most appropriate format. These formats may include annual performance reports, participation in performance indices (Carbon Disclosure Project, FTSE4Good, for example) or one to one discussions on specific topics. We communicate with our stakeholders throughout the year and engagement is integrated into business decision making processes.

The company is actively involved with the Chemical Industries Association (CIA), the European Precious Metals Federation (EPMF), the EU association of the non-ferrous metals industry (Eurometaux) and plays a leading advisory role through participation in government bodies and a number of sector trade associations that are relevant to its business activities. The company is also engaged with national and local government to inform the development of policy in areas where Johnson Matthey's technology and products can play a pivotal role. During the year, as part of our programme of responsible care for our products, Johnson Matthey has taken a leading role in establishing an industry sector group to improve the quality of existing risk assessments on applications of platinum group metals and to improve dialogue with external stakeholders.

Neil Carson, Chief Executive of Johnson Matthey, is a prominent member of the Corporate Leaders Group and is a member of the Advisory Board for the Cambridge Programme for Sustainability Leadership. A number of the company's senior management are involved in the UK government's sustainability and climate change initiatives. Johnson Matthey's executives have also made a contribution to a range of organisations and committees during the year and the company continues to participate in numerous government consultations. We have also continued to support the activities of Forum for the Future.

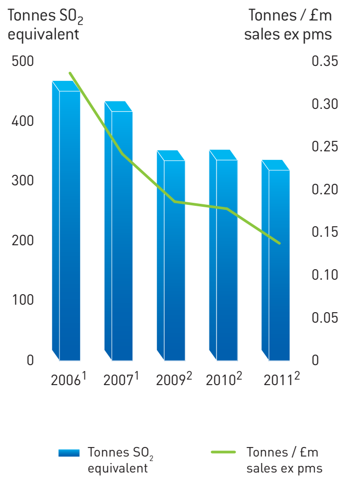
At regular meetings with the company's major shareholders, matters relating to sustainability and corporate social responsibility may be discussed together with the performance and development of the group's businesses.

Total Global Warming Potential

	Tonnes CO_2 equivalent ('000)	Tonnes / £ million sales excluding precious metals
2006[1]	393[3]	293.7[3]
2007[1]	390[3]	226.6[3]
2009[2]	372[3]	207.0[3]
2010[2]	377[3]	199.9[3]
2011[2]	415	182.0

[1] Calendar year.
[2] Financial year.
[3] Restated.

Total Acid Gas Emissions



	Tonnes SO_2 equivalent	Tonnes / £ million sales excluding precious metals
2006[1]	450	0.3362
2007[1]	416	0.2417
2009[2]	334	0.1859
2010[2]	335[3]	0.1776[3]
2011[2]	318	0.1395

[1] Calendar year.
[2] Financial year.
[3] Restated.

Health and Safety

We are committed to minimising the health and safety related impacts for employees, customers, communities and other stakeholders and of our products in use. In addition, many of our products and services make a contribution to enhancing general health and wellbeing or provide safety benefits.

For Johnson Matthey any accident is unacceptable and our target is zero greater than three day accidents.

Accidents are actively monitored and detailed statistics are compiled monthly at group level. Any accident is thoroughly investigated to determine root causes and appropriate preventative and corrective actions are assigned. The group's five year performance is shown in the graph on page 53 and the rate of occupational accidents involving lost time is shown in the table below.

Employee Health and Safety Statistics

	2011	2010	Change %
Incidence of greater than three day accidents per 1,000 employees	**2.88**	2.48[1]	+16
Total number of accidents that resulted in lost time	**73**	63[1]	+16
Total accident rate per 1,000 employees	**7.79**	7.11[1]	+10
Total lost time accident incident rate per 100,000 hours worked	**0.39**	0.36[1]	+8
Total number of days lost per 1,000 employees	**102**	64	+59

[1] Restated.

Following the increase in our lost time accident rate in 2008/09, the prompt action taken in 2009/10 to revitalise our accident prevention processes resulted in our rate of occupational accidents involving lost time falling to its lowest reported level by March 2010. Data for 2010/11 indicates that our performance has reached a plateau during the year to March 2011 and we had an increase in accident rates towards the end of the year. Work is underway to address this trend with programmes being piloted at sites around the world which focus on safety at site level and on ways to improve local safety culture.

Throughout the organisation we need to remain vigilant about any incident that could result in multiple injuries or equipment damage and a programme of process safety audits are scheduled to address this issue. In addition, implementation of the ten year group EHS strategy (developed alongside the group's ten year business strategy) will help support our target of zero accidents over the years ahead.

The health, safety and wellbeing of contractors who are working on our sites is of equal importance to that of our employees. In October 2010, however, a contract company employee working on a construction site at the Panki facility in India fell from a height and sustained multiple injuries. He was immediately rushed to the nearby hospital and received emergency medical treatment. Unfortunately, he did not respond to the treatment and his life could not be saved. Investigations have been completed by site personnel, supported by Group EHS department staff.

Considerable action has been taken to improve the systems for the management of contractor health and safety and during 2010/11 new safety performance metrics specifically for contractors were introduced, similar to those already established for group employees.

The company engages temporary workers typically to cover periods of long term sickness absence, maternity leave or to manage seasonal variations in workload. In 2010/11 there were 12 lost time contractor accidents (five of which were greater than three days) reported. This is equivalent to an annual total lost time accident frequency rate of 0.50 accidents per 100,000 hours worked per year.

A corporate reporting system is used to report and investigate occupational illness cases arising as a result of exposure to workplace health hazards. In 2010/11 there was a significant reduction in the annual incidence of cases to 3.5 cases per 1,000 employees, down from 5.2 cases per 1,000 employees in 2009/10. This beats the target set in 2008 to reduce the annual incidence of occupational illness cases by at least 30% (to 3.7 cases or less per 1,000 employees) by 2013/14.

Water Consumption

	Thousands m³	Thousands m³ / £ million sales excluding precious metals
2006[1]	1,909	1.426
2007[1]	2,048	1.190
2009[2]	1,951	1.086
2010[2]	1,750[3]	0.928[3]
2011[2]	2,076	0.911

[1] Calendar year.
[2] Financial year.
[3] Restated.

Total Waste

	Tonnes	Tonnes / £ million sales excluding precious metals
2006[1]	91,750	68.56
2007[1]	98,764	57.39
2009[2]	96,287	53.58
2010[2]	90,308[3]	47.88[3]
2011[2]	113,671	49.86

[1] Calendar year.
[2] Financial year.
[3] Restated.

Regional training programmes were delivered to over 200 employees around the world this year to support the implementation of new corporate EHS policy requirements for chemical exposure management. A new sustainable health leading metrics scorecard was piloted and 80% of facilities globally participated in its evaluation. Based on the positive feedback received from facility management teams on the value of this tool to continually improve health programmes, completion of the scorecard has now been made a requirement of the annual health review and planning process. The proportion of facilities that completed the annual health review and planning process in 2010/11 was 87%, the highest level achieved since its introduction in 2006.

Environment

Johnson Matthey has an impact on the environment in many ways; through the resources we use, the way we operate our manufacturing processes and the action of our products and services on enhancing the environment for others.

We undertake a comprehensive annual review of group environmental performance which covers all manufacturing and research and development facilities. Five key performance metrics (energy consumption, global warming potential, acid gas emissions, water use and waste produced) are reported here and are shown in the tables on pages 53 to 55. Where necessary, past environmental data has been restated to reflect changes in the business, for example divestments and site closures, or current best practice. Additional environmental performance metrics and further details of the group's environmental performance are presented in the Sustainability Report.

The group's total global warming potential (GWP) is based on our Scope 1 and Scope 2 emissions. Data for 2010/11 has been calculated using the latest available emission factors as applicable for our operations internationally. The group's GWP increased by 10% in 2010/11 as a result of new acquisitions (about 46% of the increase), recently commissioned facilities reaching full production (about 44%) and from incremental increases across the group's manufacturing operations as demand for our products increased.

Business expansion has also impacted the group's energy consumption, waste produced and water use which increased by 19%, 26% and 19% respectively. Waste sent to landfill increased by 1,094 tonnes (22%) as a result of non-hazardous waste sent to landfill by acquired and new facilities (about 635 tonnes or 58% of the increase) and from stockpiling wastes at existing facilities. The group's total acid gas emissions to air (in SO_2 equivalents) were 5% lower this year.

Energy consumption, GWP and water use all increased at a rate below the rate of growth of the group's sales excluding precious metals. Work will continue to manage our environmental impacts in the context of an expanding business by building on the best practice examples of performance improvement delivered so far, integration of lean manufacturing principles, process intensification and step change manufacturing technologies. The group remains committed to its Sustainability 2017 Vision of minimising the environmental impact of its operations, whilst creating products and technologies which have a beneficial impact on the planet.

Verification and Assurance

The Board of Directors, Audit Committee, Chief Executive's Committee and CSR Compliance Committee review sustainability issues as part of the company's risk management processes. The board believes that the internal measures taken to review the sustainability information provide a high level of confidence.

Third party assurance of our full Sustainability Report has again been commissioned and will use internationally recognised standards – AA1000AS standard, the GRI Reporting Principles and ISO 26000 guidelines. The 2010/11 Sustainability Report will be published on the company's website at www.matthey.com in July 2011.

Board of Directors

1. **Sir John Banham DL, MA, HonLLD, HonDSc**
Chairman, age 70; joined Johnson Matthey as Chairman Designate in January 2006; appointed Chairman in April 2006. Currently the Senior Independent Director of Invesco Ltd and Cyclacel Pharmaceuticals Inc. He was previously a director at McKinsey & Company, the first Controller of the Audit Commission and is a former Director General of the Confederation of British Industry. Previously a director of National Power and National Westminster Bank, and Chairman of Tarmac plc, Kingfisher plc, Geest plc and Whitbread PLC. M, N

2. **T E P Stevenson OBE**
Chairman Designate, age 63; joined Johnson Matthey on 29th March 2011. Has been Chairman of The Morgan Crucible Company plc since December 2006 and was Chairman of Travis Perkins plc from November 2001 to May 2010. From 1975 to 2000 he held a variety of senior management positions at Burmah Castrol plc, including Chief Executive from 1998 to 2000. He is a qualified barrister and is Lord Lieutenant of Oxfordshire. M, N

3. **N A P Carson BSc**
Chief Executive, age 54; 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. Currently a non-executive director of AMEC plc and a member of the Advisory Board for the Cambridge Programme for Sustainability Leadership.

4. **R J MacLeod**
Group Finance Director, age 47; joined Johnson Matthey as Group Finance Director Designate in June 2009 and assumed his current job role in September 2009. Previously he was Group Finance Director of WS Atkins plc and worked in a variety of senior financial roles at Enterprise Oil plc. He is currently a non-executive director of Aggreko plc. He is a Chartered Accountant.

5. **A M Thomson MA, CA**
Age 64; appointed a non-executive director in September 2002. Currently Chairman of Hays plc, Chairman of Bodycote International Plc and a non-executive director of Alstom S.A. (France). Until his retirement in 2006 he was Finance Director of Smiths Group plc. A, M, N

6. **R J W Walvis**
Age 64; appointed a non-executive director in September 2002. Currently a non-executive director of Associated British Ports Holdings Ltd and Balfour Beatty plc and Chairman of the Supervisory Board of Allianz Nederland Group NV. He was previously a non-executive director of British Energy Group plc and Chairman, Global Corporate Centre, Shell International Limited. Prior to that he held a series of senior management positions within the Royal Dutch Shell Group. A, M, N

7. **A M Ferguson**
Age 53; appointed a non-executive director on 13th January 2011. He was previously Chief Financial Officer and a Director of Lonmin Plc. He left Lonmin on 31st December 2010. Prior to joining Lonmin, he was Group Finance Director of The BOC Group until late 2006 when the Linde Group acquired BOC. Before joining BOC in 2005, he worked for Inchcape plc for 22 years in a variety of roles including Group Finance Director from 1999 until his departure. He is a Chartered Accountant. A, M, N

8. **Sir Thomas Harris KBE CMG**
Age 66; appointed a non-executive director in April 2009. Currently Vice Chairman of Standard Chartered Capital Markets Ltd, a non-executive director of SC First Bank (Korea), City UK and the UK India Business Council. Until 2004, he was Director General of Trade & Investment USA responsible for British business and technology promotion throughout the United States. He served previously as British Ambassador to the Republic of Korea in Seoul, Deputy High Commissioner in Lagos, Nigeria and Commercial Counsellor in the British Embassy in Washington DC. A, M, N

9. **M J Roney**
Age 56; appointed a non-executive director in June 2007. Currently Chief Executive of Bunzl plc. Joined Bunzl plc as a non-executive director in 2003. Prior to becoming Chief Executive of Bunzl he was the Chief Executive Officer of Goodyear Dunlop Tires Europe BV and had an extensive career with the Goodyear Tire and Rubber Co holding a number of senior management positions with responsibilities in Latin America, Asia, Eastern Europe, the Middle East and Africa. A, M, N

10. **D C Thompson**
Age 50; appointed a non-executive director in September 2007. Currently Chief Executive of Drax Group plc. Joined the board of Drax Group plc as Chief Executive in 2005. Prior to joining Drax she was head of the European business of the global power generation firm, InterGen. First starting her career in banking she has had senior management roles in the UK, Asia and Africa. A, M, N

11. **L C Pentz BS ChE, MBA**
Executive Director, Environmental Technologies, age 56; 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, Executive Director, Emission Control Technologies in July 2004 and to his current position in April 2009. Currently a non-executive director of Victrex plc.

12. **W F Sandford BA**
Executive Director, Precious Metal Products, age 57; joined Johnson Matthey in 1977; appointed Division Director, Precious Metal Products in 2001 after holding a series of senior management positions within the division. Appointed Executive Director, Precious Metal Products in July 2009.

Other Senior Management*

Environmental Technologies

S M Christley *Division Finance Director*
J F Walker *Division Director,* Emission Control Technologies
C J Bennett *Managing Director,* Stationary Emissions Control
A M Myers *President,* Emission Control Technologies, North America
D W Prest *Managing Director,* Emission Control Technologies, Europe
J V Zubrickas *Managing Director,* Emission Control Technologies, Asia
N Whitley *Division Director,* Process Technologies
S Slattery *Division Finance Director,* Process Technologies
P M Armitage *Business Development Director,* Process Technologies
A Bordet *Managing Director,* Davy Process Technology
A C Hurst *Managing Director,* Tracerco
G L McGregor *Managing Director,* Refinery
A Wright *Managing Director,* Ammonia, Methanol and Gas
J C Frost *Director,* Fuel Cells

Precious Metal Products

B M O'Connell *Division Finance Director*
M Bedford *Director,* Precious Metals Marketing
C C Howlett *General Manager,* Noble Metals, Europe
J D Malanga *General Manager,* Noble Metals, North America
R L P J van der Heijden *Managing Director,* Colour Technologies
G P Otterman *Division Director,* Catalysts, Chemicals and Refining
T Hassan *Division Finance Director,* Catalysts, Chemicals and Refining
A J McCullough *General Manager,* Gold, North America

Fine Chemicals

J B Fowler *Division Director*
M Gaffney *Division Finance Director*
B C Singelais *President,* Global Research Chemicals

Corporate

P A Axworthy *Group Director,* Information Technology
S Farrant *Group Legal Director and Company Secretary*
P C Framp *Director,* Group Environment, Health and Safety and Human Resources
N P H Garner *Group Director,* Corporate and Strategic Development
I D Godwin *Director,* Investor Relations and Corporate Communications
V E Gough *Group Reporting Controller*
B A Murrer *Director,* Technology Centre
S P Robinson *Director of Tax*
J C E Tasker *Group Treasurer*

* As at 1st June 2011.

Committees of the Board
A Audit Committee
M Management Development and Remuneration Committee
N Nomination Committee

Corporate Governance

Statement of Compliance with the Combined Code

This statement together with the Nomination Committee Report on page 66, the Audit Committee Report on page 67 and the Remuneration Report on pages 68 to 74, describes how the Main Principles of the Combined Code on Corporate Governance, issued by the Financial Reporting Council (FRC) dated June 2008 (the Code), have been applied during the year ended 31st March 2011. In June 2010 the FRC replaced the Code with the UK Corporate Governance Code which applies to accounting periods beginning on or after 29th June 2010 (the New Code). The board will report on compliance with the New Code in next year's annual report.

During the year ended 31st March 2011, the company has complied with all relevant provisions set out in Section 1 of the Code throughout the year except in respect of provision D.1.1 – *The senior independent director should attend sufficient meetings with a range of major shareholders to listen to their views in order to help develop a balanced understanding of the issues and concerns of major shareholders*. During the year the board has taken the view that it is not necessarily practical, efficient or desired by shareholders 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' on page 60.

The Role of the Board

The board is responsible to the company's shareholders for the group's long term success, its strategic objectives, its system of corporate governance and the stewardship of the group's resources and it is ultimately responsible for social, environmental and ethical matters. The board is also responsible for determining the nature and extent of the significant risks it is willing to take in order to achieve its strategic objectives.

Other key matters reserved for board decision include approval of the annual group operating and capital expenditure budgets, annual group three year plan and ten year strategy and of changes relating to the company's capital structure. The board also approves announcements of the group's results, the Annual Report and Accounts, the declaration of the interim dividend and recommendation of the final dividend. The board is responsible for considering and approving major capital projects, major acquisitions and major disposals of assets or operations. The board reviews the key activities of the business and receives papers and presentations to enable it to do so effectively.

In respect of board membership and other appointments, the board determines the structure, size and composition of the board, appointments to the board, selection of the Chairman of the board and the Chief Executive, appointment of the Senior Independent Director and membership and chairmanship of board committees.

The board held seven meetings in the year. In addition, the board met separately in the year to undertake a ten year strategy review.

The board delegates specific responsibilities to board committees, as described below.

Board Composition

The board comprises the Chairman (Sir John Banham), the Chief Executive (Mr N A P Carson), three other executive directors, the Chairman Designate (Mr T E P Stevenson) and six other independent non-executive directors. Sir John Banham will be retiring as Chairman with effect from the close of the 2011 Annual General Meeting, having served as Chairman for five years, and will be succeeded by Mr Stevenson who was appointed to the board on 29th March 2011. Sir John Banham's and Mr Stevenson's other commitments are disclosed on page 56.

Also with effect from the close of the 2011 Annual General Meeting, Mr A M Thomson and Mr R J W Walvis will be retiring from the board, each having served as a non-executive director for nine years. Mr A M Ferguson, who was appointed as a non-executive director on 13th January 2011, will succeed Mr Thomson as Chairman of the Audit Committee and Mr M J Roney, non-executive director, will be appointed the Senior Independent Director. Mr Roney will also take over the chairmanship of the Management Development and Remuneration Committee upon Mr Walvis' retirement. Following these changes, the board will comprise the Chairman, the Chief Executive, three other executive directors and four independent non-executive directors.

The roles of Chairman and Chief Executive are separate. The Chairman leads the board, ensuring that each director, particularly each non-executive director, is able to make an effective contribution. He is responsible for ensuring a culture of openness and debate and that adequate time is available for discussion. 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 Role of the Board (continued)

Board Composition (continued)

The Chief Executive maintains day-to-day management responsibility for the group's operations, implementing group strategies and policies agreed by the board.

The three other executive directors, Mr R J MacLeod, Mr L C Pentz and Mr W F Sandford, have specific responsibilities, which are detailed on pages 56 and 57, and have direct responsibility for all operations and activities.

The role of the non-executive directors, who are appointed for specified terms subject to re-election and to the provisions of the Companies Act 2006 relating to the removal of a director, is to enhance independence and objectivity of the board's deliberations and decisions. Additionally, the non-executive directors play an important role in developing strategy. Each non-executive director (including, until his forthcoming appointment as Chairman, Mr Stevenson) is considered by the board to be independent in character and judgment and there are no relationships or circumstances which are likely to affect, or could appear to affect, the director's judgment.

Under the company's Articles of Association, all directors submit themselves for re-election at least once every three years. However, in accordance with the provisions of the New Code, all directors will retire at each Annual General Meeting and offer themselves for re-election. All directors except Sir John Banham, Mr Thomson and Mr Walvis, who are retiring from the board in July 2011, will be offering themselves for re-election at the 2011 Annual General Meeting. Mr Ferguson and Mr Stevenson will offer themselves for election having been appointed to the board since the 2010 Annual General Meeting.

Information and Support

Each board meeting includes a business or strategy presentation from senior managers. These presentations assist the non-executive directors in familiarising themselves with the group's businesses. The board also holds at least one board meeting per year at one of the group's operational sites and takes the opportunity to tour the site and discuss issues with local senior and middle management. During the year ended 31st March 2011, the board visited the Johnson Matthey Technology Centre in Sonning, UK where it toured the site and received presentations from management on the company's R&D organisation and on R&D long term trends. Individual non-executive directors also undertake site visits. Such presentations, meetings and site visits help to give a balanced overview of the company. They enable the non-executive directors to build an understanding of the company's businesses, the markets in which the company operates and its main relationships and to build a link with the company's employees. This is important in helping the non-executive directors to continually develop and refresh their knowledge and skills to ensure that their contribution to the board remains informed and relevant. Account is taken of environmental, social and governance matters in the training of directors.

The Company Secretary is responsible to the board, and is available to individual directors, in respect of board procedures. The Company Secretary is also responsible for keeping the board up to date on legislative, regulatory and corporate governance developments.

The company has in place formal induction programmes for new directors. Since their appointments, Mr Ferguson and Mr Stevenson have received a tailored induction programme which so far has included meetings with the Chief Executive, the executive directors and senior management in order to be briefed on the group strategy and individual businesses, briefing sessions with key group functions and visits to the principal UK sites. As part of his induction programme, Mr Stevenson has had meetings with several major shareholders. Mr Ferguson is available to attend meetings with major shareholders if requested.

Board and Committee Performance Evaluation

Following the appointment of Mr Stevenson as Chairman Designate on 29th March 2011, the board has instigated a formal evaluation of its performance and that of its committees and individual directors. This evaluation is being led by Mr Stevenson and is being externally facilitated. The external facilitator has no other connection with the company. The evaluation will allow Mr Stevenson to gain an objective view of the workings of the board and of its committees. The evaluation includes detailed interviews with each director covering the following key areas:

- overall board effectiveness,
- board composition and balance,
- succession planning,
- strategy process,
- financial and non-financial monitoring,
- risk and management systems, and
- the board development plan (including training and site visits).

This evaluation process is ongoing and will be reported on further in next year's annual report.

A full review of the Chairman's performance was undertaken in 2009/10 and the results were reported by the Senior Independent Director to the board in May 2010. In view of the forthcoming change in the chairmanship of the company, a separate formal review of the Chairman's performance has not been undertaken although the board expects feedback on the Chairman's performance to be reflected in the externally facilitated evaluation currently underway.

During the year ended 31st March 2011, the Chairman met with non-executive directors without the executive directors present.

Committees of the Board

The Chief Executive's Committee (CEC) is responsible for the recommendation to the board of strategic and operating plans and on making recommendations on matters reserved to the board where appropriate. It is also responsible for the executive management of the group's businesses. The Committee is chaired by the Chief Executive and meets monthly (except in August). During the year it comprised the Chief Executive, the three other executive directors and eight senior executives of the company including four division directors; the Group Director, Corporate and Strategic Development; the Director, Group Systems, EHS and HR; the Deputy Director, Group EHS and HR; and the Group Legal Director.

Committees of the Board (continued)

The Audit Committee is a 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 Audit Committee meets quarterly and is chaired by Mr Thomson. It comprises all the independent non-executive directors with the group Chairman, the Chief Executive, the Group Finance Director and the external and internal auditors attending by invitation. A report from the Audit Committee on its activities is given on page 67. Mr Thomson has recent and relevant financial experience as former Finance Director of Smiths Group plc and, until April 2011, as President of the Institute of Chartered Accountants of Scotland. As referred to above, Mr Thomson will be retiring from the board in July 2011 at which time Mr Ferguson will take over as Chairman of the Audit Committee. Mr Ferguson has recent and relevant financial experience as former Chief Financial Officer of Lonmin Plc.

The Nomination Committee is a committee of the board responsible for advising the board and making recommendations on the appointment and, if necessary, dismissal of executive and non-executive directors. The Nomination Committee is chaired by Sir John Banham, the group Chairman, and also comprises all the independent non-executive directors. Mr Stevenson will take over the chairmanship of the Nomination Committee upon his appointment as group Chairman in July 2011. A report from the Nomination Committee on its activities is given on page 66.

The Management Development and Remuneration Committee (MDRC) is a committee of the board which determines on behalf of the board the fair remuneration of the executive directors and the Chairman and assists the board in ensuring that the current and future senior management of the group is recruited, developed and remunerated in an appropriate fashion. The MDRC is chaired by Mr Walvis and comprises all the independent non-executive directors together with the group Chairman. The Chief Executive and the Director, Group EHS and HR attend by invitation except when their own performance and remuneration are discussed. Further details are set out in the Remuneration Report on pages 68 to 74. As referred to above, Mr Walvis will be retiring from the board in July 2011 at which time Mr Roney will take over as Chairman of the MDRC.

Board and Committee Attendance

Attendance at the board and board committee meetings in 2010/11 was as follows:

Director	Full Board		MDRC		Nomination Committee		Audit Committee	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
Sir John Banham	7	7	5	5	7	7	–	4[1]
N A P Carson	7	7	–	5[1]	–	7[1]	–	4[1]
A M Ferguson	2	2	1	1	2	2	1	1
Sir Thomas Harris	7	7	5	5	7	7	4	4
R J MacLeod	7	7	–	–	–	–	–	4[1]
L C Pentz	7	7	–	–	–	–	–	–
M J Roney	7	7	5	5	7	7	4	4
W F Sandford	7	7	–	–	–	–	–	–
T E P Stevenson	1	1	1	1	1	1	–	–
D C Thompson	7	7	5	5	7	7	4	4
A M Thomson	7	7	5	5	7	7	4	4
R J W Walvis	7	7	5	5	7	7	4	4

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

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 when its full year and half year results are published. These results 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. Live audiocasts of the results presentations in London and copies of major presentations are available on the company's website. The company also holds an annual investor day for its institutional investors and analysts. At the 2011 Investor Day, the company presented the results of its ten year strategy review. Copies of the Investor Day presentations are posted on the company's website.

Contact with Major Shareholders

Contact with major shareholders is principally maintained by the Chief Executive and the Group Finance Director, who ensure that their views are communicated to the board as a whole. The Chairman is also available to discuss governance and other matters directly with major shareholders. 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 views of major shareholders about the company. The board is provided with brokers' reports at every board meeting and feedback from shareholder meetings on a six-monthly basis. The canvassing of major shareholders' views for the board in a detailed investor survey is usually conducted every two years by external consultants. 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 Senior Independent Director and other non-executive directors are available to attend meetings with major shareholders if requested, however no such meetings were requested during the year.

Relations with Shareholders (continued)

Annual General Meeting

The company's Annual General Meeting takes place in London and formal notification is sent to shareholders at least 20 working days in advance of the meeting. The directors are available for questions, formally during the Annual General Meeting and informally afterwards. Details of the 2011 Annual General Meeting are set out in the circular accompanying this annual report.

Accountability, Audit and Control

In its reporting to shareholders, the board aims to present a balanced and understandable assessment of the group's financial position and prospects. The statement of the responsibility of directors for the preparation of the Annual Report and Accounts is set out on page 75.

The group's organisational structure is focused on its three divisions. These are all separately managed but report to the board through a board director. The CEC receives and reviews monthly summaries of financial results from each division through a standardised reporting process. The group has in place a comprehensive annual budgeting process including plans for the following two years. Variances from budget are closely monitored. In addition to the annual budgeting process, there is a ten year strategy review process.

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 businesses 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.

Internal Control and Risk Management

The board has overall responsibility for the group's systems of internal control, including in respect of the financial reporting process, and risk management systems and for reviewing their effectiveness. The internal control systems are designed to meet the group's needs and manage the risks to which it is exposed, although these cannot be eliminated. Such systems can only provide reasonable but not absolute assurance against material misstatement or loss.

The board has delegated responsibility for the review of the effectiveness of the group's internal financial control and risk management systems to the Audit Committee. The Audit Committee monitors and reviews the effectiveness of the group's systems for internal control and risk management, considering regular reports from management and Internal Audit. The internal audit function is responsible for monitoring the group's systems of internal financial controls. 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 any issues raised by the internal audit reports produced. Internal Audit follows up the implementation of its recommendations, including any recommendations to improve internal controls, and reports the outcome to senior management and to the Audit Committee.

In addition, each year businesses are required to formally review their financial and non-financial controls and their compliance with group policies and statutory and regulatory obligations and to provide assurance on these. The results of these reviews are collated and summarised by the internal audit function and a report is made annually to the Audit Committee.

The Audit Committee also considers reports from the external auditors on their evaluation of the systems of internal financial control and risk management. Amongst other matters, the Audit Committee reviews the group's credit control procedures and risks, controls over precious metals, IT controls and the group's corporate social responsibility reporting arrangements and whistleblowing procedures. The Audit Committee also reviews the performance of both the internal and external auditors.

The Audit Committee reports to the board on the operation and effectiveness of internal financial controls and risk management systems. This is considered by the board in forming its own view of the effectiveness of the systems.

A report from the Audit Committee on its activities and on the work of Internal Audit is given on page 67.

There is a continuous process for identifying, evaluating and managing the significant risks faced by the company. This process, which is described on pages 38 and 39, has been in place during the year ended 31st March 2011 and up to the date of approval of the Annual Report and Accounts. The board regularly reviews this process.

The directors confirm that the system of internal controls for the year ended 31st March 2011 and the period up to 1st June 2011 has been established in accordance with the revised Turnbull Guidance on Internal Control published by the FRC included with the Code. The directors have reviewed the effectiveness of the group's system of internal controls, including financial, operational and compliance controls and risk management systems. No significant failings or weaknesses were identified.

Corporate Social Responsibility Risks

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, the Audit Committee and the CEC.

A review of the group's policies and targets for corporate social responsibility (CSR) is set out in the Sustainability section of the Business Review on pages 45 to 55. A full version of the Sustainability Report is available on the company's website.

The identification and monitoring of environment, health and safety (EHS), social and governance risks are the responsibility of the CSR Compliance Committee, which is a sub-committee of the CEC. It comprises the division directors, the Director, Group EHS and HR, the Group Legal Director and senior representatives of Internal Audit, Group EHS and other group functions. The Committee has specific responsibility for setting and overseeing compliance with the standards for group CSR performance through the development, dissemination, adoption and implementation of appropriate group policies and other operational measures. EHS performance is monitored using monthly statistics and detailed site audit reports. EHS performance is reviewed on a regular basis by the CEC and an annual review is undertaken by the board.

Risks from employment and employee issues are identified and assessed by the CEC 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.

Other Statutory Information

Annual General Meeting

The notice of the 2011 Annual General Meeting of the company to be held on Tuesday 19th July 2011 at 11.00 am at The Institution of Engineering and Technology (The Lecture Theatre), 2 Savoy Place, London WC2R 0BL is contained in the circular accompanying this annual report, together with an explanation of the resolutions to be considered at the meeting.

Dividends

The interim dividend of 12.5 pence per share (2010 11.1 pence) was paid in February 2011. The directors recommend a final dividend of 33.5 pence per share in respect of the year ended 31st March 2011 (2010 27.9 pence), making a total for the year of 46.0 pence per share (2010 39.0 pence), payable on 2nd August 2011 to shareholders on the register at the close of business on 10th June 2011.

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 the company's registrars, Equiniti, whose details are set out on page 129.

Share Capital

The issued share capital of the company at 31st March 2011 was 214,675,736 ordinary shares of £1.00 each (excluding treasury shares). The company did not allot any shares during the year ended 31st March 2011. As at 31st March 2011, the company held 5,997,877 treasury shares. There were no purchases, sales or transfers of treasury shares during the year ended 31st March 2011.

At the 2010 Annual General Meeting, shareholders renewed the company's authority to make market purchases of up to 21,467,573 ordinary shares representing 10% of the issued share capital of the company (excluding treasury shares) as at 1st June 2010. The company did not make any purchases of its own shares during the year ended 31st March 2011. Authority to purchase up to 21,467,573 shares remained in place at 31st March 2011. At the forthcoming Annual General Meeting the board will again seek shareholders' approval to renew the annual authority for the company to make purchases of its own shares through the market.

The holders of ordinary shares are entitled to receive dividends when declared, to receive the company's Annual Report and Accounts, to attend and speak at general meetings of the company, to appoint proxies and to exercise voting rights.

There are no restrictions on the transfer of ordinary shares. The directors may, in certain circumstances, refuse to register the transfer of a share in certificated form which is not fully paid up, where the instrument of transfer does not comply with the requirements of the Articles of Association, or if entitled to do so under the Uncertificated Securities Regulations 2001. The directors may also refuse to register a transfer of ordinary shares in certificated form, which represent 0.25% or more of the issued share capital, following the failure by the member or any other person appearing to be interested in the shares to provide the company with information requested under section 793 of the Companies Act 2006. There are no limitations on the holding of ordinary shares and no requirements to obtain the company's or other shareholders' approval to any transfers.

There are no restrictions on voting rights except that a shareholder has no right to vote in respect of a share unless all sums due in respect of that share are fully paid. There are no arrangements by which, with the company's cooperation, financial rights carried by shares are held by a person other than the holder of the shares. There are no known agreements between holders of securities that may result in restrictions on the transfer of securities or on voting rights. No ordinary shares carry any special voting rights with regard to control of the company.

Shares acquired by employees through the Johnson Matthey employee share schemes rank equally with the other shares in issue and have no special rights. Voting rights in respect of shares held through the group's employee share schemes are not exercisable directly by employees however employees can direct the trustee of the schemes to exercise voting rights on their behalf.

Other Statutory Information

Employee Share Schemes

At 31st March 2011, 4,375 current and former employees, representing approximately 45% of employees worldwide, were shareholders in Johnson Matthey through the group's employee share schemes. Through these schemes, current and former employees held 3,944,966 shares (1.84% of issued share capital, excluding treasury shares). As at 31st March 2011, 408 current and former employees held options over 1,797,780 shares through the company's executive share option schemes. Also as at 31st March 2011, 2,402,541 shares had been allocated but had not yet vested under the company's long term incentive plan to 962 current and former employees.

Major Shareholders

As at 1st June 2011, the following information had been disclosed to the company under the Financial Services Authority's Disclosure and Transparency Rules in respect of holdings exceeding the 3% notification threshold:

	Nature of holding	Total voting rights	% of total voting rights[1]
BlackRock, Inc.	Indirect	20,570,656	9.58%
	Financial Instrument (CFD)	578,823	0.27%
FIL Limited	Indirect	10,735,815	5.00%
Prudential plc	Direct	10,623,919	4.95%
	Indirect	77,634	0.03%
Lloyds Banking Group plc	Direct	1,142,771	0.53%
	Indirect	9,625,114	4.48%
Legal & General Group Plc	Direct	8,581,762	3.99%

(1) Total voting rights attaching to the issued ordinary share capital of the company (excluding treasury shares) at the date of disclosure.

Directors

The following served as directors during the year ended 31st March 2011:

Sir John Banham
Mr N A P Carson
Mr A M Ferguson (appointed 13th January 2011)
Sir Thomas Harris
Mr R J MacLeod
Mr L C Pentz
Mr M J Roney
Mr W F Sandford
Mr T E P Stevenson (appointed 29th March 2011)
Mrs D C Thompson
Mr A M Thomson
Mr R J W Walvis

Sir John Banham, Mr Thomson and Mr Walvis will be retiring from the board at the close of the forthcoming Annual General Meeting and therefore do not offer themselves for re-election. Mr Ferguson and Mr Stevenson, both of whom were appointed during the year, will retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for election. In accordance with the provisions of the UK Corporate Governance Code, all the remaining directors will be offering themselves for re-election at the forthcoming Annual General Meeting.

The names and biographical details of all the directors are shown on pages 56 and 57.

Details of the constitution of the board and its committees are set out on pages 58 to 60.

Appointment and Replacement of Directors

The company's Articles of Association provide that the number of directors is not subject to any maximum but must not be less than six, unless otherwise determined by the company by ordinary resolution. Directors may be appointed by an ordinary resolution of the members or by a resolution of the directors. Under the company's Articles of Association, a director appointed by the directors must retire at the next following Annual General Meeting and is not taken into account in determining the directors who are to retire by rotation at the meeting.

Under the company's Articles of Association, at every Annual General Meeting at least one third of directors must retire by rotation. The directors to retire by rotation must include any director who has not been subject to election or re-election at the time of the two preceding Annual General Meetings and (if so required to constitute one third of directors) those directors who have been longest in office since their last appointment or reappointment. Notwithstanding this provision in the Articles of Association, all directors who served throughout the whole of the year ended 31st March 2011 (other than Sir John Banham and Messrs Thomson and Walvis who will be retiring from the board in July 2011) will be offering themselves for re-election at this year's Annual General Meeting in accordance with the UK Corporate Governance Code.

A director may be removed by a special resolution of the company. In addition, a director must automatically cease to be a director if (i) he or she ceases to be a director by virtue of any provision of the Companies Act 2006 or he or she becomes prohibited by law from being a director, or (ii) he or she becomes bankrupt or makes any arrangement or composition with his or her creditors generally, or (iii) he or she is suffering from a mental disorder, or (iv) he or she resigns from his or her office by notice in writing to the company or, in the case of an executive director, his appointment is terminated or expires and the directors resolve that his office be vacated, or (v) he or she is absent for more than six consecutive months without permission of the directors from meetings of the directors and the directors resolve that his or her office be vacated, or (vi) he or she is requested in writing, or by electronic form, by all the other directors to resign.

Powers of the Directors

The powers of the directors are determined by the company's Articles of Association, the Companies Act 2006 and any directions given by the company in general meeting. The directors have been authorised by the Articles of Association to issue and allot ordinary shares and to make market purchases of shares. These powers are referred to shareholders at the Annual General Meeting for renewal. Any shares purchased may be cancelled or held as treasury shares.

Directors' Conflicts of Interests

Procedures are in place to ensure compliance with the directors' conflict of interest duties set out in the Companies Act 2006. The company has complied with these procedures during the year ended 31st March 2011 and the board believes that these procedures operate effectively. During the year, details of any new conflicts or potential conflict matters were submitted to the board for consideration and, where appropriate, these were approved.

At the end of March 2011, the board undertook an annual review of previously approved conflict or potential conflict matters and, to the extent that these were still relevant, agreed that they should continue to be authorised on the terms previously set out. In each case, the review was undertaken by directors who were genuinely independent of the conflict matter. Authorised conflict or potential conflict matters will continue to be reviewed by the board on an annual basis.

Other Statutory Information

Directors' Indemnities

Under Deed Polls the company has granted indemnities in favour of each director of the company in respect of any liability that he or she may incur to a third party in relation to the affairs of the company or any group member. These provisions were in force during the year ended 31st March 2011 for the benefit of all persons who were directors of the company at any time during the year ended 31st March 2011 and remain in force for the benefit of all persons who are directors of the company as at the date when this Report of the Directors was approved.

Under Deed Polls the company has also granted indemnities in favour of each director of its subsidiaries in respect of any liability that he or she may incur to a third party in relation to the affairs of any group member. These provisions were in force during the year ended 31st March 2011 for the benefit of all persons who were directors of the subsidiaries at any time during the year ended 31st March 2011 and remain in force for the benefit of all persons who are directors of the subsidiaries as at the date when this Report of the Directors was approved.

Copies of the Deed Polls and the company's Articles of Association are available for inspection during normal business hours at the company's registered office and will be available for inspection at the forthcoming Annual General Meeting from 10.00 am on Tuesday 19th July 2011 until the conclusion of the meeting.

Corporate Governance and Remuneration

The board's statement on corporate governance matters is given on pages 58 to 61 and its report on directors' remuneration, which includes details of service contracts and the directors' interests in the shares of the company, is set out on pages 68 to 74.

Other than service contracts, no director had any interest in any material contract with any group company at any time during the year ended 31st March 2011.

Articles of Association

The Articles of Association may only be amended by a special resolution at a general meeting of the company.

Change of Control

There are no significant agreements to which the company is a party that take effect following a change of control of the company, but the company and its subsidiaries are party to a number of commercial agreements that may allow the counterparties to alter or terminate the agreements on a change of control of the company following a takeover bid. Other than the matters referred to below, these are not deemed by the company to be significant in terms of their potential effect on the group as a whole.

The group has a number of loan notes and borrowing facilities which may require prepayment of principal and payment of accrued interest and breakage costs if there is change of control of the company. The group has also entered into a series of financial instruments to hedge its currency, interest rate and metal price exposures which provide for termination or alteration if a change of control of the company materially weakens the creditworthiness of the group.

The company is party to a marketing agreement with a subsidiary of Anglo Platinum Limited, originally entered into in 1992, under which the company was appointed as sales and marketing agent for refined platinum group metals worldwide excluding the US and the company agreed to provide certain marketing services. The agreement contains provisions under which the counterparty may have the right to terminate the agreement on a change of control of the company.

The rules of the company's employee share schemes set out the consequences of a change of control of the company on participants' rights under the schemes. Generally such rights will vest and become exercisable on a change of control subject to the satisfaction of relevant performance conditions.

The executive directors' service contracts each contain a provision to the effect that if the contract is terminated by the company within one year after a change of control of the company, the company will pay to the director as liquidated damages an amount equivalent to one year's gross basic salary and other contractual benefits less the period of any notice given by the company to the director. There are no other agreements between the company and its directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) on a change of control of the company following a takeover bid.

Other than the marketing agreement with a subsidiary of Anglo Platinum Limited referred to above, the group does not have any contractual or other arrangements with any persons which the directors consider are essential to the business of the company.

Disabled Persons

A description of the company's policy applied during the year ended 31st March 2011 relating to the recruitment, employment and training of disabled employees can be found on page 50.

Employee Involvement

A description of the action taken by the company during the year ended 31st March 2011 relating to employee involvement can be found on pages 45 to 55.

Use of Financial Instruments

Information on the group's financial risk management objectives and policies and its exposure to credit risk, liquidity risk, interest rate risk and foreign currency risk can be found on pages 111 to 115.

Branches

The company and its subsidiaries have established branches in a number of different countries in which they operate.

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, subject to the supplier having performed its obligations under the relevant contract. It is not the group's policy to follow any specific code or standard on payment practice in respect of its suppliers. At 31st March 2011, the company's aggregate level of 'creditor days' amounted to 8 days. Creditor days are calculated by dividing the aggregate of the amounts which were outstanding as trade payables at 31st March 2011 by the aggregate of the amounts the company was invoiced by suppliers during the year ended 31st March 2011 and multiplying by 365 to express the ratio as a number of days.

Charitable Donations

During the year ended 31st March 2011 the group donated £517,000 (2010 £458,000) to charitable organisations worldwide, of which £320,000 (2010 £298,000) was in the UK.

Further details of contributions made by the group worldwide are given on pages 52 and 53 and in the Sustainability Report which can be found on the company's website at www.matthey.com.

Other Statutory Information

Political Donations and Expenditure

It is the policy of the group not to make political donations. During the year ended 31st March 2011, no donations were made by the company or its subsidiaries to any EU political party, EU political organisation or to any EU independent election candidate (2010 £ nil), no EU political expenditure was incurred (2010 £ nil) and no contributions to political parties outside the EU were made within the meaning of Part 14 of the Companies Act 2006 (2010 £ nil).

Management Report

The Report of the Directors is the 'management report' for the purposes of the Financial Services Authority's Disclosure and Transparency Rules (DTR 4.1.8R).

Auditors and Disclosure of Information

In accordance with section 489 of the Companies Act 2006, resolutions are to be proposed at the forthcoming Annual General Meeting for the reappointment of KPMG Audit Plc as auditors of the company and to authorise the directors to determine their remuneration.

So far as each person serving as a director of the company at the date this Report of the Directors was approved by the board is aware, there is no relevant audit information of which the company's auditors are unaware. Each such director hereby confirms that he or she has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

The Report of the Directors was approved by the Board of Directors on 1st June 2011 and is signed on its behalf by:

S. Farrant

Simon Farrant
Company Secretary

Nomination Committee Report

Role of the Nomination Committee

The Nomination Committee is a 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 group Chairman are set out on pages 56 and 57. Their remuneration is set out on page 71.

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

Only members of the Nomination Committee have the right to attend Nomination Committee meetings. However, the Chief Executive, the Director, Group EHS and HR, external advisers and others may be invited to attend for all or part of any meeting as and when appropriate.

The Company Secretary is secretary to the Nomination Committee.

The Nomination 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 Nomination 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

The Nomination Committee met seven times during the year ended 31st March 2011; on 5th May, 1st June, 20th July, 29th September and 23rd November 2010 and on 1st February and 29th March 2011.

At its prior meetings on 2nd February and 30th March 2010, the Committee had discussed the forthcoming retirement of the Chairman, Sir John Banham, after the Annual General Meeting in July 2011, and had considered the appointment of a successor and a draft specification for the role together with initial proposals from a number of executive search consultants to assist in the recruitment process. The Committee had agreed that the selection process, including the selection of executive search consultants, should be led by the Senior Independent Director and the Chief Executive, assisted by the Director, Group EHS and HR.

The Committee met on 5th May 2010 to further discuss the process for the selection and appointment of a new group Chairman. The Committee considered the specification for the role based on the skills and experience required and assessed the time commitment expected. It also reviewed external search consultancies proposed to be used in the selection process. The Committee reviewed progress at its meeting on 1st June 2010 and considered shortlisted external and internal candidates at its meetings on 20th July and 29th September 2010. Also at its meeting on 29th September 2010, the Committee considered fully the respective merits of the remaining external and internal candidates, including their other significant commitments. After full consideration, the Committee agreed to recommend the appointment of Mr T E P Stevenson as Chairman Designate and for him to take over as Chairman on Sir John Banham's retirement. At its meeting on 1st February 2011, the Committee noted that Mr Stevenson would join the board as Chairman Designate on 29th March 2011. At each of the aforementioned meetings, the Senior Independent Director chaired the discussions relating to the Chairman's successor.

At its prior meetings on 2nd February and 30th March 2010, the Nomination Committee had discussed the prospective retirement of Mr A M Thomson, the Senior Independent Director and Chairman of the Audit Committee, after serving as a non-executive director for nine years, and of Mr R J W Walvis, Chairman of the Management Development and Remuneration Committee, also after serving as a non-executive director for nine years. It was agreed that the process for appointment of successors should be instigated later in the year.

At its meeting on 5th May 2010, the Committee discussed further the need to appoint an additional non-executive director / chair of the Audit Committee following the forthcoming retirement of Mr Thomson. The Committee agreed that the process for selection would be instigated later in the year. On 29th September 2010, the Committee considered a description for the role based on the balance of skills, experience, independence and knowledge on the board and an assessment of the time commitment expected. Profiles were received from external search consultants in respect of several candidates. At its meeting on 23rd November 2010, the Committee reviewed progress, noting the outcome of interviews of the shortlisted candidates. After full consideration, the Committee agreed to recommend the appointment of Mr A M Ferguson as a new non-executive director and prospective Chairman of the Audit Committee.

At its meeting on 29th March 2011, the Committee discussed the need for the board to appoint one of the independent non-executive directors to be the Senior Independent Director following the forthcoming retirement of Mr Thomson. It also discussed the need to appoint a chair of the Management Development and Remuneration Committee following the forthcoming retirement of Mr Walvis. The Committee agreed to consider these matters again at its next meeting.

At its meeting after the year end on 10th May 2011, the Committee noted that Mr M J Roney had agreed to take on the role of Senior Independent Director and the chairmanship of the Management Development and Remuneration Committee upon the retirement of Mr Thomson and Mr Walvis respectively. The Committee recommended these appointments to the board. The board subsequently approved these appointments.

On behalf of the Nomination Committee:

Sir John Banham
Chairman of the Nomination Committee

Audit Committee Report

Role of the Audit Committee

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

- Reviewing the group's half-yearly and full year accounts and results announcements and any other formal announcements relating to the group's financial performance and recommending them to the board for approval.
- Reviewing the group's systems for internal financial control, financial reporting and risk management.
- Monitoring and reviewing the effectiveness of the group'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, recommending their remuneration, and considering their reports on the group's accounts, their reports to shareholders and their evaluation of the 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 56 and 57. Their remuneration is set out on page 71. The Chairman of the Audit Committee is Mr A M Thomson, who was formerly Finance Director of Smiths Group plc and, until April 2011, was President of the Institute of Chartered Accountants of Scotland. Mr A M Ferguson, who joined the board on 13th January 2011, will take over chairmanship of the Audit Committee in July 2011 when Mr Thomson retires. Mr Ferguson was formerly the Chief Financial Officer of Lonmin Plc and is a chartered accountant.

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 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 2011. At its meeting on 27th May 2010 the Committee reviewed the group's preliminary announcement of its results for the financial year ended 31st March 2010, and the draft report and accounts for that year. The Committee received reports from 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 Audit Committee met on 20th July 2010 to receive reports on internal controls from both the internal and external auditors. The external auditors also presented their proposed fees and scope for the forthcoming year's audit. The Committee also assessed the performance of both the internal and external auditors. The review of the external auditors was used to confirm the appropriateness of their reappointment and included assessment of their independence, qualification, expertise and resources, and effectiveness of the audit process. The Committee recommended to the board the reappointment of KPMG Audit Plc as auditors. The group's Sustainability Report 2010/11 was also reviewed, which is available on the company's website at www.matthey.com.

At its meeting on 22nd November 2010 the Audit Committee reviewed the group's half-yearly results, the half-yearly results announcement and the external auditors' review and also papers on key accounting judgments, credit control and credit risk and on litigation affecting the group. The Committee received a presentation on the risks facing the Catalysts, Chemicals and Refining business from its Finance Director. The Committee also reviewed the Audit Inspection Unit's Public Report on the 2009/10 inspection of KPMG Audit Plc.

At its meeting on 1st February 2011 the Audit Committee reviewed the group's risk register and management's and Internal Audit's reports on the effectiveness of the group's systems for internal financial control and risk management. The group's whistleblowing procedures were also reviewed. Changes to the Group Control Manual were ratified. The Committee also approved the internal audit plan for 2011/12.

Since the year end the Committee has met to review the group's preliminary announcement of its results and draft report and accounts for the financial year ended 31st March 2011, and also the group's assessment of going concern.

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. This includes formalities relating to borrowings, shareholders' and other circulars, various other regulatory reports and work in respect of acquisitions and disposals.
- Tax compliance and advice – the auditors may provide such services where they are best suited, but otherwise such work is put out to tender.
- Other services – these may not be provided where precluded by ethical standards or where we believe it would compromise their audit independence and objectivity.

To the extent consistent with the above policy, services likely to cost less than £25,000 may be approved by the Group Finance Director. Services above this amount must be approved by the Chairman of the Audit Committee, unless they are likely to be in excess of £100,000 when they must be approved by the Audit Committee.

The split between audit and non-audit fees for the year ended 31st March 2011 and information on the nature of non-audit fees appear in note 5 on the accounts.

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 and the department's resource requirements and also approved the internal audit plan for the year ending 31st March 2012.

Internal Audit independently reviews the risks and control processes operated by management. It carries out independent audits in accordance with an internal audit plan which is agreed with the Audit Committee before the start of the financial year.

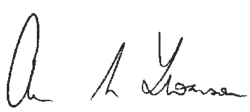
The plan provides a high degree of financial and geographical coverage and devotes significant effort to the review of the risk management framework surrounding the major business risks.

Internal audit reports include recommendations to improve internal controls together with agreed management action plans to resolve the issues raised. Internal Audit follows up the implementation of recommendations and reports progress to senior management and the Audit Committee.

The Audit Committee receives reports from the Head of Internal Audit on the department's work and findings.

The effectiveness of the internal audit function is reviewed and discussed on an annual basis with the Head of Internal Audit.

On behalf of the Audit Committee:



Alan Thomson
Chairman of the Audit Committee

Remuneration Report

Remuneration Report to Shareholders for the Year Ended 31st March 2011

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 56 and 57 and the group Chairman. The Chairman of the Committee throughout the year was Mr R J W Walvis.

The Committee's terms of reference include determination on behalf of the board of fair remuneration for the Chief Executive, the other executive directors and the group Chairman (in which case the group Chairman does not participate), which, while set in the context of what the company can reasonably afford, recognises their individual contributions to the company's overall performance. In addition, the Committee assists the board in ensuring that the company has well developed plans for management succession, including the recruitment and development of senior management, along with appropriate remuneration policies to ensure that management are retained and motivated.

The Director, Group EHS and HR 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 regular intervals.

Executive Remuneration Policy

The key goal in the remuneration policy remains to obtain the best value for shareholders. This requires that the pay and benefits structure is competitive within the sector, whilst simultaneously providing stretching targets that require significant outperformance to maximise incentive payments. The general remuneration policy is to have base salaries reflective of median levels within an appropriate benchmark group and with due consideration given to the performance and growth of the company. Further incentives are available with the potential to lift earnings towards the upper quartile, but only on the achievement of superior performance. The Committee considers the balance between fixed elements of remuneration, such as base salaries, and the performance related aspects of the complete remuneration package, and seeks to ensure that any earnings beyond base salaries are fully reflected in increased shareholder value through higher profits and earnings per share.

The Committee also recognises that there is a competitive market for successful executives and that the provision of appropriate rewards for superior performance is vital to the continued growth of the business.

In determining the remuneration structure, 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 PricewaterhouseCoopers LLP. PricewaterhouseCoopers LLP also provided expatriate tax advice and other tax advice, tax audit work, completion of overseas tax returns, advice on set up of new overseas operations, some overseas payroll services and a review of some financial controls. A statement regarding the use of remuneration consultants for the year ended 31st March 2011 is available on the company's website at www.matthey.com. The Committee also receives recommendations from the Chief Executive on the remuneration of those reporting to him as well as advice from the Director, Group EHS and HR.

To ensure the interests of the executive directors remain aligned with those of the shareholders, they are encouraged to build up over time and hold a shareholding in the company equal to at least their basic salary. Details of directors' shareholdings are set out on page 72.

Pay and Employment Conditions Across the Group

The remuneration policy of the company remains consistent in all countries and at all levels of the company with the overriding consideration being to pay competitive median level salaries and to provide opportunities to increase earnings to higher levels through superior performance. Almost all Johnson Matthey employees are able to earn bonuses based on business performance and around 900 employees are able to earn bonuses based on individual, team and business performance, including personal objectives. Around 900 employees are eligible to participate in the Johnson Matthey Long Term Incentive Plan (LTIP).

In setting executive director basic salaries, annual bonus awards and LTIP allocations, the Committee is made aware of comparative data relating to the pay and benefits of other group employees. Pay awards throughout Johnson Matthey's global operations have generally ranged between 0% and 10% in the last year, depending on local pay conditions and on local business and economic conditions. International data provided by the Hay Group is also utilised in considering and determining local settlements.

Executive Remuneration Policy (continued)

2010/11 Review of Executive Remuneration Policy – Triennial Review

Executive remuneration policy is normally reviewed by the Committee annually and a formal review is undertaken every three years. The previous formal review took place in 2006/07 and the review due in 2009/10 was delayed due to the uncertain market conditions prevailing at that time. Therefore, during 2010/11 the Committee undertook a comprehensive review of executive director and senior management remuneration arrangements within the group, which included advice from PricewaterhouseCoopers LLP and consultation with the company's major institutional shareholders.

The major inputs to the review were benchmarking data from an appropriate group of companies and a review of the group's performance and growth since the last review. For the purposes of the triennial review, the benchmark peer group comprised 20 adjacent industrial and service companies, with ten either side of Johnson Matthey, as measured by market capitalisation. In determining the overall remuneration package, due cognisance was also taken of the general performance of the group through the recession and in the return to more normal market conditions during the last year. Additionally, a consultation exercise on the changes was carried out with major shareholders in early 2011 and all changes to the remuneration structure remain within the parameters agreed under previous shareholder approvals.

Changes with Effect from 1st April 2011

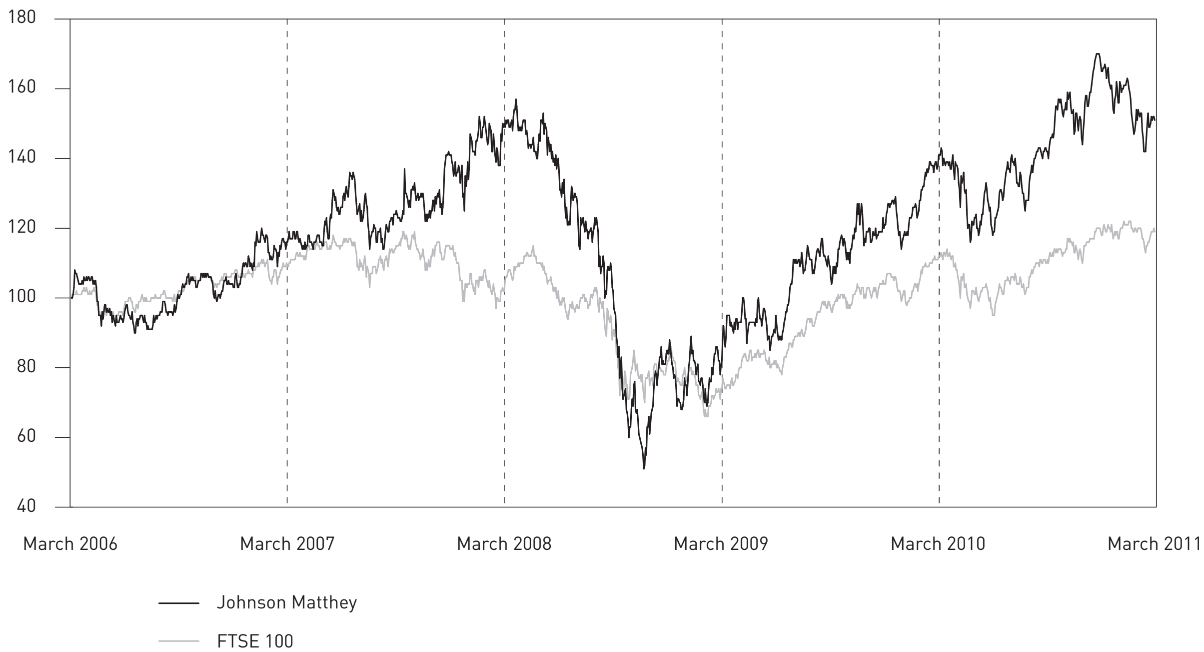
As a result of the review undertaken in 2010/11, the Committee has approved the following changes to executive remuneration with effect from 1st April 2011:

1. Change in level of annual bonus, including deferral and clawback
   - The Chief Executive's maximum annual bonus opportunity is now set at 150% of basic salary, but one third of the achieved bonus is to be deferred for three years.
   - The executive directors' maximum annual bonus opportunity is now set at 125% of basic salary, but one fifth of the achieved bonus is to be deferred for three years.
   - The deferred element of the annual bonus will be converted into shares and held for three years before release.
   - The annual bonus will continue to be based on consolidated underlying profit before tax (PBT) compared with the annual budget.
   - The deferred element of the annual bonus is subject to clawback in the case of misstatement or misconduct, or other relevant reason as determined by the Committee.
2. Change in allocation levels under the LTIP
   - The Chief Executive's annual allocation level is increased to 175% of basic salary.
   - The executive directors' annual allocation levels are increased to 140% of basic salary.
   - The underlying earnings per share (EPS) performance target remains unchanged and requires annual compound growth in EPS of 6% per annum for threshold vesting and 15% compound for maximum vesting. The Committee also retains discretion to vary the award if the return on invested capital (ROIC) underpin over the performance period is not achieved in line with planned expectations.

Johnson Matthey and FTSE 100 Total Shareholder Return rebased to 100

The following graph charts total cumulative shareholder return of the company for the five year period from 31st March 2006 to 31st March 2011 against the FTSE 100 as the most appropriate comparator group, rebased to 100 at 1st April 2006. The graph shows significant outperformance by Johnson Matthey against the FTSE 100 group over the five year period.

As at 31st March 2011, Johnson Matthey was ranked 74th by market capitalisation in the FTSE 100.



Executive Remuneration for the Year Ended 31st March 2011

Executive directors' remuneration consists of the following:

- **Basic Salary** – in setting the level of basic salaries there are a number of key determinants, the first of which is the performance of the individual executive. Performance is considered against a broad set of parameters including financial, environmental, social and governance issues. The second factor taken into account is the length of time that the executive director has been in post. For example, where an internal promotion has taken 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. The third important factor is the relevant comparator with the equivalent posts in appropriate benchmark companies. For the purposes of benchmarking, the remuneration comparator used by the Committee during 2010/11 for executive directors was drawn from FTSE 100 and 250 industrial and service companies (excluding the oil and financial sectors) with market capitalisation of around £2.25 billion and with over 40% of revenue coming from overseas. Further independent benchmark data was sourced from the Hay Group. Basic salary is normally reviewed on 1st August each year.
- **Annual Bonus** – 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 190 or so most senior executives). The executive directors' bonus award is based on PBT compared with the annual budget. The board rigorously reviews the annual budget to ensure that the budgeted PBT is sufficiently stretching. An annual bonus payment of 50% of basic salary (prevailing at 31st March) is paid if the group meets the annual budget. This bonus may rise on a straight line basis to a maximum 100% of basic salary if 110% of budgeted PBT is achieved. PBT must reach 95% of budget for a minimum bonus of 15% to be payable. The Committee has discretion in awarding annual bonuses and is able to consider corporate performance on environmental, social and governance issues when awards are made to executive directors. The Committee ensures that the incentive structure for senior management does not raise environmental, social and governance risks by inadvertently motivating irresponsible behaviour. The bonus awarded to executive directors for 2010/11 was 100% of basic salary at 31st March 2011 based on achieved PBT levels. Details of changes in the level of annual bonus, with effect from 1st April 2011, can be found on page 69.
- **LTIP** – is designed to achieve above average performance and growth over the long term. Shares allocated under the terms of the LTIP (which also applies to the group's 900 senior and middle managers) are released on the third anniversary of the allocation date and are subject to an EPS performance target. The LTIP allows share allocations of up to a maximum of 200% of basic annual salary each year (to take account of evolution of market practice if required). Share allocations made in 2008, 2009 and 2010 (all of which are still outstanding) were 150% of basic annual salary for the Chief Executive and 120% for executive directors. In 2009, there was a one-off allocation of 170% of basic salary to the then newly appointed Group Finance Director to ensure close alignment of his objectives with those of shareholders. Details of changes in LTIP allocation levels, with effect from 1st April 2011, are given on page 69.

  The release of the share allocation is subject to the achievement of a performance target measured over a three year performance period commencing in the year of allocation. The performance target is based on the compound annual growth in the company's underlying EPS. The minimum release, of 15% of the allocation, requires underlying EPS growth of 6% compound per annum over the three year period. For the maximum release of 100% of the allocation, underlying EPS must have grown by at least 15% compound per annum over the three year performance period.

  The number of allocated shares released will vary on a straight line basis between these points. There is no retesting of the performance target and so allocations will lapse if underlying EPS growth is less than 6% compound per annum over the three year performance period.

  In 2009 the Committee approved an adjustment to the performance targets for one year only to reflect the market conditions prevailing at the time of allocation. The top ten major shareholders were consulted regarding this adjustment. For the 2009 allocation only, the minimum release, of 15% of the allocation, requires underlying EPS growth of 3% compound per annum over the three year period, with no retesting of the performance target. For the maximum release of 100% of the allocation, underlying EPS must have grown by at least 10% compound per annum over the three year performance period. As a result of this adjustment, the level of award was reduced to 120% of basic annual salary for the Chief Executive and 100% for executive directors.

  Although growth in underlying EPS is the primary financial measure, it is also a key objective of the company to achieve earnings growth only in the context of a good performance on ROIC. Accordingly, the Committee is required to make an assessment of the group's ROIC over the performance period to ensure underlying EPS growth has been achieved with ROIC in line with the group's planned expectations. The Committee may scale back vesting to the extent that ROIC has not developed appropriately.
- **Share Options** – the LTIP is now the company's single means for the provision of long term awards and from 2007 replaced the granting of share options under the Johnson Matthey 2001 Share Option Scheme (the 2001 Scheme). From 2001 to 2006 options were granted each year under the 2001 Scheme. There have been no option grants since 2006. Options were granted at the market value of the company's shares at the time of grant and were subject to performance targets over a three year period. Options may be exercised upon satisfaction of the relevant performance targets. Approximately 800 employees were granted options under the 2001 Scheme each year.

  Options granted from 2004 to 2006 – Grants made in 2004, 2005 and 2006 were subject to a three year performance target of EPS growth of UK RPI plus 3% per annum. If the performance target was not met at the end of the three year performance period, the options lapsed as there was no retesting of the performance target. In addition, to reduce the cost calculated under the International Financial Reporting Standard 2 – 'Share-based Payment', gains made on the exercise of options are capped at 100% of the grant price.

  The Committee had the discretion to award grants greater than 100% of basic annual salary. Grants which were made above this threshold were, however, subject to increasingly stretching performance targets. Grants between 100% and 125% of basic annual salary were subject to EPS growth of UK RPI plus 4% per annum and grants between 125% and 150% of basic annual salary were subject to EPS growth of UK RPI plus 5% per annum. The executive directors were granted options equal to 150% of basic annual salary. All the options, other than those granted in 2006 which were subject to EPS growth of UK RPI plus 5% per annum, have met their performance targets. The 2006 options which did not meet their performance targets have lapsed.

Remuneration Report

Executive Remuneration for the Year Ended 31st March 2011 (continued)

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 were subject to a performance target of EPS growth of UK RPI plus 4% per annum over any three consecutive years during the life of the option. The performance target was subject to annual retesting until the lapse of the options on the tenth anniversary of grant. All of these options have met their performance targets.

- **Pensions** – all the executive directors are members of the Johnson Matthey Employees Pension Scheme (JMEPS) in the UK.

  Full disclosure of the pension arrangements are set out on pages 73 and 74.

- **Other Benefits** – which are 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. The contracts of service of the executive directors and the terms and conditions of appointment of the non-executive directors are available for inspection at the company's registered office during normal business hours and at the forthcoming Annual General Meeting.

Directors' Emoluments 2010/11

	Date of service agreement	Date of appointment	Basic salary £'000	Payment in lieu of pension[1] £'000	Annual bonus £'000	Benefits £'000	Total excluding pension £'000	Total prior year excluding pension £'000
Executive								
N A P Carson [2]	1.8.99	1.8.99	733	183	750	21	1,687	1,596
R J MacLeod [3]	3.2.09	22.6.09	398	–	407	17	822	591
L C Pentz [4]	1.1.06	1.8.03	382	–	390	38	810	787
W F Sandford	21.7.09	21.7.09	330	83	345	16	774	471
Total Directors			**1,843**	**266**	**1,892**	**92**	**4,093**	**3,445[5]**

	Date of letter of appointment	Date of appointment	Fees £'000	Total excluding pension £'000	Total prior year excluding pension £'000
Non-Executive [6]					
Sir John Banham (Chairman)	10.12.05	1.1.06	293	293	280
A M Ferguson	10.1.11	13.1.11	11	11	–
Sir Thomas Harris	22.1.09	1.4.09	50	50	45
M J Roney	29.3.07	1.6.07	50	50	45
T E P Stevenson (Chairman Designate)	10.1.11	29.3.11	–[7]	–[7]	–
D C Thompson	22.5.07	1.9.07	50	50	45
A M Thomson	1.8.02	24.9.02	60[8]	60	50
R J W Walvis	1.8.02	24.9.02	58[9]	58	50
Total			**572**	**572**	**515**

The aggregate amount of remuneration receivable by directors and non-executive directors totalled £4,665,000 (2010 £5,721,000).

Notes

(1) Messrs Carson and Sandford ceased to accrue pensionable service in the Johnson Matthey Employees Pension Scheme with effect from 31st March 2006. They received an annual cash payment in lieu of pension equal to 25% of basic salary. This is taxable under the PAYE system.

(2) Mr Carson is a non-executive director of AMEC plc. His fees in respect of this non-executive directorship were £31,201 from the date of his appointment on 31st August 2010. This amount is excluded from the table above and retained by him.

(3) Mr MacLeod is a non-executive director of Aggreko plc. His fees for the year in respect of this non-executive directorship were £51,000. This amount is excluded from the table above and retained by him.

(4) Mr Pentz is a non-executive director of Victrex plc. His fees for the year in respect of this non-executive directorship were £44,000. This amount is excluded from the table above and retained by him.

(5) The total prior year relates to continuing directors only. Two of the continuing directors, Messrs MacLeod and Sandford, only served part of the prior year. Emoluments of former directors who left during the prior year were £1,761,000 including £833,000 compensation for loss of office.

(6) Non-executive fees (other than for the Chairman) were reviewed on 1st April 2010 for the period from 1st April 2010 to 31st March 2013. The fees are £50,000 per annum, with the fee for chairmanship of the Audit Committee being £10,000 per annum and the Management Development and Remuneration Committee being £8,000 per annum. The Chairman's fees were reviewed on 1st August 2010 for the period 1st August 2010 to 19th July 2011 (the date of his retirement). The Chairman and the non-executive directors do not receive any pension benefits, LTIP allocations, share option grants or bonus payments. The Chairman's fees include £25,000 per annum to cover his administrative and secretarial support costs.

(7) Mr Stevenson was appointed to the board on 29th March 2011 and his fees from the date of appointment to 31st March 2011 were £400.

(8) Includes £10,000 per annum for chairmanship of the Audit Committee.

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

Directors' Interests

The interests (in respect of which transactions are notifiable to the company under the Financial Services Authority's Disclosure and Transparency Rules) of the directors as at 31st March 2011 in the shares of the company were:

1. Ordinary Shares

	31st March 2011	31st March 2010
Sir John Banham	18,400	18,400
N A P Carson	174,374	174,027
A M Ferguson	1,000	– [1]
Sir Thomas Harris	1,807	1,180
R J MacLeod	3,368	3,400
L C Pentz	25,383	24,968
M J Roney	3,000	3,000
W F Sandford	5,091	4,839
T E P Stevenson	–	– [1]
D C Thompson	9,721	9,721
A M Thomson	2,435	2,383
R J W Walvis	1,000	1,000

[1] At date of appointment.

All of the above interests were beneficial. The executive directors are also deemed to be interested in shares held by an employee share ownership trust (see note 31 on page 118).

Directors' interests as at 31st May 2011 were unchanged from those listed above, other than that the trustees of the Johnson Matthey Share Incentive Plan have purchased on behalf of Messrs Carson, MacLeod, Pentz and Sandford a further 39 shares each.

2. Share Options

As at 31st March 2011, individual holdings by the directors 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	18.7.01	19,391	1,083.00	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	
	20.7.05	77,102	1,070.00	20.7.08	20.7.15	
	26.7.06	59,481	1,282.00	26.7.09	26.7.16	218,282
						(2010 218,282)
L C Pentz	17.7.02	17,730	865.00	17.7.05	17.7.12	
	17.7.03	17,185	898.00	17.7.06	17.7.13	
	20.7.05	37,850	1,070.00	20.7.08	20.7.15	
	26.7.06	28,765	1,282.00	26.7.09	26.7.16	101,530
						(2010 114,482)
W F Sandford	26.7.06	18,868	1,282.00	26.7.09	26.7.16	18,868
						(2010 18,868)

Between 1st April 2010 and 31st March 2011 the following options were exercised by directors:

	Date of grant	Date of exercise	Options exercised	Exercise price (pence)	Market price on exercise (pence)
L C Pentz	18.7.01	16.9.10	12,952	1,083.00	1,763.50

Gains made on exercise of options by the directors during the year totalled £88,138 (2010 £2,106,852).

The closing market price of the company's shares at 31st March 2011 was 1,860 pence. The highest and lowest closing market prices during the year ended 31st March 2011 were 2,100 pence and 1,460 pence respectively.

Directors' Interests (continued)

3. LTIP Allocations

Number of allocated shares:

	As at 31st March 2010	Allocations during the year	Market price at date of allocation (pence)	Lapsed during the year [1]	As at 31st March 2011
N A P Carson	184,554	72,393	1,554.00	56,704	200,243
R J MacLeod	55,072	31,397	1,554.00	–	86,469
L C Pentz	75,296	30,115	1,554.00	22,327	83,084
W F Sandford	56,161	26,640	1,554.00	15,268	67,533

(1) On 25th July 2010 shares allocated under the LTIP on 25th July 2007 lapsed as the relevant performance target was not met.

Pensions

Pensions and life assurance benefits for the executive directors are provided through the company's single 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. It is a registered scheme for the purposes of the Finance Act 2004.

Pensions that accrued in respect of service up to 31st March 2010 are based on a member's final salary at the point of retirement, or earlier date of withdrawal from employment. Pensions that accrue in respect of service from 1st April 2010 are based on career average salaries. Members are not required to pay contributions for these defined benefits. Members may pay contributions to a defined contribution account and the company will match the first 3% of pensionable pay each year.

Under the provisions of the Finance Act 2004 benefits from a registered pension scheme that exceed a Life Time Allowance, currently £1.8 million, will be subject to an additional tax charge of 25%. Any such tax charge arising out of membership of JMEPS will be paid by the Trustees at the point of retirement and the member's benefits will be reduced accordingly. Employees, including executive directors, whose retirement benefits are valued in excess of the Life Time Allowance may withdraw from pensionable service and receive instead a supplemental payment of 25% of basic salary each year.

Messrs Carson and Sandford withdrew from pensionable service and ceased paying member contributions on 31st March 2006. No pensionable service in JMEPS has been accrued by these directors since those dates. The increase in accrued pension in the tables below is attributable solely to the increase in basic salary in 2010/11. The supplemental payments received by Messrs Carson and Sandford are reflected in the table on page 71.

The Finance Act 2009 restricted tax relief to the basic rate of income tax on any contributions paid by "high earners" that exceed a Special Annual Allowance. Tax relief at the top rate of income tax is achieved at source, but the difference is repaid to HM Revenue & Customs through self assessment. This is the personal responsibility of individuals. These regulations were replaced by a reduced Annual Allowance for tax relief on pension savings with effect from 6th April 2011.

Disclosure of directors' pension benefits has been made under the requirements of the Financial Services Authority's Listing Rules and in accordance with the Companies Act 2006. The information below sets out the disclosures under the two sets of requirements.

a. Financial Services Authority's Listing Rules

	Age as at 31st March 2011	Years of JMEPS pensionable service at 31st March 2011	Directors' contributions to JMEPS during the year [1,2] £'000	Increase in accrued pension during the year (net of inflation) [3] £'000 pa	Total accrued pension as at 31st March 2011 [4] £'000 pa	Total accrued pension as at 31st March 2010 £'000 pa	Transfer value of increase in accrued pension [5] £'000
N A P Carson [4]	53	25	–	8	353	329	152
R MacLeod [2]	46	2	–	5	9	4	46
L C Pentz [6]	55	26	–	7	90	83	139
W F Sandford [4]	57	28	–	16	179	155	342

b. Companies Act 2006

	Directors' contributions to JMEPS in the year [1,2] £'000	Increase in accrued pension in the year £'000 pa	Total accrued pension as at 31st March 2011 [4] £'000 pa	Transfer value of accrued pension as at 31st March 2011 [5] £'000	Transfer value of accrued pension as at 31st March 2010 [5] £'000	Increase in transfer value £'000
N A P Carson [4]	–	24	353	6,402	4,952	1,450
R MacLeod [2]	–	5	9	81	27	54
L C Pentz [6]	–	7	90	1,371	1,052	319
W F Sandford [4]	–	24	179	3,779	2,734	1,045

Pensions (continued)

Notes

(1) No members are required to pay contributions for the career average salary defined benefits.

(2) Messrs Macleod and Pentz paid contributions on a voluntary basis into the defined contribution account at the rate of 3% of basic salary. The company paid a matching contribution for each.

(3) The disclosure regulations require the pension accrued to the end of the previous year to be adjusted for inflation. Inflation was 4.6% for the year to 30th September 2010 as prescribed in the Revaluation Order issued under the Pensions Act 1993.

(4) The entitlement shown under "Total accrued pension at 31st March 2011" is the pension which would be paid annually on retirement, based on pensionable service to 31st March 2011 (except in the case of Messrs Carson and Sandford whose pensionable service ceased on 31st March 2006). The final salary related pension accrued to 31st March 2010 would be subject to an actuarial reduction for each month that retirement precedes age 60. All pensions accrued in respect of service from 1st April 2010 will be reduced if taken before age 65.

(5) The transfer values have been calculated on the basis of actuarial advice in accordance with the transfer value regulations. No allowance has been made in the transfer values for any discretionary benefits that have been or may be awarded under JMEPS. The transfer value disclosed under the Financial Services Authority's Listing Rules is the value of the increase in the accrued pension as at 31st March 2011 (net of inflation). The transfer values disclosed under the Companies Act 2006 have been calculated at the start and the end of the year and, therefore, also take account of market movements.

(6) Mr Pentz is a US citizen but became a member of JMEPS on 1st January 2006. Prior to that he was a member of the Johnson Matthey Inc. Salaried Employees Pension Plan (a non-contributory defined benefit arrangement) and also of a US savings plan (401k). He also has benefits in a Senior Executive Retirement Plan. The pension values reported above are the aggregate for his separate membership of the UK and US pension schemes and the Senior Executive Retirement Plan. US entitlements have been converted to sterling by reference to exchange rates on 31st March 2010 and 31st March 2011. Mr Pentz's US pension was fixed on 31st December 2005. The sterling equivalent of it has fluctuated over the year as a result of exchange rate movements. This is reflected in the transfer values.

The Remuneration Report was approved by the Board of Directors on 1st June 2011 and signed on its behalf by:

Robert Walvis
Chairman of the Management Development and Remuneration Committee

Responsibility of Directors

Statement of Directors' Responsibilities in Respect of the Annual Report and Accounts

The directors are responsible for preparing the annual report and the group and parent company accounts in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company accounts for each financial year. Under that law they are required to prepare the group accounts in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and applicable law and have elected to prepare the parent company accounts on the same basis.

Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the EU; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its accounts comply with the Companies Act 2006. 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.

Under applicable law and regulations the directors are also responsible for preparing a directors' report, directors' Remuneration Report and Corporate Governance statement that comply with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of accounts may differ from legislation in other jurisdictions.

Responsibility Statement of the Directors in Respect of the Annual Report and Accounts

Each of the directors as at the date of the Annual Report and Accounts, whose names and functions are set out on pages 56 and 57, states that to the best of his or her knowledge:

- the group and parent company accounts, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the management report (which comprises the Report of the Directors) includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

This responsibility statement was approved by the Board of Directors on 1st June 2011 and is signed on its behalf by:

Sir John Banham
Chairman

Consolidated Income Statement

for the year ended 31st March 2011

	Notes	2011 £ million	2010 £ million
Revenue	1,2	**9,984.8**	7,839.4
Cost of sales		**(9,328.2)**	(7,325.4)
Gross profit		**656.6**	514.0
Distribution costs		**(121.2)**	(103.6)
Administrative expenses		**(169.2)**	(138.6)
Major impairment and restructuring charges	3	**(71.8)**	(11.3)
Amortisation of acquired intangibles	4	**(13.2)**	(9.9)
Operating profit	1,6	**281.2**	250.6
Finance costs	7	**(33.1)**	(30.5)
Finance income	8	**12.4**	11.1
Share of profit of associate	19	**–**	1.7
Dissolution of associate	19	**0.1**	(4.4)
Profit before tax		**260.6**	228.5
Income tax expense	9	**(76.0)**	(64.3)
Profit for the year from continuing operations		**184.6**	164.2
Loss for the year from discontinued operations	40	**(1.9)**	–
Profit for the year		**182.7**	164.2
Attributable to:			
Owners of the parent company		**182.3**	164.2
Non-controlling interests		**0.4**	–
		182.7	164.2
		pence	pence
Earnings per ordinary share attributable to the equity holders of the parent company			
Continuing operations			
Basic	11	**86.5**	77.6
Diluted	11	**86.0**	77.3
Total			
Basic	11	**85.6**	77.6
Diluted	11	**85.1**	77.3

Consolidated Statement of Total Comprehensive Income

for the year ended 31st March 2011

	Notes	2011 £ million	2010 £ million
Profit for the year		**182.7**	164.2
Other comprehensive income:			
Currency translation differences	32	**(7.9)**	(5.7)
Cash flow hedges	32	**3.7**	27.0
Fair value gains on net investment hedges		**2.2**	32.8
Actuarial gain / (loss) on post-employment benefits assets and liabilities	14	**85.4**	(124.6)
Share of other comprehensive income of associate		**–**	0.2
Tax on above items taken directly to or transferred from equity	33	**(30.0)**	34.1
Other comprehensive income / (expense) for the year		**53.4**	(36.2)
Total comprehensive income for the year		**236.1**	128.0
Attributable to:			
Owners of the parent company		**235.7**	127.9
Non-controlling interests		**0.4**	0.1
		236.1	128.0

The notes on pages 86 to 124 form an integral part of the accounts.

Consolidated and Parent Company Balance Sheets

as at 31st March 2011

	Notes	Group 2011 £ million	Group 2010 £ million	Parent company 2011 £ million	Parent company 2010 £ million
Assets					
Non-current assets					
Property, plant and equipment	15	**907.7**	921.6	**230.8**	245.3
Goodwill	16	**529.5**	513.8	**110.5**	110.5
Other intangible assets	17	**152.9**	131.6	**6.4**	6.3
Investments in subsidiaries	18	**–**	–	**1,506.2**	1,518.7
Investment in associate	19	**–**	3.4	**–**	–
Deferred income tax assets	30	**39.7**	57.1	**19.9**	49.1
Available-for-sale investments	20	**8.0**	7.5	**–**	–
Swaps related to borrowings	25	**23.7**	19.3	**23.7**	19.3
Other receivables	23	**3.0**	3.1	**524.0**	466.4
Post-employment benefits net assets	14	**3.8**	4.6	**–**	–
Total non-current assets		**1,668.3**	1,662.0	**2,421.5**	2,415.6
Current assets					
Inventories	21	**556.3**	390.1	**154.8**	101.2
Current income tax assets		**9.4**	12.9	**–**	–
Trade and other receivables	23	**892.2**	639.3	**793.3**	637.5
Cash and cash equivalents – cash and deposits	25	**118.9**	179.1	**23.1**	88.4
Other financial assets	27	**6.9**	6.5	**7.2**	9.0
Total current assets		**1,583.7**	1,227.9	**978.4**	836.1
Total assets		**3,252.0**	2,889.9	**3,399.9**	3,251.7
Liabilities					
Current liabilities					
Trade and other payables	24	**(662.4)**	(527.2)	**(1,286.3)**	(1,372.0)
Current income tax liabilities		**(113.8)**	(91.0)	**(15.4)**	(17.9)
Cash and cash equivalents – bank overdrafts	25	**(24.5)**	(14.7)	**(74.1)**	(10.3)
Other borrowings and finance leases	25	**(181.8)**	(98.8)	**(146.8)**	(84.7)
Other financial liabilities	26	**(6.5)**	(8.0)	**(7.8)**	(9.2)
Provisions	29	**(59.7)**	(8.7)	**(2.5)**	(0.4)
Total current liabilities		**(1,048.7)**	(748.4)	**(1,532.9)**	(1,494.5)
Non-current liabilities					
Borrowings, finance leases and related swaps	25	**(575.7)**	(558.3)	**(575.0)**	(551.7)
Deferred income tax liabilities	30	**(60.3)**	(56.5)	**–**	–
Employee benefits obligations	14	**(134.2)**	(250.3)	**(73.2)**	(171.5)
Provisions	29	**(22.7)**	(19.6)	**(13.3)**	(9.5)
Other payables	24	**(4.8)**	(6.0)	**(0.2)**	–
Total non-current liabilities		**(797.7)**	(890.7)	**(661.7)**	(732.7)
Total liabilities		**(1,846.4)**	(1,639.1)	**(2,194.6)**	(2,227.2)
Net assets		**1,405.6**	1,250.8	**1,205.3**	1,024.5
Equity					
Share capital	31	**220.7**	220.7	**220.7**	220.7
Share premium account		**148.3**	148.3	**148.3**	148.3
Shares held in employee share ownership trust (ESOT)		**(35.8)**	(30.7)	**(35.8)**	(30.7)
Other reserves	34	**69.3**	73.4	**1.8**	0.2
Retained earnings		**1,002.0**	837.7	**870.3**	686.0
Total equity attributable to owners of the parent company		**1,404.5**	1,249.4	**1,205.3**	1,024.5
Non-controlling interests		**1.1**	1.4	**–**	–
Total equity		**1,405.6**	1,250.8	**1,205.3**	1,024.5

The accounts were approved by the Board of Directors on 1st June 2011 and signed on its behalf by:

N A P Carson
R J MacLeod Directors

The notes on pages 86 to 124 form an integral part of the accounts.

Consolidated and Parent Company Cash Flow Statements

for the year ended 31st March 2011

	Notes	Group 2011 £ million	Group 2010 £ million	Parent company 2011 £ million	Parent company 2010 £ million
Cash flows from operating activities					
Profit before tax		**260.6**	228.5	**231.1**	376.9
Adjustments for:					
Share of profit of associate	*19*	**–**	(1.7)	**–**	–
Dissolution of associate	*19*	**(0.1)**	4.4	**–**	–
Discontinued operations	*40*	**(1.9)**	–	**–**	–
Depreciation, amortisation, impairment losses and profit on sale of non-current assets and investments		**167.5**	140.3	**41.9**	41.2
Share-based payments		**11.3**	4.7	**6.7**	4.2
(Increase) / decrease in inventories		**(159.6)**	(22.1)	**(53.4)**	12.0
Increase in receivables		**(250.1)**	(123.1)	**(215.3)**	(53.9)
Increase / (decrease) in payables		**113.3**	47.1	**(96.6)**	(90.7)
Increase in provisions		**52.0**	2.5	**5.8**	1.1
Contributions in excess of employee benefit obligations charge		**(26.8)**	(24.9)	**(23.4)**	(7.9)
Changes in fair value of financial instruments		**1.7**	1.3	**1.0**	1.6
Dividends received from subsidiaries		**–**	–	**(123.3)**	(276.8)
Net finance costs		**20.7**	19.4	**(20.0)**	(11.5)
Income tax (paid) / received		**(64.7)**	(0.7)	**(16.0)**	41.1
Net cash inflow / (outflow) from operating activities		**123.9**	275.7	**(261.5)**	37.3
Cash flows from investing activities					
Dividends received from associate	*19*	**3.5**	0.6	**–**	–
Dividends received from subsidiaries		**–**	–	**123.3**	276.8
Purchases of non-current assets and investments	*35*	**(137.4)**	(131.8)	**(29.1)**	(239.8)
Proceeds from sale of non-current assets and investments		**3.9**	0.3	**3.8**	–
Purchases of businesses	*35*	**(53.1)**	(5.7)	**–**	–
Net proceeds from sale of businesses	*35*	**–**	–	**–**	56.3
Net cash (outflow) / inflow from investing activities		**(183.1)**	(136.6)	**98.0**	93.3
Cash flows from financing activities					
Net (cost of) / proceeds on ESOT transactions in own shares	*35*	**(9.1)**	18.4	**(9.1)**	18.4
Proceeds from borrowings and finance leases	*35*	**95.2**	30.1	**101.0**	31.9
Dividends paid to equity holders of the parent company	*10*	**(86.1)**	(78.4)	**(86.1)**	(78.4)
Dividends paid to non-controlling interests		**(0.5)**	–	**–**	–
Settlement of currency swaps for net investment hedging		**7.4**	(25.3)	**7.4**	(25.3)
Proceeds from non-controlling interest on share issue		**–**	0.3	**–**	–
Interest paid		**(33.1)**	(31.5)	**(42.0)**	(46.7)
Interest received		**13.7**	10.4	**63.2**	52.6
Net cash (outflow) / inflow from financing activities		**(12.5)**	(76.0)	**34.4**	(47.5)
(Decrease) / increase in cash and cash equivalents in the year		**(71.7)**	63.1	**(129.1)**	83.1
Exchange differences on cash and cash equivalents		**1.7**	1.5	**–**	–
Cash and cash equivalents at beginning of year		**164.4**	99.8	**78.1**	(5.0)
Cash and cash equivalents at end of year	*36*	**94.4**	164.4	**(51.0)**	78.1

	Notes	Group 2011 £ million	Group 2010 £ million	Parent company 2011 £ million	Parent company 2010 £ million
Reconciliation to net debt					
(Decrease) / increase in cash and cash equivalents in the year		**(71.7)**	63.1	**(129.1)**	83.1
Proceeds from borrowings and finance leases		**(95.2)**	(30.1)	**(101.0)**	(31.9)
Change in net debt resulting from cash flows		**(166.9)**	33.0	**(230.1)**	51.2
Borrowings acquired with subsidiaries		**(21.5)**	–	**–**	–
Exchange differences on net debt		**22.4**	28.0	**20.0**	26.7
Movement in net debt in year		**(166.0)**	61.0	**(210.1)**	77.9
Net debt at beginning of year		**(473.4)**	(534.4)	**(539.0)**	(616.9)
Net debt at end of year	*25*	**(639.4)**	(473.4)	**(749.1)**	(539.0)

The notes on pages 86 to 124 form an integral part of the accounts.

Consolidated Statement of Changes in Equity

for the year ended 31st March 2011

	Share capital £ million	Share premium account £ million	Shares held in ESOT £ million	Other reserves (note 34) £ million	Retained earnings £ million	Total attributable to equity holders £ million	Non-controlling interests £ million	Total equity £ million
At 1st April 2009	220.7	148.3	(61.8)	18.5	849.6	1,175.3	0.8	1,176.1
Profit for the year	–	–	–	–	164.2	164.2	–	164.2
Actuarial loss on post-employment benefits	–	–	–	–	(124.6)	(124.6)	–	(124.6)
Cash flow hedges	–	–	–	27.0	–	27.0	–	27.0
Associate's cash flow hedges	–	–	–	0.2	–	0.2	–	0.2
Net investment hedges	–	–	–	32.8	–	32.8	–	32.8
Currency translation differences	–	–	–	(5.8)	–	(5.8)	0.1	(5.7)
Tax on other comprehensive income	–	–	–	0.7	33.4	34.1	–	34.1
Total comprehensive income	–	–	–	54.9	73.0	127.9	0.1	128.0
Dividends paid (note 10)	–	–	–	–	(78.4)	(78.4)	(0.2)	(78.6)
Acquisition of non-controlling interest	–	–	–	–	–	–	0.4	0.4
Share issue to non-controlling interest	–	–	–	–	–	–	0.3	0.3
Share-based payments	–	–	–	–	10.4	10.4	–	10.4
Cost of shares transferred to employees	–	–	31.1	–	(18.4)	12.7	–	12.7
Tax on share-based payments	–	–	–	–	1.5	1.5	–	1.5
At 31st March 2010	220.7	148.3	(30.7)	73.4	837.7	1,249.4	1.4	1,250.8
Profit for the year	–	–	–	–	182.3	182.3	0.4	182.7
Actuarial gain on post-employment benefits	–	–	–	–	85.4	85.4	–	85.4
Cash flow hedges	–	–	–	3.7	–	3.7	–	3.7
Net investment hedges	–	–	–	2.2	–	2.2	–	2.2
Currency translation differences	–	–	–	(7.9)	–	(7.9)	–	(7.9)
Tax on other comprehensive income	–	–	–	(2.1)	(27.9)	(30.0)	–	(30.0)
Total comprehensive income	–	–	–	(4.1)	239.8	235.7	0.4	236.1
Dividends paid (note 10)	–	–	–	–	(86.1)	(86.1)	(0.7)	(86.8)
Purchase of shares by ESOT	–	–	(16.7)	–	–	(16.7)	–	(16.7)
Share-based payments	–	–	–	–	17.1	17.1	–	17.1
Cost of shares transferred to employees	–	–	11.6	–	(10.3)	1.3	–	1.3
Tax on share-based payments	–	–	–	–	3.8	3.8	–	3.8
At 31st March 2011	**220.7**	**148.3**	**(35.8)**	**69.3**	**1,002.0**	**1,404.5**	**1.1**	**1,405.6**

The notes on pages 86 to 124 form an integral part of the accounts.

Parent Company Statement of Changes in Equity

for the year ended 31st March 2011

	Share capital £ million	Share premium account £ million	Shares held in ESOT £ million	Other reserves (note 34) £ million	Retained earnings £ million	Total equity £ million
At 1st April 2009	220.7	148.3	(61.8)	(19.5)	485.1	772.8
Profit for the year	–	–	–	–	374.9	374.9
Actuarial loss on post-employment benefits	–	–	–	–	(122.0)	(122.0)
Cash flow hedges	–	–	–	26.6	(0.2)	26.4
Currency translation differences	–	–	–	0.5	–	0.5
Tax on other comprehensive income	–	–	–	(7.4)	33.6	26.2
Total comprehensive income	–	–	–	19.7	286.3	306.0
Dividends paid (note 10)	–	–	–	–	(78.4)	(78.4)
Share-based payments	–	–	–	–	8.0	8.0
Cost of shares transferred to employees	–	–	31.1	–	(16.0)	15.1
Tax on share-based payments	–	–	–	–	1.0	1.0
At 31st March 2010	220.7	148.3	(30.7)	0.2	686.0	1,024.5
Profit for the year	–	–	–	–	210.6	210.6
Actuarial gain on post-employment benefits	–	–	–	–	74.8	74.8
Cash flow hedges	–	–	–	0.6	–	0.6
Currency translation differences	–	–	–	1.2	–	1.2
Tax on other comprehensive income	–	–	–	(0.2)	(23.8)	(24.0)
Total comprehensive income	–	–	–	1.6	261.6	263.2
Dividends paid (note 10)	–	–	–	–	(86.1)	(86.1)
Purchase of shares by ESOT	–	–	(16.7)	–	–	(16.7)
Share-based payments	–	–	–	–	15.3	15.3
Cost of shares transferred to employees	–	–	11.6	–	(8.5)	3.1
Tax on share-based payments	–	–	–	–	2.0	2.0
At 31st March 2011	**220.7**	**148.3**	**(35.8)**	**1.8**	**870.3**	**1,205.3**

The notes on pages 86 to 124 form an integral part of the accounts.

Accounting Policies

for the year ended 31st March 2011

The group's and parent company's significant accounting policies, together with the judgments made by management in applying those policies which have the most significant effect on the amounts recognised in the accounts, are:

Basis of accounting and preparation

The accounts are prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) or the Standing Interpretations Committee (SIC) as adopted by the European Union. For Johnson Matthey, there are no differences between IFRS as adopted by the European Union and full IFRS as published by the International Accounting Standards Board (IASB) and so the accounts comply with IFRS.

The accounts are prepared on the historical cost basis, except for certain assets and liabilities which are measured at fair value as explained below.

The parent company has not presented its own income statement, statement of total comprehensive income and related notes as permitted by section 408 of the Companies Act 2006.

Basis of consolidation

The consolidated accounts comprise the accounts of the parent company and all its subsidiaries, including the employee share ownership trust, and included the group's interest in its associate until the date of its dissolution. They will include the group's interest in its joint venture when its formation is complete.

Entities over which the group has the ability to exercise control are accounted for as subsidiaries. Entities that are not subsidiaries or joint ventures but where the group has significant influence (i.e. the power to participate in the financial and operating policy decisions) are accounted for as associates.

The results and assets and liabilities of the associate were included in the consolidated accounts using the equity method of accounting.

The results and assets and liabilities of the joint venture will be included in the consolidated accounts using the equity method of accounting.

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

Transactions and balances between group companies are eliminated. No profit is taken on transactions between group companies and the group's share of profits on transactions with its associate was also eliminated.

In the parent company balance sheet, businesses acquired by the parent company from other group companies are incorporated at book value at the date of acquisition. Where the consideration given exceeds the book value of the net assets acquired this difference is accounted for as goodwill.

Revenue

Revenue comprises all sales of goods and rendering of services at the fair value of consideration received or receivable after the deduction of any trade discounts and excluding sales taxes. Revenue is recognised when it can be measured reliably and the significant risks and rewards of ownership are transferred to the customer. With the sale of goods, this occurs when the goods are despatched or made available to the customer, except for the sale of consignment products located at customers' premises where revenue is recognised on notification that the product has been used. With the rendering of services, revenue is recognised by reference to the stage of completion as measured by the proportion that costs incurred to date bear to the estimated total costs. With royalties and licence income, revenue is recognised in accordance with the substance of the relevant agreement.

Long term contracts

Where the outcome of a long term contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion. This is measured by the proportion that contract costs incurred to date bear to the estimated total contract costs.

Where the outcome of a long term contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that the total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Finance costs and finance income

Finance costs that are directly attributable to the construction of an asset that necessarily takes a substantial period of time to get ready for its intended use and for which construction was commenced after 1st April 2007 are capitalised as part of the cost of that asset. Other finance costs and finance income are recognised in the income statement in the year incurred.

Research and development

Research expenditure is charged to the income statement in the year incurred.

Development expenditure is charged to the income statement in the year incurred unless it meets the IFRS recognition criteria for capitalisation. When the recognition criteria have been met any further development expenditure is capitalised as an intangible asset.

Accounting Policies

for the year ended 31st March 2011

Foreign currencies

Foreign currency transactions are recorded in the functional currency of the relevant subsidiary, associate or branch at the exchange rate at the date of transaction. Foreign currency monetary assets and liabilities are retranslated into the relevant functional currency at the exchange rate at the balance sheet date.

Income statements and cash flows of overseas subsidiaries, associates and branches are translated into sterling at the average rates for the year. Balance sheets of overseas subsidiaries, associates and branches, including any fair value adjustments and including related goodwill, are translated into sterling at the exchange rates at the balance sheet date.

Exchange differences arising on the translation of the net investment in overseas subsidiaries, associates and branches, less exchange differences arising on related foreign currency financial instruments which hedge the group's net investment in these operations, are taken to a separate component of equity. The group has taken advantage of the exemption allowed in IFRS 1 – 'First-time Adoption of International Reporting Standards' to deem the cumulative translation difference for all overseas subsidiaries, associates and branches to be zero at 1st April 2004.

Other exchange differences are taken to operating profit.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any provisions for impairment. Finance costs that relate to an asset that takes a substantial period of time to construct and for which construction was started after 1st April 2007 are capitalised as part of the cost of that asset. Other finance costs are not capitalised.

Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its useful life. Certain freehold buildings and plant and equipment are depreciated using the units of production method, as this more closely reflects their expected consumption. All other assets are depreciated using the straight line method. The useful lives vary according to the class of the asset, but are typically: leasehold property 30 years (or the life of the lease if shorter); freehold buildings 30 years; and plant and equipment 4 to 10 years. Freehold land is not depreciated.

Goodwill

Goodwill arises on the acquisition of a business when the fair value of the consideration given exceeds the fair value attributed to the net assets acquired (including contingent liabilities). It is subject to annual impairment reviews. Acquisition-related costs arising on acquisitions made after 31st March 2010 are charged to the income statement as incurred. Acquisition-related costs arising on acquisitions made on or before 31st March 2010 were regarded as a component of consideration and therefore increased goodwill.

The group and parent company have taken advantage of the exemption allowed under IFRS 1 and so goodwill arising on acquisitions made before 1st April 2004 is included at the carrying amount at that date less any subsequent impairments. Up to 31st March 1998 goodwill was eliminated against equity.

Intangible assets

Intangible assets are stated at cost less accumulated amortisation and any provisions for impairment. They are amortised in accordance with the relevant income stream or by using the straight line method over their useful lives from the time they are first available for use. The estimated useful lives vary according to the specific asset but are typically: 1 to 12 years for customer contracts and relationships; 3 to 8 years for capitalised software; 3 to 20 years for patents, trademarks and licences; and 3 to 8 years for capitalised development currently being amortised.

Intangible assets which are not yet being amortised are subject to annual impairment reviews.

Investments in subsidiaries

Investments in subsidiaries are stated in the parent company's balance sheet at cost less any provisions for impairment. If a distribution is received from a subsidiary then the investment in that subsidiary is assessed for an indication of impairment.

Leases

Leases are classified as finance leases whenever they transfer substantially all the risks and rewards of ownership to the group. The assets are included in property, plant and equipment and the capital elements of the leasing commitments are shown as obligations under finance leases. The assets are depreciated on a basis consistent with similar owned assets or the lease term if shorter. The interest element of the lease rental is included in the income statement.

All other leases are classified as operating leases and the lease costs are expensed on a straight line basis over the lease term.

Grants

Grants related to assets are included in deferred income and released to the income statement in equal instalments over the expected useful lives of the related assets.

Grants related to income are deducted in reporting the related expense.

Accounting Policies

for the year ended 31st March 2011

Precious metal inventories

Inventories 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 and backwardation. Other precious metal inventories owned by the group, which are unhedged, are valued at the lower of cost and net realisable value using the weighted average cost formula.

Other inventories

Non-precious metal inventories are valued at the lower of cost, including attributable overheads, and net realisable value. Except where costs are specifically identified, the first-in, first-out or weighted average cost formulae are used to value inventories.

Cash and cash equivalents

Cash and deposits comprise cash at bank and in hand, including short term deposits with a maturity date of three months or less from the date of acquisition. The group and parent company routinely use short term bank overdraft facilities, which are repayable on demand, as an integral part of their cash management policy. Therefore cash and cash equivalents in the cash flow statements are cash and deposits less bank overdrafts. Offset arrangements across group businesses have been applied to arrive at the net cash and overdraft figures.

Derivative financial instruments

The group and parent company use derivative financial instruments, in particular forward currency contracts and currency swaps, to manage the financial risks associated with their underlying business activities and the financing of those activities. The group and parent company do not undertake any trading activity in derivative financial instruments.

Derivative financial instruments are measured at their fair value. Derivative financial instruments may be designated at inception as fair value hedges, cash flow hedges or net investment hedges if appropriate. Derivative financial instruments which are not designated as hedging instruments are classified under IFRS as held for trading, but are used to manage financial risk.

Changes in the fair value of any derivative financial instruments that are not designated as or are not determined to be effective hedges are recognised immediately in the income statement.

Changes in the fair value of derivative financial instruments designated as fair value hedges are recognised in the income statement, together with the related changes in the fair value of the hedged asset or liability. Fair value hedge accounting is discontinued if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the designation is revoked.

Changes in the fair value of derivative financial instruments designated as cash flow hedges are recognised in equity, to the extent that the hedges are effective. Ineffective portions are recognised in the income statement immediately. If the hedged item results in the recognition of a non-financial asset or liability, the amount recognised in equity is transferred out of equity and included in the initial carrying amount of the asset or liability. Otherwise, the amount recognised in equity is transferred to the income statement in the same period that the hedged item is recognised in the income statement. If the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the designation is revoked, amounts previously recognised in equity remain in equity until the forecast transaction occurs. If a forecast transaction is no longer expected to occur, the amounts previously recognised in equity are transferred to the income statement.

For hedges of net investments in foreign operations, the effective portion of the gain or loss on the hedging instrument is recognised in equity, while the ineffective portion is recognised in the income statement. Amounts taken to equity are transferred to the income statement when the foreign operations are sold.

Other financial instruments

All other financial instruments are initially recognised at fair value plus transaction costs. Subsequent measurement is as follows:

- Unhedged borrowings are measured at amortised cost.
- Available-for-sale investments are investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be measured reliably and so are measured at cost.
- All other financial assets and liabilities, including short term receivables and payables, are measured at amortised cost less any impairment provision.

Taxation

Current and deferred tax are recognised in the income statement, except when they relate to items recognised directly in equity when the related tax is also recognised in equity.

Current tax is the amount of income tax expected to be paid in respect of taxable profits using the tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amount in the balance sheet. It is provided using the tax rates that are expected to apply in the period when the asset or liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. No deferred tax asset or liability is recognised in respect of temporary differences associated with investments in subsidiaries, branches and associates where the group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Provisions and contingencies

Provisions are recognised when the group has a present obligation as a result of a past event and a reliable estimate can be made of a probable adverse outcome, for example warranties, environmental claims and restructurings. Otherwise, material contingent liabilities are disclosed unless the transfer of economic benefits is remote. Contingent assets are only disclosed if an inflow of economic benefits is probable.

The group considered financial guarantees of its share of the borrowings and precious metal leases of its associate to be insurance contracts. The parent company considers financial guarantees of its subsidiaries' borrowings and precious metal leases to be insurance contracts. These are treated as contingent liabilities unless it becomes probable that it will be required to make a payment under the guarantee.

Share-based payments and employee share ownership trust (ESOT)

The fair value of outstanding share options granted to employees after 7th November 2002 was calculated using an adjusted Black-Scholes options valuation model and the fair value of outstanding shares allocated to employees under the long term incentive plans after 7th November 2002 is calculated by adjusting the share price on the date of allocation for the present value of the expected dividends that will not be received. The resulting cost is charged to the income statement over the relevant vesting periods, adjusted to reflect actual and expected levels of vesting where appropriate.

The group and parent company provide finance to the ESOT to purchase company shares in the open market. Costs of running the ESOT are charged to the income statement. The cost of shares held by the ESOT are deducted in arriving at equity until they vest unconditionally in employees.

Pensions and other post-employment benefits

The group operates a number of contributory and non-contributory plans, mainly of the defined benefit type, which require contributions to be made to separately administered funds.

The costs of the defined contribution plans are charged to the income statement as they fall due.

For defined benefit plans, the group and parent company recognise the net assets or liabilities of the schemes in their balance sheets. Obligations are measured at present value using the projected unit credit method and a discount rate reflecting yields on high quality corporate bonds. Assets are measured at their fair value at the balance sheet date. The changes in scheme assets and liabilities, based on actuarial advice, are recognised as follows:

- The current service cost is spread over the period during which benefit is expected to be derived from the employees' services based on the most recent actuarial valuation and is deducted in arriving at operating profit.
- The interest cost, based on the discount rate at the beginning of the year and the present value of the defined benefit obligation during the year, is included in operating profit.
- The expected return on plan assets, based on market expectations at the beginning of the year for returns over the entire life of the related obligation and amended for changes in the fair value of plan assets as a result of contributions paid in and benefits paid out, is included in operating profit.
- Actuarial gains and losses, representing differences between the expected return and actual return on plan assets and reimbursement rights, differences between actuarial assumptions underlying the plan liabilities and actual experience during the year, and changes in actuarial assumptions, are recognised in the statement of total comprehensive income in the year they occur.
- 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 are included in operating profit.

Standards and interpretations adopted in the year

During the year, the following new and amendments to accounting standards and interpretations were adopted:

The January 2008 revision to IFRS 3 – 'Business Combinations' and amendment to IAS 27 – 'Consolidated and Separate Financial Statements' required changes to the accounting of business combinations, transactions with non-controlling interests and the accounting in the event of the loss of control over a subsidiary which occur from 1st April 2010. No restatement of prior years is required. Acquisitions during the year disclosed in note 39 have been accounted for in accordance with the revised IFRS 3.

'Improvements to IFRSs' issued in April 2009 made some minor amendments to a number of standards, including minor revisions to the disclosure requirements of IFRS 8 – 'Operating Segments'. The requirement to disclose a measure of total assets even if it is not provided to the chief operating decision maker has been removed and so this disclosure has been deleted. The amendments have no impact on the reported results or financial position of the group and parent company.

Amendment to IAS 39 – 'Eligible Hedged Items', IFRIC 17 – 'Distributions of Non-cash Assets to Owners', Amendment to IFRS 2 – 'Group Cash-settled Share-based Payment Transactions', Amendments to IFRS 1 – 'Additional Exemptions for First-time Adopters' and Amendment to IAS 32 – 'Classification of Rights Issues' have all been adopted during the year. There was no material impact on the reported results or financial position of the group and parent company.

Standards and interpretations issued but not yet applied

IFRS 9 – 'Financial Instruments' was originally issued in November 2009 as the first stage of the IASB's project to review and replace IAS 39 – 'Financial Instruments: Recognition and Measurement', focusing on the classification and measurement of financial assets. In October 2010 the IASB issued an expanded and amended version which also addresses financial liabilities and derecognition. The standard will be applicable for annual periods beginning on or after 1st January 2013. The effect on the group and parent company is still being evaluated.

IAS 24 – 'Related Party Disclosures' was issued in November 2009 and is applicable for annual periods beginning on or after 1st January 2011. The revision clarifies the definition of a related party for disclosure purposes and so will not result in any impact on the reported results or net assets of the group and parent company.

Amendments to IFRIC 14 – 'Prepayments of a Minimum Funding Requirement' was issued in November 2009 and is required to be applied for annual periods beginning on or after 1st January 2011. This will not affect the reported results or net assets of the group and parent company.

IFRIC 19 – 'Extinguishing Financial Liabilities with Equity Instruments' was issued in November 2009 and is applicable for annual periods beginning on or after 1st July 2010. This will not affect the reported results or net assets of the group and parent company.

Amendments to IFRS 1 – 'Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters' was issued in January 2010 and is required to be applied for annual periods beginning on or after 1st July 2010. This will not affect the reported results or net assets of the group and parent company.

'Improvements to IFRSs' was issued in May 2010 making minor amendments to a number of standards and is required to be applied mainly for annual periods beginning on or after 1st January 2011, with some amendments for annual periods beginning on or after 1st July 2010. The effect on the group and parent company is still being evaluated.

Amendments to IFRS 7 – 'Disclosures – Transfers of Financial Assets' was issued in October 2010 and is required to be applied for annual periods beginning on or after 1st July 2011. It requires a number of changes to disclosures but will not affect the reported results or net assets of the group and parent company.

Amendments to IFRS 1 – 'Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters' was issued in December 2010 and is required to be applied for annual periods beginning on or after 1st July 2011. This will not affect the reported results or net assets of the group and parent company.

Amendments to IAS 12 – 'Deferred Tax: Recovery of Underlying Assets' was issued in December 2010 and is applicable for periods beginning on or after 1st January 2012. This will not affect the reported results or net assets of the group and parent company.

The effect of standards and interpretations amended or issued after 30th April 2011 have not yet been evaluated.

Notes on the Accounts

for the year ended 31st March 2011

1 Segmental information

For management purposes, the group is organised into three operating divisions – Environmental Technologies, Precious Metal Products and Fine Chemicals and each division is represented by a director on the Board of Directors. These operating divisions represent the group's segments. Their principal activities are described on pages 19 to 31. The performance of the divisions is assessed by the Board of Directors on underlying operating profit, which is before amortisation of acquired intangibles, major impairment and restructuring charges and profit or loss on disposal of businesses. Each division is also now assessed on sales excluding precious metals including inter-segment sales as this is believed to be a better measure of each division's performance than external sales excluding precious metals and so the segmental information has been expanded to include this. Sales between segments are made at market prices, taking into account the volumes involved.

Year ended 31st March 2011

	Environmental Technologies £ million	Precious Metal Products £ million	Fine Chemicals £ million	Eliminations £ million	Total £ million
Revenue from external customers	2,703.4	7,028.3	253.1	–	9,984.8
Inter-segment revenue	4.6	1,241.3	1.9	(1,247.8)	–
Total revenue	2,708.0	8,269.6	255.0	(1,247.8)	9,984.8
External sales excluding the value of precious metals	1,561.3	475.4	243.6	–	2,280.3
Inter-segment sales	4.5	65.8	1.8	(72.1)	–
Sales excluding the value of precious metals	1,565.8	541.2	245.4	(72.1)	2,280.3
Segmental underlying operating profit	164.7	172.9	56.2	–	393.8
Unallocated corporate expenses					(27.6)
Underlying operating profit					366.2
Major impairment and restructuring charges (note 3)					(71.8)
Amortisation of acquired intangibles (note 4)					(13.2)
Operating profit					281.2
Net finance costs					(20.7)
Dissolution of associate (note 19)					0.1
Profit before tax					260.6
Segmental net assets	1,535.6	357.3	417.5	–	2,310.4
Net debt					(639.4)
Post-employment benefits net assets and liabilities					(130.4)
Deferred income tax assets and liabilities					(20.6)
Provisions and non-current other payables					(87.2)
Unallocated corporate net assets					(27.2)
Total net assets					1,405.6
Segmental capital expenditure	90.1	26.1	16.0	–	132.2
Other additions to non-current assets (excluding financial assets, deferred tax assets and post-employment benefits net assets)	42.5	2.1	10.9	(0.3)	55.2
Segmental total additions to non-current assets	132.6	28.2	26.9	(0.3)	187.4
Corporate capital expenditure					5.7
Total additions to non-current assets					193.1
Segmental depreciation and amortisation	78.8	24.3	17.2	–	120.3
Corporate depreciation					2.9
Amortisation of acquired intangibles (note 4)					12.3
Total depreciation and amortisation					135.5

Notes on the Accounts

for the year ended 31st March 2011

1 Segmental information (continued)

Year ended 31st March 2010

	Environmental Technologies £ million	Precious Metal Products £ million	Fine Chemicals £ million	Eliminations £ million	Total £ million
Revenue from external customers	2,056.4	5,561.8	221.2	–	7,839.4
Inter-segment revenue	5.2	636.5	1.8	(643.5)	–
Total revenue	2,061.6	6,198.3	223.0	(643.5)	7,839.4
External sales excluding the value of precious metals	1,246.5	419.9	219.1	–	1,885.5
Inter-segment sales	5.2	34.3	1.6	(41.1)	–
Sales excluding the value of precious metals	1,251.7	454.2	220.7	(41.1)	1,885.5
Segmental underlying operating profit	120.9	116.7	55.8	–	293.4
Unallocated corporate expenses					(21.6)
Underlying operating profit					271.8
Major impairment and restructuring charges (note 3)					(11.3)
Amortisation of acquired intangibles (note 4)					(9.9)
Operating profit					250.6
Net finance costs					(19.4)
Share of profit of associate					1.7
Dissolution of associate (note 19)					(4.4)
Profit before tax					228.5
Segmental net assets excluding investment in associate	1,333.7	257.8	400.8		1,992.3
Investment in associate	–	3.4	–	–	3.4
Segmental net assets	1,333.7	261.2	400.8	–	1,995.7
Net debt					(473.4)
Post-employment benefits net assets and liabilities					(245.7)
Deferred income tax assets and liabilities					0.6
Provisions and non-current other payables					(34.3)
Unallocated corporate net assets					7.9
Total net assets					1,250.8
Segmental capital expenditure	93.8	15.9	22.0	–	131.7
Other additions to non-current assets (excluding financial assets, deferred tax assets and post-employment benefits net assets)	3.5	1.0	0.3	(0.3)	4.5
Segmental total additions to non-current assets	97.3	16.9	22.3	(0.3)	136.2
Corporate capital expenditure					2.7
Total additions to non-current assets					138.9
Segment depreciation and amortisation	69.3	23.1	15.8	–	108.2
Corporate depreciation					2.7
Amortisation of acquired intangibles (note 4)					9.9
Total depreciation and amortisation					120.8

The group received £1,196.8 million of revenue from one external customer (2010 £1,030.5 million) which is 12% (2010 13%) of the group's revenue from external customers. The revenue is reported in Precious Metal Products as it is generated by the group's platinum marketing and distribution activities and so has a very low return on sales.

1 Segmental information (continued)

The group's country of domicile is the UK. Revenue from external customers is based on the customer's location. Non-current assets are based on the location of the assets and excludes financial assets, deferred tax assets and post-employment benefits net assets.

	Revenue from external customers 2011 £ million	Revenue from external customers 2010 £ million	Non-current assets 2011 £ million	Non-current assets 2010 £ million
UK	**2,442.0**	2,192.6	**665.0**	676.7
Germany	**762.1**	659.5	**242.8**	250.9
Rest of Europe	**1,242.3**	713.4	**105.3**	122.2
USA	**2,690.5**	1,928.1	**351.3**	309.8
Rest of North America	**105.0**	122.6	**14.2**	14.3
China (including Hong Kong)	**1,197.9**	1,138.5	**53.1**	42.9
Rest of Asia	**965.1**	547.3	**118.6**	105.2
Rest of World	**579.9**	537.4	**42.7**	51.3
Total	**9,984.8**	7,839.4	**1,593.0**	1,573.3

2 Revenue

	2011 £ million	2010 £ million
Sale of goods	**9,801.1**	7,682.7
Rendering of services	**145.0**	119.8
Royalties and licence income	**38.7**	36.9
Total revenue	**9,984.8**	7,839.4

3 Major impairment and restructuring charges

On 27th May 2010 the group entered into consultation with employees of its Vertec business to look at the future options for that business. On 19th November 2010 the Office of Fair Trading announced that it proposed to refer the sale of Vertec to Dorf Ketal Chemicals AG to the UK Competition Commission for further review. As a result, the group terminated its agreement with Dorf Ketal and commenced a structured closure of the group's Haverton manufacturing site in Billingham, UK, which was complete by 31st March 2011. The closure of the site gives rise to a pre-tax impairment and restructuring charge of £14.8 million. This is excluded from underlying operating profit.

On 31st January 2011 the group announced it was starting consultation with the Works Council about the closure of its autocatalyst facility in Brussels. The closure of the site is expected to be completed during the year ending 31st March 2012 and gives rise to a pre-tax impairment and restructuring charge which is estimated to be £57.0 million. This is excluded from underlying operating profit.

During the year ended 31st March 2010 the carrying amount of the group's Fine Chemicals facility in Massachusetts, USA was impaired as a result of the global recession. This gave rise to a pre-tax impairment loss of £11.3 million in that year, which was excluded from underlying operating profit.

4 Amortisation of acquired intangibles

The amortisation of intangible assets which arise on the acquisition of businesses, together with any subsequent impairment of these intangible assets, is shown separately on the face of the income statement. It is excluded from underlying operating profit.

5 Fees payable to auditors

	2011 £ million	2011 £ million	2010 £ million	2010 £ million
Fees payable to the company's auditor for the audit of the company's annual accounts		**0.5**		0.5
Fees payable to the company's auditor and its associates for other services:				
– the audit of the company's subsidiaries, pursuant to legislation	**1.0**		0.9	
– other services supplied pursuant to legislation	**0.1**		0.1	
– tax compliance services	**0.2**		0.2	
– tax advisory services	**0.1**		0.2	
– due diligence	**0.1**		–	
– other services	**0.1**		–	
Total fees payable to the company's auditor and its associates for other services		**1.6**		1.4
Total fees payable to the company's auditor and its associates		**2.1**		1.9

Audit fees paid to other auditors were £0.1 million (2010 £0.1 million).

6 Operating profit

	2011 £ million	2010 £ million
Operating profit is arrived at after charging / (crediting):		
Total research and development expenditure	**109.8**	91.7
less development expenditure capitalised	**(13.0)**	(14.7)
Research and development charged	**96.8**	77.0
less external funding received – from government grants	**(1.4)**	(0.9)
– from other organisations	**(3.9)**	(3.6)
Net research and development	**91.5**	72.5
Other government grants	**(0.1)**	(0.2)
Inventories recognised as an expense	**8,668.9**	6,774.0
Write-down of inventories recognised as an expense	**7.1**	5.8
Reversal of write-down of inventories arising from increases in net realisable value	**(1.5)**	(5.2)
Net losses / (gains) on foreign exchange	**3.8**	(2.5)
Net (gains) / losses on foreign currency forwards held for trading	**(2.8)**	2.3
Cash flow hedges transferred from equity – revenue	**(0.5)**	3.2
– cost of sales	**(0.2)**	11.0
– administrative expenses	**–**	0.1
– total	**(0.7)**	14.3
Depreciation of property, plant and equipment	**108.3**	97.3
Amortisation of internally generated intangible assets included in cost of sales	**9.6**	8.9
Amortisation of other intangible assets included in – cost of sales	**3.5**	3.1
– distribution costs	**0.1**	0.1
– administrative expenses	**1.7**	1.5
– amortisation of acquired intangibles (note 4)	**12.3**	9.9
Operating lease rentals payable – minimum lease payments	**12.8**	11.6
Operating lease rentals payable – sublease payments received	**(0.1)**	(0.1)

The items above are for both continuing operations and total group.

7 Finance costs

	2011 £ million	2010 £ million
Remaining loss on remeasurement of net investment hedging instruments to fair value	**0.2**	0.2
Net losses on financial assets and liabilities classified as held for trading	**0.2**	0.2
Interest payable on financial liabilities measured at amortised cost	**32.5**	30.0
Unwinding of discount on provisions	**0.4**	0.3
Total finance costs	**33.1**	30.5

8 Finance income

	2011 £ million	2010 £ million
Interest receivable on interest rate swaps	**9.2**	6.2
Net gains on financial assets and liabilities classified as held for trading	**9.2**	6.2
Net gain on remeasurement of fair value hedges and related hedged items to fair value	**–**	0.2
Interest receivable on loans and receivables	**3.2**	4.7
Total finance income	**12.4**	11.1

9 Taxation

	2011 £ million	2010 £ million
Current tax		
Corporation tax on profits for the year	**85.9**	68.4
Adjustment for prior years	**2.2**	8.4
Total current tax	**88.1**	76.8
Deferred tax		
Origination and reversal of temporary differences	**(11.2)**	0.3
Changes in tax rates and laws	**(2.3)**	–
Benefit from previously unrecognised tax losses, tax credits or temporary differences of prior years	**(0.2)**	(12.8)
Write-downs, or reversal of previous write-downs, of deferred tax assets	**1.6**	–
Total deferred tax	**(12.1)**	(12.5)
Income tax expense	**76.0**	64.3

The tax charge for the year can be reconciled to the profit per the income statement as follows:

	2011 £ million	2010 £ million
Profit before tax	**260.6**	228.5
Tax expense at UK corporation tax rate of 28% (2010 28%)	**73.0**	64.0
Effects of:		
Overseas tax rates	**3.0**	1.4
Expenses not deductible for tax purposes	**7.1**	1.2
Unutilised losses	**1.1**	3.5
Utilisation of tax losses and tax holidays	**(6.5)**	(0.7)
Adjustments for prior years	**2.0**	(4.4)
Research and development credits	**(5.6)**	(4.6)
Other	**1.9**	3.9
Tax expense for the year	**76.0**	64.3

In March 2011 the UK government enacted a change in the UK corporation tax rate from 28% to 26% effective from 1st April 2011 and so the UK deferred tax balances at 31st March 2011 have been recalculated at the new rate.

10 Dividends

	2011 £ million	2010 £ million
2008/09 final ordinary dividend paid – 26.0 pence per share	–	54.9
2009/10 interim ordinary dividend paid – 11.1 pence per share	–	23.5
2009/10 final ordinary dividend paid – 27.9 pence per share	59.4	–
2010/11 interim ordinary dividend paid – 12.5 pence per share	26.7	–
Total dividends	**86.1**	78.4

A final dividend of 33.5 pence per ordinary share has been proposed by the board which will be paid on 2nd August 2011 to shareholders on the register at the close of business on 10th June 2011. The estimated amount to be paid is £71.2 million and has not been recognised in these accounts.

11 Earnings per ordinary share

	2011 pence	2010 pence
Total		
Basic	85.6	77.6
Diluted	85.1	77.3
Continuing		
Basic	86.5	77.6
Diluted	86.0	77.3
Discontinued		
Basic	(0.9)	–
Diluted	(0.9)	–

Earnings per ordinary share have been calculated by dividing the profit attributable to equity holders of the parent company by the weighted average number of shares in issue during the period.

	2011 £ million	2010 £ million
Earnings		
Profit for the year from continuing operations attributable to equity holders of the parent company	184.2	164.2
Loss for the year from discontinued operations attributable to equity holders of the parent company	(1.9)	–
Profit for the year attributable to equity holders of the parent company	182.3	164.2

	2011	2010
Weighted average number of shares in issue		
Basic	212,907,178	211,639,326
Dilution for share options and long term incentive plans	1,344,782	885,913
Diluted	214,251,960	212,525,239

Underlying earnings per ordinary share are calculated as follows:

	2011 £ million	2010 £ million
Profit for the year attributable to equity holders of the parent company	182.3	164.2
Major impairment and restructuring charges (note 3)	71.8	11.3
Amortisation of acquired intangibles (note 4)	13.2	9.9
Dissolution of associate (note 19)	(0.1)	4.4
Loss on disposal of discontinued operations	1.9	–
Tax thereon	(15.7)	(6.9)
Underlying profit for the year	253.4	182.9

	2011 pence	2010 pence
Underlying earnings per share		
Basic	119.0	86.4
Diluted	118.3	86.1

12 Employee and key management personnel costs

12a Employee numbers

	2011	2010
The average monthly number of employees during the year was:		
Environmental Technologies	**5,313**	4,701
Precious Metal Products	**2,657**	2,562
Fine Chemicals	**1,052**	975
Corporate and Central Research	**366**	337
Average number of employees	**9,388**	8,575
Actual number of employees at 31st March	**9,742**	8,949

The number of temporary employees included above at 31st March 2011 was 237 (2010 254).

The actual number of staff was:

	At 31st March 2011			At 31st March 2010		
	Actual employees	**Agency staff**	**Total headcount**	Actual employees	Agency staff	Total headcount
Environmental Technologies	**5,569**	**654**	**6,223**	4,985	492	5,477
Precious Metal Products	**2,711**	**88**	**2,799**	2,594	39	2,633
Fine Chemicals	**1,089**	**35**	**1,124**	1,026	11	1,037
Corporate and Central Research	**373**	**6**	**379**	344	4	348
Total	**9,742**	**783**	**10,525**	8,949	546	9,495

12b Employee benefits expense

	2011 £ million	2010 £ million
Wages and salaries	**371.2**	332.3
Social security costs	**36.4**	31.4
Pension and other post-employment costs	**34.3**	29.8
Share-based payments	**17.1**	10.4
Total employee benefits expense	**459.0**	403.9

Termination benefits of £33.3 million (2010 £2.0 million) are not included above.

12c Key management personnel

The key management of the group and parent company consist of the Board of Directors and the members of the Chief Executive's Committee (CEC). During the year ended 31st March 2011 the CEC had twelve members (2010 ten members). Their compensation charged in the year was:

	2011 £ million	2010 £ million
Short term employee benefits	**6.8**	7.4
Pension and other post-employment costs	**0.6**	0.5
Share-based payments	**2.9**	1.5
Non-executive directors' fees and benefits	**0.6**	0.5
Total compensation of key management personnel	**10.9**	9.9

Termination benefits not included above were £ nil (2010 £0.8 million). Other than the compensation above there were no transactions with any key management personnel. There were no balances outstanding at the year end.

Information on the directors' remuneration is given in the Remuneration Report on pages 68 to 74.

13 Share-based payments

Share options

Equity settled share options were granted to employees at the average of the market value of the company's shares over the three days prior to the date of grant and were subject to performance targets over a three year period and have a maximum life of ten years. The number of shares over which options were granted was based on a percentage of the employee's salary and from 2001 to 2006 approximately 800 employees were granted options each year. In 2007 a new long term incentive plan was introduced and allocations of shares under this plan replaced the granting of share options. No share options have been granted since the year ended 31st March 2007.

Options granted in 2004 to 2006 were subject to a minimum three year performance target of underlying earnings per share (EPS) growth of UK RPI plus 3% per annum. Other performance targets were EPS growth of UK RPI plus 4% per annum and EPS growth of UK RPI plus 5% per annum. If the performance targets were not met at the end of the three year performance period, the options would lapse. The targets for options granted in 2004, 2005 and the 3% and 4% targets for options granted in 2006 have been met and so these options are exercisable. The 5% target for options granted in 2006 was not met and so these options have lapsed. Gains are capped at 100% of the grant price.

Options granted in 2001 to 2003 can only be exercised if the normalised EPS has grown by at least UK RPI plus 4% per annum over any three consecutive years during the life of the options. They were subject to annual retesting until they lapse on the tenth anniversary of grant. Since the targets have been met all these options are exercisable.

Long Term Incentive Plan (LTIP)

Under the LTIP, shares are allocated to approximately 900 of the group's executive directors, senior managers and middle managers based on a percentage of salary and are subject to performance targets over a three year period. At 31st March 2011, shares allocated in 2008, 2009 and 2010 (at 31st March 2010, shares allocated in 2007, 2008 and 2009) were outstanding in respect of which the performance period has not expired. The minimum release of 15% of the allocation is subject to the achievement of EPS growth of 6% compound per annum over the three year period. For the maximum release of 100% of the allocation, EPS must have grown by at least 15% compound per annum. The number of allocated shares released will vary on a straight line basis between these points. Allocations will lapse if the EPS growth is less than 6% compound per annum over the three year performance period. For the shares allocated in 2009 only, the performance conditions have been relaxed and so the minimum release requires EPS growth of 3% compound per annum and the maximum release requires EPS growth of 10% compound per annum. The performance target relating to shares allocated in 2007 was not achieved and therefore this allocation expired during the year.

Share Incentive Plan (SIP) – UK and Overseas

Under the SIP, all employees with at least one year of service with the group and who are employed by a participating group company are entitled to contribute up to 2.5% of basic pay each month, subject to a £125 per month limit. The SIP trustees buy shares (partnership shares) at market value each month with the employees' contributions. For each partnership share purchased, the group purchases two shares (matching shares) which are allocated to the employee. In the UK SIP, if the employee sells or transfers partnership shares within three years from the date of allocation, the linked matching shares are forfeited. In the Overseas SIP, partnership shares and matching shares are subject to a three year holding period and cannot be sold or transferred during that time.

401k approved savings investment plans (401k plans)

In the US there are two 401k plans, one for salaried employees and one for hourly employees. Salaried employees may contribute up to 50% of their base pay and hourly employees up to 20% of their base pay, both subject to a statutory limit. Salaried employees choosing Johnson Matthey Plc shares matching are matched 100% of the first 4% contributed and hourly employees are matched 50% of the first 2% contributed. Employees may contribute after one month of service and are eligible for matching after one year of service.

Further details of the directors' remuneration under share-based payment plans are given in the Remuneration Report on pages 68 to 74.

Activity relating to share options was:

	2011 Number of options	**2011 Weighted average exercise price pence**	2010 Number of options	2010 Weighted average exercise price pence
Outstanding at the start of the year	**2,474,307**	**1,117.88**	4,507,045	1,107.60
Forfeited during the year	**(24,299)**	**1,150.11**	(308,181)	1,273.35
Exercised during the year	**(652,228)**	**1,099.75**	(1,724,557)	1,063.25
Outstanding at the end of the year	**1,797,780**	**1,124.02**	2,474,307	1,117.88
Exercisable at the end of the year	**1,797,780**	**1,124.02**	2,474,307	1,117.88

Options were exercised on a regular basis throughout the year. The average share price during the year was 1,787.40 pence (2010 1,412.25 pence).

13 Share-based payments (continued)

Details of share options outstanding at the end of the year are:

	2011 Number of options	2011 Weighted average remaining life years	2010 Number of options	2010 Weighted average remaining life years
Range of exercise price				
800 pence to 900 pence	**336,847**	**1.9**	452,298	3.0
900 pence to 1,000 pence	**–**	**–**	17,315	0.3
1,000 pence to 1,100 pence	**710,930**	**3.9**	1,046,322	4.8
1,200 pence to 1,300 pence	**750,003**	**5.3**	958,372	6.3
	1,797,780	**4.1**	2,474,307	5.0

The fair value of the shares allocated during the year under the LTIP was 1,523.6 pence per share allocation (2010 1,138.9 pence per share allocation). The fair value was based on the share price at the date of allocation of 1,636.0 pence (2010 1,245.0 pence) adjusted for the present value of the expected dividends that will not be received at an expected dividend rate of 2.38% (2010 2.98%).

Activity relating to the LTIP was:

	2011 Number of allocated shares	2010 Number of allocated shares
Outstanding at the start of the year	**2,176,594**	1,530,753
Allocated during the year	**849,617**	1,097,339
Forfeited during the year	**(50,844)**	(152,394)
Released during the year	**–**	(224,335)
Expired during the year	**(572,826)**	(74,769)
Outstanding at the end of the year	**2,402,541**	2,176,594

266,614 (2010 324,274) matching shares under the SIP and 64,078 (2010 80,505) shares under the 401k plans were allocated to employees during the year. They are nil cost awards on which performance conditions are substantially completed at the date of grant. Consequently the fair value of these awards is based on the market value of the shares at that date.

The total expense recognised during the year in respect of equity settled share-based payments, taking into account expected lapses due to leavers and the probability that EPS performance conditions will not be met, was £17.1 million (2010 £10.4 million).

14 Post-employment benefits

14a Group

The group operates a number of post-employment benefits plans around the world, the forms and benefits of which vary with conditions and practices in the countries concerned. The majority of the plans are defined benefit which require contributions to be made into separately administered funds and retirement benefits are based on factors such as employees' pensionable salary and length of service. Some of the plans are defined contribution, where the retirement benefits are determined by the value of funds arising from contributions paid in respect of each employee. The group also makes payments to employees' personal pension plans. The amount recognised as an expense for defined contribution plans was £6.0 million (2010 £2.9 million).

The major defined benefit plans are pension plans and post-retirement medical plans in the UK and the US. The UK pension plan is a career average salary plan with a final salary section which was closed to future accrual of benefits from 1st April 2010. The US hourly pension plan is a fixed benefit plan based upon years of service. The US salaried pension plan is a final salary plan. Full actuarial valuations were carried out at 1st April 2009 for the UK pension plan and 30th June 2010 for the US pension plans and the valuations of all of the UK and US plans were updated to 31st March 2011 by qualified independent actuaries.

14 Post-employment benefits (continued)

14a Group (continued)

The main assumptions were:

	2011 UK plans %	2011 US plans %	2011 Other plans %	2010 UK plans %	2010 US plans %	2010 Other plans %
Rate of increase in salaries	**4.50**	**3.75**	**3.17**	4.70	3.75	2.90
Rate of increase in pensions in payment	**3.50**	**–**	**2.44**	3.70	–	2.08
Discount rate	**5.50**	**5.70**	**5.57**	5.50	5.70	5.49
Inflation		**2.75**	**2.06**		2.75	2.06
– UK RPI	**3.50**			3.70		
– UK CPI	**3.00**					
Current medical benefits cost trend rate	**7.70**	**8.06**	**–**	7.70	8.35	4.00
Ultimate medical benefits cost trend rate	**6.00**	**4.50**	**–**	7.70	4.50	4.00

The group uses certain mortality assumptions when calculating plan obligations. The current mortality assumptions for all major plans retain prudent allowance for future improvements in longevity and take account of experience.

The mortality tables used for the group's largest plan, which is in the UK, at its last full actuarial valuation were PMA92C2009 for male members retiring in normal health and PFA92C2009 for female members retiring in normal health. Allowance for future mortality improvements was made in line with the medium cohort versions of these tables with an underpin of 1% p.a. Shorter longevity assumptions are used for members who retire on grounds of ill-health. These tables have been carried through into the balance sheet calculations at 31st March 2010 and 2011 and the income statement for the year ended 31st March 2011, allowing for the expected improvements over the intervening years. The mortality tables used for the income statement for the year ended 31st March 2010 were PMA92C2006 for male members retiring in normal health and PFA92C2006 for female members retiring in normal health. Allowance for future mortality improvements was made in line with the medium cohort versions of these tables and expected improvements over the intervening years was also allowed for. The expected future lifetime of average members currently at age 65 and average members at age 65 in 25 years time (i.e. members who are currently aged 40 years) is respectively:

	Currently age 65	Age 65 in 25 years
Male	**20.6**	**23.0**
Female	**23.9**	**26.6**

The mortality tables used for the other larger plans were:

US	RP2000 projected to 2017 using Scale AA
Netherlands	AG Prognosetafel 2005-2050 with one year age set back
Canada	UP 94 generational (including allowance for future mortality improvements)
Germany	RT2005 G
South Africa	PA(90), rated down by two years

A one percentage point change in the assumed medical cost trend rates would have the following effects on:

	One percentage point increase		One percentage point decrease	
	UK plan £ million	US plan £ million	UK plan £ million	US plan £ million
At 31st March 2011				
Post-retirement medical plan expense	**0.1**	**0.4**	**(0.1)**	**(0.3)**
Post-retirement medical plan defined benefit obligation	**1.7**	**3.7**	**(1.4)**	**(3.0)**
At 31st March 2010				
Post-retirement medical plan expense	0.1	0.4	(0.1)	(0.3)
Post-retirement medical plan defined benefit obligation	2.4	4.1	(1.9)	(4.3)

A 0.1% change in the discount rate and rate of increase in salaries would have the following increase / (decrease) on the UK pension plan's defined benefit obligation at 31st March 2011:

	0.1% increase £ million	0.1% decrease £ million
Effect of discount rate	**(21.4)**	**22.0**
Effect of rate of increase in salaries	**4.3**	**(4.3)**

14 Post-employment benefits (continued)

14a Group (continued)

The fair values and expected rates of return for plan assets were:

	UK pension Expected rate of return %	UK pension Value £ million	US pensions Expected rate of return %	US pensions Value £ million	Other Expected rate of return %	Other Value £ million
At 31st March 2011						
Equities	**8.10**	**456.6**	**7.70**	**71.0**	**7.70**	**10.0**
Bonds	**5.20**	**472.6**	**5.00**	**63.0**	**5.19**	**7.5**
Property	**6.60**	**37.6**	**–**	**–**	**–**	**–**
Insurance policies	**–**	**–**	**–**	**–**	**5.28**	**18.3**
	6.62	**966.8**	**6.43**	**134.0**	**5.94**	**35.8**
At 31st March 2010						
Equities	8.25	456.1	8.30	67.4	8.42	9.7
Bonds	5.00	394.6	5.30	55.1	5.25	7.3
Property	6.75	36.0	–	–	–	–
Insurance policies	–	–	–	–	4.83	19.0
	6.74	886.7	6.95	122.5	5.88	36.0

The defined benefit pension plans do not invest directly in Johnson Matthey Plc shares and no property or other assets owned by the pension plans are used by the group. The overall expected rate of return is determined on a country by country basis by reference to market expectations for each class of asset. It is based upon the forecasts of actuaries and market professionals.

Movements in the defined benefit obligation during the year were:

	UK pension £ million	UK post-retirement medical benefits £ million	US pensions £ million	US post-retirement medical benefits £ million	Other £ million	Total £ million
At 1st April 2009	(715.6)	(12.0)	(128.3)	(26.7)	(45.3)	(927.9)
Current service cost – in operating profit	(15.5)	(0.1)	(5.3)	(0.7)	(2.3)	(23.9)
Current service cost – capitalised	(0.1)	–	(0.1)	–	–	(0.2)
Past service cost – vested	(0.4)	–	–	–	(0.2)	(0.6)
Past service cost – non-vested	–	–	–	0.8	–	0.8
Interest cost	(45.5)	(0.8)	(7.3)	(1.5)	(2.5)	(57.6)
Employee contributions	(5.2)	–	–	–	(0.3)	(5.5)
Actuarial loss	(293.5)	(1.9)	(18.2)	(2.2)	(4.8)	(320.6)
Benefits paid	32.2	0.4	3.8	0.5	2.1	39.0
Exchange adjustments	–	–	5.8	1.3	(0.9)	6.2
At 31st March 2010	(1,043.6)	(14.4)	(149.6)	(28.5)	(54.2)	(1,290.3)
Current service cost – in operating profit	(22.8)	(0.1)	(6.8)	(0.9)	(2.1)	(32.7)
Current service cost – capitalised	(0.1)	–	–	–	–	(0.1)
Past service cost – vested	(1.9)	–	–	–	–	(1.9)
Past service cost – non-vested	–	–	–	0.4	–	0.4
Interest cost	(56.5)	(0.8)	(8.2)	(1.6)	(2.7)	(69.8)
Curtailment gains	–	–	–	–	4.4	4.4
Settlement gains	–	–	–	–	3.5	3.5
Employee contributions	–	–	–	–	(0.3)	(0.3)
Actuarial gain / (loss)	64.2	2.5	(0.2)	2.6	(0.9)	68.2
Benefits paid	33.3	0.3	4.4	0.6	2.0	40.6
Exchange adjustments	–	–	8.3	1.6	0.7	10.6
At 31st March 2011	**(1,027.4)**	**(12.5)**	**(152.1)**	**(25.8)**	**(49.6)**	**(1,267.4)**

14 Post-employment benefits (continued)

14a Group (continued)

Movements in the fair value of the plan assets during the year were:

	UK pension £ million	UK post-retirement medical benefits £ million	US pensions £ million	US post-retirement medical benefits £ million	Other £ million	Total £ million
At 1st April 2009	670.4	–	77.9	–	29.4	777.7
Expected return on plan assets	46.8	–	5.4	–	1.7	53.9
Actuarial gain	173.4	–	19.8	–	1.9	195.1
Employee contributions	5.2	–	–	–	0.3	5.5
Company contributions	23.1	0.4	25.1	0.5	2.7	51.8
Benefits paid	(32.2)	(0.4)	(3.8)	(0.5)	(2.1)	(39.0)
Exchange adjustments	–	–	(1.9)	–	2.1	0.2
At 31st March 2010	886.7	–	122.5	–	36.0	1,045.2
Expected return on plan assets	60.2	–	8.3	–	1.9	70.4
Settlement losses	–	–	–	–	(3.5)	(3.5)
Actuarial gain	8.1	–	8.5	–	1.4	18.0
Employee contributions	–	–	–	–	0.3	0.3
Company contributions	45.1	0.3	6.2	0.6	1.9	54.1
Benefits paid	(33.3)	(0.3)	(4.4)	(0.6)	(2.0)	(40.6)
Exchange adjustments	–	–	(7.1)	–	(0.2)	(7.3)
At 31st March 2011	**966.8**	**–**	**134.0**	**–**	**35.8**	**1,136.6**

The actual return on plan assets for UK plans was £68.3 million (2010 £220.2 million) and for US plans was £16.8 million (2010 £25.2 million).

Movements in the reimbursement rights during the year were:

	UK pension £ million	UK post-retirement medical benefits £ million	US pensions £ million	US post-retirement medical benefits £ million	Other £ million	Total £ million
At 1st April 2009	–	–	–	4.5	–	4.5
Expected return	–	–	–	0.4	0.6	1.0
Actuarial gain	–	–	–	0.9	–	0.9
Exchange adjustments	–	–	–	(0.3)	–	(0.3)
At 31st March 2010	–	–	–	5.5	0.6	6.1
Expected return	–	–	–	0.5	–	0.5
Actuarial loss	–	–	–	(0.8)	–	(0.8)
Company contributions	–	–	–	–	0.1	0.1
Exchange adjustments	–	–	–	(0.3)	–	(0.3)
At 31st March 2011	**–**	**–**	**–**	**4.9**	**0.7**	**5.6**

14 Post-employment benefits (continued)

14a Group (continued)

The net post-employment benefits assets and liabilities shown in the balance sheet are analysed as:

	UK pension £ million	UK post-retirement medical benefits £ million	US pensions £ million	US post-retirement medical benefits £ million	Other £ million	Total £ million
At 31st March 2011						
Present value of funded obligations	**(1,027.4)**	**–**	**(152.1)**	**–**	**(37.8)**	**(1,217.3)**
Present value of unfunded obligations	**–**	**(12.5)**	**–**	**(25.8)**	**(11.8)**	**(50.1)**
Defined benefit obligation	**(1,027.4)**	**(12.5)**	**(152.1)**	**(25.8)**	**(49.6)**	**(1,267.4)**
Fair value of plan assets	**966.8**	**–**	**134.0**	**–**	**35.8**	**1,136.6**
Reimbursement rights	**–**	**–**	**–**	**4.9**	**0.7**	**5.6**
Unrecognised past service credit – non-vested	**–**	**–**	**–**	**(2.9)**	**–**	**(2.9)**
Net post-employment benefits assets and liabilities	**(60.6)**	**(12.5)**	**(18.1)**	**(23.8)**	**(13.1)**	**(128.1)**
At 31st March 2010						
Present value of funded obligations	(1,043.6)	–	(149.6)	–	(41.1)	(1,234.3)
Present value of unfunded obligations	–	(14.4)	–	(28.5)	(13.1)	(56.0)
Defined benefit obligation	(1,043.6)	(14.4)	(149.6)	(28.5)	(54.2)	(1,290.3)
Fair value of plan assets	886.7	–	122.5	–	36.0	1,045.2
Reimbursement rights	–	–	–	5.5	0.6	6.1
Unrecognised past service credit – non-vested	–	–	–	(3.5)	–	(3.5)
Net post-employment benefits assets and liabilities	(156.9)	(14.4)	(27.1)	(26.5)	(17.6)	(242.5)

These are included in the balance sheet as:

	2011 Post-employment benefits net assets £ million	**2011 Employee benefits obligations £ million**	**2011 Total £ million**	2010 Post-employment benefits net assets £ million	2010 Employee benefits obligations £ million	2010 Total £ million
UK pension plan	**–**	**(60.6)**	**(60.6)**	–	(156.9)	(156.9)
UK post-retirement medical benefits plan	**–**	**(12.5)**	**(12.5)**	–	(14.4)	(14.4)
US pension plans	**–**	**(18.1)**	**(18.1)**	–	(27.1)	(27.1)
US post-retirement medical benefits plan	**–**	**(23.8)**	**(23.8)**	–	(26.5)	(26.5)
Other plans	**3.8**	**(16.9)**	**(13.1)**	4.6	(22.2)	(17.6)
Total post-employment plans	**3.8**	**(131.9)**	**(128.1)**	4.6	(247.1)	(242.5)
Other long term employee benefits		**(2.3)**			(3.2)	
Total long term employee benefits obligations		**(134.2)**			(250.3)	

14 Post-employment benefits (continued)

14a Group (continued)

Amounts recognised in the income statement in respect of these plans were:

	UK pension £ million	UK post-retirement medical benefits £ million	US pensions £ million	US post-retirement medical benefits £ million	Other £ million	Total £ million
Year ended 31st March 2011						
Current service cost	**(22.8)**	**(0.1)**	**(6.8)**	**(0.9)**	**(2.1)**	**(32.7)**
Interest on plan liabilities	**(56.5)**	**(0.8)**	**(8.2)**	**(1.6)**	**(2.7)**	**(69.8)**
Expected return on plan assets	**60.2**	**–**	**8.3**	**–**	**1.9**	**70.4**
Expected return on reimbursement rights	**–**	**–**	**–**	**0.5**	**–**	**0.5**
Curtailment gains	**–**	**–**	**–**	**–**	**4.4**	**4.4**
Past service cost – vested	**(1.9)**	**–**	**–**	**–**	**–**	**(1.9)**
Past service cost – non-vested	**–**	**–**	**–**	**0.8**	**–**	**0.8**
Charge to income	**(21.0)**	**(0.9)**	**(6.7)**	**(1.2)**	**1.5**	**(28.3)**
Year ended 31st March 2010						
Current service cost	(15.5)	(0.1)	(5.3)	(0.7)	(2.3)	(23.9)
Interest on plan liabilities	(45.5)	(0.8)	(7.3)	(1.5)	(2.5)	(57.6)
Expected return on plan assets	46.8	–	5.4	–	1.7	53.9
Expected return on reimbursement rights	–	–	–	0.4	0.6	1.0
Past service cost – vested	(0.4)	–	–	–	(0.2)	(0.6)
Past service cost – non-vested	–	–	–	0.3	–	0.3
Charge to income	(14.6)	(0.9)	(7.2)	(1.5)	(2.7)	(26.9)

Of the total charge for the year, £20.7 million (2010 £17.6 million) has been included within cost of sales, £4.9 million (2010 £3.4 million) in distribution costs, £5.9 million (2010 £5.9 million) in administrative expenses and a credit of £3.2 million (2010 £ nil) in major impairment and restructuring charges.

The cumulative amount of actuarial gains / (losses) recognised in the statement of total comprehensive income were:

	UK pension £ million	UK post-retirement medical benefits £ million	US pensions £ million	US post-retirement medical benefits £ million	Other £ million	Total £ million
At 1st April 2009	(128.9)	(0.3)	(36.3)	(1.9)	(1.9)	(169.3)
Recognised in year	(120.1)	(1.9)	1.6	(1.3)	(2.9)	(124.6)
At 31st March 2010	(249.0)	(2.2)	(34.7)	(3.2)	(4.8)	(293.9)
Recognised in year	72.3	2.5	8.3	1.8	0.5	85.4
At 31st March 2011	**(176.7)**	**0.3**	**(26.4)**	**(1.4)**	**(4.3)**	**(208.5)**

It is estimated that the group will contribute about £56 million to the post-employment defined benefits plans during the year ending 31st March 2012.

14 Post-employment benefits (continued)

14a Group (continued)

History of the plans and experience adjustments are:

	UK pension £ million	UK post-retirement medical benefits £ million	US pensions £ million	US post-retirement medical benefits £ million	Other £ million	Total £ million
Year ended 31st March 2011						
Present value of defined benefit obligation	**(1,027.4)**	**(12.5)**	**(152.1)**	**(25.8)**	**(49.6)**	**(1,267.4)**
Fair value of plan assets	**966.8**	**–**	**134.0**	**–**	**35.8**	**1,136.6**
Reimbursement rights	**–**	**–**	**–**	**4.9**	**0.7**	**5.6**
Deficit in the plan	**(60.6)**	**(12.5)**	**(18.1)**	**(20.9)**	**(13.1)**	**(125.2)**
Experience adjustments arising on plan liabilities	**2.7**	**(0.2)**	**(0.2)**	**3.3**	**0.6**	**6.2**
Experience adjustments arising on plan assets	**8.1**	**–**	**8.5**	**–**	**1.4**	**18.0**
Year ended 31st March 2010						
Present value of defined benefit obligation	(1,043.6)	(14.4)	(149.6)	(28.5)	(54.2)	(1,290.3)
Fair value of plan assets	886.7	–	122.5	–	36.0	1,045.2
Reimbursement rights	–	–	–	5.5	0.6	6.1
Deficit in the plan	(156.9)	(14.4)	(27.1)	(23.0)	(17.6)	(239.0)
Experience adjustments arising on plan liabilities	(5.2)	1.2	(2.1)	0.4	(0.2)	(5.9)
Experience adjustments arising on plan assets	173.4	–	19.8	–	1.9	195.1
Year ended 31st March 2009						
Present value of defined benefit obligation	(715.6)	(12.0)	(128.3)	(26.7)	(45.3)	(927.9)
Fair value of plan assets	670.4	–	77.9	–	29.4	777.7
Reimbursement rights	–	–	–	4.5	–	4.5
Deficit in the plan	(45.2)	(12.0)	(50.4)	(22.2)	(15.9)	(145.7)
Experience adjustments arising on plan liabilities	24.4	(0.6)	0.9	(1.0)	0.3	24.0
Experience adjustments arising on plan assets	(191.2)	–	(32.4)	–	(3.8)	(227.4)
Year ended 31st March 2008						
Present value of defined benefit obligation	(744.4)	(10.9)	(86.4)	(15.6)	(39.0)	(896.3)
Fair value of plan assets	809.5	–	78.5	–	27.1	915.1
Reimbursement rights	–	–	–	2.6	–	2.6
Surplus / (deficit) in the plan	65.1	(10.9)	(7.9)	(13.0)	(11.9)	21.4
Experience adjustments arising on plan liabilities	(3.0)	–	5.9	1.8	(0.4)	4.3
Experience adjustments arising on plan assets	(87.7)	–	(6.9)	–	(2.8)	(97.4)
Year ended 31st March 2007						
Present value of defined benefit obligation	(801.0)	(11.6)	(87.4)	(16.5)	(33.5)	(950.0)
Fair value of plan assets	846.5	–	79.5	–	26.3	952.3
Reimbursement rights	–	–	–	2.8	–	2.8
Surplus / (deficit) in the plan	45.5	(11.6)	(7.9)	(13.7)	(7.2)	5.1
Experience adjustments arising on plan liabilities	(44.4)	0.5	(1.0)	(0.8)	2.8	(42.9)
Experience adjustments arising on plan assets	(8.3)	–	2.3	–	0.3	(5.7)

14 Post-employment benefits (continued)

14b Parent company

The parent company is the sponsoring employer of the group's UK defined benefit pension plan and the UK post-retirement medical benefits plan. There is no contractual agreement or stated policy for charging the net defined benefit cost for the plan to the individual group entities. The main assumptions used for these plans are disclosed in note 14a.

The fair values and expected rates of return for defined benefit pension plan assets were:

	2011 Expected rate of return %	2011 Value £ million	2010 Expected rate of return %	2010 Value £ million
Equities	**8.10**	**456.6**	8.25	456.1
Bonds	**5.20**	**472.6**	5.00	394.6
Property	**6.60**	**37.6**	6.75	36.0
	6.62	**966.8**	6.74	886.7

The defined benefit pension plan does not invest directly in Johnson Matthey Plc shares and no property or other assets owned by the pension plan are used by the company. The overall expected rate of return is determined by reference to market expectations for each class of asset. It is based upon the forecasts of actuaries and market professionals.

Movements in the defined benefit obligation during the year were:

	2011 Pension £ million	2011 Post-retirement medical benefits £ million	2010 Pension £ million	2010 Post-retirement medical benefits £ million
At beginning of year	**(1,043.6)**	**(14.4)**	(715.6)	(12.0)
Current service cost – in operating profit	**(22.8)**	**(0.1)**	(15.5)	(0.1)
Current service cost – capitalised	**(0.1)**	**–**	(0.1)	–
Past service cost – vested	**(1.9)**	**–**	(0.4)	–
Interest cost	**(56.5)**	**(0.8)**	(45.5)	(0.8)
Employee contributions	**–**	**–**	(5.2)	–
Actuarial gain / (loss)	**64.2**	**2.5**	(293.5)	(1.9)
Benefits paid	**33.3**	**0.3**	32.2	0.4
At end of year	**(1,027.4)**	**(12.5)**	(1,043.6)	(14.4)

Movements in the fair value of the plan assets during the year were:

	2011 Pension £ million	2011 Post-retirement medical benefits £ million	2010 Pension £ million	2010 Post-retirement medical benefits £ million
At beginning of year	**886.7**	**–**	670.4	–
Expected return on plan assets	**60.2**	**–**	46.8	–
Actuarial gain	**8.1**	**–**	173.4	–
Employee contributions	**–**	**–**	5.2	–
Company contributions	**45.1**	**0.3**	23.1	0.4
Benefits paid	**(33.3)**	**(0.3)**	(32.2)	(0.4)
At end of year	**966.8**	**–**	886.7	–

The actual return on plan assets was £68.3 million (2010 £220.2 million). It is estimated that the company will contribute about £41 million (and its subsidiaries will also contribute about £4 million) to the company's post-employment defined benefits plans during the year ending 31st March 2012.

14 Post-employment benefits (continued)
14b Parent company (continued)

The net post-employment benefits assets and liabilities shown in the balance sheet are analysed as:

	2011 Pension £ million	2011 Post-retirement medical benefits £ million	2010 Pension £ million	2010 Post-retirement medical benefits £ million
Present value of funded obligations	**(1,027.4)**	**–**	(1,043.6)	–
Present value of unfunded obligations	**–**	**(12.5)**	–	(14.4)
Defined benefit obligation	**(1,027.4)**	**(12.5)**	(1,043.6)	(14.4)
Fair value of plan assets	**966.8**	**–**	886.7	–
Net retirement benefits assets and liabilities	**(60.6)**	**(12.5)**	(156.9)	(14.4)

These are included in the balance sheet under employee benefits obligations as:

	2011 £ million	2010 £ million
UK pension plan	**(60.6)**	(156.9)
UK post-retirement medical benefits plan	**(12.5)**	(14.4)
Total post-employment plans	**(73.1)**	(171.3)
Other long term employee benefits	**(0.1)**	(0.2)
Total long term employee benefits obligations	**(73.2)**	(171.5)

The cumulative amount of actuarial gains / (losses) recognised in the statement of changes in equity were:

	2011 Pension £ million	2011 Post-retirement medical benefits £ million	2010 Pension £ million	2010 Post-retirement medical benefits £ million
At beginning of year	**(250.4)**	**(2.2)**	(130.3)	(0.3)
Recognised in year	**72.3**	**2.5**	(120.1)	(1.9)
At end of year	**(178.1)**	**0.3**	(250.4)	(2.2)

History of the plans and experience adjustments are:

	Present value of defined benefit obligation £ million	Fair value of plan assets £ million	Surplus / (deficit) in plan £ million	Experience adjustments arising on plan liabilities £ million	Experience adjustments arising on plan assets £ million
Year ended 31st March 2011					
Pension	**(1,027.4)**	**966.8**	**(60.6)**	**2.7**	**8.1**
Post-retirement medical benefits	**(12.5)**	**–**	**(12.5)**	**(0.2)**	**–**
Year ended 31st March 2010					
Pension	(1,043.6)	886.7	(156.9)	(5.2)	173.4
Post-retirement medical benefits	(14.4)	–	(14.4)	1.2	–
Year ended 31st March 2009					
Pension	(715.6)	670.4	(45.2)	24.4	(191.2)
Post-retirement medical benefits	(12.0)	–	(12.0)	(0.6)	–
Year ended 31st March 2008					
Pension	(744.4)	809.5	65.1	(3.0)	(87.7)
Post-retirement medical benefits	(10.9)	–	(10.9)	–	–
Year ended 31st March 2007					
Pension	(801.0)	846.5	45.5	(41.0)	(6.5)
Post-retirement medical benefits	(11.6)	–	(11.6)	0.5	–

15 Property, plant and equipment

15a Group

	Freehold land & buildings £ million	Long & short leasehold £ million	Plant & machinery £ million	Assets in the course of construction £ million	Total £ million
Cost					
At 1st April 2009	362.3	24.3	1,131.1	91.7	1,609.4
Additions	9.6	1.5	39.4	64.6	115.1
Acquisitions	–	0.5	1.3	–	1.8
Transfer from assets classified as held for sale	3.0	–	–	–	3.0
Transfer from associate (note 19)	0.5	–	–	–	0.5
Reclassifications	44.9	2.1	54.3	(101.3)	–
Disposals	(0.6)	(5.2)	(27.4)	–	(33.2)
Exchange adjustments	(3.7)	(0.5)	(8.0)	(3.1)	(15.3)
At 31st March 2010	416.0	22.7	1,190.7	51.9	1,681.3
Additions	5.4	1.7	51.7	61.3	120.1
Acquisitions (note 39)	2.8	0.4	16.5	0.7	20.4
Reclassifications	11.9	0.7	37.6	(50.2)	–
Disposals	(7.2)	(0.1)	(35.4)	–	(42.7)
Exchange adjustments	(4.3)	(0.5)	(18.0)	(1.3)	(24.1)
At 31st March 2011	424.6	24.9	1,243.1	62.4	1,755.0
Accumulated depreciation and impairment					
At 1st April 2009	97.5	14.1	573.1	–	684.7
Charge for the year	12.7	1.3	83.3	–	97.3
Impairment losses	7.2	–	6.2	–	13.4
Disposals	(0.2)	(5.1)	(25.9)	–	(31.2)
Exchange adjustments	(0.5)	(0.5)	(3.5)	–	(4.5)
At 31st March 2010	116.7	9.8	633.2	–	759.7
Charge for the year	14.5	2.7	91.1	–	108.3
Impairment losses	0.5	3.6	23.2	–	27.3
Disposals	(3.3)	(0.1)	(32.8)	–	(36.2)
Exchange adjustments	(1.6)	–	(10.2)	–	(11.8)
At 31st March 2011	126.8	16.0	704.5	–	847.3
Carrying amount at 31st March 2011	**297.8**	**8.9**	**538.6**	**62.4**	**907.7**
Carrying amount at 31st March 2010	299.3	12.9	557.5	51.9	921.6
Carrying amount at 1st April 2009	264.8	10.2	558.0	91.7	924.7

The carrying amount of plant and machinery includes £1.9 million (2010 £2.2 million) in respect of assets held under finance leases.

Compensation received for impaired or lost property, plant and equipment was £ nil (2010 £ nil).

Finance costs capitalised were £0.5 million (2010 £1.8 million) and the capitalisation rate used to determine the amount of finance costs eligible for capitalisation was 5.6% (2010 5.9%).

The impairment losses for freehold land and buildings of £0.5 million (2010 £7.2 million) have been included in major impairment and restructuring charges (note 3). The impairment losses for long and short leaseholds of £3.6 million (2010 £ nil) have been included in major impairment and restructuring charges (note 3). Of the impairment losses for plant and machinery in the year, £0.7 million (2010 £ nil) has been included in costs of sales, £0.1 million (2010 £2.7 million) in administrative expenses and £22.4 million (2010 £3.5 million) in major impairment and restructuring charges (note 3). The impairment losses included in cost of sales arose as the assets were damaged beyond repair in the Japanese earthquake and the impairment losses included in administrative expenses arose as the assets have become idle. These are included in Environmental Technologies' underlying operating profit.

15 Property, plant and equipment (continued)

15b Parent company

	Freehold land & buildings £ million	Long & short leasehold £ million	Plant & machinery £ million	Assets in the course of construction £ million	Total £ million
Cost					
At 1st April 2009	91.9	1.6	357.7	1.1	452.3
Additions	2.3	–	16.0	3.2	21.5
Transfer from assets classified as held for sale	3.0	–	–	–	3.0
Reclassifications	–	–	2.3	(2.3)	–
Disposal of business to subsidiary	(0.3)	–	(4.6)	–	(4.9)
Disposals	(0.5)	(1.4)	(25.2)	–	(27.1)
At 31st March 2010	96.4	0.2	346.2	2.0	444.8
Additions	2.5	0.9	22.3	2.8	28.5
Reclassifications	–	–	2.7	(2.7)	–
Disposals	(4.7)	(0.1)	(4.3)	–	(9.1)
At 31st March 2011	94.2	1.0	366.9	2.1	464.2
Accumulated depreciation and impairment					
At 1st April 2009	29.6	1.5	163.2	–	194.3
Charge for the year	3.0	–	24.7	–	27.7
Disposal of business to subsidiary	–	–	(1.6)	–	(1.6)
Disposals	(0.2)	(1.4)	(19.3)	–	(20.9)
At 31st March 2010	32.4	0.1	167.0	–	199.5
Charge for the year	2.6	0.1	27.2	–	29.9
Impairment losses	0.5	–	7.6	–	8.1
Disposals	(0.8)	(0.1)	(3.2)	–	(4.1)
At 31st March 2011	34.7	0.1	198.6	–	233.4
Carrying amount at 31st March 2011	**59.5**	**0.9**	**168.3**	**2.1**	**230.8**
Carrying amount at 31st March 2010	64.0	0.1	179.2	2.0	245.3
Carrying amount at 1st April 2009	62.3	0.1	194.5	1.1	258.0

The carrying amount of plant and machinery includes £1.8 million (2010 £2.1 million) in respect of assets held under finance leases.

16 Goodwill

	Group £ million	Parent company £ million
Cost		
At 1st April 2009	516.0	132.4
Additions, fair value adjustments and adjustments to consideration	4.3	–
Disposal of business to subsidiary	–	(21.9)
Exchange adjustments	(6.5)	–
At 31st March 2010	513.8	110.5
Acquisitions (note 39)	20.8	–
Adjustments to consideration of prior year's acquisitions	(0.1)	–
Exchange adjustments	(5.0)	–
At 31st March 2011	529.5	110.5
Impairment		
At 1st April 2009, 31st March 2010 and 31st March 2011	–	–
Carrying amount at 31st March 2011	**529.5**	**110.5**
Carrying amount at 31st March 2010	513.8	110.5
Carrying amount at 1st April 2009	516.0	132.4

Goodwill arising on the acquisition of businesses is allocated, at acquisition, to the cash-generating units (CGUs) that are expected to benefit from that business combination. Goodwill is allocated as follows:

	Group		Parent company	
	2011 £ million	2010 £ million	**2011 £ million**	2010 £ million
Environmental Technologies				
Emission Control Technologies – Non-light Duty Catalysts	**89.2**	90.4	**–**	–
Process Technologies	**250.2**	231.6	**110.5**	110.5
Precious Metal Products				
Catalysts and Chemicals	**24.9**	25.6	**–**	–
Other	**5.8**	5.8	**–**	–
Fine Chemicals				
Macfarlan Smith	**117.1**	117.1	**–**	–
Pharmaceutical Materials and Services	**20.7**	21.7	**–**	–
Research Chemicals	**21.6**	21.6	**–**	–
	529.5	513.8	**110.5**	110.5

The group and parent company test goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. The recoverable amounts of the CGUs are determined using value in use calculations which use cash flow projections based on financial budgets and plans approved by management, generally covering a three year period except as discussed below. The budgets and plans are based on a number of key assumptions. Assumptions on the likelihood and timing of new product launches are based on management's best estimate of what may happen. Foreign exchange rates are based on actual rates at the time the budgets were prepared and are held constant over the budget and plan years. Other assumptions such as market share, expected changes to selling prices, product profitability, precious metal prices and other direct input costs are based on past experience and management's expectations of future changes in the markets using external sources of information where appropriate. These cash flows are then extrapolated using the long term average growth rates for the relevant products, industries and countries in which the CGUs operate. The cash flows are discounted at the group's estimated pre-tax weighted average cost of capital adjusted for the estimated tax cash flows and risk applicable to each CGU.

For the Non-light Duty Catalysts CGU four (2010 five) year plans have been approved by management. Over the next decade management expects the markets for heavy duty diesel catalysts and stationary emissions catalysts will grow significantly, based on emission control legislation already in place or anticipated, as described on page 24 of the Business Review. Therefore the cash flow projections have been extrapolated using a long term average growth rate of 20% for years 5 to 10 (2010 20% for years 6 to 10) and 3% (2010 3%) after that. The discount rate used was 10.4% (2010 11.3%). The impairment test results in headroom of more than 30% over the carrying value of the CGU's net assets and so it is unlikely that a reasonably possible change in a key assumption would result in an impairment of goodwill.

For Process Technologies the long term average growth rate used was 5% (2010 5%) and the discount rate was 10.1% (2010 10.9%). The impairment test results in headroom of more than 100% and so it is unlikely that a reasonably possible change in a key assumption would result in an impairment of goodwill.

16 Goodwill (continued)

For Catalysts and Chemicals the long term average growth rate used was 5% (2010 4%) and the discount rate was 10.1% (2010 10.9%). The long term average growth rate has increased as the long term prospects have improved. The impairment test results in headroom of more than 100% and so it is unlikely that a reasonably possible change in a key assumption would result in an impairment of goodwill.

For Macfarlan Smith the long term average growth rate used was 2.5% (2010 2.5%) and the discount rate was 7.6% (2010 9.0%). The impairment test results in headroom of over 90% and so it is unlikely that a reasonably possible change in a key assumption would result in an impairment of goodwill.

For Pharmaceutical Materials and Services the long term average growth rate used was 4% (2010 4%) and the discount rate was 7.4% (2010 10.9%). The resulting headroom exceeds the carrying value of the net assets by more than 400% and so it is unlikely that a reasonably possible change in a key assumption would result in an impairment of goodwill.

For Research Chemicals the long term average growth rate used was 5% (2010 5%) and the discount rate was 8.3% (2010 9.9%). The impairment test results in headroom of nearly 300% and so it is unlikely that a reasonably possible change in a key assumption would result in an impairment of goodwill.

17 Other intangible assets

17a Group

	Customer contracts and relationships £ million	Computer software £ million	Patents, trademarks and licences £ million	Acquired research and technology £ million	Development expenditure £ million	Total £ million
Cost						
At 1st April 2009	51.2	45.4	20.1	20.6	72.3	209.6
Additions	–	4.4	0.2	–	14.7	19.3
Acquisitions	2.3	–	–	1.7	–	4.0
Disposals	–	(0.5)	(0.3)	–	–	(0.8)
Exchange adjustments	(1.6)	0.1	(0.4)	(0.7)	(1.2)	(3.8)
At 31st March 2010	51.9	49.4	19.6	21.6	85.8	228.3
Additions	–	4.7	0.1	–	13.0	17.8
Acquisitions (note 39)	19.3	–	10.8	3.8	–	33.9
Disposals	–	(0.1)	–	–	–	(0.1)
Exchange adjustments	(0.5)	(0.5)	–	(0.2)	(1.6)	(2.8)
At 31st March 2011	70.7	53.5	30.5	25.2	97.2	277.1
Accumulated amortisation and impairment						
At 1st April 2009	13.3	32.0	4.2	–	24.3	73.8
Charge for the year	7.7	3.9	3.0	–	8.9	23.5
Impairment losses	–	0.6	–	–	–	0.6
Disposals	–	(0.2)	–	–	–	(0.2)
Exchange adjustments	0.8	(0.3)	(1.1)	–	(0.4)	(1.0)
At 31st March 2010	21.8	36.0	6.1	–	32.8	96.7
Charge for the year	10.3	4.3	2.9	0.1	9.6	27.2
Impairment losses	–	0.4	–	0.9	0.6	1.9
Disposals	–	(0.1)	–	–	–	(0.1)
Exchange adjustments	–	(0.6)	–	–	(0.9)	(1.5)
At 31st March 2011	32.1	40.0	9.0	1.0	42.1	124.2
Carrying amount at 31st March 2011	**38.6**	**13.5**	**21.5**	**24.2**	**55.1**	**152.9**
Carrying amount at 31st March 2010	30.1	13.4	13.5	21.6	53.0	131.6
Carrying amount at 1st April 2009	37.9	13.4	15.9	20.6	48.0	135.8

The carrying amount of development expenditure includes £23.9 million (2010 £32.4 million) which is not yet being amortised as the assets are not yet available for use. The carrying amount of acquired research and technology includes £23.9 million (2010 £21.6 million) which is not yet being amortised as the assets are not yet available for use. These assets are tested for impairment annually.

The impairment losses for computer software of £0.4 million (2010 £0.6 million) have been included in major impairment and restructuring charges (note 3). The impairment losses for acquired research and technology of £0.9 million (2010 £ nil) have been included in amortisation of acquired intangibles (note 4). The impairment losses for development expenditure of £0.6 million (2010 £ nil) have been included in administrative expenses.

17 Other intangible assets (continued)

17b Parent company

	Computer software £ million	Development expenditure £ million	Total £ million
Cost			
At 1st April 2009	14.6	6.4	21.0
Additions	0.4	1.6	2.0
Disposal of business to subsidiary	(0.2)	–	(0.2)
Disposals	(0.4)	–	(0.4)
At 31st March 2010	14.4	8.0	22.4
Additions	0.8	1.0	1.8
At 31st March 2011	15.2	9.0	24.2
Accumulated amortisation and impairment			
At 1st April 2009	11.3	3.4	14.7
Charge for the year	1.1	0.6	1.7
Disposal of business to subsidiary	(0.2)	–	(0.2)
Disposals	(0.1)	–	(0.1)
At 31st March 2010	12.1	4.0	16.1
Charge for the year	1.1	0.6	1.7
At 31st March 2011	13.2	4.6	17.8
Carrying amount at 31st March 2011	**2.0**	**4.4**	**6.4**
Carrying amount at 31st March 2010	2.3	4.0	6.3
Carrying amount at 1st April 2009	3.3	3.0	6.3

The carrying amount of development expenditure includes £ nil (2010 £3.1 million) which is not yet being amortised as the assets are not yet available for use. These assets were tested for impairment annually and no impairment was identified.

18 Investments in subsidiaries

	Cost of investments in subsidiaries £ million	Accumulated impairment £ million	Carrying amount £ million
At 1st April 2009	1,487.3	(183.5)	1,303.8
Additional shares issued by subsidiary	216.6	–	216.6
Impairment loss	–	(1.7)	(1.7)
At 31st March 2010	1,703.9	(185.2)	1,518.7
Capital reduction of subsidiary	(11.6)	–	(11.6)
Impairment loss	–	(0.9)	(0.9)
At 31st March 2011	**1,692.3**	**(186.1)**	**1,506.2**

The principal subsidiaries are shown in note 43.

In the year ended 31st March 2011, one of the parent company's subsidiaries paid a dividend and as a consequence the investment was impaired.

19 Investment in associate

	2011 £ million	2010 £ million
At beginning of year	**3.4**	5.8
Group's share of profit of associate for the year	**–**	1.7
Group's share of associate's cash flow hedging movement	**–**	0.2
Dividends paid	**(3.5)**	(0.6)
Dissolution of associate	**0.1**	(5.4)
Exchange adjustments	**–**	1.7
At end of year	**–**	3.4

The group's associate was AGR Matthey, which was a partnership operating in Australia in which the group had a 20% interest. An agreement between the partners of AGR Matthey to dissolve the partnership became effective on 29th March 2010. As part of this dissolution the group acquired a metal products business and a 20% ownership of a plot of land from AGR Matthey. This dissolution resulted in a charge of £4.4 million in the year ended 31st March 2010, which was excluded from underlying profit before tax. The group received £3.5 million during the year ended 31st March 2011 which related to residual current assets and liabilities left in the partnership whilst they were converted into cash and so has recognised a gain of £0.1 million. This gain is excluded from underlying profit before tax. The AGR Matthey partnership dissolution was completed on 14th September 2010.

Summarised financial information in respect of the group's associate is:

	2011 £ million	2010 £ million
Total assets	**–**	42.8
Total liabilities	**–**	(25.8)
Net assets	**–**	17.0
Total revenue	**–**	24.6
Total profit for the year	**–**	8.6

20 Non-current available-for-sale investments

	2011 £ million	2010 £ million
Unquoted investments	**8.0**	7.5

21 Inventories

	Group		Parent company	
	2011 £ million	2010 £ million	2011 £ million	2010 £ million
Raw materials and consumables	**136.2**	97.7	**28.5**	21.5
Work in progress	**200.9**	115.9	**79.2**	46.5
Finished goods and goods for resale	**219.2**	176.5	**47.1**	33.2
	556.3	390.1	**154.8**	101.2

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

22 Long term contracts

	2011 £ million	2010 £ million
Contract revenue recognised	**75.7**	49.5
Contracts in progress at the year end:		
Costs incurred plus recognised profits less recognised losses to date	**69.3**	44.9
Amount of advances received	**42.2**	36.0

23 Trade and other receivables

	Group		Parent company	
	2011 £ million	2010 £ million	**2011 £ million**	2010 £ million
Current				
Trade receivables	**764.2**	542.7	**214.1**	181.3
Amounts receivable from long term contract customers	**13.0**	11.5	**–**	–
Amounts receivable from subsidiaries	**–**	–	**555.8**	431.6
Prepayments and accrued income	**34.2**	27.7	**8.9**	9.3
Value added tax and other sales tax receivable	**29.0**	23.2	**3.2**	2.8
Other receivables	**51.8**	34.2	**11.3**	12.5
Current trade and other receivables	**892.2**	639.3	**793.3**	637.5
Non-current				
Amounts receivable from subsidiaries	**–**	–	**523.9**	466.3
Prepayments and accrued income	**2.9**	2.9	**0.1**	0.1
Other receivables	**0.1**	0.2	**–**	–
Non-current trade and other receivables	**3.0**	3.1	**524.0**	466.4

24 Trade and other payables

	Group		Parent company	
	2011 £ million	2010 £ million	**2011 £ million**	2010 £ million
Current				
Trade payables	**313.8**	249.7	**111.3**	105.3
Amounts payable to long term contract customers	**46.7**	42.4	**–**	–
Amounts payable to subsidiaries	**–**	–	**956.3**	1,138.3
Accruals and deferred income	**244.4**	191.5	**76.0**	69.0
Other payables	**57.5**	43.6	**142.7**	59.4
Current trade and other payables	**662.4**	527.2	**1,286.3**	1,372.0
Non-current				
Accruals and deferred income	**2.5**	4.1	**0.2**	–
Other payables	**2.3**	1.9	**–**	–
Non-current trade and other payables	**4.8**	6.0	**0.2**	–

25 Net debt

	Group 2011 £ million	Group 2010 £ million	Parent company 2011 £ million	Parent company 2010 £ million
Non-current borrowings, finance leases and related swaps				
Bank, other loans and related swaps				
4.66% Euro Bonds 2021	**88.4**	–	**88.4**	–
5.67% US Dollar Bonds 2016	**106.2**	106.7	**106.2**	106.7
4.95% US Dollar Bonds 2015	**133.8**	142.4	**133.8**	142.4
4.987% Euro European Investment Bank (EIB) loan 2013	**110.7**	111.6	**110.7**	111.6
5.55% US Dollar Bonds 2013	**62.4**	65.9	**62.4**	65.9
5.17% Sterling Bonds 2013	**40.0**	40.0	**40.0**	40.0
Cross currency interest rate swaps designated as cash flow hedges	**0.3**	–	**0.3**	–
Other repayable from three to four years	**–**	33.3	**–**	33.0
Other repayable from two to three years	**31.5**	0.3	**31.2**	–
Other repayable from one to two years	**0.3**	55.8	**–**	49.8
Finance leases repayable				
After five years	**0.6**	1.0	**0.6**	1.0
From four to five years	**0.4**	0.4	**0.4**	0.4
From three to four years	**0.4**	0.3	**0.4**	0.3
From two to three years	**0.4**	0.3	**0.3**	0.3
From one to two years	**0.3**	0.3	**0.3**	0.3
Non-current borrowings, finance leases and related swaps	**575.7**	558.3	**575.0**	551.7
Current borrowings and finance leases				
4.935% US Dollar EIB loan 2011	**–**	65.9	**–**	65.9
Other bank and other loans	**181.5**	32.6	**146.5**	18.5
Finance leases	**0.3**	0.3	**0.3**	0.3
Current borrowings and finance leases excluding bank overdrafts	**181.8**	98.8	**146.8**	84.7
Bank overdrafts	**24.5**	14.7	**74.1**	10.3
Current borrowings and finance leases	**206.3**	113.5	**220.9**	95.0
Total borrowings and finance leases	**782.0**	671.8	**795.9**	646.7
Less interest rate swaps designated as fair value hedges	**23.7**	18.5	**23.7**	18.5
Less cross currency interest rate swaps designated as cash flow hedges	**–**	0.8	**–**	0.8
Less cash and deposits	**118.9**	179.1	**23.1**	88.4
Net debt	**639.4**	473.4	**749.1**	539.0

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 5.67% US Dollar Bonds 2016 have been swapped into floating rate US dollars. The interest rate implicit in the finance leases is 5.9% and the lease term ends in 2017. Apart from the bonds, EIB loans and finance leases shown separately above, all the loans, overdrafts and bank deposits are denominated in various currencies and bear interest at commercial floating rates.

26 Other financial liabilities

	Group 2011 £ million	Group 2010 £ million	Parent company 2011 £ million	Parent company 2010 £ million
Forward foreign exchange contracts and options designated as cash flow hedges	**3.1**	4.7	**5.3**	5.6
Forward foreign exchange contracts and currency swaps held for trading	**2.0**	3.3	**2.5**	3.6
Foreign exchange swaps designated as hedges of a net investment in foreign operations	**1.4**	–	**–**	–
	6.5	8.0	**7.8**	9.2

All other financial liabilities are measured at fair value using observable inputs (level 2 inputs per IFRS 7's fair value hierarchy).

27 Other financial assets

	Group 2011 £ million	Group 2010 £ million	Parent company 2011 £ million	Parent company 2010 £ million
Forward foreign exchange contracts and options designated as cash flow hedges	**3.3**	1.4	**3.8**	3.9
Forward foreign exchange contracts and currency swaps held for trading	**1.9**	1.9	**2.0**	3.9
Foreign exchange swaps designated as hedges of a net investment in foreign operations	**0.3**	2.0	**–**	–
Embedded derivatives	**1.4**	1.2	**1.4**	1.2
	6.9	6.5	**7.2**	9.0

Of the other financial assets listed above, all are measured at fair value using observable inputs (level 2 inputs per IFRS 7's fair value hierarchy) except for certain embedded derivatives which are valued based on both observable and unobservable inputs (level 3 inputs).

The reconciliation of other financial assets valued using level 3 inputs is:

	Group £ million	Parent company £ million
At 1st April 2010	1.2	1.2
Gains recognised in cost of sales	5.1	5.1
Settlements	(4.9)	(4.9)
At 31st March 2011	**1.4**	**1.4**

There were no transfers between the levels of IFRS 7's fair value hierarchy during the year.

28 Financial risk management

The group's and parent company's activities expose them to a variety of financial risks including market risk, liquidity risk and credit risk. Market risk includes currency risk, interest rate risk and price risk. The main financial risks managed by the group and parent company, under policies approved by the board, are foreign currency risk, interest rate risk, liquidity risk and credit risk. The group and parent company use derivative financial instruments, in particular forward currency contracts and currency swaps, to manage their financial risks associated with their underlying business activities and the financing of those activities. Some derivative financial instruments used to manage financial risk are not designated as hedges and so are classified as 'held for trading'. The group and parent company do not undertake any speculative trading activity in financial instruments.

28a Interest rate risk

The group's and parent company's interest rate risk arises from their fixed rate borrowings (fair value risk) and floating rate borrowings (cash flow risk). Their policy is to optimise interest cost and reduce volatility in reported earnings and equity. They manage their risk by reviewing the profile of their debt regularly and by selectively using interest rate and cross currency swaps to maintain borrowings in appropriate currencies and at competitive rates. The group and parent company have designated the US dollar fixed rate to US dollar floating rate swaps as fair value hedges as they hedge the changes in fair value of bonds attributable to changes in interest rates. The group and parent company have designated the US dollar fixed interest rate to sterling fixed interest rate cross currency swap as a cash flow hedge as it hedges the movement in the cash flows of the hedged bond attributable to changes in the US dollar / sterling exchange rate. The cross currency swap's cash flows are expected to occur in 2015 when the bond which it hedges matures. The interest element of the cash flow hedge is realised in the income statement each year and the exchange effect is expected to be realised in the income statement in 2015. At 31st March 2011, 54% (2010 65%) of the group's net debt and 44% (2010 57%) of the parent company's net debt were at fixed rates with an average interest rate of 5.06% (2010 5.14%). The remaining debt is funded on a floating rate basis. Based on the group's net debt funded at floating rates, after taking into account the effect of the swaps, a 1% change in all interest rates would have a £3.0 million (2010 £1.7 million) impact on the group's profit before tax. This is within the range the board regards as acceptable.

28b Foreign currency risk

The group operates globally with a significant amount of its profit earned outside the UK. 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 and Europe by borrowing US dollars and euros respectively. Although much of this funding is obtained by directly borrowing the relevant currency, a part is achieved through currency swaps which can be more efficient and reduce costs. To a lesser extent the group has also financed a portion of its investment in China, Japan and South Africa using currency borrowings and swaps. The group has designated the currency swap and two euro loans (fair value of the loans was £205.1 million) as hedges of net investments in foreign operations (2010 currency swaps and one euro loan (fair value of the loan was £120.3 million)) as they hedge the changes in values of the subsidiaries' net assets against movements in exchange rates.

28 Financial risk management (continued)

28b Foreign currency risk (continued)

The main currencies of the net debt after taking into account the effect of the currency swaps were:

	Group		Group		Parent company		Parent company	
	Borrowings 2011 £ million	Borrowings 2010 £ million	**Cash 2011 £ million**	Cash 2010 £ million	**Borrowings 2011 £ million**	Borrowings 2010 £ million	**Cash 2011 £ million**	Cash 2010 £ million
Sterling	**338.3**	411.8	**497.7**	488.7	**338.4**	407.1	**496.9**	476.9
US dollar	**509.2**	445.4	**95.2**	215.6	**499.1**	441.3	**86.6**	198.9
Euro	**500.8**	365.4	**72.0**	33.5	**540.7**	358.7	**55.9**	13.2
Japanese yen	**40.6**	41.8	**8.1**	19.6	**40.6**	41.8	**3.4**	16.7
Hong Kong dollar	**0.3**	4.3	**45.0**	46.9	**0.3**	4.3	**42.8**	40.6
Chinese renminbi	**54.6**	42.7	**8.5**	3.1	**41.0**	41.5	**–**	–
Canadian dollar	**6.7**	9.6	**20.3**	22.5	**7.8**	10.6	**17.3**	20.7
South African rand	**22.6**	11.8	**59.0**	16.0	**22.6**	11.8	**37.8**	9.7
Indian rupee	**1.1**	7.8	**15.4**	2.5	**–**	–	**–**	–
Other currencies	**9.1**	4.8	**22.7**	23.6	**6.8**	3.2	**7.5**	4.6
	1,483.3	1,345.4	**843.9**	872.0	**1,497.3**	1,320.3	**748.2**	781.3

The group and parent company use forward exchange contracts, and occasionally currency options, to hedge foreign exchange exposures arising on forecast receipts and payments in foreign currencies. These are designated and accounted for as cash flow hedges. The majority of the cash flows are expected to occur and the hedge effect realised in the income statement in the year ending 31st March 2012.

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 and a 5% (7.8 cent (2010 8.0 cent)) movement in the average exchange rate for the US dollar against sterling would have had a £4.6 million (2010 £2.9 million) impact on operating profit. The group is also exposed to the euro and a 5% (5.9 cent (2010 5.6 cent)) movement in the average exchange rate for the euro against sterling would have had a £3.0 million (2010 £0.9 million) impact on operating profit. 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.

For financial instruments the main exposures are to the US dollar and euro and are due to loans, swaps and cash flow hedges on forecast receipts and payments. A 5% (8.0 cent (2010 7.6 cent)) movement in the closing exchange rate for the US dollar against sterling would have had a £4.4 million (2010 £6.6 million) impact on operating profit and a £23.9 million (2010 £16.1 million) impact on equity for these instruments. A 5% (5.7 cent (2010 5.6 cent)) movement in the closing exchange rate for the euro against sterling would have had a £4.6 million (2010 £6.8 million) impact on operating profit and a £27.2 million (2010 £21.2 million) impact on equity for these instruments. However, the impact on operating profit relates primarily to the cash flow hedging instruments hedging the forecast receipts and payments whose cash flows have occurred in the year and so would be offset by similar movements in the hedged items. Similarly, the impact on equity relates primarily to foreign exchange positions used to hedge the subsidiaries' net assets and so would be offset by an equal and opposite movement in the value of the relevant subsidiaries' net assets. The remaining impact on equity of £3.2 million (2010 £4.6 million) for the US dollar and £5.7 million (2010 £4.6 million) for the euro relates to cash flow hedging instruments hedging the forecast receipts and payments whose cash flows have yet to occur.

28c Liquidity risk

The group's and parent company's policy on funding capacity is to ensure that they always have sufficient long term funding and committed bank facilities in place to meet foreseeable peak borrowing requirements. At 31st March 2011 the group and parent company had borrowings under committed bank facilities of £146.7 million (2010 £50.0 million). The group and parent company also have a number of uncommitted facilities, including metal leases, and overdraft lines at their disposal.

	Group		Parent company	
	2011 £ million	2010 £ million	**2011 £ million**	2010 £ million
Undrawn committed borrowing facilities				
Expiring within one year	**94.2**	80.0	**94.2**	80.0
Expiring in more than one year but not more than two years	**68.5**	90.0	**68.5**	90.0
Expiring in more than two years	**7.0**	60.0	**7.0**	60.0
	169.7	230.0	**169.7**	230.0

28 Financial risk management (continued)

28c Liquidity risk (continued)

The maturity analyses for financial liabilities showing the remaining contractual undiscounted cash flows, including future interest payments but excluding unamortised transaction costs, were:

Group as at 31st March 2011	Within 1 year £ million	1 to 2 years £ million	2 to 5 years £ million	After 5 years £ million	Total £ million
Bank overdrafts	24.5	–	–	–	24.5
Bank and other loans – principal	181.5	40.3	329.3	181.8	732.9
Bank and other loans – interest payments	29.3	27.1	53.6	25.9	135.9
Finance lease obligations	0.4	0.4	1.4	0.6	2.8
Financial liabilities in trade and other payables	570.4	0.6	0.4	0.5	571.9
Total non-derivative financial liabilities	806.1	68.4	384.7	208.8	1,468.0
Foreign exchange forwards, options and swaps – payments	518.2	0.9	0.6	–	519.7
Foreign exchange forwards, options and swaps – receipts	(511.1)	(1.0)	(0.6)	–	(512.7)
Total derivative financial liabilities	7.1	(0.1)	–	–	7.0

Group as at 31st March 2010	Within 1 year £ million	1 to 2 years £ million	2 to 5 years £ million	After 5 years £ million	Total £ million
Bank overdrafts	14.7	–	–	–	14.7
Bank and other loans – principal	98.5	55.9	382.9	98.9	636.2
Bank and other loans – interest payments	28.0	24.5	54.6	11.2	118.3
Finance lease obligations	0.4	0.4	1.4	1.0	3.2
Financial liabilities in trade and other payables	452.9	0.2	0.4	0.3	453.8
Total non-derivative financial liabilities	594.5	81.0	439.3	111.4	1,226.2
Foreign exchange forwards, options and swaps – payments	418.0	4.2	1.6	–	423.8
Foreign exchange forwards, options and swaps – receipts	(409.7)	(4.0)	(1.5)	–	(415.2)
Total derivative financial liabilities	8.3	0.2	0.1	–	8.6

Parent company as at 31st March 2011	Within 1 year £ million	1 to 2 years £ million	2 to 5 years £ million	After 5 years £ million	Total £ million
Bank overdrafts	74.1	–	–	–	74.1
Bank and other loans – principal	146.5	40.0	328.9	181.8	697.2
Bank and other loans – interest payments	27.9	26.9	53.5	25.9	134.2
Finance lease obligations	0.4	0.4	1.3	0.6	2.7
Financial liabilities in trade and other payables	1,286.3	–	–	0.2	1,286.5
Total non-derivative financial liabilities	1,535.2	67.3	383.7	208.5	2,194.7
Foreign exchange forwards, options and swaps – payments	527.3	3.7	0.7	–	531.7
Foreign exchange forwards, options and swaps – receipts	(518.2)	(3.6)	(0.6)	–	(522.4)
Total derivative financial liabilities	9.1	0.1	0.1	–	9.3

Parent company as at 31st March 2010	Within 1 year £ million	1 to 2 years £ million	2 to 5 years £ million	After 5 years £ million	Total £ million
Bank overdrafts	10.3	–	–	–	10.3
Bank and other loans – principal	84.4	50.0	382.3	98.9	615.6
Bank and other loans – interest payments	27.9	24.5	54.6	11.2	118.2
Finance lease obligations	0.4	0.4	1.4	1.0	3.2
Financial liabilities in trade and other payables	1,352.9	–	–	–	1,352.9
Total non-derivative financial liabilities	1,475.9	74.9	438.3	111.1	2,100.2
Foreign exchange forwards, options and swaps – payments	493.3	4.8	1.6	–	499.7
Foreign exchange forwards, options and swaps – receipts	(482.8)	(4.6)	(1.5)	–	(488.9)
Total derivative financial liabilities	10.5	0.2	0.1	–	10.8

The group and parent company have hedged some of the future interest payments on bank and other loans with interest rate swaps. At 31st March 2011 these were financial assets with maturities of £6.8 million (2010 £9.1 million) within one year, £0.2 million (2010 £9.1 million) between one to two years, £ nil (2010 £27.3 million) between two to five years and £ nil (2010 £9.6 million) after five years.

28 Financial risk management (continued)

28d Credit risk

Within certain businesses, the group and parent company derive a significant proportion of their 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 and parent company's results. The group and parent company derive significant benefit from trading with their large customers and manage 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 overdue within the group and the relevant actions being taken. At 31st March 2011 trade receivables for the group amounted to £764.2 million (2010 £542.7 million) (parent company £214.1 million (2010 £181.3 million)). £516.0 million (2010 £352.8 million) of these receivables at group level (£128.2 million (2010 £130.0 million) at parent company level) arose in Emission Control Technologies (ECT) which is part of Environmental Technologies Division and mainly supplies the automotive industry including car and truck manufacturers and component suppliers. Although ECT has a wide spread of the available customers the concentrated nature of this industry means that amounts owed by individual customers can be large. Other parts of the group tend to sell to a larger number of customers and amounts owed tend to be lower. As at 31st March 2011 (and at 31st March 2010) for the group as a whole, no single outstanding balance exceeded 2% of the group's revenue. No assets have been taken possession of as collateral.

The credit profiles of the group's and parent company's customers are obtained from credit rating agencies and are closely monitored. The scope of these reviews includes amounts overdue and credit limits. Generally, payments in the automotive industry and in the other markets in which the group operates are made promptly.

Trade receivables are considered impaired when the amount is in dispute, customers are in financial difficulty or for other reasons which imply there is doubt over the recoverability of the debt. Trade receivables can be analysed as:

	Group		Parent company	
	2011 £ million	2010 £ million	**2011 £ million**	2010 £ million
Amounts neither past due nor impaired	**680.0**	476.5	**195.4**	165.2
Amounts past due but not impaired				
less than 30 days	**65.9**	47.7	**14.6**	13.6
30 – 90 days	**12.8**	13.6	**4.1**	3.2
more than 90 days	**5.5**	5.3	**0.3**	0.4
Total past due but not impaired	**84.2**	66.6	**19.0**	17.2
Amounts impaired	**7.2**	7.1	**1.5**	1.7
Specific allowances for bad and doubtful debts	**(6.5)**	(5.5)	**(1.3)**	(0.9)
Carrying amount of impaired receivables	**0.7**	1.6	**0.2**	0.8
General allowances for bad and doubtful debts	**(0.7)**	(2.0)	**(0.5)**	(1.9)
Trade receivables net of allowances	**764.2**	542.7	**214.1**	181.3

Movements in the allowances for impairments were:

	Group		Parent company	
	2011 £ million	2010 £ million	**2011 £ million**	2010 £ million
At beginning of year	**7.5**	11.0	**2.8**	3.4
Charge for year	**3.9**	3.4	**1.3**	0.9
Acquisitions	**0.1**	–	**–**	–
Release	**(3.1)**	(3.0)	**(2.2)**	(0.5)
Utilised	**(1.1)**	(3.5)	**(0.1)**	(1.0)
Exchange adjustments	**(0.1)**	(0.4)	**–**	–
At end of year	**7.2**	7.5	**1.8**	2.8

Financial assets included in sundry receivables are all current and not impaired.

The credit risk on cash and deposits and derivative financial instruments is limited because the counterparties with significant balances are banks with high credit ratings. The exposure to individual banks is monitored frequently against internally defined limits together with the bank's credit ratings and credit default swap prices. As at 31st March 2011, the maximum exposure with a single bank for deposits was £15.9 million (2010 £27.0 million) for the group and £10.7 million (2010 £15.2 million) for the parent company, whilst the largest mark to market exposure for derivative financial instruments to a single bank was £11.9 million (2010 £9.9 million) for the group and parent company. The group and parent company also use money market funds to invest surplus cash thereby further diversifying credit risk and at 31st March 2011 the group's and parent company's exposure to these funds was £ nil (2010 £40.0 million). The amounts on deposit at the year end represent the group's and parent company's maximum exposure to credit risk on cash and deposits.

The parent company also guarantees some of its subsidiaries' borrowings, partly through interest netting arrangements, and precious metal leases and its exposure at 31st March 2011 was £31.1 million (2010 £16.2 million).

28 Financial risk management (continued)

28e Fair value of financial instruments

The fair value of financial instruments is approximately equal to book value except for:

Group	2011 Carrying amount £ million	2011 Fair value £ million	2010 Carrying amount £ million	2010 Fair value £ million
US Dollar Bonds 2013, 2015 and 2016	**(302.4)**	**(304.2)**	(315.0)	(316.7)
US Dollar EIB loan 2011	**–**	**–**	(65.9)	(67.8)
Euro Bonds 2021	**(88.4)**	**(89.7)**	–	–
Euro EIB loan 2013	**(110.7)**	**(115.4)**	(111.6)	(120.3)
Sterling Bonds 2013	**(40.0)**	**(42.0)**	(40.0)	(42.5)

Parent company	2011 Carrying amount £ million	2011 Fair value £ million	2010 Carrying amount £ million	2010 Fair value £ million
Amounts receivable from subsidiaries	**1,079.7**	**1,084.1**	897.9	895.0
US Dollar Bonds 2013, 2015 and 2016	**(302.4)**	**(304.2)**	(315.0)	(316.7)
US Dollar EIB loan 2011	**–**	**–**	(65.9)	(67.8)
Euro Bonds 2021	**(88.4)**	**(89.7)**	–	–
Euro EIB loan 2013	**(110.7)**	**(115.4)**	(111.6)	(120.3)
Sterling Bonds 2013	**(40.0)**	**(42.0)**	(40.0)	(42.5)

The fair values are calculated by discounting future cash flows to net present values using appropriate market interest rates prevailing at the year end. It is not possible to determine reliably the fair value of the group's unquoted available-for-sale investments which have a book value of £8.0 million (2010 £7.5 million) as there is no active market. These are investments in a company that is in the start up phase and in an investment vehicle that invests in start up companies and so there is a wide range of possible values. Given their size it would be overly onerous to provide additional detail.

28f Capital management

The group's policy for managing capital is to maintain an efficient balance sheet to ensure that the group always has sufficient resources to be able to invest in future growth. The group has a long term target of a return on invested capital (underlying operating profit divided by average capital employed) of over 20% to ensure focus on efficient use of the group's capital. See the section on return on invested capital in the Financial Review on page 35 for more information. The group also has a long term target of net debt (including post tax pension deficits) to EBITDA of between 1.5 and 2.0 times although in any given year it may fall outside this range depending on future plans. See the section on capital structure in the Financial Review on page 36 for more information.

	Group 2011 £ million	Group 2010 £ million	Parent company 2011 £ million	Parent company 2010 £ million
Net debt	**639.4**	473.4	**749.1**	539.0
Equity	**1,405.6**	1,250.8	**1,025.3**	1,024.5
Capital employed	**2,045.0**	1,724.2	**1,774.4**	1,563.5
Net debt (including post tax pension deficits)	**709.4**	621.6		
EBITDA	**489.4**	382.7		
Return on invested capital	**19.4%**	15.8%		
Net debt (including post tax pension deficits) to EBITDA	**1.4 times**	1.6 times		

29 Provisions and contingent liabilities

29a Group

	Restructuring provisions £ million	Warranty & technology provisions £ million	Other provisions £ million	Total £ million
At 1st April 2010	2.2	17.6	8.5	28.3
Charge for year	46.7	9.7	5.9	62.3
Utilised	(3.5)	(2.0)	(1.7)	(7.2)
Released	(0.1)	(2.5)	(0.5)	(3.1)
Unwinding of discount	–	–	0.4	0.4
Exchange adjustments	1.7	(0.1)	0.1	1.7
At 31st March 2011	**47.0**	**22.7**	**12.7**	**82.4**

	2011 £ million	2010 £ million
Current	**59.7**	8.7
Non-current	**22.7**	19.6
Total provisions	**82.4**	28.3

The restructuring provisions relate to Environmental Technologies Division and Fine Chemicals Division and are expected to be fully spent in 2011/12.

The warranty and technology provisions represent management's best estimate of the group's liability under warranties granted and remedial work required under technology licences, based on past experience in Environmental Technologies Division. Warranties generally cover a period of up to three years.

The other provisions include environmental, onerous leases and legal provisions arising across the group. Amounts provided reflect management's best estimate of the expenditure required to settle the obligations at the balance sheet date. They are expected to be fully spent over the next seven years.

Details of guarantees given by the group are disclosed in note 28d.

29b Parent company

	Restructuring provisions £ million	Warranty provisions £ million	Other provisions £ million	Total £ million
At 1st April 2010	0.3	0.1	9.5	9.9
Charge for year	2.7	–	5.8	8.5
Utilised	(1.9)	–	(0.6)	(2.5)
Unwinding of discount	–	–	0.1	0.1
Released	–	–	(0.2)	(0.2)
At 31st March 2011	**1.1**	**0.1**	**14.6**	**15.8**

	2011 £ million	2010 £ million
Current	**2.5**	0.4
Non-current	**13.3**	9.5
Total provisions	**15.8**	9.9

The restructuring provisions relate to Environmental Technologies Division and are expected to be fully spent in 2011/12.

The warranty provisions represent management's best estimate of the parent company's liability under warranties granted, based on past experience in Environmental Technologies Division.

The other provisions include onerous leases and legal provisions and provisions to buy metal to cover positions created by the parent company selling metal belonging to subsidiaries. Amounts provided reflect management's best estimate of the expenditure required to settle the obligations at the balance sheet date.

Details of guarantees given by the parent company are disclosed in note 28d.

30 Deferred taxation

30a Group

	Property, plant & equipment £ million	Post-employment benefits £ million	Provisions £ million	Inventories £ million	Intangibles £ million	Other £ million	Total deferred tax (assets) / liabilities £ million
At 1st April 2009	78.6	(44.3)	(2.7)	(31.1)	35.7	6.6	42.8
(Credit) / charge to income	(13.1)	10.8	(0.1)	(15.1)	(0.6)	5.6	(12.5)
Acquisitions	–	–	–	–	–	0.2	0.2
Tax on items taken directly to or transferred from equity	–	(33.4)	–	–	–	2.6	(30.8)
Exchange adjustments	(1.2)	2.3	–	0.4	(0.3)	(1.5)	(0.3)
At 31st March 2010	64.3	(64.6)	(2.8)	(45.8)	34.8	13.5	(0.6)
(Credit) / charge to income	(6.9)	3.0	(21.4)	(0.5)	(7.7)	21.4	(12.1)
Acquisitions (note 39)	0.5	–	(1.5)	(0.2)	12.1	(2.7)	8.2
Tax on items taken directly to or transferred from equity	–	27.9	–	–	–	(1.9)	26.0
Exchange adjustments	(1.4)	0.8	(0.2)	0.4	–	(0.5)	(0.9)
At 31st March 2011	**56.5**	**(32.9)**	**(25.9)**	**(46.1)**	**39.2**	**29.8**	**20.6**

	2011 £ million	2010 £ million
Deferred tax assets	**(39.7)**	(57.1)
Deferred tax liabilities	**60.3**	56.5
	20.6	(0.6)

Deductible temporary differences, unused tax losses and unused tax credits not recognised on the balance sheet are £72.8 million (2010 £72.1 million).

Deferred tax liabilities have not been recognised on temporary differences of £652.1 million (2010 £546.3 million) associated with investments in subsidiaries and associates.

30b Parent company

	Property, plant & equipment £ million	Post-employment benefits £ million	Provisions £ million	Inventories £ million	Intangibles £ million	Other £ million	Total deferred tax (assets) / liabilities £ million
At 1st April 2009	26.4	(12.7)	(0.4)	(23.1)	0.8	(9.2)	(18.2)
(Credit) / charge to income	(2.1)	2.4	0.1	(14.8)	0.3	9.6	(4.5)
Disposal of business to subsidiary	(0.2)	–	–	–	–	–	(0.2)
Tax on items taken directly to or transferred from equity	–	(33.6)	–	–	–	7.4	(26.2)
At 31st March 2010	24.1	(43.9)	(0.3)	(37.9)	1.1	7.8	(49.1)
(Credit) / charge to income	(3.6)	5.7	0.1	1.6	–	2.9	6.7
Tax on items taken directly to or transferred from equity	–	23.8	–	–	–	(1.3)	22.5
At 31st March 2011	**20.5**	**(14.4)**	**(0.2)**	**(36.3)**	**1.1**	**9.4**	**(19.9)**

Deductible temporary differences, unused tax losses and unused tax credits not recognised on the balance sheet are £4.0 million (2010 £4.0 million).

31 Share capital

	Authorised Number	Authorised £ million	Issued and fully paid Number	Issued and fully paid £ million
Ordinary shares of £1 each				
At 1st April 2009	291,550,000	291.6	220,673,613	220.7
Increase in authorised share capital	73,450,000	73.4	–	–
At 31st March 2010 and 31st March 2011	**365,000,000**	**365.0**	**220,673,613**	**220.7**

Details of outstanding share options and allocations under the company's long term incentive plan which have yet to mature are disclosed in note 13.

At the last Annual General Meeting on 21st July 2010 shareholders approved a resolution for the company to make purchases of its own shares up to a maximum number of 21,467,573 shares. The resolution remains valid until the conclusion of this year's Annual General Meeting. The company will purchase its own shares when the board believes it to be in the best interests of the shareholders generally and will result in an increase in earnings per share.

The group and parent company's employee share ownership trust (ESOT) also buys shares on the open market and holds them in trust for employees participating in the group's executive share option schemes and long term incentive plan. At 31st March 2011 the ESOT held 1,995,144 shares (2010 1,736,275 shares) which had not yet vested unconditionally in employees. Computershare Trustees (CI) Limited, as trustee for the ESOT, has waived its dividend entitlement.

The total number of treasury shares held was 5,997,877 (2010 5,997,877) at a total cost of £91.7 million (2010 £91.7 million).

32 Components of other comprehensive income

	2011 £ million	2010 £ million
Cash flow hedges:		
Gains taken to equity	**4.4**	12.7
Transferred to income statement	**(0.7)**	14.3
	3.7	27.0
Currency translation differences:		
Taken to equity	**(7.9)**	(5.7)
	(7.9)	(5.7)

33 Tax effects relating to other comprehensive income

	2011 Before tax £ million	**2011 Tax £ million**	**2011 Net of tax £ million**	2010 Before tax £ million	2010 Tax £ million	2010 Net of tax £ million
Currency translation differences	**(7.9)**	**(10.3)**	**(18.2)**	(5.7)	17.2	11.5
Cash flow hedges	**3.7**	**(1.0)**	**2.7**	27.0	(7.3)	19.7
Fair value gains on net investment hedges	**2.2**	**9.2**	**11.4**	32.8	(9.2)	23.6
Actuarial gain / (loss) on post-employment benefits assets and liabilities	**85.4**	**(27.9)**	**57.5**	(124.6)	33.4	(91.2)
Share of other comprehensive income of associate	**–**	**–**	**–**	0.2	–	0.2
Total other comprehensive income / (expense)	**83.4**	**(30.0)**	**53.4**	(70.3)	34.1	(36.2)

34 Other reserves

34a Group

	Capital redemption reserve £ million	Foreign currency translation £ million	Hedging reserve £ million	Total other reserves £ million
At 1st April 2009	6.5	35.0	(23.0)	18.5
Cash flow hedges:				
Gains taken to equity	–	–	12.7	12.7
Transferred to income statement	–	–	14.3	14.3
Of associate	–	–	0.2	0.2
Fair value gains on net investment hedges	–	32.8	–	32.8
Currency translation differences on foreign currency net investments and related loans	–	(5.8)	–	(5.8)
Tax on items taken directly to or transferred from equity	–	8.0	(7.3)	0.7
At 31st March 2010	6.5	70.0	(3.1)	73.4
Cash flow hedges:				
Gains taken to equity	–	–	4.4	4.4
Transferred to income statement	–	–	(0.7)	(0.7)
Fair value gains on net investment hedges	–	2.2	–	2.2
Currency translation differences on foreign currency net investments and related loans	–	(7.9)	–	(7.9)
Tax on items taken directly to or transferred from equity	–	(1.1)	(1.0)	(2.1)
At 31st March 2011	**6.5**	**63.2**	**(0.4)**	**69.3**

34b Parent company

	Capital redemption reserve £ million	Foreign currency translation £ million	Hedging reserve £ million	Total other reserves £ million
At 1st April 2009	6.5	(5.5)	(20.5)	(19.5)
Cash flow hedges:				
Gains taken to equity	–	–	11.9	11.9
Transferred to income statement	–	–	14.5	14.5
Disposal of business to subsidiary	–	–	0.2	0.2
Currency translation differences on foreign operations	–	0.5	–	0.5
Tax on items taken directly to or transferred from equity	–	–	(7.4)	(7.4)
At 31st March 2010	6.5	(5.0)	(1.3)	0.2
Cash flow hedges:				
Gains taken to equity	–	–	2.6	2.6
Transferred to income statement	–	–	(2.0)	(2.0)
Currency translation differences on foreign operations	–	1.2	–	1.2
Tax on items taken directly to or transferred from equity	–	–	(0.2)	(0.2)
At 31st March 2011	**6.5**	**(3.8)**	**(0.9)**	**1.8**

35 Gross cash flows

35a Purchases of non-current assets and investments

	Group 2011 £ million	Group 2010 £ million	Parent company 2011 £ million	Parent company 2010 £ million
Purchases of property, plant and equipment	**119.3**	111.1	**27.2**	21.1
Purchases of intangible assets	**17.6**	19.4	**1.9**	2.1
Purchase of additional shares issued by subsidiary	**–**	–	**–**	216.6
Purchases of available-for-sale investments	**0.5**	1.3	**–**	–
	137.4	131.8	**29.1**	239.8

35b Purchases of businesses

	Group 2011 £ million	Group 2010 £ million	Parent company 2011 £ million	Parent company 2010 £ million
Purchase of businesses (note 39)	**52.4**	7.3	**–**	–
Cash acquired with businesses (note 39)	**(1.0)**	(1.6)	**–**	–
Consideration paid for prior years' acquisitions	**1.7**	–	**–**	–
	53.1	5.7	**–**	–

35c Net proceeds from sale of businesses and non-controlling interests

	Group 2011 £ million	Group 2010 £ million	Parent company 2011 £ million	Parent company 2010 £ million
Disposal of business to subsidiary	**–**	–	**–**	56.6
Cash disposed of with business	**–**	–	**–**	(0.3)
	–	–	**–**	56.3

35d Net (cost of) / proceeds on ESOT transactions in own shares

	Group 2011 £ million	Group 2010 £ million	Parent company 2011 £ million	Parent company 2010 £ million
Purchase of own shares by ESOT	**(16.2)**	–	**(16.2)**	–
Release of own shares by ESOT	**7.1**	18.4	**7.1**	18.4
	(9.1)	18.4	**(9.1)**	18.4

35e Proceeds from / (repayment of) borrowings and finance leases

	Group 2011 £ million	Group 2010 £ million	Parent company 2011 £ million	Parent company 2010 £ million
Proceeds from borrowings falling due within one year	**120.1**	2.8	**96.7**	–
Repayment of borrowings falling due within one year	**(110.1)**	(22.4)	**(80.9)**	(17.9)
Proceeds from borrowings falling due after more than one year	**85.5**	50.0	**85.5**	50.0
Capital element of finance lease rental payments	**(0.3)**	(0.3)	**(0.3)**	(0.2)
	95.2	30.1	**101.0**	31.9

36 Cash and cash equivalents

	Group 2011 £ million	Group 2010 £ million	Parent company 2011 £ million	Parent company 2010 £ million
Cash and deposits	**118.9**	179.1	**23.1**	88.4
Bank overdrafts	**(24.5)**	(14.7)	**(74.1)**	(10.3)
Cash and cash equivalents	**94.4**	164.4	**(51.0)**	78.1

37 Precious metal operating leases

The group leases, rather than purchases, precious metals to fund temporary peaks in metal requirements provided market conditions allow. These leases are from banks for specified periods (typically a few months) and for which the group pays a fee. These arrangements are classified as operating leases. The group holds sufficient precious metal inventories to meet all the obligations under these lease arrangements as they fall due. At 31st March 2011 precious metal leases were £93.0 million (2010 £55.8 million).

38 Commitments

	Group		Parent company	
	2011 £ million	2010 £ million	**2011 £ million**	2010 £ million
Future capital expenditure contracted but not provided	**15.1**	9.4	**2.1**	0.8
Future minimum amounts payable under non-cancellable operating leases				
Within one year	**12.6**	11.1	**1.9**	1.9
From one to five years	**27.0**	22.4	**5.9**	4.5
After five years	**27.6**	25.8	**10.7**	6.5
	67.2	59.3	**18.5**	12.9
Future minimum sublease payments expected to be received under non-cancellable operating leases	**(0.4)**	(0.5)	**–**	–
Future minimum amounts payable under finance leases				
Within one year	**0.4**	0.4	**0.4**	0.4
From one to five years	**1.8**	1.8	**1.7**	1.8
After five years	**0.6**	1.0	**0.6**	1.0
	2.8	3.2	**2.7**	3.2
Less future finance charges	**(0.4)**	(0.6)	**(0.4)**	(0.6)
Present value of finance lease obligations	**2.4**	2.6	**2.3**	2.6

The group and parent company lease some of its property, plant and equipment which are used by the group and parent company in their operations, except for leases of some property which the group and parent company no longer use which are now sublet.

39 Acquisitions

If all the acquisitions in the year had been completed on 1st April 2010 the revenue for the group would have been £10,006.4 million and its profit for the year £182.1 million. The total purchase consideration was £52.0 million and the total intangible assets acquired were £33.9 million, property, plant and equipment £20.4 million, inventories £12.2 million, receivables £5.4 million, payables £10.6 million, current tax liabilities £1.4 million and deferred tax liabilities £8.2 million. Acquisition-related costs of £0.8 million incurred on the acquisitions completed in the year ended 31st March 2011 were charged to administrative expenses in the year.

X-Zyme Biotechnology GmbH

On 2nd July 2010 the group acquired 100% of X-Zyme Biotechnology GmbH, a biocatalysis company. The cash consideration was £1.0 million with a further £0.2 million contingent on future sales over a three year period. The fair value of the assets acquired was £0.6 million, consisting of £0.7 million for intangible assets, £0.1 million for property, plant and equipment and £0.2 million deferred income tax liabilities. This results in goodwill of £0.6 million, which is not expected to be tax deductible. This goodwill is attributable to future synergies arising from the combination. Since acquisition it has contributed £0.1 million to revenue and a loss of £0.1 million to the group's profit for the year and is included in Precious Metal Products.

Metal scavenging business

On 22nd July 2010 the group acquired a metal scavenging business from Reaxa Limited for £0.5 million cash plus consideration contingent on future sales over a three period with a fair value of £0.1 million. The fair value of the assets acquired was £0.6 million, consisting of £0.5 million for intangible assets and £0.1 million for inventories. Since acquisition it has been fully integrated into the group's existing metal scavenging business in Precious Metal Products and so its post acquisition results are not identifiable.

39 Acquisitions (continued)

Intercat, Inc.

On 1st November 2010 the group acquired 100% of Intercat, Inc. and its subsidiaries. Intercat is a leading supplier of fluid catalytic cracking (FCC) additives and addition systems, specialising in the development, manufacture, sale and technical support of both additives and addition systems for the petroleum refining industry. It has production sites in Savannah, Georgia, USA and offices in the US, Netherlands and India. Since acquisition it has contributed £18.1 million to revenue and a loss of £0.1 million to the group's profit for the year due to integration costs and is included in Environmental Technologies.

The net assets acquired were:

	£ million	Estimated fair value at time of acquisition £ million
Property, plant and equipment		11.5
Intangible assets		30.6
Inventories		5.8
Trade and other receivables – gross contractual amounts receivable	5.5	
Trade and other receivables – estimate of amounts not expected to be collected	(0.1)	
Trade and other receivables		5.4
Cash and cash equivalents		1.0
Other borrowings and finance leases		(21.5)
Current income tax liabilities		(1.4)
Deferred income tax liabilities		(8.0)
Trade and other payables		(10.6)
Total net assets acquired		12.8
Goodwill on acquisition		20.2
		33.0

Satisfied by:	£ million
Purchase consideration – cash	33.7
Purchase consideration – to be refunded	(1.6)
Purchase consideration – deferred	0.9
	33.0

The provisional fair values will be finalised by 30th October 2011 when the final valuation of the consideration and of various assets and liabilities, including intangible assets and working capital, will be completed.

The goodwill relates to Intercat's approximately 180 employees who have a wealth of knowledge and expertise in FCC additives and addition systems. There will also be significant synergies between the group's Process Technologies business and Intercat, both in terms of products and technical support that the expanded business will be able to provide to its customers in the petroleum refining industry. There are also opportunities to adapt some of Intercat's processes to produce different products which could prove useful to other group businesses. The goodwill is not expected to be tax deductible.

Manufacturing facility and certain ongoing business from Lonza Inc.

On 1st November 2010 the group acquired a large scale pharmaceutical manufacturing facility based in Pennsylvania, USA together with certain ongoing business from Lonza Inc. Since acquisition it has been fully integrated into Fine Chemicals and so its post acquisition results are not identifiable.

The net assets acquired were:

	Fair value at time of acquisition £ million
Property, plant and equipment	8.8
Intangible assets	2.1
Inventories	6.3
Total net assets acquired	17.2
Goodwill on acquisition	–
	17.2

Satisfied by:	£ million
Purchase consideration – cash	17.2

40 Discontinued operations

On 28th February 2007 the group sold its Ceramics Division. Further costs of £1.9 million have been provided for in the year ended 31st March 2011 in respect of environmental warranty claims.

41 Transactions with related parties

Transactions between the parent company and its subsidiaries, which are related parties, have been eliminated on consolidation and so are only disclosed for the parent company's accounts. The group's associate, as described in note 19, was a related party. Guarantees of subsidiaries' borrowings are disclosed in note 28d.

	Group		Parent company	
	2011 £ million	2010 £ million	**2011 £ million**	2010 £ million
Trading transactions with associate				
Amounts payable to associate	**–**	0.7	**–**	–
Trading transactions with subsidiaries				
Sale of goods	**–**	–	**2,131.5**	1,541.0
Purchases of goods	**–**	–	**325.6**	217.2
Income from service charges	**–**	–	**15.5**	13.1
Amounts receivable from subsidiaries	**–**	–	**121.3**	94.7
Amounts payable to subsidiaries	**–**	–	**17.1**	14.8
Loans to subsidiaries	**–**	–	**959.2**	803.2
Loans from subsidiaries	**–**	–	**939.9**	1,123.5

As well as the above trading transactions with AGR Matthey other transactions as described in note 19 took place on 29th March 2010 and during the year ended 31st March 2011.

The group's post-employment benefits plans are related parties and the group's and parent company's transactions with them are disclosed in notes 14a and 14b respectively.

The transactions with key management personnel are described in note 12c.

42 Key sources of estimation uncertainty

Determining the carrying amounts of some assets and liabilities requires estimation of the effects of uncertain future events on those assets and liabilities at the balance sheet date. The group and parent company have made appropriate estimates when applying the accounting policies, but the actual outcome may differ from those calculated.

The key sources of estimation uncertainty at the balance sheet date which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are:

Post-employment benefits

The group's and parent company's defined benefit plans are assessed annually by qualified independent actuaries. The details of the plans and assumptions used are described in note 14.

Goodwill

The group has capitalised goodwill of £529.5 million and the parent company has £110.5 million. Annual impairment reviews are performed which require various assumptions. More details are given in note 16.

Other intangible assets

Other intangible assets which are not yet being amortised are also subject to annual impairment reviews based on discounted cash flow projections. More details are given in note 17.

Provisions and contingent liabilities

As described in note 29 and the accounting policies, the group and parent company measure provisions and contingent liabilities at management's best estimate of the expenditure required to settle the obligations at the balance sheet date.

42 Key sources of estimation uncertainty (continued)

Taxation

The tax payable on profits is determined based on tax laws and regulations that apply in each of the numerous jurisdictions in which the group operates. Where the precise impact of these laws and regulations is unclear then reasonable estimates may be used to determine the tax charge included in the accounts. If the tax eventually payable or reclaimable differs from the amounts originally estimated then the difference will be charged or credited in the accounts for the year in which it is determined.

Refining process and stock takes

The group's and parent company's refining and fabrication businesses process significant quantities of precious metal and, similar to many industrial activities, losses may arise during processing. The extent of such losses depends on many factors, including the nature of material being refined, the specific refining processes applied and processes' efficiency. Judgment is therefore required in estimating the amount of such losses when setting process loss provisions. In addition stock takes, particularly at the refining businesses, involve estimation of volumes in the refining system and the subsequent assaying of material to assess the precious metal content. In addition, the results of assaying and therefore the stock take itself are only available some time after the date of the stock take. In setting process loss provisions and assessing the stock take results management takes account of past experience, ability to extract precious metals from the refining process and other factors when estimating losses and gains.

43 Principal Subsidiaries

The group's principal subsidiaries at 31st March 2011 are set out below. Those held directly by the parent company are marked with an asterisk (*). All the companies are wholly owned unless otherwise stated. All the subsidiaries are involved in the principal activities of the group. A full list of the group's subsidiaries will be attached to the parent company's annual return to be filed with the Registrar of Companies.

	Country of incorporation
Europe	
S.A. Johnson Matthey N.V.	Belgium
* Avocado Research Chemicals Limited	England
* Davy Process Technology Limited	England
* Johnson Matthey Fuel Cells Limited (82.5%)	England
* Tracerco Limited	England
Johnson Matthey SAS	France
Alfa Aesar GmbH & Co KG	Germany
Johnson Matthey Catalysts (Germany) GmbH	Germany
Johnson Matthey GmbH	Germany
Johnson Matthey BV	Netherlands
Macfarlan Smith Limited	Scotland
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
Intercat, Inc.	USA

	Country of incorporation
Asia	
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 Catalysts Korea Limited	South Korea
Africa	
Johnson Matthey (Pty) Limited	South Africa
Australasia	
Johnson Matthey (Aust) Ltd	Australia
South America	
* Johnson Matthey Argentina S.A.	Argentina

Independent Auditor's Report

to the members of Johnson Matthey Public Limited Company

We have audited the group and parent company accounts of Johnson Matthey Plc for the year ended 31st March 2011 which comprise the Consolidated Income Statement, the Consolidated Statement of Total Comprehensive Income, the Consolidated and Parent Company Balance Sheets, the Consolidated and Parent Company Cash Flow Statements, the Consolidated Statement of Changes in Equity, the Parent Company Statement of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the EU and, as regards the parent company accounts, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 Auditor

As explained more fully in the directors' responsibilities statement set out on page 75, the directors are responsible for the preparation of the accounts and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the Audit of the Accounts

A description of the scope of an audit of accounts is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on Accounts

In our opinion:

- the accounts give a true and fair view of the state of the group's and of the parent company's affairs as at 31st March 2011 and of the group's profit for the year then ended;
- the group accounts have been properly prepared in accordance with IFRS as adopted by the EU;
- the parent company accounts have been properly prepared in accordance with IFRS as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the accounts have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group accounts, Article 4 of the IAS Regulation.

Opinion on Other Matters Prescribed by the Companies Act 2006

In our opinion:

- the part of the directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the directors' report for the financial year for which the accounts are prepared is consistent with the accounts.

Matters on Which we are Required to Report by Exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company accounts and the part of the directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 37, in relation to going concern; and
- the part of the Corporate Governance statement on page 58 relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
- certain elements of the report to shareholders by the board on directors' remuneration.

D V Matthews (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
15 Canada Square, London E14 5GL

1st June 2011

Five Year Record

	2007 £ million	2008 £ million	2009 £ million	2010 £ million	**2011 £ million**
Revenue	6,151.7	7,498.7	7,847.8	7,839.4	**9,984.8**
Sales excluding the value of precious metals	1,454.2	1,750.2	1,796.9	1,885.5	**2,280.3**
EBITDA	329.9	374.1	398.1	382.7	**489.4**
Depreciation	(68.6)	(68.3)	(88.7)	(97.3)	**(108.3)**
Amortisation	(6.1)	(9.0)	(10.9)	(13.6)	**(14.9)**
Underlying operating profit	255.2	296.8	298.5	271.8	**366.2**
Amortisation of acquired intangibles	(2.8)	(3.1)	(9.1)	(9.9)	**(13.2)**
Major impairment and restructuring charges	–	–	(9.4)	(11.3)	**(71.8)**
Operating profit	252.4	293.7	280.0	250.6	**281.2**
Net finance costs	(26.8)	(30.3)	(32.6)	(19.4)	**(20.7)**
Share of profit / (loss) of associates	0.9	(1.1)	2.0	1.7	**–**
Dissolution of associate	–	–	–	(4.4)	**0.1**
Profit before tax	226.5	262.3	249.4	228.5	**260.6**
Income tax expense	(64.7)	(77.2)	(76.7)	(64.3)	**(76.0)**
Profit after taxation	161.8	185.1	172.7	164.2	**184.6**
Profit / (loss) for the year from discontinued operations	43.7	0.3	1.2	–	**(1.9)**
Non-controlling interests	1.0	0.8	0.2	–	**(0.4)**
Profit attributable to owners of the parent company	206.5	186.2	174.1	164.2	**182.3**
Underlying earnings per ordinary share	82.2p	89.5p	89.6p	86.4p	**119.0p**
Earnings per ordinary share	96.9p	88.5p	82.6p	77.6p	**85.6p**
Dividend per ordinary share	33.6p	36.6p	37.1p	39.0p	**46.0p**
Summary Balance Sheet					
Assets employed:					
Goodwill	399.2	480.4	516.0	513.8	**529.5**
Property, plant and equipment / other intangible assets	640.8	827.9	1,060.5	1,053.2	**1,060.6**
Non-current investments / associates	9.6	8.9	12.1	10.9	**8.0**
Inventories	362.7	380.4	371.7	390.1	**556.3**
Receivables / current investments / tax assets / financial assets	549.2	712.4	585.9	718.9	**951.2**
Payables / provisions / tax liabilities / financial liabilities	(519.5)	(655.7)	(684.1)	(717.0)	**(930.2)**
Post-employment benefits net assets / employee benefits obligations	0.9	16.4	(151.6)	(245.7)	**(130.4)**
	1,442.9	1,770.7	1,710.5	1,724.2	**2,045.0**
Financed by:					
Net debt	364.8	610.4	534.4	473.4	**639.4**
Retained earnings	783.7	879.1	849.6	837.7	**1,002.0**
Share capital, share premium, shares held in ESOTs and other reserves	292.0	279.8	325.7	411.7	**402.5**
Non-controlling interests	2.4	1.4	0.8	1.4	**1.1**
Capital employed	1,442.9	1,770.7	1,710.5	1,724.2	**2,045.0**
Return on invested capital (Underlying operating profit / average capital employed)	17.6%	18.5%	17.1%	15.8%	**19.4%**

The balance sheet for 2008 has been restated for the changes to Argillon Group's fair value at acquisition and goodwill on acquisition.

Financial Calendar 2011/12

2011

8th June
Ex dividend date

10th June
Final dividend record date

19th July
120th Annual General Meeting (AGM)

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

23rd November
Announcement of results for the six months ending 30th September 2011

30th November
Ex dividend date

2nd December
Interim dividend record date

2012 (provisional)

7th February
Payment of interim dividend

7th June
Announcement of results for the year ending 31st March 2012

13th June
Ex dividend date

15th June
Final dividend record date

25th July
121st AGM

7th August
Payment of final dividend subject to declaration at the AGM

Shareholder Information

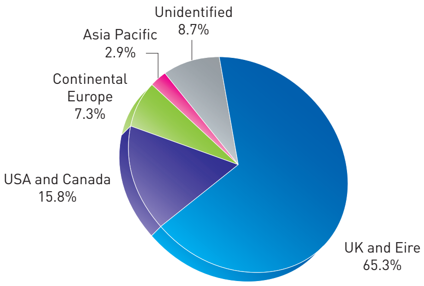
Johnson Matthey Share Price Five Year Performance versus FTSE 100

Johnson Matthey Share Price as at 31st March

2006	2007	2008	2009	2010	2011
1,396p	1,576p	2,005p	1,053p	1,746p	1,860p

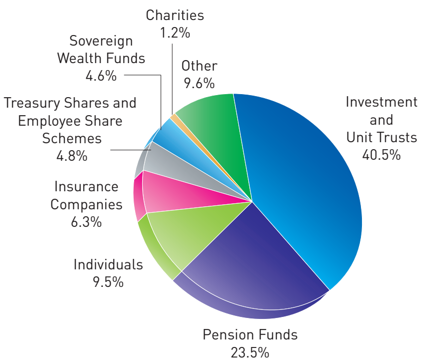
Analysis of Ordinary Shareholders as at 30th April 2011

By Location



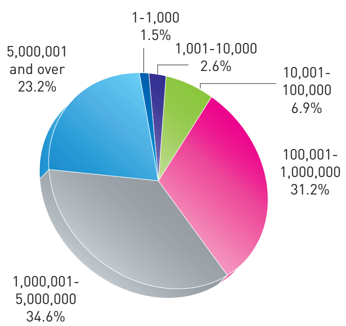
By location	Number of shares	Percentage
UK and Eire	144,140,929	65.3
USA and Canada	34,834,829	15.8
Continental Europe	16,232,224	7.3
Asia Pacific	6,345,858	2.9
Unidentified	19,119,773	8.7
TOTAL	220,673,613	100.0

By Category



By category	Number of shares	Percentage
Investment and Unit Trusts	89,307,761	40.5
Pension Funds	51,813,839	23.5
Individuals	21,021,407	9.5
Insurance Companies	13,988,718	6.3
Treasury Shares and Employee Share Schemes	10,530,854	4.8
Sovereign Wealth Funds	10,105,147	4.6
Charities	2,590,802	1.2
Other	21,315,085	9.6
TOTAL	220,673,613	100.0

By Size of Holding



By size of holding	Number of holdings	Percentage	Number of shares	Percentage
1 – 1,000	8,421	74.2	3,213,830	1.5
1,001 – 10,000	2,254	19.8	5,645,482	2.6
10,001 – 100,000	422	3.7	15,204,906	6.9
100,001 – 1,000,000	215	1.9	68,921,903	31.2
1,000,001 – 5,000,000	33	0.3	76,437,148	34.6
5,000,001 and over	7	0.1	51,250,344	23.2
	11,352	100.0	220,673,613	100.0

Shareholder Information

Share Dealing Services

A telephone and internet dealing service for UK shareholders is provided by the company's registrars, Equiniti. For further details, including Equiniti's terms and conditions, log on to www.shareview.co.uk/dealing or call 08456 037 037.

Dividend History – Pence per Share

	2007	2008	2009	2010	2011
Interim	9.9	10.6	11.1	11.1	12.5
Final	23.7	26.0	26.0	27.9	33.5
Total	33.6	36.6	37.1	39.0	46.0

Dividend Policy

It is Johnson Matthey's policy to grow dividends in line with underlying 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 five years from 2006/07, underlying earnings per share have grown at a compound annual growth rate of 9.7% p.a. The board is proposing a final dividend for 2010/11 of 33.5 pence to take the total for the year to 46.0 pence, which is 18% up. The dividend will be covered 2.6 times by underlying earnings.

Dividend Payments and DRIP

Dividends can be paid directly into shareholders' bank or building society accounts. Shareholders wishing to take advantage of this facility should contact the company's registrars, Equiniti, 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 Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA. Telephone 0871 384 2268*. 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 BNY Mellon administers and for which it acts as Depositary. Each ADR represents two Johnson Matthey ordinary shares. The ADRs trade on 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, BNY Mellon can be contacted on 1-888-BNY-ADRS (1-888-269-2377) toll free if you are calling from within the United States. Alternatively, they can be contacted by e-mail at shrrelations@bnymellon.com or via their website at adrbnymellon.com.

Share Price and Group Information

Information on the company's current share price together with copies of the group's annual and half-yearly reports and major presentations to analysts and institutional shareholders are available on the Johnson Matthey website: www.matthey.com.

The website's Investor Centre contains extensive information and a number of tools which will be of assistance to investors including historic share price information downloads and a share price charting facility.

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

Enquiries

Shareholders who wish to contact Johnson Matthey Plc on any matter relating to their shareholding are invited to contact the company's registrars, Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA. Telephone 0871 384 2344* or via their website www.shareview.co.uk.

Shareholders may also telephone the company on 020 7269 8400 or write to:

The Company Secretary
Johnson Matthey Plc
5th Floor
25 Farringdon Street
London
EC4A 4AB

For other enquiries shareholders may contact the Director, Investor Relations and Corporate Communications at the above address and telephone number.

* Calls to these numbers are charged at 8p per minute from a BT landline. Other telephony providers' costs may vary. Lines are open 8.30am to 5.30pm Monday to Friday.

OTHER INFORMATION

Glossary of Terms

AA1000AS	An assurance standard for sustainability and corporate responsibility reporting
ADDERALL XR®	An extended release product used in the treatment of Attention Deficit Hyperactivity Disorder
ADHD	Attention deficit hyperactivity disorder
ADR	American Depositary Receipt
AGM	Annual general meeting
Alfa Aesar	Brand name of Johnson Matthey's Research Chemicals business
AMG	Ammonia, Methanol and Gas
APB	Auditing Practices Board
API	Active pharmaceutical ingredient
Apico™	Johnson Matthey's methanol synthesis catalyst, launched in June 2009
Buprenorphine	A synthetic derivative of thebaine, used as an analgesic and also used in drug addiction therapy
CARB	California Air Resources Board
CEC	Chief Executive's Committee
CGU	Cash-generating unit
CIA	Chemical Industries Association
CO_2	Carbon dioxide
CPI	Consumer price index
CSR	Corporate Social Responsibility
CTL	Coal to liquids, multi stage catalytic process used to convert coal into chemicals and fuels
DPF	Diesel particulate filter
DPT	Davy Process Technology
DMFC	Direct methanol fuel cell
DRIP	Dividend Reinvestment Plan
EBITDA	Earnings before interest, tax, depreciation and amortisation
ECT	Emission Control Technologies
EHS	Environment, health and safety
EIB	European Investment Bank
EPMF	European Precious Metals Federation
EPS	Earnings per share
ESOT	Employee Share Ownership Trust
ETF	Exchange Traded Fund
EU	European Union
FCC	Fluid catalytic cracking
Fischer Tropsch	Catalytic process used to convert syngas or gasified coal into sulphur free hydrocarbons, including diesel fuel
FRC	Financial Reporting Council
Fuel cell	Technology which converts hydrogen or other fuels (methanol, natural gas) into clean electricity
GHS	Globally Harmonised System of Classification and Labelling of Chemicals
GRI	Global Reporting Initiative
Group Control Manual	The group's compendium of policies, procedures and rules which is distributed to all group operations
GTL	Gas to liquids, multi stage catalytic process used to convert stranded natural gas into sulphur free hydrocarbons, including diesel fuel
GWP	Global warming potential
HDD	Heavy duty diesel
IAS	International Accounting Standard
IASB	International Accounting Standards Board
ICCA	International Council of Chemical Associations
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
Interest cover	Underlying operating profit / net finance costs
ISO 14000	Internationally recognised series of standards which specify the requirements for an environmental management system
ISO 26000	International standard giving guidelines on social responsibility
ISO 9000	Internationally recognised series of standards which specify the requirements for a quality management system
JMEPS	Johnson Matthey Employees Pension Scheme
KPI	Key performance indicator
LBG	London Benchmarking Group
LTIP	Long term incentive plan
MDRC	Management Development and Remuneration Committee
MEA	Membrane electrode assembly
Methylphenidate	Synthetic controlled drug used in the treatment of narcolepsy and attention deficit hyperactivity disorder
MSC	Manufacturing Science Centre, Billingham, UK
N_2O	Nitrous oxide
Naloxone	An opiate antagonist used to reverse the effect of opiates
NDA	Natural detergent alcohols
NGO	Non-governmental organisation
NMR	Nuclear magnetic resonance, a spectroscopy technique
OEM	Original equipment manufacturer
Oxaliplatin	A platinum based anticancer drug
PBT	Underlying profit before tax
Pgm	Platinum group metal
PMPD	Precious Metal Products Division
PTA	Pure terephthalic acid
R&D	Research and development
REACH	Registration, Evaluation and Authorisation of Chemicals. EU chemical control legislation which came into force in June 2007
ROIC	Return on invested capital
RPI	Retail price index
SEC	Stationary Emissions Control
SIC	Standing Interpretations Committee
SIP	Share incentive plan
SNG	Substitute natural gas
SO_2	Sulphur dioxide
Syngas, synthesis gas	A mixture of hydrogen and carbon oxides
The Code	The Combined Code on Corporate Governance, issued by the Financial Reporting Council dated June 2008
The New Code	The UK Corporate Governance Code, issued by the Financial Reporting Council dated June 2010
TSCA	Toxic Substances Control Act
TSR	Total shareholder return

Index

Company Details

Registered Office

5th Floor
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