

CHIEF EXECUTIVE'S STATEMENT



A handwritten signature in dark ink, appearing to read 'Chris Clark'. The signature is fluid and cursive.

Chris Clark
Chief Executive

JOHNSON MATTHEY DELIVERED GOOD RESULTS IN 2002/03 AGAINST a background of more difficult market conditions. Three of the group's divisions achieved double digit growth in operating profit for the year despite adverse exchange translation.

We successfully completed the purchase of Synetix from ICI, which has performed well since acquisition and has substantially strengthened our position in the global catalysts market. The addition of Synetix to Catalysts & Chemicals Division increases our focus towards catalyst products and we have renamed the division Catalysts to reflect that change.

Catalysts Division continues to perform well, maintaining its record of strong growth despite the challenges presented by the world's economies. Following the acquisition of Syntex, the two largest sectors of Catalysts Division were renamed Environmental Catalysts and Technologies and Process Catalysts and Technologies. The Environmental Catalysts and Technologies (ECT) sector encompasses Johnson Matthey's worldwide autocatalysts, heavy duty diesel and stationary source emission control businesses. Process Catalysts and Technologies (PCT) includes catalysts sold to the chemicals, pharmaceutical, oil and gas and other industries, plus platinum group metal (pgm) refining, pgm chemicals and research chemicals. The third part of Catalysts Division is our Fuel Cells business.

The Syntex acquisition has brought world leading base metal process catalyst technology that complements our strength in precious metal catalysts. We have now fully integrated the former Syntex businesses into PCT, elevating Johnson Matthey to a strong number two in the world catalysts market. The acquisition has broadened the sectors that we serve to include market leading positions in ammonia, methanol, hydrogen, edible oils and oleochemicals.

Our combined research and development and sales teams are working to realise the synergies we envisaged from putting these businesses together. We have already identified new opportunities in applying pgm catalyst technology in traditional base metal applications such as the manufacture of oleochemicals. Excellent progress is also being made with the promising growth opportunities that we identified at the time of the acquisition. These include the gas to liquids (GTL) process, which uses a series of customised catalysts to convert stranded natural gas to sulphur free diesel fuel. We are now working with all the leading players in the GTL field and have already secured important new business. We expect the GTL catalysts market to develop over the next five years and it is estimated that it could be worth over \$400 million a year by 2010.

Another growth opportunity is in the application of chiral catalysts in the pharmaceutical industry (see page 14). This is driven by regulators around the world increasingly requiring pharmaceutical companies to produce a specific chiral version of a drug and is a field in which our combined business has a particularly strong position.

In ECT our commitment to investment in product development and manufacturing technology has enabled us to maintain growth in our business despite weaker car markets in both North America and Europe. Our new autocatalyst plant in China is now operating profitably and we are increasing our market share in Asia, which has outpaced both North America and Europe to become the world's largest producer of light duty vehicles. We expanded production capacity at our South African and Malaysian plants and embarked on the construction of a new manufacturing unit in Japan. Significant investments in our technology centres were also started in the UK and in Sweden.

The market for emission control catalysts for heavy duty diesel vehicles continues to present good opportunities for future growth. The last year has seen major increases in our sales to the heavy duty diesel retrofit market, particularly in the United States and Japan. We are working closely with customers around the world to meet progressively tighter and more challenging emissions legislation that will come into force over the next five years creating a major new original equipment market for catalysts for heavy duty diesel trucks and buses.

The Fuel Cells business continues to make excellent progress. In the last year it has taken several important steps towards establishing itself as the emerging fuel cell industry's supplier of choice for catalysts and catalysed components. We have established strong partnerships with key system integrators in the fuel cell industry who have formally selected Johnson Matthey to work with them to produce commercial products for sale in the next few years. In some cases we have been selected as the sole supplier. The 'early adopter' markets for stationary, back up and portable power are expected to be the first examples of true commercial products featuring fuel cells. Mass produced products for transport applications are expected at the end of this decade and into the next.

At our dedicated Membrane Electrode Assembly (MEA) plant in Swindon, further investment is underway aimed at improving the production process and increasing capacity so that we can remain in step with the growing requirements of our customers.

During the year we announced that Anglo Platinum had taken a 17.5% stake in the Fuel Cells business in return for its share of the intellectual property rights and know-how developed under a long term fuel cells research and development agreement entered into in 1993 and an additional payment of £20 million.

Johnson Matthey is the world's largest fabricator and distributor of platinum group metals (pgms). We are the sole marketing agent for Anglo Platinum, which is the world's leading primary producer of pgms. The outlook for platinum demand remains encouraging with increasing use in jewellery, diesel emission control and fuel cells. The outlook for palladium is less good with supply exceeding demand. We continue to seek new markets for all the pgms and to invest in R&D to find new applications for these metals.

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Our ppgm fabrication business has achieved steady growth over the last few years. One of the most rapidly growing markets is products for cardiovascular devices. These utilise the unique characteristics of platinum group metal alloys and the super-elastic properties of nitinol. A new R&D centre has been established at our Pennsylvania facility to help meet customer demand for new components for medical products.

Colours & Coatings made good progress in 2002/03. The major rationalisation programme to reduce the cost base announced in January 2002, which included the closure of a major site in Staffordshire, was completed on time and with benefits exceeding those originally planned. Production was successfully transferred to other sites with no material loss of sales. As a consequence, margins for the division grew by 1% to 11.1%.

As well as efficiency improvements the division has been able to gain market share by introducing new products, particularly in coating materials for glass. New improved product ranges, including recyclable, lead free products have been well received by the market. Our new frit facilities in Spain and Brazil, which produce coating materials for the tile industry, were successfully commissioned in 2002 and are now fully operational. With this investment completed, we expect the division to be significantly cash generative going forward.

Pharmaceutical Materials Division, which became a stand alone division in 2001/02 following the acquisitions of Pharm-Eco and Macfarlan Smith (Meconic), enjoyed another very successful year in 2002/03 and is well positioned for future growth. In October 2002 we announced the acquisition of Cascade Biochem Limited, a small company focused on the manufacture and supply of prostaglandins and other complex molecules as active pharmaceutical ingredients for the pharmaceutical industry. Market interest in prostaglandin products is high and the division is in the process of negotiating commercial relationships for its key products. In support of the commercialisation of its product pipeline a programme of capacity expansion has begun at Cascade's Cork facility.

We are continuing to invest in the rest of the division to develop future growth opportunities. At our facility at West Deptford in the US we are putting in capacity to manufacture morphine and codeine, which we plan to be in place by the end of this fiscal year. At Pharm-Eco we are building additional laboratories and small scale manufacturing suites to meet increasing demand. At Macfarlan Smith we are investing in new capacity and in infrastructure to meet the projected future growth in demand. Our Edinburgh factory has just received a successful inspection by the FDA, which will enable us to sell some products manufactured in Scotland into the US.

Financial Highlights

In the financial year to 31st March 2003, Johnson Matthey's profit before tax, exceptional items and goodwill amortisation rose by 3% to £192.5 million. Earnings per share before exceptional items and goodwill amortisation rose by 4% to 62.6 pence.

Total sales fell by 10% to £4.3 billion reflecting significantly lower prices for palladium and rhodium and the lower level of trading activity in those metals. Sales excluding the value of precious metals rose by 6% to £1.2 billion with good growth in Pharmaceutical Materials and increased sales in Catalysts following the acquisition of Syntetix.

Operating profit before exceptional items and goodwill amortisation also rose by 6% to £205.7 million. With over 40% of the group's profits earned in North America, the sharp fall in the value of the US dollar adversely affected exchange translation. At constant exchange rates the group's operating profit before exceptional items and goodwill amortisation would have risen by 12%.

Operations

Catalysts Division's sales fell by 17% to £1,083 million, largely as a result of the sharp fall in the palladium price. Sales excluding the value of precious metals rose by 9% to £652 million. The division's operating profit rose by 10% to £104.4 million. Syntetix made a profit of £9.2 million in the five months following acquisition by Johnson Matthey. Adverse exchange translation reduced the division's profit by £7.3 million.

Environmental Catalysts and Technologies had a good year. Global light vehicle sales increased by 1% in our fiscal year. They were 2% down in the US and 3% down in Europe but in Asia vehicle sales rose by 10%. Our catalyst unit sales were flat compared with 2001/02. Some of our key customers lost market share in the period but our advanced products attracted new customers in Europe. Our new manufacturing facility in Shanghai became fully operational and was profitable during the year.

Sales of products for heavy duty diesel engines grew in all the major markets, doubling in the US and becoming a significant factor for the first time in the Asian region with strong sales for retrofit to vehicles in the Tokyo Metropolitan area.

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Process Catalysts and Technologies achieved strong growth in sales excluding precious metals and in operating profit benefiting from a good contribution from Syntetix. Since acquisition Syntetix has performed in line with our expectations when the business was acquired, despite weakness in some end markets.

Results for the rest of PCT were mixed with good sales of pgm catalysts, particularly to the pharmaceutical and fine chemical sector, but weak demand for refining where profits fell reflecting lower palladium and rhodium prices. Research Chemicals, our catalogue business, continued to show strong growth with the successful integration of Avocado Research Chemicals, which was acquired in February 2002.

The Fuel Cells business continued to develop as planned in 2002/03. The net operating loss for the year was £12.5 million. The first phase of our MEA factory at Swindon in the UK was successfully completed in the first half of the year. The next phase of the investment is now underway which will significantly expand capacity to meet the production schedules of our key customers.

Effort has increasingly focused on key partners in the supply chain as the Fuel Cells business moves towards full commercialisation. Good progress has been made in establishing collaborative arrangements with both suppliers and customers.

Precious Metals Division's sales fell by 10% to £2.9 billion reflecting lower average prices for palladium and rhodium and subdued trading activity in those metals. The division's operating profit fell by 10% to £50.1 million. Adverse exchange translation contributed £1.1 million of this fall.

Demand for platinum grew by 5% in 2002, with buoyant retail sales of platinum jewellery in China despite higher prices. Demand from the autocatalyst sector was also up, although purchases by the car companies were limited by the use of inventories by some of the major manufacturers. The average price of platinum for Johnson Matthey's financial year 2002/03 rose by 17% to \$586 per ounce.

The story for palladium and rhodium was very different, with average prices falling by 36% and 44% respectively. Demand for palladium by the auto industry fell dramatically due to the very substantial use of inventories by some of the major manufacturers. Car makers also switched some applications from palladium to platinum as a consequence of the high and volatile price of palladium over the last few years. The average price of Johnson Matthey's 'basket' of pgms fell by 6% reducing commission income, and overall trading activity was also down on the previous year.

The division's platinum fabrication businesses continued to achieve good growth, particularly for products for medical devices. Trading profit for the gold and silver businesses was below last year reflecting the very competitive conditions in the gold refining market, although after deducting interest on gold and silver leases profits were up.

Colours & Coatings Division increased its sales by 1% to £256 million. Operating profit for the division rose by 12% to £28.5 million with all three sectors ahead. Exchange translation was slightly positive for the division at £0.3 million with the benefit of the stronger euro largely offset by weaker currencies elsewhere.

Our glass coatings business was the best performing sector achieving good growth in sales and operating profit despite weaker markets. This growth reflected market share gains in Europe and increased sales to Russia and China. The Structural Ceramics sector, which sells mainly to the tile industry, improved its margins and achieved sales in line with prior year despite weaker markets. Speciality Coatings achieved strong profit growth benefiting from the rationalisation programme announced last year and the closure of a major site in Staffordshire.

Pharmaceutical Materials Division's sales increased by 21% to £128 million. Operating profit rose by 18% to £36.9 million. The division benefited from a full year's contribution from Macfarlan Smith compared with nine months' contribution in 2001/02. Exchange translation was adverse, however, with the weaker US dollar reducing profits by £1.9 million, mainly in the second half of the year.

The division's US manufacturing business achieved good growth in sales and profits benefiting from the success of the new products launched towards the end of 2001/02. Macfarlan Smith achieved good growth in sales of bulk opiates and improved its margins with the successful introduction of capacity to extract morphine and codeine direct from poppy straw. Pharm-Eco, the division's US-based contract research business, was also well up on prior year.

Outlook

Johnson Matthey has again delivered increases in earnings and dividends despite a substantial fall in the US dollar and lower prices for palladium and rhodium. Market conditions will remain challenging in 2003/04 but the group's investment in its growth businesses leaves us well positioned for the future.