

PRECIOUS METALS

Platinum

Platinum and palladium prices showed sharply diverging fortunes in 2002/03. The price of platinum rose steadily for most of the year with solid demand, a widening deficit in supply and lack of physical liquidity supporting successive rallies. The price peaked at a 23 year high of \$705/oz in March 2003 before falling back as investors and speculators took profits on long positions.

Consumption of platinum in autocatalysts rose in 2002/03 with continuing growth in the diesel sector and efforts to thrift palladium through greater use of platinum based catalysts, underpinning demand. Platinum sales to the Chinese jewellery market continued to rise, although high platinum prices at the end of the year put pressure on profit margins, dampening to some extent enthusiasm for platinum amongst Chinese jewellery manufacturers. Supplies of platinum increased only moderately, as higher output from South Africa was balanced by a drop in sales from Russia.

Apart from some sharp but fleeting spikes, the price of palladium fell steadily throughout the year. Demand from most market sectors was weak, with the auto and electronic industries making substantial use of inventories. In addition, the switch away from palladium in response to the high prices of earlier years continued; auto manufacturers increased the use of platinum catalysts on gasoline vehicles and electronic component manufacturers continued to substitute palladium with base metals in certain applications. Despite sharply lower sales from Russia, supplies exceeded demand for the second successive year.

The average price of platinum for the year was \$586/oz, an increase of 17% on 2001/02. Conversely the average price of palladium fell by 36% to \$305/oz. Weak prices and poor demand for palladium and rhodium reduced profits in the division's marketing and trading operations from the level seen in 2001/02.

The division's Noble Metals manufacturing business continued to perform well despite difficult economic conditions affecting many of its traditional customers. A further increase in revenues was in part due to technical innovation which generated income from new products and technology licensing. Our medical components business, based in California, continued to grow, operating at full capacity for much of the year. With further growth forecast, the business will relocate to a larger facility in the summer of 2003. Our nitinol operation, also located in California, finished its second full year under Johnson Matthey ownership. With the completion of investment in new manufacturing and information systems, it now boasts industry leading product quality and delivery times.

Gold and Silver

Trading conditions for Johnson Matthey's worldwide gold and silver refining operations remained difficult. Although the higher gold price increased secondary supplies, primary gold production fell slightly and, with an excess of worldwide refining capacity, margins remained under pressure. In October 2002, we announced the merger of our Australian business with that of AGR headquartered in Perth, Western Australia. The formation of AGR Matthey, in which Johnson Matthey holds a 20% stake, will allow the rationalisation of the combined refining and product operations. Elsewhere, the North American refineries had a reasonable year but profits from our Royston refinery were impacted by weak demand for gold bars. Hong Kong again benefited from a series of gold price spikes which prompted the disbanding of secondary scrap across the Asian region.

Operating Profit

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|------|--------|
| 2003 | £50.1m |
| 2002 | £55.9m |

Turnover

| | |
|------|---------|
| 2003 | £2,857m |
| 2002 | £3,167m |





RESEARCH & DEVELOPMENT

The division's global research and development programmes are targeted to generate innovative new products and solve customer problems. Work continues at the group's Technology Centre to design new catalysts for ammonia oxidation which will not only improve conversion efficiencies but minimise the production of undesirable by-products such as greenhouse gases. This work has been greatly enhanced by the acquisition of Synetix, which has brought world leading base metal process catalyst technology to Johnson Matthey. Other development programmes are designed to leverage our extensive metallurgical expertise on pgm alloys. The division has active collaboration programmes with several of the world's largest ignition companies who require novel alloys to improve the efficiency of spark plugs in high performance engines. In addition, new alloys and composite materials are in constant demand by customers in the rapidly developing medical components industry. In support of this, we have commissioned an extensive development facility at our West Chester, Pennsylvania site during the year.

Precious Metals Division's operating profits were 10% down on last year at £50.1 million reflecting declining palladium and rhodium prices and subdued trading activity.