

Chief Executive's Statement



Chris Clark
Chief Executive

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

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

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

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

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

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

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

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

The Fuel Cells business continues to make encouraging progress both in the scale up of membrane electrode assembly (MEA) manufacturing at its facility in Swindon, UK and in collaborative programmes with key customers and suppliers. Johnson Matthey Fuel Cells has been awarded £3.2 million in funding by the Department of Trade and Industry as part of the Government's commitment to the development of renewable energy and to the building of a

world class fuel cell industry in the United Kingdom. This grant has been given for a major three year programme to develop the next generation of MEAs for automotive applications and will see the Fuel Cells business working in collaboration with a number of key suppliers as well as leading global automobile manufacturers.

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

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

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

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

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

Chief Executive's Statement *(continued)*



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

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

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

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

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

Environmental Catalysts and Technologies (ECT), which encompasses Johnson Matthey's worldwide autocatalyst, heavy duty diesel and stationary source emission control businesses, achieved strong profit growth in Asia and good growth in Europe, but profits declined in the US. Our autocatalyst business in Asia benefited from strong growth in the Chinese market where sales of light duty vehicles (cars and vans) rose

by 37% in 2003. Car sales in Europe were flat but demand for diesel cars continues to grow and now represents 46% of all cars sold. Johnson Matthey has leading technology in diesel emission control and we increased our share of this growing market. In North America our domestic customers' share of the NAFTA market declined and inventories were trimmed by lowering production, reducing demand for autocatalysts.

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

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

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

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

“In the next few years we should start to see significant benefits from Johnson Matthey’s investment in new product areas.”

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

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

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

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

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

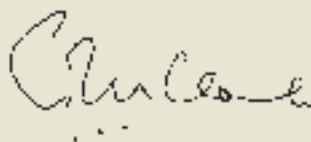
Pharmaceutical Materials Division’s sales rose by 9% to £140 million despite the impact of the weaker US dollar. The division’s operating profit increased by 15% to £42.3 million.

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

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

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

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



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