Precious Metals

Platinum The price of platinum climbed throughout much of 2003/04, rising from a low of $603/oz in April 2003 to reach $923/oz in March 2004. The average price was $744/oz, an increase of 27% on 2002/03. Much of the stimulus for higher prices came from the buying of platinum futures by hedge funds and other investors.

Total demand for platinum grew only marginally in 2003/04. Purchases of platinum for use in autocatalysts increased robustly as further strong growth in diesel car sales led to greater use of platinum based catalysts in Europe. In addition, North American car companies stepped up their purchases, 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 strong rise in the price reduced profit margins for manufacturers and retailers.

Supplies of platinum expanded faster than demand; higher production in South Africa and Zimbabwe and an increase in Russian sales outweighed a drop in North American output. The deficit between supply and demand consequently narrowed.

The palladium price improved from a low of $144/oz in April 2003 to $288/oz in March 2004. Even more than platinum, the price was strongly influenced by hedge funds and other speculators who accumulated very large long positions over the course of the year.

Physical demand for palladium in 2003/04 began to recover from the slump of the previous year. Purchases of the metal by the auto and electronics industries picked up, with manufacturers having used substantial volumes of palladium from inventories in the previous year. The surplus of supply over demand, however, widened considerably. Russian shipments of palladium rebounded as production was fully sold, a significant proportion of output having been held back from the market in 2002/03, and South African production expanded.

Rhodium usage grew strongly in 2003/04, driven by an increase in average autocatalyst loadings ahead of tighter emission legislation. However, the level of purchases made by auto makers was dampened by continued run down of inventories. Following a strong increase in producer sales, the surplus between supply and demand widened and the average price of rhodium dropped to $541/oz, 27% lower than in 2002/03.

Profits for the division's marketing and trading operations were down on 2002/03. Income in the final quarter was impacted by the renewed long term contracts with Anglo Platinum, which took effect on 1st January 2004. This, together with continuing weak prices and trading margins for palladium and rhodium, more than offset good income from the buoyant platinum market.

The division's pgm manufacturing activities continued their profitable growth during the year. August 2003 saw the opening of a new factory in San Diego, California for the production of precision machined parts for medical applications. This new facility provides increased capacity as demand for these products continues to grow. Further investment to expand capacity and increase the product range is planned for 2004/05. Demand for our pgm wire products for medical and industrial applications was buoyant throughout the year.

Gold and Silver Profits from our worldwide gold and silver refining operations were down on last year. The rally in the gold price, which gathered momentum in 2002, continued throughout 2003 and by the end of the year the price had risen a further 20% to finish at $416/oz. This rise stimulated increased secondary supplies, with strong dishoarding across the Asian region whenever the price spiked. Our refinery in Hong Kong again benefited from the increased business levels. Although world primary gold production remained flat in 2003, North American mine output fell to the lowest level in over a decade, ensuring that margins remained under pressure. While refining volumes were similar to the previous year, financial performance was impacted by the fall in the value of the US dollar.

Turnover £2,956m

£2,857m (2003)

Operating profit £44.2m

£48.0m (2003)

Precious Metals Division's

operating profits for the year fell by 8% to

£44.2 million

Research & Development

The division's global research and development programmes continue in several important areas. Work continues on catalysts for ammonia oxidation designed to improve conversion efficiencies whilst minimising the production of unwanted by-products, which act as greenhouse gases. Products have been formulated and are now being commercialised utilising technology jointly developed with Johnson Matthey's Process Catalysts and Technologies business. Initial results show great promise and the products are attracting a very high level of industry interest. Our programme of collaborative work with spark plug companies to develop novel alloys for higher spark plug efficiency is also achieving commercial success. Further work continues in this area.