

Notes on the Accounts

for the year ended 31st March 2006

1 Segmental information

By business segment

For management purposes, the group is organised into four operating divisions – Catalysts, Precious Metal Products, Pharmaceutical Materials and Ceramics. Their principal activities are described on pages 8 to 15. Sales between segments are made at market prices, taking into account the volumes involved.

Year ended 31st March 2006

	Catalysts £ million	Precious Metal Products £ million	Pharmaceutical Materials £ million	Ceramics £ million	Eliminations £ million	Total £ million
Sales to external customers	1,477.4	2,962.4	133.9	182.2	–	4,755.9
Inter-segment sales	17.4	676.9	1.2	4.4	(699.9)	–
Total revenue	1,494.8	3,639.3	135.1	186.6	(699.9)	4,755.9
External sales excluding the value of precious metals	786.4	245.4	127.2	182.2	–	1,341.2
Segment result before impairment and restructuring costs	134.2	62.2	33.8	21.3	–	251.5
Impairment and restructuring costs	–	(6.0)	–	–	–	(6.0)
Segment result	134.2	56.2	33.8	21.3	–	245.5
Unallocated corporate expenses						(16.8)
Operating profit						228.7
Net interest payable						(14.7)
Share of loss of associates		(0.2)		–		(0.2)
Profit before tax						213.8
Income tax expense						(62.5)
Profit for the year						151.3
Segment assets	1,118.4	305.8	331.3	164.6	(26.7)	1,893.4
Investments in associates	–	4.3	–	–	–	4.3
Cash and deposits						133.0
Current and deferred income tax assets						8.0
Post-employment benefits net assets						75.0
Unallocated corporate assets						52.2
Total assets						2,165.9
Segment liabilities	206.5	117.1	24.1	38.0	(26.7)	359.0
Borrowings, finance leases and related swaps						545.0
Current and deferred income tax liabilities						115.7
Employee benefits obligations						56.2
Unallocated corporate liabilities						45.5
Total liabilities						1,121.4
Segment capital expenditure	89.2	13.7	9.9	6.5	–	119.3
Corporate capital expenditure						4.7
Total capital expenditure						124.0
Segment depreciation and amortisation	39.8	13.0	10.0	6.3	–	69.1
Corporate depreciation						1.7
Total depreciation and amortisation						70.8
Significant non-cash expenses other than depreciation	–	7.7	–	–	–	7.7

Notes on the Accounts

for the year ended 31st March 2006

1 Segmental information (continued)

By business segment (continued)

Year ended 31st March 2005

	Catalysts £ million	Precious Metal Products £ million	Pharmaceutical Materials £ million	Ceramics £ million	Eliminations £ million	Total £ million
Sales to external customers	1,157.2	3,171.0	131.8	166.2	–	4,626.2
Inter-segment sales	34.8	496.2	0.2	9.5	(540.7)	–
Total revenue	1,192.0	3,667.2	132.0	175.7	(540.7)	4,626.2
External sales excluding the value of precious metals	672.1	224.8	124.6	166.2	–	1,187.7
Segment result before impairment and restructuring costs	122.5	52.0	39.8	18.8	–	233.1
Impairment and restructuring costs	(3.0)	(30.0)	–	(3.7)	–	(36.7)
Segment result	119.5	22.0	39.8	15.1	–	196.4
Unallocated corporate expenses						(16.5)
Operating profit						179.9
Net interest payable						(13.0)
Share of profit of associates		0.5		–		0.5
Profit before tax						167.4
Income tax expense						(46.5)
Profit for the year from continuing operations						120.9
Loss for the year from discontinued operations (note 40)						(6.4)
Profit for the year						114.5
Segment assets	907.2	237.1	326.5	155.7	(15.6)	1,610.9
Investments in associates	–	4.7	–	0.1	–	4.8
Cash and deposits						78.7
Current and deferred income tax assets						4.2
Post-employment benefits net assets						45.2
Unallocated corporate assets						64.9
Total assets						1,808.7
Segment liabilities	142.3	79.9	22.1	32.3	(15.6)	261.0
Borrowings, finance leases and related swaps						448.3
Current and deferred income tax liabilities						56.9
Employee benefits obligations						48.2
Unallocated corporate liabilities						64.4
Total liabilities						878.8
Segment capital expenditure	64.4	13.4	16.8	2.8	–	97.4
Capital expenditure on discontinued operations						1.1
Corporate capital expenditure						2.4
Total capital expenditure						100.9
Segment depreciation and amortisation	36.0	13.2	9.6	6.0	–	64.8
Depreciation on discontinued operations						0.8
Corporate depreciation						2.0
Total depreciation and amortisation						67.6
Significant non-cash expenses other than depreciation	0.7	7.8	–	–	–	8.5

Notes on the Accounts

for the year ended 31st March 2006

1 Segmental information (continued)

By geographical segment

Pharmaceutical Materials is located in Europe and North America. All of the other divisions of the group have a presence in each of the geographical segments.

Year ended 31st March 2006

	Europe £ million	North America £ million	Asia £ million	Rest of the World £ million	Eliminations £ million	Total £ million
External sales by geographical destination	1,959.5	1,132.8	1,124.2	539.4	–	4,755.9
Carrying value of segment assets by location	1,322.0	294.1	170.4	162.9	(56.0)	1,893.4
Capital expenditure by location of assets	61.3	42.5	13.7	6.5	–	124.0

Year ended 31st March 2005

	Europe £ million	North America £ million	Asia £ million	Rest of the World £ million	Eliminations £ million	Total £ million
External sales by geographical destination	2,032.6	995.8	1,228.7	369.1	–	4,626.2
Carrying value of segment assets by location	1,097.4	364.1	111.9	75.5	(38.0)	1,610.9
Capital expenditure by location of assets	58.4	27.0	8.6	6.9	–	100.9

2 Revenue

	2006 £ million	2005 £ million
Sale of goods	4,664.9	4,549.5
Rendering of services	86.6	72.1
Royalties / licence income	4.4	4.6
Total revenue	4,755.9	4,626.2

3 Impairment and restructuring costs

	2006 £ million	2005 £ million
Impairment of UK Pgm Refining assets (Precious Metal Products)	6.0	–
Closure of UK gold and silver bullion refinery (Precious Metal Products)	–	13.2
Restructuring of UK Pgm Refining (Precious Metal Products)	–	10.2
Restructuring of Colour Technologies following disposal of Pigments & Dispersions (Precious Metal Products)	–	6.6
Restructuring of Ceramics following disposal of Pigments & Dispersions	–	3.7
Acquisition integration costs for Activated Metals and Chemicals, Inc. (AMC) (Catalysts)	–	1.0
Acquisition integration costs for Lancaster Synthesis (Catalysts)	–	2.0
Total impairment and restructuring costs	6.0	36.7

The group has decided to stop using parts of the pgm refining process and so has fully impaired the associated plant and equipment.

Notes on the Accounts

for the year ended 31st March 2006

4 Operating profit

	2006 £ million	2005 £ million
Operating profit is arrived at after charging / (crediting):		
Total research and development expenditure	62.7	57.4
less development expenditure capitalised	(6.7)	(5.4)
Research and development charged	56.0	52.0
less external funding received – from government grants	(1.2)	(2.9)
– from other organisations	(2.7)	(1.4)
Net research and development	52.1	47.7
Other government grants	(0.1)	(0.2)
Inventories recognised as an expense	3,946.0	3,873.8
Write-down of inventories recognised as an expense	3.0	2.2
Reversal of write-down of inventories arising from increases in net realisable value	(0.3)	(0.2)
Net (gains) / losses on foreign exchange	(0.5)	0.1
Net losses on foreign currency forwards held for trading	0.1	–
Depreciation of property, plant and equipment	64.7	62.7
Amortisation of internally generated intangible assets included in other cost of sales	1.4	1.1
Amortisation of other intangible assets included in – other cost of sales	2.2	1.8
– distribution costs	0.2	0.1
– administrative expenses	2.3	1.9
Operating lease rentals payable – minimum lease payments	9.1	7.8

5 Fees paid to auditors

	£ million	2006 £ million	£ million	2005 £ million
Audit services				
– statutory audit – parent company		0.4		0.4
– subsidiary undertakings		0.6		0.6
		1.0		1.0
– audit-related regulatory reporting		0.1		0.2
Total fees for audit services		1.1		1.2
Further assurance services – due diligence	–		0.2	
Total fees for further assurance services		–		0.2
Tax services				
– compliance	0.2		0.2	
– advisory services	0.1		0.1	
Total fees for tax services		0.3		0.3
Total fees paid to group auditors		1.4		1.7

Included above are non-audit fees paid to auditors and their associates in the United Kingdom of £0.1 million (2005 £0.2 million).

Audit fees paid to other auditors were £0.1 million (2005 £ nil).

Notes on the Accounts

for the year ended 31st March 2006

6 Interest payable

	2006 £ million	2005 £ million
Interest payable on bank loans and overdrafts	18.7	18.8
Other interest payable	12.9	13.4
Net loss on remeasurement of fair value hedges and related hedged items to fair value	0.1	–
Total interest payable	31.7	32.2

7 Interest receivable

	2006 £ million	2005 £ million
Interest receivable	8.3	6.2
Interest receivable on interest rate swaps	8.4	13.0
Remaining gain on remeasurement of net investment hedging instruments to fair value	0.2	–
Net gain on remeasurement of foreign currency swaps held for trading	0.1	–
Total interest receivable	17.0	19.2

8 Taxation

	2006 £ million	2005 £ million
Current tax		
Corporation tax on profits for the year	63.3	34.1
Adjustment for prior years	(0.9)	(2.3)
Total current tax	62.4	31.8
Deferred tax		
Origination and reversal of temporary differences	2.0	16.5
Changes in tax rates and laws	(0.3)	–
Recognition of previously unrecognised deferred tax assets	(1.7)	–
Adjustment to estimated recoverable amount of deferred tax assets arising in prior years	0.1	(1.8)
Total deferred tax	0.1	14.7
Tax expense	62.5	46.5

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

	2006 £ million	2005 £ million
Profit before tax	213.8	167.4
Tax expense at UK corporation tax rate of 30% (2005 30%)	64.1	50.2
Effects of:		
Overseas tax rates	1.5	2.7
Expenses not deductible for tax purposes	1.3	0.7
Net utilisation of tax losses and tax holidays	(1.4)	(0.6)
Adjustments for prior years	(0.8)	(4.1)
Research and development credits	(2.4)	(2.3)
Other	0.2	(0.1)
Tax expense for the year	62.5	46.5

The group has benefited from a reduction in the applicable tax rate in a number of jurisdictions which has reduced the tax expense compared with what it would have been had the previous rates prevailed.

Notes on the Accounts

for the year ended 31st March 2006

9 Dividends

	2006 £ million	2005 £ million
2003/04 final ordinary dividend paid – 18.2 pence per share	–	39.5
2004/05 interim ordinary dividend paid – 8.7 pence per share	–	18.9
2004/05 final ordinary dividend paid – 19.0 pence per share	40.9	–
2005/06 interim ordinary dividend paid – 9.1 pence per share	19.5	–
Total dividends	60.4	58.4

A final dividend of 21.0 pence per ordinary share has been proposed by the board which will be paid on 1st August 2006 to shareholders on the register at the close of business on 9th June 2006. The estimated amount to be paid is £44.9 million. In accordance with IFRS accounting requirements this dividend has not been recognised in these accounts.

10 Earnings per ordinary share

	2006 pence	2005 pence
Total		
Basic	70.8	53.2
Diluted	70.5	53.1
Continuing		
Basic	70.8	56.1
Diluted	70.5	56.0
Discontinued		
Basic	–	(2.9)
Diluted	–	(2.9)

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.

	2006 £ million	2005 £ million
Earnings		
Profit for the year from continuing operations attributable to equity holders of the parent company	152.1	121.9
Loss for the year from discontinued operations attributable to equity holders of the parent company	–	(6.4)
Profit for the year attributable to equity holders of the parent company	152.1	115.5

	2006	2005
Weighted average number of shares in issue		
Basic	214,895,523	217,005,241
Dilution for share options and long term incentive plan	967,320	497,097
Diluted	215,862,843	217,502,338

Earnings per ordinary share before impairment and restructuring costs are calculated as follows:

	2006 £ million	2005 £ million
Profit for the year attributable to equity holders of the parent company	152.1	115.5
Loss for the year from discontinued operations	–	6.4
Impairment and restructuring costs	6.0	36.7
Tax thereon	(1.8)	(13.3)
Profit for the year before impairment and restructuring costs	156.3	145.3

	2006 pence	2005 pence
Earnings per share before impairment and restructuring costs		
Basic	72.7	67.0
Diluted	72.4	66.8

Notes on the Accounts

for the year ended 31st March 2006

11 Employee and key management personnel costs

11a Employee numbers

The average monthly number of employees during the year was:

	Group		Parent company	
	2006	2005	2006	2005
Catalysts	4,129	3,941	1,311	1,206
Precious Metal Products	1,788	1,881	708	880
Pharmaceutical Materials	580	610	267	260
Ceramics	699	748	67	95
Corporate and Central Research	255	231	223	200
Average number of employees – continuing	7,451	7,411	2,576	2,641
Discontinued operations	–	121	–	106
Average number of employees – total	7,451	7,532	2,576	2,747
Actual number of employees at 31st March	7,718	7,354	2,633	2,552

The number of temporary employees included above at 31st March 2006 was 174 (2005 90) for the group and 39 (2005 12) for the parent company.

11b Employee benefits expense

	Group		Parent company	
	2006 £ million	2005 £ million	2006 £ million	2005 £ million
Wages and salaries	220.4	212.3	89.1	90.9
Social security costs	24.1	23.5	8.1	7.8
Pension and other post-employment costs	18.5	12.9	10.9	5.3
Share-based payments	7.6	7.0	6.5	6.2
Total employee benefits expense	270.6	255.7	114.6	110.2

Termination benefits of £5.7 million (2005 £7.3 million) for the group and £5.3 million (2005 £5.9 million) for the parent company are not included above.

11c 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. Their compensation charged in the year was:

	2006 £ million	2005 £ million
Short term employee benefits	3.5	4.0
Pension and other post-employment costs	0.7	0.6
Share-based payments	0.9	0.6
Termination payments	–	0.5
Non-executive directors' fees and benefits	0.5	0.4
Total compensation of key management personnel	5.6	6.1

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 46 to 51.

Notes on the Accounts

for the year ended 31st March 2006

12 Share-based payments

Share options

Equity settled share options are granted to employees at the market value of the company's shares at the time of grant and are subject to performance targets over a three year period and have a maximum life of ten years. The number of shares over which options are granted is based on a percentage of the employee's salary and since 2001 approximately 800 employees have been granted options each year.

Options granted in 2004 onwards are subject to a minimum three year performance target of earnings per share (EPS) growth of UK RPI plus 3% per annum. Other performance targets are EPS growth of UK RPI plus 4% per annum and EPS growth of UK RPI plus 5% per annum. If the performance targets are not met at the end of the three year performance period, the options will lapse. Also, 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. That target has not been met and none of these option grants is yet exercisable. They are subject to annual retesting until they lapse on the tenth anniversary of grant.

Some options granted in 2000 and before are still outstanding. These were subject to a performance target of EPS growth of UK RPI plus 2% over the three year performance period. Since that target has been met all these options are exercisable.

Long Term Incentive Plan (LTIP)

Under the LTIP, shares are allocated to directors and certain key executives of the group based upon a percentage of salary and are subject to performance conditions over a three year period. At 31st March 2006, shares allocated in 2003, 2004 and 2005 were outstanding in respect of which the performance period has not expired.

For allocations made in 2004 onwards the release of shares is subject to a relative total shareholder return (TSR) compared to those companies ranked 51 to 150 in the FTSE index over a three year period. All shares are released if the company ranks in the 75th percentile or above. Between 35% and 100% of the shares are released on a straight line basis if the company ranks between the 50th and 75th percentiles. No shares are released if the company ranks in the 50th percentile or below. In addition EPS growth must be at least equal to UK RPI plus 2% per annum over the three year performance period before any release is made.

For allocations made prior to 2004, 50% of the allocation is subject to the relative TSR target described above. For the remaining 50%, release is subject to absolute TSR growth over the three year period. All shares are released if the absolute TSR growth is 45% or more. Pro-rata allocations on a straight line basis of between 50% and 100% are released if absolute TSR growth is between 30% and 45%. Half of the allocated shares are released if TSR growth is 30%. No shares are released if growth is below 30%. In addition EPS growth must be at least equal to UK RPI plus 2% per annum over the three year performance period before any release is made.

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 plan trustees buy shares (partnership shares) at market value each month with the 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 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 46 to 51.

Activity relating to share options was:

	2006	2006 Weighted average exercise price pence	2005	2005 Weighted average exercise price pence
	Number of options		Number of options	
Outstanding at the start of the year	7,282,342	891.85	6,183,642	869.71
Granted during the year	2,207,614	1,070.00	2,080,347	892.00
Forfeited during the year	(594,700)	944.68	(460,477)	924.94
Exercised during the year	(705,604)	750.62	(521,170)	604.47
Outstanding at the end of the year	8,189,652	984.23	7,282,342	891.86
Exercisable at the end of the year	504,790	776.65	1,228,680	764.26

Options were exercised on a regular basis throughout the year. The average share price during the year was 1,193.92 pence (2005 946.97 pence).

Notes on the Accounts

for the year ended 31st March 2006

12 Share-based payments (continued)

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

	2006	2006 Weighted average remaining life years	2005	2005 Weighted average remaining life years
	Number of options		Number of options	
Range of exercise price				
300 pence to 400 pence	1,126	3.0	3,057	2.4
400 pence to 500 pence	307	3.3	486	4.3
500 pence to 600 pence	218,243	2.8	568,889	3.7
600 pence to 700 pence	952	1.5	3,342	2.4
800 pence to 900 pence	4,665,693	7.4	5,059,372	8.4
900 pence to 1,000 pence	284,162	4.3	652,906	5.3
1,000 pence to 1,100 pence	3,019,169	8.2	994,290	6.3
	8,189,652	7.5	7,282,342	7.5

The fair value of share options granted during the year was 192.4 pence per option (2005 162.1 pence per option). An adjusted Black-Scholes option pricing model was used to determine the fair value of the options granted. The inputs to the model were:

	2006	2005
Share price	1,070p	892p
Exercise price	1,070p	892p
Expected volatility	27.1%	33.9%
Expected option life	5 years	5 years
Expected dividend rate	2.59%	2.96%
Risk free interest rate	4.260%	5.105%

Expected volatility was determined by calculating the historical volatility of the company's share price over the previous three years.

The expected option life takes into account the effects of expected early exercise, exercise restrictions and behavioural considerations based on the history of previous option grants. Given the low employee turnover and the consistency of the historical average option life Black-Scholes is considered to be a suitable stochastic model to use for fair valuing Johnson Matthey's share options.

During the year 423,030 (2005 457,974) shares were allocated under the LTIP with a fair value at allocation date of 389.5 pence per share allocation (2005 346.7 pence per share allocation). The fair value was determined using a Black-Scholes option pricing model with a zero exercise price, a share price at date of allocation of 1,002.5 pence (2005 897 pence) and an expected dividend rate of 2.76% (2005 2.94%). The fair value was adjusted to take account of the TSR performance condition.

Activity relating to the LTIP was:

	2006 Number of allocated shares	2005 Number of allocated shares
Outstanding at the start of the year	1,205,842	1,165,749
Allocated during the year	423,030	457,974
Forfeited during the year	(29,626)	(67,865)
Expired during the year	(377,252)	(350,016)
Outstanding at the end of the year	1,221,994	1,205,842

281,921 (2005 351,607) matching shares under the SIP and 91,595 (2005 92,217) 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 £7.6 million (2005 £7.0 million).

Notes on the Accounts

for the year ended 31st March 2006

13 Post-employment benefits

13a 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 £2.9 million (2005 £2.6 million).

The major defined benefit plans are pension plans and post-retirement medical plans in the UK and the US. The pension plans are final salary plans except for the US hourly plan which is a fixed benefit based upon years of service. Full actuarial valuations were carried out at 1st April 2003 for the main UK pension plan and 30th June 2005 for the US pension plans and the valuations of all of the UK and US plans were updated to 31st March 2006 by qualified independent actuaries. A full triennial actuarial valuation as at 1st April 2006 for the main UK pension plan will be carried out in 2006/07.

The main assumptions were:

	2006 UK plans %	2006 US plans %	2006 Other plans %	2005 UK plans %	2005 US plans %	2005 Other plans %
Rate of increase in salaries	4.40	4.25	3.57	4.30	4.25	3.41
Rate of increase in pensions in payment	2.90	—	2.31	2.80	—	2.12
Discount rate	4.90	5.75	4.66	5.40	5.75	4.51
Inflation	2.90	2.75	2.66	2.80	2.75	2.42
Current medical benefits cost trend rate	6.90	10.00	—	5.80	9.50	—
Ultimate medical benefits cost trend rate	6.90	5.00	—	5.80	5.00	—

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, were PMA92C03 with a one year age rating for male members retiring in normal health and PFA92C03 with a one year age rating for female members retiring in normal health. Allowance for future mortality improvements was made by deducting 0.25% per annum from the discount rate used for calculation purposes. Shorter longevity assumptions are used for members who retire on grounds of ill-health. These tables lead to a further life expectancy of an average member currently aged 63 (the plan's normal retirement age for the majority of its members) and one who retires at age 63 in 23 years time of:

	Male	Female
Retiring today at age 63	20.6	23.7
Retiring in 23 years time at 63	22.1	25.1

The mortality tables used for the other larger plans were:

US	1983 Group Annuity Tables
Netherlands	GBM/V 1995-2000 (-1, -2)
Canada	UP 94 generational (including allowance for future mortality improvements)
South Africa	PA(90), rates down 2 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 plans £ million	US plans £ million	UK plans £ million	US plans £ million
At 31st March 2006				
Post-retirement medical plan expense	0.2	0.3	(0.2)	(0.3)
Post-retirement medical plan defined benefit obligation	2.0	4.0	(1.6)	(3.2)
At 31st March 2005				
Post-retirement medical plan expense	0.2	0.3	(0.1)	(0.3)
Post-retirement medical plan defined benefit obligation	1.5	3.7	(1.3)	(2.9)

Notes on the Accounts

for the year ended 31st March 2006

13 Post-employment benefits (continued)

13a Group (continued)

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

	UK pensions		US pensions		Other	
	Expected rate of return %	Value £ million	Expected rate of return %	Value £ million	Expected rate of return %	Value £ million
At 31st March 2006						
Equities	7.75	411.2	8.00	56.1	7.62	12.1
Bonds	4.50	345.5	5.20	22.9	3.38	3.9
Property	6.00	48.4	-	-	4.00	0.1
Insurance policies	-	-	-	-	3.82	9.0
	6.25	805.1	7.19	79.0	5.58	25.1
At 31st March 2005						
Equities	8.00	366.6	8.00	40.4	7.00	3.3
Bonds	4.90	249.0	4.50	23.7	4.50	3.5
Property	6.25	41.8	-	-	-	-
Insurance policies	-	-	-	-	3.82	8.1
	6.71	657.4	6.71	64.1	4.68	14.9

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 is 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.

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

	UK pensions £ million	UK post-retirement medical benefits £ million	US pensions £ million	US post-retirement medical benefits £ million	Other £ million	Total £ million
At 31st March 2006						
Present value of funded obligations	(736.4)	-	(90.4)	-	(28.0)	(854.8)
Present value of unfunded obligations	-	(11.9)	-	(20.2)	(2.9)	(35.0)
Defined benefit obligation	(736.4)	(11.9)	(90.4)	(20.2)	(30.9)	(889.8)
Fair value of plan assets	805.1	-	79.0	-	25.1	909.2
Reimbursement rights	-	-	-	2.6	-	2.6
Net retirement benefits assets and liabilities	68.7	(11.9)	(11.4)	(17.6)	(5.8)	22.0
At 31st March 2005						
Present value of funded obligations	(613.6)	-	(75.7)	-	(18.7)	(708.0)
Present value of unfunded obligations	-	(10.0)	-	(17.9)	(2.6)	(30.5)
Defined benefit obligation	(613.6)	(10.0)	(75.7)	(17.9)	(21.3)	(738.5)
Fair value of plan assets	657.4	-	64.1	-	14.9	736.4
Reimbursement rights	-	-	-	2.0	-	2.0
Net retirement benefits assets and liabilities	43.8	(10.0)	(11.6)	(15.9)	(6.4)	(0.1)

Notes on the Accounts

for the year ended 31st March 2006

13 Post-employment benefits (continued)

13a Group (continued)

These are included in the balance sheet as:

	2006 Post- employment benefits net assets £ million	2006 Employee benefits obligations £ million	2006 Total £ million	2005 Post- employment benefits net assets £ million	2005 Employee benefits obligations £ million	2005 Total £ million
UK pension plans	70.6	(1.9)	68.7	43.8	–	43.8
UK post-retirement medical benefits plan	–	(11.9)	(11.9)	–	(10.0)	(10.0)
US pension plans	–	(11.4)	(11.4)	–	(11.6)	(11.6)
US post-retirement medical benefits plan	–	(17.6)	(17.6)	–	(15.9)	(15.9)
Other plans	4.4	(10.2)	(5.8)	1.4	(7.8)	(6.4)
Total post-employment plans	75.0	(53.0)	22.0	45.2	(45.3)	(0.1)
Other long term employee benefits		(3.2)			(2.9)	
Total long term employee benefits obligations		(56.2)			(48.2)	

Movements in the defined benefit obligation during the year were:

	UK pensions £ million	UK post- retirement medical benefits £ million	US pensions £ million	US post- retirement medical benefits £ million	Other £ million	Total £ million
At 1st April 2004	(556.3)	(9.3)	(69.3)	(15.5)	(16.2)	(666.6)
Current service cost – in operating profit	(17.1)	(0.3)	(3.2)	(0.6)	(1.0)	(22.2)
Current service cost – capitalised	(0.2)	–	–	–	–	(0.2)
Past service cost	(1.1)	–	–	–	(0.1)	(1.2)
Interest cost	(29.9)	(0.5)	(4.0)	(0.8)	(0.8)	(36.0)
Employee contributions	(2.9)	–	–	–	–	(2.9)
Actuarial loss	(33.0)	(0.1)	(3.5)	(1.9)	(4.2)	(42.7)
Curtailment gains	3.9	–	–	–	–	3.9
Benefits paid	23.0	0.2	2.2	0.4	1.0	26.8
Exchange adjustments	–	–	2.1	0.5	–	2.6
At 31st March 2005	(613.6)	(10.0)	(75.7)	(17.9)	(21.3)	(738.5)
Current service cost – in operating profit	(18.7)	(0.3)	(3.7)	(0.6)	(1.4)	(24.7)
Current service cost – capitalised	(0.2)	–	–	–	–	(0.2)
Past service cost	(1.3)	–	(0.1)	0.8	(0.1)	(0.7)
Interest cost	(32.7)	(0.5)	(4.6)	(1.0)	(1.0)	(39.8)
Employee contributions	(2.9)	–	–	–	(0.1)	(3.0)
Actuarial loss	(55.0)	(1.5)	(1.7)	(0.3)	(7.7)	(66.2)
Curtailment losses	(0.1)	–	–	–	–	(0.1)
Liabilities extinguished on settlements	–	–	–	–	0.9	0.9
Acquisitions	(34.2)	–	–	–	–	(34.2)
Benefits paid	22.3	0.4	2.4	0.4	1.1	26.6
Exchange adjustments	–	–	(7.0)	(1.6)	(1.3)	(9.9)
At 31st March 2006	(736.4)	(11.9)	(90.4)	(20.2)	(30.9)	(889.8)

Notes on the Accounts

for the year ended 31st March 2006

13 Post-employment benefits (continued)

13a Group (continued)

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

	UK pensions £ million	UK post-retirement medical benefits £ million	US pensions £ million	US post-retirement medical benefits £ million	Other £ million	Total £ million
At 1st April 2004	598.2	–	59.6	–	14.3	672.1
Expected return on plan assets	40.2	–	4.1	–	0.9	45.2
Actuarial gain / (loss)	26.0	–	(1.1)	–	(0.3)	24.6
Employee contributions	2.9	–	–	–	–	2.9
Company contributions	13.1	0.2	5.5	0.4	1.0	20.2
Benefits paid	(23.0)	(0.2)	(2.2)	(0.4)	(1.0)	(26.8)
Exchange adjustments	–	–	(1.8)	–	–	(1.8)
At 31st March 2005	657.4	–	64.1	–	14.9	736.4
Expected return on plan assets	44.2	–	4.6	–	0.9	49.7
Actuarial gain	76.4	–	1.0	–	8.1	85.5
Employee contributions	2.9	–	–	–	0.1	3.0
Company contributions	17.0	0.4	5.7	0.4	1.7	25.2
Acquisitions	29.5	–	–	–	–	29.5
Benefits paid	(22.3)	(0.4)	(2.4)	(0.4)	(1.1)	(26.6)
Assets distributed on settlements	–	–	–	–	(1.0)	(1.0)
Exchange adjustments	–	–	6.0	–	1.5	7.5
At 31st March 2006	805.1	–	79.0	–	25.1	909.2

The actual return on plan assets for UK plans was £120.6 million (2005 £66.2 million) and for US plans was £5.6 million (2005 £3.0 million).

Movements in the reimbursement rights during the year were:

	UK pensions £ million	UK post-retirement medical benefits £ million	US pensions £ million	US post-retirement medical benefits £ million	Other £ million	Total £ million
At 1st April 2004	–	–	–	–	–	–
Actuarial gain	–	–	–	2.0	–	2.0
At 31st March 2005	–	–	–	2.0	–	2.0
Expected return	–	–	–	0.1	–	0.1
Actuarial gain	–	–	–	0.3	–	0.3
Exchange adjustments	–	–	–	0.2	–	0.2
At 31st March 2006	–	–	–	2.6	–	2.6

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

	UK pensions £ million	UK post-retirement medical benefits £ million	US pensions £ million	US post-retirement medical benefits £ million	Other £ million	Total £ million
At 1st April 2004	–	–	–	–	–	–
Recognised in year	(7.0)	(0.1)	(4.6)	0.1	(4.5)	(16.1)
At 31st March 2005	(7.0)	(0.1)	(4.6)	0.1	(4.5)	(16.1)
Recognised in year	21.4	(1.5)	(0.7)	–	0.4	19.6
At 31st March 2006	14.4	(1.6)	(5.3)	0.1	(4.1)	3.5

Notes on the Accounts

for the year ended 31st March 2006

13 Post-employment benefits (continued)

13a Group (continued)

Amounts recognised in income in respect of these plans were:

	UK pensions £ million	UK post-retirement medical benefits £ million	US pensions £ million	US post-retirement medical benefits £ million	Other £ million	Total £ million
Year ended 31st March 2006						
Current service cost	(18.7)	(0.3)	(3.7)	(0.6)	(1.4)	(24.7)
Interest on plan liabilities	(32.7)	(0.5)	(4.6)	(1.0)	(1.0)	(39.8)
Expected return on plan assets	44.2	–	4.6	–	0.9	49.7
Expected return on reimbursement rights	–	–	–	0.1	–	0.1
Curtailment losses	(0.1)	–	–	–	–	(0.1)
Settlement losses	–	–	–	–	(0.1)	(0.1)
Past service cost	(1.3)	–	(0.1)	0.8	(0.1)	(0.7)
Charge to income	(8.6)	(0.8)	(3.8)	(0.7)	(1.7)	(15.6)
Year ended 31st March 2005						
Current service cost	(17.1)	(0.3)	(3.2)	(0.6)	(1.0)	(22.2)
Interest on plan liabilities	(29.9)	(0.5)	(4.0)	(0.8)	(0.8)	(36.0)
Expected return on plan assets	40.2	–	4.1	–	0.9	45.2
Curtailment gains	3.9	–	–	–	–	3.9
Past service cost	(1.1)	–	–	–	(0.1)	(1.2)
Charge to income	(4.0)	(0.8)	(3.1)	(1.4)	(1.0)	(10.3)

Of the total charge for the year, £9.8 million (2005 £8.8 million) has been included within other cost of sales, £1.7 million (2005 £2.3 million) has been included in distribution costs, £4.1 million (2005 £2.6 million) has been included in administrative expenses, £ nil (2005 £2.3 million credit) has been included in impairment and restructuring costs and £ nil (2005 £1.1 million credit) has been included in the loss for the year from discontinued operations.

Subject to the outcome of the triennial valuation of the UK pension plans currently underway it is estimated that the group will contribute about £29 million to the post-employment defined benefit plans during the year ending 31st March 2007.

History of the plans and experience adjustments are:

	UK pensions £ million	UK post-retirement medical benefits £ million	US pensions £ million	US post-retirement medical benefits £ million	Other £ million	Total £ million
Year ended 31st March 2006						
Present value of defined benefit obligation	(736.4)	(11.9)	(90.4)	(20.2)	(30.9)	(889.8)
Fair value of plan assets	805.1	–	79.0	–	25.1	909.2
Reimbursement rights	–	–	–	2.6	–	2.6
Surplus / (deficit) in the plan	68.7	(11.9)	(11.4)	(17.6)	(5.8)	22.0
Experience adjustments arising on plan liabilities	0.7	1.7	(1.2)	0.3	(1.0)	0.5
Experience adjustments arising on plan assets	79.7	–	1.0	–	(0.2)	80.5
Year ended 31st March 2005						
Present value of defined benefit obligation	(613.6)	(10.0)	(75.7)	(17.9)	(21.3)	(738.5)
Fair value of plan assets	657.4	–	64.1	–	14.9	736.4
Reimbursement rights	–	–	–	2.0	–	2.0
Surplus / (deficit) in the plan	43.8	(10.0)	(11.6)	(15.9)	(6.4)	(0.1)
Experience adjustments arising on plan liabilities	0.8	0.4	(0.6)	(0.9)	(1.1)	(1.4)
Experience adjustments arising on plan assets	26.0	–	(1.1)	–	0.4	25.3

Notes on the Accounts

for the year ended 31st March 2006

13 Post-employment benefits (continued)

13b Parent

The parent company is the sponsoring employer of the group's main 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 company pays contributions at a rate of 20% of pensionable pay. The main assumptions used for these plans are disclosed in note 13a.

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

	2006 Expected rate of return %	2006 Value £ million	2005 Expected rate of return %	2005 Value £ million
Equities	7.75	386.2	8.00	366.6
Bonds	4.50	339.3	4.90	249.0
Property	6.00	48.4	6.25	41.8
	6.22	773.9	6.71	657.4

The defined benefit pension plan does not invest in Johnson Matthey shares and no property or other assets owned by the pension plan is 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 a combination of historical analysis and the forecasts of market professionals.

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

	2006 Pension £ million	2006 Post- retirement medical benefits £ million	2005 Pension £ million	2005 Post- retirement medical benefits £ million
Present value of funded obligations	(703.3)	–	(613.6)	–
Present value of unfunded obligations	–	(11.9)	–	(10.0)
Defined benefit obligation	(703.3)	(11.9)	(613.6)	(10.0)
Fair value of plan assets	773.9	–	657.4	–
Net retirement benefits assets and liabilities	70.6	(11.9)	43.8	(10.0)
Other long term employee benefits		(0.2)		(0.2)
Total long term employee benefits obligations		(12.1)		(10.2)

Movements in the defined benefit obligation during the year were:

	2006 Pension £ million	2006 Post- retirement medical benefits £ million	2005 Pension £ million	2005 Post- retirement medical benefits £ million
At beginning of year	(613.6)	(10.0)	(556.3)	(9.3)
Current service cost – in operating profit	(18.5)	(0.3)	(17.1)	(0.3)
Current service cost – capitalised	(0.2)	–	(0.2)	–
Past service cost	(1.3)	–	(1.1)	–
Interest cost	(32.5)	(0.5)	(29.9)	(0.5)
Employee contributions	(2.8)	–	(2.9)	–
Actuarial loss	(56.5)	(1.5)	(33.0)	(0.1)
Curtailment (losses) / gains	(0.1)	–	3.9	–
Benefits paid	22.2	0.4	23.0	0.2
At end of year	(703.3)	(11.9)	(613.6)	(10.0)

Notes on the Accounts

for the year ended 31st March 2006

13 Post-employment benefits (continued)

13b Parent (continued)

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

	2006	2006	2005	2005
	Pension	Post-	Pension	Post-
	£ million	retirement	£ million	retirement
		medical		medical
		benefits		benefits
		£ million		£ million
At beginning of year	657.4	–	598.2	–
Expected return on plan assets	43.9	–	40.2	–
Actuarial gain	75.2	–	26.0	–
Employee contributions	2.8	–	2.9	–
Company contributions	16.8	0.4	13.1	0.2
Benefits paid	(22.2)	(0.4)	(23.0)	(0.2)
At end of year	773.9	–	657.4	–

The actual return on plan assets was £119.1 million (2005 £66.2 million).

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

	2006	2006	2005	2005
	Pension	Post-	Pension	Post-
	£ million	retirement	£ million	retirement
		medical		medical
		benefits		benefits
		£ million		£ million
At beginning of year	(7.0)	(0.1)	–	–
Recognised in year	18.7	(1.5)	(7.0)	(0.1)
At end of year	11.7	(1.6)	(7.0)	(0.1)

Subject to the outcome of the triennial valuation of the pension plan currently underway it is estimated that the company will contribute about £19 million to the post-employment defined benefit plans during the year ending 31st March 2007.

History of the plans and experience adjustments are:

	2006	2006	2005	2005
	Pension	Post-	Pension	Post-
	£ million	retirement	£ million	retirement
		medical		medical
		benefits		benefits
		£ million		£ million
Present value of defined benefit obligation	(703.3)	(11.9)	(613.6)	(10.0)
Fair value of plan assets	773.9	–	657.4	–
Surplus / (deficit) in the plan	70.6	(11.9)	43.8	(10.0)
Experience adjustments arising on plan liabilities	0.8	1.7	0.8	0.4
Experience adjustments arising on plan assets	75.2	–	26.0	–

Notes on the Accounts

for the year ended 31st March 2006

14 Property, plant and equipment

14a 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 2004	219.6	16.8	666.4	51.3	954.1
Additions	13.3	1.7	58.0	18.8	91.8
Acquisitions	–	–	0.3	–	0.3
Reclassifications	8.0	(2.2)	25.6	(31.4)	–
Disposals	(2.1)	(0.1)	(28.9)	–	(31.1)
Disposal of business	(4.9)	–	(24.0)	–	(28.9)
Exchange adjustments	(2.0)	0.2	(4.0)	(0.5)	(6.3)
At 31st March 2005	231.9	16.4	693.4	38.2	979.9
Additions	19.4	0.5	68.9	25.2	114.0
Acquisitions	6.6	0.2	3.4	0.4	10.6
Reclassifications	1.9	–	5.4	(7.3)	–
Disposals	–	(0.1)	(18.5)	(3.7)	(22.3)
Exchange adjustments	9.3	0.5	29.5	2.4	41.7
At 31st March 2006	269.1	17.5	782.1	55.2	1,123.9
Accumulated depreciation and impairment					
At 1st April 2004	49.8	6.6	301.5	–	357.9
Charge for the year	6.8	1.0	54.9	–	62.7
Reclassifications	1.1	(1.1)	–	–	–
Disposals	(0.9)	–	(19.9)	–	(20.8)
Disposal of business	(0.7)	–	(9.4)	–	(10.1)
Exchange adjustments	(0.6)	(0.1)	(2.1)	–	(2.8)
At 31st March 2005	55.5	6.4	325.0	–	386.9
Charge for the year	7.3	0.8	56.6	–	64.7
Impairment losses (note 3)	1.0	–	5.0	–	6.0
Disposals	–	(0.1)	(12.7)	–	(12.8)
Exchange adjustments	2.5	0.2	15.3	–	18.0
At 31st March 2006	66.3	7.3	389.2	–	462.8
Carrying amount at 31st March 2006	202.8	10.2	392.9	55.2	661.1
Carrying amount at 31st March 2005	176.4	10.0	368.4	38.2	593.0
Carrying amount at 1st April 2004	169.8	10.2	364.9	51.3	596.2

The carrying amount of plant and machinery includes £3.4 million (2005 £3.7 million) in respect of assets held under finance leases. Compensation received for impaired or lost property, plant and equipment was £ nil (2005 £ nil).

Notes on the Accounts

for the year ended 31st March 2006

14 Property, plant and equipment

14b 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 2004	64.9	1.9	236.5	15.1	318.4
Additions	2.9	–	25.8	11.8	40.5
Reclassifications	0.8	–	16.6	(17.4)	–
Acquisition of businesses from subsidiaries	5.6	–	40.1	7.8	53.5
Disposals	(1.8)	–	(23.9)	–	(25.7)
Disposal of business	(4.9)	–	(22.8)	–	(27.7)
At 31st March 2005	67.5	1.9	272.3	17.3	359.0
Additions	11.4	–	32.8	–	44.2
Reclassifications	–	–	2.3	(2.3)	–
Disposals	–	–	(15.6)	–	(15.6)
At 31st March 2006	78.9	1.9	291.8	15.0	387.6
Accumulated depreciation and impairment					
At 1st April 2004	19.3	1.7	102.7	–	123.7
Charge for the year	2.5	0.1	21.4	–	24.0
Acquisition of businesses from subsidiaries	0.2	–	8.9	–	9.1
Disposals	(0.7)	–	(15.1)	–	(15.8)
Disposal of business	(0.7)	–	(8.8)	–	(9.5)
At 31st March 2005	20.6	1.8	109.1	–	131.5
Charge for the year	2.4	–	22.3	–	24.7
Impairment losses	1.0	–	5.0	–	6.0
Disposals	–	–	(10.2)	–	(10.2)
At 31st March 2006	24.0	1.8	126.2	–	152.0
Carrying amount at 31st March 2006	54.9	0.1	165.6	15.0	235.6
Carrying amount at 31st March 2005	46.9	0.1	163.2	17.3	227.5
Carrying amount at 1st April 2004	45.6	0.2	133.8	15.1	194.7

The carrying amount of plant and machinery includes £3.4 million (2005 £3.7 million) in respect of assets held under finance leases.

15 Goodwill

	Group £ million	Parent company £ million
Cost		
At 1st April 2004	377.1	106.6
Additions, fair value adjustments and adjustments to consideration (note 39)	0.6	–
Acquisition of businesses from subsidiaries	–	141.6
Disposals	(1.7)	–
Exchange adjustments	(0.9)	–
At 31st March 2005	375.1	248.2
Additions, fair value adjustments and adjustments to consideration (note 39)	22.1	–
Exchange adjustments	5.2	–
At 31st March 2006	402.4	248.2
Impairment		
At 1st April 2004, 31st March 2005 and 31st March 2006	–	–
Carrying amount at 31st March 2006	402.4	248.2
Carrying amount at 31st March 2005	375.1	248.2
Carrying amount at 1st April 2004	377.1	106.6

Notes on the Accounts

for the year ended 31st March 2006

15 Goodwill (continued)

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	
	2006 £ million	2005 £ million	2006 £ million	2005 £ million
Catalysts				
Synetix	193.9	192.2	132.2	132.2
Research Chemicals	21.3	21.3	–	–
Johnson Matthey Tennessee	21.5	19.7	–	–
Davy Process Technology Limited (DPT)	21.9	–	–	–
Other Catalysts	5.9	5.7	–	–
Precious Metal Products	2.1	1.9	–	–
Pharmaceutical Materials				
Macfarlan Smith	116.0	116.0	116.0	116.0
Pharma Services / Ireland	19.4	18.1	–	–
Ceramics	0.4	0.2	–	–
	402.4	375.1	248.2	248.2

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. The budgets and plans are based on a number of key assumptions including market share, expected changes to selling prices, product profitability, the likelihood and timing of new product launches, foreign exchange rates, precious metal prices and other direct input costs. Market share, changes in 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. Foreign exchange rates are based on actual rates at the time the budgets were prepared and are held constant over the three years. New product launches are based on management's best estimate of what may happen. Apart from as discussed below, it is not considered that a reasonably possible change in any of these assumptions would generate a different impairment test outcome. 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 of 11.3% (2005 11.3%, 2004 11.4%), as this is considered to be a discount rate a typical third party purchaser would also use to value the significant CGUs.

For Synetix the long term average growth rate is 5% (2005 5%) and these extrapolated cash flows are further adjusted to take into account the expected long term cash flows of its gas to liquids business.

For Research Chemicals the long term average growth rate is 4% (2005 4%), for Johnson Matthey Tennessee 3% (2005 3%), for DPT 3% and Macfarlan Smith 6% (2005 6%).

For Pharma Services / Ireland, where its cash flows are expected to grow significantly due to new prostaglandin product launches over the next few years, cash flow projections cover a six year period and then a long term average growth rate of 6% (2005 6%) is used to extrapolate these cash flows. If some of these product launches do not happen as expected an impairment loss may arise.

Notes on the Accounts

for the year ended 31st March 2006

16 Other intangible assets

16a Group

	Customer contracts and relationships £ million	Computer software £ million	Patents, trademarks and licences £ million	Development expenditure £ million	Total £ million
Cost					
At 1st April 2004	–	24.3	–	13.5	37.8
Additions	–	3.7	–	5.4	9.1
Acquisitions	0.2	–	–	–	0.2
Disposals	–	(0.3)	–	–	(0.3)
Exchange adjustments	–	(0.1)	–	(0.1)	(0.2)
At 31st March 2005	0.2	27.6	–	18.8	46.6
Additions	–	2.6	0.7	6.7	10.0
Acquisitions	6.7	–	1.9	–	8.6
Exchange adjustments	–	0.9	–	1.2	2.1
At 31st March 2006	6.9	31.1	2.6	26.7	67.3
Accumulated amortisation and impairment					
At 1st April 2004	–	12.4	–	2.3	14.7
Charge for the year	0.1	3.7	–	1.1	4.9
Disposals	–	(0.3)	–	–	(0.3)
Exchange adjustments	–	(0.1)	–	–	(0.1)
At 31st March 2005	0.1	15.7	–	3.4	19.2
Charge for the year	0.9	3.8	–	1.4	6.1
Exchange adjustments	–	0.6	–	0.1	0.7
At 31st March 2006	1.0	20.1	–	4.9	26.0
Carrying amount at 31st March 2006	5.9	11.0	2.6	21.8	41.3
Carrying amount at 31st March 2005	0.1	11.9	–	15.4	27.4
Carrying amount at 1st April 2004	–	11.9	–	11.2	23.1

The carrying amount of development expenditure includes £18.1 million (2005 £11.9 million) which is not yet being amortised as the assets are not yet available for use. These assets are tested for impairment annually and no impairment has been found.

Notes on the Accounts

for the year ended 31st March 2006

16 Other intangible assets (continued)

16b Parent company

	Computer software £ million	Development expenditure £ million	Total £ million
Cost			
At 1st April 2004	10.3	3.1	13.4
Additions	1.7	0.3	2.0
Disposals	(0.2)	–	(0.2)
At 31st March 2005	11.8	3.4	15.2
Additions	0.9	0.3	1.2
At 31st March 2006	12.7	3.7	16.4
Accumulated amortisation and impairment			
At 1st April 2004	4.8	1.0	5.8
Charge for the year	1.8	0.5	2.3
Disposals	(0.2)	–	(0.2)
At 31st March 2005	6.4	1.5	7.9
Charge for the year	1.8	0.6	2.4
At 31st March 2006	8.2	2.1	10.3
Carrying amount at 31st March 2006	4.5	1.6	6.1
Carrying amount at 31st March 2005	5.4	1.9	7.3
Carrying amount at 1st April 2004	5.5	2.1	7.6

The carrying amount of development expenditure includes £0.3 million (2005 £0.6 million) which is not yet being amortised as the assets are not yet available for use. These assets are tested for impairment annually and no impairment has been found.

17 Investments in subsidiaries

	Cost of investments in subsidiary undertakings £ million	Accumulated impairment £ million	Carrying amount £ million
At 1st April 2004	456.7	–	456.7
Impairment loss	–	(1.5)	(1.5)
At 31st March 2005	456.7	(1.5)	455.2
Additions	40.6	–	40.6
Acquisition from subsidiaries	8.2	–	8.2
Impairment loss	–	(0.5)	(0.5)
Dividends received out of pre-acquisition profits of subsidiary	(11.0)	–	(11.0)
At 31st March 2006	494.5	(2.0)	492.5

The principal subsidiaries are shown on page 109.

Notes on the Accounts

for the year ended 31st March 2006

18 Investments in associates

	2006 £ million	2005 £ million
At beginning of year	4.8	4.6
Group's share of (loss) / profit of associates for the year	(0.2)	0.5
Dividends paid	(0.1)	(0.2)
Purchase of remaining interests	(0.1)	–
Exchange adjustments	(0.1)	(0.1)
At end of year	4.3	4.8

The group's associate is AGR Matthey, which is a partnership operating in Australia in which the group has a 20% interest. Oximet SrL, which is incorporated in Italy, was an associate, with the group holding a 33% interest, until the group bought out the remaining interests on 6th September 2005 (see note 39).

Summarised financial information in respect of the group's associates is:

	2006 £ million	2005 £ million
Total assets	28.1	36.9
Total liabilities	(12.9)	(19.9)
Net assets	15.2	17.0
Total revenue	19.6	21.0
Total (loss) / profit for the year	(1.2)	1.9

19 Available-for-sale investments

	2006 £ million	Group 2005 £ million
Non-current		
Unquoted investments	5.9	1.9
Non-current available-for-sale investments	5.9	1.9
Current		
Investments quoted on the London Stock Exchange	0.1	–
Investments quoted on overseas stock exchanges	–	0.6
Current available-for-sale investments	0.1	0.6

The 2005 numbers are investments held at cost as the group has taken advantage of the exemption in IFRS 1 not to restate comparative information to comply with IAS 39. At 31st March 2005 the market value of investments listed on the London Stock Exchange was £0.1 million and on overseas stock exchanges £1.4 million.

20 Inventories

	Group		Parent company	
	2006 £ million	2005 £ million	2006 £ million	2005 £ million
Raw materials and consumables	76.1	63.1	23.0	21.6
Work in progress – precious metals	90.2	85.4	48.3	59.1
– other	36.5	34.7	21.3	19.8
Finished goods and goods for resale	143.0	124.1	28.0	24.6
	345.8	307.3	120.6	125.1

The group also holds customers' materials in the process of refining and fabrication and for other reasons.

Notes on the Accounts

for the year ended 31st March 2006

21 Construction contracts

	Group	
	2006 £ million	2005 £ million
Contract revenue recognised	6.8	–
Contracts in progress at period end:		
Costs incurred plus recognised profits less recognised losses to date	6.6	–
Amount of advances received	12.3	–

22 Trade and other receivables

	Group		Parent company	
	2006 £ million	2005 £ million	2006 £ million	2005 £ million
Current				
Trade receivables	422.5	327.3	159.8	119.0
Allowances for bad and doubtful debts	(6.4)	(5.6)	(1.2)	(1.5)
Trade receivables net of allowances	416.1	321.7	158.6	117.5
Amounts receivable from construction contract customers	9.1	–	–	–
Amounts receivable from subsidiaries	–	–	938.8	790.3
Prepayments and accrued income	26.7	20.4	9.9	9.2
Other receivables	26.6	21.3	3.1	3.6
Current trade and other receivables	478.5	363.4	1,110.4	920.6
Non-current				
Amounts receivable from subsidiaries	–	–	195.5	318.0
Other receivables	0.2	–	–	–
Non-current trade and other receivables	0.2	–	195.5	318.0

23 Trade and other payables

	Group		Parent company	
	2006 £ million	2005 £ million	2006 £ million	2005 £ million
Current				
Trade payables	203.9	153.9	53.7	30.1
Amounts payable to construction contract customers	16.6	–	–	–
Amounts payable to associates	–	0.2	–	–
Amounts payable to subsidiaries	–	–	480.0	621.6
Accruals and deferred income	114.8	99.7	43.0	47.1
Other payables	49.9	40.5	27.9	20.9
Current trade and other payables	385.2	294.3	604.6	719.7
Non-current				
Amounts payable to subsidiaries	–	–	227.0	198.3
Other payables	0.8	0.7	–	–
Non-current trade and other payables	0.8	0.7	227.0	198.3

Notes on the Accounts

for the year ended 31st March 2006

24 Net debt

	Group		Parent company	
	2006 £ million	2005 £ million	2006 £ million	2005 £ million
Non-current borrowings, finance leases and related swaps				
Bank, other loans and related swaps				
4.95% US Dollar Bonds 2015	109.9	108.9	109.9	108.9
5.17% Sterling Bonds 2013	40.0	40.0	40.0	40.0
4.935% US Dollar EIB Loan 2011	57.6	–	57.6	–
4.25% US Dollar Bonds 2010	17.3	19.0	17.3	19.0
6.36% US Dollar Bonds 2006	–	52.9	–	52.9
Interest rate swaps designated as fair value hedges	5.0	–	5.0	–
Cross currency interest rate swaps designated as cash flow hedges	5.6	–	5.6	–
Other repayable after five years	5.5	4.5	–	–
Other repayable from four to five years	18.8	–	18.5	–
Other repayable from three to four years	0.3	–	–	–
Other repayable from two to three years	146.3	145.9	31.4	37.1
Other repayable from one to two years	45.0	36.6	38.4	36.0
Finance leases repayable				
After five years	2.3	2.6	2.3	2.6
From four to five years	0.2	0.2	0.2	0.2
From three to four years	0.3	0.3	0.3	0.3
From two to three years	0.3	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	454.7	411.5	327.1	297.6
Current borrowings and finance leases				
Bank overdrafts	7.9	14.7	16.6	29.3
6.36% US Dollar Bonds 2006	57.6	–	57.6	–
Other bank and other loans	24.5	21.8	11.0	12.5
Finance leases	0.3	0.3	0.3	0.3
Current borrowings and finance leases	90.3	36.8	85.5	42.1
Total borrowings, finance leases and related swaps	545.0	448.3	412.6	339.7
Less cash and deposits	133.0	78.7	26.6	15.2
Net debt	412.0	369.6	386.0	324.5

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 4.25% US Dollar Bonds 2010 have been swapped into sterling at 4.93%. The interest rate implicit in the finance leases is 5.9% and the lease term ends in 2017. Apart from the bonds, EIB loan 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.

Notes on the Accounts

for the year ended 31st March 2006

25 Other financial assets

	Group 2006 £ million	Parent company 2006 £ million
Forward foreign exchange contracts and options designated as cash flow hedges	0.1	0.3
Forward foreign exchange contracts and currency swaps held for trading	2.5	2.6
Foreign exchange swaps designated as hedges of a net investment in foreign operations	0.1	–
Embedded derivatives	0.5	0.5
	<u>3.2</u>	<u>3.4</u>

26 Other financial liabilities

	Group 2006 £ million	Parent company 2006 £ million
Forward foreign exchange contracts and options designated as cash flow hedges	1.2	1.2
Forward foreign exchange contracts and currency swaps held for trading	2.3	3.1
Foreign exchange swaps designated as hedges of a net investment in foreign operations	0.7	–
	<u>4.2</u>	<u>4.3</u>

27 Financial risk management

The group's and parent company's activities expose them to a variety of financial risks including market risk, credit risk, liquidity risk and cash flow interest rate risk. Market risk includes currency risk, fair value 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. The group and parent company do not undertake any trading activity in financial instruments.

The group and parent company adopted IAS 32 – 'Financial Instruments: Disclosures and Presentation' and IAS 39 – 'Financial Instruments: Recognition and Measurement' with effect from 1st April 2005 without restating prior periods. Consequently, the accounting policies under UK GAAP have been used for the year ended 31st March 2005 and therefore the comparative information for 2005 is shown separately after the 2006 information. Under UK GAAP the parent company is exempt from disclosing information on financial instruments.

27a Interest rate risk – 2006

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. They manage their risk by reviewing the profile of their debt regularly on a currency by currency basis and by selectively using interest rate and cross currency swaps. 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 the bond 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 swaps as cash flow hedges as they hedge the movement in the cash flows of the hedged bonds attributable to changes in the US dollar / sterling exchange rate. The cash flows are expected to occur in 2010 and 2015 when the respective bonds which they hedge mature. The interest element of the cash flow hedges is realised in the income statement each year and the exchange effect is expected to be realised in the income statement in 2010 and 2015. At 31st March 2006, 49% of the group's net debt and 52% of the company's net debt was at fixed rates with an average interest rate of 5.43%. The remaining debt is funded on a floating rate basis. A 1% change in all interest rates would have a 1.0% impact on the group's profit before tax. This is within the range the board regards as acceptable.

Notes on the Accounts

for the year ended 31st March 2006

27 Financial risk management (continued)

27b Foreign currency risk – 2006

The group operates globally with the majority of its profits earned outside the UK. It has significant investments outside the UK with the largest single investment being in the USA. 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, Europe and Japan by borrowing US dollars, euros and yen respectively. Although a large element of this funding is obtained by directly borrowing the relevant currency, some is achieved through currency swaps which can be more efficient and reduce costs and credit exposure. The group has designated the currency swaps and one loan as hedges of net investments in foreign operations as they hedge the changes in values of the subsidiaries' net assets against movements in exchange rates.

The main currencies of the net debt after taking into account the effect of the currency swaps at 31st March 2006 were:

	Group		Parent company	
	Borrowings £ million	Cash £ million	Borrowings £ million	Cash £ million
Sterling	118.4	105.5	117.2	84.2
US dollar	287.5	36.5	152.6	16.2
Euro	173.1	7.6	184.4	–
Japanese yen	24.8	4.3	24.8	–
Hong Kong dollar	–	17.4	–	–
Chinese renminbi	11.6	6.2	6.0	–
Malaysian ringgit	0.1	8.7	–	–
Brazilian real	–	7.8	–	–
Other currencies	4.1	13.6	2.2	0.8
	619.6	207.6	487.2	101.2

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 2007.

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 cent (2.8%) movement in the average exchange rate for the US dollar against sterling has a 0.8% impact on operating profit. The group is also exposed to the euro and a 5 cent (3.4%) movement in the average exchange rate for the euro against sterling has a 0.6% 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.

27c Liquidity risk – 2006

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. The group's and parent company's borrowings generally do not exhibit large seasonal variations. Within long term debt of £454.7 million at 31st March 2006, the group had borrowings under committed bank facilities of £191.0 million. The parent company's long term debt at 31st March 2006 was £327.1 million including committed bank borrowings of £69.8 million. The group and parent company also have a number of uncommitted facilities, including metal leases, and overdraft lines at their disposal.

	Group £ million	Parent company £ million
Undrawn committed borrowing facilities		
Expiring in more than one year but not more than two years	45.1	45.1
Expiring in more than two years	53.9	53.9
	99.0	99.0

Notes on the Accounts

for the year ended 31st March 2006

27 Financial risk management (continued)

27d Credit risk – 2006

Within certain divisions, 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 significantly overdue within the group and the relevant actions being taken. As at 31st March 2006, no single outstanding balance exceeded 2% of the company's market capitalisation.

The credit risk on cash and deposits and derivative financial instruments is limited because the counterparties are banks with high credit ratings. As at 31st March 2006, the maximum exposure with a single bank for net deposits was £16.5 million for the group and £14.4 million for the parent company, whilst the largest mark to market exposure for forward foreign exchange contracts to a single bank was £0.5 million for the group and parent company.

The group guarantees its share of the borrowings and precious metal leases of its associates and its exposure at 31st March 2006 was £1.5 million (2005 £2.1 million). 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 2006 was £155.0 million (2005 £142.1 million).

27e Fair value of financial instruments – 2006

	Group		Parent company	
	Carrying amount £ million	Fair value £ million	Carrying amount £ million	Fair value £ million
Quoted available-for-sale investments	0.1	0.1	–	–
Unquoted available-for-sale investments	5.9	5.9	–	–
Trade receivables	416.1	416.1	158.6	158.6
Trade payables	(203.9)	(203.9)	(53.7)	(53.7)
Amounts receivable from construction contract customers	9.1	9.1	–	–
Amounts payable to construction contract customers	(16.6)	(16.6)	–	–
Amounts receivable from subsidiaries	–	–	1,134.3	1,136.9
Amounts payable to subsidiaries	–	–	(707.0)	(707.0)
Other receivables	13.9	13.9	3.1	3.1
Other payables	(49.9)	(49.9)	(27.9)	(27.9)
Cash and deposits	133.0	133.0	26.6	26.6
US Dollar Bonds 2006, 2010 and 2015	(184.8)	(182.9)	(184.8)	(182.9)
US Dollar EIB Loan 2011	(57.6)	(56.3)	(57.6)	(56.3)
Sterling Bonds 2013	(40.0)	(39.4)	(40.0)	(39.4)
Other non-current borrowings and finance leases	(219.3)	(219.3)	(91.7)	(91.7)
Other current borrowings and finance leases	(32.7)	(32.7)	(27.9)	(27.9)
Interest rate swaps designated as fair value hedges	(5.0)	(5.0)	(5.0)	(5.0)
Cross currency interest rate swaps designated as cash flow hedges	(5.6)	(5.6)	(5.6)	(5.6)
Forward foreign exchange contracts and options designated as cash flow hedges	(1.1)	(1.1)	(0.9)	(0.9)
Forward foreign exchange contracts and currency swaps held for trading	0.2	0.2	(0.5)	(0.5)
Foreign exchange swaps designated as hedges of a net investment in foreign operations	(0.6)	(0.6)	–	–
Embedded derivatives	0.5	0.5	0.5	0.5
Non-current other payables	(0.8)	(0.8)	–	–
	(239.1)	(235.3)	120.5	126.9

The fair value of quoted investments is based on market value. It is not possible to determine reliably the fair value of the unquoted available-for-sale investments. The fair values of the bonds and interest rate swaps are calculated by discounting future cash flows to net present values using appropriate market interest rates prevailing at the year end. The fair value of the cross currency interest rate swaps is the market value of equivalent swaps which could be taken out at the balance sheet date with the same banks, the same maturity dates and identical terms. The fair value of forward exchange contracts and currency swaps represents the unrealised gain or loss on revaluation of the contracts to year end forward exchange rates obtained from the banks the contracts are with. The fair value of the embedded derivatives are calculated by using a suitable valuation technique. The fair value of all other financial instruments is approximately equal to book value due to their size, short term nature or the fact that they bear interest at floating rates.

Notes on the Accounts

for the year ended 31st March 2006

27 Financial risk management (continued)

27f Financial instruments accounting policies – 2005

Financial instruments were accounted for as follows in the year ended 31st March 2005:

- Forward exchange contracts are used to hedge foreign exchange exposures arising on forecast receipts and payments in foreign currencies. These forward contracts were revalued to the rates of exchange at the balance sheet date and any aggregate unrealised gains and losses arising on revaluation were included in other receivables / other payables. At maturity, or when the contract ceases to be a hedge, gains and losses were taken to the income statement.
- Currency options are occasionally used to hedge foreign exchange exposures, usually when the forecast receipt or payment amounts are uncertain. Option premia were recognised at their historic cost in the group balance sheet as prepayments or accruals and released to the income statement, net of any realised gains, when the outcome became certain on a straight line basis over the remaining term of the option.
- Interest rate swaps are occasionally used to hedge the group's exposure to movements in interest rates. The interest payable or receivable on such swaps was accrued in the same way as interest arising on deposits or borrowings. Interest rate swaps were not revalued to fair value prior to maturity.
- Currency swaps are used to reduce costs and credit exposure where the group would otherwise have cash deposits and borrowings in different currencies. The difference between spot and forward rate for these contracts was recognised as part of the net interest payable over the period of the contract. These swaps were revalued to the rates of exchange at the balance sheet date and any aggregate unrealised gains or losses arising on revaluation were included in other receivables / other payables. Realised gains and losses on these currency swaps were taken to reserves in the same way as for the foreign investments and borrowings to which the swaps related.

The group has taken advantage of the exemption available for short term receivables and payables.

27g Interest rate risk – 2005

	At fixed interest rates £ million	At floating interest rates £ million	Total £ million
Financial liabilities			
Sterling	85.2	73.5	158.7
US dollar	52.9	227.8	280.7
Euro	–	176.1	176.1
Japanese yen	–	25.1	25.1
Chinese renminbi	–	6.8	6.8
South African rand	–	0.3	0.3
Other currencies	–	2.1	2.1
	138.1	511.7	649.8
		Weighted average interest rates %	Weighted average period for which rates are fixed Years
Fixed rate financial liabilities			
Sterling		5.15	8
US dollar		6.36	1

The financial liabilities of the group comprised:

	£ million
Total borrowings and finance leases	448.3
Borrowings generated by swaps	193.8
Non-equity minority interests	7.0
Other payables falling due after more than one year	0.7
	649.8

Floating rate financial liabilities comprise bank borrowings, overdrafts and preference shares issued to minority shareholders bearing interest and dividends at commercial rates.

Notes on the Accounts

for the year ended 31st March 2006

27 Financial risk management (continued)

27g Interest rate risk – 2005 (continued)

	At floating interest rates £ million	Interest free £ million	Total £ million
Financial assets			
Sterling	217.8	–	217.8
US dollar	15.5	1.9	17.4
Euro	9.9	–	9.9
Japanese yen	4.2	–	4.2
Brazilian real	5.1	–	5.1
Swiss franc	4.4	–	4.4
Hong Kong dollar	3.4	–	3.4
Other currencies	12.2	0.6	12.8
	<u>272.5</u>	<u>2.5</u>	<u>275.0</u>

The financial assets of the group comprised:

	£ million
Cash and deposits	78.7
Deposits generated by swaps	193.8
Unlisted investments	1.9
Listed investments	0.6
	<u>275.0</u>

Floating rate financial assets comprise bank deposits bearing interest at commercial rates. Interest free financial assets are shares held in publicly quoted companies and an investment in Conduit Ventures Fund.

27h Currency exposures – 2005

After taking into account the effects of forward exchange contracts the group does not have any significant currency exposures on monetary assets and liabilities.

27i Maturity of financial liabilities – 2005

	£ million
In one year or less, or on demand	230.6
In more than one year but not more than two years	90.4
In more than two years but not more than five years	165.7
In more than five years	163.1
	<u>649.8</u>

27j Undrawn committed borrowing facilities – 2005

	£ million
Expiring in more than one year but not more than two years	54.0
Expiring in more than two years	54.1
	<u>108.1</u>

Notes on the Accounts

for the year ended 31st March 2006

27 Financial risk management (continued)

27k Market price risk – 2005

The group monitors its interest rate and currency risks and other market price risks to which it is exposed primarily through a process known as 'sensitivity analysis'. This involves estimating the effect on profit before tax over various periods of possible changes in interest rates and exchange rates.

Most of the group's borrowings and deposits are at floating rates. A 1% change in all interest rates would have a 1.1% impact on profit before tax and restructuring costs. This is within the range the board regards as acceptable.

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 since Johnson Matthey's largest single overseas investment is in the US. A 5 cent (2.7%) movement in the average exchange rate for the US dollar against sterling has a 0.8% impact on total operating profit. The group is also exposed to the euro. A 5 cent (3.4%) movement in the average exchange rate for the euro against sterling has a 0.6% 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.

27l Fair value of financial instruments – 2005

	Book value £ million	Fair value £ million
Cash and deposits	78.7	78.7
Fixed assets investments unlisted	1.9	1.9
Short term investments listed on the London Stock Exchange	–	0.1
Short term investments listed on overseas stock exchanges	0.6	1.4
Borrowings and finance leases falling due within one year	(36.8)	(36.8)
US Dollar Bonds 2006, 2010 and 2015	(180.8)	(179.2)
Sterling Bonds 2013	(40.0)	(38.8)
Other borrowings and finance leases falling due after more than one year	(190.7)	(190.7)
Other payables falling due after more than one year	(0.7)	(0.7)
Non-equity minority interests	(7.0)	(7.0)
Interest rate swaps	–	(4.1)
Forward exchange contracts	–	3.4
	(374.8)	(371.8)

The fair value of listed investments is based on market value. The fair values of the bonds and interest rate swaps are calculated by discounting future cash flows to net present values using appropriate market interest rates prevailing at the year end. The fair value of forward exchange contracts represents the unrealised gain or loss on revaluation of the contracts to year end exchange rates. The fair value of all other financial instruments is approximately equal to book value due to their size, short term nature or the fact that they bear interest at floating rates.

27m Gains and losses on hedges – 2005

Forward exchange contracts are used to hedge foreign exchange exposures arising on forecast receipts and payments in foreign currencies. These forward contracts are revalued to the rates of exchange at the balance sheet date and any aggregate unrealised gains and losses arising on revaluation are included in other receivables / other payables. At maturity, or when the contract ceases to be a hedge, gains and losses are taken to the income statement. Interest rate swaps are occasionally used to hedge the group's exposure to movements in interest rates. The interest payable or receivable on such swaps is accrued in the same way as interest arising on deposits or borrowings. Interest rate swaps are not revalued to fair value prior to maturity.

	Gains £ million	Losses £ million	Total net gains / (losses) £ million
Unrecognised gains and losses at 31st March 2004	11.0	–	11.0
Gains / losses recognised in the year	8.9	–	8.9
Gains and losses arising before 31st March 2004 not recognised in 2004/05	2.1	–	2.1
Gains and losses arising in 2004/05 not recognised in 2004/05	2.0	4.8	(2.8)
Unrecognised gains and losses at 31st March 2005	4.1	4.8	(0.7)
Of which gains and losses expected to be recognised in the year to 31st March 2006	4.1	0.7	3.4

Notes on the Accounts

for the year ended 31st March 2006

28 Provisions and contingent liabilities

28a Group

	Restructuring provisions £ million	Warranty & technology provisions £ million	Other provisions £ million	Total £ million
At 1st April 2005	25.0	2.3	3.1	30.4
Charge for year	–	0.7	4.3	5.0
Acquisitions	–	5.6	0.8	6.4
Utilised	(24.3)	(0.8)	(1.7)	(26.8)
Released	–	(0.3)	(0.7)	(1.0)
Exchange adjustments	0.1	0.1	0.1	0.3
At 31st March 2006	0.8	7.6	5.9	14.3

	2006 £ million	2005 £ million
Current	9.1	26.5
Non-current	5.2	3.9
Total provisions	14.3	30.4

The restructuring provisions relate to Catalysts Division and Precious Metal Products Division and are expected to be fully spent in 2007.

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 Catalysts Division. Warranties generally cover a period up to three years.

The other provisions include environmental, legal and relocation provisions. Amounts provided reflect management's best estimate of the expenditure required to settle the obligations at the balance sheet date. It is possible that these and further contingent environmental and legal liabilities may give rise to expenditure above that provided. Further details of environmental and legal provisions and contingent liabilities are not provided to avoid the potential of seriously prejudicing the group's stance in law.

28b Parent company

	Restructuring provisions £ million	Warranty provisions £ million	Other provisions £ million	Total £ million
At 1st April 2005	20.3	1.4	4.3	26.0
Charge for year	1.5	–	2.6	4.1
Utilised	(21.2)	(0.3)	(1.0)	(22.5)
Released	(0.3)	(0.3)	(0.4)	(1.0)
At 31st March 2006	0.3	0.8	5.5	6.6

	2006 £ million	2005 £ million
Current	2.0	21.1
Non-current	4.6	4.9
Total provisions	6.6	26.0

The restructuring provisions relate to Catalysts Division and Precious Metal Products Division and are expected to be fully spent in 2007.

The warranty provisions represent management's best estimate of the parent company's liability under warranties granted, based on past experience in Catalysts Division.

The other provisions include relocation 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.

Notes on the Accounts

for the year ended 31st March 2006

29 Deferred taxation

29a Group

	Property, plant & equipment £ million	Post- employment benefits £ million	Translation differences on foreign currency loans £ million	Inventories £ million	Other £ million	Total £ million
At 1st April 2004	62.2	3.8	(21.0)	(13.0)	(2.6)	29.4
Charge / (credit) to income	7.4	2.5	–	(0.5)	5.3	14.7
Tax on items taken directly to or transferred from equity	–	(4.2)	4.9	–	(0.1)	0.6
Exchange adjustments	(2.4)	0.3	1.6	–	(1.6)	(2.1)
At 31st March 2005	67.2	2.4	(14.5)	(13.5)	1.0	42.6
IFRS transition adjustment for financial instruments	–	–	–	–	1.2	1.2
Charge / (credit) to income	3.1	(3.5)	(0.2)	(17.9)	18.6	0.1
Tax on items taken directly to or transferred from equity	–	4.4	6.3	–	(9.5)	1.2
Acquisitions	(0.1)	–	–	–	–	(0.1)
Exchange adjustments	–	–	0.4	–	(0.1)	0.3
At 31st March 2006	70.2	3.3	(8.0)	(31.4)	11.2	45.3

	2006 £ million	2005 £ million
Deferred tax assets	4.4	2.0
Deferred tax liabilities	49.7	44.6
	45.3	42.6

Deductible temporary differences, unused tax losses and unused tax credits not recognised on the balance sheet are £42.9 million (2005 £42.9 million).

Deferred tax liabilities have not been recognised on temporary differences of £519.4 million (2005 £368.7 million) associated with investments in subsidiaries and associates, other than in the case of the group's captive insurance company where cumulative deferred tax of £1.2 million (2005 £0.8 million) has been provided on an accrued dividend.

29b Parent company

	Property, plant & equipment £ million	Post- employment benefits £ million	Translation differences on foreign currency loans £ million	Inventories £ million	Other £ million	Total £ million
At 1st April 2004	28.9	12.6	–	(13.0)	(3.7)	24.8
(Credit) / charge to income	(0.7)	2.7	–	(1.7)	0.9	1.2
Acquisition of businesses from subsidiaries	5.7	–	–	–	–	5.7
Tax on items taken directly to or transferred from equity	–	(2.1)	–	–	0.5	(1.6)
At 31st March 2005	33.9	13.2	–	(14.7)	(2.3)	30.1
IFRS transition adjustment for financial instruments	–	–	–	–	0.8	0.8
Charge / (credit) to income	2.7	2.4	–	(12.1)	1.3	(5.7)
Tax on items taken directly to or transferred from equity	–	5.6	(1.6)	–	(3.6)	0.4
At 31st March 2006	36.6	21.2	(1.6)	(26.8)	(3.8)	25.6

Deductible temporary differences, unused tax losses and unused tax credits not recognised on the balance sheet are £3.6 million (2005 £3.6 million).

Notes on the Accounts

for the year ended 31st March 2006

30 Share capital

	Authorised		Issued and fully paid	
	Number	£ million	Number	£ million
Ordinary shares of £1 each				
At 1st April 2004	291,550,000	291.6	220,605,536	220.6
Purchase of own shares	–	–	(1,604,000)	(1.6)
Share options exercised	–	–	521,170	0.5
At 31st March 2005	291,550,000	291.6	219,522,706	219.5
Share options exercised	–	–	705,604	0.7
At 31st March 2006	291,550,000	291.6	220,228,310	220.2

Details of outstanding share options and allocations under the company's long term incentive plan which have yet to mature are disclosed in note 12.

At the last Annual General Meeting on 19th July 2005 shareholders approved a resolution for the company to make purchases of its own shares up to a maximum number of 21,953,598 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's employee share ownership trusts (ESOTs) also buy shares on the open market and hold them in trust for employees participating in the group's executive share option schemes and long term incentive plan. At 31st March 2006 the group's ESOTs held 6,319,743 shares (2005 4,426,743 shares) which had not yet vested unconditionally in employees. Computershare Trustees (CI) Limited, as trustee for the ESOTs, has waived its dividend entitlement. At 31st March 2006 the parent company's ESOT held 6,255,162 shares (2005 4,362,162 shares) which had not yet vested unconditionally in employees.

31 Other reserves

31a Group

	Capital redemption reserve £ million	Foreign currency translation £ million	Available-for-sale reserve £ million	Hedging reserve £ million	Total other reserves £ million
At 1st April 2004	4.9	–	–	–	4.9
Purchase of own shares	1.6	–	–	–	1.6
Currency translation differences on foreign currency net investments and related loans	–	(2.0)	–	–	(2.0)
Tax on items taken directly to or transferred from equity	–	1.8	–	–	1.8
At 31st March 2005	6.5	(0.2)	–	–	6.3
IFRS transition adjustment for financial instruments	–	–	0.7	2.1	2.8
At 1st April 2005	6.5	(0.2)	0.7	2.1	9.1
Cash flow hedges:					
Losses taken to equity	–	–	–	(3.6)	(3.6)
Transferred to income statement	–	–	–	(2.6)	(2.6)
Available-for-sale investments:					
Transferred to income statement on sale	–	–	(0.8)	–	(0.8)
Fair value losses on net investment hedges	–	(12.5)	–	–	(12.5)
Currency translation differences on foreign currency net investments and related loans	–	42.3	–	–	42.3
Tax on items taken directly to or transferred from equity	–	(5.4)	0.2	1.8	(3.4)
At 31st March 2006	6.5	24.2	0.1	(2.3)	28.5

Notes on the Accounts

for the year ended 31st March 2006

31 Other reserves (continued)

31b Parent company

	Capital redemption reserve £ million	Foreign currency translation £ million	Hedging reserve £ million	Total other reserves £ million
At 1st April 2004	4.9	–	–	4.9
Purchase of own shares	1.6	–	–	1.6
At 31st March 2005	6.5	–	–	6.5
IFRS transition adjustment for financial instruments	–	–	2.0	2.0
At 1st April 2005	6.5	–	2.0	8.5
Cash flow hedges:				
Losses taken to equity	–	–	(3.4)	(3.4)
Transferred to income statement	–	–	(2.2)	(2.2)
Currency translation differences on foreign currency net investments and related loans	–	(0.4)	–	(0.4)
Tax on items taken directly to or transferred from equity	–	–	1.7	1.7
At 31st March 2006	6.5	(0.4)	(1.9)	4.2

32 Changes in equity – attributable to equity holders of the parent company

32a Group

	Share capital £ million	Share premium account £ million	Shares held in ESOTs £ million	Other reserves £ million	Retained earnings £ million	Equity attributable to equity holders of parent company £ million
At 1st April 2004	220.6	137.1	(28.8)	4.9	562.8	896.6
Retained profit for the year	–	–	–	–	115.5	115.5
Actuarial loss on post-employment benefits assets and liabilities	–	–	–	–	(16.1)	(16.1)
Dividends paid	–	–	–	–	(58.4)	(58.4)
New share capital subscribed	0.5	2.7	–	–	–	3.2
Purchase of own shares	(1.6)	–	–	1.6	(16.3)	(16.3)
Purchase of shares for ESOTs	–	–	(8.9)	–	–	(8.9)
Share-based payments	–	–	–	–	7.0	7.0
Cost of shares transferred to employees	–	–	–	–	(4.2)	(4.2)
Currency translation differences on foreign currency net investments and related loans	–	–	–	(2.0)	–	(2.0)
Tax on items taken directly to or transferred from equity	–	–	–	1.8	4.2	6.0
At 31st March 2005	219.5	139.8	(37.7)	6.3	594.5	922.4
IFRS transition adjustment for financial instruments	–	–	–	2.8	(0.1)	2.7
At 1st April 2005	219.5	139.8	(37.7)	9.1	594.4	925.1
Retained profit for the year	–	–	–	–	152.1	152.1
Actuarial gain on post-employment benefits assets and liabilities	–	–	–	–	19.6	19.6
Dividends paid	–	–	–	–	(60.4)	(60.4)
New share capital subscribed	0.7	4.6	–	–	–	5.3
Purchase of shares for ESOTs	–	–	(25.3)	–	–	(25.3)
Share-based payments	–	–	–	–	7.6	7.6
Cost of shares transferred to employees	–	–	–	–	(4.4)	(4.4)
Cash flow hedges:						
Losses taken to equity	–	–	–	(3.6)	–	(3.6)
Transferred to income statement	–	–	–	(2.6)	–	(2.6)
Available-for-sale investments:						
Transferred to income statement on sale	–	–	–	(0.8)	–	(0.8)
Fair value losses on net investment hedges	–	–	–	(12.5)	–	(12.5)
Currency translation differences on foreign currency net investments and related loans	–	–	–	42.3	–	42.3
Tax on items taken directly to or transferred from equity	–	–	–	(3.4)	(0.9)	(4.3)
At 31st March 2006	220.2	144.4	(63.0)	28.5	708.0	1,038.1

Notes on the Accounts

for the year ended 31st March 2006

32 Changes in equity – attributable to equity holders of the parent company (continued)

32b Parent company

	Share capital £ million	Share premium account £ million	Shares held in ESOTs £ million	Other reserves £ million	Retained earnings £ million	Equity attributable to equity holders of parent company £ million
At 1st April 2004	220.6	137.1	(28.4)	4.9	151.8	486.0
Retained profit for the year	-	-	-	-	656.4	656.4
Actuarial loss on post-employment benefits assets and liabilities	-	-	-	-	(7.1)	(7.1)
Dividends paid	-	-	-	-	(58.4)	(58.4)
New share capital subscribed	0.5	2.7	-	-	-	3.2
Purchase of own shares	(1.6)	-	-	1.6	(16.3)	(16.3)
Purchase of shares for ESOTs	-	-	(8.9)	-	-	(8.9)
Share-based payments	-	-	-	-	6.2	6.2
Cost of shares transferred to employees	-	-	-	-	(3.4)	(3.4)
Tax on items taken directly to or transferred from equity	-	-	-	-	2.2	2.2
At 31st March 2005	219.5	139.8	(37.3)	6.5	731.4	1,059.9
IFRS transition adjustment for financial instruments	-	-	-	2.0	(0.1)	1.9
At 1st April 2005	219.5	139.8	(37.3)	8.5	731.3	1,061.8
Retained profit for the year	-	-	-	-	215.6	215.6
Actuarial gain on post-employment benefits assets and liabilities	-	-	-	-	17.2	17.2
Dividends paid	-	-	-	-	(60.4)	(60.4)
New share capital subscribed	0.7	4.6	-	-	-	5.3
Purchase of shares for ESOTs	-	-	(25.3)	-	-	(25.3)
Share-based payments	-	-	-	-	6.5	6.5
Cost of shares transferred to employees	-	-	-	-	(3.3)	(3.3)
Cash flow hedges:						
Losses taken to equity	-	-	-	(3.4)	-	(3.4)
Transferred to income statement	-	-	-	(2.2)	-	(2.2)
Currency translation differences on foreign currency net investments and related loans	-	-	-	(0.4)	-	(0.4)
Tax on items taken directly to or transferred from equity	-	-	-	1.7	(2.0)	(0.3)
At 31st March 2006	220.2	144.4	(62.6)	4.2	904.9	1,211.1

33 Minority interests

	£ million
At 1st April 2004	9.4
Share of retained loss for the year	(1.0)
Dividends	(0.5)
Purchase of remaining minority interest in Johnson Matthey India Private Limited	(0.4)
At 31st March 2005	7.5
Share of retained loss for the year	(0.8)
Dividends	(0.3)
At 31st March 2006	6.4

Notes on the Accounts

for the year ended 31st March 2006

34 IFRS transition adjustment for financial instruments

The adjustment to the balance sheet at 1st April 2005 for the implementation of IAS 32, IAS 39 and IFRS 4 is:

	Group £ million	Parent company £ million
Current available-for-sale investments	0.9	–
Other financial assets	4.4	4.2
Current trade and other payables	(0.4)	(0.4)
Other financial liabilities	(0.5)	(0.5)
Non-current borrowings, finance leases and related swaps	(0.6)	(0.6)
Deferred income tax liabilities	(1.1)	(0.8)
Net assets	2.7	1.9
Hedging reserve	2.1	2.0
Available-for-sale reserve	0.7	–
Retained earnings	(0.1)	(0.1)
Total equity	2.7	1.9

35 Gross cash flows

35a Purchases of non-current assets and investments

	Group		Parent company	
	2006 £ million	2005 £ million	2006 £ million	2005 £ million
Purchases of property, plant and equipment	109.8	86.2	40.0	36.9
Purchases of intangible assets	10.0	9.1	1.2	2.0
Purchase of investments in subsidiaries	–	–	48.8	–
Purchases of available-for-sale investments	0.5	1.0	–	–
	120.3	96.3	90.0	38.9

35b Purchases of businesses and minority interests

	Group		Parent company	
	2006 £ million	2005 £ million	2006 £ million	2005 £ million
Purchase of businesses	41.6	3.6	–	–
Cash acquired with businesses	(17.3)	–	–	8.3
Purchase of minority interests	–	0.4	–	–
	24.3	4.0	–	8.3

35c Net proceeds from sale of business

	Group		Parent company	
	2006 £ million	2005 £ million	2006 £ million	2005 £ million
Disposal of Pigments & Dispersions business	–	23.4	–	22.8
Cash disposed of with Pigments & Dispersions business	–	(0.1)	–	–
	–	23.3	–	22.8

Notes on the Accounts

for the year ended 31st March 2006

35d Net purchase of own shares

	Group		Parent company	
	2006 £ million	2005 £ million	2006 £ million	2005 £ million
Issue of ordinary share capital	5.3	3.2	5.3	3.2
Purchase of own shares	(31.2)	(19.3)	(31.2)	(19.3)
	(25.9)	(16.1)	(25.9)	(16.1)

35e Proceeds from / (repayment of) borrowings and finance leases

	Group		Parent company	
	2006 £ million	2005 £ million	2006 £ million	2005 £ million
Increase / (decrease) in borrowings falling due within one year	45.2	(9.4)	56.1	(3.6)
Increase / (decrease) in borrowings falling due after more than one year	37.4	(40.9)	27.8	(150.6)
Capital element of finance lease rental payments	(0.3)	(0.3)	(0.3)	(0.2)
	82.3	(50.6)	83.6	(154.4)

36 Cash and cash equivalents

	Group		Parent company	
	2006 £ million	2005 £ million	2006 £ million	2005 £ million
Cash and deposits	133.0	78.7	26.6	15.2
Bank overdrafts	(7.9)	(14.7)	(16.6)	(29.3)
Cash and cash equivalents	125.1	64.0	10.0	(14.1)

37 Precious metal operating leases

The group leases precious metals 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 2006 precious metal leases were £93.2 million (2005 £102.1 million).

38 Commitments

	Group		Parent company	
	2006 £ million	2005 £ million	2006 £ million	2005 £ million
Future capital expenditure contracted but not provided	5.8	7.5	3.0	4.9
Future minimum amounts payable under non-cancellable operating leases				
Within one year	9.6	8.4	2.0	3.0
From one to five years	12.8	11.9	3.9	4.6
After five years	14.4	12.2	6.7	6.8
	36.8	32.5	12.6	14.4
Future minimum amounts payable under finance leases				
Within one year	0.5	0.5	0.5	0.5
From one to five years	1.8	1.8	1.8	1.8
After five years	2.7	3.2	2.7	3.2
	5.0	5.5	5.0	5.5
Less future finance charges	(1.3)	(1.5)	(1.3)	(1.5)
Present value of finance lease obligations	3.7	4.0	3.7	4.0

Notes on the Accounts

for the year ended 31st March 2006

39 Acquisitions

If all acquisitions had been completed on 1st April 2005 the revenue for the group would have been £4,794.8 million and its profit for the year £154.3 million.

Davy Process Technology Limited

On 1st February 2006 the group acquired 100% of the issued share capital of Davy Process Technology Limited (DPT). DPT develops chemical process technologies and licenses them to customers in the oil, gas and petrochemical industries. Its revenue is generated through the licensing of its proprietary technologies and from the sale of associated basic engineering packages, catalysts, specialist equipment and other services.

The value of the net assets acquired is provisional, pending detailed investigation into the liabilities acquired and obtaining a surveyor's report on a building acquired. The net assets acquired were:

	Carrying amounts under IFRS immediately prior to acquisition £ million	Fair value adjustments £ million	Estimated fair value at time of acquisition £ million
Property, plant and equipment	11.4	(0.8)	10.6
Intangible assets – customer contracts and relationships	–	6.7	6.7
Intangible assets – patents	–	1.9	1.9
Non-current available-for-sale investments	3.4	–	3.4
Deferred income tax assets	0.8	(0.7)	0.1
Trade and other receivables	14.9	(0.3)	14.6
Cash and deposits	17.4	–	17.4
Trade and other payables	(20.6)	(1.5)	(22.1)
Current income tax liabilities	(1.4)	–	(1.4)
Non-current borrowings	(1.4)	–	(1.4)
Employee benefit obligations	(3.7)	(1.0)	(4.7)
Provisions	(3.8)	(2.6)	(6.4)
Total net assets acquired	17.0	1.7	18.7
Goodwill on acquisition			21.9
			40.6

Satisfied by:

Purchase consideration – cash
Costs incurred – cash

£ million

39.9

0.7

40.6

Net cash outflow arising on acquisition was:

Cash consideration and costs
Cash and cash equivalents acquired

£ million

40.6

17.4

Net cash outflow
Borrowings acquired

23.2

1.4

Increase in net debt

24.6

The goodwill arising is attributable to future research and sales synergies arising from the combination.

From 1st February 2006 its results are included in Catalysts and were:

	£ million
Operating profit before amortisation of intangible assets recognised on acquisition by Johnson Matthey	1.6
Amortisation of intangible assets recognised on acquisition by Johnson Matthey	(0.8)
Operating profit	0.8
Net interest receivable	0.1
Profit before tax	0.9
Income tax expense	(0.6)
Net profit	0.3

Notes on the Accounts

for the year ended 31st March 2006

39 Acquisitions (continued)

Oximet Srl

On 6th September 2005 the group acquired the remaining 67% of the share capital of Oximet Srl, which it did not already own for £0.4 million. The fair value of the net assets acquired were inventories of £0.2 million, trade and other receivables of £1.0 million, trade and other payables of £0.8 million and bank overdrafts of £0.1 million. The fair value of the associate immediately prior to the acquisition was £0.1 million resulting in goodwill of £0.2 million. The goodwill arising is attributable to future synergies arising from the combination. The net cash outflow on acquisition was £0.5 million, consisting of £0.4 million of cash consideration and £0.1 million of bank overdrafts classed as cash and cash equivalents. From 6th September 2005 it contributed no net profit to the group's profit for the year and its results are included in Ceramics.

Lancaster Synthesis acquired in the year ended 31st March 2005

On 30th September 2004 the group acquired the business of Lancaster Synthesis Limited (Lancaster) from Clariant AG. Lancaster manufactures and distributes organic compounds for research and development purposes and is headquartered in Morecambe, UK. It has been fully integrated with the group's existing catalogue businesses and so its post acquisition results are not identifiable and are included in Catalysts.

The assets and liabilities acquired were:

	Carrying amounts under IFRS immediately prior to acquisition £ million	Fair value adjustments £ million	Fair value at time of acquisition £ million
Property, plant and equipment	0.8	(0.7)	0.1
Intangible assets – customer contracts and relationships	–	0.2	0.2
Inventories	9.5	(6.7)	2.8
Trade and other receivables	0.8	–	0.8
Trade and other payables	(0.3)	(0.8)	(1.1)
Total net assets acquired	10.8	(8.0)	2.8
Goodwill on acquisition			–
			2.8
Satisfied by:			£ million
Purchase consideration – cash			2.3
Costs incurred – cash			0.5
			2.8

Johnson Matthey India Private Limited minority interest acquired in the year ended 31st March 2005

On 27th August 2004 the group acquired the remaining 10% of Johnson Matthey India Private Limited for £0.4 million. The fair value of the minority interest immediately prior to the purchase was £0.4 million.

Medical hypotube manufacturing business acquired in the year ended 31st March 2005

On 1st May 2004 the group acquired a medical hypotube manufacturing business based in California, USA from Burkey Machine and Tool Corporation for £0.3 million. The fair value of the assets acquired was £0.1 million resulting in goodwill of £0.2 million.

Activated Metals and Chemicals, Inc. acquired in the year ended 31st March 2004

On 30th March 2004 the group acquired the Activated Metals and Chemicals, Inc. group of companies (AMC) and the estimated goodwill disclosed in the accounts for the year ended 31st March 2004 was £19.4 million. During the year ended 31st March 2005 further fair value adjustments were made to include payables not previously recognised of £0.8 million and deferred consideration was increased by £0.1 million. These increased goodwill by £0.9 million. Also, during the year a further £0.6 million of outstanding consideration was paid and during the year ended 31st March 2005 £0.4 million of outstanding consideration and £0.1 million of accrued costs were paid.

Cascade Biochem Limited acquired in the year ended 31st March 2003

On 17th October 2002 the group acquired Cascade Biochem Limited. During the year ended 31st March 2005 the estimate of deferred consideration was reduced by a further £0.5 million. Consequently, goodwill was reduced by £0.5 million.

Notes on the Accounts

for the year ended 31st March 2006

40 Discontinued operations

There were no discontinued operations in the year.

The discontinued operations in the year ended 31st March 2005 were the Pigments & Dispersions business which was sold to Rockwood Pigments (UK) Limited on 1st September 2004. The results of the discontinued operations included in the consolidated income statement for the year ended 31st March 2005 were:

	£ million
Revenue	12.3
Expenses	(11.9)
Operating profit	0.4
Income tax expense	(0.1)
Loss on sale of discontinued operations	(9.5)
Income tax credit on loss on sale of discontinued operations	2.8
Loss for the year from discontinued operations	(6.4)
Net cash inflow from operating activities of discontinued operations	0.5
Net cash outflow from investing activities of discontinued operations	(1.0)
Net cash outflow from financing activities of discontinued operations	(0.1)

The Pigments & Dispersions business had a presence in each of the geographical segments:

	Europe £ million	North America £ million	Asia £ million	Rest of the World £ million	Total £ million
External sales by geographical destination	7.0	1.7	1.1	2.5	12.3

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 associates, as described in note 18, are related parties. Guarantees of subsidiaries' and associates' borrowings are disclosed in note 27d.

	Group		Parent company	
	2006 £ million	2005 £ million	2006 £ million	2005 £ million
Trading transactions with associates				
Purchases of raw materials	0.2	0.5	-	-
Amounts payable to associates	-	0.2	-	-
Trading transactions with subsidiaries				
Sales of goods	-	-	832.6	823.5
Purchases of goods	-	-	150.7	121.8
Income from service charges	-	-	2.2	2.7
Amounts receivable from subsidiaries	-	-	31.9	25.8
Amounts payable to subsidiaries	-	-	9.6	8.4

The group's post-employment plans are related parties and the group's and parent company's transactions with them are disclosed in notes 13a and 13b respectively.

The transactions with key management personnel are described in note 11c.

42 Post balance sheet events

Since 31st March 2006 some small acquisitions have taken place. On 13th April 2006 the group purchased most of the business of United Pharmaceuticals for £1.9 million and on 21st April 2006 it purchased the Quest TruTec Process Diagnostics business for £3.8 million. The fair value exercise for these acquisitions has not yet been completed.

43 Key sources of estimation uncertainty

Key sources of estimation uncertainty are disclosed in the appropriate notes.

Notes on the Accounts

for the year ended 31st March 2006

44 Reconciliations from UK GAAP to IFRS

Reconciliations of profit before tax and net assets

	Explanation	Group 31st March 2005 £ million
Profit before tax under UK GAAP		131.0
Discontinued operations	a	14.9
Goodwill amortisation	b	20.9
Goodwill amortisation on associates	b	0.1
Development capitalised in the year	c	5.4
Amortisation of capitalised development	c	(1.1)
Share options and long term incentive plans	d	(4.1)
Employee benefits	e	0.3
Profit before tax under IFRS		167.4

		Group		Parent company	
		31st March 2005 £ million	1st April 2004 £ million	31st March 2005 £ million	1st April 2004 £ million
Net assets under UK GAAP		868.7	871.6	985.9	428.9
Goodwill amortisation	b	20.9	–	13.7	–
Goodwill amortisation on associates	b	0.1	–	–	–
Net capitalised development	c	15.5	11.2	2.0	2.2
Bid value adjustment for post-employment schemes' assets	e	(2.0)	(1.4)	(2.0)	(1.4)
Main UK pension plan (net of deferred tax)	e	–	–	45.8	43.3
Additional accruals for other short term and long term employee benefits	e	(3.5)	(3.8)	(2.0)	(1.8)
Deferred tax adjustments	g	(10.7)	(11.1)	(19.1)	(19.4)
Dividends	h	40.9	39.5	40.9	39.5
Reduction in investments in subsidiaries	m	–	–	(5.3)	(5.3)
Net assets under IFRS		929.9	906.0	1,059.9	486.0

Explanation of major differences between UK GAAP and IFRS – group and parent company

- Under IFRS 5 – 'Non-current Assets Held for Sale and Discontinued Operations' the post tax profit of discontinued operations and the post tax loss on disposal of those operations are disclosed as a single amount towards the bottom of the income statement. Also, under IFRS 1 – 'First-time Adoption of International Financial Reporting Standards' goodwill recognised under previous GAAP as a deduction from equity is not transferred to the income statement on disposal of the subsidiary.
- Under IFRS 3 – 'Business Combinations' amortisation of goodwill is no longer required but instead annual impairment reviews have to be performed. Johnson Matthey has elected to take advantage of the exemption allowed under IFRS 1 not to recalculate goodwill for all business combinations. Therefore the group and parent company have not adjusted their carrying amount of goodwill at 1st April 2004 (the group's and parent company's date of transition) from that previously disclosed under UK GAAP. The main adjustment to goodwill on the balance sheet is to reverse all amortisation charged since 1st April 2004.
- Under IAS 38 – 'Intangible Assets' the group and parent company have to capitalise all development expenditure which meets the recognition criteria laid down in the standard and then amortise the asset over its useful life once it is available for use. Under UK GAAP Johnson Matthey did not capitalise any development expenditure. Under IFRS, assets have been recognised in Catalysts Division for some development expenditure on heavy duty diesel catalysts and fuel cell components. The group and parent company believe that all other development expenditure is for incremental improvements to existing processes or for projects in an early stage of development and so no assets have been recognised.

In addition, under IAS 38 any capitalised software that is not an integral part of the related hardware is reclassified from property, plant and equipment to intangible assets.
- Under IFRS 2 – 'Share-based Payment' the group and parent company have to recognise a charge to income in respect of the fair value of outstanding share options granted to employees and shares allocated under the long term incentive plan after 7th November 2002. The fair value has been calculated using an adjusted Black-Scholes options valuation model and is charged to income over the relevant vesting periods, adjusted to reflect actual and expected levels of vesting.

Notes on the Accounts

for the year ended 31st March 2006

44 Reconciliations from UK GAAP to IFRS (continued)

Explanation of major differences between UK GAAP and IFRS – group and parent company (continued)

e) As Johnson Matthey has already adopted FRS 17, the recent UK GAAP standard for post retirement benefits, the only adjustments needed in the group for post-employment benefits under IAS 19 – ‘Employee Benefits’ are to put the net return on retirement benefits assets and liabilities into operating profit, to change the market value of the pension schemes’ assets from mid-market value to bid value on the balance sheet and to move the deferred tax balances on the net post-employment assets / obligations to deferred tax.

Under FRS 17 the parent company did not include the main UK defined benefit pension plan in its balance sheet and just accounted for contributions paid into the plan. Under IAS 19 the main UK pension plan is included in the parent company’s results and balance sheets as it is the sponsoring employer of the plan.

The other adjustments under IAS 19 are to accrue for paid annual leave and other short and long term employee benefits.

f) Under IAS 28 – ‘Investments in Associates’ the group’s share of the profit of its associates is shown on a post tax basis, unlike UK GAAP where the group’s share of the operating profit of its associates is shown and the group’s share of its associates’ interest and tax are shown in finance costs and income tax expense respectively.

g) Under IAS 12 – ‘Income Taxes’ the group and parent company is providing for deferred tax on capital gains rolled over, capital gains on intra group loans and capital losses which it did not provide for under UK GAAP. Other adjustments are to provide for deferred tax on the other IFRS accounting changes. Also, IAS 12 does not allow the offset of tax assets and liabilities and so the group has grossed up its current tax assets and liabilities and its deferred tax assets and liabilities.

h) Under IAS 10 – ‘Events After the Balance Sheet Date’ dividends declared after the balance sheet date are not recognised as a liability on the balance sheet and so the final dividend has not been provided for on the group’s and parent company’s balance sheets.

i) Under IAS 17 – ‘Leases’ the group’s and parent company’s precious metal leases are categorised as operating leases and so they, and the related inventory, are removed from the balance sheet and are reported as a note on the accounts.

j) There are a number of other reclassifications on the balance sheet mainly to separate out current and non-current assets and liabilities in accordance with IAS 1 – ‘Presentation of Financial Statements’.

k) As required under IAS 21 – ‘The Effects of Changes in Foreign Exchange Rates’ exchange differences arising on translation of subsidiaries’ results and net assets are now shown as a separate component of equity. The group has taken advantage of the exemption allowed in IFRS 1 to deem the cumulative translation difference for all overseas subsidiaries and associates to be zero at 1st April 2004.

l) As disclosed in the IFRS restatement notes last year, Johnson Matthey has changed its segments under IFRS from those shown under UK GAAP. Colour Technologies, which formed part of Colours & Coatings Division, was transferred to Precious Metal Products Division. Ceramics, which comprised the remaining part of Colours & Coatings Division, is shown as a separate segment. Platinum Group Metal Refining, which was part of Catalysts Division, has been transferred to Precious Metal Products Division.

m) Under IAS 27 – ‘Consolidated and Separate Financial Statements’ the cost of investments in subsidiaries is reduced by distributions from pre-acquisition profits.

Notes on the Accounts

for the year ended 31st March 2006

44 Reconciliations from UK GAAP to IFRS (continued)

44a Group

Reconciliation of consolidated balance sheet as at 1st April 2004

<i>Explanation</i>	UK GAAP £ million	IFRS adjustments £ million	IFRS £ million
Assets			
Non-current assets			
Property, plant and equipment	608.1	(11.9)	596.2
Goodwill	377.1	–	377.1
Other intangible assets	–	23.1	23.1
Investments in associates	4.6	–	4.6
Deferred income tax assets	5.4	6.9	12.3
Available-for-sale investments	0.9	–	0.9
Post-employment benefits net assets	31.5	11.6	43.1
Total non-current assets	1,027.6	29.7	1,057.3
Current assets			
Inventories	417.3	(134.5)	282.8
Current income tax assets	–	0.9	0.9
Trade and other receivables	382.0	–	382.0
Available-for-sale investments	1.6	–	1.6
Cash and deposits	106.5	–	106.5
Other current assets	–	7.1	7.1
Total current assets	907.4	(126.5)	780.9
Total assets	1,935.0	(96.8)	1,838.2
Liabilities			
Current liabilities			
Trade and other payables	(316.6)	36.7	(279.9)
Precious metal leases	(127.4)	127.4	–
Current income tax liabilities	(42.3)	(0.9)	(43.2)
Borrowings and finance leases	(46.5)	–	(46.5)
Short term provisions	–	(20.3)	(20.3)
Total current liabilities	(532.8)	142.9	(389.9)
Non-current liabilities			
Borrowings and finance leases	(454.5)	–	(454.5)
Deferred income tax liabilities	(20.4)	(21.2)	(41.6)
Employee benefits obligations	(28.0)	(12.5)	(40.5)
Long term provisions	(27.0)	22.0	(5.0)
Trade and other payables	(0.7)	–	(0.7)
Total non-current liabilities	(530.6)	(11.7)	(542.3)
Total liabilities	(1,063.4)	131.2	(932.2)
Net assets	871.6	34.4	906.0
Equity			
Share capital	220.6	–	220.6
Share premium	137.1	–	137.1
Shares held in employee share ownership trusts	(28.8)	–	(28.8)
Other reserves	4.4	0.5	4.9
Retained earnings	528.9	33.9	562.8
	862.2	34.4	896.6
Minority interests	9.4	–	9.4
Total equity	871.6	34.4	906.0

Notes on the Accounts

for the year ended 31st March 2006

44 Reconciliations from UK GAAP to IFRS (continued)

44a Group (continued)

Reconciliation of consolidated income statement for the year ended 31st March 2005

Explanation	UK GAAP £ million	IFRS adjustments			IFRS £ million
		Discontinued operations £ million	Associates £ million	Other £ million	
Revenue	4,638.5	(12.3)	–	–	4,626.2
Cost of materials sold	(3,878.5)	4.7	–	–	(3,873.8)
Net revenues	760.0	(7.6)	–	–	752.4
Other cost of sales	<i>c, e</i> (389.0)	5.5	–	10.9	(372.6)
Gross profit	371.0	(2.1)	–	10.9	379.8
Distribution costs	<i>e</i> (84.1)	1.0	–	1.6	(81.5)
Administrative expenses	<i>d, e</i> (79.6)	0.7	–	(2.8)	(81.7)
Goodwill amortisation	<i>b</i> (21.0)	0.1	–	20.9	–
Restructuring costs	(36.7)	–	–	–	(36.7)
Loss on sale of discontinued operations	<i>a</i> (15.2)	15.2	–	–	–
Operating profit	134.4	14.9	–	30.6	179.9
Finance costs	<i>f</i> (13.3)	–	0.3	–	(13.0)
Net return on retirement benefits assets and liabilities	<i>e</i> 9.2	–	–	(9.2)	–
Share of profit of associates	<i>b, f</i> 0.7	–	(0.3)	0.1	0.5
Profit before tax	131.0	14.9	–	21.5	167.4
Income tax expense	<i>g</i> (44.0)	(2.7)	–	0.2	(46.5)
Profit for the year from continuing operations	87.0	12.2	–	21.7	120.9
Loss for the year from discontinued operations	<i>a</i> –	(6.4)	–	–	(6.4)
Profit for the year	87.0	5.8	–	21.7	114.5
Attributable to:					
Equity holders of the parent company	88.2	5.8	–	21.5	115.5
Minority interests	<i>c</i> (1.2)	–	–	0.2	(1.0)
	87.0	5.8	–	21.7	114.5

Notes on the Accounts

for the year ended 31st March 2006

44 Reconciliations from UK GAAP to IFRS (continued)

44a Group (continued)

Reconciliation of consolidated balance sheet as at 31st March 2005

<i>Explanation</i>	UK GAAP £ million	IFRS adjustments £ million	IFRS £ million
Assets			
Non-current assets			
Property, plant and equipment	604.9	(11.9)	593.0
Goodwill	354.2	20.9	375.1
Other intangible assets	–	27.4	27.4
Investments in associates	4.7	0.1	4.8
Deferred income tax assets	0.8	1.2	2.0
Available-for-sale investments	1.9	–	1.9
Post-employment benefits net assets	33.5	11.7	45.2
Total non-current assets	1,000.0	49.4	1,049.4
Current assets			
Inventories	416.5	(109.2)	307.3
Current income tax assets	–	2.2	2.2
Trade and other receivables	363.4	–	363.4
Available-for-sale investments	0.6	–	0.6
Cash and deposits	78.7	–	78.7
Other current assets	–	7.1	7.1
Total current assets	859.2	(99.9)	759.3
Total assets	1,859.2	(50.5)	1,808.7
Liabilities			
Current liabilities			
Trade and other payables	(332.8)	38.5	(294.3)
Precious metal leases	(102.1)	102.1	–
Current income tax liabilities	(10.1)	(2.2)	(12.3)
Borrowings and finance leases	(36.8)	–	(36.8)
Short term provisions	–	(26.5)	(26.5)
Total current liabilities	(481.8)	111.9	(369.9)
Non-current liabilities			
Borrowings and finance leases	(411.5)	–	(411.5)
Deferred income tax liabilities	(29.7)	(14.9)	(44.6)
Employee benefits obligations	(34.6)	(13.6)	(48.2)
Long term provisions	(32.2)	28.3	(3.9)
Trade and other payables	(0.7)	–	(0.7)
Total non-current liabilities	(508.7)	(0.2)	(508.9)
Total liabilities	(990.5)	111.7	(878.8)
Net assets	868.7	61.2	929.9
Equity			
Share capital	219.5	–	219.5
Share premium	139.8	–	139.8
Shares held in employee share ownership trusts	(37.7)	–	(37.7)
Other reserves	6.3	–	6.3
Retained earnings	533.5	61.0	594.5
Minority interests	7.3	0.2	7.5
Total equity	868.7	61.2	929.9

Notes on the Accounts

for the year ended 31st March 2006

44 Reconciliations from UK GAAP to IFRS (continued)

44b Parent company

Reconciliation of balance sheet as at 1st April 2004

<i>Explanation</i>	UK GAAP £ million	IFRS adjustments £ million	IFRS £ million
Assets			
Non-current assets			
Property, plant and equipment	200.2	(5.2)	195.0
Goodwill	106.6	–	106.6
Other intangible assets	–	7.4	7.4
Investments in subsidiaries	462.0	(5.3)	456.7
Other receivables	320.9	–	320.9
Post-employment benefits net assets	–	41.9	41.9
Total non-current assets	1,089.7	38.8	1,128.5
Current assets			
Inventories	268.8	(149.6)	119.2
Trade and other receivables	556.9	–	556.9
Cash and deposits	2.7	–	2.7
Other current assets	–	7.1	7.1
Total current assets	828.4	(142.5)	685.9
Total assets	1,918.1	(103.7)	1,814.4
Liabilities			
Current liabilities			
Trade and other payables	(750.2)	37.8	(712.4)
Precious metal leases	(142.5)	142.5	–
Current income tax liabilities	(0.1)	–	(0.1)
Borrowings and finance leases	(16.4)	–	(16.4)
Short term provisions	–	(7.1)	(7.1)
Total current liabilities	(909.2)	173.2	(736.0)
Non-current liabilities			
Borrowings and finance leases	(448.4)	–	(448.4)
Deferred income tax liabilities	(5.4)	(19.4)	(24.8)
Employee benefits obligations	(9.3)	(0.1)	(9.4)
Long term provisions	(13.5)	7.1	(6.4)
Trade and other payables	(103.4)	–	(103.4)
Total non-current liabilities	(580.0)	(12.4)	(592.4)
Total liabilities	(1,489.2)	160.8	(1,328.4)
Net assets	428.9	57.1	486.0
Equity			
Share capital	220.6	–	220.6
Share premium	137.1	–	137.1
Shares held in employee share ownership trusts	(28.4)	–	(28.4)
Other reserves	4.9	–	4.9
Retained earnings	94.7	57.1	151.8
Total equity	428.9	57.1	486.0

Notes on the Accounts

for the year ended 31st March 2006

44 Reconciliations from UK GAAP to IFRS (continued)

44b Parent company (continued)

Reconciliation of balance sheet as at 31st March 2005

<i>Explanation</i>	UK GAAP £ million	IFRS adjustments £ million	IFRS £ million
Assets			
Non-current assets			
Property, plant and equipment	232.8	(5.3)	227.5
Goodwill	234.5	13.7	248.2
Other intangible assets	–	7.3	7.3
Investments in subsidiaries	460.5	(5.3)	455.2
Other receivables	318.0	–	318.0
Post-employment benefits net assets	–	43.8	43.8
Total non-current assets	1,245.8	54.2	1,300.0
Current assets			
Inventories	233.4	(108.3)	125.1
Current income tax assets	15.9	–	15.9
Trade and other receivables	920.6	–	920.6
Cash and deposits	15.2	–	15.2
Other current assets	–	7.1	7.1
Total current assets	1,185.1	(101.2)	1,083.9
Total assets	2,430.9	(47.0)	2,383.9
Liabilities			
Current liabilities			
Trade and other payables	(758.8)	39.1	(719.7)
Precious metal leases	(101.2)	101.2	–
Borrowings and finance leases	(42.1)	–	(42.1)
Short term provisions	–	(21.1)	(21.1)
Total current liabilities	(902.1)	119.2	(782.9)
Non-current liabilities			
Borrowings and finance leases	(297.6)	–	(297.6)
Deferred income tax liabilities	(11.0)	(19.1)	(30.1)
Employee benefits obligations	(10.0)	(0.2)	(10.2)
Long term provisions	(26.0)	21.1	(4.9)
Trade and other payables	(198.3)	–	(198.3)
Total non-current liabilities	(542.9)	1.8	(541.1)
Total liabilities	(1,445.0)	121.0	(1,324.0)
Net assets	985.9	74.0	1,059.9
Equity			
Share capital	219.5	–	219.5
Share premium	139.8	–	139.8
Shares held in employee share ownership trusts	(37.3)	–	(37.3)
Other reserves	6.5	–	6.5
Retained earnings	657.4	74.0	731.4
Total equity	985.9	74.0	1,059.9