

CHIEF EXECUTIVE'S STATEMENT

Neil Carson
Chief Executive



Johnson Matthey performed well in 2008/09, which was very much a year of two halves. A record first half performance was followed by very difficult market conditions in the second half of the year, especially for our Emission Control Technologies business which was impacted by the effects of the credit crunch and collapse in consumer confidence on automotive markets, particularly in North America and Europe. Our non-automotive businesses however, held up well. For the year as a whole, revenue rose by 5% to £7.8 billion and sales excluding precious metals were up 3% at £1.8 billion. Profit before tax, amortisation of acquired intangibles and restructuring charges was up 1% at £267.9 million.

From 1st April 2009 we have transferred our Catalysts and Chemicals business, which makes precious metal and some base metal catalysts and precious metal chemicals, into our Precious Metal Products Division. Going forward, the Fine Chemicals businesses, comprising of our Macfarlan Smith, Pharmaceutical Materials and Services and Research Chemicals businesses, will be reported as Fine Chemicals Division.

A key element of our strategy has been to maintain a strong balance sheet to ensure that we have sufficient funds to support our investment in R&D and fund organic growth. This has put us in a good position to face the current economic downturn. Our investment in R&D is the foundation of our high technology business and we will continue to increase this investment to ensure that we have the products to maintain and grow our world leading market positions. At the same time we are taking continued action to cut costs in all of our businesses and are maintaining a sharp focus on generating cash.

In 2009/10 we plan to reduce our capital expenditure to around 1.2 times depreciation. We will however, continue to pursue opportunities for growth, for example in manufacturing catalysts for NO_x control on coal fired power stations in China.

Despite the difficult market conditions that we currently face, the medium to long term prospects for our businesses continue to hold a great deal of promise. The legislative drivers of our business remain firmly in place and the world continues to focus on protecting the environment, improving efficiency and on enhancing energy security, all areas where we have key enabling technologies. We are also well positioned to grow in Asia, the one part of the world where national economies are expected to be least impacted by the current global downturn. Over the last few years we have been investing in infrastructure and building our market shares in Asia. Our businesses in the region, particularly in China, have achieved good growth. All of our divisions now have a well established presence in the key Chinese and Indian markets to serve growing local demand for our high technology products.

Sustainability

Sustainability is also a key element of our strategy for the future growth of our business. Today a significant proportion of our profits are generated from products that benefit the environment and we are world leaders in this field. It is now almost 18 months since we launched Sustainability 2017, a long term vision for the whole group which sets our direction and aspirations to become a more sustainable business in the future. We have set challenging targets to at least double our earnings per share, achieve carbon neutrality, eliminate waste to landfill and halve the key resources we use per unit of output by 2017. We have now established our benchmark position and have started to measure our progress. We have been working hard to embed sustainability into the company's culture and all of our businesses have set their own annual sustainability plans which align with the group goals.

There is tremendous enthusiasm and commitment for sustainability among our employees. All across the group, individuals and teams are focusing on improving the resource efficiency of our own operations and on designing new and improved products that help our customers to be more sustainable and competitive. This approach not only ensures we become more careful with the way we use the world's resources and enhances our manufacturing processes, but at the same time it is saving us money today and is also driving the development of new environmental technologies to support the future growth of our business. Such efforts are even more important in the challenging market conditions that we currently face. Further details of our progress towards Sustainability 2017 are summarised on pages 29 to 37 and are presented in full in the group's Sustainability Report which will be published on our website in July.

Outlook

The credit crunch and global recession have significantly reduced demand in a number of Johnson Matthey's markets. Demand for automotive products has been particularly badly affected and so far we have seen no signs of improvement. Prices of platinum group metals are also well down on their peaks reached in the early part of 2008/09.

Against this background we expect Johnson Matthey's profit in the first half of 2009/10 will be lower than in the same period in 2008/09, when the group achieved strong growth and record profits. Emission Control Technologies' sales excluding precious metals fell by 26% in the second half of 2008/09 on a constant currency basis and have continued at that level into the first quarter of 2009/10. Despite good demand for Process Technologies' products, if current market conditions continue we would expect Environmental Technologies Division's operating profit will be significantly lower than in the first half of 2008/09.

Precious Metal Products Division achieved very strong results in the first half of 2008/09, boosted by record platinum group metal prices and good growth in the manufacturing businesses. The platinum price in the first two months of the current financial year has averaged \$1,153/oz which is well below the same period last year. In addition, demand for platinum refining and recycling, which contributed approximately 15% of the division's profits in 2008/09, is much weaker. Although some of Precious Metal Products' businesses, such as gold refining, continue to enjoy good demand, overall the division is also expected to be down in the first half of the year.

The one area where we expect to see some growth in operating profit in the first six months of 2009/10 is Fine Chemicals Division, where demand is less affected by the recession and we should get a boost from additional income on the generic version of ADDERALL XR® which was launched in April 2009.

The outlook for the second six months is more difficult to predict, given the current economic uncertainty. However, if conditions do start to improve we would expect the group to return to growth in the second half of 2009/10.

Looking beyond 2009/10, prospects for Johnson Matthey's businesses remain encouraging with emissions legislation already in place which will drive demand for new catalysts. New regulations for heavy duty diesel emissions in North America will come into force from 1st January 2010, which will increase the number of catalysts sold per vehicle. In the European Union, new regulations will apply from January 2011 which will mean that all new diesel cars sold will need to be fitted with diesel particulate filters to reduce particulate emissions. In China, regulations on reducing harmful NOx emissions from power stations are anticipated to start in 2011, while energy security and environmental concerns continue to underpin demand for syngas catalysts and purification materials. Despite the economic slowdown, we are continuing to increase our investment in research and development to develop new catalyst products and technologies for the future. Johnson Matthey has a strong balance sheet and is well placed to benefit from any recovery in global activity.



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