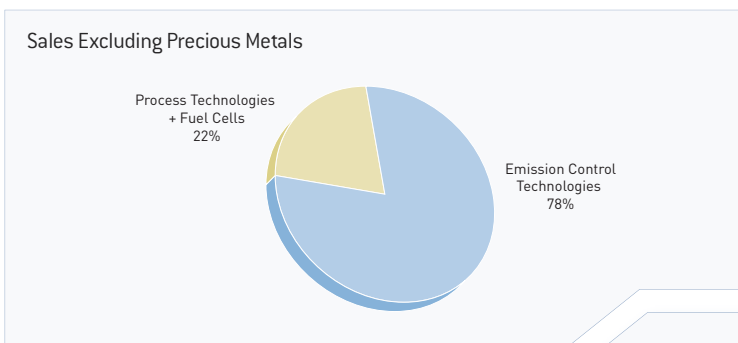


BUSINESS REVIEW

Operations Review → Environmental Technologies Division



Key Statistics

Return on sales excluding precious metals	9.7%
Return on invested capital (ROIC)	9.4%
Capital expenditure	£93.8m
Capex / depreciation	1.4
Average invested capital	£1,281m
Employees	4,985

	Year to 31st March			%
	2010	2009	%	
	£ million	£ million	change	at constant rates
Revenue	2,056	2,226	-8	-11
Sales excluding precious metals	1,247	1,135	+10	+6
Underlying operating profit	120.9	124.3	-3	-6

Description of the Business

Emission Control Technologies (ECT)

ECT comprises Johnson Matthey's global autocatalyst, heavy duty diesel and stationary emissions control businesses. We are a world leading manufacturer of catalysts for vehicle exhaust emission control and a leader in catalyst systems for the reduction of emissions from industrial processes. Manufacturing plants are located in the UK, Germany, Belgium, Macedonia, Russia, USA, Mexico, Argentina, South Africa, Japan, Malaysia, India, China and South Korea. R&D facilities are in the USA, UK, Germany, Sweden, Japan, South Korea and Brazil.

Process Technologies

Process Technologies manufactures process catalysts for the syngas, methanol, ammonia, hydrogen, gas / coal to products, oil refineries and gas processing industries. Davy Process Technology develops chemical process technologies and licenses them to customers in the oil, gas and petrochemical industries. Our Tracerco business is an industrial leader in specialist technology for the diagnostics, measurement and analysis of process plant conditions across the hydrocarbon chain. Process Technologies serves customers around the world and has manufacturing sites in the UK, India and China, supported by several UK based technology centres and technical offices in key centres worldwide.

Fuel Cells

Johnson Matthey has a world leading position in the development and manufacture of catalysts and catalysed components for fuel cells.

Performance in 2009/10

In 2009/10 Environmental Technologies Division recovered from a weak first half with good growth in the second half of the year. ECT was significantly affected in the first half by the slowdown in demand across all areas but saw a strong recovery for autocatalysts in the second half. However, despite challenging economic conditions, Process Technologies continued to perform well supported by strong demand for its syngas products in China. For the year as a whole, Environmental Technologies Division's revenue fell by 8% to £2,056 million; sales excluding precious metals were 10% ahead at £1,247 million; however underlying operating profit fell by 3% to £120.9 million. Translated at constant exchange rates, sales excluding precious metals increased by 6% and underlying operating profit was 6% lower.

Emission Control Technologies

Emission Control Technologies' sales excluding precious metals grew by 12% to £974 million. Sales in the first half of the year were £440 million, but sales recovered strongly in the second half to £534 million. At constant exchange rates, sales excluding precious metals were up 7%.

In Johnson Matthey's financial year to 31st March 2010, global light duty vehicle sales grew by 7% to 66.7 million vehicles. Global production grew by 6% with a further small decrease in inventories. The effect of various government scrappage schemes around the world had a very positive effect on vehicle sales particularly in the second half. Johnson Matthey's light duty catalyst sales excluding precious metals grew by 17% to £754 million and

Estimated Light Vehicle Sales and Production

		Year to 31st March		change %
		2010 millions	2009 millions	
North America	Sales	13.0	14.4	-9.7%
	Production	9.7	10.8	-10.2%
Total Europe	Sales	18.5	19.9	-7.0%
	Production	18.1	18.8	-3.7%
Asia	Sales	24.2	17.2	+40.7%
	Production	30.7	25.5	+20.4%
Global	Sales	66.7	62.1	+7.4%
	Production	65.2	61.5	+6.0%

Source: IHS Global Insight

sales volumes of autocatalysts grew by more than 9% in the year, exceeding the growth in global car production as a result of increased fitment of diesel particulate filters (DPFs) in Europe and our strong performance in the growth markets of China and India.

Around 6.5 million diesel cars were sold in western Europe in the year (representing some 46% of total car sales, down from 51% last year) of which about 70% were fitted with DPFs. Over the next seven months the DPF market is set to grow further as all new diesel cars sold in the European Union will require fitment from January 2011.

In response to the fall in demand for our products in the second half of 2008/09 we took swift action to significantly reduce costs and, during this period of lower production, also took the opportunity to improve the efficiency of our manufacturing facilities and logistics. As a result, our ongoing production cost per unit reduced by approximately 7%. We, however, retained our flexibility and were able to react rapidly to increased customer orders from mid 2009/10. Since the low point in March 2009, our plant utilisation for light duty catalysts has almost doubled although we still have sufficient capacity to meet future growth in demand.

While the light duty catalyst business grew strongly in the year, sales excluding precious metals of our heavy duty diesel (HDD) catalysts fell by 5% to £173 million, a reduction of 10% on a constant currency basis. Our HDD business, which manufactures catalysts for trucks, buses and non-road vehicles, made a small loss in the year because, following our recent investment in HDD catalyst manufacturing infrastructure ahead of new legislation, we had surplus capacity given the downturn in truck production.

Sales of heavy duty trucks were depressed in the year in both Europe and the USA, falling in our financial year by 45% and 28% respectively, although in the year we enhanced our leading share of the HDD catalyst market. However our sales started to recover in the autumn and in March 2010 were nearly double those in the same month last year, albeit that the majority of our US sales were for trucks that still utilised pre-US 2010 HDD catalysts. Sales for the first quarter of 2010/11, the period for which we have greatest visibility, are expected to remain at around this level. Given current economic conditions it is difficult to predict when truck sales in Europe and the USA will recover fully. With HDD legislation now in place in South Korea, the introduction of tighter on road HDD emissions legislation in China, India and Brazil over the next few years and the phasing in of non-road legislation in the USA and European Union, the growth prospects for our HDD catalyst business remain very strong.

During the year we completed a significant, over £70 million, investment in new capacity and opened two new facilities, one in western Pennsylvania, USA with capacity to manufacture one million catalysts a year required to meet the new US 2010 HDD legislation in North America that came into effect from 1st January 2010, and the other in Macedonia with initial capacity to manufacture four million catalysts per annum for both light duty and heavy duty vehicles in Europe. Both of these facilities are now fully operational. We also completed a major expansion of our autocatalyst manufacturing capacity in Shanghai, China. This will enable us to meet the demands of the rapidly growing market in China where we continue to increase our market share, from around 17% five years ago to approximately 30% today. Construction of a new research and development facility in Shanghai is now underway and is expected to be operational in the autumn of 2010.

Our stationary emissions control (SEC) systems business for reducing emissions in a wide range of applications including power generation, industrial processes, coal fired power plants and marine applications suffered from the deferral of major energy projects due to the recession and uncertainty over carbon dioxide (CO₂) emissions standards in the USA and Europe. Despite this, sales were up by 6% to £47 million.

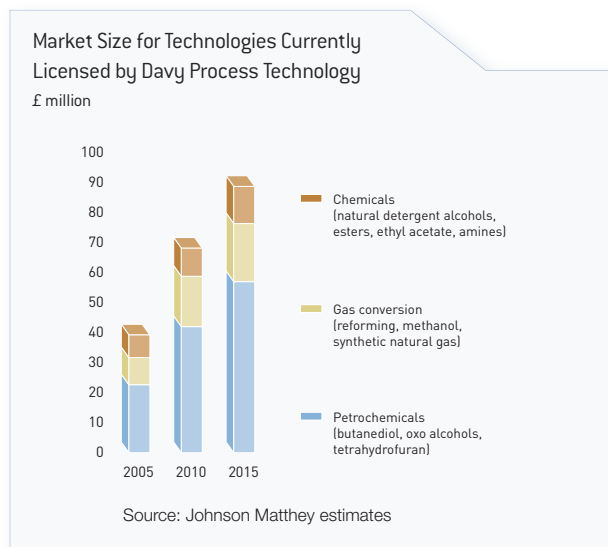
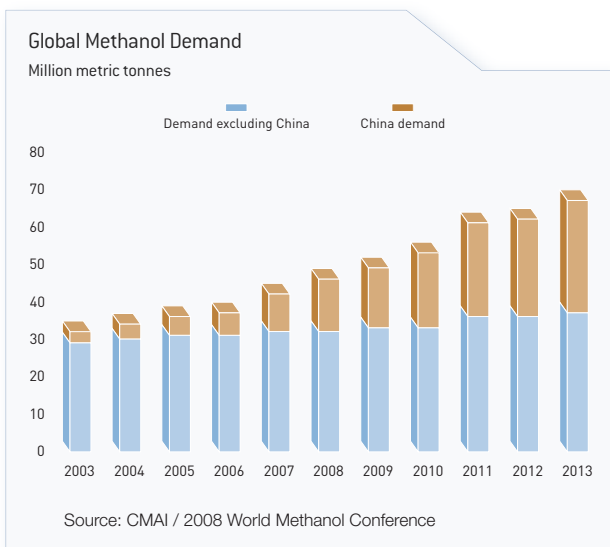
We have continued to build a new facility in Shanghai, China to supply plate type selective catalytic reduction (SCR) catalysts for controlling emissions of oxides of nitrogen (NO_x) from coal fired power plants. This will serve a growing market in China where the State Environmental Protection Administration is expected to issue NO_x control regulations that will come into effect in 2011. Our new facility is currently being commissioned and will begin supplying product during the first half of our 2010/11 financial year.

Process Technologies

Process Technologies continued to grow in 2009/10 despite the downturn in the global economy. Its sales excluding precious metals grew by 3% in the year to £268 million, an increase of 1% at constant exchange rates. The Ammonia, Methanol, Oil and Gas (AMOG) business, which represents approximately 60% of Process Technologies' sales, performed well with strong sales to both the ammonia and methanol markets, up 15% and 7% respectively. Demand for its gas purification products, used to remove contaminants such as mercury and chlorides, held up well throughout the year. However, sales of catalysts to produce hydrogen, which is used extensively in the hydrodesulphurisation process to remove sulphur from crude oil and to improve the quality of gasoline and diesel, were adversely impacted by the effect of the economic slowdown on demand for transportation fuels and by tight refinery margins and were down by more than 10%. Legislation requiring lower sulphur fuels continues to gain momentum around the world, particularly in South America, Asia and the Former Soviet Union, supporting continued demand for our hydrogen catalysts and purification products.

Process Technologies benefited from continued activity on projects to convert gas or coal into chemicals where some countries, particularly China, are seeking to enhance their energy security by utilising coal reserves to reduce their reliance on imported oil and gas. China continues to develop coal based technologies to manufacture methanol, ammonia and synthetic natural gas (SNG). Johnson Matthey has leading catalyst technology in these areas and is the number one supplier of catalysts for large scale methanol plants in China with a 40% market share.

BUSINESS REVIEW



Demand for methanol has continued to grow strongly in China, with consumption up by 35% to 17 million tonnes per annum, where it is increasingly being used as a substitute for petroleum based transportation fuels. As a result, our sales of methanol catalysts in China have increased by over 150% this year. The country is also investing in projects to manufacture SNG from coal that can be transported by existing pipelines and utilised for heating and industrial applications.

During the year Process Technologies commissioned a new state of the art methanol synthesis catalyst manufacturing facility at Clitheroe, UK. This plant produces Apico, our new patented methanol synthesis catalyst, which delivers a number of substantial performance benefits to customers, including the increase of methanol production from existing plants. Process Technologies remains a global leader in the licensing of methanol process technology and the sale of associated catalysts. The new Apico catalyst will further differentiate the business from its competitors.

Davy Process Technology (DPT) had another good year, with sales of £44 million, securing licence and engineering contracts for a further eight plants. The business was particularly successful in China, winning contracts for three methanol plants, an oxo alcohols plant and two speciality chemicals plants. In addition DPT won the contract for the first world scale SNG plant at Datang in China, including the supply of Johnson Matthey's catalysts.

DPT continues to invest in developing its technology portfolio. During the year it introduced the first world scale methylamine and dimethyl formamide process, dimethyl ether technology and a waste fat to diesel process. It is also in a position to license a gas to liquids process based on fixed bed Fischer Tropsch technology which has been jointly developed with BP.

Process Technologies continues to pursue other technology opportunities which have the potential to increase energy efficiency and reduce CO₂ emissions. Progress continues to be made in the development of technologies for high efficiency reforming, technology for the more cost effective capture of CO₂ prior to sequestration and in the area of gas to liquids technology, achieving a number of new milestones in catalyst development and increasing its sales of pilot scale catalysts this year. These are all areas that are coming into sharper focus as governments around the world strive to tackle CO₂ emissions.

Tracerco's sales were slightly up on last year with growth in its specialist measurements and taggants segments offsetting a poor year for its process diagnostics business, mainly due to reduced activity and investment by oil and gas companies. Vertec, which manufactures specialist organic titanates used in inks, paints and polymers, made an operating loss in 2009/10. The business has been facing stiff price competition from Asian manufacturers for a number of years. At the end of May 2010 we entered into consultation with its employees to look at the future options for the Vertec business.

Fuel Cells

The Fuel Cells business made further progress in 2009/10 despite the adverse economic conditions and as a result, the net expense fell by £0.3 million to £5.4 million. Several of our customers were impacted by the downturn and scaled back their growth plans but by year end they had recovered and had the confidence to start expanding again.

Direct methanol fuel cells are used in portable devices for leisure markets and sales of these were badly hit by the recession. However, our products are technically very competitive and we gained market share, mitigating the impact of a smaller market. Sales in this area have recovered, boosted by military applications starting to enter large scale trials. There also continues to be increasing interest in the use of natural gas fuelled systems to power buildings, an area where Johnson Matthey is a leading supplier of fuel cell components.



→ Chinese n-butanol plant based on DPT's chemical process technology. Reproduced with the kind permission of PetroChina Jilin Petrochemical Company.