

# NOTES ON THE ACCOUNTS

for the year ended 31st March 2010

## 1 Segmental information

As described in the Annual Report and Accounts for the year ended 31st March 2009, the group reorganised its divisional structure on 1st April 2009. The Catalysts and Chemicals business, which makes precious metal and some base metal catalysts and precious metal chemicals, has been transferred into the Precious Metal Products Division. The remaining businesses in the Fine Chemicals & Catalysts Division have been renamed as the Fine Chemicals Division. The segmental information below reflects the new divisional structure and comparative information has been restated to reflect the change.

For management purposes, the group is organised into three operating divisions – Environmental Technologies, Precious Metal Products and Fine Chemicals and each division is represented by a director on the Board of Directors. These operating divisions represent the group's segments. Their principal activities are described on pages 12 to 19. The performance of the divisions is assessed by the Board of Directors on underlying operating profit, which is before amortisation of acquired intangibles, major impairment and restructuring charges and profit or loss on disposal of businesses. Sales between segments are made at market prices, taking into account the volumes involved.

Year ended 31st March 2010	Environmental Technologies £ million	Precious Metal Products £ million	Fine Chemicals £ million	Eliminations £ million	Total £ million
Sales to external customers	2,056.4	5,561.8	221.2	–	7,839.4
Inter-segment sales	5.2	636.5	1.8	(643.5)	–
Total revenue	2,061.6	6,198.3	223.0	(643.5)	7,839.4
External sales excluding the value of precious metals	1,246.5	419.9	219.1	–	1,885.5
Segmental underlying operating profit	120.9	116.7	55.8	–	293.4
Unallocated corporate expenses					(21.6)
<b>Underlying operating profit</b>					271.8
Major impairment and restructuring charges (note 3)					(11.3)
Amortisation of acquired intangibles (note 4)					(9.9)
Operating profit					250.6
Net finance costs					(19.4)
Share of profit of associate					1.7
Dissolution of associate (note 19)					(4.4)
<b>Profit before tax</b>					228.5
Segmental assets	1,710.6	452.8	433.0	(80.6)	2,515.8
Investment in associate	–	3.4	–	–	3.4
Segmental total assets	1,710.6	456.2	433.0	(80.6)	2,519.2
Cash, deposits and swaps related to borrowings					198.4
Current and deferred income tax assets					70.0
Post-employment benefits net assets					4.6
Unallocated corporate assets					97.7
Total assets					2,889.9
Segmental net assets	1,333.7	261.2	400.8	–	1,995.7
Net debt					(473.4)
Post-employment benefits net assets and liabilities					(245.7)
Deferred income tax assets and liabilities					0.6
Provisions and non-current other payables					(34.3)
Unallocated corporate net assets					7.9
Total net assets					1,250.8
Segmental capital expenditure	93.8	15.9	22.0	–	131.7
Other additions to non-current assets (excluding financial assets, deferred tax assets and post-employment benefits net assets)	3.5	1.0	0.3	(0.3)	4.5
Segmental total additions to non-current assets	97.3	16.9	22.3	(0.3)	136.2
Corporate capital expenditure					2.7
Total additions to non-current assets					138.9
Segmental depreciation and amortisation	69.3	23.1	15.8	–	108.2
Corporate depreciation					2.7
Amortisation of acquired intangibles					9.9
Total depreciation and amortisation					120.8

# NOTES ON THE ACCOUNTS

for the year ended 31st March 2010

## 1 Segmental information (continued)

	Environmental Technologies £ million	Precious Metal Products £ million	Fine Chemicals £ million	Eliminations £ million	Total £ million
<b>Year ended 31st March 2009 (restated)</b>					
Sales to external customers	2,226.1	5,401.7	220.0	–	7,847.8
Inter-segment sales	7.4	933.0	2.6	(943.0)	–
Total revenue	2,233.5	6,334.7	222.6	(943.0)	7,847.8
External sales excluding the value of precious metals	1,135.2	446.5	215.2	–	1,796.9
Segmental underlying operating profit	124.3	143.0	49.5	–	316.8
Unallocated corporate expenses					(18.3)
<b>Underlying operating profit</b>					298.5
Major impairment and restructuring charges (note 3)					(9.4)
Amortisation of acquired intangibles (note 4)					(9.1)
Operating profit					280.0
Net finance costs					(32.6)
Share of profit of associate					2.0
<b>Profit before tax</b>					249.4
Segmental assets	1,571.8	399.4	466.0	(59.4)	2,377.8
Investment in associate	–	5.8	–	–	5.8
Segmental total assets	1,571.8	405.2	466.0	(59.4)	2,383.6
Cash, deposits and swaps related to borrowings					145.9
Current and deferred income tax assets					69.0
Post-employment benefits net assets					2.2
Unallocated corporate assets					93.6
Total assets					2,694.3
Segmental net assets	1,228.2	237.7	432.9	–	1,898.8
Net debt					(534.4)
Post-employment benefits net assets and liabilities					(151.6)
Deferred income tax assets and liabilities					(42.8)
Provisions and non-current other payables					(25.4)
Unallocated corporate net assets					31.5
Total net assets					1,176.1
Segmental capital expenditure	160.2	24.5	13.6	–	198.3
Other additions to non-current assets (excluding financial assets, deferred tax assets and post-employment benefits net assets)	2.3	0.3	–	(0.4)	2.2
Segmental total additions to non-current assets	162.5	24.8	13.6	(0.4)	200.5
Corporate capital expenditure					5.2
Total additions to non-current assets					205.7
Segment depreciation and amortisation	57.2	22.6	17.3	–	97.1
Corporate depreciation					2.5
Amortisation of acquired intangibles					9.1
Total depreciation and amortisation					108.7

The group received £1,030.5 million of revenue from one external customer (2009 £856.4 million) which is 13% (2009 11%) of the group's sales to external customers. The revenue is reported in Precious Metal Products as it is generated by the group's platinum marketing and distribution activities and so has a very low return on sales.

# NOTES ON THE ACCOUNTS

for the year ended 31st March 2010

## 1 Segmental information (continued)

The group's country of domicile is the UK. Sales to external customers are based on the customer's location. Non-current assets are based on the location of the assets and excludes financial instruments, deferred tax assets and post-employment benefits net assets.

	Sales to external customers		Non-current assets	
	2010 £ million	2009 £ million	2010 £ million	2009 £ million
UK	<b>2,192.6</b>	1,940.3	<b>676.7</b>	686.4
Germany	<b>659.5</b>	739.9	<b>250.9</b>	268.0
Rest of Europe	<b>713.4</b>	886.2	<b>122.2</b>	110.2
USA	<b>1,928.1</b>	1,835.3	<b>309.8</b>	343.0
Rest of North America	<b>122.6</b>	96.2	<b>14.3</b>	13.5
China (including Hong Kong)	<b>1,138.5</b>	1,031.0	<b>42.9</b>	25.3
Rest of Asia	<b>547.3</b>	802.0	<b>105.2</b>	96.0
Rest of World	<b>537.4</b>	516.9	<b>51.3</b>	42.9
Total	<b>7,839.4</b>	7,847.8	<b>1,573.3</b>	1,585.3

## 2 Revenue

	2010 £ million	2009 £ million
Sale of goods	<b>7,682.7</b>	7,691.2
Rendering of services	<b>119.8</b>	133.4
Royalties and licence income	<b>36.9</b>	23.2
<b>Total revenue – continuing operations</b>	<b>7,839.4</b>	7,847.8

## 3 Major impairment and restructuring charges

A significant part of the revenue generated by the group's Fine Chemicals facility in Massachusetts, USA is from contract work for pharmaceutical companies, primarily early phase discovery biotech companies. Due to the global recession, these early phase discovery biotech companies were unable to gain funding and consequently the facility's revenue significantly declined and is not expected to recover in the short term. Therefore the carrying amounts of the facility's freehold building, capitalised software and plant and machinery exceeded their recoverable amount, which was determined to be their fair value less costs to sell based on an external valuation. This gives rise to an impairment loss of £11.3 million. It is excluded from underlying operating profit.

In March 2009 the group announced the closure of its Fine Chemicals manufacturing facility in Ireland to consolidate manufacturing of prostaglandin products at its facility in Massachusetts, USA. The closure of the facility in Ireland gave rise to a restructuring charge of £9.4 million in the year ended 31st March 2009. It was excluded from underlying operating profit.

## 4 Amortisation of acquired intangibles

The amortisation of intangible assets which arise on the acquisition of businesses is shown separately on the face of the income statement. It is excluded from underlying operating profit.

## 5 Fees payable to auditors

	2010		2009	
	£ million	£ million	£ million	£ million
Fees payable to the company's auditor for the audit of the company's annual accounts		<b>0.5</b>		0.5
Fees payable to the company's auditor and its associates for other services:				
– the audit of the company's subsidiaries, pursuant to legislation	<b>0.9</b>		0.8	
– other services supplied pursuant to legislation	<b>0.1</b>		0.1	
– tax compliance services	<b>0.2</b>		0.2	
– tax advisory services	<b>0.2</b>		0.1	
– due diligence	<b>–</b>		0.1	
Total fees payable to the company's auditor and its associates for other services		<b>1.4</b>		1.3
<b>Total fees payable to the company's auditor and its associates</b>		<b>1.9</b>		1.8

Audit fees paid to other auditors were £0.1 million (2009 £0.1 million).

# NOTES ON THE ACCOUNTS

for the year ended 31st March 2010

## 6 Operating profit

	2010 £ million	2009 £ million
Operating profit is arrived at after charging / (crediting):		
Total research and development expenditure	91.7	87.6
less development expenditure capitalised	(14.7)	(13.1)
Research and development charged	77.0	74.5
less external funding received – from government grants	(0.9)	(1.2)
– from other organisations	(3.6)	(3.9)
Net research and development	72.5	69.4
Other government grants	(0.2)	(0.4)
Inventories recognised as an expense	6,774.0	6,795.4
Write-down of inventories recognised as an expense	5.8	9.7
Reversal of write-down of inventories arising from increases in net realisable value	(5.2)	(0.8)
Net (gains) / losses on foreign exchange	(2.5)	1.5
Net losses / (gains) on foreign currency forwards held for trading	2.3	(1.3)
Gain on ineffective portion of net investment hedges	–	(0.1)
Cash flow hedges transferred from equity – revenue	3.2	9.8
– cost of sales	11.0	15.1
– administrative expenses	0.1	–
– total	14.3	24.9
Depreciation of property, plant and equipment	97.3	88.7
Amortisation of internally generated intangible assets included in cost of sales	8.9	7.7
Amortisation of other intangible assets included in – cost of sales	3.1	2.0
– distribution costs	0.1	0.1
– administrative expenses	1.5	1.1
– amortisation of acquired intangibles (note 4)	9.9	9.1
Operating lease rentals payable – minimum lease payments	11.6	10.5
Operating lease rentals payable – sublease payments received	(0.1)	(0.2)

The items above are for both continuing operations and total group.

## 7 Finance costs

	2010 £ million	2009 £ million
Remaining loss on remeasurement of net investment hedging instruments to fair value	0.2	–
Net loss on remeasurement of foreign currency swaps held for trading	–	0.6
Net losses on financial assets and liabilities classified as held for trading	0.2	0.6
Interest payable on financial liabilities measured at amortised cost	30.0	42.5
Unwinding of discount on provisions	0.3	0.2
<b>Total finance costs – continuing operations</b>	<b>30.5</b>	<b>43.3</b>

# NOTES ON THE ACCOUNTS

for the year ended 31st March 2010

## 8 Finance income

	2010 £ million	2009 £ million
Interest receivable on interest rate swaps	6.2	1.2
Remaining gain on remeasurement of net investment hedging instruments to fair value	–	1.8
Net gains on financial assets and liabilities classified as held for trading	6.2	3.0
Net gain on remeasurement of fair value hedges and related hedged items to fair value	0.2	0.8
Interest receivable on loans and receivables	4.7	6.9
<b>Total finance income – continuing operations</b>	<b>11.1</b>	<b>10.7</b>

## 9 Taxation

	2010 £ million	2009 £ million
<b>Current tax</b>		
Corporation tax on profits for the year	68.4	43.4
Adjustment for prior years	8.4	1.3
Total current tax	76.8	44.7
<b>Deferred tax</b>		
Origination and reversal of temporary differences	0.3	33.4
Benefit from previously unrecognised tax losses, tax credits or temporary differences of prior years	(12.8)	(1.4)
Total deferred tax	(12.5)	32.0
<b>Income tax expense – continuing operations</b>	<b>64.3</b>	<b>76.7</b>

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

	2010 £ million	2009 £ million
Profit before tax	228.5	249.4
Tax expense at UK corporation tax rate of 28% (2009 28%)	64.0	69.8
Effects of:		
Overseas tax rates	1.4	6.1
Expenses not deductible for tax purposes	1.2	1.1
Unutilised losses	3.5	1.6
Utilisation of tax losses and tax holidays	(0.7)	(1.1)
Adjustments for prior years	(4.4)	0.6
Research and development credits	(4.6)	(4.4)
Other	3.9	3.0
Tax expense for the year	64.3	76.7

## 10 Dividends

	2010 £ million	2009 £ million
2007/08 final ordinary dividend paid – 26.0 pence per share	–	54.7
2008/09 interim ordinary dividend paid – 11.1 pence per share	–	23.4
2008/09 final ordinary dividend paid – 26.0 pence per share	54.9	–
2009/10 interim ordinary dividend paid – 11.1 pence per share	23.5	–
<b>Total dividends</b>	<b>78.4</b>	<b>78.1</b>

A final dividend of 27.9 pence per ordinary share has been proposed by the board which will be paid on 3rd August 2010 to shareholders on the register at the close of business on 11th June 2010. The estimated amount to be paid is £59.4 million and has not been recognised in these accounts.

# NOTES ON THE ACCOUNTS

for the year ended 31st March 2010

## 11 Earnings per ordinary share

	2010 pence	2009 pence
Total		
Basic	77.6	82.6
Diluted	77.3	82.1
Continuing		
Basic	77.6	82.0
Diluted	77.3	81.5
Discontinued		
Basic	–	0.6
Diluted	–	0.6

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.

	2010 £ million	2009 £ million
<b>Earnings</b>		
Profit for the year from continuing operations attributable to equity holders of the parent company	164.2	172.9
Profit for the year from discontinued operations attributable to equity holders of the parent company	–	1.2
Profit for the year attributable to equity holders of the parent company	164.2	174.1

	2010	2009
<b>Weighted average number of shares in issue</b>		
Basic	211,639,326	210,807,882
Dilution for share options and long term incentive plans	885,913	1,217,221
Diluted	212,525,239	212,025,103

Underlying earnings per ordinary share are calculated as follows:

	2010 £ million	2009 £ million
Profit for the year attributable to equity holders of the parent company	164.2	174.1
Major impairment and restructuring charges (note 3)	11.3	9.4
Amortisation of acquired intangibles (note 4)	9.9	9.1
Dissolution of associate (note 19)	4.4	–
Profit on disposal of discontinued operations	–	(1.2)
Tax thereon	(6.9)	(2.5)
Underlying profit for the year	182.9	188.9

	2010 pence	2009 pence
Underlying earnings per share		
Basic	86.4	89.6
Diluted	86.1	89.1

# NOTES ON THE ACCOUNTS

for the year ended 31st March 2010

## 12 Employee and key management personnel costs

### 12a Employee numbers

	2010	2009
The average monthly number of employees during the year was:		
Environmental Technologies	4,701	4,754
Precious Metal Products	2,562	2,649
Fine Chemicals	975	1,014
Corporate and Central Research	337	325
<b>Average number of employees – continuing operations</b>	<b>8,575</b>	<b>8,742</b>
Discontinued operations	–	518
<b>Average number of employees – total</b>	<b>8,575</b>	<b>9,260</b>
<b>Actual number of employees at 31st March</b>	<b>8,949</b>	<b>8,540</b>

The number of temporary employees included above at 31st March 2010 was 254 (2009 262).

The actual number of employees was:

	At 31st March 2010			At 31st March 2009		
	Actual	Agency staff	Total headcount	Actual	Agency staff	Total headcount
Environmental Technologies	4,985	492	5,477	4,623	276	4,899
Precious Metal Products	2,594	39	2,633	2,585	34	2,619
Fine Chemicals	1,026	11	1,037	999	5	1,004
Corporate and Central Research	344	4	348	333	4	337
<b>Total</b>	<b>8,949</b>	<b>546</b>	<b>9,495</b>	<b>8,540</b>	<b>319</b>	<b>8,859</b>

### 12b Employee benefits expense

	2010 £ million	2009 £ million
Wages and salaries – continuing operations	332.3	299.6
Social security costs – continuing operations	31.4	25.8
Pension and other post-employment costs – continuing operations	29.8	22.3
Share-based payments – continuing operations	10.4	5.6
<b>Total employee benefits expense – continuing operations</b>	<b>403.9</b>	<b>353.3</b>
Wages and salaries – discontinued operations	–	7.3
Social security costs – discontinued operations	–	1.0
Pension and other post-employment costs – discontinued operations	–	0.2
Total employee benefits expense – discontinued operations	–	8.5
<b>Total employee benefits expense</b>	<b>403.9</b>	<b>361.8</b>

Termination benefits of £2.0 million (2009 £3.7 million) are not included above.

# NOTES ON THE ACCOUNTS

for the year ended 31st March 2010

## 12 Employee and key management personnel costs (continued)

### 12c 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 (CEC). During the year ended 31st March 2010 the CEC had ten members (2009 ten members). Their compensation charged in the year was:

	2010 £ million	2009 £ million
Short term employee benefits	7.4	4.3
Pension and other post-employment costs	0.5	0.4
Share-based payments	1.5	0.1
Non-executive directors' fees and benefits	0.5	0.5
<b>Total compensation of key management personnel</b>	<b>9.9</b>	<b>5.3</b>

Termination benefits not included above were £0.8 million (2009 £ nil). In the year ended 31st March 2009 Mr N A P Carson, Chief Executive, bought his company car from the company for £8,500, which was its current market price at the time of the sale. This transaction was settled during that year. Other than this and 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 48 to 56.

## 13 Share-based payments

### Share options

Equity settled share options were granted to employees at the average of the market value of the company's shares over the three days prior to the date of grant and were subject to performance targets over a three year period and have a maximum life of ten years. The number of shares over which options were granted was based on a percentage of the employee's salary and from 2001 to 2006 approximately 800 employees were granted options each year. In 2007 a new long term incentive plan was introduced and allocations of shares under this plan replaced the granting of share options. No share options were granted in the years ended 31st March 2008, 2009 and 2010.

Options granted in 2004 to 2006 were subject to a minimum three year performance target of earnings per share (EPS) growth of UK RPI plus 3% per annum. Other performance targets were EPS growth of UK RPI plus 4% per annum and EPS growth of UK RPI plus 5% per annum. If the performance targets were not met at the end of the three year performance period, the options would lapse. The targets for options granted in 2004, 2005 and the 3% and 4% targets for options granted in 2006 have been met and so these options are exercisable. The 5% target for options granted in 2006 was not met and so these options have lapsed. 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. They were subject to annual retesting until they lapse on the tenth anniversary of grant. Since the targets have been met all these options are exercisable.

Some options granted in 2000 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 these options are exercisable.

### Long Term Incentive Plan (LTIP)

The 2007 LTIP also replaced share allocations made under the previous LTIP. Under the 2007 LTIP, shares are allocated to approximately 850 of the group's executive directors, senior managers and middle managers based on a percentage of salary and are subject to performance targets over a three year period. At 31st March 2010, shares allocated in 2007, 2008 and 2009 (at 31st March 2009, shares allocated in 2007 and 2008) were outstanding in respect of which the performance period has not expired. The minimum release of 15% of the allocation is subject to the achievement of EPS growth of 6% compound per annum over the three year period. For the maximum release of 100% of the allocation, EPS must have grown by at least 15% compound per annum. The number of allocated shares released will vary on a straight line basis between these points. Allocations will lapse if EPS growth is less than 6% compound per annum over the three year performance period. For the shares allocated in 2009 only, the performance conditions have been relaxed and so the minimum release requires EPS growth of 3% compound per annum and the maximum release requires EPS growth of 10% compound per annum.

Under the previous LTIP, shares were allocated to directors and certain key executives of the group based upon a percentage of salary and were subject to performance conditions over a three year period. At 31st March 2010, no shares (at 31st March 2009, shares allocated in 2006) were outstanding in respect of which the performance period has not expired. The release of shares was 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 were released if the company ranked in the 76th percentile or above. None of the shares were released if the company ranked in the 50th percentile or below. If the company ranked between these percentiles 35% to 100% of the shares were released on a straight line basis. In addition EPS growth must have been at least equal to UK RPI plus 2% per annum over the three year performance period before any release was 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 SIP trustees buy shares (partnership shares) at market value each month with the employees' 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.

# NOTES ON THE ACCOUNTS

for the year ended 31st March 2010

## 13 Share-based payments (continued)

### 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 employees 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 48 to 56.

Activity relating to share options was:

	2010	2010 Weighted average exercise price pence	2009	2009 Weighted average exercise price pence
	Number of options		Number of options	
Outstanding at the start of the year	4,507,045	1,107.60	4,946,246	1,098.81
Forfeited during the year	(308,181)	1,273.35	(84,933)	1,176.18
Exercised during the year	(1,724,557)	1,063.25	(354,268)	968.33
Outstanding at the end of the year	2,474,307	1,117.88	4,507,045	1,107.60
Exercisable at the end of the year	2,474,307	1,117.88	2,857,506	1,006.93

Options were exercised on a regular basis throughout the year. The average share price during the year was 1,412.25 pence (2009 1,370.99 pence).

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

	2010	2010 Weighted average remaining life years	2009	2009 Weighted average remaining life years
	Number of options		Number of options	
<b>Range of exercise price</b>				
500 pence to 600 pence	–	–	45,977	0.3
800 pence to 900 pence	452,298	3.0	817,281	3.9
900 pence to 1,000 pence	17,315	0.3	61,921	1.3
1,000 pence to 1,100 pence	1,046,322	4.8	1,932,327	5.8
1,200 pence to 1,300 pence	958,372	6.3	1,649,539	7.3
	2,474,307	5.0	4,507,045	5.9

The fair value of the shares allocated during the year under the LTIP was 1,138.9 pence per share allocation (2009 1,625.1 pence per share allocation). The fair value was based on the share price at the date of allocation of 1,245.0 pence (2009 1,731.0 pence) adjusted for the present value of the expected dividends that will not be received at an expected dividend rate of 2.98% (2009 2.11%).

Activity relating to the LTIP was:

	2010 Number of allocated shares	2009 Number of allocated shares
Outstanding at the start of the year	1,530,753	1,310,196
Allocated during the year	1,097,339	625,319
Forfeited during the year	(152,394)	(27,757)
Released during the year	(224,335)	(377,005)
Expired during the year	(74,769)	–
Outstanding at the end of the year	2,176,594	1,530,753

324,274 (2009 367,674) matching shares under the SIP and 80,505 (2009 97,235) 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 £10.4 million (2009 £5.6 million).

# NOTES ON THE ACCOUNTS

for the year ended 31st March 2010

## 14 Post-employment benefits

### 14a 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 (2009 £2.5 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 new section of the UK plan which is a career average salary plan and the US hourly plan which is a fixed benefit based upon years of service. Full actuarial valuations were carried out at 1st April 2009 for the main UK pension plan and 30th June 2009 for the US pension plans and the valuations of all of the UK and US plans were updated to 31st March 2010 by qualified independent actuaries.

The main assumptions were:

	2010 UK plans %	2010 US plans %	2010 Other plans %	2009 UK plans %	2009 US plans %	2009 Other plans %
Rate of increase in salaries	4.70	3.75	2.90	4.00	3.75	2.88
Rate of increase in pensions in payment	3.70	–	2.08	3.00	–	2.04
Discount rate	5.50	5.70	5.49	6.50	6.40	5.87
Inflation	3.70	2.75	2.06	3.00	2.75	2.02
Current medical benefits cost trend rate	7.70	8.35	4.00	7.00	9.00	4.00
Ultimate medical benefits cost trend rate	7.70	4.50	4.00	7.00	5.00	4.00

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, at its last full actuarial valuation were PMA92C2009 for male members retiring in normal health and PFA92C2009 for female members retiring in normal health. Allowance for future mortality improvements was made in line with the medium cohort versions of these tables with an underpin of 1% p.a. Shorter longevity assumptions are used for members who retire on grounds of ill-health. These tables have been carried through into the balance sheet calculation at 31st March 2010, allowing for the expected improvements over the intervening year. The mortality tables used for the income statements and the balance sheet calculation at 31st March 2009 were PMA92C2006 for male members retiring in normal health and PFA92C2006 for female members retiring in normal health. Allowance for future mortality improvements was made in line with the medium cohort versions of these tables and expected improvements over the three intervening years was also allowed for. The expected future lifetime of average members currently at age 63 (the plan's normal retirement age for the majority of its members) and 65 and average members at age 63 and 65 in 23 and 25 years time (i.e. members who are currently aged 40 years) is respectively:

	Currently age 63	Age 63 in 23 years	Currently age 65	Age 65 in 25 years
Male	22.5	24.8	20.6	23.0
Female	25.8	28.2	23.9	26.4

The mortality tables used for the other larger plans were:

US	RP2000 projected to 2010 using Scale AA
Netherlands	AG Prognosetafel 2005-2050 with one year age set back
Canada	UP 94 generational (including allowance for future mortality improvements)
Germany	RT2005 G
South Africa	PA(90), rated down by two 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 plan £ million	US plan £ million	UK plan £ million	US plan £ million
<b>At 31st March 2010</b>				
Post-retirement medical plan expense	0.1	0.4	(0.1)	(0.3)
Post-retirement medical plan defined benefit obligation	2.4	4.1	(1.9)	(4.3)
<b>At 31st March 2009</b>				
Post-retirement medical plan expense	0.1	0.3	(0.1)	(0.3)
Post-retirement medical plan defined benefit obligation	1.8	4.5	(1.5)	(3.8)

A 0.1% change in the discount rate and rate of increase in salaries would have the following increase / (decrease) on the UK pension plan's defined benefit obligation at 31st March 2010:

	0.1% increase £ million	0.1% decrease £ million
Effect of discount rate	(19.1)	19.5
Effect of rate of increase in salaries	4.4	(4.4)

# NOTES ON THE ACCOUNTS

for the year ended 31st March 2010

## 14 Post-employment benefits (continued)

### 14a 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
<b>At 31st March 2010</b>						
Equities	8.25	456.1	8.30	67.4	8.42	9.7
Bonds	5.00	394.6	5.30	55.1	5.25	7.3
Property	6.75	36.0	-	-	-	-
Insurance policies	-	-	-	-	4.83	19.0
	<b>6.74</b>	<b>886.7</b>	<b>6.95</b>	<b>122.5</b>	<b>5.88</b>	<b>36.0</b>
<b>At 31st March 2009</b>						
Equities	8.25	351.2	8.40	52.2	8.66	7.2
Bonds	5.50	286.7	4.80	25.7	5.26	5.8
Property	6.75	32.5	-	-	-	-
Insurance policies	-	-	-	-	5.49	16.4
	<b>7.00</b>	<b>670.4</b>	<b>7.21</b>	<b>77.9</b>	<b>6.22</b>	<b>29.4</b>

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 are 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.

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 2008	(744.4)	(10.9)	(86.4)	(15.6)	(39.0)	(896.3)
Current service cost – in operating profit	(19.7)	(0.2)	(4.8)	(0.6)	(1.9)	(27.2)
Current service cost – capitalised	(0.1)	-	-	-	-	(0.1)
Past service cost – vested	(0.2)	-	-	-	(0.1)	(0.3)
Interest cost	(47.4)	(0.7)	(6.4)	(1.1)	(2.1)	(57.7)
Employee contributions	(4.7)	-	-	-	(0.3)	(5.0)
Actuarial gain / (loss)	70.4	(0.7)	0.7	(3.0)	2.8	70.2
Curtailment gains	-	-	-	-	0.8	0.8
Transfer of employees from discontinued operations	-	-	-	-	(1.2)	(1.2)
Benefits paid	30.5	0.5	3.4	0.5	2.4	37.3
Exchange adjustments	-	-	(34.8)	(6.9)	(6.7)	(48.4)
At 31st March 2009	(715.6)	(12.0)	(128.3)	(26.7)	(45.3)	(927.9)
Current service cost – in operating profit	(15.5)	(0.1)	(5.3)	(0.7)	(2.3)	(23.9)
Current service cost – capitalised	(0.1)	-	(0.1)	-	-	(0.2)
Past service cost – vested	(0.4)	-	-	-	(0.2)	(0.6)
Past service cost – non-vested	-	-	-	0.8	-	0.8
Interest cost	(45.5)	(0.8)	(7.3)	(1.5)	(2.5)	(57.6)
Employee contributions	(5.2)	-	-	-	(0.3)	(5.5)
Actuarial loss	(293.5)	(1.9)	(18.2)	(2.2)	(4.8)	(320.6)
Benefits paid	32.2	0.4	3.8	0.5	2.1	39.0
Exchange adjustments	-	-	5.8	1.3	(0.9)	6.2
<b>At 31st March 2010</b>	<b>(1,043.6)</b>	<b>(14.4)</b>	<b>(149.6)</b>	<b>(28.5)</b>	<b>(54.2)</b>	<b>(1,290.3)</b>

# NOTES ON THE ACCOUNTS

for the year ended 31st March 2010

## 14 Post-employment benefits (continued)

### 14a 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 2008	809.5	–	78.5	–	27.1	915.1
Expected return on plan assets	55.8	–	6.4	–	1.8	64.0
Actuarial loss	(191.2)	–	(32.4)	–	(3.8)	(227.4)
Employee contributions	4.7	–	–	–	0.3	5.0
Company contributions	22.1	0.5	3.6	0.5	2.1	28.8
Benefits paid	(30.5)	(0.5)	(3.4)	(0.5)	(2.4)	(37.3)
Exchange adjustments	–	–	25.2	–	4.3	29.5
At 31st March 2009	670.4	–	77.9	–	29.4	777.7
Expected return on plan assets	46.8	–	5.4	–	1.7	53.9
Actuarial gain	173.4	–	19.8	–	1.9	195.1
Employee contributions	5.2	–	–	–	0.3	5.5
Company contributions	23.1	0.4	25.1	0.5	2.7	51.8
Benefits paid	(32.2)	(0.4)	(3.8)	(0.5)	(2.1)	(39.0)
Exchange adjustments	–	–	(1.9)	–	2.1	0.2
<b>At 31st March 2010</b>	<b>886.7</b>	<b>–</b>	<b>122.5</b>	<b>–</b>	<b>36.0</b>	<b>1,045.2</b>

The actual return on plan assets for UK plans was a £220.2 million increase (2009 £135.3 million reduction) and for US plans was a £25.2 million increase (2009 £26.0 million reduction).

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 2008	–	–	–	2.6	–	2.6
Expected return	–	–	–	0.3	–	0.3
Actuarial gain	–	–	–	0.5	–	0.5
Exchange adjustments	–	–	–	1.1	–	1.1
At 31st March 2009	–	–	–	4.5	–	4.5
Expected return	–	–	–	0.4	0.6	1.0
Actuarial gain	–	–	–	0.9	–	0.9
Exchange adjustments	–	–	–	(0.3)	–	(0.3)
<b>At 31st March 2010</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>5.5</b>	<b>0.6</b>	<b>6.1</b>

# NOTES ON THE ACCOUNTS

for the year ended 31st March 2010

## 14 Post-employment benefits (continued)

### 14a Group (continued)

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
<b>At 31st March 2010</b>						
Present value of funded obligations	(1,043.6)	–	(149.6)	–	(41.1)	(1,234.3)
Present value of unfunded obligations	–	(14.4)	–	(28.5)	(13.1)	(56.0)
Defined benefit obligation	(1,043.6)	(14.4)	(149.6)	(28.5)	(54.2)	(1,290.3)
Fair value of plan assets	886.7	–	122.5	–	36.0	1,045.2
Reimbursement rights	–	–	–	5.5	0.6	6.1
Unrecognised past service credit – non-vested	–	–	–	(3.5)	–	(3.5)
Net post-employment benefits assets and liabilities	(156.9)	(14.4)	(27.1)	(26.5)	(17.6)	(242.5)
<b>At 31st March 2009</b>						
Present value of funded obligations	(715.6)	–	(128.3)	–	(34.9)	(878.8)
Present value of unfunded obligations	–	(12.0)	–	(26.7)	(10.4)	(49.1)
Defined benefit obligation	(715.6)	(12.0)	(128.3)	(26.7)	(45.3)	(927.9)
Fair value of plan assets	670.4	–	77.9	–	29.4	777.7
Reimbursement rights	–	–	–	4.5	–	4.5
Unrecognised past service credit – non-vested	–	–	–	(3.2)	–	(3.2)
Net post-employment benefits assets and liabilities	(45.2)	(12.0)	(50.4)	(25.4)	(15.9)	(148.9)

These are included in the balance sheet as:

	2010 Post-employment benefits net assets £ million	2010 Employee benefits obligations £ million	2010 Total £ million	2009 Post-employment benefits net assets £ million	2009 Employee benefits obligations £ million	2009 Total £ million
UK pension plan	–	(156.9)	(156.9)	–	(45.2)	(45.2)
UK post-retirement medical benefits plan	–	(14.4)	(14.4)	–	(12.0)	(12.0)
US pension plans	–	(27.1)	(27.1)	–	(50.4)	(50.4)
US post-retirement medical benefits plan	–	(26.5)	(26.5)	–	(25.4)	(25.4)
Other plans	4.6	(22.2)	(17.6)	2.2	(18.1)	(15.9)
Total post-employment plans	4.6	(247.1)	(242.5)	2.2	(151.1)	(148.9)
Other long term employee benefits	–	(3.2)	(3.2)	–	(2.7)	(2.7)
<b>Total long term employee benefits obligations</b>	–	<b>(250.3)</b>	–	–	<b>(153.8)</b>	–

# NOTES ON THE ACCOUNTS

for the year ended 31st March 2010

## 14 Post-employment benefits (continued)

### 14a Group (continued)

Amounts recognised in the income statement 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
<b>Year ended 31st March 2010</b>						
Current service cost	(15.5)	(0.1)	(5.3)	(0.7)	(2.3)	(23.9)
Interest on plan liabilities	(45.5)	(0.8)	(7.3)	(1.5)	(2.5)	(57.6)
Expected return on plan assets	46.8	–	5.4	–	1.7	53.9
Expected return on reimbursement rights	–	–	–	0.4	0.6	1.0
Past service cost – vested	(0.4)	–	–	–	(0.2)	(0.6)
Past service cost – non-vested	–	–	–	0.3	–	0.3
<b>Charge to income</b>	<b>(14.6)</b>	<b>(0.9)</b>	<b>(7.2)</b>	<b>(1.5)</b>	<b>(2.7)</b>	<b>(26.9)</b>
<b>Year ended 31st March 2009</b>						
Current service cost	(19.7)	(0.2)	(4.8)	(0.6)	(1.9)	(27.2)
Interest on plan liabilities	(47.4)	(0.7)	(6.4)	(1.1)	(2.1)	(57.7)
Expected return on plan assets	55.8	–	6.4	–	1.8	64.0
Expected return on reimbursement rights	–	–	–	0.3	–	0.3
Curtailment gains	–	–	–	–	0.8	0.8
Past service cost – vested	(0.2)	–	–	–	(0.1)	(0.3)
Past service cost – non-vested	–	–	–	0.3	–	0.3
<b>Charge to income</b>	<b>(11.5)</b>	<b>(0.9)</b>	<b>(4.8)</b>	<b>(1.1)</b>	<b>(1.5)</b>	<b>(19.8)</b>

Of the total charge for the year, £17.6 million (2009 £14.2 million) has been included within cost of sales, £3.4 million (2009 £2.5 million) in distribution costs and £5.9 million (2009 £3.1 million) in administrative expenses.

The cumulative amount of actuarial gains / (losses) recognised in the statement of total comprehensive income 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 2008	(8.1)	0.4	(4.6)	0.6	(0.9)	(12.6)
Recognised in year	(120.8)	(0.7)	(31.7)	(2.5)	(1.0)	(156.7)
At 31st March 2009	(128.9)	(0.3)	(36.3)	(1.9)	(1.9)	(169.3)
Recognised in year	(120.1)	(1.9)	1.6	(1.3)	(2.9)	(124.6)
<b>At 31st March 2010</b>	<b>(249.0)</b>	<b>(2.2)</b>	<b>(34.7)</b>	<b>(3.2)</b>	<b>(4.8)</b>	<b>(293.9)</b>

It is estimated that the group will contribute about £54 million to the post-employment defined benefit plans during the year ending 31st March 2011.

# NOTES ON THE ACCOUNTS

for the year ended 31st March 2010

## 14 Post-employment benefits (continued)

### 14a Group (continued)

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
<b>Year ended 31st March 2010</b>						
Present value of defined benefit obligation	(1,043.6)	(14.4)	(149.6)	(28.5)	(54.2)	(1,290.3)
Fair value of plan assets	886.7	–	122.5	–	36.0	1,045.2
Reimbursement rights	–	–	–	5.5	0.6	6.1
Deficit in the plan	(156.9)	(14.4)	(27.1)	(23.0)	(17.6)	(239.0)
Experience adjustments arising on plan liabilities	(5.2)	1.2	(2.1)	0.4	(0.2)	(5.9)
Experience adjustments arising on plan assets	173.4	–	19.8	–	1.9	195.1
<b>Year ended 31st March 2009</b>						
Present value of defined benefit obligation	(715.6)	(12.0)	(128.3)	(26.7)	(45.3)	(927.9)
Fair value of plan assets	670.4	–	77.9	–	29.4	777.7
Reimbursement rights	–	–	–	4.5	–	4.5
Deficit in the plan	(45.2)	(12.0)	(50.4)	(22.2)	(15.9)	(145.7)
Experience adjustments arising on plan liabilities	24.4	(0.6)	0.9	(1.0)	0.3	24.0
Experience adjustments arising on plan assets	(191.2)	–	(32.4)	–	(3.8)	(227.4)
<b>Year ended 31st March 2008</b>						
Present value of defined benefit obligation	(744.4)	(10.9)	(86.4)	(15.6)	(39.0)	(896.3)
Fair value of plan assets	809.5	–	78.5	–	27.1	915.1
Reimbursement rights	–	–	–	2.6	–	2.6
Surplus / (deficit) in the plan	65.1	(10.9)	(7.9)	(13.0)	(11.9)	21.4
Experience adjustments arising on plan liabilities	(3.0)	–	5.9	1.8	(0.4)	4.3
Experience adjustments arising on plan assets	(87.7)	–	(6.9)	–	(2.8)	(97.4)
<b>Year ended 31st March 2007</b>						
Present value of defined benefit obligation	(801.0)	(11.6)	(87.4)	(16.5)	(33.5)	(950.0)
Fair value of plan assets	846.5	–	79.5	–	26.3	952.3
Reimbursement rights	–	–	–	2.8	–	2.8
Surplus / (deficit) in the plan	45.5	(11.6)	(7.9)	(13.7)	(7.2)	5.1
Experience adjustments arising on plan liabilities	(44.4)	0.5	(1.0)	(0.8)	2.8	(42.9)
Experience adjustments arising on plan assets	(8.3)	–	2.3	–	0.3	(5.7)
<b>Year ended 31st March 2006</b>						
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

# NOTES ON THE ACCOUNTS

for the year ended 31st March 2010

## 14 Post-employment benefits (continued)

### 14b Parent company

The parent company is the sponsoring employer of the group's 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 main assumptions used for these plans are disclosed in note 14a.

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

	2010 Expected rate of return %	2010 Value £ million	2009 Expected rate of return %	2009 Value £ million
Equities	8.25	456.1	8.25	351.2
Bonds	5.00	394.6	5.50	286.7
Property	6.75	36.0	6.75	32.5
	<b>6.74</b>	<b>886.7</b>	7.00	670.4

The defined benefit pension plan does not invest directly in Johnson Matthey Plc shares and no property or other assets owned by the pension plan are 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 the forecasts of actuaries and market professionals.

Movements in the defined benefit obligation during the year were:

	2010 Pension £ million	2010 Post- retirement medical benefits £ million	2009 Pension £ million	2009 Post- retirement medical benefits £ million
At beginning of year	(715.6)	(12.0)	(744.4)	(10.9)
Current service cost – in operating profit	(15.5)	(0.1)	(19.7)	(0.2)
Current service cost – capitalised	(0.1)	–	(0.1)	–
Past service cost – vested	(0.4)	–	(0.2)	–
Interest cost	(45.5)	(0.8)	(47.4)	(0.7)
Employee contributions	(5.2)	–	(4.7)	–
Actuarial (loss) / gain	(293.5)	(1.9)	70.4	(0.7)
Benefits paid	32.2	0.4	30.5	0.5
At end of year	<b>(1,043.6)</b>	<b>(14.4)</b>	(715.6)	(12.0)

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

	2010 Pension £ million	2010 Post- retirement medical benefits £ million	2009 Pension £ million	2009 Post- retirement medical benefits £ million
At beginning of year	670.4	–	809.5	–
Expected return on plan assets	46.8	–	55.8	–
Actuarial gain / (loss)	173.4	–	(191.2)	–
Employee contributions	5.2	–	4.7	–
Company contributions	23.1	0.4	22.1	0.5
Benefits paid	(32.2)	(0.4)	(30.5)	(0.5)
At end of year	<b>886.7</b>	<b>–</b>	670.4	–

The actual return on plan assets was a £220.2 million increase (2009 £135.3 million reduction). It is estimated that the company will contribute about £39 million (and its subsidiaries will also contribute about £5 million) to the company's post-employment defined benefit plans during the year ending 31st March 2011.

# NOTES ON THE ACCOUNTS

for the year ended 31st March 2010

## 14 Post-employment benefits (continued)

### 14b Parent company (continued)

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

	2010	2010 Post- retirement medical benefits £ million	2009	2009 Post- retirement medical benefits £ million
	Pension £ million		Pension £ million	
Present value of funded obligations	(1,043.6)	–	(715.6)	–
Present value of unfunded obligations	–	(14.4)	–	(12.0)
Defined benefit obligation	(1,043.6)	(14.4)	(715.6)	(12.0)
Fair value of plan assets	886.7	–	670.4	–
Net retirement benefits assets and liabilities	(156.9)	(14.4)	(45.2)	(12.0)

These are included in the balance sheet as:

	2010 Post- employment benefits net assets £ million	2010 Employee benefits obligations £ million	2010 Total £ million	2009 Post- employment benefits net assets £ million	2009 Employee benefits obligations £ million	2009 Total £ million
UK pension plan	–	(156.9)	(156.9)	–	(45.2)	(45.2)
UK post-retirement medical benefits plan	–	(14.4)	(14.4)	–	(12.0)	(12.0)
Total post-employment plans	–	(171.3)	(171.3)	–	(57.2)	(57.2)
Other long term employee benefits		(0.2)			(0.2)	
<b>Total long term employee benefits obligations</b>		<b>(171.5)</b>			<b>(57.4)</b>	

The cumulative amount of actuarial gains / (losses) recognised in the statement of changes in equity were:

	2010	2010 Post- retirement medical benefits £ million	2009	2009 Post- retirement medical benefits £ million
	Pension £ million		Pension £ million	
At beginning of year	(130.3)	(0.3)	(9.5)	0.4
Recognised in year	(120.1)	(1.9)	(120.8)	(0.7)
At end of year	(250.4)	(2.2)	(130.3)	(0.3)

History of the plans and experience adjustments are:

	Present value of defined benefit obligation £ million	Fair value of plan assets £ million	Surplus / (deficit) in plan £ million	Experience adjustments arising on plan liabilities £ million	Experience adjustments arising on plan assets £ million
<b>Year ended 31st March 2010</b>					
Pension	(1,043.6)	886.7	(156.9)	(5.2)	173.4
Post-retirement medical benefits	(14.4)	–	(14.4)	1.2	–
<b>Year ended 31st March 2009</b>					
Pension	(715.6)	670.4	(45.2)	24.4	(191.2)
Post-retirement medical benefits	(12.0)	–	(12.0)	(0.6)	–
<b>Year ended 31st March 2008</b>					
Pension	(744.4)	809.5	65.1	(3.0)	(87.7)
Post-retirement medical benefits	(10.9)	–	(10.9)	–	–
<b>Year ended 31st March 2007</b>					
Pension	(801.0)	846.5	45.5	(41.0)	(6.5)
Post-retirement medical benefits	(11.6)	–	(11.6)	0.5	–
<b>Year ended 31st March 2006</b>					
Pension	(703.3)	773.9	70.6	0.8	75.2
Post-retirement medical benefits	(11.9)	–	(11.9)	1.7	–

# NOTES ON THE ACCOUNTS

for the year ended 31st March 2010

## 15 Property, plant and equipment

### 15a Group

	Freehold land & buildings £ million	Long & short leasehold £ million	Plant & machinery £ million	Assets in the course of construction £ million	Total £ million
<b>Cost</b>					
At 1st April 2008	286.9	19.2	864.8	57.1	1,228.0
Additions	15.8	0.7	81.4	78.1	176.0
Acquisitions (note 40)	–	–	0.5	–	0.5
Reclassifications	7.2	1.4	51.5	(60.1)	–
Disposals	(0.1)	(0.4)	(14.2)	–	(14.7)
Exchange adjustments	52.5	3.4	147.1	16.6	219.6
At 31st March 2009	362.3	24.3	1,131.1	91.7	1,609.4
Additions	9.6	1.5	39.4	64.6	115.1
Acquisitions (note 40)	–	0.5	1.3	–	1.8
Transfer from assets classified as held for sale	3.0	–	–	–	3.0
Transfer from associate (note 19)	0.5	–	–	–	0.5
Reclassifications	44.9	2.1	54.3	(101.3)	–
Disposals	(0.6)	(5.2)	(27.4)	–	(33.2)
Exchange adjustments	(3.7)	(0.5)	(8.0)	(3.1)	(15.3)
At 31st March 2010	416.0	22.7	1,190.7	51.9	1,681.3
<b>Accumulated depreciation and impairment</b>					
At 1st April 2008	71.5	9.0	429.9	–	510.4
Charge for the year	10.4	3.5	74.8	–	88.7
Disposals	(0.1)	(0.3)	(12.7)	–	(13.1)
Exchange adjustments	15.7	1.9	81.1	–	98.7
At 31st March 2009	97.5	14.1	573.1	–	684.7
Charge for the year	12.7	1.3	83.3	–	97.3
Impairment losses	7.2	–	6.2	–	13.4
Disposals	(0.2)	(5.1)	(25.9)	–	(31.2)
Exchange adjustments	(0.5)	(0.5)	(3.5)	–	(4.5)
At 31st March 2010	116.7	9.8	633.2	–	759.7
<b>Carrying amount at 31st March 2010</b>	<b>299.3</b>	<b>12.9</b>	<b>557.5</b>	<b>51.9</b>	<b>921.6</b>
Carrying amount at 31st March 2009	264.8	10.2	558.0	91.7	924.7
Carrying amount at 1st April 2008	215.4	10.2	434.9	57.1	717.6

The carrying amount of plant and machinery includes £2.2 million (2009 £2.5 million) in respect of assets held under finance leases.

Compensation received for impaired or lost property, plant and equipment was £ nil (2009 £ nil).

Finance costs capitalised were £1.8 million (2009 £1.6 million) and the capitalisation rate used to determine the amount of finance costs eligible for capitalisation was 5.9% (2009 5.5%).

Of the impairment losses for freehold land and buildings in the year, £7.2 million (2009 £ nil) has been included in major impairment and restructuring charges (note 3). Of the impairment losses for plant and machinery in the year, £2.7 million (2009 £ nil) has been included in administrative expenses and £3.5 million (2009 £ nil) in major impairment and restructuring charges (note 3). The impairment losses included in administrative expenses arose as the assets have become idle and are included in Environmental Technologies' underlying operating profit.

# NOTES ON THE ACCOUNTS

for the year ended 31st March 2010

## 15 Property, plant and equipment (continued)

### 15b Parent company

	Freehold land & buildings £ million	Long & short leasehold £ million	Plant & machinery £ million	Assets in the course of construction £ million	Total £ million
<b>Cost</b>					
At 1st April 2008	92.1	1.6	375.2	12.3	481.2
Additions	7.5	–	35.2	6.6	49.3
Reclassifications	–	–	12.0	(12.0)	–
Disposal of business to subsidiary	(7.7)	–	(55.4)	(5.8)	(68.9)
Disposals	–	–	(9.3)	–	(9.3)
At 31st March 2009	91.9	1.6	357.7	1.1	452.3
Additions	2.3	–	16.0	3.2	21.5
Transfer from assets classified as held for sale	3.0	–	–	–	3.0
Reclassifications	–	–	2.3	(2.3)	–
Disposal of business to subsidiary	(0.3)	–	(4.6)	–	(4.9)
Disposals	(0.5)	(1.4)	(25.2)	–	(27.1)
At 31st March 2010	96.4	0.2	346.2	2.0	444.8
<b>Accumulated depreciation and impairment</b>					
At 1st April 2008	28.1	1.5	168.3	–	197.9
Charge for the year	2.7	–	26.6	–	29.3
Disposal of business to subsidiary	(1.2)	–	(23.2)	–	(24.4)
Disposals	–	–	(8.5)	–	(8.5)
At 31st March 2009	29.6	1.5	163.2	–	194.3
Charge for the year	3.0	–	24.7	–	27.7
Disposal of business to subsidiary	–	–	(1.6)	–	(1.6)
Disposals	(0.2)	(1.4)	(19.3)	–	(20.9)
At 31st March 2010	32.4	0.1	167.0	–	199.5
<b>Carrying amount at 31st March 2010</b>					
	<b>64.0</b>	<b>0.1</b>	<b>179.2</b>	<b>2.0</b>	<b>245.3</b>
Carrying amount at 31st March 2009	62.3	0.1	194.5	1.1	258.0
Carrying amount at 1st April 2008	64.0	0.1	206.9	12.3	283.3

The carrying amount of plant and machinery includes £2.1 million (2009 £2.4 million) in respect of assets held under finance leases.

Finance costs capitalised were £ nil (2009 £0.3 million and the capitalisation rate used to determine the amount of finance costs eligible for capitalisation was 5.5%).

# NOTES ON THE ACCOUNTS

for the year ended 31st March 2010

## 16 Goodwill

	Group £ million	Parent company £ million
<b>Cost</b>		
At 1st April 2008	480.4	249.5
Disposal of business to subsidiary	–	(117.1)
Exchange adjustments	35.6	–
At 31st March 2009	516.0	132.4
Additions, fair value adjustments and adjustments to consideration (note 40)	4.3	–
Disposal of business to subsidiary	–	(21.9)
Exchange adjustments	(6.5)	–
At 31st March 2010	513.8	110.5
<b>Impairment</b>		
At 1st April 2008, 31st March 2009 and 31st March 2010	–	–
<b>Carrying amount at 31st March 2010</b>	<b>513.8</b>	<b>110.5</b>
Carrying amount at 31st March 2009	516.0	132.4
Carrying amount at 1st April 2008	480.4	249.5

On 29th May 2009 the parent company sold the business of Tracerco to its subsidiary, Tracerco Limited.

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	
	2010 £ million	2009 £ million	2010 £ million	2009 £ million
Environmental Technologies				
Emission Control Technologies – Non-light Duty Catalysts	90.4	90.7	–	–
Process Technologies	231.6	231.9	110.5	132.4
Precious Metal Products				
Catalysts and Chemicals	25.6	26.9	–	–
Other	5.8	5.3	–	–
Fine Chemicals				
Macfarlan Smith	117.1	117.1	–	–
Pharmaceutical Materials and Services	21.7	22.8	–	–
Research Chemicals	21.6	21.3	–	–
	<b>513.8</b>	516.0	<b>110.5</b>	132.4

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 except as discussed below. The budgets and plans are based on a number of key assumptions. Assumptions on the likelihood and timing of new product launches are based on management's best estimate of what may happen. Foreign exchange rates are based on actual rates at the time the budgets were prepared and are held constant over the budget and plan years. Other assumptions such as market share, expected changes to 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. 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 adjusted for the estimated tax cash flows and risk applicable to each CGU.

For the Non-light Duty Catalysts CGU five year plans have been approved by management. Over the next decade management expects the markets for heavy duty diesel catalysts and stationary emissions catalysts will grow significantly, based on emission control legislation already in place or anticipated, as described on page 13 of the Business Review. Therefore the cash flow projections have been extrapolated using a long term average growth rate of 20% (2009 3%) for years 6 to 10 and 3% (2009 3%) after that. The discount rate used was 11.3% (2009 12.0%). The impairment test results in headroom of more than 20% over the carrying value of the CGU's net assets and so it is unlikely that a reasonably possible change in a key assumption would result in an impairment of goodwill.

# NOTES ON THE ACCOUNTS

for the year ended 31st March 2010

## 16 Goodwill (continued)

For Process Technologies the long term average growth rate used was 5% (2009 3%) and the discount rate was 10.9% (2009 11.4%). The impairment test results in headroom of 85% and so it is unlikely that a reasonably possible change in a key assumption would result in an impairment of goodwill.

For Macfarlan Smith the long term average growth rate used was 2.5% (2009 2.5%) and the discount rate was 9.0% (2009 10.3%). The impairment test results in headroom of over 70% and so it is unlikely that a reasonably possible change in a key assumption would result in an impairment of goodwill.

For Catalysts and Chemicals the long term average growth rate used was 4% (2009 2%) and the discount rate was 10.9% (2009 11.4%). The impairment test results in headroom of more than 100% and so it is unlikely that a reasonably possible change in a key assumption would result in an impairment of goodwill.

For Pharmaceutical Materials and Services the long term average growth rate used was 4% (2009 2.5%) and the discount rate was 10.9% (2009 11.4%). The resulting headroom exceeds the carrying value of the net assets by 90% and so it is unlikely that a reasonably possible change in a key assumption would result in an impairment of goodwill.

For Research Chemicals the long term average growth rate used was 5% (2009 2.5%) and the discount rate was 9.9% (2009 10.7%). The impairment test results in headroom of more than 100% and so it is unlikely that a reasonably possible change in a key assumption would result in an impairment of goodwill.

## 17 Other intangible assets

### 17a Group

	Customer contracts and relationships £ million	Computer software £ million	Patents, trademarks and licences £ million	Acquired research and technology £ million	Development expenditure £ million	Total £ million
<b>Cost</b>						
At 1st April 2008	44.6	34.0	10.6	17.8	47.9	154.9
Additions	–	6.4	8.0	–	13.1	27.5
Acquisitions (note 40)	0.3	–	–	–	–	0.3
Disposal to subsidiaries classified as held for sale	–	(0.1)	–	–	–	(0.1)
Disposals	–	(0.4)	–	–	–	(0.4)
Exchange adjustments	6.3	5.5	1.5	2.8	11.3	27.4
At 31st March 2009	51.2	45.4	20.1	20.6	72.3	209.6
Additions	–	4.4	0.2	–	14.7	19.3
Acquisitions (note 40)	2.3	–	–	1.7	–	4.0
Disposals	–	(0.5)	(0.3)	–	–	(0.8)
Exchange adjustments	(1.6)	0.1	(0.4)	(0.7)	(1.2)	(3.8)
At 31st March 2010	51.9	49.4	19.6	21.6	85.8	228.3
<b>Accumulated amortisation and impairment</b>						
At 1st April 2008	6.7	24.6	0.7	–	12.6	44.6
Charge for the year	5.5	3.6	3.2	–	7.7	20.0
Disposals	–	(0.1)	–	–	–	(0.1)
Exchange adjustments	1.1	3.9	0.3	–	4.0	9.3
At 31st March 2009	13.3	32.0	4.2	–	24.3	73.8
Charge for the year	7.7	3.9	3.0	–	8.9	23.5
Impairment losses	–	0.6	–	–	–	0.6
Disposals	–	(0.2)	–	–	–	(0.2)
Exchange adjustments	0.8	(0.3)	(1.1)	–	(0.4)	(1.0)
At 31st March 2010	21.8	36.0	6.1	–	32.8	96.7
<b>Carrying amount at 31st March 2010</b>	<b>30.1</b>	<b>13.4</b>	<b>13.5</b>	<b>21.6</b>	<b>53.0</b>	<b>131.6</b>
Carrying amount at 31st March 2009	37.9	13.4	15.9	20.6	48.0	135.8
Carrying amount at 1st April 2008	37.9	9.4	9.9	17.8	35.3	110.3

The carrying amount of development expenditure includes £32.4 million (2009 £34.6 million) which is not yet being amortised as the assets are not yet available for use. The acquired research and technology is not yet being amortised as it is not yet available for use. These assets are tested for impairment annually and no impairment has been found.

The impairment losses for computer software of £0.6 million (2009 £ nil) have been included in major impairment and restructuring charges (note 3).

# NOTES ON THE ACCOUNTS

for the year ended 31st March 2010

## 17 Other intangible assets (continued)

### 17b Parent company

	Computer software £ million	Development expenditure £ million	Total £ million
<b>Cost</b>			
At 1st April 2008	14.3	4.8	19.1
Additions	0.9	1.6	2.5
Disposal of business to subsidiary	(0.6)	–	(0.6)
At 31st March 2009	14.6	6.4	21.0
Additions	0.4	1.6	2.0
Disposal of business to subsidiary	(0.2)	–	(0.2)
Disposals	(0.4)	–	(0.4)
At 31st March 2010	14.4	8.0	22.4
<b>Accumulated amortisation and impairment</b>			
At 1st April 2008	10.7	2.9	13.6
Charge for the year	1.2	0.5	1.7
Disposal of business to subsidiary	(0.6)	–	(0.6)
At 31st March 2009	11.3	3.4	14.7
Charge for the year	1.1	0.6	1.7
Disposal of business to subsidiary	(0.2)	–	(0.2)
Disposals	(0.1)	–	(0.1)
At 31st March 2010	12.1	4.0	16.1
<b>Carrying amount at 31st March 2010</b>	<b>2.3</b>	<b>4.0</b>	<b>6.3</b>
Carrying amount at 31st March 2009	3.3	3.0	6.3
Carrying amount at 1st April 2008	3.6	1.9	5.5

The carrying amount of development expenditure includes £3.1 million (2009 £1.6 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.

## 18 Investments in subsidiaries

	Cost of investments in subsidiaries £ million	Accumulated impairment £ million	Carrying amount £ million
At 1st April 2008	538.0	(149.5)	388.5
Additional shares issued by subsidiary	951.5	–	951.5
Dividends received out of pre-acquisition profits of subsidiary	(2.2)	–	(2.2)
Impairment loss	–	(34.0)	(34.0)
At 31st March 2009	1,487.3	(183.5)	1,303.8
Additional shares issued by subsidiary	216.6	–	216.6
Impairment loss	–	(1.7)	(1.7)
<b>At 31st March 2010</b>	<b>1,703.9</b>	<b>(185.2)</b>	<b>1,518.7</b>

The principal subsidiaries are shown on page 107.

In the year ended 31st March 2010, one of the parent company's subsidiaries paid a dividend and as a consequence the investment was impaired.

# NOTES ON THE ACCOUNTS

for the year ended 31st March 2010

## 19 Investment in associate

	2010 £ million	2009 £ million
At beginning of year	5.8	3.7
Group's share of profit of associate for the year	1.7	2.0
Group's share of associate's cash flow hedging movement	0.2	(0.2)
Dividends paid	(0.6)	–
Dissolution of associate	(5.4)	–
Exchange adjustments	1.7	0.3
At end of year	<b>3.4</b>	5.8

The group's associate is AGR Matthey, which is a partnership operating in Australia in which the group has a 20% interest. An agreement between the partners of AGR Matthey to dissolve the partnership became effective on 29th March 2010. As part of this dissolution the group acquired a metal products business (note 40) and a 20% ownership of a plot of land from AGR Matthey. This dissolution results in a charge of £4.4 million. This charge is excluded from underlying profit before tax.

Some residual current assets and liabilities have been left in the partnership whilst they are converted into cash, at which point they will be distributed to the partners. The group's 20% share of these net assets forms the group's remaining investment in associate.

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

	2010 £ million	2009 £ million
Total assets	42.8	53.5
Total liabilities	(25.8)	(30.6)
Net assets	17.0	22.9
Total revenue	24.6	34.3
Total profit for the year	8.6	10.0

## 20 Non-current available-for-sale investments

	2010 £ million	2009 £ million
Unquoted investments	7.5	6.3

## 21 Inventories

	Group		Parent company	
	2010 £ million	2009 £ million	2010 £ million	2009 £ million
Raw materials and consumables	97.7	96.6	21.5	20.7
Work in progress	115.9	85.3	46.5	54.6
Finished goods and goods for resale	176.5	189.8	33.2	38.7
	<b>390.1</b>	371.7	<b>101.2</b>	114.0

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

## 22 Construction contracts

	2010 £ million	2009 £ million
Contract revenue recognised	49.5	48.5
Contracts in progress at the year end:		
Costs incurred plus recognised profits less recognised losses to date	44.9	48.3
Amount of advances received	36.0	24.1

# NOTES ON THE ACCOUNTS

for the year ended 31st March 2010

## 23 Trade and other receivables

	Group		Parent company	
	2010 £ million	2009 £ million	2010 £ million	2009 £ million
<b>Current</b>				
Trade receivables	542.7	408.2	181.3	160.4
Amounts receivable from construction contract customers	11.5	7.9	–	–
Amounts receivable from subsidiaries	–	–	431.6	591.9
Prepayments and accrued income	27.7	35.5	9.3	11.4
Other receivables	57.4	48.6	15.3	3.4
<b>Current trade and other receivables</b>	<b>639.3</b>	<b>500.2</b>	<b>637.5</b>	<b>767.1</b>
<b>Non-current</b>				
Amounts receivable from subsidiaries	–	–	466.3	315.4
Prepayments and accrued income	2.9	3.0	0.1	–
Other receivables	0.2	2.0	–	–
<b>Non-current trade and other receivables</b>	<b>3.1</b>	<b>5.0</b>	<b>466.4</b>	<b>315.4</b>

## 24 Trade and other payables

	Group		Parent company	
	2010 £ million	2009 £ million	2010 £ million	2009 £ million
<b>Current</b>				
Trade payables	249.7	213.3	105.3	79.2
Amounts payable to construction contract customers	42.4	38.5	–	–
Amounts payable to subsidiaries	–	–	1,138.3	976.9
Accruals and deferred income	191.5	170.7	69.0	48.1
Other payables	43.6	85.6	59.4	187.6
<b>Current trade and other payables</b>	<b>527.2</b>	<b>508.1</b>	<b>1,372.0</b>	<b>1,291.8</b>
<b>Non-current</b>				
Amounts payable to subsidiaries	–	–	–	175.5
Accruals and deferred income	4.1	0.5	–	–
Other payables	1.9	1.8	–	–
<b>Non-current trade and other payables</b>	<b>6.0</b>	<b>2.3</b>	<b>–</b>	<b>175.5</b>

## 25 Assets classified as held for sale

	Group		Parent company	
	2010 £ million	2009 £ million	2010 £ million	2009 £ million
Land at Meir, UK	–	6.0	–	6.0

On 9th January 2008 the parent company agreed to sell some surplus land in Meir, UK subject to the purchaser being granted planning permission. However, this sale has now fallen through. The land has been written down to its recoverable value and transferred back to property, plant and equipment.

# NOTES ON THE ACCOUNTS

for the year ended 31st March 2010

## 26 Net debt

	Group		Parent company	
	2010 £ million	2009 £ million	2010 £ million	2009 £ million
<b>Non-current borrowings and finance leases</b>				
Bank, other loans and related swaps				
5.67% US Dollar Bonds 2016	106.7	117.0	106.7	117.0
4.95% US Dollar Bonds 2015	142.4	153.1	142.4	153.1
4.987% Euro European Investment Bank (EIB) loan 2013	111.6	115.8	111.6	115.8
5.55% US Dollar Bonds 2013	65.9	69.8	65.9	69.8
5.17% Sterling Bonds 2013	40.0	40.0	40.0	40.0
4.935% US Dollar EIB loan 2011	–	69.8	–	69.8
Other repayable from four to five years	–	35.3	–	34.9
Other repayable from three to four years	33.3	0.3	33.0	–
Other repayable from two to three years	0.3	6.3	–	–
Other repayable from one to two years	55.8	18.8	49.8	18.5
Finance leases repayable				
After five years	1.0	1.3	1.0	1.3
From four to five years	0.4	0.3	0.4	0.3
From three to four years	0.3	0.3	0.3	0.3
From two to three years	0.3	0.4	0.3	0.3
From one to two years	0.3	0.3	0.3	0.3
Non-current borrowings and finance leases	<b>558.3</b>	<b>628.8</b>	<b>551.7</b>	<b>621.4</b>
<b>Current borrowings and finance leases</b>				
4.935% US Dollar EIB loan 2011	65.9	–	65.9	–
4.25% US Dollar Bonds 2010	–	20.9	–	20.9
Other bank and other loans	32.6	14.9	18.5	–
Finance leases	0.3	0.3	0.3	0.3
Current borrowings and finance leases excluding bank overdrafts	<b>98.8</b>	<b>36.1</b>	<b>84.7</b>	<b>21.2</b>
Bank overdrafts	14.7	15.4	10.3	38.6
Current borrowings and finance leases	<b>113.5</b>	<b>51.5</b>	<b>95.0</b>	<b>59.8</b>
<b>Total borrowings and finance leases</b>	<b>671.8</b>	<b>680.3</b>	<b>646.7</b>	<b>681.2</b>
Less interest rate swaps designated as fair value hedges	18.5	26.4	18.5	26.4
Less cross currency interest rate swaps designated as cash flow hedges	0.8	4.3	0.8	4.3
Less cash and deposits	179.1	115.2	88.4	33.6
<b>Net debt</b>	<b>473.4</b>	<b>534.4</b>	<b>539.0</b>	<b>616.9</b>

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 had been swapped into sterling at 4.93%. All the 5.67% US Dollar Bonds 2016 have been swapped into floating rate US dollars. The interest rate implicit in the finance leases is 5.9% and the lease term ends in 2017. Apart from the bonds, EIB loans 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.

## 27 Other financial liabilities

	Group		Parent company	
	2010 £ million	2009 £ million	2010 £ million	2009 £ million
Forward foreign exchange contracts and options designated as cash flow hedges	4.7	31.3	5.6	31.8
Forward foreign exchange contracts and currency swaps held for trading	3.3	1.6	3.6	1.9
	<b>8.0</b>	<b>32.9</b>	<b>9.2</b>	<b>33.7</b>

All other financial liabilities are measured at fair value using observable inputs (level 2 inputs per IFRS 7's fair value hierarchy).

# NOTES ON THE ACCOUNTS

for the year ended 31st March 2010

## 28 Other financial assets

	Group		Parent company	
	2010 £ million	2009 £ million	2010 £ million	2009 £ million
Forward foreign exchange contracts and options designated as cash flow hedges	1.4	0.7	3.9	3.1
Forward foreign exchange contracts and currency swaps held for trading	1.9	3.1	3.9	4.4
Foreign exchange swaps designated as hedges of a net investment in foreign operations	2.0	1.2	–	–
Embedded derivatives	1.2	0.7	1.2	0.7
	<b>6.5</b>	<b>5.7</b>	<b>9.0</b>	<b>8.2</b>

Of the other financial assets listed above, all are measured at fair value using observable inputs (level 2 inputs per IFRS 7's fair value hierarchy) except for certain embedded derivatives which are valued based on both observable and unobservable inputs (level 3 inputs).

The reconciliation of other financial assets valued using level 3 inputs is:

	Group £ million	Parent company £ million
At 1st April 2009	0.7	0.7
Gains recognised in the income statement	3.4	3.4
Settlements	(2.9)	(2.9)
<b>At 31st March 2010</b>	<b>1.2</b>	<b>1.2</b>

There were no transfers between the levels of IFRS 7's fair value hierarchy during the year.

## 29 Financial risk management

The group's and parent company's activities expose them to a variety of financial risks including market risk, liquidity risk and credit risk. Market risk includes currency risk, 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. Some derivative financial instruments used to manage financial risk are not designated as hedges and so are classified as 'held for trading'. The group and parent company do not undertake any trading activity in financial instruments.

### 29a Interest rate risk

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 and equity. They manage their risk by reviewing the profile of their debt regularly and by selectively using interest rate and cross currency swaps to maintain borrowings in appropriate currencies and at competitive rates. 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 bonds 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 flow on one of the cross currency swaps occurred in March 2010 when the related bond matured. The remaining cross currency swap's cash flows are expected to occur in 2015 when the bond which it hedges matures. The interest element of the cash flow hedges is realised in the income statement each year and the exchange effect on the matured swap was realised in the income statement in 2010 and the exchange effect on the remaining swap is expected to be realised in the income statement in 2015. At 31st March 2010, 65% (2009 63%) of the group's net debt and 57% (2009 55%) of the parent company's net debt were at fixed rates with an average interest rate of 5.14% (2009 5.13%). The remaining debt is funded on a floating rate basis. Based on the group's net debt funded at floating rates, after taking into account the effect of the swaps, a 1% change in all interest rates would have a £1.7 million (2009 £2.0 million) impact on the group's profit before tax. This is within the range the board regards as acceptable.

### 29b Foreign currency risk

The group operates globally with the majority of its profits earned outside the UK. 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 and Europe by borrowing US dollars and euros respectively. Although much of this funding is obtained by directly borrowing the relevant currency, a part is achieved through currency swaps which can be more efficient and reduce costs and credit exposure. To a lesser extent the group has also financed a portion of its investment in China, Japan and South Africa (2009 Japan) using currency borrowings and swaps. The group has designated the currency swaps and one euro loan (fair value of the loan was £120.3 million) as hedges of net investments in foreign operations (2009 currency swaps, one euro loan and some of the US dollar bonds (fair value of the loan and bonds was £298.5 million)) as they hedge the changes in values of the subsidiaries' net assets against movements in exchange rates.

# NOTES ON THE ACCOUNTS

for the year ended 31st March 2010

## 29 Financial risk management (continued)

### 29b Foreign currency risk (continued)

The main currencies of the net debt after taking into account the effect of the currency swaps were:

	Group		Group		Parent company		Parent company	
	Borrowings 2010 £ million	Borrowings 2009 £ million	Cash 2010 £ million	Cash 2009 £ million	Borrowings 2010 £ million	Borrowings 2009 £ million	Cash 2010 £ million	Cash 2009 £ million
Sterling	411.8	120.6	488.7	184.5	407.1	120.7	476.9	183.6
US dollar	445.4	288.7	215.6	39.2	441.3	285.0	198.9	22.1
Euro	365.4	411.5	33.5	–	358.7	442.1	13.2	–
Japanese yen	41.8	48.4	19.6	–	41.8	50.7	16.7	–
Hong Kong dollar	4.3	–	46.9	56.1	4.3	–	40.6	47.9
Chinese renminbi	42.7	0.8	3.1	6.3	41.5	–	–	–
Canadian dollar	9.6	–	22.5	25.4	10.6	–	20.7	23.3
South African rand	11.8	–	16.0	7.5	11.8	5.9	9.7	–
Indian rupee	7.8	6.4	2.5	0.5	–	–	–	–
Swiss franc	0.9	–	3.1	11.4	0.9	–	1.7	9.4
Other currencies	3.9	4.0	20.5	15.1	2.3	1.6	2.9	2.8
	<b>1,345.4</b>	880.4	<b>872.0</b>	346.0	<b>1,320.3</b>	906.0	<b>781.3</b>	289.1

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 2011.

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% (8.0 cent (2009 8.6 cent)) movement in the average exchange rate for the US dollar against sterling would have had a £2.9 million (2009 £3.2 million) impact on operating profit. The group is also exposed to the euro and a 5% (5.6 cent (2009 6.0 cent)) movement in the average exchange rate for the euro against sterling would have had a £0.9 million (2009 £1.3 million) 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.

For financial instruments the main exposures are to the US dollar and euro and are due to loans, swaps and cash flow hedges on forecast receipts and payments. A 5% (7.6 cent (2009 7.2 cent)) movement in the closing exchange rate for the US dollar against sterling would have had a £6.6 million (2009 £3.7 million) impact on operating profit and a £16.1 million (2009 £19.1 million) impact on equity for these instruments. A 5% (5.6 cent (2009 5.4 cent)) movement in the closing exchange rate for the euro against sterling would have had a £6.8 million (2009 £6.7 million) impact on operating profit and a £21.2 million (2009 £28.8 million) impact on equity for these instruments. However, the impact in operating profit relates primarily to the cash flow hedging instruments hedging the forecast receipts and payments whose cash flows have occurred in the year and so would be offset by similar movements in the hedged items. Similarly, the impact on equity relates primarily to foreign exchange positions used to hedge the subsidiaries' net assets and so would be offset by an equal and opposite movement in the value of the relevant subsidiaries' net assets. The remaining impact on equity of £4.6 million (2009 £6.6 million) for the US dollar and £4.6 million (2009 £8.1 million) for the euro relates to cash flow hedging instruments hedging the forecast receipts and payments whose cash flows have yet to occur.

### 29c Liquidity risk

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. At 31st March 2010 the group and parent company had borrowings under committed bank facilities of £50.0 million (2009 £ nil). The group and parent company also have a number of uncommitted facilities, including metal leases, and overdraft lines at their disposal.

	Group		Parent company	
	2010 £ million	2009 £ million	2010 £ million	2009 £ million
<b>Undrawn committed borrowing facilities</b>				
Expiring within one year	80.0	50.0	80.0	50.0
Expiring in more than one year but not more than two years	90.0	100.0	90.0	100.0
Expiring in more than two years	60.0	165.0	60.0	165.0
	<b>230.0</b>	315.0	<b>230.0</b>	315.0

# NOTES ON THE ACCOUNTS

for the year ended 31st March 2010

## 29 Financial risk management (continued)

### 29c Liquidity risk (continued)

The maturity analyses for financial liabilities showing the remaining contractual undiscounted cash flows, including future interest payments but excluding unamortised transaction costs, were:

<b>Group as at 31st March 2010</b>	<b>Within 1 year £ million</b>	<b>1 to 2 years £ million</b>	<b>2 to 5 years £ million</b>	<b>After 5 years £ million</b>	<b>Total £ million</b>
Bank overdrafts	14.7	–	–	–	14.7
Bank and other loans – principal	98.5	55.9	382.9	98.9	636.2
Bank and other loans – interest payments	28.0	24.5	54.6	11.2	118.3
Finance lease obligations	0.4	0.4	1.4	1.0	3.2
Financial liabilities in trade and other payables	452.9	0.2	0.4	0.3	453.8
<b>Total non-derivative financial liabilities</b>	<b>594.5</b>	<b>81.0</b>	<b>439.3</b>	<b>111.4</b>	<b>1,226.2</b>
Foreign exchange forwards, options and swaps – payments	418.0	4.2	1.6	–	423.8
Foreign exchange forwards, options and swaps – receipts	(409.7)	(4.0)	(1.5)	–	(415.2)
<b>Total derivative financial liabilities</b>	<b>8.3</b>	<b>0.2</b>	<b>0.1</b>	<b>–</b>	<b>8.6</b>
<b>Group as at 31st March 2009</b>	<b>Within 1 year £ million</b>	<b>1 to 2 years £ million</b>	<b>2 to 5 years £ million</b>	<b>After 5 years £ million</b>	<b>Total £ million</b>
Bank overdrafts	15.4	–	–	–	15.4
Bank and other loans – principal	35.8	88.6	267.5	244.4	636.3
Bank and other loans – interest payments	29.8	28.3	69.5	24.7	152.3
Finance lease obligations	0.5	0.4	1.3	1.5	3.7
Financial liabilities in trade and other payables	337.4	–	–	–	337.4
Foreign exchange forwards, options and swaps – payments	1,251.8	27.8	–	–	1,279.6
Foreign exchange forwards, options and swaps – receipts	(1,190.5)	(27.8)	–	–	(1,218.3)
<b>Total non-derivative financial liabilities</b>	<b>480.2</b>	<b>117.3</b>	<b>338.3</b>	<b>270.6</b>	<b>1,206.4</b>
<b>Parent company as at 31st March 2010</b>	<b>Within 1 year £ million</b>	<b>1 to 2 years £ million</b>	<b>2 to 5 years £ million</b>	<b>After 5 years £ million</b>	<b>Total £ million</b>
Bank overdrafts	10.3	–	–	–	10.3
Bank and other loans – principal	84.4	50.0	382.3	98.9	615.6
Bank and other loans – interest payments	27.9	24.5	54.6	11.2	118.2
Finance lease obligations	0.4	0.4	1.4	1.0	3.2
Financial liabilities in trade and other payables	1,352.9	–	–	–	1,352.9
<b>Total non-derivative financial liabilities</b>	<b>1,475.9</b>	<b>74.9</b>	<b>438.3</b>	<b>111.1</b>	<b>2,100.2</b>
Foreign exchange forwards, options and swaps – payments	493.3	4.8	1.6	–	499.7
Foreign exchange forwards, options and swaps – receipts	(482.8)	(4.6)	(1.5)	–	(488.9)
<b>Total derivative financial liabilities</b>	<b>10.5</b>	<b>0.2</b>	<b>0.1</b>	<b>–</b>	<b>10.8</b>
<b>Parent company as at 31st March 2009</b>	<b>Within 1 year £ million</b>	<b>1 to 2 years £ million</b>	<b>2 to 5 years £ million</b>	<b>After 5 years £ million</b>	<b>Total £ million</b>
Bank overdrafts	38.6	–	–	–	38.6
Bank and other loans – principal	20.9	88.3	260.5	244.2	613.9
Bank and other loans – interest payments	29.7	28.3	69.5	24.7	152.2
Finance lease obligations	0.4	0.4	1.3	1.5	3.6
Financial liabilities in trade and other payables	1,246.8	3.1	9.3	208.2	1,467.4
Foreign exchange forwards, options and swaps – payments	1,137.4	27.8	–	–	1,165.2
Foreign exchange forwards, options and swaps – receipts	(1,077.9)	(27.8)	–	–	(1,105.7)
<b>Total non-derivative financial liabilities</b>	<b>1,395.9</b>	<b>120.1</b>	<b>340.6</b>	<b>478.6</b>	<b>2,335.2</b>

The group and parent company have hedged some of the future interest payments on bank and other loans with interest rate swaps. At 31st March 2010 these were financial assets with maturities of £9.1 million (2009 £6.1 million) within one year, £9.1 million (2009 £6.1 million) between one to two years, £27.3 million (2009 £18.4 million) between two to five years and £9.6 million (2009 £12.3 million) after five years.

# NOTES ON THE ACCOUNTS

for the year ended 31st March 2010

## 29 Financial risk management (continued)

### 29d Credit risk

Within certain businesses, 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 overdue within the group and the relevant actions being taken. At 31st March 2010 trade receivables for the group amounted to £542.7 million (2009 £408.2 million) (parent company £181.3 million (2009 £160.4 million)). £352.8 million (2009 £224.8 million) of these receivables at group level (£130.0 million (2009 £106.1 million) at parent company level) arose in Emission Control Technologies (ECT) which is part of Environmental Technologies Division and mainly supplies the automotive industry including car and truck manufacturers and component suppliers. Although ECT has a wide spread of the available customers the concentrated nature of this industry means that amounts owed by individual customers can be large. Other parts of the group tend to sell to a larger number of customers and amounts owed tend to be lower. As at 31st March 2010 (and at 31st March 2009) for the group as a whole, no single outstanding balance exceeded 1% of the group's revenue. No assets have been taken possession of as collateral.

The credit profiles of the group's and parent company's customers are obtained from credit rating agencies and closely monitored. The scope of these reviews includes amounts overdue and credit limits. Generally, payments in the automotive industry and in the other markets in which the group operates are made promptly.

Trade receivables are considered impaired when the amount is in dispute, customers are in financial difficulty or for other reasons which imply there is doubt over the recoverability of the debt. Trade receivables can be analysed as:

	Group		Parent company	
	2010 £ million	2009 £ million	2010 £ million	2009 £ million
Amounts neither past due nor impaired	<b>476.5</b>	333.3	<b>165.2</b>	143.7
Amounts past due but not impaired				
less than 30 days	<b>47.7</b>	52.7	<b>13.6</b>	14.3
30 – 90 days	<b>13.6</b>	12.8	<b>3.2</b>	2.9
more than 90 days	<b>5.3</b>	8.2	<b>0.4</b>	0.1
Total past due but not impaired	<b>66.6</b>	73.7	<b>17.2</b>	17.3
Amounts impaired	<b>7.1</b>	12.2	<b>1.7</b>	2.8
Specific allowances for bad and doubtful debts	<b>(5.5)</b>	(9.2)	<b>(0.9)</b>	(2.2)
Carrying amount of impaired receivables	<b>1.6</b>	3.0	<b>0.8</b>	0.6
General allowances for bad and doubtful debts	<b>(2.0)</b>	(1.8)	<b>(1.9)</b>	(1.2)
Trade receivables net of allowances	<b>542.7</b>	408.2	<b>181.3</b>	160.4

Movements in the allowances for impairments were:

	Group		Parent company	
	2010 £ million	2009 £ million	2010 £ million	2009 £ million
At beginning of year	<b>11.0</b>	6.2	<b>3.4</b>	1.3
Charge for year	<b>3.4</b>	5.3	<b>0.9</b>	2.7
Release	<b>(3.0)</b>	(0.7)	<b>(0.5)</b>	(0.1)
Utilised	<b>(3.5)</b>	(1.3)	<b>(1.0)</b>	(0.3)
Disposal of business to subsidiary	–	–	–	(0.2)
Exchange adjustments	<b>(0.4)</b>	1.5	–	–
<b>At end of year</b>	<b>7.5</b>	11.0	<b>2.8</b>	3.4

Financial assets included in sundry receivables are all current and not impaired.

The credit risk on cash and deposits and derivative financial instruments is limited because the counterparties with significant balances are banks with high credit ratings. The exposure to individual banks is monitored frequently against internally defined limits together with the bank's credit ratings and credit default swap prices. As at 31st March 2010, the maximum exposure with a single bank for deposits was £27.0 million (2009 £18.9 million) for the group and £15.2 million (2009 £9.8 million) for the parent company, whilst the largest mark to market exposure for derivative financial instruments to a single bank was £9.9 million (2009 £16.5 million) for the group and parent company. The group and parent company also use money market funds to invest surplus cash thereby further diversifying credit risk and at 31st March 2010 the group's and parent company's exposure to these funds was £40.0 million (2009 £ nil). The amounts on deposit at the year end represent the group's and parent company's maximum exposure to credit risk on cash and deposits.

The group guarantees its share of the borrowings and precious metal leases of its associate and its exposure at 31st March 2010 was £ nil (2009 £ nil). 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 2010 was £16.2 million (2009 £20.9 million).

# NOTES ON THE ACCOUNTS

for the year ended 31st March 2010

## 29 Financial risk management (continued)

### 29e Fair value of financial instruments

The fair value of financial instruments is approximately equal to book value except for:

Group	2010		2009	
	Carrying amount £ million	Fair value £ million	Carrying amount £ million	Fair value £ million
US Dollar Bonds 2010, 2013, 2015 and 2016	(315.0)	(316.7)	(360.8)	(315.9)
US Dollar EIB loan 2011	(65.9)	(67.8)	(69.8)	(69.7)
Euro EIB loan 2013	(111.6)	(120.3)	(115.8)	(109.3)
Sterling Bonds 2013	(40.0)	(42.5)	(40.0)	(37.8)

  

Parent company	2010		2009	
	Carrying amount £ million	Fair value £ million	Carrying amount £ million	Fair value £ million
Amounts receivable from subsidiaries	897.9	895.0	907.3	929.4
US Dollar Bonds 2010, 2013, 2015 and 2016	(315.0)	(316.7)	(360.8)	(315.9)
US Dollar EIB loan 2011	(65.9)	(67.8)	(69.8)	(69.7)
Euro EIB loan 2013	(111.6)	(120.3)	(115.8)	(109.3)
Sterling Bonds 2013	(40.0)	(42.5)	(40.0)	(37.8)

The fair values are calculated by discounting future cash flows to net present values using appropriate market interest rates prevailing at the year end. It is not possible to determine reliably the fair value of the group's unquoted available-for-sale investments which have a book value of £7.5 million (2009 £6.3 million) as there is no active market. These are investments in a company that is in the start up phase and in an investment vehicle that invests in start up companies and so there is a wide range of possible values. Given their size it would be overly onerous to provide additional detail.

### 29f Capital management

The group's policy for managing capital is to maintain an efficient balance sheet to ensure that the group always has sufficient resources to be able to invest in future growth. The group has a long term target of net debt (including post tax pension deficits) to EBITDA of between 1.5 and 2.0 times although in any given year it may fall outside this range depending on future plans. See the section on capital structure in the Financial Review on page 22 for more information.

	Group		Parent company	
	2010 £ million	2009 £ million	2010 £ million	2009 £ million
Net debt	473.4	534.4	539.0	616.9
Equity	1,250.8	1,176.1	1,025.6	772.8
Capital employed	1,724.2	1,710.5	1,564.6	1,389.7
EBITDA	382.7	398.1		
Net debt (including post tax pension deficits) to EBITDA	1.6 times	1.5 times		

In prior years the group's long term target was for gearing (net debt / equity) to be between 50% and 60%.

# NOTES ON THE ACCOUNTS

for the year ended 31st March 2010

## 30 Provisions and contingent liabilities

### 30a Group

	Restructuring provisions £ million	Warranty & technology provisions £ million	Other provisions £ million	Total £ million
At 1st April 2009	5.5	11.9	5.7	23.1
Charge for year	0.6	9.5	3.5	13.6
Utilised	(3.5)	(0.8)	(0.8)	(5.1)
Released	(0.3)	(3.1)	–	(3.4)
Unwinding of discount	–	–	0.3	0.3
Exchange adjustments	(0.1)	0.1	(0.2)	(0.2)
<b>At 31st March 2010</b>	<b>2.2</b>	<b>17.6</b>	<b>8.5</b>	<b>28.3</b>
			<b>2010 £ million</b>	<b>2009 £ million</b>
Current			<b>8.7</b>	8.8
Non-current			<b>19.6</b>	14.3
<b>Total provisions</b>			<b>28.3</b>	23.1

The restructuring provisions relate to Environmental Technologies Division and Fine Chemicals Division and are expected to be fully spent in 2010/11.

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 Environmental Technologies Division. Warranties generally cover a period of up to three years.

The other provisions include environmental, onerous leases and legal 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.

Details of guarantees given by the group are disclosed in note 29d.

### 30b Parent company

	Restructuring provisions £ million	Warranty provisions £ million	Other provisions £ million	Total £ million
At 1st April 2009	1.9	0.1	6.8	8.8
Charge for year	0.1	–	2.8	2.9
Utilised	(1.4)	–	–	(1.4)
Released	(0.3)	–	(0.1)	(0.4)
<b>At 31st March 2010</b>	<b>0.3</b>	<b>0.1</b>	<b>9.5</b>	<b>9.9</b>
			<b>2010 £ million</b>	<b>2009 £ million</b>
Current			<b>0.4</b>	2.2
Non-current			<b>9.5</b>	6.6
<b>Total provisions</b>			<b>9.9</b>	8.8

The restructuring provisions relate to Environmental Technologies Division and are expected to be fully spent in 2010/11.

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

The other provisions include onerous leases and legal 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.

Details of guarantees given by the parent company are disclosed in note 29d.

# NOTES ON THE ACCOUNTS

for the year ended 31st March 2010

## 31 Deferred taxation

### 31a Group

	Property, plant & equipment £ million	Post- employment benefits £ million	Translation differences on foreign currency loans £ million	Inventories £ million	Other £ million	Total deferred tax (assets) / liabilities £ million
At 1st April 2008	66.8	7.2	(21.8)	(61.3)	35.9	26.8
Charge / (credit) to income	0.6	2.9	(6.5)	32.0	3.0	32.0
Tax on items taken directly to or transferred from equity	–	(47.7)	20.1	–	7.1	(20.5)
Exchange adjustments	11.2	(6.7)	0.6	(1.8)	1.2	4.5
At 31st March 2009	78.6	(44.3)	(7.6)	(31.1)	47.2	42.8
(Credit) / charge to income	(13.1)	10.8	7.1	(15.1)	(2.2)	(12.5)
Acquisitions (note 40)	–	–	–	–	0.2	0.2
Tax on items taken directly to or transferred from equity	–	(33.4)	0.9	–	1.7	(30.8)
Exchange adjustments	(1.2)	2.3	0.3	0.4	(2.1)	(0.3)
<b>At 31st March 2010</b>	<b>64.3</b>	<b>(64.6)</b>	<b>0.7</b>	<b>(45.8)</b>	<b>44.8</b>	<b>(0.6)</b>
					<b>2010 £ million</b>	<b>2009 £ million</b>
Deferred tax assets					<b>(57.1)</b>	(27.5)
Deferred tax liabilities					<b>56.5</b>	70.3
					<b>(0.6)</b>	42.8

Deductible temporary differences, unused tax losses and unused tax credits not recognised on the balance sheet are £72.1 million (2009 £99.7 million).

Deferred tax liabilities have not been recognised on temporary differences of £546.3 million (2009 £731.2 million) associated with investments in subsidiaries and associates, other than in the case of the group's Hong Kong trading subsidiary and the group's captive insurance company where cumulative deferred tax of £1.0 million (2009 £1.6 million) has been provided on phased remittances.

### 31b Parent company

	Property, plant & equipment £ million	Post- employment benefits £ million	Translation differences on foreign currency loans £ million	Inventories £ million	Other £ million	Total deferred tax (assets) / liabilities £ million
At 1st April 2008	31.7	18.1	(10.8)	(55.5)	1.5	(15.0)
Charge / (credit) to income	0.8	3.0	11.2	32.4	(12.5)	34.9
Disposal of business to subsidiary	(6.1)	–	0.1	–	0.1	(5.9)
Tax on items taken directly to or transferred from equity	–	(33.8)	(5.5)	–	7.1	(32.2)
At 31st March 2009	26.4	(12.7)	(5.0)	(23.1)	(3.8)	(18.2)
(Credit) / charge to income	(2.1)	2.4	–	(14.8)	10.0	(4.5)
Disposal of business to subsidiary	(0.2)	–	–	–	–	(0.2)
Tax on items taken directly to or transferred from equity	–	(33.6)	5.4	–	2.0	(26.2)
<b>At 31st March 2010</b>	<b>24.1</b>	<b>(43.9)</b>	<b>0.4</b>	<b>(37.9)</b>	<b>8.2</b>	<b>(49.1)</b>

Deductible temporary differences, unused tax losses and unused tax credits not recognised on the balance sheet are £4.0 million (2009 £4.6 million).

# NOTES ON THE ACCOUNTS

for the year ended 31st March 2010

## 32 Share capital

	Number	Authorised £ million	Number	Issued and fully paid £ million
<b>Ordinary shares of £1 each</b>				
At 1st April 2008 and 31st March 2009	291,550,000	291.6	220,673,613	220.7
Increase in authorised share capital	73,450,000	73.4	–	–
<b>At 31st March 2010</b>	<b>365,000,000</b>	<b>365.0</b>	<b>220,673,613</b>	<b>220.7</b>

Details of outstanding share options and allocations under the company's long term incentive plan which have yet to mature are disclosed in note 13.

At the last annual general meeting on 21st July 2009 shareholders approved a resolution for the company to make purchases of its own shares up to a maximum number of 21,467,573 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 and parent company's employee share ownership trust (ESOT) also buys shares on the open market and holds them in trust for employees participating in the group's executive share option schemes and long term incentive plan. At 31st March 2010 the ESOT held 1,736,275 shares (2009 3,689,274 shares) which had not yet vested unconditionally in employees. Computershare Trustees (CI) Limited, as trustee for the ESOT, has waived its dividend entitlement.

The total number of treasury shares held was 5,997,877 (2009 5,997,877) at a total cost of £91.7 million (2009 £91.7 million).

## 33 Components of other comprehensive income

	2010 £ million	2009 £ million
Cash flow hedges:		
Gains / (losses) taken to equity	12.7	(44.8)
Transferred to income statement	14.3	24.9
	<b>27.0</b>	<b>(19.9)</b>
Currency translation differences:		
Taken to equity	(5.7)	192.4
Transferred to profit on sale of discontinued operations	–	(2.4)
	<b>(5.7)</b>	<b>190.0</b>

## 34 Tax effects relating to other comprehensive income

	Before tax £ million	2010 Tax £ million	Net of tax £ million	Before tax £ million	2009 Tax £ million	Net of tax £ million
Currency translation differences	(5.7)	17.2	11.5	190.0	(29.9)	160.1
Cash flow hedges	27.0	(7.3)	19.7	(19.9)	5.5	(14.4)
Fair value gains / (losses) on net investment hedges	32.8	(9.2)	23.6	(146.9)	41.1	(105.8)
Actuarial loss on post-employment benefits assets and liabilities	(124.6)	33.4	(91.2)	(156.7)	47.6	(109.1)
Share of other comprehensive income of associate	0.2	–	0.2	(0.2)	–	(0.2)
<b>Total other comprehensive (expense) / income</b>	<b>(70.3)</b>	<b>34.1</b>	<b>(36.2)</b>	<b>(133.7)</b>	<b>64.3</b>	<b>(69.4)</b>

# NOTES ON THE ACCOUNTS

for the year ended 31st March 2010

## 35 Other reserves

### 35a Group

	Capital redemption reserve £ million	Foreign currency translation £ million	Hedging reserve £ million	Total other reserves £ million
At 1st April 2008	6.5	(18.7)	(8.4)	(20.6)
Cash flow hedges:				
Losses taken to equity	–	–	(44.8)	(44.8)
Transferred to income statement	–	–	24.9	24.9
Of associate	–	–	(0.2)	(0.2)
Fair value losses on net investment hedges	–	(146.9)	–	(146.9)
Currency translation differences on foreign currency net investments and related loans	–	191.8	–	191.8
Currency translation differences transferred to profit on sale of discontinued operations	–	(2.4)	–	(2.4)
Tax on items taken directly to or transferred from equity	–	11.2	5.5	16.7
<b>At 31st March 2009</b>	<b>6.5</b>	<b>35.0</b>	<b>(23.0)</b>	<b>18.5</b>
Cash flow hedges:				
Gains taken to equity	–	–	12.7	12.7
Transferred to income statement	–	–	14.3	14.3
Of associate	–	–	0.2	0.2
Fair value gains on net investment hedges	–	32.8	–	32.8
Currency translation differences on foreign currency net investments and related loans	–	(5.8)	–	(5.8)
Tax on items taken directly to or transferred from equity	–	8.0	(7.3)	0.7
<b>At 31st March 2010</b>	<b>6.5</b>	<b>70.0</b>	<b>(3.1)</b>	<b>73.4</b>

### 35b Parent company

	Capital redemption reserve £ million	Foreign currency translation £ million	Hedging reserve £ million	Total other reserves £ million
At 1st April 2008	6.5	1.1	(8.0)	(0.4)
Cash flow hedges:				
Losses taken to equity	–	–	(46.0)	(46.0)
Transferred to income statement	–	–	27.4	27.4
Disposal of business to subsidiary	–	–	0.6	0.6
Currency translation differences on foreign operations	–	(6.6)	–	(6.6)
Tax on items taken directly to or transferred from equity	–	–	5.5	5.5
<b>At 31st March 2009</b>	<b>6.5</b>	<b>(5.5)</b>	<b>(20.5)</b>	<b>(19.5)</b>
Cash flow hedges:				
Gains taken to equity	–	–	11.9	11.9
Transferred to income statement	–	–	14.5	14.5
Disposal of business to subsidiary	–	–	0.2	0.2
Currency translation differences on foreign operations	–	0.5	–	0.5
Tax on items taken directly to or transferred from equity	–	–	(7.4)	(7.4)
<b>At 31st March 2010</b>	<b>6.5</b>	<b>(5.0)</b>	<b>(1.3)</b>	<b>0.2</b>

# NOTES ON THE ACCOUNTS

for the year ended 31st March 2010

## 36 Gross cash flows

### 36a Purchases of non-current assets and investments

	Group		Parent company	
	2010 £ million	2009 £ million	2010 £ million	2009 £ million
Purchases of property, plant and equipment	111.1	180.7	21.1	50.9
Purchases of intangible assets	19.4	27.5	2.1	2.5
Purchase of additional shares issued by subsidiary	–	–	216.6	951.5
Purchases of available-for-sale investments	1.3	1.1	–	–
	<b>131.8</b>	<b>209.3</b>	<b>239.8</b>	<b>1,004.9</b>

### 36b Purchases of businesses and minority interests

	Group		Parent company	
	2010 £ million	2009 £ million	2010 £ million	2009 £ million
Purchase of businesses (note 40)	7.3	3.0	–	–
Cash acquired with businesses	(1.6)	–	–	–
Purchase of minority interest	–	5.2	–	–
	<b>5.7</b>	<b>8.2</b>	<b>–</b>	<b>–</b>

### 36c Net proceeds from sale of businesses and minority interests

	Group		Parent company	
	2010 £ million	2009 £ million	2010 £ million	2009 £ million
Disposal of Insulators and Alumina businesses (note 41)	–	17.8	–	–
Disposal of Ceramics (note 41)	–	(0.2)	–	(0.2)
Disposal of business to subsidiary (note 16)	–	–	56.6	193.5
Cash disposed of with business	–	–	(0.3)	(14.9)
Disposal of subsidiary to subsidiary	–	–	–	9.2
	<b>–</b>	<b>17.6</b>	<b>56.3</b>	<b>187.6</b>

### 36d Net proceeds on ESOT transactions in own shares

	Group		Parent company	
	2010 £ million	2009 £ million	2010 £ million	2009 £ million
Purchase of own shares by ESOT	–	(2.6)	–	(2.6)
Release of own shares by ESOT	18.4	3.4	18.4	3.4
	<b>18.4</b>	<b>0.8</b>	<b>18.4</b>	<b>0.8</b>

### 36e Proceeds from / (repayment of) borrowings and finance leases

	Group		Parent company	
	2010 £ million	2009 £ million	2010 £ million	2009 £ million
Proceeds from borrowings falling due within one year	2.8	4.7	–	–
Repayment of borrowings falling due within one year	(22.4)	(48.2)	(17.9)	(15.3)
Proceeds from borrowings falling due after more than one year	50.0	103.8	50.0	103.8
Repayment of borrowings falling due after more than one year	–	(108.6)	–	(95.9)
Capital element of finance lease rental payments	(0.3)	(0.3)	(0.2)	(0.3)
	<b>30.1</b>	<b>(48.6)</b>	<b>31.9</b>	<b>(7.7)</b>

# NOTES ON THE ACCOUNTS

for the year ended 31st March 2010

## 37 Cash and cash equivalents

	Group		Parent company	
	2010 £ million	2009 £ million	2010 £ million	2009 £ million
Cash and deposits	179.1	115.2	88.4	33.6
Bank overdrafts	(14.7)	(15.4)	(10.3)	(38.6)
<b>Cash and cash equivalents</b>	<b>164.4</b>	<b>99.8</b>	<b>78.1</b>	<b>(5.0)</b>

## 38 Precious metal operating leases

The group leases, rather than purchases, precious metals to fund temporary peaks in metal requirements provided market conditions allow. These leases are 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 2010 precious metal leases were £55.8 million (2009 £68.2 million).

## 39 Commitments

	Group		Parent company	
	2010 £ million	2009 £ million	2010 £ million	2009 £ million
Future capital expenditure contracted but not provided	9.4	11.2	0.8	4.6
Future minimum amounts payable under non-cancellable operating leases				
Within one year	11.1	11.7	1.9	1.7
From one to five years	22.4	21.3	4.5	4.5
After five years	25.8	26.8	6.5	7.2
	<b>59.3</b>	<b>59.8</b>	<b>12.9</b>	<b>13.4</b>
Future minimum sublease payments expected to be received under non-cancellable operating leases	(0.5)	–	–	–
Future minimum amounts payable under finance leases				
Within one year	0.4	0.5	0.4	0.4
From one to five years	1.8	1.7	1.8	1.7
After five years	1.0	1.5	1.0	1.5
	<b>3.2</b>	<b>3.7</b>	<b>3.2</b>	<b>3.6</b>
Less future finance charges	(0.6)	(0.8)	(0.6)	(0.8)
Present value of finance lease obligations	<b>2.6</b>	<b>2.9</b>	<b>2.6</b>	<b>2.8</b>

The group and parent company lease some of its property, plant and equipment which are used by the group and parent company in their operations, except for leases of some property which the group and parent company no longer use which are now sublet.

## 40 Acquisitions

If all the acquisitions had been completed on 1st April 2009 the revenue for the group would have been £7,856.6 million and its profit for the year £165.2 million. The total purchase consideration was £12.0 million with costs incurred of £0.1 million and the total intangible assets acquired were £4.0 million, property, plant and equipment £1.8 million, inventories £0.9 million, receivables £6.4 million, payables £6.2 million, current tax liabilities £0.1 million and deferred tax liabilities £0.2 million.

### Process Vision SPRL

On 7th May 2009 the group acquired Process Vision Services SPRL for £1.6 million, with £0.9 million paid on acquisition and a third of the balance due in one year, a third in two years and a third in three years. The fair value of the assets acquired was £1.2 million, consisting of £0.5 million for customer contracts and relationships, £0.3 million for receivables, £0.6 million for cash, £0.1 million for current tax liabilities and £0.1 million for trade and other payables. This results in goodwill of £0.4 million. Since acquisition it has contributed £ nil to the group's profit for the year and its results are included in Environmental Technologies.

### Alfa Aesar Synmax (HK) Ltd

During the year the group acquired 51% of Alfa Aesar Synmax (HK) Ltd, a Hong Kong holding company for a research chemicals manufacturing company in China which became operational in March 2010, for £0.9 million. The group controls the holding company and so it is accounted for as a subsidiary. The fair value of the assets acquired was £1.0 million of cash. The minority interest was £0.4 million, resulting in goodwill of £0.3 million. Since acquisition it has contributed £ nil to the group's profit for the year and its results are included in Fine Chemicals.

# NOTES ON THE ACCOUNTS

for the year ended 31st March 2010

## 40 Acquisitions (continued)

### Applied Utility Systems Inc.'s business

On 1st October 2009 the group acquired Applied Utility Systems Inc.'s business from Catalytic Solutions Inc. Since acquisition it has contributed a £0.2 million loss to the group's profit for the year and its results are included in Environmental Technologies.

The net assets 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	0.1	–	0.1
Intangible assets – customer contracts and relationships	–	1.1	1.1
Intangible assets – research and technology	–	1.7	1.7
Trade and other receivables	6.1	–	6.1
Trade and other payables	(5.9)	–	(5.9)
Total net assets acquired	0.3	2.8	3.1
Goodwill on acquisition			2.9
			6.0

Satisfied by:

	£ million
Purchase consideration – cash	5.4
Purchase consideration – deferred	0.5
Costs incurred	0.1
	6.0

### Australian metal products business

On 29th March 2010 the group acquired AGR Matthey's metal products business as part of the dissolution of the AGR Matthey partnership (note 19). Since it was acquired close to the end of the year, its contribution to the group's profit for the year was £ nil. It is included in Precious Metal Products.

The net assets 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	1.7	–	1.7
Intangible assets – customer contracts and relationships	–	0.7	0.7
Inventories	0.9	–	0.9
Trade and other payables	(0.2)	–	(0.2)
Deferred income tax liabilities	–	(0.2)	(0.2)
Total net assets acquired	2.4	0.5	2.9
Goodwill on acquisition			0.7
			3.6

Satisfied by:

	£ million
Fair value of deemed purchase consideration	2.9
Purchase consideration – outstanding	0.7
	3.6

### BASF automotive and silver paste business acquired in the year ended 31st March 2009

On 12th March 2009 the group acquired BASF's automotive enamel and silver paste business for £1.4 million. The fair value of the assets acquired were £0.3 million for customer relationships, £0.5 million for plant and machinery and £0.6 million for inventory. Since it was acquired close to the end of the year, its contribution to the group's profit for the year ended 31st March 2009 was £ nil. It is included in Precious Metal Products.

### Alfa Aesar China Limited's minority interest acquired in the year ended 31st March 2009

On 2nd March 2009 the group acquired the 49% of Alfa Aesar China Limited it did not already own for £5.2 million. This has been accounted for as an equity transaction.

# NOTES ON THE ACCOUNTS

for the year ended 31st March 2010

## 41 Discontinued operations

The results of the discontinued operations included in the consolidated income statement were:

	2010 £ million	2009 £ million
Profit of the Insulators and Alumina businesses	–	0.9
Costs accrued on disposal of Ceramics Division	–	0.3
Profit for the year from discontinued operations	–	1.2

On 26th November 2008 the group sold its non-core Insulators and Alumina businesses, that it acquired as part of the Argillon Group in February 2008, to Lapp Insulator GmbH & Co. These businesses had been classified as held for sale since acquisition. The proceeds received were £20.1 million in cash and a £1.7 million loan note. Costs incurred were £2.3 million.

On 28th February 2007 the group sold its Ceramics Division and costs were accrued at that time. £0.2 million of those costs were paid in the year ended 31st March 2009 and a further £0.3 million will not be incurred and so the accrual for these has been released.

## 42 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 associate, as described in note 19, is a related party. Guarantees of subsidiaries' and associate's borrowings are disclosed in note 29d.

	Group		Parent company	
	2010 £ million	2009 £ million	2010 £ million	2009 £ million
<b>Trading transactions with associate</b>				
Sale of goods	–	0.1	–	0.1
Amounts payable to associate	0.7	–	–	–
<b>Trading transactions with subsidiaries</b>				
Sale of goods	–	–	1,541.0	1,672.1
Purchases of goods	–	–	217.2	290.7
Income from service charges	–	–	13.1	1.9
Amounts receivable from subsidiaries	–	–	94.7	105.7
Amounts payable to subsidiaries	–	–	14.8	24.5
Loans to subsidiaries	–	–	803.2	801.6
Loans from subsidiaries	–	–	1,123.5	1,127.9

As well as the above trading transactions with AGR Matthey other transactions as described in note 19 took place on 29th March 2010.

The group's post-employment benefits plans are related parties and the group's and parent company's transactions with them are disclosed in notes 14a and 14b respectively.

The transactions with key management personnel are described in note 12c.

## 43 Post balance sheet events

On 27th May 2010 the group and parent company entered into consultation with employees of its Vertec business to look at the future options for that business. If no viable options are forthcoming, it is currently estimated that the cost of closing the business would be between £10 million and £15 million.

# NOTES ON THE ACCOUNTS

for the year ended 31st March 2010

## 44 Key sources of estimation uncertainty

Determining the carrying amounts of some assets and liabilities requires estimation of the effects of uncertain future events on those assets and liabilities at the balance sheet date. The group and parent company have made appropriate estimates when applying the accounting policies, but the actual outcome may differ from those calculated.

The key sources of estimation uncertainty at the balance sheet date which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are:

### Post-employment benefits

The group's and parent company's defined benefit plans are assessed annually by qualified independent actuaries. The details of the plans and assumptions used are described in note 14.

### Goodwill

The group has capitalised goodwill of £513.8 million and the parent company has £110.5 million. Annual impairment reviews are performed which require various assumptions. More details are given in note 16.

### Other intangible assets

Other intangible assets which are not yet being amortised (note 17) are also subject to annual impairment reviews based on discounted cash flow projections. No impairment has been found.

### Provisions and contingent liabilities

As described in note 30 and the accounting policies, the group and parent company measure provisions and contingent liabilities at management's best estimate of the expenditure required to settle the obligations at the balance sheet date.

### Taxation

The tax payable on profits is determined based on tax laws and regulations that apply in each of the numerous jurisdictions in which the group operates. Where the precise impact of these laws and regulations is unclear then reasonable estimates may be used to determine the tax charge included in the accounts. If the tax eventually payable or reclaimable differs from the amounts originally estimated then the difference will be charged or credited in the accounts for the year in which it is determined.

# PRINCIPAL SUBSIDIARIES AND ASSOCIATE

	Country of incorporation		Country of incorporation
<b>Europe</b>			
S.A. Johnson Matthey N.V.	Belgium		
+ Avocado Research Chemicals Limited	England		
+ Davy Process Technology Limited	England		
+ Johnson Matthey Fuel Cells Limited (82.5%)	England		
+ Tracerco Limited	England		
Johnson Matthey SAS	France		
Alfa Aesar GmbH & Co KG	Germany		
Johnson Matthey Catalysts (Germany) GmbH	Germany		
Johnson Matthey GmbH	Germany		
Johnson Matthey BV	Netherlands		
Macfarlan Smith Limited	Scotland		
Johnson Matthey AB	Sweden		
Johnson Matthey & Brandenberger AG	Switzerland		
<b>North America</b>			
The Argent Insurance Co. Limited	Bermuda		
Johnson Matthey Limited	Canada		
Johnson Matthey de Mexico, S.A. de C.V.	Mexico		
Johnson Matthey Inc.	USA		
Johnson Matthey Catalog Company Inc.	USA		
Johnson Matthey Fuel Cells, Inc. (82.5%)	USA		
Johnson Matthey Pharmaceutical Materials, Inc.	USA		
<b>Asia</b>			
		Johnson Matthey (Shanghai) Chemicals Limited	China
		Johnson Matthey Hong Kong Limited	Hong Kong
		Johnson Matthey India Private Limited	India
		Johnson Matthey Chemicals India Private Limited	India
		Johnson Matthey Japan, Inc.	USA
		+ Johnson Matthey Sdn. Bhd. (92%)	Malaysia
		Johnson Matthey Catalysts Korea Limited	South Korea
<b>Africa</b>			
		Johnson Matthey (Pty) Limited	South Africa
<b>Australasia</b>			
		* AGR Matthey (20%)	Australia
		Johnson Matthey (Aust) Ltd	Australia
<b>South America</b>			
		+ Johnson Matthey Argentina S.A.	Argentina

Except where otherwise stated, all companies are wholly owned.

\* Associate (see note 19 on page 90).

+ Investments held directly by parent company.

All the subsidiaries and associates are involved in the principal activities of the group.