

Report to Shareholders

Introduction

Johnson Matthey performed well in the first half of 2006/07 with good growth in sales and operating profit. Catalysts Division and Precious Metal Products Division generated most of the growth. Sales were boosted by a significant rise in the prices of platinum group metals with platinum averaging just over \$1,200 per ounce (37% up on the first half of last year). Demand for catalysts was also strong with expanding sales of catalysed soot filters, good autocatalyst demand in Asia and increased sales of process catalysts. Our US Pharmaceutical Materials business improved after a downturn last year and its recovery should continue in the second half.

The outlook for the group for the second half remains encouraging, with further growth generated by the new market for heavy duty diesel catalysts.

Review of Results

Revenue rose by 32% in the half year to £3,012 million, partly as a result of higher prices for platinum, palladium and rhodium. Sales excluding the value of precious metals rose by 17%, reflecting good underlying volume growth and increased non precious metal material costs, some of which are a pass through for Johnson Matthey.

Operating profit increased by 11% to £126.8 million. Exchange translation was slightly adverse, reducing profits by £0.8 million compared with the first half of last year. Interest rose by £4.5 million as a result of higher average borrowings and an increase in short term interest rates, particularly in the US. Profit before tax was 8% up on last year at £115.1 million.

Total earnings per share (eps) increased by 9% to 38.3 pence. The growth rate in eps was slightly stronger than growth in profit before tax mainly as a result of the accretive effect of share buy-backs.

Dividend

The interim dividend has been increased by 9% to 9.9 pence, in line with the growth in earnings per share.

Operations

Catalysts Division's sales grew by 48% to £996 million, boosted by significantly higher prices for platinum, palladium and rhodium. Excluding the value of precious metals, sales increased by 22% to £458 million. This increase was driven by good volume growth and the impact of higher material costs, particularly the cost of substrates for catalysed soot filters (CSFs), which is a pass through for Johnson Matthey.

The division's operating profit rose by 9% to £70.8 million, despite a weaker US dollar exchange rate. Translated at last year's exchange rates operating profit would have been 10% up.

Environmental Catalysts and Technologies (ECT)

had a good first half with sales and operating profit well ahead of last year. The division achieved strong growth in Europe and Asia which more than offset further weakness in the North American market. Results for Europe benefited from a significant increase in sales of CSFs for light duty diesel vehicles as well as some initial sales of heavy duty diesel (HDD) catalysts to original equipment manufacturers.

ECT's growth was achieved despite a relatively weak global car market. In the six month period to 30th September 2006 total global light duty vehicle sales were unchanged compared with last year. Vehicle production was 1.6% up with an increase in inventories. Light duty vehicle sales and production fell in both North America and Europe but continued to grow strongly in Asia.

We are seeing increasing demand from many of the leading car companies in Europe for CSFs to remove particles from diesel exhaust emissions. Although legislation requiring such emission control devices does not come into force until 2010 many manufacturers are fitting these devices much earlier. The new factory we commissioned last year in Royston, UK to manufacture CSFs is already close to capacity and we are in the process of building a major extension to this facility.

Autocatalyst sales have grown strongly in Asia with good growth in China, reflecting continued growth in the underlying car market, and increased sales in

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Estimated Light Vehicle Sales and Production

		Half year to 30th September 2006	2005	September change %
		millions	millions	%
North America	Sales	10.2	10.7	-4.7
	Production	7.5	7.8	-3.8
Europe	Sales	9.2	9.3	-1.1
	Production	9.2	9.3	-1.1
Asia	Sales	7.6	7.2	+5.6
	Production	11.9	10.9	+9.2
Global	Sales	32.1	32.1	-
	Production	32.0	31.5	+1.6

Source: Global Insight



Japan where we have put in additional capacity and are gaining market share.

The first half of this year included some sales of heavy duty diesel catalysts in Europe to original equipment manufacturers (OEMs) for new vehicles launched since October 2005. Not many such vehicles have been produced and total sales excluding precious metals of HDD catalysts to OEMs were £6.5 million in the first half. Sales have ramped up in the second half of the year as all new vehicles sold now have to meet the new standards. In the United States similar legislation comes into force at the beginning of January 2007. Our customers expect to see a significant drop in truck sales in 2007, as a result of the additional cost of fitting emission control systems to meet the new legislation, but we still expect the global market for HDD catalysts to be worth approximately US \$700 million (excluding precious metals) by the end of 2008 when vehicle sales are expected to have returned to normal levels.

Process Catalysts and Technologies (PCT)

delivered good growth in sales and profits in the half year. The Ammonia, Methanol, Oil and Gas (AMOG) business was well ahead of last year with continued strong demand for catalysts and purification materials

for industries where hydrogen or synthesis gas are key intermediates. Our Catalysts & Chemicals business performed well with increased sales of sponge nickel catalysts. Sales of catalysts into the pharmaceutical and fine chemicals sector also continued to grow.

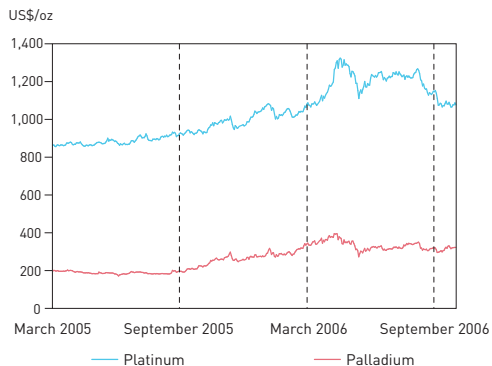
Research Chemicals benefited from the contribution from its new joint venture in China which was established in 2005/06. Demand in Europe was also well up with the new catalogue stimulating increased orders.

Davy Process Technology (DPT), which was acquired in February 2006, performed well in the first six months. DPT develops and licenses chemical process technologies and successfully concluded two major contracts in the first half of 2006/07. Tracerco, PCT's oil services business, acquired the process diagnostics business of Quest TruTec in April 2006 for £3.8 million which has expanded Tracerco's coverage principally in the USA.

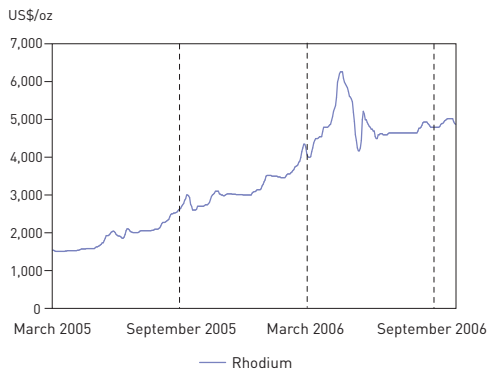
Our Fuel Cells business achieved strong growth in sales, from a small base, with significantly increased orders for membrane electrode assemblies for direct methanol fuel cells (DMFCs). Most of these sales were for portable fuel cells which are sold to European

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Platinum and Palladium Prices



Rhodium Price



consumers. We are continuing to work with a number of major electronics companies who are developing small DMFC units for use in mobile phone chargers and laptop computers.

Precious Metal Products Division's sales rose by 27% to £1,861 million boosted by significantly higher prices for platinum group metals (pgms). Operating profit increased by 22% to £37.2 million with good growth in both its marketing & distribution business and its manufacturing operations.

The platinum marketing & distribution business achieved good profit growth with good demand for platinum and higher pgm prices. Demand for platinum is expected to show a rise of 5% for calendar 2006. Tightening emissions legislation and growing production of diesel vehicles has increased demand for autocatalysts, outweighing a fall in demand for jewellery manufacturing caused by the rising price. The average price of platinum in the first half of Johnson Matthey's financial year rose to \$1,206 per ounce, up 37% compared to the same period last year.

The price of palladium rose significantly in the same period, up 78% to \$337 per ounce, supported by significant purchasing by investment funds. However, industrial demand for palladium is expected to fall by

6% in calendar 2006. Increasing autocatalyst consumption is being outweighed by a reduction in demand from jewellery manufacturers in China, where recycling of old jewellery stock has limited the requirement for new metal.

The price of rhodium has also moved sharply higher, more than doubling in comparison with the same period last year to average \$4,853 per ounce. Strong demand from the automobile market coupled with interest from speculators contributed to the increase in what is traditionally a tight and often volatile market.

The division's pgm fabrication business, Noble Metals, achieved good growth in the half year with most of the growth coming in the USA. Sales were well up on prior year with strong demand for medical device components and industrial products. Demand for pgm refining was also strong benefiting from increased metal prices. We have focused the Pgm Refining business on recycling high grade material and supporting other group companies and its performance in the first six months was much improved. The Colour Technologies business achieved good growth in operating profit with higher sales of automotive glass enamels and decorative products.

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Pharmaceutical Materials Division's sales rose by 13% to £65 million. Operating profit grew by 5% to £17.0 million. Most of the growth came in the division's US businesses which had seen a downturn in 2005/06.

The recovery in the US operations reflected increased demand for both active pharmaceutical ingredients (APIs) and contract research. Demand for platinum APIs was particularly strong and included good sales of Oxaliplatin and some validation lots of Satraplatin®. The outlook for Satraplatin®, which Johnson Matthey has licensed to GPC Biotech, is encouraging with some good results in phase III clinical trials.

The outlook for sales of controlled drug APIs has also improved with the announcement by Barr Pharmaceuticals, Inc. of its purchase from Shire plc of ADDERALL® (an immediate release product used in the treatment of Attention Deficit Hyperactivity Disorder). Johnson Matthey has an exclusive agreement to supply the API to Barr for this product and already supplies the API used in Barr's existing generic version. The division will generate additional income from sales of the branded product in the second half of this year. In addition, Barr has reached agreement with Shire to launch its generic version of ADDERALL XR®

(an extended release product) in April 2009. Johnson Matthey will also supply the API for this product which could generate significant additional revenue at that time.

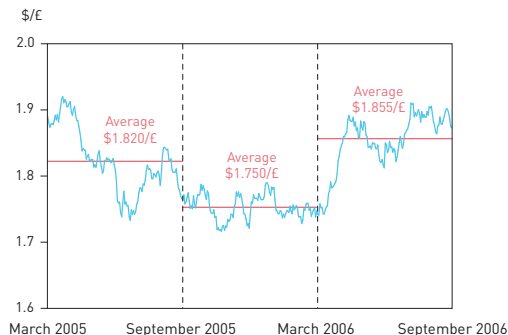
The division's European businesses' profits were slightly ahead of last year with good sales of specialist opiates offsetting weaker sales of bulk opiates, particularly codeine. Sales of bulk opiates are expected to recover in the second half of the year which should improve the overall growth rate.

Ceramics Division's sales were unchanged from last year at £90 million. Operating profit was 6% lower at £10.2 million.

Margins weakened a little in the first half of 2006/07 and the division gave back some of the gains it had made last year when both sales and profits were well ahead. Energy costs increased significantly, particularly in Spain where the division has its largest manufacturing facility and this eroded some of the benefits of cost reductions achieved elsewhere in the division. Nevertheless, the division's margins remained in double figures at 11.3% and the business continued to be highly cash generative.

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Exchange Rates



Finance

Exchange Rates

The main impact of exchange rates on the group's results comes from the translation of foreign subsidiaries' profits into sterling. The group's largest overseas investment is in the USA. The average rate for the US dollar for the six months to 30th September 2006 was \$1.855/£ compared with \$1.820/£ for the first half of last year. The South African rand also weakened from R11.74/£ to R12.69/£. However, the catalysts manufactured by our South African business are ultimately for export and the benefit of a weaker rand on margins more than offsets the translation effect. Excluding the rand, exchange translation reduced group profits by £0.8 million compared with the first half of last year, with nearly all the adverse impact attributable to the weaker US dollar.

Interest

In the six months to 30th September 2006 the group's interest charge increased by £4.5 million to £12.2 million. Average borrowings were significantly higher than the same period last year, reflecting the impact on borrowings of the acquisition of DPT, share purchases and higher precious metal prices. Interest rates also rose significantly, particularly short term rates in the USA. Despite the increase in the interest charge, interest cover (operating profit / interest) for the half year remained strong at 10.4 times.

Taxation

The group's tax charge rose by £2.4 million to £33.5 million reflecting the higher profits made in the period. The average rate was very similar to the first half of last year at 29.1%. Tax paid of £41.9 million was greater than tax payable following a below average payment in the second half of last year. In the first half of last year the group had a cash inflow on tax reflecting the benefit of a favourable settlement with the UK Revenue.

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Cash Flow

In the six months to 30th September 2006 the group had a net cash outflow of £83.8 million. This included expenditure of £7.5 million on acquisitions and a net £12.2 million on share buy-backs. Free cash flow, before acquisitions and share purchases, was an outflow of £64.1 million.

Working capital increased by £73.0 million in the period. The biggest factor in this rise was significantly higher precious metal prices which impacted both inventories and receivables. Physical metal stocks were actually lower than on 30th September 2005 and average customer payment terms were unchanged. Additional working capital was also taken on to support the growth of our catalyst business.

The cash outflow on capital expenditure in the half year was £56.0 million which was 1.5 times depreciation. We are planning to spend more on capital expenditure in the second half with most of the investment in Catalysts Division. For the year as a whole we expect to spend at a rate of 1.6 times depreciation with most of the investment in new capacity to meet expected volume growth. Major projects include: expansion of our diesel products factory at Royston, UK; completion of the investment at our new factory in Philadelphia, USA to make similar products for the US market; construction of our new autocatalyst factories in South Korea and the Russian Federation; and additional production facilities for AMOG.

Net borrowings rose by £66.3 million to £478.3 million at 30th September 2006. Equity was £1,041.4 million taking gearing (net debt / equity) to 45.9%. With continued investment in organic growth, bolt-on acquisitions and some further share purchases we expect gearing to rise to 50% over the next eighteen months.

Outlook

The group has made a good start to the year with operating profit up 11% and earnings per share 9% higher in the first six months.

In the second half of the year we expect increased sales of catalysts for heavy duty diesel vehicles, as the new legislation on emissions now applies to all new vehicles sold in Europe and similar legislation will come into operation in North America from 1st January 2007. Although we expect that pre-buying of trucks in 2006 ahead of the introduction of the new emission standards will reduce truck sales in 2007, this new market will still generate significant incremental sales for Johnson Matthey. We should then benefit from further growth in 2008 as truck sales return to normal levels. Overall we expect Environmental Catalysts and Technologies to achieve double digit growth in sales and profits this year.

The high oil price creates favourable market conditions for Process Catalysts and Technologies. This, in conjunction with economic development in Asia, is generating increased demand for synthesis gas catalysts and good prospects for Davy Process Technology. Demand for platinum group metals also remains strong which should benefit Precious Metal Products Division. Pharmaceutical Materials Division should continue its recovery in the second half of the year with further sales growth in the USA. Ceramics Division's performance in the second half of the year is likely to be below last year but the division should remain highly cash generative.

Compared with the second half of last year exchange translation is likely to be negative. The average rate for the US dollar for the second half of last year was \$1.75/£. Each one cent movement in the rate impacts the group's results by £0.4 million in a full year.

Overall, despite adverse exchange translation, we expect the group to achieve slightly higher earnings growth in the second half of the year than in the first.