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## Interim Results for the six months ended 30<sup>th</sup> September 2004

### Profitable growth in all four operating divisions

#### Summary Results

	Half year to 30 <sup>th</sup> September		%
	2004	2003	change
<b>Statutory Basis:</b>			
Turnover	£2,473 m	£2,165 m	+14
Profit before tax	£62.0 m	£87.6 m	-29
Earnings per share	18.5 p	27.8 p	-33
<b>Before Exceptional Items and Goodwill Amortisation:</b>			
Profit before tax	£103.3 m	£97.5 m	+6
Earnings per share	33.6 p	31.8 p	+6
Dividend per share	8.7 p	8.2 p	+6

- Profit before tax, exceptional items and goodwill amortisation up 6% at £103.3 million despite adverse exchange translation
- Earnings per share before exceptional items and goodwill amortisation also up 6% at 33.6 pence. Interim dividend increased by 6% to 8.7 pence
- Strong operating cash flow. Net borrowings reduced by £31.3 million to £363.2 million
- Exceptional costs of £30.7 million comprise acquisition integration costs (£3.0 million); loss on disposal of Pigments & Dispersions (£15.3 million); and cost of closing the UK gold and silver bullion refinery (£12.4 million)

#### Divisional Performance

##### Operating Profit (before exceptional items and goodwill amortisation)

£m	Half year to 30 <sup>th</sup> September		%	2004 at 2003	%
	2004	2003	change	exchange rates	change
Catalysts	56.9	56.5	+1	59.9	+6
Precious Metals	23.4	21.9	+7	24.4	+11
Pharmaceutical Materials	20.9	20.7	+1	22.2	+7
Colours & Coatings	12.8	10.4	+23	13.8	+33
Corporate	(8.3)	(7.8)		(8.3)	
Continuing operations	105.7	101.7	+4	112.0	+10
Discontinued operations	0.4	1.4		0.4	
Operating profit	106.1	103.1	+3	112.4	+9

- At constant exchange rates operating profit before exceptional items and goodwill amortisation up 9%. All four divisions comfortably ahead of first half of last year

## **Business prospects**

- Excellent outlook for heavy duty diesel (HDD) catalysts. Increased investment in product development and in new programmes in partnership with leading original equipment manufacturers
- European autocatalyst market continues to grow driven by strong sales of light duty diesel (LDD) vehicles. Johnson Matthey very well positioned in LDD market and investing in increased manufacturing capacity
- Asian autocatalyst business performing well. Investment in expanding production capacity in both Japan and China
- Platinum group metal trading conditions remain good. Improved market conditions combined with strong volume growth has more than offset the impact of revised Anglo Platinum contract terms announced last November
- In Pharmaceutical Materials our pipeline of new products is strong. New generic drugs will significantly add to revenues from 2006 onwards
- Focus on improving returns of underperforming assets. Should release cash which will be used to buy back shares

### **Commenting on the results, Neil Carson, Chief Executive of Johnson Matthey said:**

“All of our divisions showed good underlying growth in the first half.

Our strategy is robust and has positioned us well. We will focus on the delivery of organic growth, particularly from our Catalysts and Pharmaceutical Materials businesses where we have invested to meet future demand. We are taking action to rationalise businesses whose performance does not meet our return criteria.

We expect to achieve continued growth in earnings per share before exceptional items and goodwill amortisation in the second half.”

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# Report to Shareholders

## Introduction

Johnson Matthey performed well in the first half of 2004/05 with profit before tax, exceptional items and goodwill amortisation up 6% despite adverse exchange translation. On a constant currency basis all four divisions were comfortably ahead of last year. Cash generation was good with net borrowings reduced by £31.3 million.

## Review of Results

Total sales grew by 14% in the half year to £2,473 million, largely as a result of more buoyant trading conditions for platinum group metals and higher average prices. Sales excluding the value of precious metals fell by 4% to £598 million. The fall partly reflected the impact of exchange translation but also lower pass through costs for autocatalyst substrates.

Operating profit before exceptional items and goodwill amortisation rose by 3% to £106.1 million. Adverse exchange translation reduced profits by £6.3 million compared with the first half of last year mainly because of the fall in the US dollar which averaged \$1.81/£ compared with \$1.62/£ for the same period last year. Translated at last year's exchange rates operating profit before exceptional items and goodwill amortisation would have been 9% up.

Interest was £1.1 million lower than last year as a result of more favourable average interest rates including lower financing costs for platinum. The return on retirement benefits assets and liabilities also improved by £1.7 million reflecting the increased funding surplus at 31<sup>st</sup> March 2004.

Profit before tax, exceptional items and goodwill amortisation increased by 6% to £103.3 million. Earnings per share before exceptional items and goodwill amortisation also rose by 6% to 33.6 pence.

The costs of integrating the AMC and Lancaster Synthesis businesses following acquisition amount to £1.0 million and £2.0 million respectively. These have been included as exceptional costs in operating profit. The disposal of Pigments & Dispersions gave rise to an exceptional loss of £15.3 million after costs, of which £5.8 million related to goodwill previously written off to reserves. The closure of the UK gold and silver bullion refinery gave rise to a further exceptional loss of £12.4 million. Goodwill amortisation in the half year increased by £0.7 million to £10.6 million.

Taking into account exceptional costs and goodwill amortisation, profit before tax on a statutory basis fell by £25.6 million to £62.0 million and earnings per share were 9.3 pence lower at 18.5 pence.

## **Dividend**

The interim dividend has been increased by 6% to 8.7 pence, in line with the growth in earnings per share before exceptional items and goodwill amortisation.

## **Operations**

**Catalysts Division's** sales fell by 2% to £583 million. Sales excluding the value of precious metals were 10% below last year at £342 million. The main reasons for the lower sales were adverse exchange translation and lower pass through substrate costs associated with the increasing proportion of diesel catalysts sold. Operating profit increased by 1% to £56.9 million despite the lower sales revenue. At constant exchange rates operating profit grew by 6%.

Car sales in North America were flat in the six months to 30<sup>th</sup> September 2004 at 10.2 million vehicles but domestic production was slightly down. In Western Europe sales and production were both slightly up with 8.2 million vehicles sold. Asia continues to show the most growth with a 4% increase in car sales in the main markets although the rate of growth in China slowed during the period to 12%.

**Environmental Catalysts and Technologies (ECT)** achieved good growth in profits in autocatalysts with the growth coming in Asia and Europe. The division benefited from the continued growth in diesel car sales in Europe where Johnson Matthey has leading technology. Profits in the US were flat. We have increased our investment on product development for heavy duty diesel (HDD) catalysts with a number of joint programmes with original equipment manufacturers underway. This investment also benefits the next generation of light duty diesel (LDD) particulate filters. Revenue from sales of retrofit HDD products was well down on the first half of last year which had benefited from a major fitment programme in Tokyo. Despite these factors ECT's operating profit was up on last year on a constant currency basis.

**Process Catalysts and Technologies (PCT)** achieved good profit growth with an encouraging first six months' contribution from AMC, the leading supplier of Sponge Nickel™ catalysts, which was acquired in March 2004. Sales of gas processing products and syngas catalysts (used to convert natural gas or naphtha into ammonia, methanol and hydrogen) were also strong. Platinum group metal refining continues to be adversely affected by the weak palladium price and margins for that part of the division were down.

In September 2004 we concluded the acquisition of the worldwide business of Lancaster Synthesis Limited (Lancaster) from Clariant AG for £2 million. A higher price had originally been agreed for the acquisition but in July Lancaster suffered a serious fire at its UK premises which destroyed a considerable amount of stock and some of its manufacturing facilities. Lancaster's operations remain an excellent fit with those of Johnson Matthey's existing Research Chemicals business and its acquisition provides the opportunity to improve market share and increase operating efficiencies. An exceptional charge of £2 million has been included in operating profit to cover the cost of integrating Lancaster into Johnson Matthey's business.

The cost of our **Fuel Cells** business continued at a similar rate to last year at £4.8 million. Developments in automotive fuel cells continue to be very encouraging but the market for stationary fuel cells has not grown as quickly as our customers had expected.

**Precious Metals Division's** sales increased by 23% to £1,693 million, reflecting more buoyant trading conditions for platinum group metals and higher average prices. Operating profit increased by 7% to £23.4 million despite the revised terms of the renewed contracts with Anglo Platinum and adverse exchange translation.

The average price of platinum in the first half of Johnson Matthey's financial year rose to \$837 per ounce, up 24% compared to the same period last year. This dampened purchases from jewellery manufacturers, especially in China, but growing worldwide use in the automobile and glass industries compensated. Total demand rose by less than 1% to match the record set in 2002. With supplies growing by 4%, the market was close to balance after recording significant deficits in each of the last five years.

The price of palladium showed a similar increase, up 30% to an average of \$238 per ounce. Demand for palladium is expected to grow by 9% in 2004, with US auto makers using less metal from inventory and global light vehicle production rising. The most significant increase came from China where retailers, especially in the smaller cities, began stocking palladium jewellery. An 11% increase in palladium supply, driven by the expanding South African mines, prevented a more substantial recovery in the palladium price.

The division's platinum fabrication business achieved good growth with increased demand across its product range. Sales of precision machined parts for medical device applications continue to show strong growth. The division's gold refining businesses in North America and Hong Kong showed some modest growth in the six month period. However, the business in the UK continued to be loss making and in September 2004 the board took the decision to close the UK gold and silver bullion refinery. In 2003/04 the business made a loss of £1.6 million after metal interest and incurred a further loss of £0.6 million in the first five months of this year. Closure costs amount to £12.4 million of which £6.6 million relates to asset write offs.

**Pharmaceutical Materials Division** increased its sales by 3% to £66 million despite adverse exchange translation. Operating profit increased by 1% to £20.9 million. At constant exchange rates operating profit for the half year grew by 7%.

Macfarlan Smith was well ahead of last year with good sales of specialist opiate products, and we continue to invest in the growth of the Edinburgh facility. In the US, carboplatin sales continued to be satisfactory with the pediatric extension to the carboplatin patent extending through to October 2004. In the second half of the year the contribution from this product will fall, as generic competition develops. However, sales of other platinum based anticancer products continue to be encouraging. With ongoing technology transfers from Macfarlan Smith, West Deptford continues to make progress in manufacturing and qualifying its opiate products with new customers.

Pharm-Eco, which we have renamed Johnson Matthey Pharma Services to better reflect its market, continues to grow its small volume manufacturing segment, and has begun development of several low volume, high potency generic products. We have consolidated our prostaglandin business into its existing Cork, Ireland facility. Qualification of our prostaglandin products into new generic dosage forms continues to make good progress.

**Colours & Coatings Division's** sales rose by 6% to £118 million. Operating profit increased by 23% to £12.8 million. Sales of glass coating products continued to grow. Sales to the automotive sector increased, particularly sales of conductive silver paste. Demand for decorative products for other glass applications was also up.

Structural Ceramics, which sells decorative products to the tile industry, continued the recovery seen in the second half of 2003/04. In November 2003 we announced we would consider offers for parts of our Colours & Coatings Division including Structural Ceramics. The Pigments & Dispersions business was sold in September 2004 for £27 million. The board considered that the offers received for Structural Ceramics did not provide adequate value, particularly in view of the favourable outlook for the business. Consequently, the board decided that Structural Ceramics will be retained.

## **Finance**

### **Exchange Rates**

The main impact of exchange rate movements on the group's results comes from the translation of foreign subsidiaries' profits into sterling. A third of the group's profits were made in North America, mainly in the USA. The US dollar weakened significantly from \$1.62/£ in the first half of last year to an average of \$1.81/£ for the six months to 30<sup>th</sup> September 2004. The average rate for the euro also weakened from €1.43/£ to €1.49/£. The South African rand strengthened slightly but the translational benefit of that rise was more than offset by the adverse impact of the stronger rand on operating margins. Excluding the rand, exchange translation reduced operating profit by £6.3 million, which is equivalent to 6% of operating profit before exceptional items and goodwill amortisation.

### **Interest**

In the six months to 30<sup>th</sup> September 2004 the group interest charge fell by £1.1 million to £7.4 million. Metal financing costs improved, particularly for platinum where lease rates had risen to very high levels in the previous year. The return on retirement benefits assets and liabilities also improved by £1.7 million. This credit is shown separately under FRS 17 (the pension accounting standard adopted by the group last year). The rise reflected the increase in the pension fund surplus at 31<sup>st</sup> March 2004.

### **Taxation**

The group's tax charge for the six months fell by £5.7 million. The reduction reflects the tax relief available on the exceptional costs incurred in the period. Before exceptional items and goodwill amortisation the average tax rate for the six months was the same as last year at 29.9%.

### **Cash Flow**

Johnson Matthey's net cash flow for the six months was strong at £30.4 million. After taking account of £0.9 million of exchange translation, net borrowings fell by £31.3 million. Gearing (net borrowings / shareholders' funds and minority interests) fell by 5% from 45.3% at 31<sup>st</sup> March 2004 to 40.3% at 30<sup>th</sup> September 2004.

The group received £24.4 million from disposals and paid £3.1 million for acquisitions. Excluding acquisitions, disposals and share issuance the group generated a free cash flow of £8.0 million. Cash flow from operations was £120.9 million which was below last year as a result of an increase in working capital in the period. Capital expenditure was significantly lower than last year partly as a result of phasing with an increase in the rate of expenditure planned for the second half of this year. Major investments include expansion of ECT's production facilities in the UK, South Africa, Japan and China; investment in catalyst manufacturing for PCT at Clitheroe, UK; and further investment in new capacity at Macfarlan Smith in Edinburgh. For the year as a whole capital expenditure is expected to be around 1.5 times depreciation compared with 1.8 times for 2003/04.

## **Outlook and Strategy**

The outlook for the remainder of this year is satisfactory although growth in sterling terms will continue to be held back by adverse exchange translation. Despite the weak US dollar, for the year as a whole we would expect to achieve continued growth in earnings per share before exceptional items and goodwill amortisation.

Over the next few years we believe the group is well positioned for growth, particularly in Catalysts and Pharmaceutical Materials. This growth is based on Johnson Matthey's investment in new technology and leading positions in several new product areas.

Heavy duty diesel catalysts represent a major opportunity once legislation comes into force in the USA in 2007 and in Europe in 2005 and 2008. Removal of particulate from vehicle emissions for health reasons is becoming increasingly important. Developing catalysed soot filter (CSF) technology provides a solution to this issue and offers growth in both the heavy duty and light duty diesel segments. In Pharmaceutical Materials we have a strong worldwide position in the manufacture of controlled drugs and complex molecules and expect to benefit in 2006 and 2007 from the launch of new generic drugs. We have also significantly increased our investment this year on R&D for gas to liquids catalysts. Fuel cell components for the automotive market remains an exciting opportunity in the longer term.

Return on investment is a key measure of the group's performance. Although Johnson Matthey's return remains well above our cost of capital it has fallen in recent years as a result of the goodwill paid for acquisitions. Over the next few years we expect the return to improve as a result of organic profit growth and a greater focus on improving the returns of underperforming assets.

As part of this strategy we have divested our Pigments & Dispersions business where margins were declining and which was non-core. We are also in the process of closing our UK gold and silver refinery which has been loss making for several years and where the European market for gold refining shows no sign of improving. We intend to use the cash generated from these initiatives to buy back shares.

The combined effect of investment in new product areas and increased focus on return on assets should ensure the group is well positioned for growth in earnings per share in the years to come.

# Consolidated Profit and Loss Account

for the six months ended 30th September 2004

	Notes	Six months to					Year to
		30.9.04 Before exceptional items and goodwill amortisation	30.9.04 Exceptional items and goodwill amortisation	30.9.04 Total	30.9.03 Before goodwill amortisation restated	30.9.03 Total restated	31.3.04 Total restated
		£ million	£ million	£ million	£ million	£ million	£ million
<b>Turnover</b>	2						
Continuing operations		2,460.6	-	2,460.6	2,148.9	2,148.9	4,463.0
Discontinued operations		12.3	-	12.3	15.8	15.8	29.9
<b>Group turnover</b>		<b>2,472.9</b>	<b>-</b>	<b>2,472.9</b>	<b>2,164.7</b>	<b>2,164.7</b>	<b>4,492.9</b>
<b>Operating profit</b>	4						
Continuing operations before goodwill amortisation		105.4	-	105.4	101.5	101.5	202.8
Goodwill amortisation		-	(10.5)	(10.5)	-	(9.8)	(19.5)
Continuing operations before exceptional items		105.4	(10.5)	94.9	101.5	91.7	183.3
Exceptional items	5	-	(3.0)	(3.0)	-	-	2.1
Total continuing operations		105.4	(13.5)	91.9	101.5	91.7	185.4
Discontinued operations		0.4	-	0.4	1.4	1.4	2.5
Goodwill amortisation on discontinued operations		-	(0.1)	(0.1)	-	(0.1)	(0.2)
Group operating profit		105.8	(13.6)	92.2	102.9	93.0	187.7
Share of profit in associates		0.3	-	0.3	0.2	0.2	0.7
Goodwill amortisation on associates		-	-	-	-	-	(0.1)
Total operating profit	4	106.1	(13.6)	92.5	103.1	93.2	188.3
Loss on closure of continuing operations	5	-	(12.4)	(12.4)	-	-	-
Loss on sale of discontinued operations	5	-	(15.3)	(15.3)	-	-	-
<b>Profit on ordinary activities before interest</b>		<b>106.1</b>	<b>(41.3)</b>	<b>64.8</b>	103.1	93.2	188.3
Net interest		(7.4)	-	(7.4)	(8.5)	(8.5)	(16.3)
Net return on retirement benefits assets and liabilities	7	4.6	-	4.6	2.9	2.9	6.0
<b>Profit on ordinary activities before taxation</b>		<b>103.3</b>	<b>(41.3)</b>	<b>62.0</b>	97.5	87.6	178.0
Taxation	8	(30.9)	8.6	(22.3)	(29.2)	(28.0)	(57.9)
<b>Profit after taxation</b>		<b>72.4</b>	<b>(32.7)</b>	<b>39.7</b>	68.3	59.6	120.1
Minority interests		0.5	-	0.5	0.9	0.9	1.7
<b>Profit attributable to shareholders</b>		<b>72.9</b>	<b>(32.7)</b>	<b>40.2</b>	69.2	60.5	121.8
Dividends	9	(18.9)	-	(18.9)	(17.9)	(17.9)	(57.4)
<b>Retained profit</b>		<b>54.0</b>	<b>(32.7)</b>	<b>21.3</b>	51.3	42.6	64.4
		pence		pence	pence	pence	pence
<b>Earnings per ordinary share (EPS)</b>							
Basic	10			18.5		27.8	56.0
Diluted	10			18.5		27.7	55.8
<b>EPS before exceptional items and goodwill amortisation</b>							
Basic	10	33.6			31.8		64.0
Diluted	10	33.5			31.7		63.7
<b>Dividend per ordinary share</b>	9	8.7		8.7	8.2	8.2	26.4

# Consolidated Balance Sheet

as at 30th September 2004

	30.9.04	30.9.03 restated	31.3.04
Notes	£ million	£ million	£ million
<b>Fixed assets</b>			
Goodwill	366.2	364.2	377.1
Tangible fixed assets	586.7	622.1	608.1
Investments	6.3	6.0	5.5
	<u>959.2</u>	<u>992.3</u>	<u>990.7</u>
<b>Current assets</b>			
Stocks	467.2	444.4	417.3
Debtors	350.5	356.5	387.4
Short term investments	1.3	1.6	1.6
Cash at bank and in hand	97.0	76.7	106.5
	<u>916.0</u>	<u>879.2</u>	<u>912.8</u>
<b>Creditors: Amounts falling due within one year</b>			
Borrowings and finance leases	(32.5)	(64.0)	(46.5)
Precious metal leases	(132.2)	(121.1)	(127.4)
Other creditors	(334.3)	(381.9)	(358.9)
<b>Net current assets</b>	<u>417.0</u>	<u>312.2</u>	<u>380.0</u>
<b>Total assets less current liabilities</b>	<b>1,376.2</b>	<b>1,304.5</b>	<b>1,370.7</b>
<b>Creditors: Amounts falling due after more than one year</b>			
Borrowings and finance leases	(427.7)	(392.6)	(454.5)
Other creditors	(0.7)	(0.6)	(0.7)
<b>Provisions for liabilities and charges</b>	<u>(50.9)</u>	<u>(39.4)</u>	<u>(47.4)</u>
<b>Net assets excluding retirement benefits assets and liabilities</b>	<b>896.9</b>	<b>871.9</b>	<b>868.1</b>
Retirement benefits net assets	7 34.4	3.3	31.5
Retirement benefits net liabilities	7 (30.1)	(28.2)	(28.0)
<b>Net assets including retirement benefits assets and liabilities</b>	<u>901.2</u>	<u>847.0</u>	<u>871.6</u>
<b>Capital and reserves</b>			
Called up share capital	220.8	220.4	220.6
Share premium account	138.0	136.0	137.1
Capital redemption reserve	4.9	4.9	4.9
Shares held in employee share ownership trusts	(28.8)	(15.5)	(28.8)
Associates' reserves	(0.5)	-	(0.5)
Profit and loss account	558.4	491.6	528.9
<b>Shareholders' funds</b>	<u>892.8</u>	<u>837.4</u>	<u>862.2</u>
<b>Minority interests</b>	<u>8.4</u>	<u>9.6</u>	<u>9.4</u>
	<u>901.2</u>	<u>847.0</u>	<u>871.6</u>

# Consolidated Cash Flow Statement

for the six months ended 30th September 2004

	Notes	Six months to 30.9.04 £ million	30.9.03 £ million	Year to 31.3.04 £ million
<b>Cash Flow Statement</b>				
Net cash inflow from operating activities	11	<b>120.9</b>	142.4	259.7
Dividends received from associates		<b>0.1</b>	-	0.5
Returns on investments and servicing of finance		<b>(6.7)</b>	(8.1)	(16.4)
Taxation		<b>(32.2)</b>	(19.5)	(43.1)
Capital expenditure and financial investment		<b>(34.6)</b>	(62.4)	(114.4)
Acquisitions		<b>(3.1)</b>	2.2	(18.4)
Disposals	13	<b>24.4</b>	-	-
Equity dividends paid		<b>(39.5)</b>	(38.6)	(56.4)
<b>Net cash flow before use of liquid resources and financing</b>		<b>29.3</b>	16.0	11.5
Management of liquid resources		<b>12.0</b>	10.5	1.1
<b>Financing</b>				
Issue and purchase of share capital		<b>1.1</b>	3.5	(8.5)
(Decrease) / increase in borrowings and finance leases		<b>(29.1)</b>	(63.5)	6.3
<b>Net cash outflow from financing</b>		<b>(28.0)</b>	(60.0)	(2.2)
<b>Increase / (decrease) in cash in the period</b>		<b>13.3</b>	(33.5)	10.4
<b>Reconciliation of net cash flow to movement in net debt</b>				
<b>Increase / (decrease) in cash in the period</b>		<b>13.3</b>	(33.5)	10.4
Cash outflow / (inflow) from movement in borrowings and finance leases		<b>29.1</b>	63.5	(6.3)
Cash inflow from movements in liquid resources		<b>(12.0)</b>	(10.5)	(1.1)
Change in net debt resulting from cash flows		<b>30.4</b>	19.5	3.0
Loan notes cancelled / (issued) to acquire subsidiaries		-	1.1	(1.1)
Translation difference		<b>0.9</b>	2.0	6.1
<b>Movement in net debt in period</b>		<b>31.3</b>	22.6	8.0
<b>Net debt at beginning of period</b>		<b>(394.5)</b>	(402.5)	(402.5)
<b>Net debt at end of period</b>		<b>(363.2)</b>	(379.9)	(394.5)

# Total Recognised Gains and Losses

for the six months ended 30th September 2004

	<b>Six months to 30.9.04</b>	30.9.03 restated	Year to 31.3.04
	£ million	£ million	£ million
Profit attributable to shareholders	<b>40.2</b>	60.5	121.8
Currency translation differences on foreign currency net investments and related loans	<b>4.3</b>	(2.7)	(23.8)
Taxation on translation differences on foreign currency loans	<b>(1.4)</b>	5.8	16.8
Actuarial gain on retirement benefits assets and liabilities	-	-	36.1
Taxation on actuarial gain on retirement benefits assets and liabilities	-	-	(11.0)
<b>Total recognised gains and losses relating to the period</b>	<b>43.1</b>	63.6	139.9
Prior year adjustment	-	(108.3)	(108.3)
<b>Total recognised gains and losses since previous annual report</b>	<b>43.1</b>	(44.7)	31.6

# Movement in Shareholders' Funds

for the six months ended 30th September 2004

	<b>Six months to 30.9.04</b>	30.9.03 restated	Year to 31.3.04
	£ million	£ million	£ million
Profit attributable to shareholders	<b>40.2</b>	60.5	121.8
Dividends	<b>(18.9)</b>	(17.9)	(57.4)
Retained profit	<b>21.3</b>	42.6	64.4
Other recognised gains and losses relating to the period	<b>2.9</b>	3.1	18.1
New share capital subscribed	<b>1.1</b>	5.1	6.4
Purchase of shares for employee share ownership trusts (ESOTs)	-	(1.6)	(14.9)
Shares in ESOTs utilised for long term incentive plan	-	0.9	0.9
Movement in long term incentive plan	<b>(0.5)</b>	-	-
Goodwill written back on sale of Pigments & Dispersions business	<b>5.8</b>	-	-
Net movement in shareholders' funds	<b>30.6</b>	50.1	74.9
Opening shareholders' funds	<b>862.2</b>	787.3	787.3
<b>Closing shareholders' funds</b>	<b>892.8</b>	837.4	862.2

# Notes on the Accounts

for the six months ended 30th September 2004

## 1 Basis of preparation

The interim accounts were approved by the Board of Directors on 23rd November 2004, and are unaudited but have been reviewed by the auditors. They do not constitute statutory accounts, but have been prepared on the basis of the accounting policies set out in the annual report for the year ended 31st March 2004. The group sold its Pigments & Dispersions business during the period and so its results are reported as discontinued operations (note 13). The group adopted Urgent Issues Task Force Abstract 38 - 'Accounting for ESOP Trusts' in its accounts for the year ended 31st March 2004 and so it has restated its accounts for the six months ended 30th September 2003. Information in respect of the year ended 31st March 2004 is derived from the company's statutory accounts for that year which have been delivered to the Registrar of Companies. The auditors' report on those accounts was unqualified and did not contain any statement under 237(2) and 237(3) of the Companies Act 1985.

## 2 Group turnover

	Six months to		Year to
	30.9.04	30.9.03 restated	31.3.04 restated
	£ million	£ million	£ million
<b>Activity analysis</b>			
Catalysts	583.3	593.3	1,142.7
Precious Metals	1,693.2	1,380.0	2,956.4
Pharmaceutical Materials	66.4	64.7	139.7
Colours & Coatings	117.7	110.9	224.2
	<u>2,460.6</u>	<u>2,148.9</u>	<u>4,463.0</u>
Discontinued operations	12.3	15.8	29.9
	<u>2,472.9</u>	<u>2,164.7</u>	<u>4,492.9</u>

	Six months to		Year to
	30.9.04	30.9.03 restated	31.3.04 restated
	£ million	£ million	£ million
<b>Geographical analysis by origin</b>			
Europe	1,743.7	1,519.9	3,209.5
North America	536.1	497.8	961.9
Asia	537.9	394.1	837.6
Rest of the World	126.9	116.8	272.2
	<u>2,944.6</u>	<u>2,528.6</u>	<u>5,281.2</u>
Discontinued operations	14.2	17.2	33.4
	<u>2,958.8</u>	<u>2,545.8</u>	<u>5,314.6</u>
Less inter-segment sales	(485.9)	(381.1)	(821.7)
	<u>2,472.9</u>	<u>2,164.7</u>	<u>4,492.9</u>

## 3 Total turnover excluding the value of precious metals

	Six months to		Year to
	30.9.04	30.9.03 restated	31.3.04 restated
	£ million	£ million	£ million
<b>Activity analysis</b>			
Catalysts	342.4	379.9	720.3
Precious Metals	63.9	59.1	120.6
Pharmaceutical Materials	62.8	61.0	131.5
Colours & Coatings	117.0	109.3	222.1
	<u>586.1</u>	<u>609.3</u>	<u>1,194.5</u>
Discontinued operations	12.3	15.8	29.9
	<u>598.4</u>	<u>625.1</u>	<u>1,224.4</u>

# Notes on the Accounts

for the six months ended 30th September 2004

## 4 Total operating profit

	Six months to		Year to
	30.9.04	30.9.03 restated	31.3.04 restated
	£ million	£ million	£ million
<b>Activity analysis</b>			
Catalysts	56.9	56.5	109.2
Precious Metals	23.4	21.9	44.2
Pharmaceutical Materials	20.9	20.7	42.3
Colours & Coatings	12.8	10.4	24.2
Corporate	(8.3)	(7.8)	(16.4)
	<b>105.7</b>	<b>101.7</b>	<b>203.5</b>
Discontinued operations	0.4	1.4	2.5
	<b>106.1</b>	<b>103.1</b>	<b>206.0</b>
Goodwill amortisation	(10.6)	(9.9)	(19.8)
Exceptional items included in total operating profit (note 5)	(3.0)	-	2.1
	<b>92.5</b>	<b>93.2</b>	<b>188.3</b>

	Six months to		Year to
	30.9.04	30.9.03 restated	31.3.04 restated
	£ million	£ million	£ million
<b>Geographical analysis</b>			
Europe	43.4	37.8	79.0
North America	35.2	36.5	72.0
Asia	9.1	12.3	19.4
Rest of the World	18.0	15.1	33.1
	<b>105.7</b>	<b>101.7</b>	<b>203.5</b>
Discontinued operations	0.4	1.4	2.5
	<b>106.1</b>	<b>103.1</b>	<b>206.0</b>
Goodwill amortisation	(10.6)	(9.9)	(19.8)
Exceptional items included in total operating profit (note 5)	(3.0)	-	2.1
	<b>92.5</b>	<b>93.2</b>	<b>188.3</b>

## 5 Exceptional items

The exceptional items included in total operating profit of £3.0 million comprise £1.0 million for the cost of integrating the business of Activated Metals and Chemicals, Inc. (AMC), which was acquired on 30th March 2004, and £2.0 million for the cost of integrating the business of Lancaster Synthesis Limited, which was acquired on 30th September 2004.

The loss on closure of continuing operations of £12.4 million relates to the closure of the gold and silver bullion refinery in Royston, England.

The loss on sale of discontinued operations of £15.3 million relates to the sale of the Pigments & Dispersions business (note 13).

# Notes on the Accounts

for the six months ended 30th September 2004

## 6 Effect of exchange rate changes on translation of foreign subsidiaries' operating profits

Average exchange rates used for translation of results of foreign operations	Six months to		Year to
	30.9.04	30.9.03	31.3.04
US dollar / £	1.81	1.62	1.69
Euro / £	1.49	1.43	1.44
South African rand / £	11.75	12.23	12.11

The main impact of exchange rate movements on the group's operating profit comes from the translation of foreign subsidiaries' profits into sterling. The one significant exception is the South African rand where the translational impact is more than offset by the impact of movements in the rand on operating margins. Consequently the analysis below excludes the translational impact of the rand.

Activity analysis	Six months to 30.9.04		Effect £ million
	At this year's rates £ million	At last year's rates £ million	
Catalysts	56.9	59.9	(3.0)
Precious Metals	23.4	24.4	(1.0)
Pharmaceutical Materials	20.9	22.2	(1.3)
Colours & Coatings	12.8	13.8	(1.0)
Corporate	(8.3)	(8.3)	-
	<u>105.7</u>	<u>112.0</u>	<u>(6.3)</u>
Discontinued operations	0.4	0.4	-
	<u>106.1</u>	<u>112.4</u>	<u>(6.3)</u>

## 7 Retirement benefits assets and liabilities

Net return	Six months to		Year to
	30.9.04 £ million	30.9.03 £ million	31.3.04 £ million
Expected return on scheme assets	22.2	18.8	37.5
Interest on scheme liabilities	(17.6)	(15.9)	(31.5)
	<u>4.6</u>	<u>2.9</u>	<u>6.0</u>

### Pension fund assets and liabilities

The net assets of the group's retirement benefits schemes which are in surplus and the net liabilities of the schemes which are in deficit are shown separately in the balance sheet. At 31st March 2004 the group's UK defined benefit pension scheme held assets with a market value of £599.6 million and had a net surplus, after tax, of £30.3 million. The group's other main pension schemes are in the USA. At 31st March 2004 these schemes held assets with a market value of £59.6 million and had a net deficit, after tax, of £6.0 million. The group also operates schemes for post-retirement medical benefits (now closed to new members) which are unfunded and had net liabilities of £18.9 million at 31st March 2004.

# Notes on the Accounts

for the six months ended 30th September 2004

## 8 Taxation

	Six months to		Year to
	30.9.04	30.9.03	31.3.04
	£ million	£ million	£ million
United Kingdom	12.3	12.1	27.4
Overseas	18.6	17.1	30.8
Associates	-	-	0.1
Tax on ordinary activities before exceptional items and goodwill amortisation	30.9	29.2	58.3
Tax on goodwill amortisation	(1.0)	(1.2)	(2.0)
Tax on exceptional items included in total operating profit	(1.0)	-	1.6
Tax on loss on closure of continuing operations	(3.7)	-	-
Tax on loss on sale of discontinued operations	(2.9)	-	-
	<u>22.3</u>	<u>28.0</u>	<u>57.9</u>

## 9 Dividends

An interim dividend of 8.7 pence per ordinary share will be paid on 2nd February 2005 to shareholders on the register at the close of business on 3rd December 2004.

## 10 Earnings per ordinary share

The calculation of earnings per ordinary share is based on a weighted average of 217,102,673 shares in issue (six months to 30th September 2003 - 217,587,885 shares, year to 31st March 2004 - 217,629,033). The calculation of diluted earnings per ordinary share is based on the weighted average number of shares in issue adjusted by the dilutive outstanding share options and long term incentive plan.

Before exceptional items, goodwill amortisation and the tax thereon, basic earnings per ordinary share were 33.6 pence (six months to 30th September 2003 - 31.8 pence, year to 31st March 2004 - 64.0 pence) and diluted earnings per ordinary share were 33.5 pence (six months to 30th September 2003 - 31.7 pence, year to 31st March 2004 - 63.7 pence).

## 11 Reconciliation of operating profit to net cash inflow from operating activities

	Six months to		Year to
	30.9.04	30.9.03	31.3.04
	£ million	£ million	£ million
Operating profit	92.2	93.0	187.7
Depreciation, amortisation and net profit on disposal of fixed assets and investments	42.7	40.1	83.5
Net retirement benefit charge less contributions	4.6	6.1	1.0
(Increase) / decrease in owned stocks	(53.6)	(13.7)	17.3
Decrease / (increase) in debtors	30.8	(1.1)	(41.7)
Increase in creditors and provisions	4.2	18.0	11.9
<b>Net cash inflow from operating activities</b>	<u>120.9</u>	<u>142.4</u>	<u>259.7</u>

# Notes on the Accounts

for the six months ended 30th September 2004

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## **12 Acquisition of the business of Lancaster Synthesis Limited**

On 30th September 2004 the group acquired the business of Lancaster Synthesis Limited from Clariant AG for £2.0 million with a further payment of £0.3 million still outstanding. Costs incurred were £0.5 million, including £0.3 million accrued. Lancaster Synthesis Limited manufactures and distributes organic compounds for research and development purposes and is headquartered in Morecambe, England. The estimated fair value of the net assets acquired was £2.8 million. This has been accounted for by acquisition accounting.

## **13 Sale of Pigments & Dispersions business**

On 1st September 2004 the group sold its Pigments & Dispersions business to Rockwood Pigments (UK) Limited for an initial consideration of £27.0 million. The consideration is likely to be reduced by an estimated £2.0 million following agreement as to the level of assets in the business at completion and the level of net debt transferred to the purchaser. Costs incurred were £2.9 million, of which £0.4 million were accrued. The net assets disposed of were £33.2 million, including £0.1 million of cash. After including £5.8 million of goodwill previously written off directly to reserves the disposal resulted in an estimated loss of £15.3 million.

# Independent Review Report

by KPMG Audit Plc to Johnson Matthey Plc

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## **Introduction**

We have been instructed by the company to review the financial information set out on pages 11 to 19 and we have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the Listing Rules of the Financial Services Authority. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

## **Directors' responsibilities**

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where they are to be changed in the next annual accounts in which case any changes, and the reasons for them, are to be disclosed.

## **Review work performed**

We conducted our review in accordance with guidance contained in Bulletin 1999/4 - 'Review of Interim Financial Information', issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether accounting policies and presentation have been consistently applied, unless otherwise disclosed. A review is substantially less in scope than an audit performed in accordance with Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

## **Review conclusion**

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30th September 2004.

KPMG Audit Plc  
Chartered Accountants  
London  
23rd November 2004

# Financial Calendar

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2004

**1st December**

Ex dividend date

**3rd December**

Interim ordinary dividend record date

2005

**2nd February**

Payment of interim dividend on ordinary shares

**2nd June**

Announcement of results for the year ending 31st March 2005

**19th July**

114th Annual General Meeting

**Johnson Matthey Public Limited Company**

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