

Review of the year ended 31st March 1999

Financial highlights

In the year to 31st March 1999 Johnson Matthey earned profits before tax (excluding exceptional items) of £131.2 million, a £1.0 million increase over the prior year. Turnover rose by 4% to £3,385.4 million. Operating profit grew by 6% to £147.1 million despite an adverse exchange translation effect of £2.7 million.

Earnings per share excluding exceptional items were unchanged at 44.3 pence. Including exceptionals, earnings per share were 46.1 pence.

Cash flow from operations increased by 13% to £176.0 million. Free cash flow was strongly positive at £26.0 million for the year.

Dividend

The board is recommending to shareholders a final dividend of 13.3 pence making a total dividend for the year of 19.0 pence, an increase of 7%. The dividend will be covered 2.3 times by earnings.

Strategy

At the time of our interim results in late November we announced the conclusions of a major strategic review of Johnson Matthey's businesses. This was conducted in the autumn of last year and focused on the all-important objective of delivering value to our shareholders. The two major strategic initiatives announced in November were as follows:

- it was recognised that Johnson Matthey has traditional strengths in the chemistry of precious metals and in catalysis. As a result we created a new Catalysts & Chemicals Division that has brought together all of our core chemicals operations under a single heading. This reflected our intention to build on the many opportunities offered by the technological strengths of these businesses. Over the previous five years growth in this segment has averaged some 13% per annum and returns on both assets and sales have been good. We plan to grow this business both organically and by acquisition.

- Growth in the Electronic Materials Division over the preceding five years had taken Johnson Matthey to a market leading position with the inevitable consequence that this division had become predominantly a North American business. We therefore judged that the time was right to establish the division as a separate entity under a US holding company. This has given the business the option of raising its own capital in the future and has led to other opportunities for enhancing shareholder value.

The second half has seen good progress in the development and implementation of this strategy. The Catalysts & Chemicals Division continued its record of double digit growth with profits for the year up 15%. Growth in the division was broadly based with good performances from autocatalysts, pharmaceutical materials, process catalysts and speciality chemicals. Over the next few years new opportunities will arise from the commercialisation of fuel cells. Johnson Matthey has a leading position in fuel cell technology and will benefit from the rapid expansion of this new market.

Good progress has also been made towards our goal of realising shareholder value from Electronic Materials. The process of creating a stand alone business under a separate, US based holding company was completed on schedule on 31st March 1999. Significant progress has been made in preparations for a potential initial public offering of stock in the new company. In parallel, we are pursuing discussions with a number of parties who have expressed an interest in acquiring the business. Along with our advisors we will evaluate the strategic alternatives and we expect to announce our conclusions within the next few months.

The group's two other divisions have also performed well. Precious Metals has maintained its world leadership positions in platinum group metals marketing and gold refining and delivered good profit growth in the year with strong cash generation. Ceramic Materials has achieved a major recovery in profits and margins and has been renamed the Colours & Coatings Division to provide a better description of the division's product range.

The new group structure reflects the change in the balance of Johnson Matthey's businesses which has taken place over the last few years. Over two thirds of the group's profits are now made from the manufacture of catalysts and other fine chemicals, a proportion which will increase when Electronic Materials is spun off. This development has been recognised by FTSE International which changed its industry classification of Johnson Matthey from Engineering to Chemicals - Speciality in December 1998.

Given the considerable uncertainty which surrounds the world's economies we continue to place great emphasis on minimising costs to maintain margins and protect profits. Where markets declined last year, particularly in the tableware market and in certain parts of the semiconductor market, we responded rapidly by reducing costs to ensure our businesses remain profitable. Group headcount, which peaked at 13,200 in February 1998 has been reduced by 1,500 or 11%. The costs of the rationalisation in Colours & Coatings were provided for in last year's accounts. The costs for Electronic Materials Division amounted to £1.5 million and were charged against the division's operating profit for the year.

Operations

Catalysts & Chemicals Division increased its sales by 21% over last year to £677.2 million. Operating profits were up by 15% to £74.2 million. The growth in turnover reflected increased sales volume and the effect of higher palladium prices on autocatalysts.

All three of the division's businesses had a good year. **Autocatalysts** achieved good growth in operating profits as the result of both strong car sales and tighter emission standards in its major

markets in Europe and North America. Unit sales worldwide were 13% ahead of last year due to the increased numbers of catalysts per vehicle required to meet new standards and the continued popularity of large sport utility vehicles in the US. The introduction of new high technology catalysts, which provide important benefits to customers, has enabled the business to protect its margins.

Pharmaceutical Materials had an excellent year led by strong growth in organics. The business benefited from a very successful first full year of methylphenidate sales to Schein Pharmaceutical, Inc. but also saw good growth in other products. We have also embarked on a programme of expansion of our manufacturing facility in the USA. New competitors entered the methylphenidate market during the fourth quarter and revenues from this product are likely to decline somewhat in the current year but any shortfall should be offset by new product introductions. The **Chemicals** business also had a successful year led by good growth in sales of platinum group metal chemicals and refining services. Some additional costs were incurred in developing new ranges of catalysts for the pharmaceutical and chemical industries which should benefit future results.

Precious Metals Division's sales were down 3% at £2,041.3 million as a result of lower levels of activity in the Gold business in the Far East in the second half of the year. Operating profits were 12% up at £37.3 million. The Platinum business had a good year benefiting from higher platinum group metal prices and strong demand for both physical metal and fabricated products. After a strong first half, the Gold business saw lower levels of dishoarding and a softening of demand for bullion products in the Far East. Nevertheless the primary gold refining business remained strong achieving solid growth in its profits.

Electronic Materials Division held on to share in its major markets and sales were only 5% down at £414.7 million. However, the adverse conditions in the global semiconductor markets depressed margins which resulted in operating profits being down 45% to £22.1 million.

The division has been reorganised into two sub-divisions: Wafer Fabrication Materials which serves the “front end” (chip production) of the semiconductor manufacturing process, and

Interconnect Products and Services which encompasses Assembly Products, Laminate Products and Semiconductor Packages all of which feed into the “back end” of the overall process where chips are packaged and final products assembled.

Wafer Fabrication Materials, comprising the division’s sputtering targets and high purity metals businesses, was affected by customer destocking and price competition for much of the year. However there were early signs of a recovery in the final quarter and order books improved. In **Interconnect Products and Services** Semiconductor Packages had a good year. Demand for packages was strong but margins were reduced due to Japanese competitors who enjoyed a currency advantage. Assembly Products was impacted by a decline in demand for its thermal management and die attach products due to the downturn in Asia and the rapid shift towards lower cost personal computers. Laminate Products maintained full order books throughout the year but price competition, mainly from Asia, adversely impacted profits. The introduction of new high density interconnect technology, in which the business has a leading position, will enable it to significantly improve margins going forward.

Colours & Coatings Division’s sales fell by 8% (for the business as a whole) to £250.5 million reflecting lower material costs for zircon sand and reduced demand for tableware products in the UK. Operating profits on the same basis were 56% up at £24.8 million chiefly as a result of cost cutting initiatives undertaken since Johnson Matthey acquired full ownership of the business in February 1998. The glass, pigments and tile sectors all achieved double digit growth in profits. Sales of glass enamels to the automotive industry and pigments and dispersions to the paint industry were particularly strong. Tableware was down reflecting the continued decline in the major market in Staffordshire.

Exceptional Items

Overall, exceptional items were nil on a pre-tax basis and gave rise to a credit of £3.9 million after tax. A net exceptional cost of £1.9 million is included in operating profit. This comprises a loss of £2.4 million on closure of the group’s autocatalyst manufacturing business in Australia following the withdrawal of fiscal incentives. In addition, the group incurred a £2.5 million

Consolidated Profit and Loss Account

for the year ended 31st March 1999

| | | 1999 Before exceptional items | 1999 Exceptional items | 1999 Total | 1998 Total restated |
|--|------|--|------------------------------|---------------|---------------------------|
| | NOTE | £ million | £ million | £ million | £ million |
| Turnover | 2 | | | | |
| Continuing operations | | 3383.7 | 0.0 | 3383.7 | 3248.9 |
| Discontinued operations | 4 | 1.7 | 0.0 | 1.7 | 18.7 |
| Total turnover | | 3385.4 | 0.0 | 3385.4 | 3267.6 |
| Less share of joint ventures' turnover | | 0.0 | 0.0 | 0.0 | (128.8) |
| Group turnover | | 3385.4 | 0.0 | 3385.4 | 3138.8 |
| Operating profit | 2 | | | | |
| Continuing operations before exceptional items | | 146.5 | 0.0 | 146.5 | 131.9 |
| Exceptional items | 3 | 0.0 | (1.9) | (1.9) | (3.2) |
| Total continuing operations | | 146.5 | (1.9) | 144.6 | 128.7 |
| Discontinued operations | 4 | 0.3 | 0.0 | 0.3 | 0.3 |
| Group operating profit | | 146.8 | (1.9) | 144.9 | 129.0 |
| Share of profit in joint ventures - continuing | | 0.0 | 0.0 | 0.0 | 5.9 |
| Share of profit in joint ventures - exceptional items | 3 | 0.0 | 0.0 | 0.0 | (1.3) |
| Share of profit in joint ventures - discontinued | 4 | 0.0 | 0.0 | 0.0 | 1.2 |
| Share of profit in associates | | 0.3 | 0.0 | 0.3 | (0.1) |
| Total operating profit | | 147.1 | (1.9) | 145.2 | 134.7 |
| Profit on disposal - continuing operations | | | | | |
| Part disposal of investment in AnorMED Inc. | | 0.0 | 0.0 | 0.0 | 2.6 |
| Profit on disposal of surplus properties | | 0.0 | 0.3 | 0.3 | 0.0 |
| Profit on disposal - discontinued operations | | | | | |
| Sale of Otavi Minen AG | | 0.0 | 0.0 | 0.0 | 1.8 |
| Sale of UK Minerals | 3 | 0.0 | 1.6 | 1.6 | 0.0 |
| Profit on ordinary activities before interest | | 147.1 | 0.0 | 147.1 | 139.1 |
| Net interest | | (15.9) | 0.0 | (15.9) | (9.0) |
| Profit on ordinary activities before taxation | | 131.2 | 0.0 | 131.2 | 130.1 |
| Taxation | 5 | (35.8) | 3.9 | (31.9) | (25.2) |
| Profit after taxation | | 95.4 | 3.9 | 99.3 | 104.9 |
| Equity minority interests | | 0.7 | 0.0 | 0.7 | (0.3) |
| Profit attributable to shareholders | | 96.1 | 3.9 | 100.0 | 104.6 |
| Dividends | 6 | (41.3) | 0.0 | (41.3) | (38.7) |
| Retained profit for the year | | 54.8 | 3.9 | 58.7 | 65.9 |
| | | | | pence | pence |
| Earnings per ordinary share | 7 | | | 46.1 | 48.2 |
| Diluted earnings per ordinary share | 7 | | | 46.1 | 48.1 |
| Earnings per ordinary share excluding exceptional items | 7 | | | 44.3 | 44.3 |
| Dividend per ordinary share | 6 | | | 19.0 | 17.8 |

Consolidated Balance Sheet

as at 31st March 1999

| | 1999 £ million | 1998 £ million |
|--|-------------------|-------------------|
| Fixed assets | | |
| Goodwill | 4.2 | 0.0 |
| Tangible fixed assets | 488.5 | 476.5 |
| Investments | 1.8 | 4.2 |
| | <u>494.5</u> | <u>480.7</u> |
| Current assets | | |
| Stocks | 244.4 | 245.5 |
| Debtors: due within one year | 336.4 | 293.2 |
| Debtors: due after one year | 94.0 | 85.5 |
| Short term investments | 9.2 | 2.4 |
| Cash at bank and in hand | 58.6 | 63.8 |
| | <u>742.6</u> | <u>690.4</u> |
| Creditors: Amounts falling due within one year | | |
| Borrowings and finance leases | (165.6) | (141.6) |
| Precious metal leases | (24.7) | (24.1) |
| Other creditors | (289.2) | (289.5) |
| Net current assets | <u>263.1</u> | <u>235.2</u> |
| Total assets less current liabilities | 757.6 | 715.9 |
| Creditors: Amounts falling due after more than one year | | |
| Borrowings and finance leases | (114.6) | (147.3) |
| Other creditors | (1.1) | (2.7) |
| Provisions for liabilities and charges | <u>(74.3)</u> | <u>(66.5)</u> |
| Net assets | <u>567.6</u> | <u>499.4</u> |
| Capital and reserves | | |
| Called up share capital | 218.5 | 217.8 |
| Share premium account | 103.9 | 101.8 |
| Revaluation reserve | 9.0 | 15.5 |
| Associates' reserves | 0.1 | 1.6 |
| Profit and loss account | 230.3 | 156.6 |
| Shareholders' funds | <u>561.8</u> | <u>493.3</u> |
| Equity minority interests | <u>5.8</u> | <u>6.1</u> |
| | <u>567.6</u> | <u>499.4</u> |

Consolidated Cash Flow Statement

for the year ended 31st March 1999

| | 1999 | 1998 |
|--|--------------|-----------------------|
| | £ million | restated £ million |
| Reconciliation of operating profit to net cash inflow from operating activities | | |
| Operating profit | 144.9 | 129.0 |
| Depreciation charges | 64.3 | 45.5 |
| Profit on sale of tangible fixed assets and investments | (0.4) | (3.1) |
| Decrease / (increase) in owned stocks | 4.8 | (12.4) |
| Increase in debtors | (23.9) | (56.6) |
| (Decrease) / increase in creditors and provisions | (13.7) | 54.0 |
| Net cash inflow from operating activities | 176.0 | 156.4 |

Cash Flow Statement

| | | |
|---|---------------|---------------|
| Net cash inflow from operating activities | 176.0 | 156.4 |
| Dividends received from associates | 0.1 | 0.0 |
| Returns on investments and servicing of finance | (16.5) | 2.6 |
| Taxation | (32.4) | (30.8) |
| Purchase of tangible fixed assets and investments | (90.6) | (72.4) |
| Proceeds on sale of tangible fixed assets and investments | 29.2 | 7.7 |
| Acquisitions and disposals | (4.3) | (44.1) |
| Equity dividends paid | (39.8) | (34.7) |
| Net cash inflow / (outflow) before use of liquid resources and financing | 21.7 | (15.3) |
| Management of liquid resources | 4.9 | 9.0 |
| Financing | | |
| Issue and purchase of ordinary share capital | (1.6) | 2.8 |
| Decrease in borrowings and finance leases falling due within one year | (9.4) | (67.1) |
| (Decrease) / increase in borrowings and finance leases falling due after more than one year | (13.0) | 69.4 |
| Net cash (outflow) / inflow from financing | (24.0) | 5.1 |
| Increase / (decrease) in cash in the period | 2.6 | (1.2) |

Reconciliation of net cash flow to movement in net debt

| | | |
|--|----------------|----------------|
| Increase / (decrease) in cash in the period | 2.6 | (1.2) |
| Cash outflow / (inflow) from movement in borrowings and finance leases | 22.4 | (2.3) |
| Cash inflow from term deposits included in liquid resources | (4.9) | (9.0) |
| Change in net debt resulting from cash flows | 20.1 | (12.5) |
| Liquid resources, borrowings and finance leases acquired with subsidiaries | 0.0 | (82.3) |
| New finance leases | 0.0 | (2.1) |
| Translation difference | (16.6) | 15.5 |
| Movement in net debt in year | 3.5 | (81.4) |
| Net debt at beginning of year | (225.1) | (143.7) |
| Net debt at end of year | (221.6) | (225.1) |

Total Recognised Gains and Losses

for the year ended 31st March 1999

| | 1999 £ million | 1998 £ million |
|--|---------------------|--------------------|
| Profit attributable to shareholders | 100.0 | 104.6 |
| Unrealised deficit on revaluation | <u>0.0</u> | <u>(1.8)</u> |
| | 100.0 | 102.8 |
| Currency translation differences on foreign currency net investments | <u>7.0</u> | <u>(23.6)</u> |
| Total recognised gains and losses relating to the year | <u>107.0</u> | <u>79.2</u> |

Note of Historical Cost Profits and Losses

for the year ended 31st March 1999

| | 1999 £ million | 1998 £ million |
|--|---------------------|---------------------|
| Reported profit on ordinary activities before taxation | 131.2 | 130.1 |
| Realisation of property revaluation gains of previous years | 6.9 | 0.0 |
| Difference between historical cost depreciation and actual | <u>(0.2)</u> | <u>(0.2)</u> |
| Historical cost profit on ordinary activities before taxation | <u>137.9</u> | <u>129.9</u> |
| Historical cost retained profit | <u>65.4</u> | <u>65.7</u> |

Movement in Shareholders' Funds

for the year ended 31st March 1999

| | 1999 £ million | 1998 £ million |
|--|---------------------|---------------------|
| Profit attributable to shareholders | 100.0 | 104.6 |
| Dividends | <u>(41.3)</u> | <u>(38.7)</u> |
| Retained profit for the year | 58.7 | 65.9 |
| Other recognised gains and losses relating to the year | 7.0 | (25.4) |
| New share capital subscribed | 2.8 | 2.8 |
| Goodwill written back on disposals | 0.0 | 1.0 |
| Goodwill written off in respect of acquisitions and joint ventures | <u>0.0</u> | <u>(16.1)</u> |
| Net addition to shareholders' funds | 68.5 | 28.2 |
| Opening shareholders' funds | <u>493.3</u> | <u>465.1</u> |
| Closing shareholders' funds | <u>561.8</u> | <u>493.3</u> |

Notes to the Preliminary Financial Statements

for the year ended 31st March 1999

1 Basis of preparation

The financial information contained in this release does not constitute the company's statutory accounts for the years ended 31st March 1999 or 1998 but is derived from those accounts. Statutory accounts for 1998 have been delivered to the Registrar of Companies and those for 1999 will be delivered following the company's Annual General Meeting. The auditor's reports on those accounts were unqualified and did not contain any statement under sections 237(2) and 237(3) of the Companies Act 1985. The accounts for the year ended 31st March 1999 were approved by the Board of Directors on 8th June 1999. The presentation of the profit and loss account and cash flow statement has been changed to comply with Financial Reporting Standard (FRS) 9 - 'Associates and Joint Ventures'.

The segmental activity analysis (note 2) has been restated to show Catalysts & Chemicals as a new segment. This combines the chemicals business of Precious Metals Division (PMD) with Catalytic Systems Division.

2 Segmental information

| | Turnover | | Operating profit | | Net operating assets | |
|---|-----------|------------------|------------------|------------------|----------------------|------------------|
| | 1999 | 1998 restated | 1999 | 1998 restated | 1999 | 1998 restated |
| | £ million | £ million | £ million | £ million | £ million | £ million |
| Activity analysis | | | | | | |
| Catalytic Systems | 517.4 | 391.3 | 54.6 | 45.4 | 223.8 | 161.2 |
| PMD Chemicals | 159.8 | 168.0 | 19.6 | 19.3 | 66.7 | 86.0 |
| Catalyst & Chemicals | 677.2 | 559.3 | 74.2 | 64.7 | 290.5 | 247.2 |
| Precious Metals | 2041.3 | 2094.2 | 37.3 | 33.2 | 80.3 | 70.4 |
| Electronic Materials | 414.7 | 438.1 | 22.1 | 40.1 | 262.0 | 245.4 |
| Colours & Coatings | 250.5 | 157.3 | 24.8 | 9.4 | 177.5 | 160.2 |
| Corporate | 0.0 | 0.0 | (11.6) | (9.7) | (21.1) | (2.5) |
| | 3383.7 | 3248.9 | 146.8 | 137.7 | 789.2 | 720.7 |
| Discontinued operations | 1.7 | 18.7 | 0.3 | 1.5 | 0.0 | 3.8 |
| Total turnover | 3385.4 | 3267.6 | | | | |
| Exceptional items included in total operating profit (note 3) | | | (1.9) | (4.5) | | |
| | | | 145.2 | 134.7 | 789.2 | 724.5 |
| Other exceptional items | | | 1.9 | 4.4 | | |
| Net interest | | | (15.9) | (9.0) | | |
| Profit on ordinary activities before taxation | | | 131.2 | 130.1 | | |
| Net borrowings and finance leases | | | | | (221.6) | (225.1) |
| Net assets | | | | | 567.6 | 499.4 |

Notes to the Preliminary Financial Statements

for the year ended 31st March 1999

2 Segmental information continued

| | Turnover | | Operating profit | | Net operating assets | |
|---|---------------|---------------|------------------|--------------|----------------------|----------------|
| | 1999 | 1998 | 1999 | 1998 | 1999 | 1998 |
| | £ million | £ million | £ million | £ million | £ million | £ million |
| Geographical analysis by origin | | | | | | |
| Europe | 2103.6 | 1871.7 | 58.7 | 43.6 | 365.7 | 367.6 |
| North America | 1166.1 | 1015.4 | 72.4 | 79.2 | 310.6 | 267.3 |
| Rest of the World | 742.0 | 913.7 | 15.7 | 14.9 | 112.9 | 85.8 |
| | <u>4011.7</u> | <u>3800.8</u> | <u>146.8</u> | <u>137.7</u> | <u>789.2</u> | <u>720.7</u> |
| Discontinued operations | 1.7 | 18.8 | 0.3 | 1.5 | 0.0 | 3.8 |
| | <u>4013.4</u> | <u>3819.6</u> | | | | |
| Less inter-segment sales | <u>-628.0</u> | <u>-552.0</u> | | | | |
| Total turnover | <u>3385.4</u> | <u>3267.6</u> | | | | |
| Exceptional items included in total operating profit (note 3) | | | (1.9) | (4.5) | | |
| | | | <u>145.2</u> | <u>134.7</u> | <u>789.2</u> | <u>724.5</u> |
| Other exceptional items | | | 1.9 | 4.4 | | |
| Net interest | | | <u>(15.9)</u> | <u>(9.0)</u> | | |
| Profit on ordinary activities before taxation | | | <u>131.2</u> | <u>130.1</u> | | |
| Net borrowings and finance leases | | | | | <u>(221.6)</u> | <u>(225.1)</u> |
| Net assets | | | | | <u>567.6</u> | <u>499.4</u> |

3 Exceptional items

A net exceptional charge of £1.9 million (1998 £4.5 million) has been included in operating profit. This comprises:

| | 1999 £ million | 1998 £ million |
|--|-------------------|-------------------|
| Profit on sale of shares in Ballard Power Systems, Inc. | 3.0 | 3.5 |
| Loss on closure of Australian autocatalyst manufacturing business | -2.4 | 0.0 |
| Closure costs on withdrawal from plating and bushings manufacture | -2.5 | 0.0 |
| Cost of restructuring of Cookson Matthey Ceramics plc (CMC) post acquisition | 0.0 | (4.9) |
| Other rationalisation costs | <u>0.0</u> | <u>(1.8)</u> |
| | <u>-1.9</u> | <u>-3.2</u> |
| Share of CMC's rationalisation costs prior to acquisition | <u>0.0</u> | <u>-1.3</u> |
| | <u>(1.9)</u> | <u>(4.5)</u> |

On 1st June 1998 the group sold its UK Minerals business, previously part of CMC, for net proceeds of £5.0 million. The sale produced a net profit of £1.6 million.

4 Discontinued operations

| | Turnover | | Operating profit | |
|----------------|-------------------|-------------------|-------------------|-------------------|
| | 1999 £ million | 1998 £ million | 1999 £ million | 1998 £ million |
| Otavi Minen AG | 0.0 | 12.9 | 0.0 | 1.0 |
| UK Minerals | <u>1.7</u> | <u>5.8</u> | <u>0.3</u> | <u>0.5</u> |
| | <u>1.7</u> | <u>18.7</u> | <u>0.3</u> | <u>1.5</u> |

Notes to the Preliminary Financial Statements

for the year ended 31st March 1999

5 Taxation

| | 1999 £ million | 1998 £ million |
|---|--------------------|--------------------|
| United Kingdom | 12.3 | 12.4 |
| Overseas | 23.5 | 19.1 |
| Joint ventures | <u>0.0</u> | <u>2.4</u> |
| | 35.8 | 33.9 |
| Taxation on exceptional restructuring and rationalisation costs | 0.0 | (0.4) |
| Taxation on disposals | 0.0 | 0.4 |
| ACT saving on foreign income dividends (FIDs) | <u>(3.9)</u> | <u>(8.7)</u> |
| | <u>31.9</u> | <u>25.2</u> |

The Advance Corporation Tax (ACT) saving on paying the final dividend for 1997/98 and the interim dividend for 1998/99 as FIDs amounted to £9.9 million gross. Of this amount £6.0 million has been added to deferred tax to reflect the change in the offsetting arrangements after 5th April 1999.

6 Dividends

A final dividend of 13.3 pence (1998 12.6 pence) per ordinary share is proposed for payment on 2nd August 1999 to shareholders on the register at 25th June 1999. Together with the interim dividend of 5.7 pence (1998 5.2 pence) this would make a total dividend of 19.0 pence (1998 17.8 pence) giving a total payment of £41.3 million (1998 £38.7 million).

7 Earnings per ordinary share

Profit for the year attributable to shareholders, less preference dividends, is £100.0 million (1998 £104.6 million). This is divided by the weighted average number of shares in issue calculated as 216,947,859 (1998 restated 217,019,901) to give basic earnings per share of 46.1 pence (1998 48.2 pence). The prior year comparatives have been restated to exclude shares held and dividends received by the Employee Share Ownership Trusts in accordance with FRS 14 - 'Earnings per Share'.

Excluding exceptional items, the tax thereon, and the benefit of the ACT saving on FIDs, earnings per share were 44.3 pence (1998 44.3 pence).

| | 1999 £ million | 1998 £ million |
|--|--------------------|--------------------|
| Attributable profit | 100.0 | 104.6 |
| Exceptional items | 0.0 | 0.1 |
| Tax thereon | 0.0 | 0.0 |
| ACT saving on FIDs | <u>-3.9</u> | <u>(8.7)</u> |
| Adjusted profit | <u>96.1</u> | <u>96.0</u> |
| Earnings per share excluding exceptional items | 44.3p | 44.3p |

The calculation of diluted earnings per share is based on the weighted average number of shares in issue adjusted by the dilutive outstanding share options.

Financial Calendar

1999

25th June

Final ordinary dividend record date

21st July

108th Annual General Meeting (AGM)

2nd August

Payment of final dividend subject to declaration at the AGM

2nd December

Announcement of results for six months ending 30th September 1999

2000

7th February

Payment of interim dividend on ordinary shares

June

Announcement of results for year ending 31st March 2000

Johnson Matthey Public Limited Company

Registered Office: 2-4 Cockspur Street, Trafalgar Square, London SW1Y 5BQ

Telephone: 0171 269 8400

Internet address: <http://www.matthey.com>

E-mail: [jmp@matthey.com](mailto:jmpr@matthey.com)

Registered in England No. 33774

Registrars

Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA

Telephone: 01903 502541

charge in withdrawing from plating and bushings manufacture. The total was partly offset by a gain of £3.0 million on the sale of shares in Ballard Power Systems, Inc. The net loss in operating profit is offset by an exceptional gain of £1.6 million arising from the sale of the UK Minerals business of Colours & Coatings Division on 1st June 1998 and a profit on disposal of land and buildings of £0.3 million.

The group achieved a tax saving of £3.9 million by paying dividends as Foreign Income Dividends (FIDs). This credit has been treated as exceptional.

Exchange Rates

Adverse exchange rates once again had a significant impact on Johnson Matthey's results for the year. Exchange translation reduced profits by £2.7 million as a result of the strength of sterling, particularly against the South African rand, the Australian dollar and the US dollar.

Interest

The group's interest charge rose by £6.9 million largely as a result of the increase in borrowings following the acquisition of 100% of the ownership of Cookson Matthey Ceramics (now Colours & Coatings) in February 1998. The purchase of the outstanding stake was earnings enhancing adding in excess of £5 million to group profit before tax after taking into account the additional interest charge.

Taxation

The group's tax charge shows the benefit of paying dividends as FIDs. Part of the benefit of the FID has been added to deferred tax to reflect the change in the offset rules for surplus Advance Corporation Tax (ACT) after April 1999. Excluding the ACT savings on the FIDs the group's average tax rate rose slightly to 27.3%.

Investment

The group invested £91.0 million on capital expenditure which was 1.4 times depreciation. Major projects included capacity expansions for autocatalyst production at Germiston, South Africa and for pharmaceutical materials at West Deptford in the US. A new plant for manufacturing homogeneous catalysts was completed at Royston in the UK. In Electronics, significant new investment went into High Density Interconnect manufacturing capacity for printed circuit boards.

On 3rd February 1999 Johnson Matthey acquired the business of Watson Engineering Testing Development Inc (Watson) based in Detroit in the US for £6.5 million. Watson's main business is catalyst ageing, a critical step in the development and evaluation of autocatalysts. We are in the process of upgrading the facility which will also become our North American heavy duty diesel development centre.

In April 1998, the group completed the sale of its former head office site in Hatton Garden for £21 million.

Cash Flow

Net cash flow from operating activities rose by 13% to £176.0 million as a result of higher profits and depreciation. The figures include a full year contribution from Colours & Coatings which was accounted for as a joint venture for most of the previous year.

Free cash flow (net cash flow from operating activities after interest, tax, dividends and capital expenditure) was also strongly positive at £26.0 million. Over the last two years the group has generated £54.8 million of free cash flow. Net cash flow after acquisitions and share purchases was £20.1 million. Net borrowings after taking into account the effect of exchange translation fell by £3.5 million to £221.6 million.

Johnson Matthey's balance sheet remains strong. The group's gearing (% net borrowings: shareholders' funds and minority interests) fell from 45% to 39%. Interest cover for the year (operating profit : net interest) was just over 9 times.

Share Capital

Johnson Matthey's share capital includes 450,000 of 5.0% (prior to 6th April 1999, 3.5%) cumulative preference shares of £1 each, 300,000 of which have been issued. These preference shares now represent a very small fraction of shareholders' funds. The board has decided, taking into account the expense and administrative burden of maintaining the preference shares, that the company would benefit from a simplified capital structure. Consequently the board is proposing a resolution to shareholders at the Annual General Meeting on 21st July 1999 to cancel and repay the preference shares at their nominal value of £1 plus accrued dividends up to the date of repayment.

The board has also decided to seek shareholders' authority for the company to make purchases of its own ordinary shares through the market. Johnson Matthey has no present intention to exercise this authority and would only do so in circumstances where the directors believe that it would result in an increase in earnings per share and is in the best interests of the shareholders generally.

Board

In March we announced that Gordon Thorburn would retire from the board at the conclusion of this year's Annual General Meeting due to ill health. Gordon has had a long and distinguished career with Johnson Matthey, having joined the board as Group Finance Director in 1983. He was appointed to his current post of Executive Director, Administration in 1987. Over years that witnessed many crucial events in the development of the company, Gordon worked with great dedication and the board will miss his steady hand and wise counsel. We are very sorry to lose his services earlier than we would have hoped and we wish him a long, happy and healthy

retirement.

In January Graham Titcombe was appointed as Group Managing Director, reflecting his role as Johnson Matthey's senior operational executive director.

Charles Mackay joined the board as a non-executive director in January and Mike Dearden was appointed as a non-executive director in April this year. Both have a great deal of valuable and relevant experience of the international markets in which Johnson Matthey operates. We look forward to benefiting from their input.

We have today announced the appointment of two new executive directors. With effect from 1st August Neil Carson and David Morgan will join the board as Executive Directors with responsibility for Catalytic Systems and Chemicals and Corporate Development respectively.

Outlook

We have made good progress on our strategy announced last November to change the focus of the group's activities. Electronic Materials has been established as a stand alone entity and we expect to make a further announcement on its future within the next few months. There are excellent opportunities in all Johnson Matthey's core businesses. New product developments and rigorous attention to costs will provide the group with a firm basis for future growth.