Financial Highlights

Group Results Summary

	2000 £ million	2001 £ million	% Inc.
Total turnover	3,866.0	5,903.7	53%
Divisional operating profit			
Catalysts & Chemicals	84.8	98.9	17%
Precious Metals	45.4	57.4	26%
Colours & Coatings	27.9	32.2	15%
Corporate	(11.6)	(13.3)	
Operating profit – continuing[1]	146.5	175.2	20%
Discontinued operations	(0.3)	(0.2)	
Operating profit[1]	146.2	175.0	20%
Interest	(2.4)	5.3	
Profit before tax and exceptionals[1]	143.8	180.3	25%
	pence	pence	
Earnings per share	51.4	58.1	13%
Earnings per share excluding exceptionals[1]	47.5	58.1	22%
Dividend per share	20.3	23.3	15%

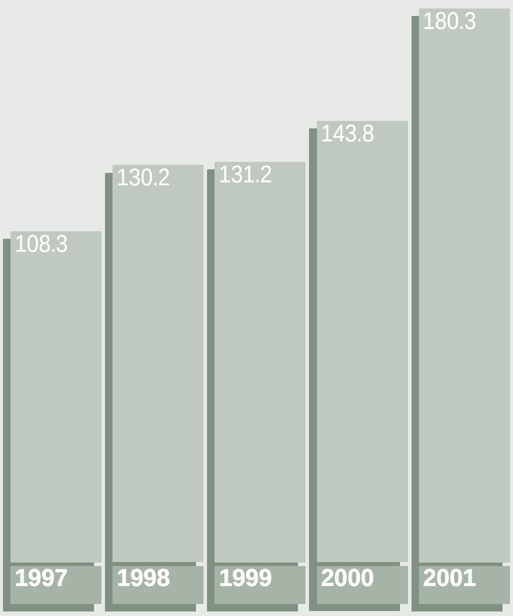
	2000 £ million	2001 £ million
Capital expenditure	74.7	104.4
Net cash flow	393.3	(16.0)
Net cash	165.8	139.9
Shareholders' funds	755.4	851.0
Economic value added[2]	32	53
Return on assets (ROA)[2]	18.4%	25.0%

[1] Excluding exceptional items and goodwill amortisation

[2] See page 8

Profit before tax and exceptionals[1]

£ million

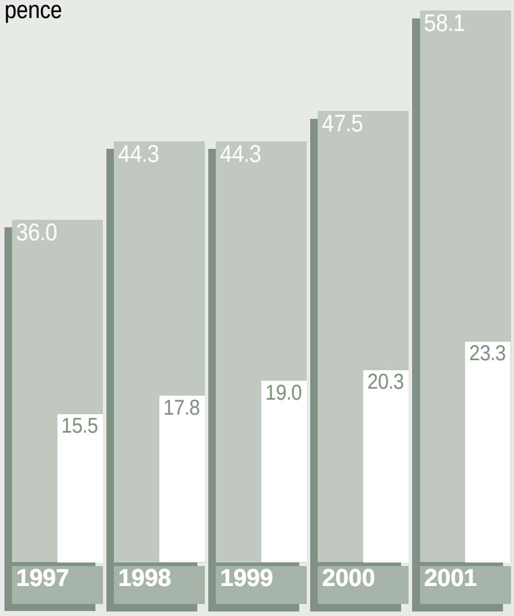


Earnings per share excluding exceptionals[1]

pence

Dividend per share

pence



Chairman’s Statement

Michael Miles
Chairman

I am delighted to report that 2000/01 was another successful year for Johnson Matthey with all three of the company’s operating divisions performing well and contributing to strong growth in profits. Your company has continued to make excellent progress in delivering shareholder value. This has been reflected in strong growth in earnings per share and dividends as well as the encouraging performance of the company’s shares over the last year.

The strategy of refocusing the group on its core activities in catalysts, fine chemicals and precious metals that we announced in late 1998 continues to bear fruit. The year has seen a major increase in our investment in new technology and manufacturing facilities around the world as well as in research and development. A further increase is planned for the current year. This investment is vitally important to maintain our leading market positions and will provide a strong base for continued growth in the years to come. We are also pursuing niche acquisitions to add further to our core businesses. The acquisitions of Shape Memory Applications and Pharm-Eco Laboratories, both in the United States, are excellent examples of this.

Fuel cells continue to be the centre of much attention. Johnson Matthey, through our long commitment to research and development and our strong relationships with automobile manufacturers and the leading developers of fuel cell technology, is in a uniquely strong position to benefit from the growth of this exciting new industry. It is our strategy to be the leading supplier of catalysts and catalysed components for fuel cells. The board is determined to grow this new business.

In November, we were honoured to be awarded the Royal Academy of Engineering MacRobert Award 2000, the UK's most coveted prize for engineering innovation, for Johnson Matthey's Continuously Regenerating Trap (CRT™) which controls pollution from heavy duty diesel vehicles. Sales of the CRT™ have been very encouraging. The award was presented to our Chief Executive, Chris Clark, and the team that led the development and commercialisation of the CRT™ by His Royal Highness Prince Philip, Duke of Edinburgh at a ceremony held at Buckingham Palace on 30th November 2000.

This is the second time that the company has won this prestigious award, one that receives great recognition both in the UK and around the world. It reflects Johnson Matthey's long term commitment to leadership in catalytic emission control technology. It also serves to underline the achievements of our autocatalyst business and the prospects for continued growth arising from the development of new technologies to meet tightening vehicle emission standards worldwide.

Board

During the year the board has continued to oversee the strategic development of the group. We are fortunate to have a strong team of independent directors who bring a wealth of knowledge and experience to the board. I would like to thank them for their skilful, indeed invaluable support over the last year.

People and the Community

I cannot stress too highly the essential role that the people in Johnson Matthey play in your company's continued success. We have a highly professional and dedicated workforce. On behalf of the board, I would like to thank them all for their contribution towards the outstanding progress that the company has made during the year.

The development of tomorrow's management talent, and indeed the development of all the company's employees to enable them to fulfil their full potential, is vital to Johnson Matthey's future. We focus on this objective at all levels of the company. Indeed this is a key responsibility of today's management. The company's Training and Development of People Policy is set out on page 24 of this annual report.

Johnson Matthey's key environmental technologies of autocatalysts, heavy duty diesel catalysts and fuel cells will make an increasingly important contribution to the quality of our lives in the years ahead. At the same time we are fully committed to ensuring that all of the company's operations around the world meet our responsibilities to the environment and maintain the highest standards of health and safety. Our corporate Environment, Health and Safety policies and a series of case studies in this area are featured on pages 20 and 21.

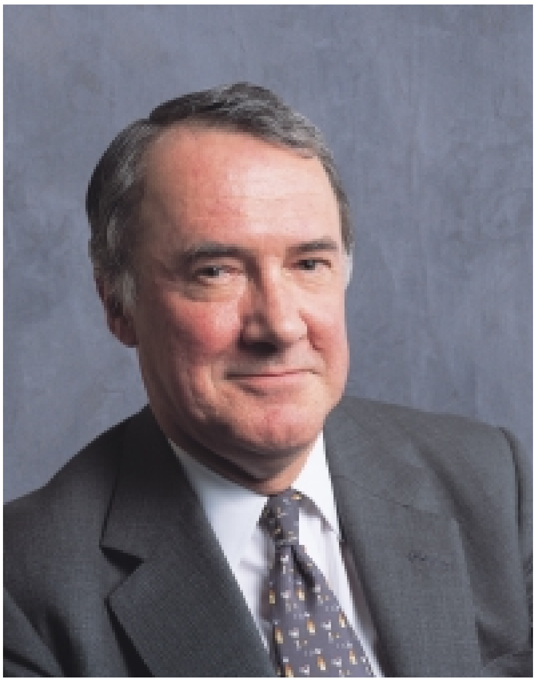
Our Charity of the Year programme in support of the National Asthma Campaign concluded at the end of March. A new Charity of the Year programme in support of The National Society for the Prevention of Cruelty to Children (NSPCC) began in April.

Conclusion

The board is delighted with the strong results achieved in 2000/01 and with the excellent progress that the company has made over the last few years in growing its core businesses to add real shareholder value. The company is uniquely well positioned to benefit from its leading market positions and strong technology and is investing in its growth businesses to ensure that their exciting potential is realised.

Michael Miles OBE
Chairman

Chief Executive's Statement



Chris Clark
Chief Executive

Johnson Matthey delivered excellent results in 2000/01 with profits well ahead of last year. All three divisions achieved strong organic growth with double digit rises in operating profit. The group has increased its investment in new production facilities and in research and development, to meet the expected growth in demand for new products.

A year ago we announced that we were stepping up our investment programme to take advantage of the opportunities we saw for growth. In 2000/01 our capital expenditure rose to more than £100 million and we plan to increase the level of investment in 2001/02. Investment in research and development has also been increased, particularly in fuel cells. Total group expenditure was £42.3 million in the year with a further increase planned for 2001/02.

In March 2001 we opened our new £10 million European autocatalyst facility in Royston, UK. The 6,000 square metre plant uses Johnson Matthey's latest process technology to produce more advanced catalysts to the higher specifications required to meet current and future emissions standards. The new factory has initial capacity to produce 3.5 million units a year, which will be needed to meet the rapidly growing demand for our latest catalysts in Europe.

The new factory in Royston is the first autocatalyst facility based entirely on our new manufacturing technology. We have stepped up our programme of investment in our existing facilities to introduce this new technology throughout the world as fast as we can.

During the year we have put in new production capacity to meet rapidly growing demand for autocatalysts in Asia. In early November a new autocatalyst plant was opened in India's Harayana State, which more than doubled Johnson Matthey's production capacity in this important market. Our new autocatalyst facility in China will be officially opened later this month.

The combination of our class leading technology with the benefits of our new manufacturing process is resulting in growth in our global market share. Tightening emissions standards around the world are also providing exciting opportunities for growth in our heavy duty diesel business. Johnson Matthey's Continuously Regenerating Trap (CRT™) is already the market leader in voluntary retrofit programmes around the world as local authorities and transport operators strive to improve air quality in our cities.

In Chemicals we are investing in the expansion and upgrading of our platinum group metals refining capacity in the UK and US. The cornerstone of this programme is an investment of £13.5 million over the next two years to upgrade our refineries at Brimsdown and Royston in the UK. This will increase capacity and enable the group to take on higher volumes of primary refining materials. A further major investment is planned in new technology to refine and recycle spent chemical catalysts.

A new process catalyst plant was opened at Royston in October 2000 to manufacture the latest generations of supported chemical process catalysts for the fine and speciality chemicals industries. We continue to work in close partnership with our customers to develop new process catalysts, optimised to their requirements.

Our investment in Fuel Cells continues apace. We have identified a site near Swindon in the UK and are seeking permits for a new Membrane Electrode Assembly (MEA) manufacturing facility. This new facility will be built on a modular basis to allow the phased expansion of MEA production to meet market demand. Pilot production facilities at existing locations will be expanded during the coming year to provide intermediate capacity.

Johnson Matthey Fuel Cells has continued to work with target customers and has undertaken extensive market validation work to enable it to forecast demand for its products over the next three to five years. It has also made good progress in securing its strategic supply chain. The collaboration with James Cropper PLC to develop key components for MEAs announced last year has made excellent progress and supply agreements have been secured with a number of other raw material suppliers.

The business is also expanding its fuel cell catalyst manufacturing capacity with a new production plant at West Deptford, USA. The move to a new fuel processor development and manufacturing facility at West Whiteland, USA will be completed in the next few months.

In April 2001 we announced the acquisition of Pharm-Eco Laboratories, Inc. for a total price, including debt, of $46.9 million. Based on two sites near Boston in the US, Pharm-Eco provides contract research, process development and small scale synthesis services to the pharmaceutical industry. Its services are primarily focused on drug development through to phase 2 clinical trials.

These services complement our existing Pharmaceutical Materials business, which manufactures active pharmaceutical ingredients for drugs that are already approved for market or are very near to receiving final approval. The acquisition presents Johnson Matthey with enhanced opportunities to bring new pharmaceutical manufacturing business to the West Deptford facility in the US, and considerably extends our existing portfolio of products and services for customers in the pharmaceutical industry.

Johnson Matthey is the largest fabricator and distributor of the platinum group metals (pgms). We are the sole marketing agent for Anglo Platinum, the world's leading primary producer of pgms,

Chief Executive's Statement

a relationship that goes back over 70 years. Growth in our Precious Metals Division is driven by strong demand for the platinum group metals and their increasing use in a wide range of industrial applications. This growth is supported by Johnson Matthey's global market development activities and our commitment to investment in research and development of new applications for the pgms.

Our platinum fabrication businesses have grown steadily over the last few years with investment in new products and processes. One of the major growth areas has been the manufacture of specialised components for medical devices such as catheters and stents, which are extensively used in non-invasive surgery. In February 2001 we acquired Shape Memory Applications, Inc. (SMA) in the United States for £3.6 million. SMA is a manufacturer of components for medical applications made of Nitinol, a nickel titanium alloy that has shape memory and super elastic properties. This acquisition will further strengthen our share of this growing market.

Our strategy for the development of Colours & Coatings Division is producing good results. The majority of the division's activities are now focused on the growing markets for decorative products for tile and glass. As a consequence the division is now achieving good sales growth as well as improving margins, which rose significantly in 2000/01.

Good progress has been made with our investment programme for the Tile business in Spain and Brazil and at our glass enamels facility in the Netherlands. All three will commence production during 2001. The benefits of the restructuring programme for our Tableware business are coming through. We further strengthened the business with the acquisition of Precision Studios from Waterford Wedgwood plc for £1.8 million in July 2000. The business, which manufactures ceramic decals, has been merged with the group's existing UK decals business onto one modern site.

At 31st March 2001 the group had net cash of £139.9 million and shareholders' funds of £851.0 million. This strong financial position means the group can comfortably fund its major capital expenditure programme together with the investment required for the emerging fuel cell business. In addition we will pursue a number of niche acquisition opportunities, particularly in Catalysts & Chemicals, which will be financed out of cash and additional borrowings. These investments should help to underpin the future growth of the group without changing the current focus. That level of future investment still leaves Johnson Matthey with some spare balance sheet capacity. Consequently, the company intends to use its surplus cash to buy back some of its shares, which would be earnings enhancing at the current price and would improve the efficient use of capital.

Financial Highlights

In the year to 31st March 2001 Johnson Matthey's profit before tax and exceptional items rose by 25% to £180.3 million. Earnings per share excluding exceptionals rose by 22% to 58.1 pence.

Sales increased by 53% to £5.9 billion boosted by significantly higher prices for platinum and palladium. Sales excluding the value of precious metals for the continuing businesses rose by 16% to £977 million.

Operating profit rose by 20% to £175.0 million. The group made £5.3 million of net interest income in the period compared with a net charge of £2.4 million last year. This turnaround is a result of the interest earned on the cash received from the sale of Electronic Materials (EMD), which was completed in August 1999.

The board is recommending to shareholders a final dividend of 16.3 pence making a total dividend for the year of 23.3 pence, an increase of 15%. The proposed dividend would be covered 2.5 times by earnings.

Operations

Catalysts & Chemicals Division increased sales by 76% over last year to £1,503 million. This growth reflected increased sales volume and the effect of higher precious metal prices particularly that of palladium. Sales excluding the value of precious metals rose by 14% to £565 million. The division's operating profit rose by 17% to £98.9 million.

The Catalytic Systems business, which encompasses Johnson Matthey's global autocatalyst, heavy duty diesel and stationary source emission control businesses, performed very well, despite the widely publicised fall in vehicle sales in North America in the last five months of our financial year. Overall, global vehicle sales advanced by 1% but the autocatalyst market grew by around 6% benefiting from tightening standards and the geographical spread of regulations to control emissions. Johnson Matthey's global volumes grew 9% in the year as our strong technology and the benefits of our new production process combined to increase our market share. Sales of our market leading CRT™ and other heavy duty diesel products were also well up on last year as the result of increased retrofit activity around the world. This strong progress underlines the future growth opportunity represented by heavy duty diesel as emission standards tighten.

There has been a great deal of activity in our Fuel Cell business, which during the period was organised into a stand alone business unit within the Catalysts & Chemicals Division. A major fuel cell testing and evaluation facility was installed at the Johnson Matthey Technology Centre at Sonning Common and is now fully operational. Good progress was also achieved in fuel cell product design and the development of robust manufacturing processes.

Chemicals also had an excellent year. All parts of the business achieved strong revenue growth. Platinum group metals refining activities experienced strong demand benefiting from both high metal prices and increased intake from primary producers. Catalyst sales to pharmaceutical and chemical customers increased significantly. Sales of precious metal salts and other fine chemicals also grew strongly.

Pharmaceutical Materials achieved good growth in platinum pharmaceuticals, particularly the major anti-cancer drug Carboplatin, which Johnson Matthey manufactures for Bristol Myers Squibb. Chiral methylphenidate, a new product introduced towards the end of the year, achieved good initial sales. As expected, sales of generic methylphenidate declined as a result of increased competition. Overall, operating profit was largely unchanged from last year.

Precious Metals Division's (PMD's) sales climbed by 55% to £4.1 billion, driven by strong demand for platinum group metals and higher prices. Operating profit rose 26% to £57.4 million.

Prices of platinum group metals rose sharply in 2000/01 with the average price for platinum up 42% and palladium 83% higher. For most of the year both metals were in short supply with overall demand for palladium continuing to exceed mine output and the shortfall largely being met from sales of Russian stocks. PMD's marketing and trading operations benefited from strong physical demand and buoyant prices. Its platinum fabrication businesses also achieved good sales growth in the year with strong industrial demand and continued rapid expansion in sales of products for medical devices.

Trading profit from the Gold and Silver business was slightly down despite increased refining sales coming from Asia. The gold price was weak throughout the year and the refining market remains very competitive with pressure on margins. We rationalised our Canadian business in the year to improve profitability. A restructuring charge of £2.6 million has been taken through operating profit.

Colours & Coatings Division increased its sales by 6% to £255 million. Sales of decorative products for the tile and glass industries grew strongly. Operating profit for the division

Above from left to right: Dr Barry Cooper, Dr Pelham Hawker, Chris Clark, Pär Jones and Jim Thoss were presented with the MacRobert Award for engineering innovation at a ceremony held at Buckingham Palace on 30th November 2000

increased by 15% to £32.2 million.

The Structural Ceramics sector, which sells mainly to the tile industry, achieved strong sales growth in Europe and Asia. Margins continue to improve reflecting the benefit of the major investment in modern manufacturing capacity in Spain. The Glass sector also had a successful year with good sales of automotive glass enamels and silver pastes.

Tableware continued to encounter difficult market conditions with sales to UK customers again declining. However operating profit increased as a result of the cost reduction programme undertaken during the year.

Outlook

The group grew strongly last year and our businesses continue to perform well. As a result, we are investing significantly in the development of our technology and also in increased capacity, particularly for Catalysts & Chemicals. We are confident that the current year will again demonstrate the organic growth potential in Johnson Matthey.

Chris Clark
Chief Executive

Financial Review

Review of Results

In the year to 31st March 2001 turnover rose by 53% to £5.9 billion, boosted by significantly higher prices for palladium and platinum. Sales excluding the value of precious metals for the continuing businesses rose by 16% to £977 million.

Operating profit excluding exceptionals rose by 20% to £175.0 million. All three divisions achieved strong organic growth. Divisional results are discussed in more detail in the Chief Executive's Statement on pages 4 to 7, and in the individual divisional reports on pages 12 to 19.

Profit before tax and exceptional items rose by 25% to £180.3 million. Earnings per share, excluding exceptionals, rose by 22% to 58.1 pence. The board is recommending to shareholders a final dividend of 16.3 pence, making a total dividend for the year of 23.3 pence, an increase of 15%. The dividend would be covered 2.5 times by earnings.

Return on Sales (ROS)

	Total External Sales		ROS	
	2000	2001	2000	2001
	£ million	£ million	%	%
Catalysts & Chemicals	856	1,503	9.9	6.6
Precious Metals	2,672	4,146	1.7	1.4
Colours & Coatings	241	255	11.6	12.6
Continuing Businesses	3,769	5,904	3.9	3.0

	Sales Excluding Precious Metals		ROS	
	2000	2001	2000	2001
	£ million	£ million	%	%
Catalysts & Chemicals	494	565	17.2	17.5
Precious Metals	114	162	40.0	35.5
Colours & Coatings	234	250	11.9	12.9
Continuing Businesses	841	977	17.4	17.9

Sales and Margins

Johnson Matthey's turnover is heavily impacted by the high value of precious metals sold by the group particularly in the Precious Metals Division. The total value of sales each year varies according to the mix of metals sold and level of trading activity. The value of the precious metals included in sales is generally separately invoiced and payment made within a few days. Consequently, although return on sales (operating profit / total external sales) for the precious metals businesses is low, profit growth has been relatively stable and return on investment is high.

To provide a more useful measure of return on sales, the adjacent table shows sales by division excluding the value of precious metals. Total sales for the continuing businesses excluding precious metals were £977 million which was 16% up on last year and return on sales averaged 17.9% compared with 17.4% in 1999/00. The group's target for each of its divisions is to achieve a return on sales excluding precious metals in excess of 10%. All three divisions were comfortably ahead of that target in 2000/01.

The percentage return for Catalysts & Chemicals Division improved slightly compared with last year, despite additional research and development expenditure on fuel cells. Return on sales for Pharmaceutical Materials was very similar to last year. The returns for both Catalytic Systems and Chemicals increased.

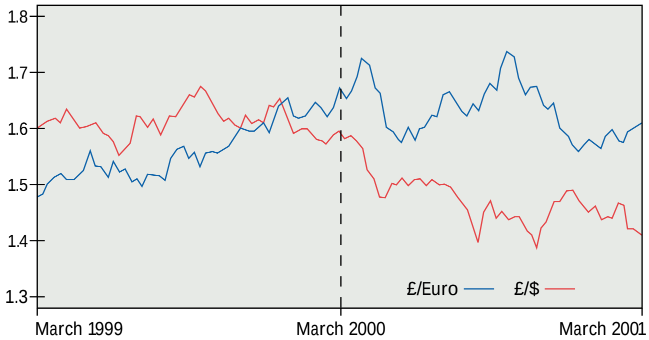
Sales grew strongly in Precious Metals Division. Return on sales excluding precious metals fell a little but still remains high. The return for Colours & Coatings Division rose by 1% to just under 13%. The improvement reflects the benefit of the rationalisation programme for the Tableware business.

Return on Investment

We set a target of 20% for the pre-tax return on assets (ROA) for all our businesses. This target is based on operating profit divided by average net operating assets (including goodwill). Precious Metals Division was substantially ahead of the group target. Catalysts & Chemicals Division was also above 20%. Colours & Coatings Division improved its return but was still a little below target.

For the group as a whole ROA was 25.0% (see pages 62 and 63) compared with 18.4% in 1999/00 (which included EMD for part of the year). On a post-tax basis this equates to a return of 17.8% which is well above the group's current average long run cost of capital of 10%. Economic value added, which measures earnings after charging the cost of capital, was £53 million including exceptionals compared with £32 million last year.

Exchange Rates



Exceptional Items

Overall, exceptional items and goodwill amortisation gave rise to a small net profit of £0.2 million on a pre-tax basis.

An additional payment of £3.4 million was received from the sale of EMD. This profit has been partly offset by losses on disposal of other businesses and a £0.6 million exceptional charge relating to the integration costs of Precision Studios, a business acquired during the year. Goodwill amortisation amounted to £0.3 million for the year.

Interest and Exchange Rates

The £7.7 million improvement in interest compared with last year reflects the interest earned on the sale proceeds of EMD for a full twelve months compared with seven and a half months of last year.

The overall net interest credit of £5.3 million includes the interest earned on the group's net cash and deposits less leasing costs for gold and silver, which were £1.4 million for the year compared with £2.2 million last year when average lease rates were higher.

Exchange rates were generally favourable for Johnson Matthey's results. Just under half of the group's operating profit is earned in North America. The average rate for the US dollar for the year strengthened to $1.48/£ compared with $1.61/£ for last year, which increased profits by £7.6 million. However, the Euro weakened from €1.56/£ to €1.63/£ which, together with weakness in some other currencies, reduced the translation benefit to £6.4 million.

Taxation

The group's total tax charge rose by £7.0 million to £52.3 million. Excluding exceptionals, the average tax rate increased by just under 1% to 29.0% reflecting a change in the geographic mix of profits.

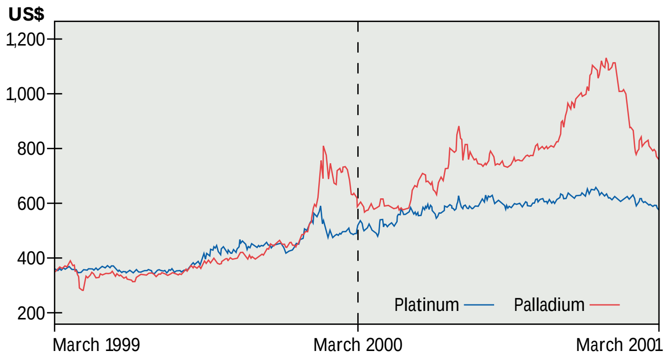
Cash Flow

Johnson Matthey's net cash inflow from operations was £156.5 million, which was 20% better than last year, despite an £82.0 million cash outflow to fund increased debtors. The rise in debtors reflected increased sales volumes and higher prices for palladium and platinum. However the group managed to reduce inventories, despite the higher metal prices, which limited the overall increase in working capital to £58.0 million.

Capital expenditure rose to £104.4 million, which is 65% up on last year's figure of £63.3 million (excluding the expenditure of £11.4 million by EMD), and represents two and a half times depreciation. The cash element of this expenditure in the year was £98.8 million (the remainder being accrued). We plan to further increase capital expenditure in 2001/02 with major investments in new technology and increased capacity to meet growing demand for new products.

As a consequence of the high level of capital expenditure in 2000/01 net cash flow for the group was negative at £16.0 million. After taking into account the effects of exchange translation on the group's US dollar borrowings, net cash fell by £25.9 million to £139.9 million at 31st March 2001. Shareholders' funds increased by £95.6 million to £851.0 million.

Platinum & Palladium Prices



Financial Review

Financial Risk Management

The group uses financial instruments, in particular forward currency contracts and currency swaps, to manage the financial risks associated with the group's underlying business activities and the financing of those activities. The group does not undertake any trading activity in financial instruments. Our Treasury department is run as a service centre rather than a profit centre.

Interest Rate Risk

Following the sale of EMD the group used the proceeds to repay borrowings and deposited the remainder with a range of high quality international banks. The deposits are mainly held in sterling with relatively short maturities. The group occasionally uses interest rate swaps to generate the desired interest profile. The group has £70.3 million (US$100 million) of long term fixed rate borrowings in the form of an issue of US dollar bonds which carry an interest coupon of 6.36%. At 31st March 2001 the group had £27.2 million of floating rate borrowings, largely in the form of foreign currency loans to fund overseas operations. A 1% change in all interest rates would have a 1.2% impact on group profit before tax. This is well within the range the group regards as acceptable.

Liquidity Risk

The group's policy on funding capacity is to ensure that we always have sufficient long term funding and committed bank facilities in place to meet foreseeable peak borrowing requirements. The group has committed bank facilities of £100 million. None of these facilities was drawn down at 31st March 2001. The group also has a number of uncommitted facilities and overdraft lines.

Foreign Currency Risk

Johnson Matthey's operations are global in nature with the majority of the group's operating profits earned outside the UK. The group has operations in 34 countries with the largest single investment being in the USA. In order to protect the group's sterling balance sheet and reduce cash flow risk, the group finances most of its US investment by US dollar borrowings. Although most of this funding is obtained by directly borrowing US dollars, some is achieved by using currency swaps to reduce costs and credit exposure. The group also uses local currency borrowings to fund its operations in other countries (see page 52).

The group uses forward exchange contracts to hedge foreign exchange exposures arising on forecast receipts and payments in foreign currencies. Currency options are occasionally used to hedge foreign exchange exposures, usually when the forecast receipt or payment amounts are uncertain. Details of the contracts outstanding on 31st March 2001 are shown on page 54.

Precious Metals Prices

Fluctuations in precious metal prices can have a significant impact on Johnson Matthey's financial results. Our policy for all our manufacturing businesses is to limit this exposure by hedging against future price changes where such hedging can be done at acceptable cost. The group does not take material exposures on metal trading.

All the group's stocks of gold and silver are fully hedged by leasing or forward sales. Currently the majority of the group's platinum group metal stocks are unhedged because of the lack of liquidity in the platinum metal markets.

John Sheldrick

John Sheldrick
Group Finance Director

Divisional Structure

Catalysts & Chemicals

Catalytic Systems
Catalytic Systems comprises Johnson Matthey's global autocatalyst, heavy duty diesel and stationary source emission control businesses. We are the world's leading manufacturer of catalysts for vehicle exhaust emission control and reduction of volatile organic compound emissions from industrial processes. Manufacturing takes place in the USA, UK, Belgium, Mexico, Argentina, South Africa, Malaysia and India and we have R&D facilities in the USA, UK, Sweden, Japan and Brazil.

Chemicals
Process Catalysts manufactures supported and homogeneous catalysts, fine chemicals and electrochemical products such as catalysts for fuel cells and gas detectors. Our platinum group metal (pgm) refining business recovers spent catalysts and other secondary material and also refines primary pgms from global mining operations. Manufacturing facilities are in the USA and UK. Our research chemicals catalogue business, Alfa Aesar, is based in the USA and Germany.

Pharmaceutical Materials
Manufactures active pharmaceutical ingredients for sale to leading pharmaceutical companies. We also partner with customers to develop and manufacture patent protected drugs and generic controlled substances. Production is in the USA.

Fuel Cells
Johnson Matthey is the world leader in catalysts and catalysed components for fuel cells.

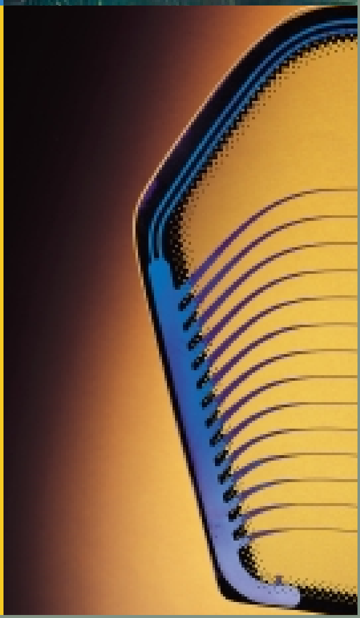
Precious Metals

Our Precious Metals Division is organised into two groups; Platinum and Gold and Silver, and incorporates Johnson Matthey's precious metals marketing, fabrication and refining activities.

Platinum
Consists of our worldwide platinum marketing and fabrication activities. Marketing is headquartered in London with support facilities in Philadelphia and Hong Kong. We are the world's leading distributor of platinum group metals and the sole marketing agent for Anglo Platinum, the world's largest producer of platinum. Our platinum fabrication business makes a wide range of platinum group metal products primarily in the UK and USA.

Gold and Silver
Comprises our worldwide gold and silver refining and bullion manufacturing operations. Johnson Matthey is the market leader in the refining of gold and silver. The business serves the world's mining industries and recycles secondary scrap material. We are also the world's largest manufacturer of high purity small gold bar products for investment and jewellery manufacture. Gold and silver refining operations are located in the UK, USA, Canada, Australia and Hong Kong.

Colours & Coatings



Colours & Coatings Division is ranked among the world's top three integrated suppliers of decorative products and associated raw materials for ceramics and glass. The division is structured into four businesses; Glass, Pigments and Dispersions, Structural Ceramics and Tableware, which are organised around the key markets that we serve.

Glass
Based in the Netherlands, our Glass business manufactures black obscuration and silver conductive enamels for automotive glass. It also makes enamels and decorative precious metal products for other glass applications such as bottles and architectural glass.

Pigments and Dispersions
Pigments and Dispersions produces a wide range of inorganic pigments and pigment dispersions for use in printing inks, paints, automotive finishes, woodstains and plastics.

Structural Ceramics
Our Structural Ceramics business manufactures colours, glazes and frits for the tile and sanitaryware industries, and includes our zircon business.

Tableware
Tableware supplies colours, glazes, decals and decorative precious metal products to manufacturers of fine china in the UK and around the world.

Catalysts & Chemicals

Catalysts & Chemicals Division had a very good year with operating profit 17% up on 1999/00 at £98.9 million. Both the Catalytic Systems and Chemicals businesses achieved very strong growth. Pharmaceutical Materials made good progress though profits were largely unchanged from last year. Once again, the year saw a great deal of activity in fuel cells.

Main picture:
A specially developed advanced materials handling system controls the preparation of all the materials used in the production of the latest generations of autocatalysts at Johnson Matthey's new manufacturing plant at Royston, UK

Left:
Analysing platinum group metal chemical products at Johnson Matthey's facility in West Deptford, USA

Centre:
From its extensive facilities in Devens, USA, Pharm-Eco Laboratories provides world class chemistry outsourcing services to the pharmaceutical industry

Right:
Zero emissions vehicle legislation and the drive to improve fuel economy are stimulating rapid progress in the development of fuel cell cars (photo courtesy of Ford Motor Company Limited)

Catalytic Systems

Catalytic Systems, which encompasses Johnson Matthey's global autocatalyst, heavy duty diesel and stationary source emission control businesses, had a very successful year. In North America, vehicle sales in calendar 2000 surpassed 1999's record but then fell sharply in the first quarter of 2001. As a result there was a 1% decline for our fiscal year as a whole. In Europe, vehicle sales were down 2% over the same period, while in the rest of the world they increased by around 6%. Overall, global vehicle sales advanced by 1% but the autocatalyst market grew by around 6% benefiting from tightening standards and the geographical spread of regulations to control emissions. Johnson Matthey, supported by strong catalyst technology and the introduction of a new production process, maintained momentum in the second half, gaining market share and increasing sales volume by 8%. For the year as a whole unit sales were up 9% on 1999/00.

The substantial capital investment programme commenced in 1999/00 continued throughout the year. The new high technology European autocatalyst plant at Royston, UK is in full production and was officially opened in March 2001. In the USA a new production line was added at the Devon plant. The new Indian plant, which opened in November 2000, and the new facility in Shanghai, which will open in June 2001, place Johnson Matthey in a strong position to compete in these two important emerging markets. In addition to adding capacity, the division's capital expenditure programme has enhanced its production capability to allow the manufacture of better performing catalysts, often with lower precious metal loadings, benefiting customers and strengthening its competitive position.

Chemicals

Chemicals had an excellent year with all of its businesses achieving good growth in revenues driven by strong demand for products and services and high metal prices. Platinum group metal (pgm) refining had a very good year benefiting from high volumes of both secondary material and increased intake from primary producers around the world. There was also good growth in sales of process catalysts to the pharmaceutical and speciality chemicals industries and robust demand for pgm chemicals. Sales to the growing fuel cell industry were also encouraging. There continues to be strong interest in homogeneous catalyst products, particularly in the pharmaceutical industry to manufacture single enantiomer molecules for new drugs. The year also saw the business entering into agreements with major pharmaceutical companies to use its high throughput screening technology to rapidly identify catalysts for their processes. Alfa Aesar, the research chemicals business, benefited from expansion into organic compounds and growth in its e-commerce activities. Chemicals has embarked on a significant programme to expand and upgrade its pgm refining facilities on both sides of the Atlantic.

Pharmaceutical Materials

In Pharmaceutical Materials good growth from established products such as Carboplatin and controlled drugs as well as from several new products in development, was offset by an expected decline in revenues from methylphenidate. The major expansion of the West Deptford, USA manufacturing facility has made good progress and will be completed late this year. This project will deliver a major increase in capacity and capabilities to coincide with the expected approval of several important new products in the development pipeline. In April 2001 we acquired Pharm-Eco Laboratories, Inc., a provider of chemistry outsourcing services to the pharmaceutical industry. This business is primarily focused on supporting pharmaceutical companies from the early to middle phases of drug discovery and development. As such, Pharm-Eco fits well with the West Deptford business, which is focused on manufacturing pharmaceuticals that are near or have already received approval for commercial sale, enabling Johnson Matthey to offer pharmaceutical manufacturing services throughout a drug's life cycle.

Fuel Cells

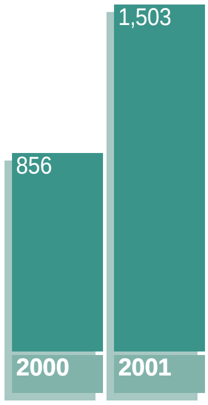
During the year Johnson Matthey Fuel Cells was formed as a stand alone business unit within Catalysts & Chemicals with locations in the UK, USA and Japan. Business offices have been established in Reading, UK, and a Gas Processing Technology business formed in the USA. Products include stack catalysts, electrodes, membrane electrode assemblies (MEAs), small-scale stationary fuel processors and catalyst-coated parts for automotive fuel processors. In 2000/01 the business continued to work with target customers and has secured agreements with key suppliers. Its exclusive agreement with James Cropper PLC to develop key components for MEAs has made excellent progress. The major investment in R&D and testing facilities at Sonning Common, UK, has been completed and now represents a 'best in class' capability. The business is also moving forward with production facilities, expanding its catalyst plant at West Deptford, USA, moving to a new fuel processor facility at West Whiteland, USA, and finalising plans for a MEA mass manufacturing plant in the UK.

Research and Development

Catalysts & Chemicals Division's research is focused on providing customers with world leading technology at competitive prices. The autocatalyst business has important R&D programmes to develop a range of catalyst systems to enhance customer choice including advanced platinum based alternatives to palladium only catalysts. Another major focus is the development of novel emissions systems for both light and heavy duty diesel engines in response to challenging legislation in both the US and Europe. Johnson Matthey's SCRT™ system, which combines its proven Continuously Regenerating Trap (CRT™) technology with advanced selective catalytic reduction, has been hailed as a major breakthrough in this area. The business continues to make good progress in the development of high performance catalysts for gasoline direct injection and other lean burn engines. R&D in Pharmaceutical Materials focuses on developing manufacturing processes for new products and ensures that there is a continuous flow of products in the pipeline. In Chemicals good progress has been made in the development of new highly selective catalysts and in developing a considerable ligand library for pharmaceutical and fine chemicals applications. A major focus is the development of chiral catalysts for the manufacture of single enantiomer molecules for drugs.

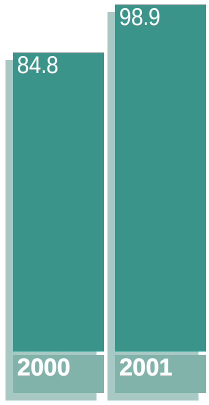
Turnover

£ million



Operating Profit

£ million



Cleaning Up Heavy Duty Diesels

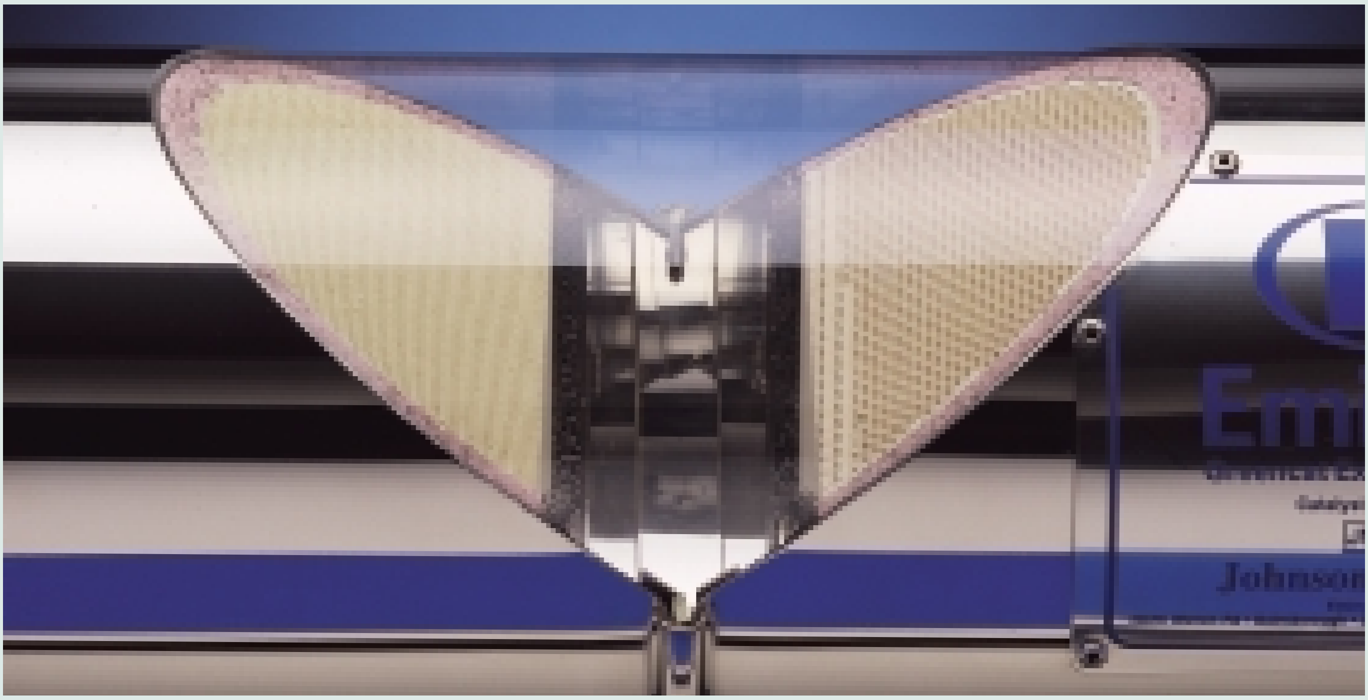
In the second half of this decade a significant new market for catalytic emissions control systems for heavy duty diesel engines will be evolving and Johnson Matthey with its world leading Continuously Regenerating Trap (CRT™) technology is very well positioned to benefit from this important growth opportunity.

In the 25 years that have passed since the first autocatalysts were sold for use in passenger car applications in the United States and Japan there has been enormous growth in the market for emission control catalysts for light duty cars and trucks. This has been driven by the spread of emissions legislation around the world and increasingly tougher emissions standards in new, as well as existing, markets.

Autocatalysts have undoubtedly brought important environmental and health benefits. With passenger car exhaust emissions now at very low levels, governments around the world are increasingly turning their attention to tackling pollution from other major types of vehicles including trucks and buses.

Heavy duty diesel vehicles are a conspicuous source of smoke particles and other pollutant emissions, particularly in urban areas. The particulates and oxides of nitrogen (NOx) contained in emissions from these vehicles give rise to major health concerns. This is encouraging governments to act at a local and national level to implement policy initiatives to clean up emissions from trucks and buses. Over the next few years these initiatives will create a second major market for catalytic emission control systems, a market for catalysts and filters to effectively control the emissions from heavy duty diesel engines used in trucks and buses.

New trucks and buses are already subject to quite stringent emissions legislation in Europe and the US, although this actually applies to the engine rather than to the vehicle. Standard engines tend to be fitted to a wide variety of vehicle types, from trucks and buses to fire engines, trains and cranes. To date, emissions regulations for these engines have been met without the need for catalytic exhaust aftertreatment. However, initiatives by government, local authorities and fleet operators to clean up emissions, particularly in city centres where air quality concerns are greatest, have resulted in the growth of significant markets for retrofit technology for heavy duty diesel engines. These utilise alternative fuels such as natural gas and liquid petroleum gas or what are commonly termed clean diesels, which operate on low sulphur diesel fuel and employ catalytic exhaust aftertreatment systems. Tests have shown these vehicles to be significantly cleaner than their conventional counterparts, creating a two-tier market. In response, emissions legislation for the European Union, United States and Japan, to take effect from 2005 through 2007, will push



Below: The CRT™ combines a catalyst with proprietary Johnson Matthey catalytic coating with a bare filter

Above: Johnson Matthey's CRT™ won the Royal Academy of Engineering's MacRobert Award for Engineering Achievement in 2000

Above: Cities around the world are increasingly restricting access to only the cleanest commercial vehicles

all new heavy duty diesel engines to achieve the same high levels of environmental performance.

Johnson Matthey, with nearly thirty years of experience at the leading edge of catalytic vehicle emission control technology, is a world leader in the development and supply of catalysts for engines operating on the full range of fuels. Its patented CRT™ is the market leading particulate trap system for heavy duty diesels. Developed to trap and burn the soot found in diesel exhaust as well as removing carbon monoxide and unburned hydrocarbons, the CRT™ has proven itself in widespread use around the world to be the first truly reliable way of removing soot particles from diesel exhaust, effectively cleaning up heavy duty diesels.

The market for retrofit of CRT™ technology started in Europe, particularly in Scandinavia, Germany and the UK, but has since grown to include major programmes in the United States and Japan. CRT™ is now entering the South East Asian market via Hong Kong. The main enabler for the adoption of catalytic exhaust aftertreatment systems like the CRT™ has been the growing availability of ultra low sulphur and sulphur free diesel fuel. This is often prompted by government tax incentives to encourage the use of these more environmentally friendly fuels. Wherever ultra low sulphur diesel fuel has gone the CRT™ has followed and vice-versa, as the benefits from CRT™ use have helped initiate a move to these cleaner fuels in many locations.

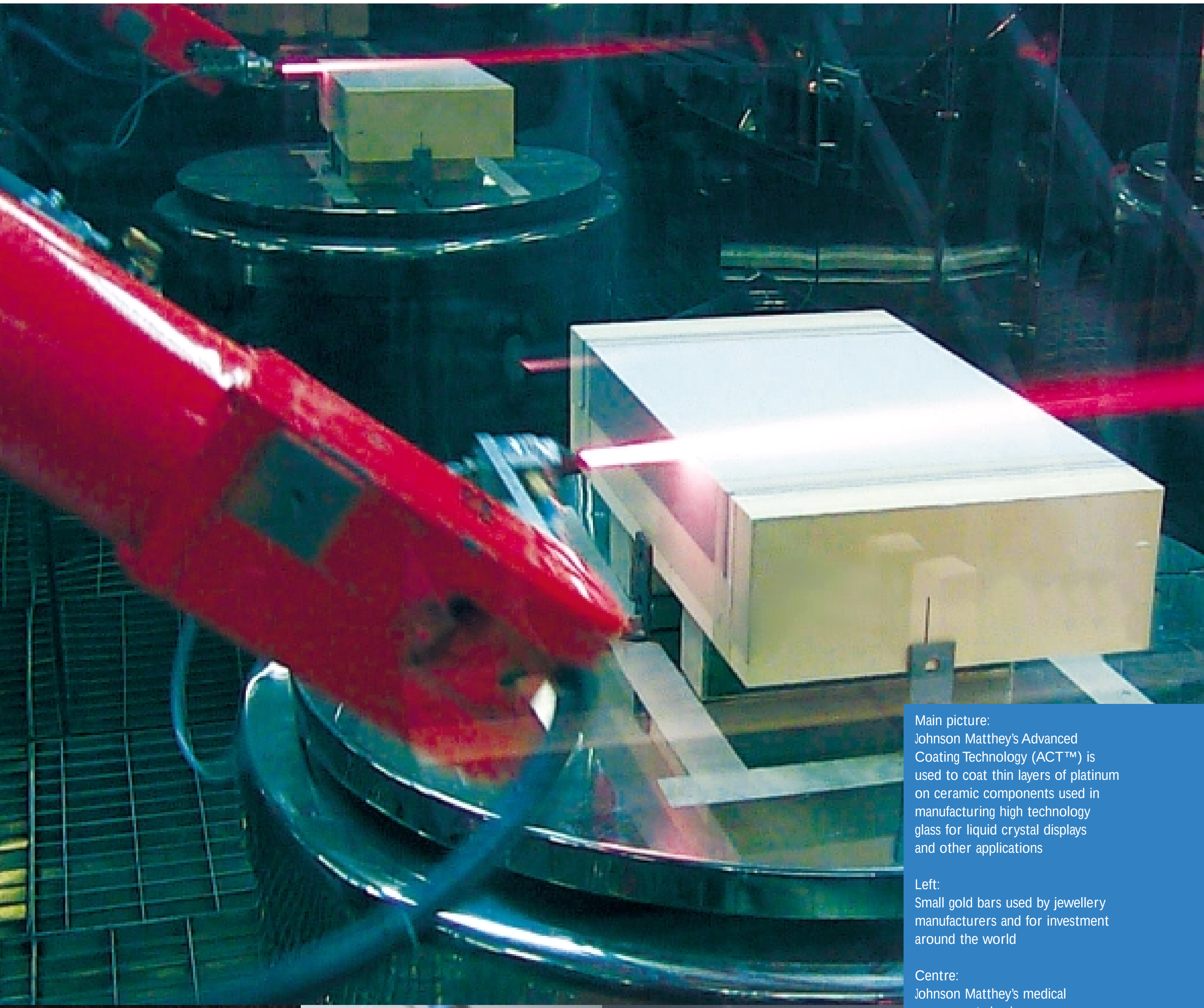
As the result of these developments the world's major heavy duty diesel engine and vehicle manufacturers now have a great deal of experience and data from the day to day operation of CRT™ systems. In addition to undertaking generic research on the CRT™, Johnson Matthey has been working closely with engine manufacturers to support their CRT™ test programmes. Many of the world's leading manufacturers now see the CRT™ as a fundamental part of their strategy for achieving legislated emissions targets.

However, this is by no means the end of the story. New systems based on enhanced CRT™ technology are being developed to meet the challenges of future heavy duty diesel emissions legislation. These include new products that have CRT™ catalyst technology packaged with sophisticated electronic emissions management systems that allow filter regeneration to be optimised across the full range of operating conditions. New systems are also under development that will allow the control of NOx, a major technological hurdle for diesel emission control. This can be achieved either by trapping the NOx and subsequently catalytically reducing it to benign nitrogen or, as in the case of Johnson Matthey's combined particulate/NOx system, the SCRT™, by using a reductant such as urea to reduce NOx to nitrogen. In both cases, Johnson Matthey will be supplying dedicated catalysts for these important technologies.

Johnson Matthey is working in partnership with heavy duty diesel engine and vehicle manufacturers around the world to optimise CRT™, SCRT™ and other innovative emission control technologies for use with their products. It is estimated that the market for catalytic systems for heavy duty diesel emission control will be over 600,000 units a year. This may sound small in comparison with the more than 50 million cars equipped with catalysts each year. However, the larger size of the engines used in trucks and buses means that the volume of catalyst used by this application is an order of magnitude greater than that used on a car. This coupled with the sophistication of the systems results in a very exciting opportunity for growth in the company's global vehicle emission control catalyst business.

Precious Metals

Precious Metals Division had an excellent year with operating profits up 26% on last year at £57.4 million. The division's global Platinum activities, which encompass marketing, trading and fabrication, advanced strongly as the platinum group metal (pgm) markets experienced strong demand and record prices. Conditions in the gold and silver markets were less buoyant and profits from our five refineries around the world declined slightly.



Main picture:
Johnson Matthey's Advanced Coating Technology (ACT™) is used to coat thin layers of platinum on ceramic components used in manufacturing high technology glass for liquid crystal displays and other applications

Left:
Small gold bars used by jewellery manufacturers and for investment around the world

Centre:
Johnson Matthey's medical components business manufactures parts for devices used in surgery

Right:
Platinum rings made in China, which became the world's largest market for platinum jewellery in the year

Platinum

The markets for platinum and palladium, already nervous following record deficits in the previous year, recorded further shortfalls in 2000/01 as supplies failed to match strong demand. Prices reacted accordingly with platinum reaching a thirteen year high in January 2001 and palladium achieved an all time record in the same month. Despite the high price, demand for platinum jewellery remained firm, driven by continued growth of Chinese demand, which exceeded Japanese jewellery offtake for the first time. Platinum also benefited from its increased use in autocatalysts as diesel cars, which rely on platinum based catalysts, captured a greater share of the European market. Industrial demand for platinum also rose, led by its use in the manufacture of computer hard disks and glass for liquid crystal displays.

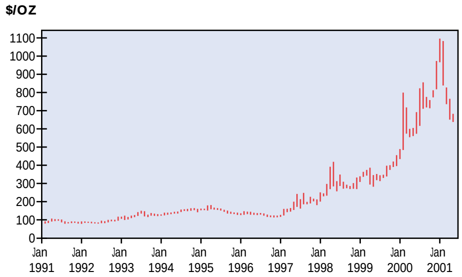
The palladium market had a remarkable year as strong demand, especially from the automotive and electronics sectors, outstripped mine supply. The market remained reliant on metal from Russian government stockpiles, supplies of which were often erratic and restricted. As a result, the price was volatile, rising from $585 at the start of the year to $1,090 in January 2001 and finishing 2000/01 at $738 as consistent Russian selling appeared in the final quarter. The high prices stimulated an increasing search for less costly alternatives; in the case of the dental and electronics industries this will lead to the growing substitution of palladium by gold and nickel respectively. The auto industry also took steps to reduce its dependence on palladium as several car companies announced plans to introduce new, high technology platinum catalysts on some gasoline cars, a trend which will boost platinum demand in future years. The opportunities provided by strong pgm demand and buoyant prices in 2000/01 boosted profits from the division's marketing and trading operations in the UK, USA and Hong Kong. The average price of platinum for the year was $580, 42% higher than 1999/00, whereas palladium was 83% higher at $779.

Profits from the division's pgm manufacturing operations made further advances during the year. Strong growth of new higher margin products for the automotive and electronics sectors was supplemented by steady growth of more traditional products. Our medical components business, which manufactures pgm products for non-invasive surgical devices, also had a good year. In February 2001, we took the opportunity to expand the product range of this business by acquiring Shape Memory Applications, Inc., a manufacturer of medical components located in San Jose, California.

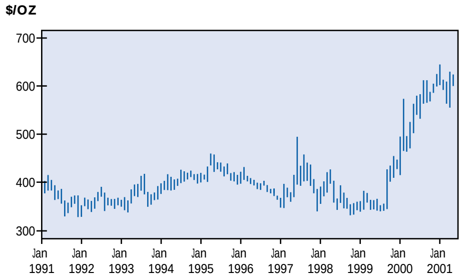
Gold and Silver

Johnson Matthey's gold and silver refineries in Salt Lake City (USA), Brampton (Canada), Royston (UK), Melbourne (Australia) and Hong Kong maintained their world leadership position in difficult trading conditions. The gold price, which has been weak for several years, has resulted in primary mine output stagnating at around 2,600 tons per annum and depressed the availability of secondary materials. Despite this, the volume of input to our refineries remained strong but the increasing pressure on margins impacted profitability. Revenues for our internationally recognised bullion bars remained good. During the year the division's Canadian business was rationalised to improve profitability.

Monthly High/Low Palladium Prices



Monthly High/Low Platinum Prices

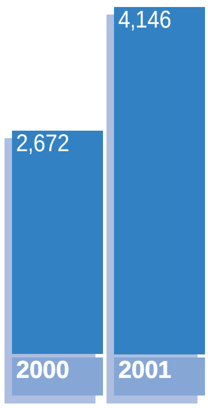


Research and Development

The research and development of new platinum group metal products is a key part of the division's growth strategy. Work undertaken in the UK and USA is carefully targeted to meet customer needs for products that perform in highly demanding industrial applications. The development of novel alloys and production techniques is not only aimed at improving the performance of existing products, but also at developing new products for applications where cost or performance criteria have previously precluded the use of platinum group metals. Research partnerships formed with leading companies in the automotive, chemical and medical industries are expected to produce the next generation of products with improved performance, whereas fundamental work on the use of coatings for materials used in high temperature, corrosive environments is leading to new industrial uses for platinum. The group conducts research into new uses for platinum group metals at the Johnson Matthey Technology Centre. The pgms have unique properties which are applicable in a range of different technologies. Currently, the group's research programme is investigating the use of pgms in new chemical catalysts, hydrogen storage, photochemistry, nanoparticles and novel cleaning materials as well as in the research programmes conducted on behalf of the group's established businesses.

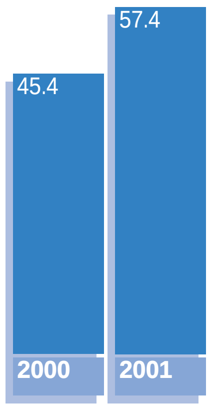
Turnover

£ million



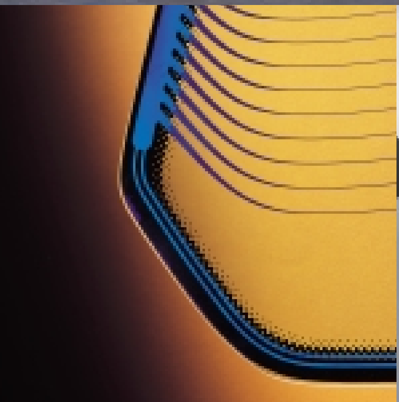
Operating Profit

£ million



Colours & Coatings

Colours & Coatings Division continued to make excellent progress during the year driven by strong growth in sales and profits in its Structural Ceramics and Glass businesses. The division increased its operating profits by 15% to £32.2 million.



Main picture:
A new manufacturing plant at Colours & Coatings' Meir, UK site supplies specialist pigments to all of the division's businesses

Left:
Black enamels and conductive silver pastes for automotive glass

Centre:
The Tile business provides innovative products and industry leading technical support to tile manufacturers worldwide

Right:
The Tableware business has invested in high technology production processes for decals and liquid gold and established a new Innovations Centre at Meir, UK to support its global customers

The Colours & Coatings Division is one of the world's leading suppliers of inorganic colours and the associated frits, glazes and enamels by which they are applied to a wide range of substrates across a number of markets including automotive, glass, tile, tableware, plastics, inks and surface coatings. The division is organised into four sectors reflecting its major markets: Structural Ceramics, which combines the Tile, Sanitaryware and Zircon businesses, Glass, Tableware and Pigments and Dispersions. Colours & Coatings has operations in 30 countries, with its major manufacturing bases in Spain, Italy, the Netherlands and the UK. It is in the top three by market share in all its major market segments.

2000/01 has seen the continuation of the strategy of investing in order to exploit faster growing markets, particularly those of its Tile and Glass businesses, and refocusing resource away from declining or slower markets.

Structural Ceramics

The Structural Ceramics sector achieved strong sales growth in the year and good growth in operating profits. Robust Asian and European markets underpinned another record year for Tile operations in Spain and Malaysia, coupled with strong performances from Italy and the UK. The Spanish frit manufacturing facility is operating at full capacity and work is well advanced on the construction of a new plant nearby, which will be commissioned in the second half of this year. In addition, a smaller frit facility is under construction to serve the growing Brazilian market with clean, modern frits. The strategy of concentrating stain production in Structural Ceramics has paid handsome dividends, with growth in volumes and a fall in unit costs. The Tile business' design centre at Spezzano, Italy continues to provide innovative and pioneering support to the global tile market. In 2000/01 a small tile manufacturing line was installed in order to facilitate the development of new patterns and technologies. The Zircon business had a solid year, increasing volumes, prices and profits in a difficult market. Zircon is a milled white pigment used extensively in frit and glaze systems. The weak Euro and increasing energy prices both adversely affected the sector in 2000/01, but the outlook is expected to improve in the year ahead. A small zircon facility was acquired near Shanghai during 2000/01, which is expected to be earnings enhancing in 2001/02.

Glass

The Glass sector also had a very good year with strong profit growth on the back of a robust increase in sales. A £4 million expansion of Glass' masterplant in Maastricht, which was previously operating at capacity, is close to completion. This will enable the business to increase output and improve both quality and efficiency. A new obscuration silver paste product has gained widespread acceptance in the market and sales have doubled. There was also strong growth in sales of decorative gold pastes, particularly into the Middle East. The business remains committed to a strong pipeline of new products to assist customers in meeting stringent new environmental standards.

Tableware

Profits in Tableware improved on the prior year as a continuing fall in sales to UK manufacturers was offset by the benefits of the cost reduction initiative announced in December 1999 which have been delivered in full. Some leading UK companies are showing signs of recovery and there are growth opportunities with other tableware producers worldwide. In order to support its strategy of focusing on key accounts and growth prospects, the sector has invested in a new Innovations Centre, high technology production processes for decal and liquid gold manufacture and the implementation of new IT systems to better support customers with a more streamlined overhead. In July 2000 the business acquired Waterford Wedgwood plc's modern decal manufacturing facility at Fenton, UK and entered into a long term supply agreement. Its decal operations, previously based at Burslem, UK, have now been consolidated on the Fenton site.

Pigments and Dispersions

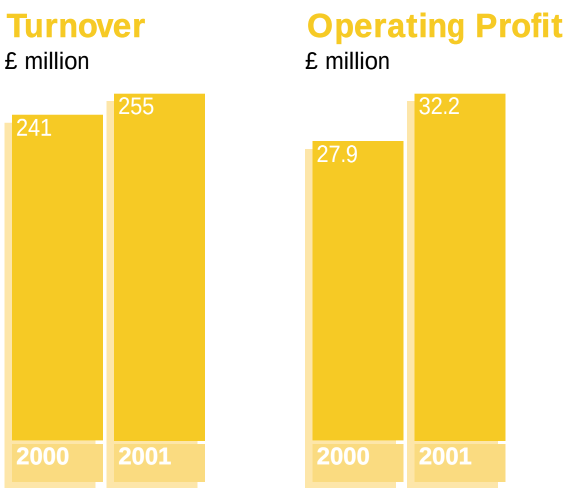
Pigments and Dispersions had a difficult year, with both sales and profits declining. The Pigments business suffered from delays to the introduction of new products and reduction in demand for transparent iron oxide in the US. The Dispersions business was also impacted by delays in a major transition from older products to new ranges. All new products have now been launched and are receiving a positive response.

Research and Development

Research for the Colours & Coatings Division is based at the Johnson Matthey Technology Centre and at the division's main European facilities. Research activities include fundamental studies into the base chemistry of the businesses' core products as well as new product development.

The introduction of new products and new application effects is an important part of the division's strategy for growth. Its customers' markets are fashion driven and so development programmes are closely linked to the need to develop innovative new ways of using colours and to match changing consumer tastes.

Increasing environmental requirements are also leading to the development of heavy metal free ranges for all product areas and an increased focus on recyclability. There is also an increasing focus on new process development as well as new product development. New milling and drying technologies are reducing costs in Zircon and Glass. New printing processes will reduce lead times in decal production and novel equipment designed for the manufacture of liquid gold products will increase quality and address environmental and safety issues.



Environment, Health and Safety

Johnson Matthey is committed to managing its activities throughout the group so as to provide the highest level of protection to the environment and to safeguard the health and safety of its employees, customers and the community.

The company's Environment and Health and Safety (EHS) policies provide the guiding principles that ensure high standards are achieved at all sites around the world and afford a means of promoting continuous improvement based on careful risk assessment and comprehensive EHS management systems. These policies are formally reviewed at regular intervals and during the year a major update commenced with the assistance of external consultants. This work will give greater emphasis to formal management systems, which bring a systematic improvement in performance. Employee information and training requirements and the designation of corporate targets and performance measures for the businesses have also been revised. Corporate policies provide a framework for all Johnson Matthey businesses that are required to formulate site specific policies to meet local requirements. During the year these issues were reviewed at Johnson Matthey's International EHS conference, held biennially, which brings together general management and senior EHS professionals from across the group.

Board responsibility for EHS rests with the Group Managing Director who chairs the Environment, Health and Safety Committee (EHSC), a sub-committee of the board. The EHSC meets every two months to review and monitor EHS performance and consider key policy and operational issues. The division directors of Johnson Matthey's manufacturing operations are members of the committee together with the director of EHS. In addition the board undertakes a formal review of EHS performance annually. To ensure effective monitoring of performance, health and safety data is compiled monthly for consideration by the EHSC and general management. Environmental and resource efficiency information for the group is monitored and analysed annually.

EHS compliance audits are an integral part of Johnson Matthey's corporate EHS management system. During the year 24 in-depth EHS audits were completed across our operations in North America, Europe, Asia and Australia. Formal exit interviews with local site management are a feature of the audits and audit reports are reviewed by the EHSC with routine follow up on any outstanding issues. During the year further site visits were made to oversee health surveillance programmes by the Group Occupational Physician. A feature of the year has been the high level of capital investment in our existing businesses. This has led to many environmental improvements and has presented an opportunity to design and operate processes that are inherently safer and resource efficient. Resource efficiency is a discipline that is second nature to managers in the businesses who are charged with the responsibility of handling materials and products of high intrinsic value, many of which are recyclable.

Environment Policy

- Ensure that site operations meet legal and company requirements.
- Design and manufacture products to optimise their environmental performance.
- Eliminate all polluting releases from operations. Where elimination is not presently achievable, the intermediate goal is reduction.
- Promote high standards of energy management.
- Undertake comprehensive waste management programmes based on the following hierarchy of options – prevent, minimise, re-use, recycle and safely dispose.
- Minimise the impacts of past, present and future operations through effective planning and adequate provision of resources.
- Ensure that operations cause minimal visual impact or nuisance to the public.

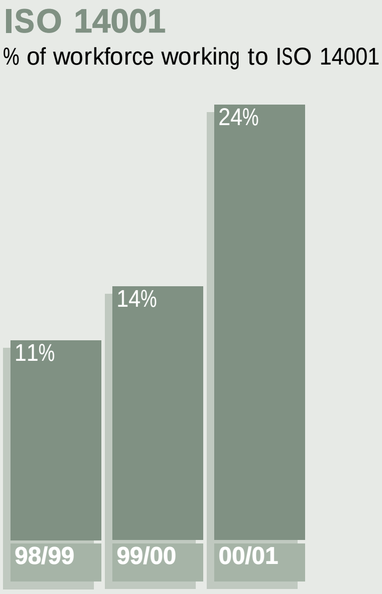
Health and Safety Policy

- Ensure that all locations meet all legal and company health and safety requirements.
- Manufacture current products in a manner which ensures a safe working environment through each phase of the production process.
- Strive toward an end goal of eliminating unsafe practices at all locations.
- Promote high standards of safety awareness through employee involvement and management commitment at each location.
- Operate processes at all times to minimise danger to the surrounding community.
- Provide immediate and effective response in event of accidents and emergencies.

Case Studies

Climate Change Levy

In the UK Johnson Matthey has signed negotiated agreements with the government through the Chemical Industries Association



Above: Natural gas powered Combined Heat & Power unit at Johnson Matthey's Royston, UK site

(CIA) and the British Ceramic Federation committing to a reduction in specific energy use by up to 22% of 1998 levels by 2010. In return our UK manufacturing operations have secured an 80% reduction of the Climate Change Levy (the Levy).

Combined Heat & Power

As a major part of Johnson Matthey's energy efficiency programme Combined Heat & Power (CHP) plants have been installed at our Royston and Brimsdown sites with a total electrical capacity of 10Mw. These units, powered by natural gas, produce electricity, hot water and steam at over 85% efficiency. This form of distributed power generation compares favourably with centralised generation supplied through the national grid at an efficiency of around 35%, thus reducing cost and emissions to the environment The introduction of CHP will provide an important contribution to reaching our UK energy reduction targets. The initiative will be supplemented by other energy efficiency measures, which seek to mitigate the effects of the Levy and the general increase in energy costs.

ISO 14001

ISO 14001 is an internationally recognised standard for environmental management, which is verifiable through independent auditors and incorporates continual improvement and employee involvement as key characteristics of the system. During the year Johnson Matthey's autocatalyst plants in Queretaro, Mexico and Germiston, South Africa became the latest sites to successfully achieve ISO 14001 certification. To date 24% of our employees work in plants that have achieved ISO 14001.

Further sites in Australia and Argentina are in the final stages of assessment prior to certification.

New Autocatalyst Facility Royston

This year saw the opening of our £10 million autocatalyst facility at our Royston site, which will see the annual production of 3.5 million automotive catalysts capable of meeting the strictest vehicle emission limits. The plant has been designed with safety, efficiency and environmental concerns in mind. The plant eliminates solid and liquid wastes and energy use is minimised. The efficiency of continuous drying ovens has doubled over previous designs through the introduction of heat exchangers, which extract waste heat from the exhaust stream to pre-heat incoming air. Gaseous emissions from the plant pass through a selective catalytic reduction system produced by Johnson Matthey's Environmental Products business in the US which eliminates NOx. The catalyst works in a similar way to a catalytic converter on a car by reducing NOx to nitrogen and water. The plant uses an intelligent process control system that constantly checks the operation of the manufacturing process. Robotic component handling technology has been used to design out repetitive manual handling tasks.

Training

Johnson Matthey's Noble Metals facility in West Whiteland has introduced interactive computer based training systems to improve employee health and safety awareness in the workplace as a complement to conventional methods. The courses are modular and allow tailoring to meet the specific needs of the employee. The technique has been well received and employees can work through the courses at their own pace leading to higher retention than conventional training methods. Similar interactive training systems are being adopted by other Johnson Matthey facilities.

Board of Directors

J N Sheldrick MA, MSc, FCMA, FCT

Group Finance Director, age 51; joined Johnson Matthey as Executive Director, Finance in September 1990 and assumed current job title in September 1995. Additionally responsible for Pharmaceutical Materials from July 1999. Currently a non-executive director of API Group Plc. Previously Group Treasurer of The BOC Group plc.

P F Retief

Age 68; appointed a non-executive director in June 1993. Formerly, Chairman of Anglo American Platinum Corporation Limited and previously Chairman of Johannesburg Consolidated Investment Co Ltd. **A, M, N**

M B Dearden MA

Age 58; appointed a non-executive director in April 1999. Currently, a non-executive director of Travis Perkins plc. Previously, Chief Executive of Castrol International and a main board director of Burmah Castrol plc. **A, M, N**

H R Jenkins CBE

Age 67; appointed a non-executive director in January 1996 when he retired as a director of The Prudential Corporation plc where he was Chairman and Chief Executive of Prudential Portfolio Managers. Latterly Chairman of Thorn plc and currently Chairman of Development Securities Plc and a non-executive director of EMI plc. He chaired the property advisory group at the Department of the Environment from 1990 to 1999. Previously Group Investment Director, Allied Dunbar Assurance and Director General of Investments, British Coal Pensions. **A, M, N**

N A P Carson BSc

Executive Director, Catalysts & Chemicals, age 44; joined Johnson Matthey in 1980; appointed Division Director, Catalytic Systems in 1997 after having held senior management positions in the Precious Metals Division as well as Catalytic Systems in both the UK and the US. Appointed Managing Director, Catalysts & Chemicals in August 1999. Neil joined the Board of Avon Rubber plc as a non-executive director in May 2001.

H M P Miles OBE

Chairman, age 65; joined Johnson Matthey as a non-executive director in March 1990; appointed Chairman in June 1998. Currently a director of ING Baring Holdings Limited, Chairman of Korea–Europe Fund Plc and a non-executive director of BP plc, Balfour Beatty plc and other companies. Previously Chairman of Cathay Pacific Airways, Swire Group Hong Kong, a Director of HSBC, and John Swire & Sons Ltd, and a Vice President of the China Britain Business Council. **A, M, N**

C R N Clark MIM
Chief Executive, age 59; joined Johnson Matthey in 1962; headed Johnson Matthey's platinum marketing operations before assuming responsibility for Catalytic Systems Division in 1988, and, additionally, Colour and Print in 1990. Appointed an executive director in March 1990 and Group Managing Director in September 1995. Became Chief Operating Officer in July 1996 and appointed Chief Executive in June 1998. Currently a non-executive director of FKI plc.

D G Titcombe
Group Managing Director, age 58; joined Johnson Matthey in 1960; appointed Division Director, Metals Division in 1984 and Director Precious Metals Marketing in 1988. Appointed Executive Director, Precious Metals in November 1990, and Managing Director, Precious Metals and Catalytic Systems in March 1994. In September 1995, he was appointed Managing Director of the enlarged Precious Metals Division. Appointed Group Managing Director in January 1999 and additionally responsible for Colours & Coatings from July 1999. Chairman of the Trustees of Johnson Matthey's UK pension schemes. Currently a non-executive director of Wagon plc.

C D Mackay MBA, MA
Age 61; appointed a non-executive director in January 1999. Currently Chairman of the Eurotunnel Group and of TDG plc, Deputy Chairman of Thistle Hotels plc, a member of the Supervisory Board of Gucci Group NV and a member of the board of INSEAD. Previously, Group Chief Executive and Deputy Chairman of Inchcape plc and has also served on a number of boards including those of HSBC Holdings plc and British Airways plc. **A, M, N**

H E Fitzgibbons CVO, BA, JD
Age 64; appointed a non-executive director in May 1990. Currently Managing Director of Top Technology Ltd and several technology venture capital funds. Also a non-executive director of Trafficmaster Plc. **A, M, N**

D W Morgan MA, ACA
Executive Director, Group Corporate Development, age 43; joined Johnson Matthey in 1988 as a Division Finance Director. Has had responsibility for Finance and Planning in each of the group's divisions and was appointed Director of Corporate Development in 1995. Appointed an Executive Director in August 1999. Responsible for the group's Corporate Development activities and Legal and Secretarial affairs. Currently a non-executive director of RiverSoft plc.

Committees of the Board

A Audit Committee
M Management Development and Remuneration Committee
N Nomination Committee

Key to Board of Directors

Left to Right: J N Sheldrick, P F Retief, M B Dearden, H R Jenkins, N A P Carson, H M P Miles, C R N Clark, D G Titcombe, C D Mackay, H E Fitzgibbons, D W Morgan

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Other Senior Management

Catalysts & Chemicals

D B MacDermot Business Development Director, Catalysts & Chemicals
P N Hawker Division Director, Catalytic Systems
S Christley Division Finance Director, Catalytic Systems
L C Pentz Division Director, Chemicals
G P Otterman Division Finance Director, Chemicals
F K Sheffy Division Director, Pharmaceutical Materials
J C Frost Director, Fuel Cells

Precious Metals

W F Sandford Division Director
B M O'Connell Division Finance Director
M C F Steel Market Research and Planning Director, Precious Metals Marketing
M Bedford Director, Precious Metals Marketing
A M Myers Director, Noble Metals
B J Doherty Managing Director, Australasia
J D McKelvie Vice President, Gold and Silver, North America
R J Tait General Manager, Gold and Silver, UK

Colours & Coatings

C M Hood Division Director
V Ros Managing Director, Structural Ceramics
J Murkens Managing Director, Glass
S P Murphy Managing Director, Tableware
T R Woolrych Finance and Planning Director

Corporate

G J Coates Group Treasurer
S Farrant Company Secretary and Senior Legal Adviser
I D Godwin Group Corporate Communications Manager
M J L Henkel Group Taxation Manager
B A Murrer Director, Technology Centre
I F Stephenson Director, Group Systems and Environment, Health and Safety, Human Resources and Pensions

Employment Policies

Equal Opportunities

It is the policy of the group to recruit, train and manage employees who meet the requirements of the job, regardless of gender, ethnic origin, age or religion. Employees who become disabled and disabled people are offered employment consistent with their capabilities.

Training and Development of People

Johnson Matthey recognises the importance of recruiting the very highest calibre of employees, training them to achieve challenging standards in the performance of their jobs, and developing them to their maximum potential.

Our policy requires careful review of organisation structure, succession and the development of high potential people to meet our business goals. The Management Development and Remuneration Committee of the board takes a special interest in ensuring compliance with the Training and Development of People Policy.

Training and Development of People Policy

- Ensure highest standards in the recruitment of staff.
- Assess training needs in the light of job requirements.
- Ensure relevance of training and link with business goals.
- Employ and evaluate effective and efficient training methods.
- Promote from within, from high potential pools of talent.
- Understand employees' aspirations.
- Provide development opportunities to meet employees' potential and aspirations.

Employee Communications

Johnson Matthey recognises the importance of effective employee communications. Information and comment is exchanged with employees through the company's in-house magazine, regular news bulletins, presentations to staff and team briefings.

Corporate Governance

Statement of Compliance with Combined Code

The company has applied all of the principles set out in section 1 of the Combined Code on Corporate Governance (the Code) relating to the structure and composition of the board, the remuneration of the directors, relations with shareholders and procedures for financial reporting, internal control and audit. This statement describes how the principles of the Code have been applied.

Throughout the year, the group has been in compliance with the provisions of the Code with the exception of the matter noted on page 26.

Directors and the Board

The board is responsible to the company's shareholders for the group's system of corporate governance, its strategic objectives and the stewardship of the company's resources. The board meets at least seven times per year and delegates specific responsibilities to board committees, as described below. The board reviews the key activities of the business, and receives papers and presentations to enable it to do so effectively. The Company Secretary is responsible to the board, and is available to individual directors, in respect of board procedures.

The board comprises the Chairman, the Chief Executive, four other executive directors and five other independent non-executive directors. The role of non-executive directors is to enhance independence and objectivity of the board's deliberations and decisions. The executive directors have specific responsibilities, which are detailed on pages 22 and 23, and have direct responsibility for all operations and activities.

All directors submit themselves for re-election every three years.

Committees of the Board

The Chief Executive's Committee is responsible for the recommendation to the board of strategic and operating plans and on decisions reserved to the board where appropriate. It is also responsible for the executive management of the group's business. The Committee is chaired by the Chief Executive and meets monthly. It comprises the executive directors and six senior executives of the company.

The Audit Committee is a sub-committee of the board whose purpose is to assist the board in the effective discharge of its responsibilities for financial reporting and corporate control. The Committee is chaired by Mr H R Jenkins and meets twice a year. It comprises all the non-executive directors with the Chief Executive, the Group Finance Director and the external and internal auditors in attendance.

The Nomination Committee is a sub-committee of the board responsible for advising the board and making recommendations on the appointment of new directors. The Committee is chaired by Mr H M P Miles and comprises all the non-executive directors.

The Management Development and Remuneration Committee (MDRC) is a sub-committee of the board which determines on behalf of the board the remuneration of the executive directors. The Committee is chaired by Mr H M P Miles and comprises all the non-executive directors. The Chief Executive and Director of Human Resources attend by invitation except when their own performance and remuneration are discussed.

Directors' Remuneration

The Remuneration Report on pages 28 to 33, includes details of remuneration policies and of the remuneration of the directors.

Relations with Shareholders

The company reports formally to shareholders twice a year, when its half year and full year results are announced and an interim report and a full report are issued to shareholders. These reports are posted on Johnson Matthey's website (www.matthey.com). At the same time, executive directors give presentations on the results to institutional investors, analysts and the media in London and other international centres. Copies of major presentations are also posted on the company's website.

The Annual General Meeting (AGM) of the company takes place in London and formal notification is sent to shareholders with the annual report at least 20 working days in advance of the meeting. The directors are available, formally during the AGM, and informally afterwards, for questions. Details of the 2001 AGM are set out in the notice of the meeting enclosed with this annual report.

The Chief Executive, Group Finance Director and other executive directors maintain a dialogue with institutional shareholders on the company's progress through a programme of meetings. All executive directors speak regularly at external conferences and presentations.

Corporate Governance

Accountability, Audit and Control

The statement of directors' responsibilities in relation to the accounts is set out on page 33.

In its reporting to shareholders, the board aims to present a balanced and understandable assessment of the group's financial position and prospects.

The group's organisational structure is focused on its three wholly-owned divisions. These entities are all separately managed, but report to the board through a board director. The executive management team receive monthly summaries of financial results from each division through a standardised reporting process.

The group has in place a comprehensive annual budgeting process including forecasts for the next two years. Variances from budget are closely monitored.

The board has overall responsibility for the group's system of internal controls and for reviewing its effectiveness. The internal control systems are designed to meet the group's needs and address the risks to which it is exposed. Such a system can provide reasonable but not absolute assurance against material misstatement or loss.

There is a continuous process for identifying, evaluating and managing the significant risks faced by the company which has been in place during the year under review and up to the date of approval of the annual report and accounts. The board regularly reviews this process.

The assessment of group and strategic risks is reviewed by the board and updated on an annual basis. At the business level, the processes to identify and manage the key risks are an integral part of the control environment. Key risks and internal controls are the subject of regular reporting to the Chief Executive's Committee.

The Group Control Manual, which is distributed to all group operations, clearly sets out the composition, responsibilities and authority limits of the various board and executive committees and also specifies what may be decided without central approval. It is supplemented by other specialist policy and procedures manuals issued by the group, divisions and individual business units or departments. The high intrinsic value of many of the metals with which the group is associated necessitates stringent physical controls over precious metals held at the group's sites.

The internal audit function is responsible for monitoring the group's systems of internal financial controls and the control of the integrity of the financial information reported to the board. The Audit Committee approves the plans for internal audit reviews and receives the reports produced by the internal audit function on a regular basis. Actions are agreed with management in response to the internal audit reports produced.

In addition, significant business units provide assurance on the maintenance of financial and non-financial controls and compliance with group policies through a programme of self-assessment. These assessments are summarised by the internal audit function and a report is made annually to the Audit Committee.

The directors confirm that the system of internal control for the year ended 31st March 2001 and the period up to 4th June 2001 has been established in accordance with the guidance 'Internal Control: Guidance for Directors on the Combined Code' issued in September 1999 and that they have reviewed the effectiveness of the system of internal control.

Non-Compliance with the Combined Code

The item in the Code with which the group did not comply in full throughout the period together with the appropriate Code reference is stated below:

Three of the executive directors are employed on contracts subject to two years' notice at any time, which the MDRC considers appropriate in the overall context of the executive directors' terms of employment. It is not currently proposed that this should be reduced further for existing service contracts. In the event of early termination of service contracts, the MDRC strongly endorses the principle of requiring the directors to mitigate their loss (B.1.7).

Going Concern

The directors have a reasonable expectation that the group has sufficient resources to continue in operational existence for the foreseeable future and have, therefore, adopted the going concern basis in preparing the accounts.

Directors' Report

The directors submit to shareholders their one hundred and tenth annual report, together with the audited accounts of the group for the year ended 31st March 2001. Pages 1 to 33 are an integral part of the report.

Principal Activities

The group's principal activities are summarised on page 11.

Dividends

The interim dividend of 7.0 pence per share, up 0.9 pence, was paid in February 2001. A final dividend, which will be paid as an ordinary dividend, of 16.3 pence per share, up 2.1 pence, is being proposed to shareholders as Resolution 2 at the Annual General Meeting (AGM), making a total for the year of 23.3 pence, an increase of 15% over last year. Dividends for the year total £51.3 million.

A Dividend Reinvestment Plan is being introduced for the benefit of shareholders. This will allow them to purchase additional shares in Johnson Matthey with their dividend payment. This low cost facility will be available to shareholders with effect from the payment of the final dividend in August 2001. Further information and a mandate may be obtained from the Company Secretary at the company's registered office.

Share Capital

Allotments of ordinary shares of £1 each of the company were made during the year as set out in note 24 on page 57.

The board has decided to seek shareholders' approval to renew the annual authority for the company to make purchases of its own ordinary shares through the market.

Employee Share Schemes

41% of employees worldwide are shareholders in Johnson Matthey through the group's employee share schemes, which held 2,881,633 shares (1.3% of ordinary share capital) at 31st May 2001. A total of 687 current and former directors and employees hold options over 4,881,498 shares through the company's executive share option schemes.

Directors

Details of the directors of the company are shown on pages 22 and 23. In accordance with the company's Articles of Association, Mr C R N Clark (who is employed on a service contract subject to two years' notice), Mr H R Jenkins and Mr M B Dearden retire by rotation and, being eligible, offer themselves for re-election at the AGM.

Directors' Material Interests in Contracts

Other than service contracts, no director had any interest in any material contract with any group company at any time during the year.

Substantial Shareholdings

The company has been advised of the following notifiable interests in its ordinary share capital as at 31st May 2001:

Schroder Investment Management Ltd 11.75%
Deutsche Asset Management 8.13%
Merrill Lynch Investment Managers 4.92%

Auditors

In accordance with section 384 of the Companies Act 1985, a resolution is to be proposed at the forthcoming AGM for the reappointment of KPMG Audit Plc as auditors of the company.

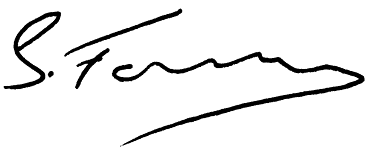
Policy on Payment of Commercial Debts

The group's policy in relation to the payment of all suppliers (set out in its Group Control Manual, which is distributed to all group operations) is that payment should be made within the credit terms agreed with the supplier. At 31st March 2001, the company's aggregate level of 'creditor days' amounted to 3 days. Creditor days are calculated by dividing the aggregate of the amounts which were owed to trade creditors at the end of the year by the aggregate of the amounts the company was invoiced by suppliers during the year and multiplying by 365 to express the ratio as a number of days.

Donations

During the year the group donated £301,000 (2000 £208,000) to charitable organisations, of which £242,000 (2000 £168,000) was in the UK. There were no political donations made in the year (2000 £ nil).

This report was approved by the directors on 4th June 2001 and is signed on their behalf by:



Simon Farrant
Company Secretary

Remuneration Report

Remuneration Report to Shareholders

Management Development and Remuneration Committee and its Terms of Reference

The board has established the Management Development and Remuneration Committee (the Committee) which comprises all the non-executive directors of the company as set out on pages 22 and 23.

The Committee's terms of reference are to determine on behalf of the board fair remuneration for the executive directors, which, while set in the context of what the company can reasonably afford, recognises their individual contributions to the company's overall performance. The Committee also believes strongly that remuneration policy should be completely aligned with shareholder interests. In addition the Committee assists the board in ensuring that the current and future management of the group are recruited, developed and remunerated in appropriate fashion.

The Committee also reviews the amount of profit to be appropriated to the company's employee share participation schemes.

The remuneration of the non-executive directors is determined by the board, within the limits prescribed by the company's Articles of Association.

Executive Remuneration Policy

The Committee recognises that, in order to maximise shareholder value, it is necessary to have a competitive pay and benefits structure. To assist with this the company, on behalf of the Committee, receives advice from independent consultants on the pay and incentive arrangements prevailing in comparably sized industrial companies in each country in which Johnson Matthey has operations. Total potential rewards are earned through the achievement of demanding performance targets based on measures which represent the best interests of shareholders.

The remuneration policy was reviewed by the Committee in 1998 and consists of basic salary, annual bonus, a long term incentive plan and benefits as detailed below. Following a further comprehensive review by independent consultants in 2000/01, changes are proposed. These require shareholder approval and are the subject of a separate circular.

Executive directors' remuneration consists of the following:

Basic Salary – which is in line with the median market salary for each director's responsibilities as advised by independent consultants. Basic salary is normally reviewed on 1st August each year and the Committee takes into account individual performance during the year.

Annual Bonus – which is paid as a percentage of basic salary under the terms of the company's Executive Compensation Plan (which also applies to the company's 150 or so most senior executives). The executive directors' bonus award is based on consolidated profit before tax (PBT) compared with the annual budget. An annual bonus payment of 30% of basic salary (prevailing at 31st March) is paid if the group meets the annual budget. This bonus may rise to a maximum of 50% of basic salary if the group achieves PBT of 107.5% of budget. PBT must reach 92.5% of budget for a minimum bonus to be payable. The Committee has discretion to vary the awards made. The bonus awarded to executive directors in 2000/01 was 50% of salary at 31st March 2001.

Long Term Incentive Plan (LTIP) – The LTIP, introduced in August 1998 and which replaced the Term Plan (see page 31), is designed to achieve above average performance and growth. Shares are allocated to directors and key executives subject to performance conditions being met. The number of shares released to the individual is dependent upon growth in Johnson Matthey's relative total shareholder return (TSR) compared to the FTSE mid-250 over a three year performance period. 100% of the allocated shares will be released to the individual if the company's relative TSR is in the 75th percentile or above; 35% will be released at the 51st percentile.

Pro-rata allocations will be made for performance between these percentiles. No shares will be released at or below 50th percentile performance. Earnings per share (EPS) is used as a second performance measure and requires an increase in EPS to be at least equal to the annual increase in UK RPI plus 2% p.a. over the period.

Share Options – Since the introduction of the LTIP, option grants have not been made to executive directors. Previously, options were granted to executive directors under the 1985 scheme (under which the final grant was made in November 1994) and the 1995 schemes with the latter having a performance threshold target of EPS growth of UK RPI plus 2% over a three year period. Options under all the schemes were granted in annual tranches, up to the maximum permitted of four times earnings.

Pensions – All the executive directors are members of the Johnson Matthey Employees Pension Scheme (JMEPS). Under the scheme, members are entitled to a pension based on their service and final pensionable salary subject to Inland Revenue limits. The scheme also provides life assurance cover of four times annual salary. The normal pension age for directors is 60. None of the non-executive directors are members of the scheme. Details of the individual arrangements for executive directors are given on page 30.

Other Benefits – Available to the executive directors are private medical insurance, a company car and membership of the company's employee share participation schemes which are open to all employees in the countries in which the company operates such schemes.

Service Contracts – Messrs Clark, Sheldrick and Titcombe are employed on contracts subject to two years' notice at any time, which the Committee considers appropriate in the overall context of their terms of employment. Messrs Carson and Morgan, who were appointed to the board on 1st August 1999, are employed on contracts subject to one year's notice at any time. In the event of early termination, the Committee strongly endorses the principle of requiring those directors on two years' notice to mitigate their loss.

Remuneration

Directors' Emoluments 2000/01

	Fees (£'000)	Salary (£'000)	Annual bonus (£'000)	Benefits (£'000)	Total excluding pension (£'000)	Total prior year excluding pension (£'000)
Executive						
C R N Clark	–	467	240	28	735	674
N A P Carson	–	176	92	19	287	196
D W Morgan	–	168	87	22	277	198[1]
J N Sheldrick	–	252	128	19	400	409[1]
D G Titcombe	–	266	136	26	427	394
Non-Executive						
H M P Miles (Chairman)	150					150
M B Dearden	28					26[2]
H E Fitzgibbons	28					28
H R Jenkins	28					28
C D Mackay	28					28
P F Retief	28					28
G D Wells	9[3]					32[4]

Notes:

1 The salaries of Messrs Morgan and Sheldrick, who joined the Johnson Matthey Employees Pension Scheme after 1989, were supplemented by 9.1% and 14.5% respectively in the prior year in view of the impact of the 1989 statutory 'earnings cap' on their JMEPS benefits. The supplements were ended on 31st March 2000 with the introduction of a Funded Unapproved Retirement Benefits Scheme from 1st April 2000 – see Note 6 in Pensions below.

2 From date of appointment.

3 Retired July 2000.

4 Including consultancy fees.

Remuneration Report

The annual bonus is stated on an earned basis, i.e. in relation to performance in the year in question.

Benefits are shown as the assessment to tax for each director arising from the provision of a company car and private medical insurance, plus the cost of company contributions to the Johnson Matthey UK Employee Share Participation Scheme.

Executive directors, with the consent of the board, may normally accept one and a maximum of two external directorships and retain any related remuneration.

Pensions

Pensions and life assurance benefits for executive directors are provided through the company's final salary occupational pension scheme for UK employees – The Johnson Matthey Employees Pension Scheme (JMEPS) – which is constituted under a separate Trust Deed. The JMEPS is an exempt approved scheme under Chapter I of Part XIV of the Income & Corporation Taxes Act 1988 and its members are contracted-out of the State Earnings Related Pension Scheme.

The pensions benefits earned by the executive directors are as follows:

	Age as at 31st March 2001	Years of service at 31st March 2001	Director's contribution in the year (note 4) £'000	Increase in accrued pension in the year (note 2) £'000	Total accrued pension at 31st March 2001 (note 1) £'000	Increase in the transfer value as at 31st March 2001 (note 3) £'000	FURBS contribution (note 6) £'000	FURBS related tax payments (note 6) £'000
C R N Clark	59	38	19	37	323	581	N/A	N/A
N A P Carson	43	20	7	10	68	85	N/A	N/A
D W Morgan	43	12	4	2	23	13	36	24
J N Sheldrick	51	10	4	2	27	19	61	40
D G Titcombe	58	40	11	15	179	244	N/A	N/A

Notes:

1 The entitlement shown under 'Total accrued pension at 31st March 2001' is the pension which would be paid annually on retirement, based on pensionable service to 31st March 2001. The pension would however be subject to an actuarial reduction of 0.3% per month for each month that retirement precedes age 60.

2 The increase in accrued pension during the year excludes any increase for inflation.

3 The transfer values have been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note 11 less directors' contributions. No allowance has been made in the transfer values for any discretionary benefits that have been or may be awarded under the JMEPS.

4 Members' contributions are at the general scheme rate of 4% of pensionable pay, i.e. basic salary excluding bonuses.

5 On the recommendation of the actuary, the company has suspended contributions to the JMEPS until the next actuarial valuation.

6 Pensions in the JMEPS for Messrs Morgan and Sheldrick are restricted by reference to the 'earnings cap' imposed by the Finance Act No. 2, 1989. Contributions have been paid to a Funded Unapproved Retirement Benefits Scheme (FURBS) established by the company, independently of the JMEPS, with effect from 1st April 2000. The purpose of the FURBS is to provide retirement benefits in relation to basic salary in excess of the earnings cap on the same basis as the JMEPS. Because the FURBS is not an exempt approved scheme under Chapter I of Part XIV of the Income & Corporation Taxes Act 1988, payments have been made to meet the tax liabilities in respect of these contributions.

Term Plan

A final payment under the rules of the Term Plan, which was a cash based long term plan which preceded the current LTIP in the performance period 1995 to 1998, was made in July 2000. Payments to the executive directors were:

	July 2000	July 1999
C R N Clark	£111,760	£101,600
N A P Carson	£40,640	£25,756
D W Morgan	£39,370	£25,547
J N Sheldrick	£62,027	£56,388
D G Titcombe	£64,846	£56,388

The plan has now ceased and no more payments will be made.

Directors' Interests

The interests of the directors in the shares of the company as at 31st March 2001, according to the register required to be kept by section 325(1) of the Companies Act 1985, were:

1 Ordinary Shares

	31st March 2001	31st March 2000
C R N Clark	24,706	28,020
N A P Carson	18,239	14,193
M B Dearden	2,000	2,000
H E Fitzgibbons	1,125	1,125
H R Jenkins	1,500	1,500
C D Mackay	12,500	12,500
H M P Miles	562	562
D W Morgan	16,930	20,268
P F Retief	500	500
J N Sheldrick	33,673	30,299
D G Titcombe	37,725	36,039

The directors are also deemed to be interested in the shares held by two employee benefit trusts (see note 17 on page 50).

Remuneration Report

2 Share Options

As at 31st March 2001, individual holdings under the company's executive share option schemes were as set out below. Options are not granted to the non-executive directors.

	Date of grant	Ordinary shares under option	Exercise price (pence)	Date from which exercisable	Expiry date	Total number of ordinary shares under option
C R N Clark	17.8.95	52,077	578.89	17.8.98	17.8.05	
	17.7.96	41,379	574.50	17.7.99	17.7.06	
	17.7.97	46,083	556.00	17.7.00	17.7.07	139,539
						(2000: 178,306)
N A P Carson	17.7.96	8,758	574.50	17.7.99	17.7.06	
	6.1.97	17,500	553.00	6.1.00	6.1.07	
	17.7.97	11,574	556.00	17.7.00	17.7.07	
	14.7.98	15,964	524.00	14.7.01	14.7.08	
	22.7.99	18,035	585.50	22.7.02	22.7.09	71,831
						(2000: 91,070)
D W Morgan	14.7.93	12,086	447.95	14.7.96	14.7.03	
	13.7.94	10,157	526.71	13.7.97	13.7.04	
	17.8.95	33,518	578.89	17.8.98	17.8.05	
	17.7.96	12,233	574.50	17.7.99	17.7.06	
	6.1.97	19,000	553.00	6.1.00	6.1.07	
	14.7.98	15,835	524.00	14.7.01	14.7.08	
	22.7.99	17,472	585.50	22.7.02	22.7.09	120,301
						(2000: 130,616)
J N Sheldrick	13.7.94	32,400	526.71	13.7.97	13.7.04	
	17.7.96	30,776	574.50	17.7.99	17.7.06	
	27.11.97	35,488	553.00	27.11.00	27.11.07	98,664
						(2000: 160,331)
D G Titcombe	17.8.95	38,098	578.89	17.8.98	17.8.05	
	17.7.96	30,776	574.50	17.7.99	17.7.06	
	17.7.97	14,250	556.00	17.7.00	17.7.07	83,124
						(2000: 174,508)

Notes:

a Between 1st April 2000 and 31st March 2001 the following options were exercised:

	Date of grant	Date of exercise	Options exercised	Exercise price (pence)	Market price on exercise (pence)
C R N Clark	13.7.94	6.7.00	23,767	526.71	940.00
	17.8.95	6.7.00	15,000	578.89	940.00
N A P Carson	14.7.93	6.7.00	4,672	447.95	944.00
	13.7.94	6.7.00	2,132	526.71	944.00
	17.8.95	6.7.00	12,435	578.89	944.00
D W Morgan	16.7.92	7.7.00	10,315	410.39	957.00
J N Sheldrick	17.8.95	18.8.00	61,667	578.89	1007.72
D G Titcombe	18.7.91	5.7.00	37,351	316.59	945.00
	16.7.92	5.7.00	11,496	410.39	945.00
	14.7.93	5.7.00	18,770	447.95	945.00
	13.7.94	5.7.00	23,767	526.71	945.00

b Gains made on exercise of options by directors during the year totalled £1,039,584 (2000: £128,019).

c The closing market price of the company's shares at 31st March 2001 was 955 pence and the range during 2000/01 was 719 pence to 1133 pence.

3 LTIP Allocations

Number of allocated shares:

	As at 31st March 2000	Allocations during the year	As at 31st March 2001
C R N Clark	144,516	55,556	200,072
N A P Carson	36,044	21,296	57,340
D W Morgan	35,122	20,139	55,261
J N Sheldrick	80,207	29,677	109,884
D G Titcombe	82,094	31,366	113,460

Directors' interests at 1st June 2001 were unchanged from those listed above with the following exceptions:

The Trustees of the Johnson Matthey UK Employee Share Participation Scheme have purchased on behalf of Messrs C R N Clark, N A P Carson, D W Morgan, J N Sheldrick and D G Titcombe a further 276, 274, 270, 276 and 276 ordinary shares respectively.

Michael Miles OBE
Chairman

Responsibility of Directors

for the preparation of the accounts

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and group and of the profit or loss for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts,
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the accounts comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Consolidated Profit and Loss Account

for the year ended 31st March 2001

	NOTE	2001 Before exceptional items and goodwill amortisation £ million	2001 Exceptional items and goodwill amortisation £ million	2001 Total £ million	2000 Before exceptional items and goodwill amortisation £ million	2000 Total £ million
Turnover	1					
Continuing operations		5,903.7	–	5,903.7	3,769.0	3,769.0
Discontinued operations	3	–	–	–	97.0	97.0
Group turnover		5,903.7	–	5,903.7	3,866.0	3,866.0
Operating profit	1					
Continuing operations before goodwill amortisation		175.0	–	175.0	146.5	146.5
Goodwill amortisation		–	(0.3)	(0.3)	–	(0.2)
Continuing operations before exceptional items		175.0	(0.3)	174.7	146.5	146.3
Exceptional items	2	–	(0.6)	(0.6)	–	(9.8)
Total continuing operations		175.0	(0.9)	174.1	146.5	136.5
Discontinued operations	3	–	–	–	(0.3)	(0.3)
Group operating profit	4	175.0	(0.9)	174.1	146.2	136.2
Share of profit in associates – continuing		0.2	–	0.2	–	–
Share of profit in associates – discontinued	3	(0.2)	–	(0.2)	–	–
Total operating profit		175.0	(0.9)	174.1	146.2	136.2
Profit on sale – continuing operations						
Profit on disposal of surplus properties		–	–	–	–	1.1
Profit on sale – discontinued operations						
Sale of Electronic Materials	2	–	3.4	3.4	–	28.5
Sale of Organic Pigments	2	–	(1.2)	(1.2)	–	(6.2)
Closure of Metawave Video Systems Ltd	2	–	(1.1)	(1.1)	–	–
Profit on ordinary activities before interest		175.0	0.2	175.2	146.2	159.6
Net interest	6	5.3	–	5.3	(2.4)	(2.4)
Profit on ordinary activities before taxation	5	180.3	0.2	180.5	143.8	157.2
Taxation	7	(52.2)	(0.1)	(52.3)	(40.4)	(45.3)
Profit after taxation		128.1	0.1	128.2	103.4	111.9
Equity minority interests		(0.6)	–	(0.6)	(0.2)	(0.2)
Profit attributable to shareholders		127.5	0.1	127.6	103.2	111.7
Dividends	8	(51.3)	–	(51.3)	(44.3)	(44.3)
Retained profit for the year	25	76.2	0.1	76.3	58.9	67.4
		pence		pence	pence	pence
Earnings per ordinary share						
Basic	9	58.1		58.1	47.5	51.4
Diluted	9	57.3		57.4	47.2	51.0
Dividend per ordinary share	8	23.3		23.3	20.3	20.3

The notes on pages 41 to 61 form an integral part of the accounts.

Consolidated and Parent Company Balance Sheets

as at 31st March 2001

	NOTE	Group 2001 £ million	Group 2000 £ million	Parent company 2001 £ million	Parent company 2000 £ million
Fixed assets					
Goodwill	11	8.6	5.1	0.2	–
Tangible fixed assets	12	386.8	311.3	137.1	112.7
Investments	13	1.0	1.0	210.0	209.9
		396.4	317.4	347.3	322.6
Current assets					
Stocks	15	278.8	253.2	117.3	149.6
Debtors: due within one year	16	415.7	333.5	740.8	546.0
Debtors: due after more than one year	16	103.9	97.9	246.5	238.0
Short term investments	17	15.9	16.3	12.2	12.2
Cash at bank and in hand	18	237.4	282.0	159.1	208.4
		1,051.7	982.9	1,275.9	1,154.2
Creditors: Amounts falling due within one year					
Borrowings and finance leases	18	(19.8)	(46.2)	–	(24.5)
Precious metal leases	20	(91.8)	(60.6)	(111.0)	(76.8)
Other creditors	21	(367.8)	(315.6)	(747.8)	(602.4)
Net current assets		572.3	560.5	417.1	450.5
Total assets less current liabilities		968.7	877.9	764.4	773.1
Creditors: Amounts falling due after more than one year					
Borrowings and finance leases	18	(77.7)	(70.0)	(70.3)	(62.7)
Other creditors	21	(1.0)	(0.2)	(24.5)	(1.2)
Provisions for liabilities and charges	22	(34.4)	(47.8)	(12.9)	(17.9)
Net assets		855.6	759.9	656.7	691.3
Capital and reserves					
Called up share capital	24	222.5	221.1	222.5	221.1
Share premium account	25	123.2	116.7	123.2	116.7
Associates' reserves	25	–	(0.1)	–	–
Profit and loss account	25	505.3	417.7	311.0	353.5
Shareholders' funds		851.0	755.4	656.7	691.3
Equity minority interests		4.6	4.5	–	–
		855.6	759.9	656.7	691.3

The accounts were approved by the Board of Directors on 4th June 2001 and signed on its behalf by:

C R N Clark
Directors
J N Sheldrick

The notes on pages 41 to 61 form an integral part of the accounts.

Consolidated Cash Flow Statement

for the year ended 31st March 2001

	NOTE	2001 £ million	2000 £ million
Reconciliation of operating profit to net cash inflow from operating activities			
Operating profit		174.1	136.2
Depreciation and amortisation charges		41.1	46.6
Profit on sale of tangible fixed assets and investments		(0.7)	(0.9)
Decrease / (increase) in owned stocks		15.0	(26.7)
Increase in debtors		(82.0)	(77.2)
Increase in creditors and provisions		9.0	52.3
Net cash inflow from operating activities		156.5	130.3

Cash Flow Statement

	NOTE	2001 £ million	2000 £ million
Net cash inflow from operating activities		156.5	130.3
Dividends received from associates		0.1	0.1
Returns on investments and servicing of finance	27	5.8	(2.5)
Taxation		(38.2)	(33.5)
Capital expenditure and financial investment			
Purchase of tangible fixed assets and investments	27	(98.9)	(74.8)
Proceeds on sale of tangible fixed assets and investments	27	4.2	9.1
Net cash outflow for capital expenditure and financial investment		(94.7)	(65.7)
Acquisitions and disposals	27	(5.6)	390.8
Equity dividends paid		(46.5)	(42.2)
Net cash (outflow) / inflow before use of liquid resources and financing		(22.6)	377.3
Management of liquid resources	27	157.8	(169.8)
Financing			
Issue and purchase of share capital	27	7.9	8.0
Decrease in borrowings and finance leases	27	(12.1)	(163.7)
Net cash outflow from financing		(4.2)	(155.7)
Increase in cash in the period		131.0	51.8

Reconciliation of net cash flow to movement in net funds

	NOTE	2001 £ million	2000 £ million
Increase in cash in the period		131.0	51.8
Cash outflow from movement in borrowings and finance leases	28	12.1	163.7
Cash (inflow) / outflow from term deposits included in liquid resources		(157.8)	169.8
Change in net funds / debt resulting from cash flows		(14.7)	385.3
Borrowings disposed of with subsidiaries		–	8.0
Borrowings acquired with subsidiaries		(1.3)	–
Translation difference	28	(9.9)	(5.9)
Movement in net funds / debt in year		(25.9)	387.4
Net funds / (debt) at beginning of year	28	165.8	(221.6)
Net funds at end of year	28	139.9	165.8

The notes on pages 41 to 61 form an integral part of the accounts.

Total Recognised Gains and Losses

for the year ended 31st March 2001

	2001 £ million	2000 £ million
Profit attributable to shareholders	127.6	111.7
Currency translation differences on foreign currency net investments and related loans	10.0	(5.6)
Taxation on translation differences on foreign currency loans	1.4	–
Total recognised gains and losses relating to the year	139.0	106.1
Prior year adjustment		(9.0)
Total recognised gains and losses recognised since previous annual report		97.1

Note of Historical Cost Profits and Losses

for the year ended 31st March 2001

There were no material differences between reported profits and losses and historical cost profits and losses on ordinary activities before tax for 2001 and 2000.

Movement in Shareholders' Funds

for the year ended 31st March 2001

	2001 £ million	2000 £ million
Profit attributable to shareholders	127.6	111.7
Dividends	(51.3)	(44.3)
Retained profit for the year	76.3	67.4
Other recognised gains and losses relating to the year	11.4	(5.6)
New share capital subscribed	7.9	15.7
Preference shares cancelled	–	(0.3)
Goodwill written back on disposals	–	125.4
Net addition to shareholders' funds	95.6	202.6
Opening shareholders' funds	755.4	552.8
Closing shareholders' funds	851.0	755.4

The notes on pages 41 to 61 form an integral part of the accounts.

Report of the Auditors

to the members of Johnson Matthey Public Limited Company

We have audited the accounts on pages 34 to 37 and 39 to 61.

Respective Responsibilities of Directors and Auditors

The directors are responsible for preparing the annual report. As described on page 33 this includes responsibility for preparing the accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the accounts, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the group is not disclosed.

We review whether the statement on pages 25 to 26 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the annual report, including the corporate governance statement, and consider whether it is consistent with the audited accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

Basis of Audit Opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company and the group as at 31st March 2001 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London
6th June 2001

Accounting Policies

for the year ended 31st March 2001

Accounting convention: The accounts are prepared in accordance with applicable accounting standards under the historical cost convention.

Basis of consolidation: The consolidated accounts comprise the accounts of the parent company and all its subsidiary undertakings and include the group's interest in associates and joint ventures.

The results of companies acquired or disposed of in the year are dealt with from or up to the effective date of acquisition or disposal respectively. The net assets of companies acquired are incorporated in the consolidated accounts at their fair values to the group at the date of acquisition.

The parent company has not presented its own profit and loss account as permitted by section 230 of the Companies Act 1985.

Turnover: Comprises all invoiced sales of goods and services exclusive of sales taxes.

Financial Instruments: The group uses financial instruments, in particular forward currency contracts and currency swaps, to manage the financial risks associated with the group's underlying business activities and the financing of those activities. The group does not undertake any trading activity in financial instruments.

A discussion of how the group manages its financial risks is included in the Financial Review on page 10. Financial instruments are accounted for as follows:

- Forward exchange contracts are used to hedge foreign exchange exposures arising on forecast receipts and payments in foreign currencies. These forward contracts are revalued to the rates of exchange at the balance sheet date and any aggregate unrealised gains and losses arising on revaluation are included in other debtors / other creditors. At maturity, or when the contract ceases to be a hedge, gains and losses are taken to the profit and loss account.
- Currency options are occasionally used to hedge foreign exchange exposures, usually when the forecast receipt or payment amounts are uncertain. Option premia are recognised at their historic cost in the group balance sheet as prepayments. At maturity, or upon exercise, the option premia net of any realised gains on exercise are taken to the profit and loss account.
- Interest rate swaps are occasionally used to hedge the group's exposure to movements on interest rates. The interest payable or receivable on such swaps is accrued in the same way as interest arising on deposits or borrowings. Interest rate swaps are not revalued to fair value prior to maturity.
- Currency swaps are used as balance sheet hedging instruments to hedge foreign currency assets and borrowings. Currency swaps are used to reduce costs and credit exposure where the group would otherwise have cash deposits and borrowings in different currencies. The difference between spot and forward rate for these contracts is recognised as part of the net interest payable over the period of the contract. These swaps are revalued to the rates of exchange at the balance sheet date and any aggregate unrealised gains or losses arising on revaluation are included in other debtors / other creditors. Realised gains and losses on these currency swaps are taken to reserves in the same way as for the foreign investments and borrowings to which the swaps relate.

The aggregate fair values at the balance sheet date of the hedging instruments described above are disclosed as a note on the accounts.

The group has taken advantage of the exemption available for short term debtors and creditors.

Foreign currencies: Profit and loss accounts in foreign currencies and cash flows included in the cash flow statement are translated into sterling at average exchange rates for the year. Foreign currency assets and liabilities are translated into sterling at the rates of exchange at the balance sheet date. Gains or losses arising on the translation of the net assets of overseas subsidiaries and associated undertakings are taken to reserves, less exchange differences arising on related foreign currency borrowings. Other exchange differences are taken to the profit and loss account.

Research and development expenditure: Charged against profits in the year incurred.

Accounting Policies

for the year ended 31st March 2001

Goodwill: Goodwill arising on acquisitions made after 1st April 1998 is capitalised and amortised over the estimated useful economic life, which is 20 years or less if it is considered appropriate. Goodwill previously eliminated against reserves has not been reinstated, but will be charged to the profit and loss account on subsequent disposal of the businesses to which it relates.

Depreciation: Freehold land and certain office buildings are not depreciated. The depreciation charge and accumulated depreciation of these properties would be immaterial and they are reviewed for impairment annually. Other fixed assets are depreciated on a straight line basis at annual rates which vary according to the class of asset, but are typically; leasehold property 2% (or at higher rates based on the life of the lease), freehold buildings 3.33%, plant and equipment 10% – 33%.

Leases: The cost of assets held under finance leases is included under tangible fixed assets and the capital element of future lease payments is included in borrowings. Depreciation is provided in accordance with the group's accounting policy for the class of asset concerned. Lease payments are treated as consisting of capital and interest elements and the interest is charged to the profit and loss account using the annuity method. Rentals under operating leases are expensed as incurred.

Grants in respect of capital expenditure: Grants received in respect of capital expenditure are included in creditors and released to the profit and loss account in equal instalments over the expected useful lives of the related assets.

Precious metal stocks: Stocks of gold, silver and platinum group metals are valued according to the source from which the metal is obtained. Metal which has been purchased and committed to future sales to customers or hedged in metal markets is valued at the price at which it is contractually committed or hedged, adjusted for unexpired contango. Leased metal is valued at market prices at the balance sheet date. Other precious metal stocks owned by the group, which are unhedged, are valued at the lower of cost and net realisable value.

Other stocks: These are valued at the lower of cost, including attributable overheads, and net realisable value.

Deferred taxation: Provided using the liability method on all timing differences to the extent that they are expected to reverse in the foreseeable future.

Pensions and other retirement benefits: The group operates a number of contributory and non-contributory schemes, mainly of the defined benefit type, which require contributions to be made to separately administered funds. The cost of these schemes is charged to the profit and loss account over the service lives of employees in accordance with the advice of the schemes' independent actuaries. Variations from the regular cost are spread over the average expected remaining service lives of current employees.

The cost of post-retirement health care benefits is charged to the profit and loss account on a systematic basis over the expected service lives of employees. The actuarial liability for the cost of these benefits is fully provided for in the balance sheet.

Notes on the Accounts

for the year ended 31st March 2001

1 Segmental information

Activity analysis	Turnover 2001 £ million	Turnover 2000 £ million	Operating profit 2001 £ million	Operating profit 2000 £ million	Net operating assets 2001 £ million	Net operating assets 2000 restated £ million
Catalysts & Chemicals	1,502.8	856.2	98.9	84.8	471.6	350.0
Precious Metals	4,145.7	2,671.6	57.4	45.4	44.7	76.5
Colours & Coatings	255.2	241.2	32.2	27.9	197.6	170.2
Corporate	–	–	(13.3)	(11.6)	1.8	(2.8)
	5,903.7	3,769.0	175.2	146.5	715.7	593.9
Discontinued operations	–	97.0	(0.2)	(0.3)	–	0.2
Total turnover	5,903.7	3,866.0				
Goodwill amortisation			(0.3)	(0.2)		
Exceptional items included in total operating profit (note 2)			(0.6)	(9.8)		
			174.1	136.2	715.7	594.1
Other exceptional items			1.1	23.4		
Net interest			5.3	(2.4)		
Profit on ordinary activities before taxation			180.5	157.2		
Net cash and finance leases					139.9	165.8
Net assets					855.6	759.9

Geographical analysis by origin	Turnover 2001 £ million	Turnover 2000 £ million	Operating profit 2001 £ million	Operating profit 2000 £ million	Net operating assets 2001 £ million	Net operating assets 2000 restated £ million
Europe	4,116.8	2,450.5	67.0	52.2	456.4	365.1
North America	1,585.2	1,052.0	81.4	69.3	170.0	126.0
Asia	1,094.4	887.2	13.8	8.8	65.7	57.0
Rest of the World	307.7	195.8	13.0	16.2	23.6	45.8
	7,104.1	4,585.5	175.2	146.5	715.7	593.9
Discontinued operations	–	110.2	(0.2)	(0.3)	–	0.2
	7,104.1	4,695.7				
Less inter-segment sales	(1,200.4)	(829.7)				
Total turnover	5,903.7	3,866.0				
Goodwill amortisation			(0.3)	(0.2)		
Exceptional items included in total operating profit (note 2)			(0.6)	(9.8)		
			174.1	136.2	715.7	594.1
Other exceptional items			1.1	23.4		
Net interest			5.3	(2.4)		
Profit on ordinary activities before taxation			180.5	157.2		
Net cash and finance leases					139.9	165.8
Net assets					855.6	759.9

Notes on the Accounts

for the year ended 31st March 2001

1 Segmental information continued

External turnover by geographical destination	2001 £ million	2000 £ million
Europe	2,459.0	1,306.4
North America	1,858.8	1,261.0
Asia	1,293.2	1,083.9
Rest of the World	292.7	214.7
Total turnover	5,903.7	3,866.0

Turnover by destination relating to the United Kingdom amounted to £1,568.2 million (2000 £831.5 million).

2 Exceptional items

An exceptional charge of £0.6 million (2000 £9.8 million) has been included in total operating profit. This comprises:

	2001 £ million	2000 £ million
Cost of rationalising Precision Studios	(0.6)	–
Cost of rationalising Tableware	–	(9.8)
	(0.6)	(9.8)

These charges arise in Europe (£0.6 million, 2000 £9.2 million) and Asia (£ nil, 2000 £0.6 million).

The sale of the group's Electronic Materials Division last year produced an additional profit of £3.4 million this year (note 30).
The sale of the group's Organic Pigments businesses last year produced an additional disposal cost of £1.2 million this year (note 30).

Metawave Video Systems Ltd, an associate, is in administration. The group has written off its investment in Metawave Video Systems Ltd, including capitalised goodwill, together with balances owed by Metawave Video Systems Ltd to the group as an exceptional charge amounting to £1.1 million.

3 Discontinued operations

	Turnover		Operating profit	
	2001 £ million	2000 £ million	2001 £ million	2000 £ million
Electronic Materials (note 30)	–	91.6	–	0.1
Organic Pigments (note 30)	–	5.4	–	(0.4)
	–	97.0	–	(0.3)

The group's discontinued associate is Metawave Video Systems Ltd, and the group's share of its loss is £0.2 million (2000 £ nil) (note 2).

Notes on the Accounts

for the year ended 31st March 2001

4 Group operating profit after exceptional items and goodwill amortisation

	2001 £ million	2000 £ million
Group turnover	5,903.7	3,866.0
Cost of materials sold	(5,330.6)	(3,304.7)
Net revenues	573.1	561.3
Other cost of sales	(265.6)	(295.2)
Gross profit	307.5	266.1
Distribution costs	(57.8)	(61.1)
Administrative expenses	(75.6)	(68.8)
Group operating profit	174.1	136.2

Exceptional charges of £ nil (2000 £0.5 million) are included in cost of materials sold, £0.6 million (2000 £4.4 million) in other cost of sales, £ nil (2000 £2.4 million) in distribution costs and £ nil (2000 £2.5 million) in administrative expenses.

5 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is arrived at after charging / (crediting):

		2001 £ million	2000 £ million
Research and development		42.3	37.3
less external funding received		(2.4)	(2.7)
Net research and development		39.9	34.6
Depreciation	– on owned assets	40.6	46.2
	– on leased assets	0.2	0.2
Auditors' remuneration	– parent company	0.4	0.3
	– subsidiary undertakings	0.7	0.7
	– group	1.1	1.0
Other fees paid to auditors and their associates	– United Kingdom	0.3	0.9
	– Rest of the World	0.5	0.5
Operating lease rentals	– on plant and machinery	2.1	2.3
	– on other operating leases	6.4	6.5

Directors' fees were £0.3 million (2000 £0.3 million) and other emoluments were £2.1 million (2000 £2.0 million). Details are given in the Remuneration Report on pages 28 to 33.

Notes on the Accounts

for the year ended 31st March 2001

6 Net interest

	2001 £ million	2000 £ million
Interest payable on bank loans and overdrafts	(6.8)	(14.1)
Interest payable on other loans	(5.6)	(1.2)
	(12.4)	(15.3)
Interest receivable from associates	–	0.1
Other interest receivable	17.7	12.9
Net interest – group	5.3	(2.3)
Share of interest payable of associates – payable to group	–	(0.1)
Net interest	5.3	(2.4)

7 Taxation

	2001 £ million	2001 £ million	2000 £ million	2000 £ million
United Kingdom				
Corporation tax at 30% (2000 30%)		32.5		23.5
Double taxation relief		–		(0.3)
Current taxation for year		32.5		23.2
Deferred taxation for year		(11.7)		(0.6)
		20.8		22.6
Overseas				
Current taxation for year	28.5		19.4	
Deferred taxation for year	2.8		(1.6)	
		31.3		17.8
Associates		0.1		–
		52.2		40.4
Tax on cost of rationalising Precision Studios		(0.2)		–
Tax on cost of rationalising Tableware		–		(2.9)
Tax on profit on sale of Electronic Materials		1.0		9.9
Tax on loss on sale of Organic Pigments		(0.4)		(2.1)
Tax on loss on closure of Metawave Video Systems Ltd		(0.3)		–
Total taxation		52.3		45.3

8 Dividends

	2001 £ million	2000 £ million
3.5% Cumulative preference dividend paid £ nil (2000 £6,986)	–	–
Interim ordinary dividend paid – 7.0 pence per share (2000 6.1 pence per share)	15.4	13.3
Final ordinary dividend proposed – 16.3 pence per share (2000 14.2 pence per share)	35.9	31.0
Total dividends	51.3	44.3

Notes on the Accounts

for the year ended 31st March 2001

9 Earnings per ordinary share

Profit for the year attributable to shareholders, less preference dividends, is £127.6 million (2000 £111.7 million). This is divided by the weighted average number of shares in issue calculated as 219,467,375 (2000 217,458,190) to give basic earnings per share of 58.1 pence (2000 51.4 pence).

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 and long term incentive plan. These adjustments give rise to an increase in the weighted average number of shares in issue of 2,816,102 (2000 1,457,427), giving diluted earnings per share of 57.4 pence (2000 51.0 pence).

Excluding exceptional items, the tax thereon and goodwill amortisation, basic earnings per share were 58.1 pence (2000 47.5 pence) and diluted earnings per share were 57.3 pence (2000 47.2 pence).

	2001 £ million	2000 £ million
Attributable profit	127.6	111.7
Goodwill amortisation	0.3	0.2
Exceptional items	(0.5)	(13.6)
Tax thereon	0.1	4.9
Adjusted profit	127.5	103.2

	2001	2000
Earnings per share excluding exceptional items and goodwill amortisation		
Basic	58.1p	47.5p
Diluted	57.3p	47.2p

10 Employee information

10a Employee numbers

	2001	2000
The average monthly number of employees during the year was as follows:		
Catalysts & Chemicals	2,937	2,585
Precious Metals	1,152	1,148
Colours & Coatings	2,111	2,148
Research and Corporate	225	235
Average number of employees – continuing	6,425	6,116
Discontinued operations	–	1,407
Average number of employees – total	6,425	7,523
Actual number of employees at 31st March	6,637	6,238

The number of temporary employees included above at 31st March 2001 was 205 (2000 266).

10b Employee costs

	2001 £ million	2000 £ million
Wages and salaries	161.2	169.7
Social security costs	17.5	19.8
Other pension costs	(1.5)	(1.9)
Total employee costs	177.2	187.6

10c Retirement benefits

(i) United Kingdom pension scheme

The group's UK pension scheme is of the defined benefit type which requires contributions to be made to a separately administered fund. At 1st April 2000, the date of the latest actuarial valuation, the market value of the UK scheme's assets was £633.0 million, the actuarial value of which represented 141% of the liability for benefits that had accrued to that date, making full allowance for future salary and pension increases. This represents an actuarial surplus of £164.2 million which, following actuarial recommendations, has permitted the company to suspend contributions for the foreseeable future. A surplus cannot be refunded to the company except by dissolution of the scheme in accordance with the rules of the scheme and relevant legislation. The financial assumptions applicable to the last actuarial valuation at 1st April 2000 were: long term rate of investment return 6.75%, dividend increase rate 4%, general salary and wage inflation rate 5% and pension increase rate 3%.

In accordance with the applicable accounting standard, the surplus on the group's UK pension fund has been spread over the average of the expected remaining service lives of current employees (12 years) as a variation from regular cost. The regular pension cost is assessed using the projected unit method.

(ii) Foreign schemes

Pension costs relating to foreign schemes are charged in accordance with local best practice using different accounting policies. The group's largest foreign scheme is in the US, which is of the defined benefit type and which requires contributions to be made to a separately administered fund. This scheme is accounted for using the applicable US accounting standard. The cost of obtaining actuarial valuations for the purpose of adjusting to the applicable UK accounting standard is considered to be out of proportion to the benefits to be gained.

(iii) Other retirement benefits

These costs are charged on an accruals basis similar to that used for pensions. The actuarial liability for the cost of these benefits is fully provided for in the balance sheet.

(iv) Profit and loss account and balance sheet impact of providing retirement benefits

The effect of providing pensions and other retirement benefits on operating profit was as follows:

	2001 £ million	2000 £ million
United Kingdom		
Regular pension cost	(10.7)	(9.6)
Variation from regular cost	10.1	9.1
Interest on prepayment	6.6	7.2
Cost of post-retirement medical benefits	(0.3)	(0.2)
	5.7	6.5
Overseas		
Cost of foreign pension schemes	(3.6)	(3.8)
Cost of post-retirement medical benefits	(0.6)	(0.8)
	1.5	1.9

The following prepayments and provisions relating to pension schemes and other post-retirement benefits are included in the group and parent company's balance sheets:

	Group		Parent company	
	2001 £ million	2000 £ million	2001 £ million	2000 £ million
Prepaid pension costs in the UK	103.9	97.7	103.9	97.7
Provision for foreign pensions	9.0	9.1	–	–
Provision for post-retirement medical benefits – UK	3.9	3.8	3.9	3.8
Provision for post-retirement medical benefits – overseas	12.2	10.9	–	–
Provision for other post-retirement benefits – overseas	0.4	0.5	–	–

Notes on the Accounts

for the year ended 31st March 2001

11 Fixed assets – goodwill

	Group £ million	Parent company £ million
Cost		
At beginning of year	5.3	14.3
Additions (note 29)	3.6	0.2
Adjustments	(0.1)	–
Disposals (note 2)	(0.3)	–
Exchange adjustments	0.6	–
At end of year	9.1	14.5
Amortisation		
At beginning of year	0.2	14.3
Charge for the year	0.3	–
At end of year	0.5	14.3
Net book value at 31st March 2001	**8.6**	**0.2**
Net book value at 31st March 2000	5.1	–

12 Fixed assets – tangible assets

12a Group

	Freehold land & buildings £ million	Short leasehold £ million	Plant & machinery £ million	Total £ million
Cost				
At beginning of year	124.7	10.9	415.4	551.0
Purchases	7.4	1.4	95.6	104.4
Acquisitions	0.5	–	2.1	2.6
Reclassifications	5.2	–	(5.2)	–
Disposals	(1.2)	(0.2)	(8.7)	(10.1)
Exchange adjustments	3.6	0.6	20.2	24.4
At end of year	140.2	12.7	519.4	672.3
Depreciation				
At beginning of year	36.0	4.4	199.3	239.7
Charge for the year	4.3	0.6	35.9	40.8
Disposals	(0.6)	(0.1)	(6.3)	(7.0)
Exchange adjustments	1.7	0.2	10.1	12.0
At end of year	41.4	5.1	239.0	285.5
Net book value at 31st March 2001	**98.8**	**7.6**	**280.4**	**386.8**
Net book value at 31st March 2000	88.7	6.5	216.1	311.3

The net book value of tangible fixed assets includes £1.8 million (2000 £1.8 million) in respect of assets held under finance leases. Freehold land and buildings of £18.6 million included above are not depreciated.

12b Parent company

	Freehold land & buildings £ million	Short leasehold £ million	Plant & machinery £ million	Total £ million
Cost				
At beginning of year	47.7	2.2	135.2	185.1
Purchases	2.3	–	37.1	39.4
Acquisitions	–	–	0.7	0.7
Reclassifications	2.5	–	(2.5)	–
Disposals	–	–	(3.8)	(3.8)
At end of year	52.5	2.2	166.7	221.4
Depreciation				
At beginning of year	13.1	1.3	58.0	72.4
Charge for the year	1.7	0.2	12.4	14.3
Disposals	–	–	(2.4)	(2.4)
At end of year	14.8	1.5	68.0	84.3
Net book value at 31st March 2001	**37.7**	**0.7**	**98.7**	**137.1**
Net book value at 31st March 2000	34.6	0.9	77.2	112.7

Freehold land and buildings of £7.9 million included above are not depreciated.

13 Fixed assets – investments
13a Group

	Investment in associates £ million	Unlisted investments £ million	Total £ million
At beginning of year	0.8	0.2	1.0
Additions	0.3	0.1	0.4
Disposals (note 2)	(0.3)	–	(0.3)
Exchange adjustments	0.1	–	0.1
Losses retained for the year	(0.2)	–	(0.2)
At end of year	**0.7**	**0.3**	**1.0**

13b Parent company

	Cost of investment in subsidiary undertakings £ million
At beginning of year	209.9
Additions	0.1
At end of year	**210.0**

The principal subsidiary undertakings are shown on page 61.

13c Associates

	Issued share capital	Percentage holding of ordinary share capital %	Country of incorporation
Arora-Matthey Limited	INR 19,920,000	40	India
Oximet SrL	ITL 600,000,000	33	Italy
Metawave Video Systems Ltd	GBP 200	49.8	UK

Matthey Pharmaceutical Alkaloids, L.L.C., operating in the US, of which the group has a 50% holding, has members' capital of US$395,000.

Metawave Video Systems Ltd is in administration (note 2).

The group's cost of investment in associates amounted to £0.4 million (2000 £0.9 million).

14 Transactions with related parties

The group's related parties are its associates described in note 13c.

There were no transactions with Arora-Matthey Limited during the year (2000 £ nil).

During the year the group purchased £145,000 (2000 £261,000) of raw materials from Oximet SrL. Total balances payable to Oximet SrL at 31st March 2001 were £13,000 (2000 £40,000).

During the year the group made service charges of £479,000 (2000 £615,000) to and purchases of electronic filters of £114,000 (2000 £138,000) from Metawave Video Systems Ltd. Interest received on loans was £8,000 (2000 £13,000). There were no balances receivable from Metawave Video Systems Ltd at 31st March 2001 (2000 £473,000 which included a loan receivable after one year of £200,000).

There were no transactions with Matthey Pharmaceutical Alkaloids, L.L.C. during the year. In the year ended 31st March 2000 the group supplied finished opiate products to a value of £163,000 to Matthey Pharmaceutical Alkaloids, L.L.C., made service charges of £194,000, received interest on loans amounting to £50,000, and purchased fixed assets at a cost of £459,000 which it then transferred to Matthey Pharmaceutical Alkaloids, L.L.C. on finance lease agreements. In that year the group received capital repayments of £50,000 and interest income of £118,000 for these and other finance lease agreements, all of which (£1.8 million) were then cancelled and the assets returned to the group.

15 Stocks

	Group		Parent company	
	2001 £ million	2000 £ million	2001 £ million	2000 £ million
Raw materials and consumables	49.0	36.2	12.1	12.0
Work in progress – precious metals	120.3	128.7	83.9	110.9
– other	17.7	18.7	6.9	10.9
Finished goods and goods for resale	91.8	69.6	14.4	15.8
Total stocks	278.8	253.2	117.3	149.6

The group also holds customers' materials in the process of refining and fabrication and for other reasons.
Parent company precious metals includes net metal lent to subsidiary undertakings.

Notes on the Accounts

for the year ended 31st March 2001

16 Debtors

	Group		Parent company	
	2001	2000	2001	2000
	£ million	£ million	£ million	£ million
Debtors: due within one year				
Trade debtors	357.5	265.0	152.4	74.2
Amounts owed by subsidiary undertakings	–	–	559.7	442.6
Amounts owed by associates	–	0.3	–	–
Other debtors	39.1	31.2	20.0	15.8
Payment owed for disposals (note 30)	1.0	1.1	–	–
Deferred tax asset (note 23)	–	–	4.0	–
Prepayments and accrued income	18.1	35.9	4.7	13.4
	415.7	333.5	740.8	546.0
Debtors: due after more than one year				
Prepaid pensions	103.9	97.7	103.9	97.7
Amounts owed by subsidiary undertakings	–	–	142.6	140.3
Loan receivable from associate	–	0.2	–	–
	103.9	97.9	246.5	238.0

17 Short term investments

	Group		Parent company	
	2001	2000	2001	2000
	£ million	£ million	£ million	£ million
Interest in own shares	13.5	13.5	12.2	12.2
Investments listed on overseas stock exchanges	2.4	2.8	–	–
	15.9	16.3	12.2	12.2

The interest in own shares represents the cost of the shares held by the group's two Employee Share Ownership Trusts (ESOTs). The ESOTs currently hold 2,667,617 shares which were purchased in the open market, and are held in trust for employees participating in the group's executive share option schemes and long term incentive plan. The purchase of the shares was financed by a contribution of £511,100 and loans of £13,050,848 from the group. At 31st March 2001 the market value of the shares was £23,253,195. Mourant & Co., as trustees for the ESOTs, has waived its dividend entitlement.

The market value of investments listed on overseas stock exchanges was £25.2 million (2000 £21.0 million).

18 Cash and finance leases

	Group		Parent company	
	2001	2000	2001	2000
	£ million	£ million	£ million	£ million
Borrowings and finance leases falling due after more than one year				
Bank and other loans repayable by instalments				
From two to five years	0.4	0.5	–	–
From one to two years	0.1	0.1	–	–
Bank and other loans repayable otherwise than by instalments				
6.36% US Dollar Bonds 2006	70.3	62.7	70.3	62.7
Other after five years	6.0	5.4	–	–
From one to two years	–	0.2	–	–
Finance leases repayable				
From two to five years	0.5	0.8	–	–
From one to two years	0.4	0.3	–	–
Borrowings and finance leases falling due after more than one year	77.7	70.0	70.3	62.7
Borrowings and finance leases falling due within one year				
Bank and other loans	19.4	45.9	–	24.5
Finance leases	0.4	0.3	–	–
Borrowings and finance leases falling due within one year	19.8	46.2	–	24.5
Total borrowings and finance leases	97.5	116.2	70.3	87.2
Less cash and deposits	237.4	282.0	159.1	208.4
Net cash and finance leases	(139.9)	(165.8)	(88.8)	(121.2)

The loans are denominated in various currencies and bear interest at commercial rates.

19 Financial risk management

The group's approach to managing financial risk is described in the Financial Review on page 10.

19a Interest rate risk

Financial liabilities	2001 At fixed interest rates £ million	2001 At floating interest rates £ million	2001 Total £ million	2000 At fixed interest rates £ million	2000 At floating interest rates £ million	2000 Total £ million
Sterling	–	–	–	–	2.1	2.1
US dollar	71.0	7.3	78.3	62.7	39.6	102.3
Japanese yen	–	17.9	17.9	–	9.2	9.2
Euro	–	4.9	4.9	–	6.0	6.0
Malaysian ringgit	–	8.1	8.1	–	6.0	6.0
Australian dollar	–	4.0	4.0	–	5.5	5.5
Other currencies	–	3.2	3.2	–	1.2	1.2
	71.0	45.4	116.4	62.7	69.6	132.3

Fixed rate financial liabilities	2001 Weighted average interest rates %	2001 Weighted average period for which rates are fixed Years	2000 Weighted average interest rates %	2000 Weighted average period for which rates are fixed Years
US dollar	6.38	5	6.36	6

The financial liabilities of the group comprised:	2001 £ million	2000 £ million
Total borrowings and finance leases	97.5	116.2
Borrowings generated by swaps	17.9	15.9
Other creditors falling due after more than one year	1.0	0.2
	116.4	132.3

Floating rate financial liabilities comprise bank borrowings and overdrafts bearing interest at commercial rates.

19a Interest rate risk continued

Financial assets	2001 At floating interest rates £ million	2001 Interest free £ million	2001 Total £ million	2000 At floating interest rates £ million	2000 Interest free £ million	2000 Total £ million
Sterling	205.0	–	205.0	251.7	–	251.7
US dollar	8.1	–	8.1	–	–	–
Japanese yen	–	–	–	2.1	–	2.1
Euro	17.1	–	17.1	10.2	–	10.2
Malaysian ringgit	1.3	–	1.3	0.8	–	0.8
Australian dollar	1.1	–	1.1	–	–	–
Hong Kong dollar	14.5	–	14.5	24.2	–	24.2
Other currencies	8.2	2.4	10.6	9.1	2.8	11.9
	255.3	2.4	257.7	298.1	2.8	300.9

The financial assets of the group comprised:	2001 £ million	2000 £ million
Cash and deposits	237.4	282.0
Deposits generated by swaps	17.9	15.9
Debtors due after more than one year (excluding prepaid pensions)	–	0.2
Investments listed on overseas stock exchanges	2.4	2.8
	257.7	300.9

Floating rate financial assets comprise bank deposits bearing interest at commercial rates. Interest free financial assets are shares held in two publicly quoted companies, Ballard Power Systems, Inc. and AnorMED Inc.

19b Currency exposures

After taking into account the effects of forward exchange contracts the group does not have any significant currency exposures on monetary assets and liabilities.

19c Maturity of financial liabilities

	2001 £ million	2000 £ million
In one year or less, or on demand	37.7	62.3
In more than one year but not more than two years	1.5	0.6
In more than two years but not more than five years	0.9	1.3
In more than five years	76.3	68.1
	116.4	132.3

19d Undrawn committed borrowing facilities

	2001 £ million	2000 £ million
Expiring in one year or less	25.0	–
Expiring in more than one year but not more than two years	25.0	5.0
Expiring in more than two years	50.0	35.0
	100.0	40.0

19e Fair value of financial instruments

	2001 Book value £ million	2001 Fair value £ million	2000 Book value £ million	2000 Fair value £ million
Cash and deposits	237.4	237.4	282.0	282.0
Debtors due after more than one year (excluding prepaid pensions)	–	–	0.2	0.2
Investments listed on overseas stock exchanges	2.4	25.2	2.8	21.0
Borrowings and finance leases falling due within one year	(19.8)	(19.8)	(46.2)	(46.2)
US Dollar Bonds	(70.3)	(70.0)	(62.7)	(60.7)
Other borrowings and finance leases falling due after more than one year	(7.4)	(7.4)	(7.3)	(7.3)
Other creditors falling due after more than one year	(1.0)	(1.0)	(0.2)	(0.2)
Forward exchange contracts	–	(0.3)	–	0.6
	141.3	164.1	168.6	189.4

The fair value of investments listed on overseas stock exchanges is based on market value. The fair value of the US Dollar Bonds is calculated by discounting cash flows based on the five year Treasury Bond rate plus a margin of 1.9%. The fair value of forward exchange contracts represents the unrealised gain or loss on revaluation of the contracts to year end exchange rates. The fair value of all other financial instruments is approximately equal to book value due to their short term nature or the fact that they bear interest at floating rates.

19f Gains and losses on hedges

Forward exchange contracts are used to hedge foreign exchange exposures arising on forecast receipts and payments in foreign currencies. These forward contracts are revalued to the rates of exchange at the balance sheet date and any aggregate unrealised gains and losses arising on revaluation are included in other debtors / other creditors. At maturity, or when the contract ceases to be a hedge, gains and losses are taken to the profit and loss account.

	Gains £ million	Losses £ million	Total net gains / (losses) £ million
Unrecognised gains and losses at 31st March 1999	0.2	0.6	(0.4)
Gains / losses recognised in the year	0.2	0.6	(0.4)
Gains and losses arising before 31st March 1999 not recognised in 1999/2000	–	–	–
Gains and losses arising in 1999/2000 not recognised in 1999/2000	0.7	0.1	0.6
Unrecognised gains and losses at 31st March 2000	0.7	0.1	0.6
Gains / losses recognised in the year	0.7	0.1	0.6
Gains and losses arising before 31st March 2000 not recognised in 2000/01	–	–	–
Gains and losses arising in 2000/01 not recognised in 2000/01	–	0.3	(0.3)
Unrecognised gains and losses at 31st March 2001	–	0.3	(0.3)
Of which gains and losses expected to be recognised in the year to 31st March 2002	–	0.3	(0.3)

19g Market price risk

The group monitors its interest rate and currency risks and other market price risks to which it is exposed primarily through a process known as 'sensitivity analysis'. This involves estimating the effect on profit before tax over various periods of possible changes in interest rates and exchange rates.

Most of the group's borrowings and deposits are at floating rates. A 1% change on all interest rates would have a 1.2% impact on group profit before tax. This is well within the range the group regards as acceptable.

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 since Johnson Matthey's largest single overseas investment is in the US. A 5 cent (3.4%) movement in the average exchange rate for the US dollar against sterling has a 1.7% impact on group profit before tax. 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.

20 Precious metal leases

Precious metal leases are rental and consignment stock arrangements under which banks provide the group with precious metals for a specified period and for which the group pays a fee. The group holds sufficient precious metal stocks to meet all the obligations under these lease arrangements as they come due.

21 Other creditors

	Group		Parent company	
	2001 £ million	2000 £ million	2001 £ million	2000 £ million
Amounts falling due within one year				
Trade creditors	145.3	139.6	26.3	34.1
Amounts owed to subsidiary undertakings	–	–	624.8	485.5
Current corporation tax	51.2	37.1	20.8	9.1
Other taxes and social security costs	7.1	5.8	3.3	3.3
Other creditors	40.2	28.9	4.7	7.1
Accruals and deferred income	88.1	73.2	32.0	32.3
Dividends	35.9	31.0	35.9	31.0
Total other creditors falling due within one year	367.8	315.6	747.8	602.4
Amounts falling due after more than one year				
Amounts owed to subsidiary undertakings	–	–	24.5	1.2
Other creditors	1.0	0.2	–	–
Total other creditors falling due after more than one year	1.0	0.2	24.5	1.2

22 Provisions for liabilities and charges

22a Group

	Rationalisation provisions £ million	Retirement benefits (note 10c) £ million	Other provisions £ million	Deferred taxation (note 23) £ million	Total £ million
At beginning of year	4.6	24.3	5.3	13.6	47.8
Exchange adjustments	–	2.2	0.1	0.2	2.5
Utilised	(4.6)	(1.7)	(1.4)	–	(7.7)
Released	–	(2.5)	(0.2)	–	(2.7)
Charge / (credit) for year	–	3.2	0.2	(8.9)	(5.5)
At end of year	**–**	**25.5**	**4.0**	**4.9**	**34.4**

22b Parent company

	Retirement benefits (note 10c) £ million	Other provisions £ million	Deferred taxation (note 23) £ million	Total £ million
At beginning of year	3.8	7.8	6.3	17.9
Utilised	(0.2)	(0.6)	–	(0.8)
Released	–	(0.1)	–	(0.1)
Charge / (credit) for year	0.3	1.9	(10.3)	(8.1)
Transferred to debtors (note 16)	–	–	4.0	4.0
At end of year	**3.9**	**9.0**	**–**	**12.9**

23 Deferred taxation

	Group		Parent company	
	Provision £ million	Full potential liability £ million	Provision £ million	Full potential liability £ million
Timing differences on fixed assets	20.1	20.1	16.1	16.1
Timing differences on stock	(22.1)	(22.1)	(22.2)	(22.2)
Other timing differences	6.9	49.2	2.1	33.3
	4.9	47.2	(4.0)	27.2

No account has been taken of taxation which would be payable if the retained profits of overseas subsidiary undertakings were distributed.

24 Called up share capital

	Authorised		Allotted, called up and fully paid	
	Number	£ million	Number	£ million
Ordinary shares of £1 each				
At beginning of year	291,550,000	291.6	221,082,018	221.1
Executive share option schemes – options exercised	–	–	1,429,569	1.4
At end of year	**291,550,000**	**291.6**	**222,511,587**	**222.5**

At 31st May 2001 there were 4,881,498 options outstanding under the company's executive share option schemes, exercisable at various times up to the year 2010 at prices from 410.39 pence per share to 942.00 pence per share.

At 31st May 2001 three allocations had been made under the company's long term incentive plan. The 1998 allocation of 441,488 shares, the 1999 allocation of 412,356 shares and the 2000 allocation of 328,962 shares will mature at the end of their respective three year performance periods in July 2001, July 2002 and July 2003. Should the performance conditions be satisfied, the number of shares allocated, or a proportion thereof, will be released to the participants.

The company has no non-equity share capital.

25 Reserves

25a Group

	Share premium account £ million	Associates' reserves £ million	Profit & loss account £ million
At beginning of year	116.7	(0.1)	417.7
Exchange adjustments	–	–	11.4
Premium on shares issued	6.5	–	–
Retained profit / (loss) for the period	–	(0.2)	76.5
Transfers	–	0.3	(0.3)
At end of year	**123.2**	**–**	**505.3**

At 31st March 2001, the cumulative amount of goodwill, net of goodwill relating to disposals, charged against profit and loss account was £46.0 million (2000 £46.0 million).

In the group accounts, £14.7 million of net exchange losses (2000 £3.1 million) on foreign currency borrowings have been offset in reserves against exchange gains on the translation of the related net investment in overseas subsidiaries.

25b Parent company

	Share premium account £ million	Profit & loss account £ million
At beginning of year	116.7	353.5
Premium on shares issued	6.5	–
Retained loss for the year	–	(42.5)
At end of year	**123.2**	**311.0**

The parent company's profit for the financial year was £8.8 million (2000 £10.4 million).

26 Commitments, guarantees and contingent liabilities

	Group		Parent company	
	2001	2000	2001	2000
	£ million	£ million	£ million	£ million
Commitments				
Future capital expenditure contracted but not provided	8.1	5.8	5.3	1.1
Annual commitments under operating leases				
Leases of land and buildings terminating				
Within one year	0.8	0.1	–	–
In one to five years	3.7	2.6	1.7	1.3
Over five years	2.1	1.9	1.2	1.2
Other leases terminating				
Within one year	0.4	0.3	0.3	0.2
In one to five years	1.4	0.9	0.4	0.4
Over five years	–	0.1	–	–
Guarantees				
Guarantees of subsidiary undertakings' borrowings	–	–	24.4	18.2
Other guarantees	0.5	4.9	0.5	4.9

27 Gross cash flows

27a Returns on investments and servicing of finance

	2001	2000
	£ million	£ million
Interest received	18.0	13.1
Interest paid	(12.0)	(15.6)
Dividends paid to minority shareholders	(0.2)	–
Net cash flow for returns on investments and servicing of finance	5.8	(2.5)

27b Capital expenditure and financial investment

	2001	2001	2000	2000
	£ million	£ million	£ million	£ million
Purchase of tangible fixed assets		(98.8)		(74.1)
Purchase of long term investment		(0.1)		(0.2)
Finance lease to associate		–		(0.5)
		(98.9)		(74.8)
Sale of tangible fixed assets	0.9		6.2	
Sale of short term investments	3.3		2.8	
Finance lease to associate capital repaid	–		0.1	
		4.2		9.1
Net cash outflow for capital expenditure and financial investment		(94.7)		(65.7)

Notes on the Accounts

for the year ended 31st March 2001

27c Cash flows on acquisitions and disposals

		2001		2000
	£ million	£ million	£ million	£ million
Investment in subsidiary undertakings (note 29)		(3.4)		–
Cash acquired with subsidiary undertakings (note 29)		0.3		–
Purchase of minority interests		–		(2.9)
Purchase of businesses (note 29)		(3.1)		–
		(6.2)		(2.9)
Disposal of Electronic Materials (note 30)	2.5		393.6	
Disposal of Organic Pigments (note 30)	(1.9)		0.1	
		0.6		393.7
Net cash flow for acquisitions and disposals		(5.6)		390.8

27d Management of liquid resources

	2001	2000
	£ million	£ million
Cash paid into term deposits of less than one year	(13.9)	(170.3)
Cash withdrawn from term deposits of less than one year	171.7	0.5
Net cash flow from management of liquid resources	157.8	(169.8)

27e Financing

		2001		2000
	£ million	£ million	£ million	£ million
Issue of ordinary share capital		7.9		15.7
Purchase of own shares		–		(7.7)
		7.9		8.0
Decrease in borrowings falling due within one year	(10.5)		(126.6)	
Decrease in borrowings falling due after more than one year	(1.2)		(36.8)	
Capital element of finance lease rental payments	(0.4)		(0.3)	
		(12.1)		(163.7)
Net cash outflow from financing		(4.2)		(155.7)

28 Analysis of net funds

	Cash at bank and in hand £ million	Borrowings due within one year – overdrafts £ million	Borrowings due within one year – other £ million	Borrowings due after more than one year £ million	Finance leases £ million	Total £ million
At beginning of year	282.0	(22.6)	(23.3)	(68.9)	(1.4)	165.8
Cash flow						
From cash and overdrafts	110.1	20.9	–	–	–	131.0
From borrowings and finance leases	–	–	10.5	1.2	0.4	12.1
From term deposits	(157.8)	–	–	–	–	(157.8)
Net cash flow	(47.7)	20.9	10.5	1.2	0.4	(14.7)
Acquired with subsidiaries	–	–	(0.2)	(1.1)	–	(1.3)
Other non cash changes	–	–	(0.2)	0.2	–	–
Effect of foreign exchange rate changes	3.1	0.2	(4.7)	(8.2)	(0.3)	(9.9)
At end of year	237.4	(1.5)	(17.9)	(76.8)	(1.3)	139.9

29 Acquisitions

Precision Studios

On 31st July 2000 the group purchased the assets of Precision Studios from Waterford Wedgwood plc for £1.8 million. The fair value of the assets acquired was £1.8 million, and costs incurred were £0.2 million, resulting in goodwill of £0.2 million. This has been accounted for by acquisition accounting.

Shape Memory Applications, Inc.

On 13th February 2001 the group acquired Shape Memory Applications, Inc., a manufacturer of tube, wire, sheet and fabricated components utilising nickel titanium located in San Jose, California in the US for £3.6 million, with £0.7 million deferred until August 2002. The fair value of the net assets acquired was £1.2 million, including £0.2 million of cash, giving goodwill of £2.4 million. This has been accounted for by acquisition accounting.

Changzhou Dongao Zirconium Products Company Limited

On 7th November 2000 the group acquired Changzhou Dongao Zirconium Products Company Limited, a manufacturer of opacifier and milled zircon products for the ceramics industry in China, from Consolidated Rutile Limited for £0.4 million. The fair value of the assets acquired was £0.3 million, including £0.1 million of cash, and costs incurred were £0.1 million, giving goodwill of £0.2 million. This has been accounted for by acquisition accounting.

Cadmium Pigments

On 21st December 2000 the group purchased a Cadmium Pigments business from Engelhard Corporation for £1.1 million. The fair value of the assets acquired was £0.3 million, giving goodwill of £0.8 million. This has been accounted for by acquisition accounting.

30 Disposals

Electronic Materials sold in the year ended 31st March 2000

On 17th August 1999 the group completed the sale of its Electronic Materials Division to AlliedSignal Inc. for £409.5 million. An additional £3.4 million has been received this year giving rise to an additional £3.4 million profit on disposal recognised this year. Costs of £2.5 million were accrued last year, of which £0.9 million have been paid this year.

Organic Pigments sold in the year ended 31st March 2000

On 31st March 2000 the group sold its Organic Pigments businesses for £0.9 million, of which £0.8 million was received last year and £0.1 million this year. Costs of £0.8 million were accrued last year and have been paid this year. Additional disposal costs of £1.2 million, which were not accrued last year, have been paid this year.

UK Minerals sold in the year ended 31st March 1999

On 1st June 1998 the group sold its UK Minerals business for net proceeds of £5.0 million. £1.0 million of the sale proceeds remains in escrow pending completion of a land-swap arrangement relating to a road scheme at the business' premises.

31 Post balance sheet event

On 20th April 2001 the group acquired Pharm-Eco Laboratories, Inc. located in Boston in the US for a cash consideration of US$9.9 million. In addition, the group has taken on its net borrowings of US$37.0 million. The company provides contract research, process development and small scale synthesis services to the pharmaceutical industry. Its turnover in the financial year ended 31st December 2000 was US$17 million.

Principal Subsidiary Undertakings and Associates

Europe	Country of incorporation
S.A. Johnson Matthey N.V.	Belgium
Johnson Matthey S.A.	France
Matthey Beyrand et Cie S.A.	France
Johnson Matthey GmbH	Germany
Johnson Matthey Italia S.p.A.	Italy
Johnson Matthey BV	Netherlands
Johnson Matthey Ceramica (Portugal) Lda	Portugal
Johnson Matthey Ceramics S.A.	Spain
Almiberia S.A.	Spain
Svenska Emissionsteknik AB	Sweden
Johnson Matthey & Brandenberger AG	Switzerland

North America	Country of incorporation
The Argent Insurance Co. Limited	Bermuda
Johnson Matthey Limited	Canada
Johnson Matthey de Mexico, S.A. de C.V.	Mexico
Johnson Matthey Holdings, Inc.	USA
Johnson Matthey Investments, Inc.	USA
Johnson Matthey Inc.	USA
Johnson Matthey Catalog Company Inc.	USA

Asia	Country of incorporation
Johnson Matthey Ceramics (Jiangsu) Co. Ltd.	China
Johnson Matthey (Shanghai) Chemicals Limited	China
Johnson Matthey Hong Kong Limited	Hong Kong
* Arora-Matthey Limited (40%)	India
Johnson Matthey India Private Limited (85%)	India
Johnson Matthey Japan, Inc	USA
† Johnson Matthey Sdn. Bhd. (89%)	Malaysia
Johnson Matthey Ceramics (Malaysia) Sdn. Bhd.	Malaysia
Johnson Matthey (Singapore) Pte Limited	Singapore

Africa	Country of incorporation
Johnson Matthey (Pty) Limited	South Africa

Australasia	Country of incorporation
Johnson Matthey (Aust.) Limited	Australia
Johnson Matthey (NZ) Limited	New Zealand

South America	Country of incorporation
† Johnson Matthey Argentina S.A.	Argentina
Johnson Matthey Ceramica Ltda	Brazil

Except where otherwise stated, all companies are wholly owned.

* Associate (see note 13c on page 49).

†Investments held by parent company.

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

Ten Year Record

	1992 £ million	1993 £ million	1994 £ million	1995 £ million	1996 £ million
Turnover					
Parent and subsidiaries	1,744.5	1,853.7	1,955.0	2,177.8	2,528.9
Share of joint ventures	–	–	–	97.1	156.7
Total	1,744.5	1,853.7	1,955.0	2,274.9	2,685.6
Operating profit	62.9	71.6	81.6	100.4	111.0
Goodwill amortisation	–	–	–	–	–
Exceptional items	(2.1)	–	–	–	–
Total operating profit	60.8	71.6	81.6	100.4	111.0
Other exceptional items	4.4	3.7	(11.7)	(0.7)	–
Profit before interest	65.2	75.3	69.9	99.7	111.0
Net interest	1.9	(1.5)	(4.6)	(4.3)	(8.8)
Profit before taxation	67.1	73.8	65.3	95.4	102.2
Taxation	(19.2)	(23.7)	(20.7)	(30.5)	(30.5)
Profit after taxation	47.9	50.1	44.6	64.9	71.7
Equity minority interests	(0.2)	(0.3)	(0.2)	(1.0)	(1.7)
Profit attributable to shareholders	47.7	49.8	44.4	63.9	70.0
Dividends	(17.9)	(19.1)	(21.8)	(25.9)	(31.4)
Profit retained	29.8	30.7	22.6	38.0	38.6
Earnings per ordinary share (graph 1)	25.5p	26.5p	23.1p	32.9p	34.4p
Earnings per ordinary share excluding exceptional items and goodwill amortisation (graph 2)	24.2p	25.2p	27.0p	33.2p	34.4p
Dividend per ordinary share (graph 3)	9.65p	10.3p	11.4p	13.5p	14.5p
Summary Balance Sheet					
Assets employed:					
Goodwill	–	–	–	–	–
Tangible fixed assets	219.7	263.1	281.1	256.1	321.7
Fixed assets investments / joint ventures / associates	5.1	1.1	1.1	70.9	100.4
Stocks	148.6	155.0	153.6	153.2	196.6
Debtors and short term investments	163.4	185.7	207.2	190.9	232.2
Other creditors and provisions	(273.2)	(232.8)	(242.1)	(207.5)	(284.2)
	263.6	372.1	400.9	463.6	566.7
Financed by:					
Net borrowings and finance leases / (cash)	9.9	90.6	76.1	102.4	134.2
Retained earnings	64.7	90.3	129.0	167.5	119.6
Share capital and share premium	188.5	190.3	194.4	195.7	313.6
Equity minority interests	0.5	0.9	1.4	(2.0)	(0.7)
Capital employed	263.6	372.1	400.9	463.6	566.7
Cumulative goodwill taken directly to reserves	41.2	49.6	50.5	57.5	150.3
Return on assets	21.5%	19.7%	18.7%	20.6%	17.9%

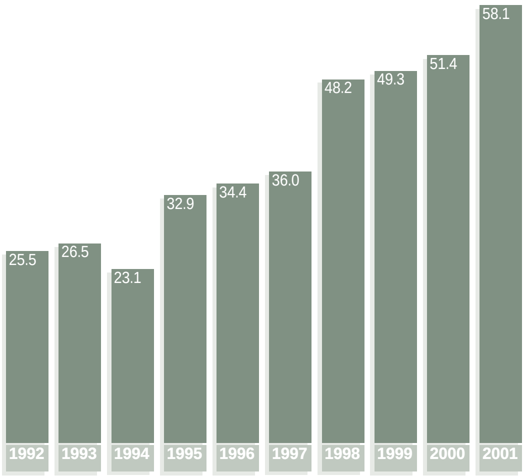
(Total operating profit before exceptional items and goodwill amortisation / average capital employed and cumulative goodwill taken directly to reserves)

1999 and prior years have been restated to reflect changes in accounting policies. The earnings per ordinary share for 1995 and prior years have been adjusted for the bonus element in the 1 for 8 rights issue made on 19th September 1995.

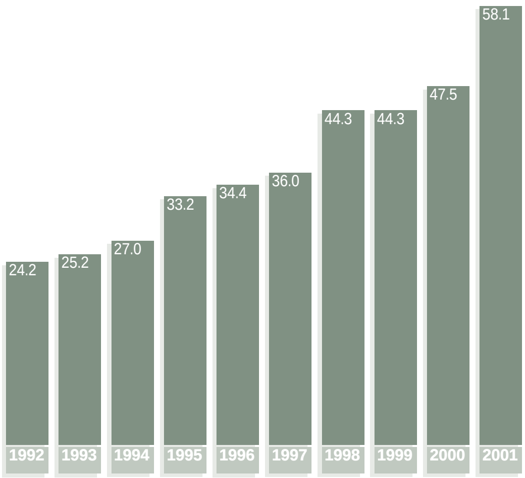
Ten Year Record

1997 £ million	1998 £ million	1999 £ million	2000 £ million	**2001** **£ million**
2,423.2	3,138.8	3,385.4	3,866.0	**5,903.7**
156.9	128.8	–	–	**–**
2,580.1	3,267.6	3,385.4	3,866.0	**5,903.7**
116.3	139.2	147.1	146.2	**175.0**
–	–	–	(0.2)	**(0.3)**
–	(4.5)	(1.9)	(9.8)	**(0.6)**
116.3	134.7	145.2	136.2	**174.1**
–	4.4	8.8	23.4	**1.1**
116.3	139.1	154.0	159.6	**175.2**
(8.0)	(9.0)	(15.9)	(2.4)	**5.3**
108.3	130.1	138.1	157.2	**180.5**
(29.2)	(25.2)	(31.9)	(45.3)	**(52.3)**
79.1	104.9	106.2	111.9	**128.2**
(1.2)	(0.3)	0.7	(0.2)	**(0.6)**
77.9	104.6	106.9	111.7	**127.6**
(33.6)	(38.7)	(41.3)	(44.3)	**(51.3)**
44.3	65.9	65.6	67.4	**76.3**
36.0p	48.2p	49.3p	51.4p	**58.1p**
36.0p	44.3p	44.3p	47.5p	**58.1p**
15.5p	17.8p	19.0p	20.3p	**23.3p**
–	–	4.2	5.1	**8.6**
337.7	461.5	480.2	311.3	**386.8**
84.2	4.2	1.8	1.0	**1.0**
184.7	244.8	243.7	253.2	**278.8**
252.6	381.1	439.6	447.7	**535.5**
(267.5)	(382.8)	(389.3)	(424.2)	**(495.0)**
591.7	708.8	780.2	594.1	**715.7**
143.7	225.1	221.6	(165.8)	**(139.9)**
131.0	158.0	230.4	417.6	**505.3**
316.8	319.6	322.4	337.8	**345.7**
0.2	6.1	5.8	4.5	**4.6**
591.7	708.8	780.2	594.1	**715.7**
156.3	171.4	171.4	46.0	**46.0**
15.9%	17.1%	16.1%	18.4%	**25.0%**

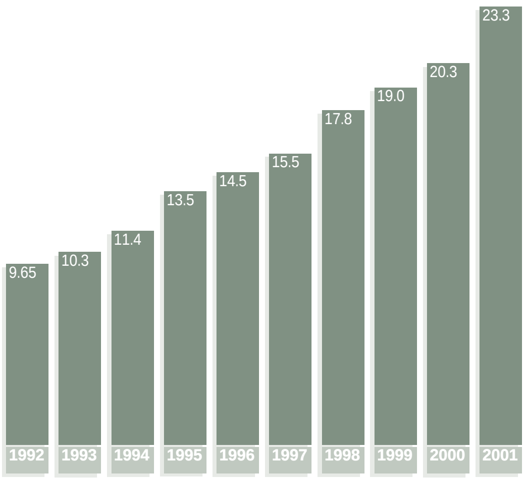
1 Earnings per share
pence



2 Earnings per share excluding exceptionals
pence



3 Dividends per share
pence



Shareholder Information

Shareholder analysis

Analysis of ordinary shareholders as at 31st May 2001

By category	Number of shares	Percentage
Pension funds	97,189,989	43.67
Insurance companies	41,336,329	18.58
Investment and Unit Trusts	54,866,599	24.66
Individuals	6,793,977	3.05
Other	22,345,183	10.04
	222,532,077	100.00

By size of holding	Number of holdings	Percentage	Number of shares	Percentage
1 – 1,000	6,683	62.29	3,114,426	1.40
1,001 – 10,000	3,281	30.58	8,323,444	3.74
10,001 – 100,000	518	4.83	18,327,525	8.23
100,001 – 1,000,000	205	1.91	64,616,442	29.04
1,000,001 – 5,000,000	36	0.33	84,023,440	37.76
5,000,001 and over	6	0.06	44,126,800	19.83
	10,729	100.00	222,532,077	100.00

Low Cost Share Dealing Service

A low cost share dealing service is provided by The Share Centre. This service allows shareholders to buy and sell Johnson Matthey shares in a simple and low cost manner. For further details contact The Share Centre, P.O. Box 2000, Aylesbury, Bucks, HP21 8ZB telephone: 01296 414141 (e-mail info@share.co.uk).

Dividends

Dividends can be paid directly into shareholders' bank or building society accounts. Shareholders wishing to take advantage of this facility should contact Lloyds TSB Registrars or complete the dividend mandate form attached to their dividend cheque. A Dividend Reinvestment Plan (DRIP) is being introduced for the benefit of shareholders. This low cost facility will be available with effect from the payment of the final dividend in August 2001. Further information can be obtained from the Company Secretary at the company's registered office.

American Depository Receipts

The company has an unlisted American Depository Receipt programme administered by The Bank of New York. For further information, please telephone Mr Julio Lugo at The Bank of New York on +1 (212) 815-2175 (e-mail jlugo@bankofny.com) or visit The Bank of New York's website at www.adrbny.com.

Share price and group information

Information on the company's current share price together with copies of the group's annual and interim reports and major presentations to analysts and institutional shareholders are available on the Johnson Matthey website: www.matthey.com. For capital gains tax purposes the mid-market price of the company's ordinary shares on 31st March 1982 was 253 pence.

Financial calendar 2001

15th June
Final ordinary dividend record date

17th July
110th Annual General Meeting (AGM)

7th August
Payment of final dividend subject to declaration at the AGM

29th November
Announcement of results for six months ending 30th September 2001