2010

ENVIRONMENTAL TECHNOLOGIES

PRECIOUS METAL PRODUCTS

FINE CHEMICALS

ANNUAL REPORT & ACCOUNTS

Johnson Matthey

JOHNSON MATTHEY IS A SPECIALITY CHEMICALS COMPANY AND A WORLD LEADER IN ADVANCED MATERIALS TECHNOLOGY.

The group focuses on its core skills in catalysis, precious metals, fine chemicals and process technology, developing products that enhance the quality of life for millions of people around the world. The group has operations in over 30 countries and employs around 9,000 people. Johnson Matthey's operations are organised into three global divisions: Environmental Technologies, Precious Metal Products and Fine Chemicals.

WHERE WE OPERATE

TODAY, Johnson Matthey's long term commitment to investment in research and development, as well as in new manufacturing technologies and production facilities enables the company to exploit the potential for growth in many of its key product areas.

THE GROUP AT A GLANCE

OUR DIVISIONAL STRUCTURE

Johnson Matthey

Environmental Technologies	Precious Metal Products	Fine Chemicals
Emission Control Technologies	Platinum Marketing and Distribution	Macfarlan Smith
Process Technologies	Noble Metals	Pharmaceutical Materials and Services
Fuel Cells	Catalysts, Chemicals and Refining	Research Chemicals
	Colour Technologies	

Environmental Technologies Division is a global supplier of catalysts and related technologies for applications which benefit the environment such as pollution control, cleaner fuel, more efficient use of hydrocarbons and the hydrogen economy.

Revenue	**£2,056m**
Sales excluding precious metals	**£1,247m**

Key Statistics

Return on sales excluding precious metals	**9.7%**
Return on invested capital (ROIC)	**9.4%**
Capital expenditure	**£93.8m**
Capex / depreciation	**1.4**
Average invested capital	**£1,281m**
Employees	**4,985**

Johnson Matthey has a longstanding international reputation as a leader in the application of precious metals. Precious Metal Products Division is at the heart of these activities focused on the marketing, distribution, fabrication and refining of precious metals and their products and the manufacture of catalysts and precious metal chemicals.

Revenue	**£5,562m**
Sales excluding precious metals	**£420m**

Key Statistics

Return on sales excluding precious metals	**27.8%**
Return on invested capital (ROIC)	**46.8%**
Capital expenditure	**£15.9m**
Capex / depreciation	**0.7**
Average invested capital	**£249m**
Employees	**2,594**

Fine Chemicals Division is a global supplier of active pharmaceutical ingredients, fine chemicals and other speciality chemical products and services to a wide range of chemical and pharmaceutical industry customers and research institutes.

Revenue	**£221m**
Sales excluding precious metals	**£219m**

Key Statistics

Return on sales excluding precious metals	**25.5%**
Return on invested capital (ROIC)	**13.4%**
Capital expenditure	**£22.0m**
Capex / depreciation	**1.4**
Average invested capital	**£417m**
Employees	**1,026**

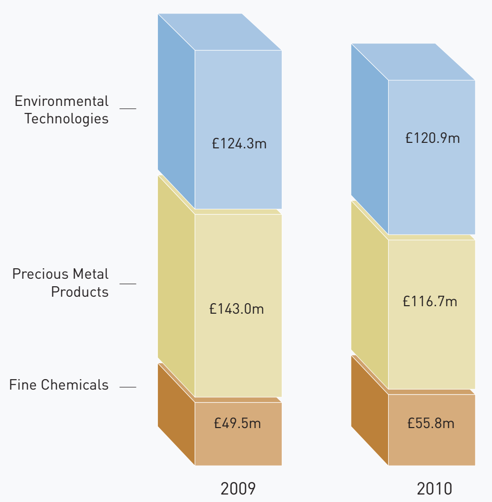
2009/10 WAS A CHALLENGING YEAR for Johnson Matthey but overall the group performed well. Despite the global economic downturn underlying profit before tax was only 5% down on our record performance in 2008/09.

FINANCIAL HIGHLIGHTS – 2010

	Year to 31st March 2010	2009	% change
Revenue	**£7,839m**	£7,848m	–
Sales excluding precious metals	**£1,886m**	£1,797m	+5
Profit before tax	**£228.5m**	£249.4m	-8
Total earnings per share	**77.6p**	82.6p	-6
Underlying*:			
Profit before tax	**£254.1m**	£267.9m	-5
Earnings per share	**86.4p**	89.6p	-4
Dividend per share	**39.0p**	37.1p	+5

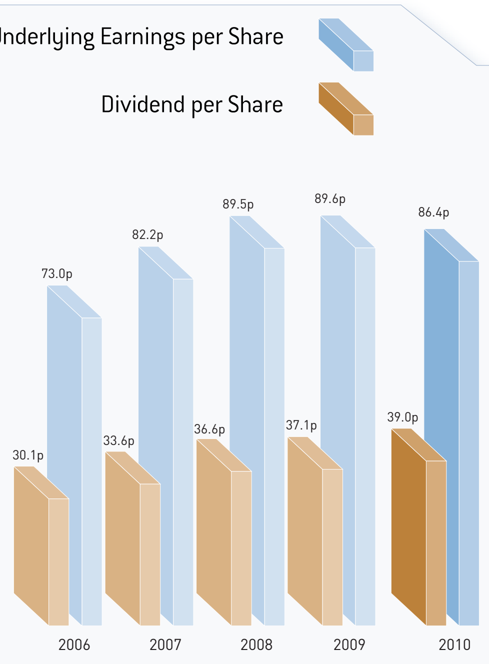
* Before amortisation of acquired intangibles, major impairment and restructuring charges and profit or loss on disposal of businesses.

Divisional Underlying Operating Profit*



* Before amortisation of acquired intangibles, major impairment and restructuring charges and profit or loss on disposal of businesses.

Underlying Earnings per Share / Dividend per Share



Contents

Our **2010** Annual Report & Accounts is divided into three sections...

1. **Report of the Directors:** this section contains the Business Review summarising the group's activities, strategy and performance during the year. It also contains information on the group's corporate governance.

2. **Accounts:** this section includes the consolidated and parent company accounts and related notes, as well as the statement on responsibility of directors and the auditors' report.

3. **Other Information:** this section provides further information for shareholders, a glossary and an index to help the reader locate information in the relevant sections.

GO ONLINE → www.matthey.com

Visit our website to find out more about Johnson Matthey or view the Annual Report & Accounts online.

CAUTIONARY STATEMENT

The Business Review and certain other sections of this Annual Report contain forward looking statements that are subject to risk factors associated with, amongst other things, the economic and business circumstances occurring from time to time in the countries and sectors in which the group operates. It is believed that the expectations reflected in these statements are reasonable but they may be affected by a wide range of variables which could cause actual results to differ materially from those currently anticipated.

CHAIRMAN'S STATEMENT

I am very pleased to report that, despite facing the most difficult economic conditions for many decades, Johnson Matthey performed well in 2009/10. The group produced underlying earnings per share that were only 4% lower than those in 2008/09, which, it should be remembered, was a record year for us.

Our strategy served us well during the downturn. The board, executive management team and employees at all levels of the company faced the challenges posed by extremely turbulent conditions in some of our key markets, especially in the western automotive markets, and took prompt and decisive action to reduce costs. However, this was done without sacrificing the future growth potential of our business. Whilst capital expenditure was significantly reduced, we continued our investment in new, highly efficient manufacturing capacity to make automotive emission control catalysts in Europe and the United States and a new plant in China to make catalysts to control emissions of oxides of nitrogen, or NOx, from coal fired power stations in that country. We also completed a facility in the UK to manufacture Apico, our revolutionary new methanol synthesis catalyst which was launched during the year and provides major performance benefits to customers worldwide.

The investment that we make in research and development is vital to the success of our company. It provides the high technology products and manufacturing processes that enable us to maintain market leadership and underpins the future growth of our businesses. Despite the difficult market conditions that we have faced over the last few years we have not cut our R&D spend, indeed we have continued to increase it. We are increasingly focusing our R&D efforts on developing new products that will help our customers to improve their resource efficiency, reduce energy consumption and waste and make their businesses more sustainable. Apico, which was developed in house by our world class scientists, will help to deliver many of these sustainability benefits to our customers in the methanol industry and is a great example of the crucial importance of R&D and innovation to our business.

As I visit Johnson Matthey businesses around the world I continue to be impressed by the commitment and enthusiasm of employees at all levels for Sustainability 2017, our group wide programme to make ours a more sustainable business by the year 2017, the two hundredth anniversary of the company's foundation. We have set ourselves some very challenging targets but given the commitment of our people and the spirit of innovation that is evident throughout the group, I feel confident that Sustainability 2017 will be a great success. Further details of our progress towards Sustainability 2017 are summarised on pages 29 to 37 and are presented in full in the group's Sustainability Report which will be published on our website in July.

Sir John Banham
Chairman

The last year has seen something of a changing of the guard among the executive directors of the company with the retirement from the board in July 2009 of David Morgan and Dr Pelham Hawker and the appointment of Bill Sandford as an executive director of the company. I marked these changes in my statement to you last year. As I also announced in my statement last year, John Sheldrick retired in September 2009 having served 19 years as Group Finance Director of Johnson Matthey. For the last few years John had the distinction of being the longest serving finance director of a FTSE 100 company. John had a long and distinguished career with Johnson Matthey since joining the company in 1990. He had a deep knowledge of all of the group's businesses and for several years had board level responsibility for our then Pharmaceutical Materials Division in addition to his role as Group Finance Director.

John Sheldrick played a key role in the evolution of the group into a world leading speciality chemicals company and in focusing it on its important opportunities for growth, especially those in its Environmental Technologies Division. On behalf of the board and indeed all of us at Johnson Matthey, I would like to thank John for the major contribution that he made to the development and success of the group and wish him all the very best for a well deserved, long and happy retirement. I am very pleased to welcome Robert MacLeod, who joined the board with effect from 22nd June 2009, as John Sheldrick's successor as Group Finance Director.

The most important investment that your company makes will always be the one that it makes in its people. This is very much brought home at times of difficult economic circumstances. We invest a great deal in the training and development of our staff and the last thing that we want to do is lose them. Unfortunately, as I mentioned earlier, this year saw us having to take action to reduce costs which inevitably led to a number of job losses. Even in these challenging times however, I never fail to be impressed by the enthusiasm, professionalism and dedication of our employees at all levels of the organisation. On your behalf, I would like to thank all of them around the world for their contribution to the success of the company in this difficult year. I would also like to take this opportunity to thank the senior management team for the excellent way that they responded to the challenges of the last year's difficult economic conditions.

Our investment in building our presence in the important Chinese market, which was the focus of our very successful investor presentation in January this year, has paid dividends during the recession and we are well positioned to continue to benefit from growth in China, India and other emerging economic powerhouses.

Johnson Matthey is in good shape and, despite the impact of the recession, continues to make progress towards delivering superior shareholder value. Whilst uncertainty remains about how quickly the world's economies will emerge from recession, all of the legislative, environmental and energy security drivers of our businesses remain very much in place. We are emerging from the recession stronger and more efficient than before it hit, when we were running flat out to keep pace with rapidly growing demand. I believe that your company has a terrific future ahead of it and I look forward to reporting on our progress in 2010/11.

Sir John Banham
Chairman

CHIEF EXECUTIVE'S STATEMENT

2009/10 was a challenging year for Johnson Matthey but I am pleased to say that we rose to those challenges and the group performed well. Revenue was flat at £7.8 billion and sales excluding precious metals were 5% up at £1.9 billion. Underlying profit before tax was 5% down at £254.1 million.

The year started in the depths of a global recession which certainly impacted our first half. However, the economic climate gradually improved throughout our second half aided by government efforts to stimulate the economy, particularly through various car scrappage schemes, and continued Chinese investment in the development of their energy resources and infrastructure. As a result, the year ended with a very creditable result, with underlying profit before tax only 5% down on 2008/09, which had been a record year for us. I would like to pay tribute to our management team who, despite being exposed to unprecedentedly volatile and difficult market conditions, stepped up to the many challenges that they faced in their businesses and produced such good results. We very quickly went from a situation where many of our businesses were running hard to keep up with strongly growing demand for their products to one of rapid and dramatic market contraction. It is to their great credit that they took the right decisions, quickly and efficiently. They did this without being told to do so, something that I believe reflects a great strength in Johnson Matthey.

Given the economic backdrop, our Environmental Technologies Division performed well in 2009/10. Its Emission Control Technologies (ECT) business was hit quite hard at a relatively early stage of the recession as a result of plummeting vehicle production, especially in North America, Europe and Japan. However, its light duty business came back steadily throughout the second half of the year aided by the scrappage schemes and also by dramatic growth of demand in China.

Neil Carson
Chief Executive

ECT is now well placed to continue to benefit from ongoing recovery with a lower cost base and two new highly efficient and low cost manufacturing facilities. The first of these is in Macedonia to supply catalysts for both light and heavy duty vehicles in Europe and the second in western Pennsylvania, USA to supply heavy duty diesel catalysts to meet the US 2010 legislation that came into force on 1st January this year. We now have a total of 14 emission control catalyst manufacturing facilities around the world.

Our Process Technologies business continued to perform well throughout 2009/10 with strong growth in its sales to ammonia and methanol markets which more than offset a decline in sales to oil refineries, which suffered a fall in demand for transportation fuels due to the economic downturn. During the year the business launched Apico, a new highly advanced methanol synthesis catalyst which brings a number of important benefits to our customers around the world. We are confident that it will make a major contribution to Process Technologies' growth in 2010/11 and for many years ahead.

Our Fuel Cells business continued to increase its sales despite the impact that the recession had on several of its smaller customers and the outlook for this year is encouraging.

Precious Metal Products Division was impacted by lower prices and subdued demand for platinum group metals, especially in the first half of the financial year. However the division's performance improved in the latter part of the year. Its manufacturing businesses, including our platinum group metals refining business, were slower to feel the effects of the recession than our ECT business and were also slower to begin to emerge from it. However, their performance showed signs of improvement towards the end of the year. By contrast, our gold and silver refining business had a very strong year driven by the high gold price and buoyant demand for investment bars.

Fine Chemicals Division had a mixed year. Its active pharmaceutical ingredients manufacturing businesses in the UK and the USA performed well and the division received the one-off US $12 million benefit from the launch of the first generic version of ADDERALL XR® by Teva Pharmaceutical Industries. However, its contract research business continued to feel the effects of the recession on venture capital funding for new drug development by many of its smaller customers. We have therefore taken action to restructure operations at its facility in Massachusetts, USA which has led to £1.6 million in redundancy and other costs and an £11.3 million impairment charge in respect of redundant assets in 2009/10.

Our investment in expanding our market presence and manufacturing infrastructure in Asia, particularly in China, has served us very well in this recession. We currently have four manufacturing plants in China with a fifth, to manufacture plate type catalysts to control NOx emissions from coal fired power stations, in the process of being commissioned. We are also pleased that we have a linked yet relatively diverse portfolio of businesses in catalysts, precious metals, fine chemicals and process technology that helped us to weather the storm of recession.

In last year's annual report we announced that in response to the market turmoil we intended to reduce our capital expenditure to around 1.2 times depreciation. This has still enabled us to pursue growth opportunities in our businesses, despite the recession. In 2009/10 we spent £134.4 million (1.2 times depreciation) on capex projects. These included the construction of our Chinese plate type catalyst manufacturing facility along with the completion of our emission control catalyst manufacturing plants in Macedonia and western Pennsylvania and our facility in Clitheroe, UK to manufacture our Apico methanol synthesis catalyst.

Sustainability

We have continued to focus on sustainability efforts across our business this year and sustainability remains a key element of our strategy for future growth. The group's Sustainability 2017 Vision sets out our aspirations and targets in this area. It is also directing our efforts for improving the resource efficiency of our operations and for designing the next generation of products to enable our customers to be more sustainable and competitive. We have continued to realise considerable savings through our sustainability programme and a significant proportion of profit this year was generated by environmentally beneficial products. However, growing our business through sustainability is not only about our operations and products. Protecting the health, safety and wellbeing of our employees has always been a key priority in Johnson Matthey and it is their contribution that will underpin the growth of our business in the years ahead. In 2008/09 we saw a disappointing increase in our lost time accident rate. We have taken action this year to revitalise our accident prevention processes and I am pleased to say that our rate of occupational accidents involving lost time has fallen to its lowest reported level.

We have continued to make steady progress towards the Sustainability 2017 aspirations in 2009/10 although much of the progress to date has been achieved by incremental improvements in operational and process efficiencies, the so called 'low hanging fruit'. We have recognised the need to focus further on the step change opportunities that will drive accelerated progress towards our 2017 targets and add real value to Johnson Matthey.

Outlook

This time last year, the group faced considerable uncertainty given the global economic turmoil that surrounded us. Whilst there is greater economic optimism today, substantial uncertainties still remain, as illustrated by the recent volatility in European markets. Quite how these will affect consumer confidence remains to be seen. The group continues to expect to make good progress in the first half of 2010/11, where underlying profit before tax should be significantly higher than the same period of 2009/10.

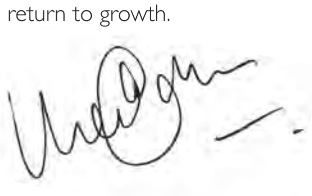
In the first six months of 2010/11, Environmental Technologies Division will benefit from relatively easy comparatives as it was particularly affected by the global slowdown in automotive demand in the first quarter of 2009/10. Emission Control Technologies is expected to perform well in the early part of the year as the impact of government scrappage schemes coming to an end may take some time to feed through to our business. Its performance should also benefit from some stock building by our customers. Process Technologies is also expected to continue growing steadily. As a result, Environmental Technologies Division's operating profit in the first six months of 2010/11, particularly in the first quarter, should be significantly ahead of the first half of 2009/10.

Precious Metal Products Division supplies products and services to a wide range of industries, some of which have recovered from the recession more quickly than others. The division's results benefit in part from the strength of platinum group metal prices and the platinum price in the first two months of 2010/11 has averaged $1,677/oz, which is approximately 45% higher than in the same period last year. However, prices have been highly volatile, especially over the last few weeks. The performance of the division's manufacturing and refining businesses are also much stronger than this time last year. Taken together, the results for the division in the first half of 2010/11 should also be significantly ahead of the same period in 2009/10.

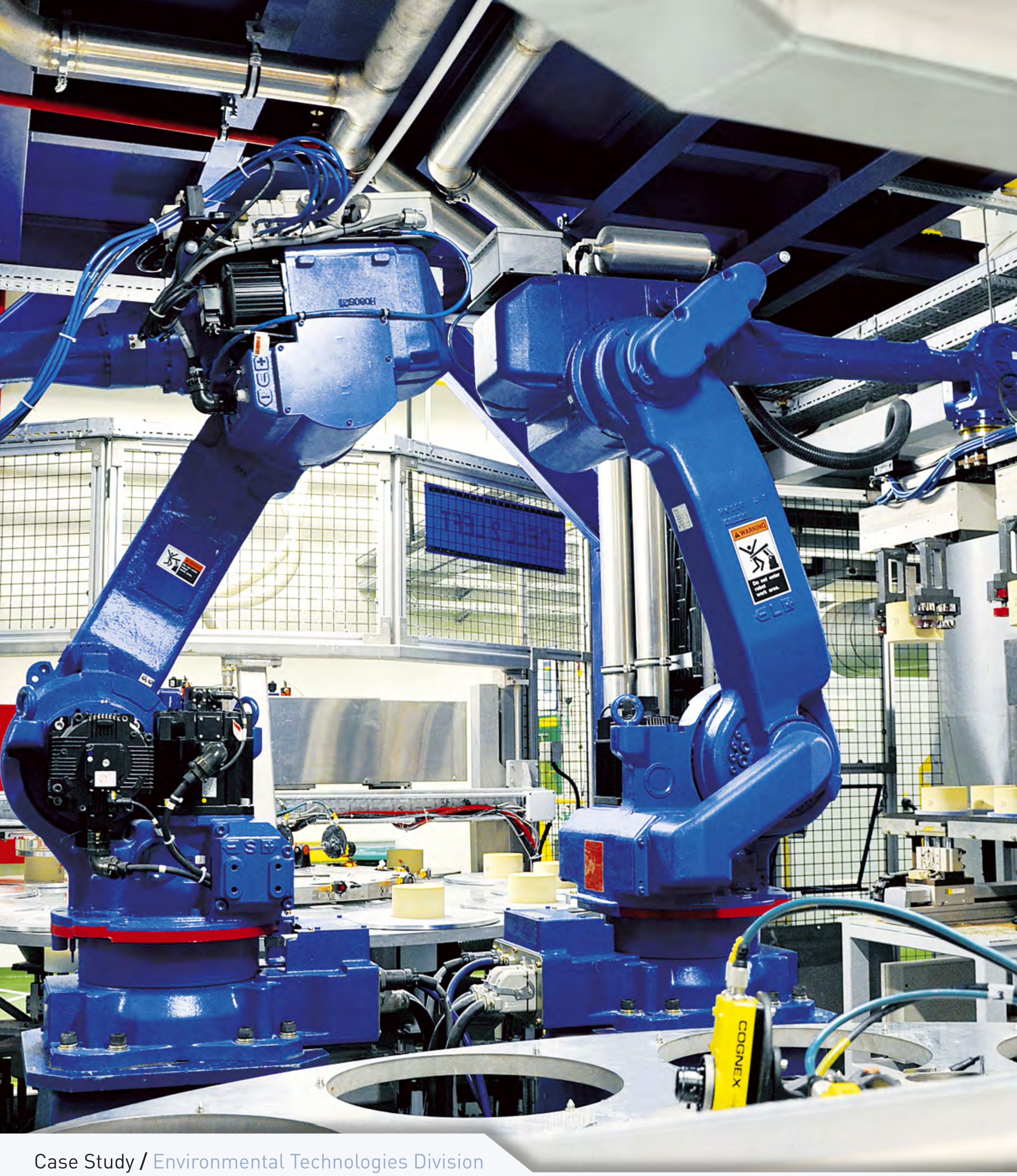
The performance of our Fine Chemicals Division is more predictable as its key markets are less impacted by volatility in the global economy. We expect that its businesses will continue to grow steadily but the division's results in the first half of 2010/11 will be impacted by the absence of the one-off benefit in 2009/10 associated with the launch of the generic version of ADDERALL XR®.

The group's performance in the second half of 2010/11 is harder to predict, not only because of the uncertainties surrounding the global economy, but also due to factors that more directly influence our business. These include uncertainties over the impact on vehicle sales as government vehicle scrappage schemes come to an end, when and how quickly the important North American heavy duty diesel market recovers and the strength of continued growth in demand for our products in China. Notwithstanding these uncertainties, we are confident that the group is well positioned to take advantage of a global economic recovery.

The longer term drivers for the group remain very much in place with ever tightening emissions standards around the world. The demand for energy security globally and the drive to reduce the environmental impact of chemical and industrial processes also plays to the strengths of Johnson Matthey. Together these give us confidence in the future. Over the last few turbulent years we have continued to invest in research and development and in expanding production capacity where we see opportunities for growth. This will continue. We have a strong balance sheet, a proven business model and are well placed to return to growth.



Neil Carson
Chief Executive



Case Study / Environmental Technologies Division

→ Emission Control Technologies, Macedonia

Johnson Matthey's new £34 million European emission control catalyst plant in Macedonia uses world class manufacturing technology to produce innovative catalysts for light and heavy duty vehicles in Europe. The new facility, which has created around 150 new jobs, has initial capacity to produce four million units per year to serve the rapidly growing demand for emission control products in Europe.

BUSINESS REVIEW

Group Activities

Johnson Matthey is a global speciality chemicals company. We serve our customer base from operations in over 30 countries and employ around 9,000 people worldwide. The group is organised into three global divisions: Environmental Technologies; Precious Metal Products and Fine Chemicals.

Environmental Technologies is a global supplier of catalysts and related technologies for applications which benefit the environment such as pollution control, cleaner fuel, more efficient use of hydrocarbons and the hydrogen economy. The division comprises three businesses:

- Emission Control Technologies is a global leader in catalytic systems for emissions control from vehicles and industrial processes.
- Process Technologies serves the world's chemical, oil, gas and refining industries. It manufactures catalysts, provides specialist services and designs and licenses chemical processes.
- Johnson Matthey Fuel Cells develops and manufactures catalysts and catalysed components for a wide range of clean energy fuel cell systems.

Precious Metal Products' activities comprise the marketing, distribution, refining and recycling of platinum group metals (pgms), fabrication of products using precious metals and related materials, pgm and base metal catalysts and pgm chemicals, and the refining of gold and silver.

Fine Chemicals is a global supplier of active pharmaceutical ingredients, fine chemicals and other speciality chemical products and services to a wide range of chemical and pharmaceutical industry customers and industrial and academic research organisations.

Strategy and Objectives

Johnson Matthey's strategic intent is to achieve consistent growth in earnings by concentrating on the development of high added value products and services in areas where our expertise provides a competitive edge, particularly in catalysis, precious metals, fine chemicals and process technology.

The group's financial objectives are:

- To continue to achieve consistent and above average growth in underlying earnings per share.
- To grow dividends in line with underlying earnings while maintaining dividend cover at about two and a half times to ensure sufficient funds are retained to support organic growth. Dividend cover may vary from the long term target to enable the group to maintain dividends at a consistent level.
- To deliver a return on investment above the group's cost of capital. We estimate Johnson Matthey's post tax cost of capital is currently about 7.8% (10.8% pre-tax). In addition we have a long run pre-tax target for the group of 20%.

The board's strategies to achieve these financial objectives are:

- Focus the business on the group's core skills in catalysis, precious metals, fine chemicals and process technology.
- Position the group in growth markets where our core skills are applicable. Catalysis is a key technology in many developing markets for the 21st century, particularly those concerned with protecting the environment such as in emission control, cleaner fuel, more efficient use of hydrocarbons and the hydrogen economy. Environmental Technologies Division, which combines our skills in catalysts and process technology, is well positioned to serve these emerging markets. Catalysis is also important in the manufacture of fine chemicals where Johnson Matthey has a number of strong niche market positions. Johnson Matthey's expertise and international strength in precious metals, particularly platinum group metals, was the starting point for many of our businesses. The market for platinum has grown steadily for many decades and demand is expected to grow significantly over the next ten years.
- Differentiate ourselves by using our world class technology. We will continue to invest significantly in research and development to develop new products and manufacturing processes. Technology is the key driver for most of our businesses and Johnson Matthey has a strong science base with technical centres located in all our major markets.
- Maintain strong relationships with our major customers, suppliers, government bodies and other stakeholders by investing resources on joint projects to ensure the group is well positioned for future market development.
- Continue to invest in Johnson Matthey's employees to ensure they are well trained, motivated and encouraged to meet the challenges of the future.
- Ensure the business is run in a sustainable way by using resources efficiently, minimising waste in our manufacturing processes and designing new products that help our customers to be more sustainable and competitive.

→ Research Chemicals' manufacturing joint venture, Alfa Aesar Synmax, in Yantai, China.

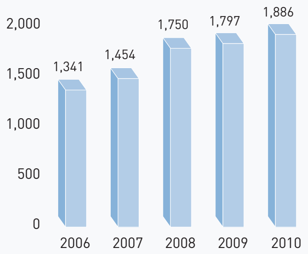
BUSINESS REVIEW

Group Key Performance Indicators

Johnson Matthey uses a range of key performance indicators (KPIs) to monitor the group's performance over time in line with the financial objectives and strategy summarised in the previous section. This year we have slightly refined our KPIs to better reflect the group's current priorities. These principal KPIs, together with the group's performance against them in 2009/10, are described below:

Sales Excluding Precious Metals

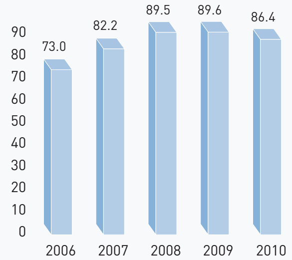
£ million



Monitoring sales provides a measure of the growth of the business. In measuring the growth of the group, we focus on sales excluding the value of precious metals because total revenue can be heavily distorted by year on year fluctuations in precious metal prices. Not only that, in many cases variations in the value of the precious metal contained within our products are passed directly on to our customers.

Underlying Earnings per Share

Pence

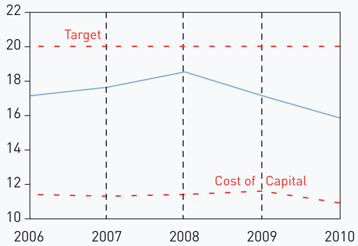


Underlying earnings per share is the principal measure used by the board to assess the overall profitability of the group. The following items are excluded from underlying earnings because they can distort the trend in measuring results:

- Amortisation of intangible assets arising on acquisition of businesses (acquired intangibles).
- Major impairment or restructuring charges.
- Profits and losses on disposal of businesses.
- Major tax items arising from changes in legislation.

Return on Invested Capital

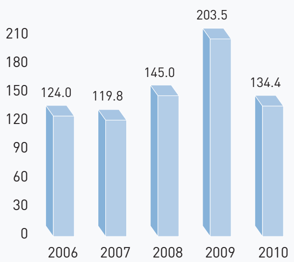
%



In a business as capital intensive as Johnson Matthey's, profitability alone is a poor measure of performance; it is possible to generate good operating margins but poor value for shareholders if assets are not used efficiently. Return on invested capital (ROIC) is therefore used alongside profit measures to ensure focus upon the efficient use of the group's assets. ROIC is defined for the group as underlying operating profit divided by average capital employed (equity plus net debt). ROIC for individual divisions is calculated using average segmental net assets as the denominator.

Capital Expenditure

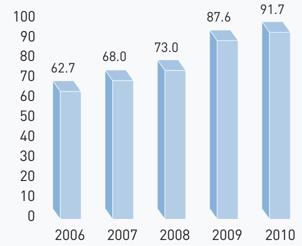
£ million



To enable the group to continue to grow, Johnson Matthey invests significant amounts in maintaining and improving our existing plants and in adding new facilities to provide additional capacity where necessary. All new capital expenditure is subject to detailed review to ensure that its investment case passes internal hurdles. Annual capital expenditure is measured as the cost of property, plant and equipment and intangible assets purchased during the year. The ratio of capital expenditure to depreciation gives an indication of the relative level of investment. For 2009/10 it was 1.2 times (2008/09 2.0).

Gross Research and Development Expenditure

£ million



Johnson Matthey is fundamentally a technology company. To maintain our competitive position, we need to keep investing in research and development. Whilst absolute levels of research and development expenditure do not necessarily indicate how successful we are, that success rapidly feeds through to higher sales as lead times in our business can be quite short.

Sustainability – Global Warming Potential

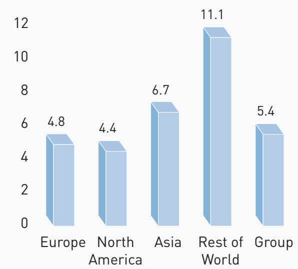
Tonnes CO_2 equivalent ('000)

We measure our progress towards achieving carbon neutrality by looking at the group's total global warming potential (GWP). Total GWP is based on our direct and indirect energy usage and CO_2 equivalence which provide a strong platform for monitoring the impacts associated with energy use in our operations. We are working to broaden the scope of our GWP measurement to include all aspects of our business and to consider the beneficial impacts of our products and services. For further information on the group's GWP see pages 29, 30, 36 and 37.

* Calendar year.

Voluntary Employee Turnover

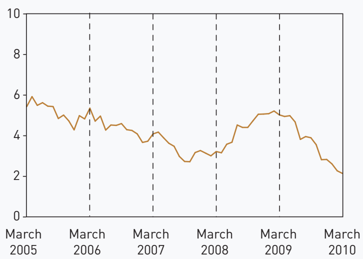
%



The success of Johnson Matthey is partly dependent upon the extent that we are able to attract and retain the most talented employees. This means that being an attractive employer is a prerequisite in a competitive environment. We monitor our success in retaining our staff using voluntary turnover statistics compared to those for UK manufacturing. In 2009, voluntary employee turnover for UK manufacturing was 7.7%*.

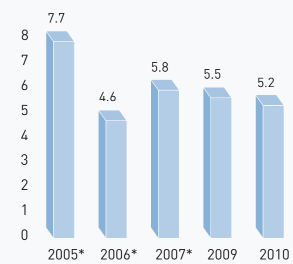
* Source: CIPD 2009 annual survey of recruitment, retention and turnover.

Safety – Annual Rate of >3 Day Accidents per 1,000 Employees



Johnson Matthey is a chemical manufacturing business and a significant proportion of our employees work in production environments with chemicals and process machinery. Rigorous safety systems apply across all facilities and are essential if the group is to avoid accidents which could cause injury to people or damage to our property, both of which can impact the group's performance. We actively manage our safety performance through monitoring the incidence of accidents that result in more than three days lost time.

Occupational Health – Annual Incidence of Occupational Illness Cases per 1,000 Employees



The health and wellbeing of our employees is a priority for Johnson Matthey and we are committed to minimising workplace related negative health effects. We manage our performance in this area by measuring the number of occupational illness cases arising as a result of exposure to workplace health hazards.

* Calendar year.

Case Study / Environmental Technologies Division

→ Process Technologies, Revolutionary New Catalyst

In June 2009 Process Technologies launched Apico, its new patented methanol synthesis catalyst. Developed in house by our world class scientists, Apico delivers huge value to our customers. Compared to other methanol synthesis catalysts, Apico has a much faster start up, produces fewer by products, increases methanol production and has a longer catalyst life. It is therefore a more sustainable product that enables customers to improve their plant efficiency and reduce their impact on the environment.

BUSINESS REVIEW

Group Performance Review

	Year to 31st March **2010 £ million**	2009 £ million	% change
Revenue	**7,839**	7,848	–
Sales excluding precious metals	**1,886**	1,797	+5
Operating profit	**250.6**	280.0	-11
Profit before tax	**228.5**	249.4	-8
Total earnings per share	**77.6p**	82.6p	-6
Underlying*:			
Operating profit	**271.8**	298.5	-9
Profit before tax	**254.1**	267.9	-5
Earnings per share	**86.4p**	89.6p	-4

* Before amortisation of acquired intangibles, major impairment and restructuring charges and profit or loss on disposal of businesses.

Sales

Revenue for the year ended 31st March 2010 was in line with last year at £7.8 billion, although performance was biased towards the second half of the year due to the increase in activity and precious metal prices; first half revenue was £3.6 billion and second half revenue was £4.2 billion. Despite the economic background, the group's sales excluding precious metals held up well and were 5% higher than last year at £1,886 million. Translated at constant exchange rates, revenue for the year fell by 3% and sales excluding precious metals grew by 1%.

→ Our new heavy duty diesel catalyst manufacturing facility in western Pennsylvania, USA.

Operating Profit

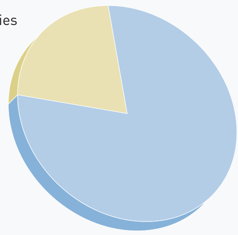
Underlying operating profit (before amortisation of acquired intangibles, major impairment and restructuring charges) was 9% lower than last year at £271.8 million. The group benefited from the weakness of sterling and at constant exchange rates underlying operating profit would have been 13% lower than last year.

This year we have taken an impairment charge in respect of redundant assets at our Pharmaceutical Materials and Services contract research business in Massachusetts, USA. This resulted in a charge of £11.3 million which has been excluded from underlying earnings per share.

The performance of the individual businesses is explained in more detail on pages 12 to 19 in the Operations Review.

Operations Review → Environmental Technologies Division

Sales Excluding Precious Metals



Key Statistics

Return on sales excluding precious metals	9.7%
Return on invested capital (ROIC)	9.4%
Capital expenditure	£93.8m
Capex / depreciation	1.4
Average invested capital	£1,281m
Employees	4,985

	Year to 31st March **2010** **£ million**	2009 £ million	% change	% at constant rates
Revenue	**2,056**	2,226	-8	-11
Sales excluding precious metals	**1,247**	1,135	+10	+6
Underlying operating profit	**120.9**	124.3	-3	-6

Description of the Business

Emission Control Technologies (ECT)
ECT comprises Johnson Matthey's global autocatalyst, heavy duty diesel and stationary emissions control businesses. We are a world leading manufacturer of catalysts for vehicle exhaust emission control and a leader in catalyst systems for the reduction of emissions from industrial processes. Manufacturing plants are located in the UK, Germany, Belgium, Macedonia, Russia, USA, Mexico, Argentina, South Africa, Japan, Malaysia, India, China and South Korea. R&D facilities are in the USA, UK, Germany, Sweden, Japan, South Korea and Brazil.

Process Technologies
Process Technologies manufactures process catalysts for the syngas, methanol, ammonia, hydrogen, gas / coal to products, oil refineries and gas processing industries. Davy Process Technology develops chemical process technologies and licenses them to customers in the oil, gas and petrochemical industries. Our Tracerco business is an industrial leader in specialist technology for the diagnostics, measurement and analysis of process plant conditions across the hydrocarbon chain. Process Technologies serves customers around the world and has manufacturing sites in the UK, India and China, supported by several UK based technology centres and technical offices in key centres worldwide.

Fuel Cells
Johnson Matthey has a world leading position in the development and manufacture of catalysts and catalysed components for fuel cells.

Performance in 2009/10

In 2009/10 Environmental Technologies Division recovered from a weak first half with good growth in the second half of the year. ECT was significantly affected in the first half by the slowdown in demand across all areas but saw a strong recovery for autocatalysts in the second half. However, despite challenging economic conditions, Process Technologies continued to perform well supported by strong demand for its syngas products in China. For the year as a whole, Environmental Technologies Division's revenue fell by 8% to £2,056 million; sales excluding precious metals were 10% ahead at £1,247 million; however underlying operating profit fell by 3% to £120.9 million. Translated at constant exchange rates, sales excluding precious metals increased by 6% and underlying operating profit was 6% lower.

Emission Control Technologies

Emission Control Technologies' sales excluding precious metals grew by 12% to £974 million. Sales in the first half of the year were £440 million, but sales recovered strongly in the second half to £534 million. At constant exchange rates, sales excluding precious metals were up 7%.

In Johnson Matthey's financial year to 31st March 2010, global light duty vehicle sales grew by 7% to 66.7 million vehicles. Global production grew by 6% with a further small decrease in inventories. The effect of various government scrappage schemes around the world had a very positive effect on vehicle sales particularly in the second half. Johnson Matthey's light duty catalyst sales excluding precious metals grew by 17% to £754 million and

Estimated Light Vehicle Sales and Production

		Year to 31st March 2010 millions	2009 millions	change %
North America	Sales	**13.0**	14.4	-9.7%
	Production	**9.7**	10.8	-10.2%
Total Europe	Sales	**18.5**	19.9	-7.0%
	Production	**18.1**	18.8	-3.7%
Asia	Sales	**24.2**	17.2	+40.7%
	Production	**30.7**	25.5	+20.4%
Global	Sales	**66.7**	62.1	+7.4%
	Production	**65.2**	61.5	+6.0%

Source: IHS Global Insight

sales volumes of autocatalysts grew by more than 9% in the year, exceeding the growth in global car production as a result of increased fitment of diesel particulate filters (DPFs) in Europe and our strong performance in the growth markets of China and India.

Around 6.5 million diesel cars were sold in western Europe in the year (representing some 46% of total car sales, down from 51% last year) of which about 70% were fitted with DPFs. Over the next seven months the DPF market is set to grow further as all new diesel cars sold in the European Union will require fitment from January 2011.

In response to the fall in demand for our products in the second half of 2008/09 we took swift action to significantly reduce costs and, during this period of lower production, also took the opportunity to improve the efficiency of our manufacturing facilities and logistics. As a result, our ongoing production cost per unit reduced by approximately 7%. We, however, retained our flexibility and were able to react rapidly to increased customer orders from mid 2009/10. Since the low point in March 2009, our plant utilisation for light duty catalysts has almost doubled although we still have sufficient capacity to meet future growth in demand.

While the light duty catalyst business grew strongly in the year, sales excluding precious metals of our heavy duty diesel (HDD) catalysts fell by 5% to £173 million, a reduction of 10% on a constant currency basis. Our HDD business, which manufactures catalysts for trucks, buses and non-road vehicles, made a small loss in the year because, following our recent investment in HDD catalyst manufacturing infrastructure ahead of new legislation, we had surplus capacity given the downturn in truck production.

Sales of heavy duty trucks were depressed in the year in both Europe and the USA, falling in our financial year by 45% and 28% respectively, although in the year we enhanced our leading share of the HDD catalyst market. However our sales started to recover in the autumn and in March 2010 were nearly double those in the same month last year, albeit that the majority of our US sales were for trucks that still utilised pre-US 2010 HDD catalysts. Sales for the first quarter of 2010/11, the period for which we have greatest visibility, are expected to remain at around this level. Given current economic conditions it is difficult to predict when truck sales in Europe and the USA will recover fully. With HDD legislation now in place in South Korea, the introduction of tighter on road HDD emissions legislation in China, India and Brazil over the next few years and the phasing in of non-road legislation in the USA and European Union, the growth prospects for our HDD catalyst business remain very strong.

During the year we completed a significant, over £70 million, investment in new capacity and opened two new facilities, one in western Pennsylvania, USA with capacity to manufacture one million catalysts a year required to meet the new US 2010 HDD legislation in North America that came into effect from 1st January 2010, and the other in Macedonia with initial capacity to manufacture four million catalysts per annum for both light duty and heavy duty vehicles in Europe. Both of these facilities are now fully operational. We also completed a major expansion of our autocatalyst manufacturing capacity in Shanghai, China. This will enable us to meet the demands of the rapidly growing market in China where we continue to increase our market share, from around 17% five years ago to approximately 30% today. Construction of a new research and development facility in Shanghai is now underway and is expected to be operational in the autumn of 2010.

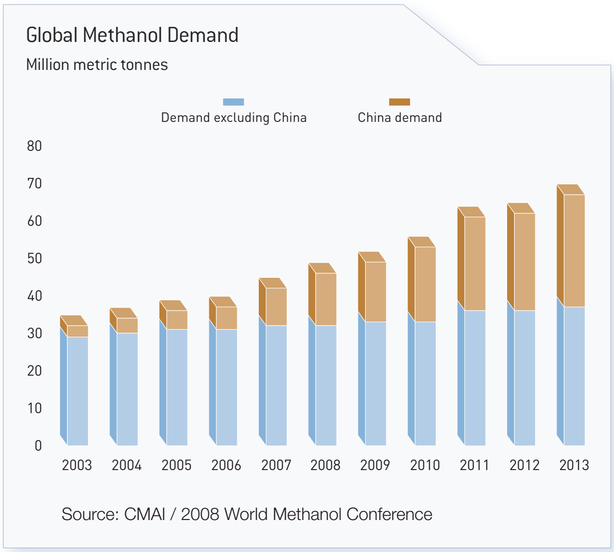
Our stationary emissions control (SEC) systems business for reducing emissions in a wide range of applications including power generation, industrial processes, coal fired power plants and marine applications suffered from the deferral of major energy projects due to the recession and uncertainty over carbon dioxide (CO_2) emissions standards in the USA and Europe. Despite this, sales were up by 6% to £47 million.

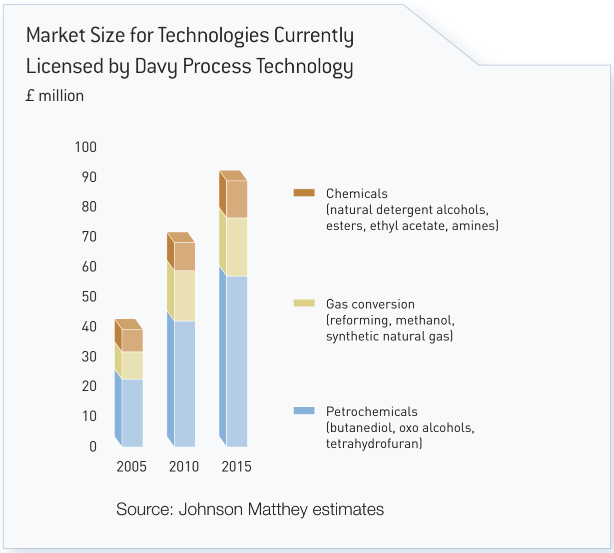
We have continued to build a new facility in Shanghai, China to supply plate type selective catalytic reduction (SCR) catalysts for controlling emissions of oxides of nitrogen (NOx) from coal fired power plants. This will serve a growing market in China where the State Environmental Protection Administration is expected to issue NOx control regulations that will come into effect in 2011. Our new facility is currently being commissioned and will begin supplying product during the first half of our 2010/11 financial year.

Process Technologies

Process Technologies continued to grow in 2009/10 despite the downturn in the global economy. Its sales excluding precious metals grew by 3% in the year to £268 million, an increase of 1% at constant exchange rates. The Ammonia, Methanol, Oil and Gas (AMOG) business, which represents approximately 60% of Process Technologies' sales, performed well with strong sales to both the ammonia and methanol markets, up 15% and 7% respectively. Demand for its gas purification products, used to remove contaminants such as mercury and chlorides, held up well throughout the year. However, sales of catalysts to produce hydrogen, which is used extensively in the hydrodesulphurisation process to remove sulphur from crude oil and to improve the quality of gasoline and diesel, were adversely impacted by the effect of the economic slowdown on demand for transportation fuels and by tight refinery margins and were down by more than 10%. Legislation requiring lower sulphur fuels continues to gain momentum around the world, particularly in South America, Asia and the Former Soviet Union, supporting continued demand for our hydrogen catalysts and purification products.

Process Technologies benefited from continued activity on projects to convert gas or coal into chemicals where some countries, particularly China, are seeking to enhance their energy security by utilising coal reserves to reduce their reliance on imported oil and gas. China continues to develop coal based technologies to manufacture methanol, ammonia and synthetic natural gas (SNG). Johnson Matthey has leading catalyst technology in these areas and is the number one supplier of catalysts for large scale methanol plants in China with a 40% market share.





Demand for methanol has continued to grow strongly in China, with consumption up by 35% to 17 million tonnes per annum, where it is increasingly being used as a substitute for petroleum based transportation fuels. As a result, our sales of methanol catalysts in China have increased by over 150% this year. The country is also investing in projects to manufacture SNG from coal that can be transported by existing pipelines and utilised for heating and industrial applications.

During the year Process Technologies commissioned a new state of the art methanol synthesis catalyst manufacturing facility at Clitheroe, UK. This plant produces Apico, our new patented methanol synthesis catalyst, which delivers a number of substantial performance benefits to customers, including the increase of methanol production from existing plants. Process Technologies remains a global leader in the licensing of methanol process technology and the sale of associated catalysts. The new Apico catalyst will further differentiate the business from its competitors.

Davy Process Technology (DPT) had another good year, with sales of £44 million, securing licence and engineering contracts for a further eight plants. The business was particularly successful in China, winning contracts for three methanol plants, an oxo alcohols plant and two speciality chemicals plants. In addition DPT won the contract for the first world scale SNG plant at Datang in China, including the supply of Johnson Matthey's catalysts.

DPT continues to invest in developing its technology portfolio. During the year it introduced the first world scale methylamine and dimethyl formamide process, dimethyl ether technology and a waste fat to diesel process. It is also in a position to license a gas to liquids process based on fixed bed Fischer Tropsch technology which has been jointly developed with BP.

Process Technologies continues to pursue other technology opportunities which have the potential to increase energy efficiency and reduce CO_2 emissions. Progress continues to be made in the development of technologies for high efficiency reforming, technology for the more cost effective capture of CO_2 prior to sequestration and in the area of gas to liquids technology, achieving a number of new milestones in catalyst development and increasing its sales of pilot scale catalysts this year. These are all areas that are coming into sharper focus as governments around the world strive to tackle CO_2 emissions.

Tracerco's sales were slightly up on last year with growth in its specialist measurements and taggants segments offsetting a poor year for its process diagnostics business, mainly due to reduced activity and investment by oil and gas companies. Vertec, which manufactures specialist organic titanates used in inks, paints and polymers, made an operating loss in 2009/10. The business has been facing stiff price competition from Asian manufacturers for a number of years. At the end of May 2010 we entered into consultation with its employees to look at the future options for the Vertec business.

Fuel Cells

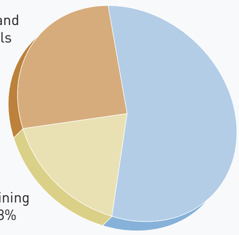
The Fuel Cells business made further progress in 2009/10 despite the adverse economic conditions and as a result, the net expense fell by £0.3 million to £5.4 million. Several of our customers were impacted by the downturn and scaled back their growth plans but by year end they had recovered and had the confidence to start expanding again.

Direct methanol fuel cells are used in portable devices for leisure markets and sales of these were badly hit by the recession. However, our products are technically very competitive and we gained market share, mitigating the impact of a smaller market. Sales in this area have recovered, boosted by military applications starting to enter large scale trials. There also continues to be increasing interest in the use of natural gas fuelled systems to power buildings, an area where Johnson Matthey is a leading supplier of fuel cell components.

→ Chinese n-butanol plant based on DPT's chemical process technology. Reproduced with the kind permission of PetroChina Jilin Petrochemical Company.

Operations Review → Precious Metal Products Division

Sales Excluding Precious Metals



Key Statistics

Return on sales excluding precious metals	**27.8%**
Return on invested capital (ROIC)	**46.8%**
Capital expenditure	**£15.9m**
Capex / depreciation	**0.7**
Average invested capital	**£249m**
Employees	**2,594**

	Year to 31st March **2010 £ million**	2009 £ million	% change	% at constant rates
Revenue	**5,562**	5,402	+3	–
Sales excluding precious metals	**420**	447	-6	-11
Underlying operating profit	**116.7**	143.0	-18	-22

Description of the Business

Precious Metal Products Division's activities comprise the marketing, distribution, refining and recycling of platinum group metals (pgms), fabrication of products using precious metals and related materials, pgm and base metal catalysts and pgm chemicals, and the refining of gold and silver. The division is organised into four businesses:

Platinum Marketing and Distribution
The business consists of our worldwide platinum marketing and distribution activities. Marketing is headquartered in Royston, UK with support facilities in Philadelphia, USA and Hong Kong. We are the world's leading distributor of pgms and the sole marketing agent for Anglo Platinum, the world's largest producer of platinum.

Noble Metals
Noble Metals produces a wide range of precious metal and other fabricated products for industrial and medical applications. Johnson Matthey is the market leader in pgm fabricated products for industrial applications. Manufacturing takes place in the UK and USA.

Catalysts, Chemicals and Refining
Catalysts, Chemicals and Refining manufactures precious and base metal catalysts, fine chemicals and electrochemical products. It also recovers pgms from spent catalysts and other secondary materials and refines primary pgms from global mining operations. The business also comprises our gold and silver refining and bullion manufacturing operations which serve the world's mining industries and recycle secondary scrap material.

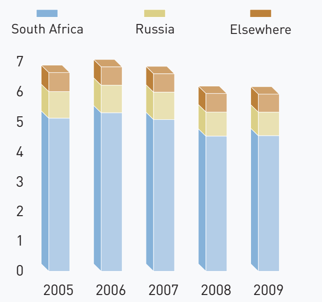
Catalysts and chemicals manufacturing takes place in the UK, USA, Germany, India and China. Pgm refining facilities are in the UK and USA and gold and silver refining operations are located in the USA and Canada.

Colour Technologies
Headquartered in the Netherlands, our Colour Technologies business manufactures black obscuration enamels and silver conductive materials for automotive glass. It also makes colours, enamels and decorative precious metal products for other glass applications such as bottles and architectural glass as well as for tableware and other ceramic applications. Manufacturing takes place in the Netherlands, USA and South Korea.

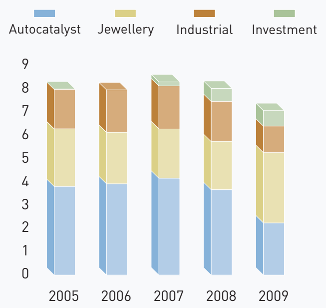
Performance in 2009/10

Precious Metal Products Division's revenue increased by 3% to £5,562 million, boosted by higher platinum group metal prices in the second half of the year. Sales excluding the value of precious metals were 6% lower at £420 million with reductions across most of the division's businesses due to the effect of lower metal prices in the first half and the impact of the economic slowdown on its manufacturing businesses. Operating profit was also lower, down 18% at £116.7 million, following a difficult first half. Translated at constant exchange rates, sales excluding precious metals decreased by 11% and operating profit was 22% lower than last year.

Supply of Platinum 2005-2009
Million oz

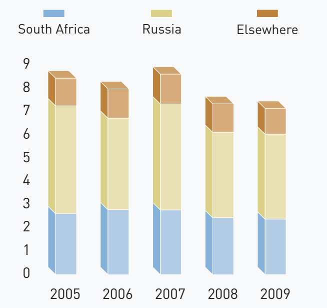


Gross Demand for Platinum 2005-2009*
Million oz

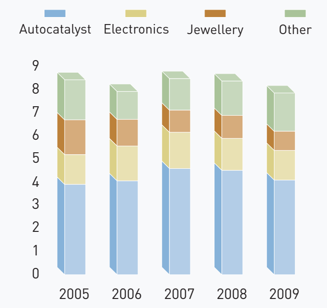


* Recycling of scrapped autocatalysts, electronics and jewellery contributed 1.83 million oz of platinum in 2008 and 1.41 million oz in 2009.

Supply of Palladium 2005-2009
Million oz



Gross Demand for Palladium 2005-2009**
Million oz



** Recycling of scrapped autocatalysts, electronics and jewellery contributed 1.62 million oz of palladium in 2008 and 1.43 million oz in 2009.

Platinum Marketing and Distribution

Profit in our Platinum Marketing and Distribution business fell in 2009/10 with performance improving in the second half of the financial year as precious metal prices increased.

Global demand for platinum fell by 11% in the calendar year 2009. Demand from the autocatalyst sector fell by 38% to a nine year low due to the global reduction in car production and a sharp decline in diesel market share in Europe. Jewellery demand increased in response to lower platinum prices, with a significant increase in stock rebuilding and retail sales in the key Chinese market. Buoyant jewellery demand was supported by an increase in physical investment through Exchange Traded Funds (ETFs). Supplies of platinum fell slightly with the output of new South African mines balanced by the closure of some existing production in the face of weaker platinum group metal prices in rand terms. The production environment in South Africa continued to be challenging with production interruptions due to safety closures and industrial action.

The substantial fall in platinum demand outweighed the more modest decline in production, moving the market into an oversupply position. The price of platinum nonetheless increased for much of the financial year with increasing investor positions having a more significant impact on the price than supply / demand fundamentals. After starting the year at $1,133/oz, platinum closed the financial year at a high point of $1,644/oz, averaging $1,343/oz for the year.

Palladium demand fell by 6% in 2009. Demand from the autocatalyst sector was 9% down, much less than for platinum, as car scrappage schemes in Europe favoured sales of small engined gasoline powered vehicles fitted with palladium catalysts. Although affected by the global fall in car production, palladium demand benefited from the rising production of cars in China which are mostly fitted with palladium catalysts. Physical investment in ETFs was also strong. Supplies of palladium declined slightly but the market remained in fundamental oversupply due to continuing sales of Russian state stocks.

Like platinum, the price of palladium increased for much of 2009/10. It also reached its high point of $479/oz at the end of the year, having averaged $325/oz which was 10% up on 2008/09.

The price of rhodium recovered slowly after a precipitous decline in 2008/09. Rhodium demand fell by around 20% in calendar year 2009 due to weak demand from the automotive sector. Although rhodium moved into a position of oversupply, the price more than doubled from $1,175/oz to $2,575/oz in thin trading. The average price of $1,936/oz was nonetheless only 40% of the level seen in 2008/09.

Noble Metals

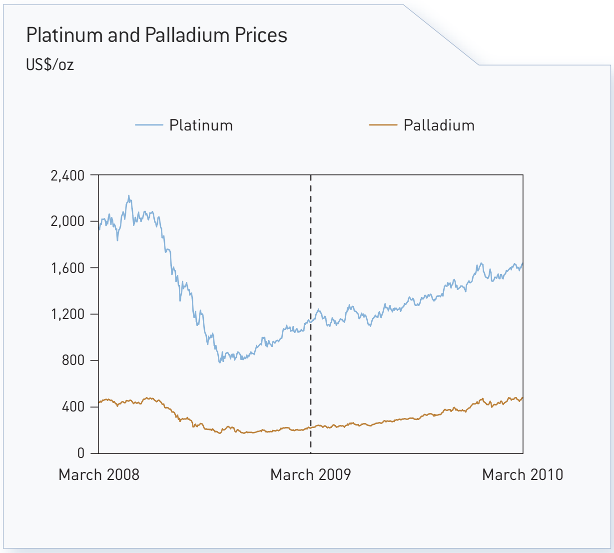
Our Noble Metals business was affected by the general global downturn with sales excluding precious metals down by 5%. Demand for fabricated pgms was adversely impacted as the world economy slowed but we began to see recovery during the second half of the year. The year ended strongly for its European operations and whilst demand for products from its US business has been slower to pick up, industrial markets began to improve in the final quarter.

The business has established a market leading position in the supply of a nitrous oxide (N_2O) abatement catalyst to the nitric acid industry and last year saw continued good growth in demand for these products driven by incentives provided through the Kyoto agreement for plant operators to reduce their greenhouse gas emissions. N_2O is a powerful greenhouse gas with a global warming potential of 310 times that of CO_2. As western countries begin to introduce legislation to limit the emissions of greenhouse gases, we expect continued growth in demand for N_2O abatement technologies.

Whilst demand for our components for medical devices was mixed, our sophisticated machining capability in San Diego, USA has enabled us to become a leading supplier of high technology parts for several growing medical applications.

Catalysts, Chemicals and Refining

The Catalysts, Chemicals and Refining business was formed following the transfer of our Catalysts and Chemicals operations to Precious Metal Products Division on 1st April 2009. It also includes the division's Gold and Silver and Pgm Refining and Recycling activities. The business is organised into two businesses; Catalysts and Chemicals, and Refining.



Catalysts and Chemicals

Catalysts and Chemicals had a difficult year with sales excluding precious metals falling by 14% to £114 million as a consequence of the global recession which impacted a number of end use markets, especially the automotive, construction and petrochemical sectors. The second half of the year saw some improvement, particularly in demand for precious metal salts for the automotive sector as car sales picked up driven by the government stimulus packages. Demand in China steadily improved throughout the year as a result of various government actions to stimulate the economy and in the year represented some 9% of the business' global sales. During the year we commissioned a new sponge nickel catalyst manufacturing facility in Shanghai, China to serve the local market. Further expansion is planned on the Shanghai site during 2010/11 to manufacture pgm catalysts for the growing pharmaceutical industry in China.

Refining

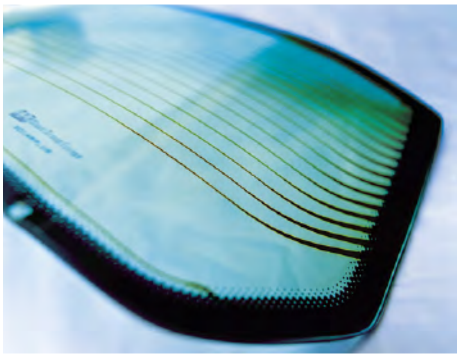
Our Refining business as a whole had a challenging year. Sales excluding precious metals fell by 6% to £77 million. The Pgm Refining and Recycling business was impacted, particularly in the first half, by reduced intakes as the result of lower pgm prices and a decline in the overall level of economic activity. Results improved in the second half as the effects of higher pgm prices and various automotive scrappage schemes around the world began to boost intakes of secondary material. During the year, the business continued to focus on capacity management and operational improvements at both its UK and US refineries to reduce the amount of metal in the refining circuit with improvements in the volume of residues processed through its arc furnaces.

In our Gold and Silver business, however, both our refineries had a very strong year with throughputs at record levels and improved margins. The gold price climbed steadily throughout the year, averaging over $1,000/oz, which had the effect of stimulating demand for the refining of secondary material, particularly jewellery scrap. Demand for gold investment bars was also very high. The business introduced a number of operational improvements in the year to reduce bottlenecks in the plant and improve metal throughput.

Colour Technologies

Colour Technologies performed well in difficult market conditions. Sales in our traditional businesses were flat but the acquisition of a small order book in March 2009 and good cost control resulted in profit being slightly higher than last year. Demand for our automotive glass enamel products continued to grow strongly in Asia throughout 2009/10. Sales in other parts of the world suffered in the first half in line with the downturn in vehicle production, however, we saw recovery in the second half as the European and North American automotive markets picked up. Colour Technologies increased its share of the automotive silver paste market, but demand for decorative precious metal products was impacted during the year by the high gold price.

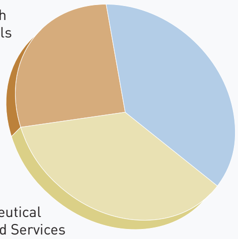
The business opened a new technology centre in Maastricht, the Netherlands during the year to support the development of new products for its global markets.



→ Automotive glass enamel products manufactured by our Colour Technologies business.

Operations Review → Fine Chemicals Division

Sales Excluding Precious Metals



Key Statistics

Return on sales excluding precious metals	**25.5%**
Return on invested capital (ROIC)	**13.4%**
Capital expenditure	**£22.0m**
Capex / depreciation	**1.4**
Average invested capital	**£417m**
Employees	**1,026**

	Year to 31st March **2010 £ million**	2009 £ million	% change	% at constant rates
Revenue	**221**	220	+1	-4
Sales excluding precious metals	**219**	215	+2	-2
Underlying operating profit	**55.8**	49.5	+13	+9

Description of the Business

Fine Chemicals Division is a global supplier of active pharmaceutical ingredients, fine chemicals and other speciality chemical products and services to a wide range of chemical and pharmaceutical industry customers and industrial and academic research organisations.

Macfarlan Smith
Macfarlan Smith manufactures active pharmaceutical ingredients (APIs) and intermediate products for the pharmaceutical and fine chemical industries. The business is the world's leading manufacturer of opiate alkaloids which are used for pain management and other pharmaceutical applications. It is headquartered in Edinburgh, UK.

Pharmaceutical Materials and Services
The Pharmaceutical Materials and Services business manufactures APIs and provides services to the pharmaceutical industry. The business specialises in the manufacture of APIs for controlled drugs and for platinum based anticancer treatments. It provides a full range of commercial scale manufacturing services for APIs to both generic and branded pharmaceutical companies. The business has operations in the USA.

Research Chemicals
The Research Chemicals business is a globally integrated catalogue based supplier of speciality inorganic and organic chemicals. It operates under the Alfa Aesar brand name and is based in the UK, USA, Germany, China and India.

Performance in 2009/10

Fine Chemicals Division achieved modest growth in the year in the face of challenging market conditions. The division's revenue increased by 1% to £221 million and sales excluding precious metals rose by 2% to £219 million. Operating profit was 13% ahead at £55.8 million. The division received a one-off benefit to sales and operating profit of US $12 million from the launch of the generic version of ADDERALL XR® in April 2009. However it also incurred £1.6 million in redundancy and other costs at its Pharmaceutical Materials and Services business in the USA. Excluding these items, the division's operating profit was 1% ahead at £49.9 million. On a constant currency basis sales excluding precious metals were 2% below and operating profit, excluding these items, was also 2% down.

Macfarlan Smith

Macfarlan Smith's sales of specialist opiate products, particularly buprenorphine, naloxone and naltrexone, continued to grow in 2009/10. However, its sales of bulk opiates, such as codeine phosphate, were impacted by reduced availability of raw material, and overall, sales of opiate based APIs were down on last year. As a result, sales excluding precious metals declined by 8% to £80 million. While the business took swift action to control costs and sales of non-opiate products, such as fentanyl and methylphenidate, saw continued growth, Macfarlan Smith's profit was a little down on last year.

Pharmaceutical Materials and Services

The division's Pharmaceutical Materials and Services business had a good year overall with sales excluding precious metals 14% ahead of 2008/09 at £79 million, benefiting from the income received as the result of the launch of the first generic version of ADDERALL XR® by Teva Pharmaceutical Industries. Excluding this one-off benefit, sales excluding precious metals still grew and were up by 3% at £71 million. Pharmaceutical Materials and Services' manufacturing business performed well with sales of amphetamine salts and opiate products continuing to show good growth, more than offsetting a decline in sales of platinum based anticancer APIs.

Our contract research business, however, continued to be adversely affected by a lack of venture capital funding for new drug development which has impacted many of our smaller customers. Sales excluding precious metals were down more than 30% in 2009/10 and the business generated an operating loss. Consequently a restructuring plan was implemented at its facility in Massachusetts, USA resulting, to date, in a 31% reduction in headcount compared to last year. In addition to the £1.6 million in redundancy and other costs, this plan resulted in an £11.3 million impairment charge in respect of redundant assets at the site. It will take some time for this business to recover, but we believe that its skills are necessary to assist our customers in the development of new APIs and hence feed growth in our manufacturing business.

Research Chemicals

The Research Chemicals business was impacted by a marked contraction in R&D spending in many parts of the world due to the global economic slowdown. Despite this, sales excluding precious metals were slightly up at £60 million. However, good cost control in North America and Europe offset, in part, additional costs incurred through the geographic expansion of the business in Asia, resulting in profits from the business being only marginally down on last year. Its European and North American markets were particularly badly hit in the first half of the year but saw some recovery in the second half, especially in North America. The business' Asian operations, however, were up on last year with good growth in sales in both China and Korea.

Research Chemicals continued to focus on geographic expansion with new warehouse facilities opening in both India and Germany during the course of the year. Its new manufacturing joint venture, Alfa Aesar Synmax in Yantai, China, in which we have a 51% shareholding, became operational with the commissioning of its pilot plant facility in March 2010. As well as serving the research chemicals needs of the rapidly growing market in China, Alfa Aesar Synmax has large scale capacity which allows Research Chemicals to bring the manufacturing of bulk and custom products in house and support the manufacturing activities at its facility in Heysham, UK.

→ Research Chemicals is a catalogue based supplier of speciality inorganic and organic chemicals. It operates under the Alfa Aesar brand name.

→ Manufacturing operations at our Pharmaceutical Materials and Services business in the USA.

Financial Review

Exchange Rates

The main impact of exchange rate movements on the group's results comes from the translation of foreign subsidiaries' profits into sterling. After last year's significant devaluation of sterling against most major currencies, this year sterling was more stable but continued to weaken further.

Around a quarter of the group's profits are made in North America, mainly in the USA. The average rate for the US dollar for the year was $1.595/£ compared with $1.719/£ for 2008/09. Each one cent change in the average rate for the dollar has approximately a £0.4 million effect on underlying operating profit in a full year. The reduction in the average exchange rate for the dollar in 2009/10 increased reported group underlying operating profit for the year by £5.0 million.

Sterling also fell against the euro averaging €1.129/£ compared with €1.205/£ in 2008/09, which increased reported underlying operating profit by £2.8 million. In addition, sterling also weakened against the South African rand, from R15.0/£ to R12.5/£. However, the catalysts manufactured by our South African business are ultimately for export and the impact of a stronger rand on margins offsets the translational effect.

Overall, excluding the rand, exchange translation increased the group's underlying operating profit by £12.2 million compared with 2008/09.

Robert MacLeod
Group Finance Director

Return on Sales

We measure return on sales as underlying operating profit divided by sales excluding precious metals. Return on sales for the group fell by 2.2% to 14.4% with the ratio improving in Fine Chemicals Division but declining in the other two divisions. The rise in return on sales in Fine Chemicals Division was primarily as a result of the one-off benefit associated with the launch of the generic version of ADDERALL XR®. If that benefit is excluded, the return on sales of Fine Chemicals Division would have been broadly in line with last year.

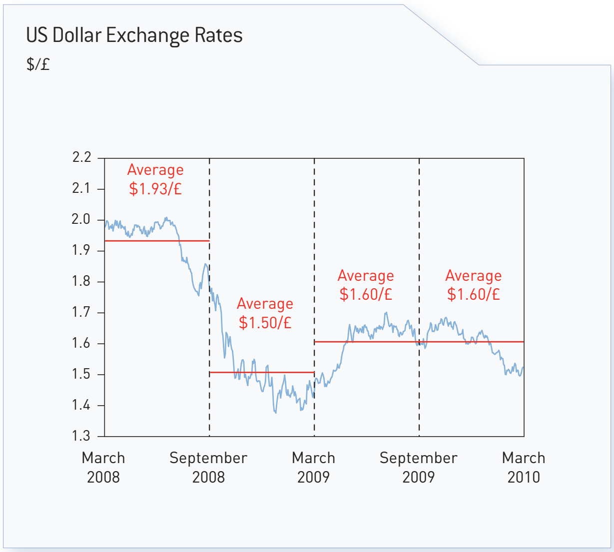
Environmental Technologies Division's return on sales for the year fell by 1.2% to 9.7%. While Emission Control Technologies' (ECT's) overall returns fell, the returns of our light duty vehicle catalyst business were ahead of last year as the business benefited from increased activity and lower costs. However, its heavy duty diesel catalyst business made a loss which reduced the returns for ECT as a whole. Process Technologies' return on sales was slightly lower than last year.

The fall in the return for Precious Metal Products Division from 32.0% to 27.8% reflected the more challenging market conditions for its Refining business. The return on sales for the rest of the division's businesses was broadly in line with last year.

Return on Invested Capital

The group's return on invested capital (ROIC) fell by 1.3% to 15.8%. Underlying operating profit was £26.7 million lower than last year at £271.8 million and average net assets were £24 million lower at £1,717 million. The group's ROIC of 15.8% was still well ahead of our pre-tax cost of capital, which we estimate to be 10.8%.

Our long term group target for ROIC remains at 20% on a pre-tax basis. Over the previous few years we had been making good progress towards that target but the global recession significantly impacted our performance. Demand reduced in a number of our markets, particularly the automotive market, and we now have spare capacity. However, the medium term outlook for the group remains encouraging with growth in catalyst demand underpinned by new emissions legislation which is already in place. Once global activity starts to recover, the group's ROIC should improve again as capacity utilisation increases.



Return on Sales Excluding Precious Metals

	Sales excluding precious metals 2010 £ million	2009 £ million	Return on sales excluding precious metals [1] 2010 %	2009 %
Environmental Technologies	**1,247**	1,135	**9.7**	10.9
Precious Metal Products	**420**	447	**27.8**	32.0
Fine Chemicals	**219**	215	**25.5**	23.0
Total group	**1,886**	1,797	**14.4**	16.6

[1] Underlying operating profit divided by sales excluding precious metals.

Fine Chemicals Division improved its ROIC to 13.4%, up from 12.2% last year, once again due to the one-off benefit from the launch of the generic version of ADDERALL XR®. If that benefit is excluded, Fine Chemicals Division's ROIC would have been 11.6%. While Precious Metal Products Division's ROIC fell to 46.8%, its return was still well above the group's pre-tax cost of capital. Environmental Technologies Division's ROIC fell to 9.4%, 1.4% below the group's cost of capital, as a result of the impact of the global recession but it should return above the group's cost of capital as the business recovers.

Interest

The group's net finance costs decreased substantially, falling by £13.2 million to £19.4 million as a result of lower average borrowings and lower interest rates throughout the year. The group should continue to benefit from lower interest rates but around 65% of borrowings at 31st March 2010 have fixed interest rates averaging 5.1%.

The group also benefited in 2009/10 from interest receipts on tax rebates of £2.4 million.

Profit before Tax

Underlying profit before tax fell by 5% to £254.1 million. After amortisation of acquired intangibles, major impairment and restructuring charges and profit or loss on disposal of businesses, profit before tax was 8% down at £228.5 million.

Profit before tax included a £1.7 million profit from its associate, compared with a £2.0 million profit in 2008/09. This relates to AGR Matthey, the Australian gold refining business in which the group had a 20% stake and which performed well in the year with good demand for gold refining. An agreement between the partners of AGR Matthey to dissolve the partnership became effective on 29th March 2010 (see note 19 on page 90).

Taxation

The group's total tax charge for the year was £64.3 million, a tax rate of 28.1% on profit before tax (2008/09 30.8%). The effective tax rate on underlying profit before tax was 28.0% (2008/09 29.6%), reflecting the increased share of profit from lower tax jurisdictions such as China. This lower effective tax rate is likely to continue.

Earnings per Share

Underlying earnings per share decreased by 3.2 pence to 86.4 pence. Total earnings per share were 77.6 pence, 6% below last year.

This year we have taken an impairment charge in respect of redundant assets at our Pharmaceutical Materials and Services contract research business in Massachusetts, USA. This resulted in a charge of £11.3 million which has been excluded from underlying earnings per share.

Dividend

Despite the reduction in underlying earnings per share, as a demonstration of its confidence in the long term prospects of the group, the board is recommending to shareholders a final dividend of 27.9 pence, making a total dividend for the year of 39.0 pence, 5% up on last year. If approved, dividend cover for 2009/10 would be 2.2 times. Our long term policy remains to grow dividends in line with underlying earnings with dividend cover at about two and a half times.

Pensions

At 31st March 2010 the group's UK pension scheme was in deficit by £156.9 million (85% funded) on an IFRS basis compared with a deficit of £45.2 million at 31st March 2009. The £111.7 million increase in the deficit was principally due to a reduction in the discount rate used from 6.5% to 5.5%.

Worldwide, including provisions for the group's post-retirement healthcare schemes, the group had a net deficit of £245.7 million on employee benefit obligations at 31st March 2010 (2009 £151.6 million).

Return on Invested Capital

	Average invested capital[1] 2010 £ million	Average invested capital[1] 2009 £ million	Return on invested capital[2] 2010 %	Return on invested capital[2] 2009 %
Environmental Technologies	**1,281**	1,179	**9.4**	10.5
Precious Metal Products	**249**	276	**46.8**	51.8
Fine Chemicals	**417**	404	**13.4**	12.2
Corporate / other	**(230)**	(118)	**n/a**	n/a
Total group	**1,717**	1,741	**15.8**	17.1

[1] Average of opening and closing segmental net assets as shown in note 1 on the accounts on pages 68 and 69. For the group, the average of opening and closing equity plus net debt.

[2] Underlying operating profit divided by average invested capital.

Underlying Operating Profit

(before amortisation of acquired intangibles, major impairment and restructuring charges and profit or loss on disposal of businesses)

	Year to 31st March 2010 £ million	Year to 31st March 2009 £ million	change %	2009 at 2010 exchange rates £ million	change %
Environmental Technologies	**120.9**	124.3	-3	129.1	-6
Precious Metal Products	**116.7**	143.0	-18	148.9	-22
Fine Chemicals	**55.8**	49.5	+13	51.1	+9
Corporate	**(21.6)**	(18.3)		(18.4)	
Total group	**271.8**	298.5	-9	310.7	-13

The triennial revaluation of our UK scheme as at 1st April 2009 was completed by the scheme's actuaries during the year. They estimated that the scheme had an actuarial deficit of £173.4 million, which represented a funding level of 80%, and it is estimated to be broadly similar at 31st March 2010. This compares with an actuarial surplus of £21.0 million at 1st April 2006 and a funding level of 103%. As a result of the worsening of the scheme's funding position, the company, after a period of consultation, agreed with the Trustees that the final salary section of the UK defined benefit scheme would be closed to future accrual of benefits with effect from 1st April 2010. From that date, those employees affected accrue future benefits within the scheme's existing career average salary plan. This impacted approximately 2,000 employees.

The Trustees and the company also agreed a ten year recovery plan commencing on 1st April 2010, under which the company will make deficit funding contributions of £23.1 million per annum. In 2009/10 the group's normal ongoing contribution to the UK scheme was £23.1 million (2008/09 £22.1 million).

In December 2009 we made a one-off additional payment of US $30 million into our US schemes to reduce their deficits.

Cash Flow

During the year ended 31st March 2010 the group's cash generation was once again strong as the business generated a net cash inflow of £33.0 million.

Net cash flow from operating activities was £275.7 million (2008/09 £501.4 million). As demand for our products and precious metal prices picked up in the second half of the year, the group's working capital requirement increased, reversing the opposite effect in 2008/09. This increase is partly due to the impact of higher precious metal prices but we monitor our working capital excluding the element that relates to precious metals. On that basis, the group's working capital increased by £24.9 million, but the number of working capital days was 57 compared with 63 last year. Higher precious metal prices also increased working capital by £77.1 million however, this was lower than we had anticipated as a result of higher levels of customer funded metal within the business.

During the year our capital expenditure was £131.8 million which equated to approximately 1.2 times depreciation. In 2009/10 we completed the construction of our two new ECT facilities in Macedonia and western Pennsylvania, USA and the new production facility at Clitheroe, UK to manufacture methanol synthesis catalysts. We also commenced construction of a new plate type SCR catalyst manufacturing facility in Shanghai, China.

Having completed the majority of our recent investment programme, the group now has sufficient capacity to meet much of the growth forecast over the next few years. We therefore anticipate that capital expenditure will remain at around 1.0 to 1.2 times depreciation for the next few years. However, we retain the capacity to invest in further growth opportunities as they arise.

Capital Structure

In 2009/10 net debt fell by £61.0 million to £473.4 million and equity rose by £74.7 million to £1,250.8 million. Net debt / EBITDA for the year was 1.2 times and interest cover (underlying operating profit / net finance costs) was 14.0 times. If the post tax pension deficit of £148.2 million is included within net debt, the ratio would increase to 1.6 times. The board believes that it is important to maintain an appropriately efficient balance sheet with net debt (including the post tax pension deficit) / EBITDA between 1.5 and 2.0 times.

Gross borrowings (net of related swaps) amounted to £652.5 million offset by £179.1 million of cash and deposits. Included within gross borrowings at 31st March 2010 were drawings of £50.0 million out of total committed bank facilities, which are individually negotiated, of £280.0 million (see note 29c on page 94).

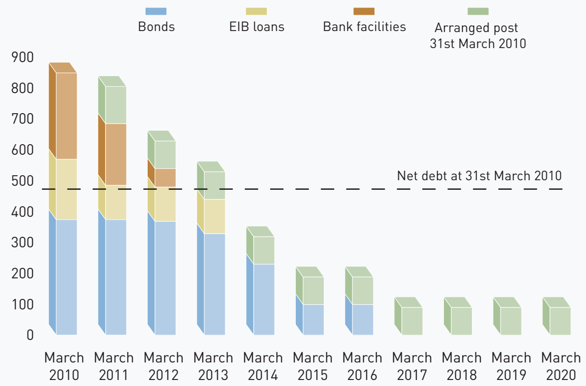
Borrowings

	31st March 2010 £ million	%	31st March 2009 £ million	%
Five to ten years	**99.6**	**15**	242.6	37
Two to five years	**383.3**	**59**	268.5	41
One to two years	**56.1**	**9**	88.9	14
Within one year	**113.5**	**17**	49.6	8
Gross borrowings (net of swaps)	**652.5**	**100**	649.6	100
Less: cash and deposits	**179.1**		115.2	
Net debt	**473.4**		534.4	

Maturity Profile of Debt Facilities

At 31st March 2010 exchange rates

£ million



Treasury Policies

Financial Risk Management and Treasury Policies

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

Interest Rate Risk

At 31st March 2010 the group had net borrowings of £473.4 million. Some 65% of this debt was at fixed rates with an average interest rate of 5.1%. The remaining 35% of the group's net borrowings was funded on a floating rate basis. A 1% change in all interest rates would have a 0.7% impact on underlying profit before tax. This is within the range the board regards as acceptable.

Foreign Currency Risk

Johnson Matthey's operations are located in over 30 countries, providing global coverage. The majority of its profits are earned outside the UK. In order to protect the group's sterling balance sheet and reduce cash flow risk the group has financed most of its investment in the USA and Europe by borrowing US dollars and euros respectively. Although much of this funding is obtained by directly borrowing the relevant currency, a part is achieved through currency swaps which can be more efficient and reduce costs and credit exposure. To a lesser extent the group has also financed a portion of its investment in China, Japan and South Africa using currency borrowings and swaps. 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 2010 are shown on pages 92 and 93.

Precious Metal Prices

Fluctuations in precious metal prices can have a significant impact on Johnson Matthey's financial results. Our policy for all 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 stocks are unhedged because of the lack of liquidity in the platinum market.

Liquidity and Going Concern

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. At 31st March 2010 the group had cash and deposits of £179.1 million and £230.0 million of undrawn committed bank facilities available to meet future funding requirements. The group also has a number of uncommitted facilities, including metal leases, and overdraft lines at its disposal.

Gross borrowings (net of related swaps) of £652.5 million at 31st March 2010 included £570.3 million of debt arranged under long term bond issues and long term funding from the European Investment Bank (EIB). Of this, £84.4 million falls due to be repaid in the 15 months to 30th June 2011 (the going concern period). This has been refinanced by a new ten year €100 million (£89.2 million) loan arranged since 31st March 2010. £200.0 million of the committed bank facilities have expiry dates after 30th June 2011. The maturity dates of the group's debt and borrowing facilities are illustrated in the table and chart above.

The directors have assessed the future funding requirements of the group and the company and compared it to the level of long term debt and committed bank facilities for the 15 months from the balance sheet date. The assessment included a sensitivity analysis on the key factors which could affect future cash flow and funding requirements. Having undertaken this work the directors are of the opinion that the group has adequate resources to fund its operations for the foreseeable future and so determine that it is appropriate to prepare the accounts on a going concern basis.

Case Study / Precious Metal Products Division

→ Catalysts and Chemicals, Shanghai, China

Sponge nickel catalysts are used as hydrogenation catalysts in a range of applications including the fine chemicals, pharmaceutical and polyols markets. With good growth expected in these markets in China over the coming years, Catalysts and Chemicals has recently completed construction of a brand new sponge nickel catalyst manufacturing facility in Shanghai. The new state of the art plant supports our existing facility in Tennessee, USA.

Research & Development

Investment in research and development (R&D) is an integral part of Johnson Matthey's growth strategy. It underpins the development of new products and manufacturing processes and enables the group to differentiate itself using its world class technology. In 2009/10 Johnson Matthey spent £91.7 million gross on R&D.

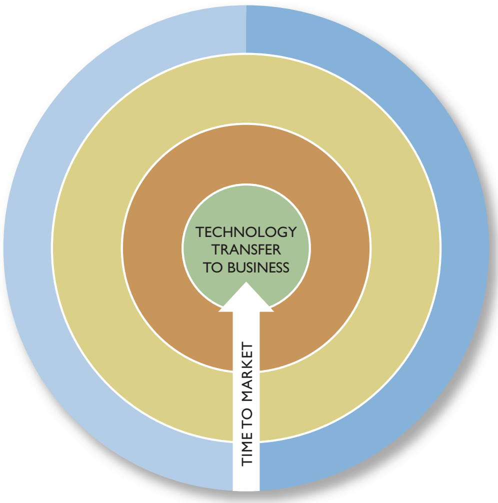
Our group technology centre is a central resource which conducts strategic R&D on behalf of all Johnson Matthey's businesses. It operates across three sites in the UK (Sonning Common, Billingham and Royston) and employs around 200 people. In addition, the group's businesses also have their own dedicated R&D and technical centres around the world which focus on the delivery of shorter term business specific projects.

In the group technology centre, R&D activities are broadly divided into four categories; core science, divisional projects, sponsored university programmes and collaborative external projects. This combination of internal research and collaboration ensures we have access to the very latest technology and develop relationships with leading scientists around the world.

Core Science

Some research skills are considered core to the company's technical expertise and are applicable across multiple businesses. In order to develop these skills the core science group develops fundamental knowledge about the science underpinning many of Johnson Matthey's technologies, transferring new products and processes to the divisions as appropriate.

Group R&D Activities



- Divisional projects – business funded R&D
- Core science
- Sponsored university programmes
- Collaborative external projects

An example of a core science technology area is advanced materials synthesis which has wide applications in our catalyst businesses. Johnson Matthey has a dedicated facility to produce a range of advanced materials using a state of the art technique called flame spray pyrolysis. This can be used to produce a wide array of materials ranging from metals, metal oxides and more complex mixed oxides or catalysts. Flame spray pyrolysis is a single step process where one or more precursor compounds are dissolved in a solvent and sprayed into a flame zone. The spray is combusted and the precursor is converted into extremely small metal or metal oxide particles. The technique is versatile and allows the use of a wide range of precursors, solvents and process conditions, thus providing control over particle size and composition.

Divisional Projects

The group technology centre undertakes a wide range of work for and directly funded by Johnson Matthey's divisions. One example is in the area of refining research where we are working to improve our platinum group metal (pgm) refining operations and services. By combining creative synthetic chemistry with cutting edge characterisation technology, we are developing faster and more efficient processes that separate pgms in very high yields. We are also able to draw on our international links with academia to build on our understanding of chemical transformations and to control more precisely the chemical behaviour of the precious metals. As with all divisional projects, we are working closely with development teams in Johnson Matthey's Refining business. Together we are delivering advances in process technology which will lower raw material consumption, minimise energy use and eliminate waste. We are also launching a modelling programme in which powerful simulations track and ultimately predict the behaviour of metals throughout the numerous complex processes within the refinery. Our range of R&D projects in this area all focus on delivering a streamlined and more sustainable refinery design.

Sponsored University Programmes

Developing our knowledge and expertise in advanced analytical and characterisation methods are a key component of our R&D programme. For a number of years we have worked closely with the University of Warwick in the UK to apply solid state nuclear magnetic resonance (NMR) spectroscopy to industrial R&D issues. The successful application of this method has led to major improvements in our understanding of the fundamental science of catalyst, glass and ceramic materials. We are now working to automate the technique which will allow for rapid screening and early identification of novel, highly tailored catalysts.

Collaborative External Projects

The continued development of new products or access to new markets requires the company to collaborate with both leading participants in these markets and with academic researchers who have an understanding of the latest developments. To support this, Johnson Matthey participates in a diverse range of UK and US government and European Union (EU) funded R&D programmes.

In one example, Johnson Matthey's researchers are engaged in a large EU collaboration that addresses some of the specific challenges around purifying bioderived synthesis gas. There is growing interest around the world in using non-food crops, such as wood and agricultural waste, to produce sustainable biofuels via bioderived synthesis gas. A range of biochemical and thermochemical processes are emerging, all of which offer opportunities for growth in the areas of catalysts, process technology and precious metals. Biofeedstocks are inherently variable and so fuel upgrading and purification of the bioderived synthesis gas are key issues. By engaging with a range of academic groups, Johnson Matthey is working to develop the purification materials, catalysts and processes for synthesis gas cleaning in the production of biofuels.

We maintain a close link between the four categories of our R&D activities and with the development work carried out directly by Johnson Matthey's businesses. This interaction is key in ensuring the rapid transfer of technology to support the continued development of new products and services for our customers.

Risks and Uncertainties

There are a number of potential risks and uncertainties which could have a material impact on the group's long term performance.

Technological Change and Patents

Much of the group's business is focused on selling products which are technologically advanced or employ technologically advanced processes in their manufacture. In most cases these products are subject to continuous improvement as new technology is developed. The group is exposed to the risk that if it does not keep up with changes in the market place its products will no longer be competitive. This is both a threat and an opportunity since Johnson Matthey can gain business as well as lose it. The group's strategy to meet this risk is to invest significantly in research and development to maintain or achieve leadership positions in those markets which offer sufficient added value to justify the long term investment required.

The group's results are also impacted by the status of patents. These include patents which the group itself registers and maintains, as well as the risks arising from new third party patents and the benefits that arise from the expiry of third party patents. All the group's divisions have significant registered intellectual property. The Fine Chemicals Division supplies active pharmaceutical ingredients to generic manufacturers and can benefit when third party patents expire. If actual patent lives differ from the expectations of the relevant group business, such as by being extended or successfully challenged, this can affect the group's results. The group has established policies both to monitor its existing patent portfolio and those of third parties, taking appropriate action as necessary in respect of infringement.

Legislation

Much of the stimulus for the development and growth of Johnson Matthey's products arises from new legislation governing the environmental or health impact of its customers' products in different jurisdictions worldwide. This is most significant for Emission Control Technologies where historic and future growth depends on global tightening of emissions limits. Legislation is also relevant for some of the group's other businesses. Process Technologies and Catalysts and Chemicals manufacture products to remove contaminants or to produce particularly pure chemicals. Colour Technologies is supported by legislation phasing out lead, cadmium and other heavy metals from glass and ceramic glazes. The development of the fuel cells industry is also impacted by clean air regulations and the drive towards zero emissions within both local and national legislation.

Whilst the group has benefited considerably from the development of such legislation its growth could be adversely affected if the pace of legislative change slowed significantly. Johnson Matthey monitors the development of legislation globally and coordinates its development work to ensure it can achieve greatest advantage from each new requirement. Regular reviews are undertaken at the business and group level to monitor growth and to investigate other areas of potential if legislation slows.

Global, Political and Economic Conditions

Johnson Matthey operates in over 30 countries around the world including within Africa, Asia and Latin America. While benefiting from the opportunities and growth in these regions the group is exposed to the economic, political and business risks associated with such international operations. The group encounters different legal and regulatory requirements including those for taxation, environmental, operational and competitive matters. It is exposed to the effect of political risk which can include sudden changes in regulations, expropriation of assets, imposition of trade barriers and wage controls, limits on the export of currency and volatility of prices, taxes and currencies. The group is exposed to possible natural catastrophe risk, for example through major earthquake or flood, and possible terrorist action. Management monitors such risks, maintaining adequate insurance cover and amending business procedures as appropriate to mitigate any exposure while remaining in compliance with local and group requirements.

Environment, Health and Safety (EHS)

Johnson Matthey is committed to providing the highest level of protection to the environment and to safeguarding the health and safety of its employees, customers and communities. Shortcomings in any area of EHS can have devastating effects on people's lives and on the planet. In addition, the failure to maintain the required high standards in EHS could damage the group's reputation, result in financial penalties, cause disruption to the business and potentially result in temporary or permanent closure of sites.

The environmental laws of various jurisdictions impose actual and potential obligations on the group to remediate contaminated sites, both those currently owned and, also in some cases, those which have been sold. The group incurs costs annually in meeting these obligations and also maintains provisions for potential liabilities. If existing provisions are inadequate to cover any liabilities or the associated costs arising from environmental obligations this could materially impact the group's results.

All the group's manufacturing facilities are required to operate in accordance with the group's EHS policies which include comprehensive guidance on, inter alia, occupational safety, environmental protection and health management and are set out on the company's website at www.matthey.com. The group EHS management system supplements these policies and details additional guidance and requirements on matters including community relations, process risk management and product stewardship.

Commercial Relationships

Johnson Matthey benefits from close commercial relationships with a number of key customers and suppliers. The loss of any of these key customers or suppliers, or a significant worsening in commercial terms could have a material impact on the group's results.

Johnson Matthey devotes significant resources to supporting these relationships to ensure they continue to operate satisfactorily. From time to time the group undertakes customer satisfaction surveys which are reviewed by the board. Some of the relationships are supported by long term contracts, notably the group's relationship with Anglo Platinum.

While the group could be vulnerable to a global disruption in the supply of platinum group metals, it has access to world markets for these metals and is not dependent on any one source for obtaining supplies for operations. Appropriate sourcing arrangements are applied for other key raw materials to ensure that the group is not dependent on any one supplier.

Foreign Exchange

Johnson Matthey operates globally with the majority of the group's operating profit earned outside the UK. It has significant investments outside the UK with the single largest investment being in the USA. As such the group is exposed to movements in exchange rates between sterling and other world currencies, particularly the US dollar, which could adversely or positively impact results. The group's policies for managing its foreign currency exposures are set out in more detail on pages 23, 93 and 94.

Precious Metal Prices and Controls

A large proportion of the group's activities involve managing precious metals which has inherent risks associated with it in addition to bringing valuable business opportunities.

Precious metals have high prices which can fluctuate significantly and this can have an impact on Johnson Matthey's results. The group's policies for managing this risk are set out in more detail on page 23. The high value of precious metals means that any process losses could be material and there remains the possibility of theft or fraud. Johnson Matthey has extensive experience in operating with precious metals and employs strict security, assay and other process controls and reviews to minimise any exposure. Policies are reviewed regularly by the Chief Executive's Committee and reported to the Audit Committee.

Pensions

The group's defined benefit pension funds had a net deficit at 31st March 2010 of £201.0 million. This position is exposed to the risk of changes in interest rates and the market values of investments as well as inflation and increasing longevity of the members. The assumptions used in calculating the funding position of the pension funds are shown in detail on page 77. These risks are mitigated by paying appropriate contributions into the funds and through an investment asset allocation policy which has a high level of probability of avoiding a material deficit based on the results of an asset / liability matching study. From 1st April 2010 current employees in the group's UK pension scheme no longer accrue additional years' service based upon their final salary. From 1st April 2010 all UK employees who are members of the defined benefit pension scheme will accrue defined benefits based on their career average salary.

Customer Market Dynamics

The group sells products to manufacturers who in turn use these products to serve a diverse range of end markets. The group's performance is therefore impacted by the dynamics of its customers' end markets and their performance within these markets. A significant loss of market share at or by a major automotive customer could negatively impact the group's results. The group also has exposure to the wider automotive sector as a whole which is served by a number of the group's divisions. However, other factors such as tightening emissions legislation and the increasing technical demands from catalysts also play a significant role.

Risks are mitigated by monitoring both industry developments and market share at customers to prevent the group from becoming unduly dependent on any single customer.

Competitor Risk

The group operates in highly competitive markets. Significant product innovations, technical advances or the intensification of price competition could all adversely affect the group's results. Johnson Matthey invests significant resources in research and development in order to ensure the introduction of both new products and improved production processes to allow the group to be at the forefront of its chosen markets. The group also continually works to streamline its cost base to ensure it remains competitive.

Litigation and Investigations

The group is subject to a broad range of laws, regulations and standards in each of the jurisdictions in which it operates. Failure to comply properly with these laws, regulations and standards could significantly damage the reputation and performance of Johnson Matthey.

Regular internal reviews are undertaken to assess compliance with local and group policies, and provisions are made to rectify or compensate for any breaches. In the ordinary course of business, Johnson Matthey is subject to inspections and monitoring by certain regulatory or enforcement bodies and by the quality departments of some of its major customers. If existing provisions are inadequate to cover any liabilities arising from such investigations this could materially impact the group's results.

Credit Risk

The group derives a significant proportion of its revenue from sales to major customers, particularly in Emission Control Technologies. Sales to individual customers are frequently high if the value of precious metals is included in the price. The failure of any such company to honour its debts could materially impact the group's results.

Johnson Matthey derives significant benefit from trading with its large customers and manages the risk at many levels. Each business and division has a credit committee that regularly monitors its exposure. The Audit Committee receives a report every six months that details all significant credit limits, amounts due and amounts overdue within the group and the relevant actions being taken. As at 31st March 2010, no single outstanding balance exceeded 1% of the group's revenue. Further details of the group's credit control procedures are set out on page 96.

Case Study / Sustainability

→ A Picture is Worth a Thousand Words…

Everyone in Johnson Matthey is working towards Sustainability 2017 – employee engagement is at the very heart of this long term vision to support business growth. Our Emission Control Technologies (ECT) business has created a 'Visual Plant' concept to help employees put sustainability into practice. Visual Plant is being adopted across ECT and other group businesses and exemplifies how clear, effective visual communication, teamwork and sharing best practice can drive improved performance and deliver real benefits for Johnson Matthey.

Sustainability

Sustainability is a key element of our strategy for the future growth of the business. The group's Sustainability 2017 Vision, launched in December 2007, sets out our aspirations for building a more sustainable business and includes challenging targets to support business growth. Our aims are to at least double our underlying earnings per share whilst achieving carbon neutrality, zero waste to landfill and halving the key resources that we consume per unit of output by 2017, the 200th anniversary of the founding of the company. The full statement is available on the company's website at www.matthey.com.

There are two key drivers for our vision. The first is to be more efficient with the resources we use as a business and the second is to design new products and services that help our customers to be more sustainable and competitive. However, growing our business through sustainability is not only about our operations and products. We are also committed to best practice in governance, to creating a positive working environment for employees and to being a responsible partner for our customers, suppliers and communities. Some of the progress we have made towards achieving the vision is presented in summary in this report. Further details can be found in Johnson Matthey's Sustainability Report 2009/10 which will be published on the company's website in July 2010.

Sustainability is embedded into our routine management processes. All of the group's businesses are required to develop, implement and report progress on their own sustainability plans as part of the group's annual financial budgeting processes. These plans have the common corporate objectives as their foundation and are tailored to the businesses' own specific operations. This approach encourages commitment at a local level and takes advantage of Johnson Matthey's culture and methods of working.

Progress towards our Sustainability 2017 targets and the group's other social, environmental and ethical targets is summarised in the table on page 30. We have developed appropriate key performance indicators (KPIs) to enable us to monitor performance and data is reported relative to a baseline year which, unless stated, is taken as our performance in 2006/07.

In 2009/10 performance against our targets has improved relative to the baseline year. Year on year progress (2009/10 versus 2008/09) has also been steady with improvement against all but three targets; earnings per share (EPS), carbon neutrality and natural gas consumption. During 2009/10, EPS growth has been held back by the impact of the global economic downturn on our business. The group's natural gas consumption and global warming potential (GWP) both increased this year resulting from the inclusion of data from three major new manufacturing facilities. The increase in GWP was also due in part to the geographical mix of production where this year, a greater proportion of our total output originated in countries where the carbon intensity from grid electricity is high.

Much of our progress to date has been achieved by incremental improvements in operational and process efficiencies, the so called 'low hanging fruit'. We have recognised the need to focus further on the step change opportunities that will drive accelerated progress towards our 2017 targets and add real value to Johnson Matthey.

During the year we have continued to develop our strategy to achieve carbon neutrality. We have also introduced a more formal system of site and functional reviews to drive improved performance. Conducted by members of the Group Sustainability team, the reviews aim to raise awareness of sustainability, provide help and support with initiatives, identify and share examples of good practice and ensure that the principles of sustainability are fully embedded across Johnson Matthey.

The site and functional reviews also focus on the progress being made against local plans and on the alignment of local targets with the 2017 goals. This includes examination of the tools and metrics which can be used to understand the sustainability impacts and benefits of our operations and products.

Sharing information on successes, ideas and challenges across the whole group is also important to support continued progress. Employee engagement has remained a key priority to ensure all staff have a clear view of the importance of sustainability to the overall business strategy and to equip them with the information they need to take forward their own ideas. A dedicated intranet site has recently been launched to provide a means for everyone in the group to share good practice on sustainability and to offer a central source of information which employees can draw upon to support their initiatives.

During the year the Johnson Matthey Sustainability Awards were introduced to recognise and share best practice across the group. The awards, which will be made each year, span five categories which were carefully chosen to reflect the breadth of our Sustainability 2017 Vision. Last year a very strong set of around 90 entries was received, demonstrating the way in which everyone in the group continues to embrace sustainability and embed it as part of the way of doing business. Details of the seven winners can be found in the 2008/09 Sustainability Report.

Going forward the group will focus on accelerating performance towards the Sustainability 2017 targets through identifying and implementing operational / process improvements and by developing new sustainable products for our customers. The global sustainability agenda continues to evolve at a considerable pace presenting new challenges and opportunities for our industry. Johnson Matthey will continue its ongoing assessment of the current and likely future impacts on its business and the identification of new markets to ensure the group is well positioned to respond and benefit over the years ahead.

Managing Sustainability

Johnson Matthey has adopted the principles of corporate social responsibility and embedded them into its risk management processes. Since 2003 we have reported annually on our social, environmental and ethical performance in a separate report. Through the launch of Sustainability 2017 we have defined our own vision and direction to manage our impacts and opportunities with increasing efficiency.

Sustainability is managed across the group according to five elements: financial; governance; social; health and safety; and environment.

Progress Towards Sustainability 2017

Sustainability 2017 Aspiration	KPI	Baseline 2006/07	2009/10[1]	2017 Target
At least double earnings per share	Underlying earnings per share (pence)	82.2[2]	86.4	≥ 164.4
Achieve carbon neutrality	Total global warming potential (tonnes CO_2 equivalent)	401,119[3,4]	390,389	0
Achieve zero waste to landfill	Amount of waste to landfill (tonnes)	16,555[4]	4,998	0
Halve key resources per unit of output[5]	Electricity consumption (GJ '000)	1,469[4]	1,389	735
	Natural gas consumption (GJ '000)	2,146[4]	2,084	1,073
	Water consumption (m^3 '000)	1,909[4]	1,734	955

Other Targets	KPI	Baseline	2009/10[1]	Target
Zero greater than three day accidents	Annual accident rate per 1,000 employees	n/a	2.14[6]	0
ISO 14001 implemented by all manufacturing sites in 2010	Number of manufacturing sites with ISO 14001 registration	n/a	41	45[7]
Incidence of occupational illness cases reduced by at least 30% by 2013/14	Annual incidence of occupational illness cases per 1,000 employees	5.3[8]	5.2	≤ 3.7[9]

[1] Data presented is for the period 1st April 2009 to 31st March 2010.
[2] Data presented is for the period 1st April 2006 to 31st March 2007.
[3] Restated.
[4] Data presented is for the period 1st January 2006 to 31st December 2006.
[5] The top three target resources were identified for each facility and from this electricity consumption, natural gas consumption and water use were most significant for the majority of the group.
[6] At March 2010.
[7] Target to be achieved in 2010.
[8] Baseline is incidence of occupational illness cases per 1,000 employees in calendar year 2008.
[9] Target to be achieved by 2013/14.

Financial

Financial viability is a key element of sustainability. Continued growth in profit is an important aspiration of our Sustainability 2017 Vision and we have set a target to more than double our underlying earnings per share by 2017. Details of our progress are outlined in the Financial Review on pages 20 to 22, in the Group Key Performance Indicators section on pages 8 and 9 and in the Five Year Record on page 109.

The two major thrusts of our vision are about being more efficient with the resources we use and designing new products that help our customers to be more sustainable. Using fewer resources as a business will save us money. It will enable us to maintain or improve our margins and allow us to invest more in R&D and infrastructure. We have started to evaluate the monetary savings realised by our businesses through implementation of their Sustainability 2017 plans and estimate that savings of up to £12 million have been achieved in 2009/10. These savings have been achieved as a result of a large number of initiatives across all our businesses. For example, energy reduction projects in Emission Control Technologies have saved around £170,000, solvent reduction programmes at Macfarlan Smith have delivered around £200,000 in savings and Catalysts and Chemicals in Shanghai, China has saved over £140,000 through initiatives to deliver reductions across its five key resources.

Designing innovative new products for our customers will allow us to maintain or strengthen our competitive position in the markets we serve today and benefit from the growth opportunities in emerging markets within the sustainability sector. In 2009/10 a significant proportion of profit was generated by products that directly benefit the environment.

We continue to work towards obtaining more robust evaluations of the financial benefits of our sustainability programme and on establishing further metrics to monitor the financial impact of sustainability initiatives on business performance.

Governance

Good governance is a cornerstone of sustainability and the group has well established policies and management systems to support this which apply to all operations worldwide. Legal requirements are a minimum standard and in many cases our policies and systems are in advance of these. Johnson Matthey has policies in the areas of Environment, Health and Safety (EHS); Employment; and Business Integrity and Ethics which provide the framework for managing environmental, social and governance matters. These are presented on the company's website at www.matthey.com. Further details of our policies, initiatives and progress can be found in the Sustainability Report on our website and are presented here in summary.

As outlined in the Corporate Governance section (page 42) the board has embedded environmental, social and governance matters into its risk management processes and formally reviews the area once a year. These matters are monitored by the CSR Compliance Committee, a sub-committee of the Chief Executive's Committee. A description of the role of the Committee can be found on page 42.

Policies and Management Systems – Environment, Health and Safety
Johnson Matthey is committed to providing the highest level of protection to the environment and to safeguarding the health and safety of its employees, customers and communities. This is supported by policies, a comprehensive management system, governance, careful risk assessment, auditing and training which promote continuous improvement and ensure that high standards are achieved at sites worldwide. In addition, all facilities have developed local policies to meet corporate requirements.

The EHS policy is a written statement, formulated and agreed by the Chief Executive's Committee and approved by the board. Signed by the Chief Executive, it is available at all sites, is published on the website and forms the basis of the group EHS management system.

The group EHS management system is available to all employees via the group intranet. It is regularly reviewed and, together with the corporate policies and objectives, it defines accountability and sets the standards against which conformance audits are assessed.

EHS compliance audits are vital to maintain continuous improvement and all Johnson Matthey operated manufacturing and research and development facilities are included in the audit programme. Audit frequency for each facility is determined by the scale, inherent risk and past performance of the operation. Audits are carried out by experienced ISO qualified EHS professionals and controlled by the Group EHS Assurance Director. Health management reviews are undertaken every three to four years at all operational sites. They are conducted by the Director of Group Health who provides consulting advice to support the prioritisation and planning of programmes to optimise workplace health and promote workforce sustainability. In addition, all businesses undertake annual health management improvement planning to adjust health programmes to meet changing business needs.

All audit reports, including health management reviews, are reviewed by the CSR Compliance Committee and appropriate follow up actions are taken on outstanding issues. During 2009/10 30 detailed compliance audits and six one day audit action reviews were completed. Health management reviews were conducted at 14 facilities.

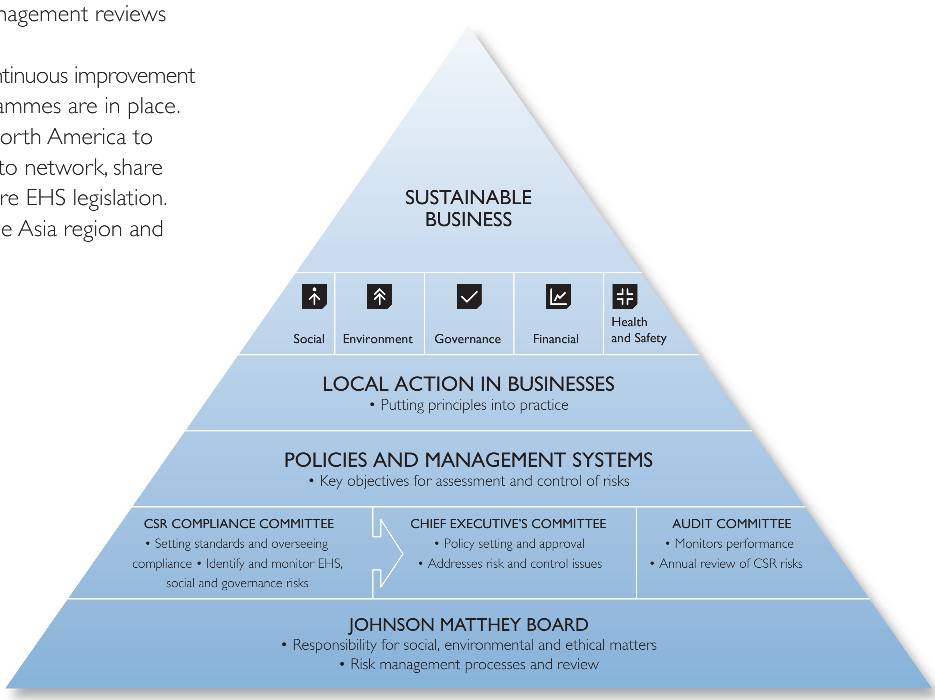
Training is a vital element in ensuring continuous improvement in EHS performance and a variety of programmes are in place. Regular meetings are held in Europe and North America to enable EHS professionals across the group to network, share best practice and discuss the impact of future EHS legislation. Meetings have been extended to include the Asia region and its first meeting was held in May 2010.

Regulatory Matters and Product Stewardship
Johnson Matthey's corporate REACH compliance programme is well advanced. Projects to support substances subject to registration in 2010 are on track and it is anticipated that all dossier submissions will be made on time. We continue to participate in industry consortia collaborations as an efficient and cost effective method of managing current and future registration requirements. Our businesses are now engaged in the transition to the Globally Harmonised System (GHS) for chemical classification and hazard communication and work is underway to ensure compliance with the European Union Classification Regulation. As part of our continuous improvement programme for product stewardship, a comprehensive training update programme on the US Toxic Substances Control Act (TSCA) is being delivered across the group and is over 80% complete. A further three product regulatory specialists have been recruited during 2009/10 to support our global efforts.

No notifications of significant health effects at end user level involving our products and no major incidents or environmental releases during product transportation and distribution were recorded in 2009/10. During the year, there were no major product related regulatory penalties or non-compliances.

Policies and Management Systems – Human Resources
The group's human resources standards are progressive, consistent and aimed at bringing out the best in our people. Group policies are supported by detailed regional and individual business procedures which are regularly updated to reflect both regional best practice and local legislation. Site specific human resources policies and procedures are communicated to staff at inductions and through staff handbooks. Human resources policies and risks are examined by the Chief Executive's Committee and the CSR Compliance Committee.

Managing Sustainability



The group's policies on equal opportunities and training are published in full on the website and are detailed below.

Our Equal Opportunities Policy is to recruit, train and develop employees who meet the requirements of the job role, regardless of gender, ethnic origin, age, religion, sexual orientation or disability. The policy recognises that people with disabilities can often be denied a fair chance at work because of misconceptions about their capabilities and seeks to enhance the opportunities available by attempting, wherever possible, to overcome obstacles, such as the need to modify equipment, restructure jobs or to improve access to premises, provided such action does not compromise health and safety standards. Similarly, employees who become disabled during their employment will be offered employment opportunities consistent with their capabilities. We value the diversity of our people as a core component of a sustainable business and employment applications are welcomed and encouraged from all sections of the community including minority groups.

The Management Development and Remuneration Committee of the board takes a special interest in ensuring compliance with the Training and Development Policy objectives in order to:

- Ensure highest standards in the recruitment of employees.
- 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.

Policies and Management Systems – Business Integrity and Ethics

Johnson Matthey strives to maintain the highest standards of ethical conduct and corporate responsibility worldwide to ensure we act with integrity, transparency and with care for the rights of the individual. The group's principles are set out in the Business Integrity and Ethics Policy and issues are further safeguarded through corporate governance processes and monitoring by the board and its committees. The policy applies to all the group's employees and is presented on the website.

Compliance training is provided to employees to support their understanding of and commitment to group policies in order to protect and enhance the company's reputation. The training educates managers in their responsibilities for employees, commercial contracts and company assets and is delivered globally via online learning programmes and seminars.

All facilities have established policies and procedures for employees to raise employment related issues for consideration and resolution. A confidential and secure 'whistleblowing' website and telephone helpline are also in place to give all employees additional means to raise any issue of personal concern.

Management of supply chain and contractor activities is a core component of the ISO 9000 and ISO 14000 series of standards. Supply chain and contractor management questionnaires are a requirement of achieving and maintaining registration and as such, ISO registered Johnson Matthey operations require the completion of appropriate questionnaires. For those operations without ISO registration, the group EHS management system provides policy and guidance on supply chain management and contractor control.

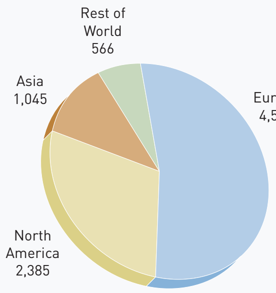
During the year, procurement professionals from across Johnson Matthey have been working together to develop an Ethical and Sustainable Procurement Policy. The policy provides clear guidance on various topics including those relating to the selection of suppliers, auditing against standards and ethical conduct with suppliers. It was published in May 2010.

Johnson Matthey is confident of the human rights performance of its own operations but recognises that business practices in the supply chain are not always transparent and represent a risk that must be managed. Every effort is made to ensure the issues are managed effectively. We support the principles defined within the United Nations Universal Declaration of Human Rights and the International Labour Organisation Core Conventions including the conventions in relation to child labour, forced labour, non-discrimination, freedom of association and collective bargaining. Compliance with and respect for these core principles are integrated within the risk assessment procedures and impact assessments which are undertaken when entering into business in a new territory and within the due diligence processes when making an acquisition or entering a joint venture.

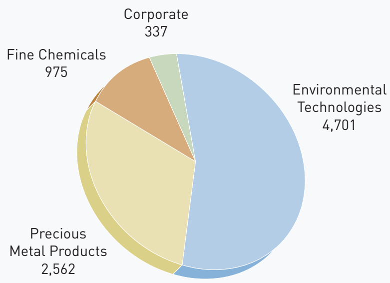
→ Employees at Johnson Matthey Mexico joined children at a local kindergarten in planting trees. The site also donated hoses, sprinklers and soccer equipment.

→ Apprentice at Johnson Matthey's Redwitz site in Germany. The site's apprentice scheme combines company training with formal education at an occupational college.

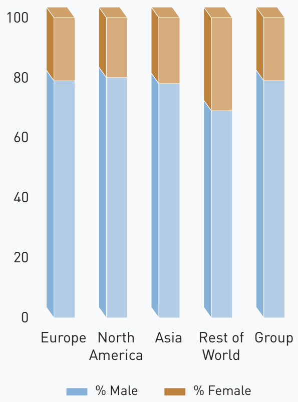
Total Employees by Region
Average headcount for 2009/10



Total Employees by Division
Average headcount for 2009/10



Gender by Region
As at 31st March 2010



Social

Recruitment, Training, Development and Diversity

Johnson Matthey's employees are respected as the group's most valuable resource and play a vital role in building a sustainable business. We are committed to recruiting high calibre employees and providing them with the information, training and working environment they need to perform to the highest standards. All employees are encouraged to develop to their maximum potential, supported by human resources policies and practices that are strategically linked to the needs of the business and our customers.

The skills, qualities and wellbeing of employees underpin the company's success. An effective, streamlined recruitment procedure supports the steady requirement for high calibre graduates and career foundation training programmes are in place to engage new recruits. We also offer training and development programmes at middle and senior manager levels. Employees from acquired businesses are actively encouraged to attend programmes to expose them to the wider group culture and help them integrate. Our extensive portfolio of training is provided at our facilities around the world and programmes include presentations from senior executives to anchor the course content to the company's strategies and progress.

Our aim is to retain high potential and high performing staff. Providing career development opportunities for employees assists in staff retention and in turn, succession planning and the sustainability of management. Recruiting well qualified staff is vital to support business development, particularly in new and emerging markets such as in Asia, and this is achieved by appropriate manpower planning, local recruitment and the encouragement of international and cross divisional mobility. The group has a management skills inventory database to help to identify and match suitably qualified internal candidates to promotional and development opportunities globally and / or across our divisions as we strive to place the right people with the right skills in the right places. Beyond satisfying the immediate business needs, the company is committed to developing a more internationally diverse workforce to support its global business.

The group's gender balance remains almost unchanged this year at 79% male and 21% female. The group recognises the importance of creating an enhanced environment for the development of women in management and during the year has introduced an initiative to increase awareness of this issue. As part of this, managers have been encouraged to use the annual appraisal with their female staff as an opportunity to understand aspirations, identify any perceived obstacles to progression, discuss opportunities for career development and highlight details of the group's family friendly policies.

Employee Relations and Communication

The quality of our employee relations is a priority for the company and Johnson Matthey is proud of the high level of commitment and loyalty from its employees. We have a low voluntary staff turnover (5.4% in 2009/10, see page 9) with many employees staying with the company for their whole careers.

Effective communication with employees is important and in particular, face to face dialogue. Communication is exchanged through the in house magazines, attitude surveys, regular news bulletins, presentations to staff and team briefings. Employees are also encouraged to access the group's corporate intranet, sustainability intranet and website.

The company supports employee share ownership and employees have the opportunity to participate in share ownership plans, where practicable. Under these plans, employees can buy shares in the company which are matched by a company funded component. Employees in six countries are able to contribute to a company share ownership plan or a 401k approved savings investment plan. Through these ownership plans Johnson Matthey's current and former employees collectively held 1.83% of the company's shares at 31st March 2010.

Johnson Matthey also sponsors pension plans for its employees worldwide. These pension plans are a combination of defined benefit and defined contribution pension arrangements, savings schemes and provident funds designed to provide appropriate retirement benefits based on local laws, custom and market practice. In 2009/10 there was a major change to the Johnson Matthey Employees Pension Scheme in the UK (JMEPS).

Following a full consultation exercise with around 2,000 employees who were affected by the change, from 31st March 2010 those employees ceased to accrue further benefits based upon their final salary. From 1st April 2010 those employees will accrue benefits based upon their career average salary and may also make defined contributions to their pension which are matched by the company up to 3% of pensionable pay. This is in line with the pension arrangements for UK employees who joined JMEPS since 2006. These actions were deemed necessary to preserve the long term strength and integrity of the pension funds and of the company itself. Further details are provided on page 22. The design of the career average section of the scheme is geared to providing overall benefits of a similar level to the previous final salary section but has removed or reduced some of the liabilities that the company could potentially face in the future. The changes only affected UK based employees.

In 2008/09 the global economic slowdown had made it necessary to reduce employee numbers at some of our manufacturing sites and our monthly employee numbers continued to fall during the early part of 2009/10. A minimum point was reached in June 2009 and since then, employee numbers have increased by around 7%, as we have seen a recovery in demand for our products.

Johnson Matthey continues to maintain good and constructive relations with all recognised trade unions which collectively represent 33% of all group employees worldwide. During 2009/10 no working time was lost within the group due to employee action.

The corporate sickness absence rate during 2009/10 was 2.1% compared to 2.2% (restated) for 2008/09. We continue to increase investment in sustainable health and wellness programmes to support the longer term health, wellbeing and performance of our employees.

Community Investment

Johnson Matthey has a strong tradition for good community relations and the company and its employees are actively involved in programmes worldwide. We have an important contribution to make to the economic development of our local communities, not only as an employer but also through collaboration and investment, both financial and in kind. Johnson Matthey is a member of the London Benchmarking Group (LBG).

Guidance on site requirements is detailed in the group EHS management system and a review of community investment activities across the group is carried out each year. In 2009/10, the review indicates that 98% of Johnson Matthey's operations with over 50 employees participated in activities within their local communities. These activities are wide ranging and include charitable giving, support for educational projects, the advancement of science and economic regeneration projects. Employees also participate in activities or hold community related roles outside of the work environment. The company is supportive of this broader community engagement, allowing employees time off during working hours as appropriate. The review also demonstrates that a higher proportion of sites have specific budgets for community investment and are setting objectives for their activities.

Johnson Matthey's long history of support for charitable causes continues today through group and business programmes. The causes we support reflect the areas in which the group's technologies have a benefit and the issues which strike a chord with our employees. At a group level, Johnson Matthey operates a charitable donations programme which includes support for organisations working in the areas of environment, medical and health, science and education, social welfare and international development. The programme includes an annual donations scheme where a number of charities are selected triennially and receive a donation from the company each year for a three year period. In 2009/10 48 charitable causes received an annual donation through this scheme. The group's programme also considers individual requests for support throughout the year and a further 44 charitable organisations received donations on this basis in 2009/10.

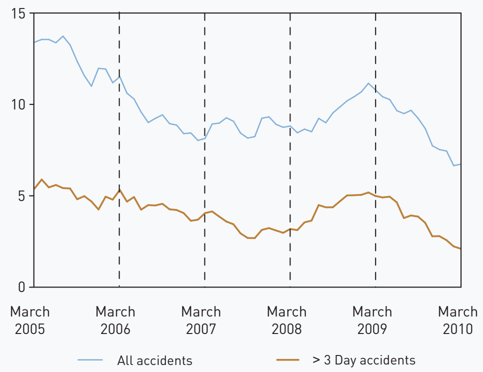
The group also has a specific programme of support focused on promoting the understanding and awareness of science among children and young people. During the year we have worked with StemNet, a UK organisation that creates opportunities for young people in science, technology, engineering and mathematics (STEM), to develop practical materials for use in school STEM clubs. The programme we have devised, called 'Sustainability is Precious', has been trialled by several schools and will be rolled out nationally later this year.

Johnson Matthey continues to operate its annual charity of the year programme and employee views are considered when deciding on the charity. The group is supporting Alzheimer's Society in 2009/10 and further details on the partnership are available in the Sustainability Report. Johnson Matthey's sites around the world also lend support to many other charities locally and nationally through donations, employee time or loans of company facilities.

Royston, UK is home to Johnson Matthey's global headquarters and is the company's largest site. For several years the company has supported the town's initiative to become a Business Improvement District (BID) and has provided management time and £50,000 of financial support. Achieving BID status requires local businesses to vote in favour of making a small increase in their business rate payments. These are then directly reinvested to provide funds for the improvement of the town's facilities with the aim of creating a better place to live and work. Royston successfully gained its BID status in April 2009 and Johnson Matthey continues to be involved in the implementation of the improvement plans.

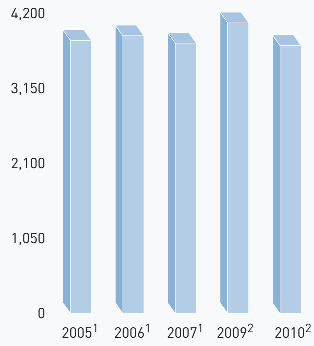
→ Johnson Matthey is supporting Royston's BID initiative. John Gourd of Johnson Matthey (centre) with Oliver Heald, MP for Hertfordshire North East (left) and Geraint Burnell of Royston First (right).

Annual Accident Rate per 1,000 Employees



Energy Consumption

GJ ('000)



	GJ ('000)	GJ / £ million sales excluding precious metals
2005[1]	3,823	3,485
2006[1]	3,890	2,907
2007[1]	3,787	2,200
2009[2]	4,070	2,265
2010[2]	3,753	1,990

[1] Calendar year.
[2] Financial year.

In the financial year to 31st March 2010 Johnson Matthey donated £458,000 to charitable organisations. This figure only includes donations made by Johnson Matthey and does not include payroll giving, donations made by staff or employee time. The company made no political donations in the year. We will continue to support a wide range of charitable causes in 2010/11.

Stakeholder Engagement

Johnson Matthey has a wide range of stakeholders with an interest in hearing from or working with the company. These include customers, employees, fund managers, shareholders, communities, governments, non-governmental organisations (NGOs) and national and international trade associations. We aim to provide meaningful and transparent communications to meet the needs of all stakeholder groups and deliver information to them in the most appropriate format. These formats may include annual performance reports, participation in performance indices (Carbon Disclosure Project, FTSE4Good, Dow Jones Sustainability Index, for example) or one to one discussions on specific topics. We communicate with our stakeholders throughout the year and engagement is integrated into business decision making processes.

The company is actively involved with the Chemical Industries Association (CIA), the European Precious Metals Federation (EPMF) and plays a leading advisory role through participation in a number of sector trade associations and government bodies. The company is also engaged with national and local government to inform the development of policy in areas where Johnson Matthey's technology and products can play a pivotal role.

Neil Carson, Chief Executive of Johnson Matthey, is a prominent member of the Corporate Leaders Group and is a member of the Advisory Board for the Cambridge Programme for Sustainability Leadership. A number of the company's senior management are involved in the UK government's sustainability and climate change initiatives. Johnson Matthey's executives have also made a contribution to a range of organisations and committees during the year, such as the Carbon Trust, and the company continues to participate in numerous government consultations. We have also continued to support the activities of Forum for the Future and the Green Alliance.

At regular meetings with the company's major shareholders, matters relating to sustainability and corporate social responsibility may be discussed together with the performance and development of the group's businesses.

During the year Johnson Matthey was awarded the Chemical Industries Association 2009 Award for Environmental Leadership. It also received two awards at the inaugural Institute of Chartered Secretaries and Administrators (ICSA) Hermes Transparency in Governance Awards, one for Best Practice Disclosure on Sustainability and a second for Best Practice Disclosure on Stakeholder Engagement. The company is committed to achieving high standards of reporting and disclosure to enhance openness and dialogue between the company's board and its investors and other stakeholders. Winning these two awards recognises our commitment to maintaining a well run company and to achieving best practice in our corporate governance reporting.

Throughout the year the company has sought to engage with its stakeholders to garner views on how we report our sustainability performance and the level of confidence it provides. A structured survey was devised and input was received from suppliers, customers, NGOs and institutional investors. This is being used to direct the structure of our reports going forward.

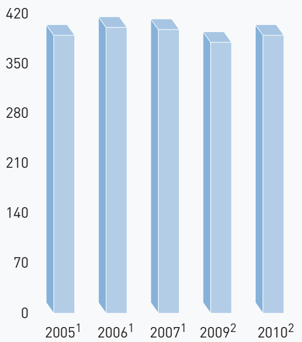
Health and Safety

We are committed to minimising the health and safety related impacts for employees, customers and communities and of our products in use. In addition, many of our products and services make a contribution to enhancing general health and wellbeing or provide safety benefits.

For Johnson Matthey, any accident is unacceptable and our target is zero greater than three day accidents. In July 2009 however, an employee of a contractor company who was engaged in work at Johnson Matthey's catalyst manufacturing site in Taloja, India received a severe electric shock whilst carrying out work at the site. Regrettably, despite hospital treatment, his life could not be saved. Investigations have been carried out by site personnel, supported by Group EHS department staff. A police investigation has also been conducted.

Total Global Warming Potential (GWP)

Tonnes CO_2 equivalent ('000)



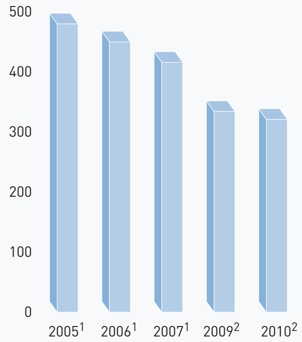
	Tonnes CO_2 equivalent ('000)	Tonnes / £ million sales excluding precious metals
2005[1]	390	355.5
2006[1]	401	299.6
2007[1]	398	231.2
2009[2]	380	211.5
2010[2]	390	206.8

[1] Calendar year.
[2] Financial year.

GWP data has been recalculated to include country specific electricity usage factors based upon the local published carbon intensity of electricity. This yields a more accurate reflection of GWP resulting from electricity use.

Total Acid Gas Emissions

Tonnes SO_2 equivalent



	Tonnes SO_2 equivalent	Tonnes / £ million sales excluding precious metals
2005[1]	480	0.4376
2006[1]	450	0.3362
2007[1]	416	0.2417
2009[2]	334	0.1859
2010[2]	321	0.1702

[1] Calendar year.
[2] Financial year.

Accident Statistics

	2010	2009	Change %
Incidence of greater than three day accidents per 1,000 employees	**2.14**	5.03[1]	-57
Total number of accidents that resulted in lost time	**60**	106[1]	-43
Total accident rate per 1,000 employees	**6.77**	10.83[1]	-37
Total lost time accident incident rate per 100,000 hours worked	**0.34**	0.53	-36
Total number of days lost per 1,000 employees	**64**	124[1]	-48

[1] Restated.

Accidents are actively monitored and detailed statistics are compiled monthly at group level. Any accident is thoroughly investigated to determine root causes and appropriate preventative and corrective actions are assigned. The group's five year performance is shown in the graph on page 35. In 2009/10 Johnson Matthey's rate of occupational accidents involving lost time, shown in the table above, has fallen to its lowest reported level. Following our disappointing performance in 2008/09 the company took action to revitalise its accident prevention processes, introducing an EHS Learning Events programme. This group wide programme has already led to improvements in safety performance and a sharpened awareness and understanding of workplace risks. The EHS Learning Events programme will be updated and expanded in 2010/11 to incorporate the learning acquired during its first year.

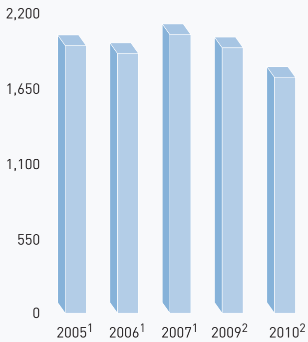
Johnson Matthey has a mature system for reporting accidents and incidents that involve the group's employees. However, it is not currently possible to determine the safety performance of all contractors working at our facilities. The company engages temporary workers typically to cover periods of long term sickness absence, maternity leave or to manage seasonal variations in workload. During 2010/11, new safety performance metrics specifically for contractors will be introduced which are similar to those already in place for group employees.

A corporate reporting system is used to report and investigate occupational illness cases arising as a result of exposure to workplace health hazards. In 2009/10 the incidence of cases reported was 5.2 cases per 1,000 employees (0.26 cases per 100,000 employee work hours) compared to 5.5 cases per 1,000 employees (restated) in 2008/09.

The group has introduced a target to reduce the annual incidence of occupational illness cases by at least 30% by 2013/14 from a baseline incidence of 5.3 cases per 1,000 employees in calendar year 2008 (to 3.7 cases or less per 1,000 employees by 2013/14). To help achieve this target, a new corporate chemical exposure management programme has been developed during 2009/10 which is now being implemented globally at all facilities. This aims to reduce the risk of chemical exposure related health effects to as low a level as is reasonably achievable. During 2010/11 training will be provided at all facilities to assist with implementation of the programme. In addition, a programme to promote effective ergonomic risk management will be developed.

Plans are also underway to pilot a sustainable health leading metrics scorecard in 2010/11 which will enable facilities to continually improve the performance of preventive health initiatives.

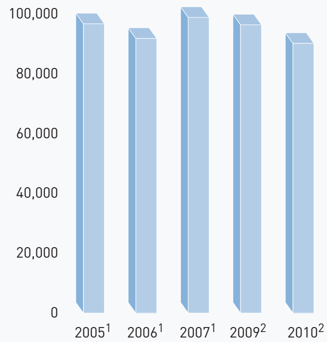
Water Consumption
Thousands m^3



	Thousands m^3	Thousands m^3 / £ million sales excluding precious metals
2005[1]	1,967	1.793
2006[1]	1,909	1.426
2007[1]	2,048	1.190
2009[2]	1,951	1.086
2010[2]	1,734	0.920

[1] Calendar year.
[2] Financial year.

Total Waste
Tonnes



	Tonnes	Tonnes / £ million sales excluding precious metals
2005[1]	96,638	88.10
2006[1]	91,750	68.56
2007[1]	98,764	57.39
2009[2]	96,287	53.58
2010[2]	90,088	47.78

[1] Calendar year.
[2] Financial year.

Environment

Johnson Matthey has an impact on the environment in many ways; through the resources we use, the way we operate our processes and the action of our products and services on enhancing the environment for others.

We undertake a comprehensive annual review of group environmental performance which covers all manufacturing and research and development facilities. Five key performance metrics (energy consumption, global warming potential, acid gas emissions, water use and waste produced) are reported here and are shown in the tables on pages 35 to 37. Where necessary, past environmental data has been restated to reflect changes in the business, for example divestments and site closures. Additional environmental performance metrics are presented in the company's Sustainability Report.

2009/10 saw steady progress with reductions in energy and water use, acid gas emissions and waste produced, despite the inclusion of data this year from three major new manufacturing facilities. Manufacturing sites across the group continued to make progress against their individual environmental improvement targets in 2009/10 which has had a positive impact on overall group performance.

The group's total global warming potential (GWP) is based on our Scope 1 and Scope 2 emissions. Data relating to the group's GWP has been recalculated to include country specific electricity usage factors based upon the local published carbon intensity of electricity. This yields a more accurate reflection of Johnson Matthey's GWP resulting from electricity use. The group's GWP increased by 3% in 2009/10. This increase is due in part to increased production (including that from the three new manufacturing facilities) but also due to the geographical mix of production where this year, a greater proportion of our total output originated in countries where the carbon intensity from grid electricity is high.

Continued progress has been made to implement ISO 14001, in line with our target of achieving registration at all major manufacturing sites in 2010. By the end of March 2010, 41 sites had achieved ISO 14001 registration representing around 93% of the group's manufacturing workforce. The remaining four manufacturing sites have plans in place to achieve registration during 2010/11.

Johnson Matthey's EHS Learning Events initiative (see page 36) is the group's flagship occupational safety programme which has delivered improved performance in its first year. In 2010/11, the programme will be extended beyond occupational safety matters and facilities will be encouraged to report environmental and health related issues as well as those involving at-risk safety behaviour.

Verification and Assurance

The Board of Directors, Audit Committee, Chief Executive's Committee and CSR Compliance Committee review sustainability issues as part of the company's risk management processes. The board believes that the internal measures taken to review the sustainability information provide a high level of confidence. Third party assurance of our full Sustainability Report has also been commissioned. The Sustainability Report 2009/10 will be published on the company's website at www.matthey.com in July 2010.

BOARD OF DIRECTORS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1 Sir John Banham
2 N A P Carson
3 R J MacLeod
4 A M Thomson
5 R J W Walvis
6 Sir Thomas Harris
7 M J Roney
8 D C Thompson
9 L C Pentz
10 W F Sandford

Sir John Banham DL, MA, HonLLD, HonDSc
Chairman, age 69; joined Johnson Matthey as Chairman designate in January 2006; appointed Chairman on 1st April 2006. Currently the Senior Independent Director of Invesco Ltd and Cyclacel Pharmaceuticals Inc. He was previously a director at McKinsey & Company, the first Controller of the Audit Commission and is a former Director General of the Confederation of British Industry. Previously a director of National Power and National Westminster Bank, and Chairman of Tarmac plc, Kingfisher plc, Geest plc and Whitbread PLC. M, N

N A P Carson BSc
Chief Executive, age 53; 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 to the board as Managing Director, Catalysts & Chemicals in August 1999 and additionally assumed board level responsibility for Precious Metals Division in August 2002. Appointed Chief Executive in July 2004. Currently a member of the Advisory Board for the Cambridge Programme for Sustainability Leadership. From 31st August 2010 Mr Carson will join the board of AMEC plc as a non-executive director.

R J MacLeod
Group Finance Director, age 46; joined Johnson Matthey as Group Finance Director designate in June 2009 and assumed current job title in September 2009. Previously he was Group Finance Director of WS Atkins plc and worked in a variety of senior financial roles at Enterprise Oil plc. He is currently a non-executive director of Aggreko plc.

A M Thomson MA, CA
Age 63; appointed a non-executive director in September 2002. Currently Chairman of Bodycote International Plc and a non-executive director of Alstom S.A. (France). Until his retirement in 2006 he was Finance Director of Smiths Group plc. Mr Thomson is also President of the Institute of Chartered Accountants of Scotland. A, M, N

R J W Walvis
Age 63; appointed a non-executive director in September 2002. Currently a non-executive director of Associated British Ports Holdings Ltd and Balfour Beatty plc and Chairman of the Supervisory Board of Allianz Nederland Group NV. He was previously a non-executive director of British Energy Group plc and Chairman, Global Corporate Centre, Shell International Limited. Prior to that he held a series of senior management positions within the Royal Dutch Shell Group. A, M, N

Sir Thomas Harris KBE CMG
Age 65; appointed a non-executive director on 1st April 2009. Currently Vice Chairman of Standard Chartered Capital Markets Ltd, a non-executive director of Biocompatibles International plc and SC First Bank (Korea), a director of IFSL and City UK, and a Trustee of Asia House. Until 2004, he was Director General of Trade & Investment USA responsible for British business and technology promotion throughout the United States. He served previously as British Ambassador to the Republic of Korea in Seoul, Deputy High Commissioner in Lagos, Nigeria and Commercial Counsellor in the British Embassy in Washington DC. A, M, N

M J Roney
Age 55; appointed a non-executive director on 1st June 2007. Currently Chief Executive of Bunzl plc. Joined Bunzl plc as a non-executive director in 2003. Prior to becoming Chief Executive of Bunzl he was the Chief Executive Officer of Goodyear Dunlop Tires Europe BV and had an extensive career with the Goodyear Tire and Rubber Co holding a number of senior management positions with responsibilities in Latin America, Asia, Eastern Europe, the Middle East and Africa. A, M, N

D C Thompson
Age 49; appointed a non-executive director on 1st September 2007. Currently Chief Executive of Drax Group plc. Joined the board of Drax Group plc as Chief Executive in 2005. Prior to joining Drax she was head of the European business of the global power generation firm, InterGen. First starting her career in banking she has had senior management roles in the UK, Asia and Africa. A, M, N

L C Pentz BS ChE, MBA
Executive Director, Environmental Technologies, age 55; joined Johnson Matthey in 1984; appointed Division Director, Process Catalysts and Technologies in 2001 after having held a series of senior management positions within Catalysts Division in the US. Appointed Executive Director, Process Catalysts and Technologies in August 2003, Executive Director, Emission Control Technologies in July 2004 and to his current position on 1st April 2009. Currently a non-executive director of Victrex plc.

W F Sandford BA
Executive Director, Precious Metal Products, age 56; joined Johnson Matthey in 1977; appointed Division Director, Precious Metal Products in 2001 after holding a series of senior management positions within the division. Appointed Executive Director, Precious Metal Products in July 2009.

Committees of the Board
A Audit Committee
M Management Development and Remuneration Committee
N Nomination Committee

OTHER SENIOR MANAGEMENT

Environmental Technologies

S M Christley *Division Finance Director*
J F Walker *Division Director,* Emission Control Technologies
C J Bennett *Technology and Business Development Director,* Emission Control Technologies
A M Myers *President,* Emission Control Technologies, North America
D W Prest *Managing Director,* Emission Control Technologies, Europe
J V Zubrickas *Managing Director,* Emission Control Technologies, Asia
N Whitley *Division Director,* Process Technologies
G L McGregor *Division Finance Director,* Process Technologies
A Bordet *Business Development Director,* Process Technologies
J K Dunleavy *Managing Director,* Refineries and Gas Processing
A C Hurst *Managing Director,* Tracerco and Vertec
D J Tomlinson *President,* Davy Process Technology
A Wright *Managing Director,* Syngas and Gas to Products
J C Frost *Director,* Fuel Cells

Precious Metal Products

B M O'Connell *Division Finance Director*
M Bedford *Director,* Precious Metals Marketing
C C Howlett *General Manager,* Noble Metals, Europe
J D Malanga *General Manager,* Noble Metals, North America
R L P J van der Heijden *Managing Director,* Colour Technologies
G P Otterman *Division Director,* Catalysts, Chemicals and Refining
T Hassan *Division Finance Director,* Catalysts, Chemicals and Refining
M T Durney *President,* Catalysts and Chemicals
A J McCullough *General Manager,* Gold, North America

Fine Chemicals

N P H Garner *Division Director and Head of Corporate Development*
M Gaffney *Division Finance Director*
J B Fowler *President,* Pharmaceutical Materials and Services
R M Kilburn *Managing Director,* Macfarlan Smith
B C Singelais *President,* Global Research Chemicals

Corporate

G J Coates *Group Treasurer*
S Farrant *Group Legal Director and Company Secretary*
P C Framp *Deputy Director,* Group Environment, Health and Safety and Human Resources
I D Godwin *Director, Investor Relations and Corporate Communications*
V E Gough *Group Reporting Controller*
B A Murrer *Director,* Technology Centre
S P Robinson *Director of Tax*
F K Sheffy *Group Business Development Director*
I F Stephenson *Director,* Group Systems, Environment, Health and Safety and Human Resources
M V Twigg *Chief Scientist*

Statement of Compliance with the Combined Code

This statement describes how the Main Principles of the Combined Code on Corporate Governance, issued by the Financial Reporting Council dated June 2008 (the Code), have been applied.

During the year ended 31st March 2010, the company has complied with all relevant provisions set out in Section 1 of the Code throughout the year except the following:

- *A.3.2 – At least half the board, excluding the chairman, should comprise non-executive directors determined by the board to be independent.*

  During the period from 22nd June 2009, following the appointment of Mr R J MacLeod as Group Finance Director designate, to 21st July 2009, the board comprised five independent non-executive directors and six executive directors and therefore less than half of the board comprised independent non-executive directors. On 21st July 2009, following the retirement of Dr P N Hawker and Mr D W Morgan from the board and the appointment of Mr W F Sandford as an executive director, the number of executive directors was reduced to five. Since the retirement of Mr J N Sheldrick as Group Finance Director on 7th September 2009, more than half of the board has comprised independent non-executive directors. The board considers the one month period of non-compliance with this provision to be immaterial and was necessary in order to ensure orderly board succession.

- *D.1.1 – The senior independent director should attend sufficient meetings with a range of major shareholders to listen to their views in order to help develop a balanced understanding of the issues and concerns of major shareholders.*

  During the year the board has taken the view that it is not necessarily practical, efficient or desired by shareholders for the Senior Independent Director to attend meetings with major shareholders in order to learn their issues and concerns unless such discussions are requested by shareholders. The methods by which major shareholders' views are communicated to the board as a whole are discussed under 'Relations with Shareholders' on page 41.

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 and is ultimately responsible for social, environmental and ethical matters. The board held seven meetings in the year and in addition met separately to review the group's long term strategy. The board 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, three other executive directors and five independent non-executive directors. Mr N A P Carson is the Chief Executive. Sir John Banham is the Chairman. Sir John's other commitments are disclosed on page 38. The roles of Chairman and Chief Executive are separate. The Chairman leads the board, ensuring that each director, particularly each non-executive director, is able to make an effective contribution. He monitors, with assistance from the Company Secretary, the information distributed to the board to ensure that it is sufficient, accurate, timely and clear. The Chief Executive maintains day-to-day management responsibility for the company's operations, implementing group strategies and policies agreed by the board.

The role of non-executive directors, who are appointed for specified terms subject to re-election and to Companies Acts provisions relating to the removal of a director, is to enhance independence and objectivity of the board's deliberations and decisions. Mr A M Thomson is the Senior Independent Director. Each non-executive director is considered by the board to be independent in character and judgment and there are no relationships or circumstances which are likely to affect, or could appear to affect, the director's judgment.

The executive directors have specific responsibilities, which are detailed on pages 38 and 39, and have direct responsibility for all operations and activities.

In accordance with the company's Articles of Association, all directors submit themselves for re-election at least once every three years. The board composition allows for changes to be made with minimum disruption.

Regular business presentations from senior managers at board meetings assist the non-executive directors in familiarising themselves with the group's businesses. The board also usually holds at least one board meeting per year at one of the group's operational sites and takes the opportunity to tour the site and discuss issues with local senior and middle management. During the year ended 31st March 2010 the board visited the new methanol synthesis catalyst manufacturing plant in Clitheroe, UK and the Emission Control Technologies' manufacturing facilities in Royston, UK. Individual non-executive directors also undertake site visits. Such presentations, meetings and site visits help to give a balanced overview of the company. They enable the non-executive directors to build an understanding of the company's businesses, the markets in which the company operates and its main relationships and to build a link with the company's employees. This is important in helping the non-executive directors to continually develop and refresh their knowledge and skills to ensure that their contribution to the board remains informed and relevant. Account is taken of environmental, social and governance matters in the training of directors.

During the year the board undertook a formal evaluation of its performance and the performance of its committees and the individual directors. The Deputy Company Secretary conducted face to face interviews with each individual director based on a standard questionnaire. The interviews focused on the operation of the board and its committees and on individual directors' contributions. Separately, the Chairman held a series of one to one discussions with each director to provide them with an opportunity to expand on their responses, to raise any broader issues and to review their performance. A report was prepared on the findings of these interviews and it also contained a number of recommendations designed to ensure that the current high standards of governance and processes were maintained. The report has been considered by the board and the board approved its recommendations. The report concluded that the board and its committees continue to work effectively.

Led by the Senior Independent Director, the non-executive directors met without the Chairman present to appraise the Chairman's performance, taking into account the views of the executive directors.

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 (except in August). During the year it comprised the executive directors and six senior executives of the company.

The Audit Committee is a 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 Audit Committee meets quarterly and is chaired by Mr A M Thomson. It comprises all the independent non-executive directors with the group Chairman, the Chief Executive, the Group Finance Director and the external and internal auditors attending by invitation. A report from the Audit Committee on its activities is given on page 47. Mr Thomson has recent and relevant financial experience as former Finance Director of Smiths Group plc and currently as President of the Institute of Chartered Accountants of Scotland.

Committees of the Board (continued)

Attendance at the board and board committee meetings in 2009/10 was as follows:

Director	Full Board		MDRC		Nomination Committee		Audit Committee	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
Sir John Banham	7	7	4	4	2	2	–	4[1]
N A P Carson	7	7	–	4[1]	–	2[1]	–	4[1]
Sir Thomas Harris	7	7	4	4	2	2	4	4
P N Hawker	3	3	–	–	–	–	–	–
R J MacLeod	5	5	–	–	–	–	–	3[1]
D W Morgan	3	3	–	–	–	–	–	–
L C Pentz	7	7	–	–	–	–	–	–
M J Roney	7	7	4	4	2	2	4	4
W F Sandford	5	5	–	–	–	–	–	–
J N Sheldrick	3	3	–	–	–	–	–	2[1]
D C Thompson	7	6[2]	4	4	2	2	4	4
A M Thomson	7	7	4	4	2	2	4	4
R J W Walvis	7	7	4	4	2	1	4	4

Notes

[1] Includes meetings attended by invitation for all or part of meeting.

[2] Absence due to illness.

The Nomination Committee is a committee of the board responsible for advising the board and making recommendations on the appointment and, if necessary, dismissal of executive and non-executive directors. The Nomination Committee is chaired by Sir John Banham, the group Chairman, and also comprises all the independent non-executive directors. A report from the Nomination Committee on its activities is given on page 46.

The Management Development and Remuneration Committee (MDRC) is a committee of the board which determines on behalf of the board the fair remuneration of the executive directors and the Chairman and assists the board in ensuring that the current and future senior management of the group are recruited, developed and remunerated in an appropriate fashion. The MDRC is chaired by Mr R J W Walvis and comprises all the independent non-executive directors together with the group Chairman. The Chief Executive and the Director of Human Resources attend by invitation except when their own performance and remuneration are discussed. Further details are set out in the Remuneration Report on pages 48 to 56.

Directors' Remuneration

The Remuneration Report on pages 48 to 56 includes details of remuneration policies and of the remuneration of the directors.

Relations with Shareholders

The board considers effective communication with shareholders, whether institutional investors, private or employee shareholders, to be extremely important.

The company reports formally to shareholders when its full year and half year results are published. These results 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. Live audiocasts of the results presentations in London are available on the company's website and copies of major presentations are also posted on the company's website.

The company's Annual General Meeting takes place in London and formal notification is sent to shareholders at least 20 working days in advance of the meeting. The directors are available for questions, formally during the Annual General Meeting and informally afterwards. Details of the 2010 Annual General Meeting are set out in the notice of the meeting accompanying this Annual Report.

Contact with major shareholders is principally maintained by the Chief Executive and the Group Finance Director, who ensure that their views are communicated to the board as a whole. The Chairman is also available to discuss governance and other matters directly with major shareholders. The board believes that appropriate steps have been taken during the year to ensure that the members of the board, and in particular the non-executive directors, develop an understanding of the views of major shareholders about the company. The board is provided with brokers' reports at every board meeting and feedback from shareholder meetings on a six-monthly basis. The canvassing of major shareholders' views for the board in a detailed investor survey is usually conducted every two years by external consultants. The board has taken the view that these methods, taken together, are a practical and efficient way both for the Chairman to keep in touch with major shareholder opinion on governance and strategy and for the Senior Independent Director to learn the views of major shareholders and to develop a balanced understanding of their issues and concerns. The Senior Independent Director and other non-executive directors are available to attend meetings with major shareholders if requested, however no such meetings were requested during the year.

Accountability, Audit and Control

In its reporting to shareholders, the board aims to present a balanced and understandable assessment of the group's financial position and prospects. The statement of the Responsibility of Directors for the preparation of the Annual Report and Accounts is set out on page 57.

The group's organisational structure is focused on its three divisions. These are all separately managed but report to the board through a board director. The executive management team receives 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 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 businesses 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.

Accountability, Audit and Control (continued)

The board has overall responsibility for the group's systems of internal control, including in respect of the financial reporting process, and for reviewing their effectiveness. The internal control systems are designed to meet the group's needs and manage the risks to which it is exposed, although these cannot be eliminated. Such systems can only 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. This process has been in place during the financial year 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 Audit Committee monitors and reviews the effectiveness of the group's systems for internal financial control and risk management, considering regular reports from management and internal audit. The Audit Committee also considers reports from the external auditors on their evaluation of the systems of internal financial control and risk management. Amongst other matters, the Audit Committee reviews the group's credit control procedures and risks, controls over precious metals, IT controls and the group's corporate social responsibility reporting arrangements and whistleblowing procedures. The Audit Committee also reviews the performance of both the internal and external auditors.

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 any issues raised by the internal audit reports produced. Internal audit follows up the implementation of its recommendations, including any recommendations to improve internal controls, and reports the outcome to senior management and to the Audit Committee.

In addition, significant businesses provide assurance on the maintenance of financial and non-financial controls and compliance with group policies. These assessments are summarised by the internal audit function and a report is made annually to the Audit Committee. A report from the Audit Committee on its activities and on the work of internal audit is given on page 47.

The directors confirm that the system of internal controls for the year ended 31st March 2010 and the period up to 2nd June 2010 has been established in accordance with the revised Turnbull Guidance on Internal Control published by the Financial Reporting Council included with the Code. The directors have reviewed the effectiveness of the group's system of internal controls, including financial, operational and compliance controls and risk management systems. No significant failings or weaknesses were identified.

Corporate Social Responsibility

Measures to ensure responsible business conduct and the identification and assessment of risks associated with social, ethical and environmental matters are managed in conjunction with all other business risks and reviewed at regular meetings of the board, the Audit Committee and the Chief Executive's Committee.

A review of the group's policies and targets for corporate social responsibility (CSR) is set out in the Sustainability section of the Business Review on pages 29 to 37. A full version of the Sustainability Report is available on the company's website.

The identification and monitoring of environment, health and safety (EHS), social and governance risks are the responsibility of the CSR Compliance Committee, which is a sub-committee of the Chief Executive's Committee. It comprises the division directors, the Director of EHS, the Company Secretary and senior representatives of Group Legal, Internal Audit, Group EHS and other group functions. The Committee has specific responsibility for setting and overseeing compliance with the standards for group CSR performance through the development, dissemination, adoption and implementation of appropriate group policies and other operational measures. EHS performance is monitored using monthly statistics and detailed site audit reports. EHS performance is reviewed on a regular basis by the Chief Executive's Committee and an annual review is undertaken by the board.

Risks from employment and employee issues are identified and assessed by the Chief Executive's Committee and reported to the board.

Employment contracts, handbooks and policies specify acceptable business practices and the group's position on ethical issues. The Group Control Manual and security manuals provide further operational guidelines to reinforce these.

The Audit Committee reviews risks associated with corporate social responsibility on an annual basis and monitors performance through the annual control self-assessment process conducted by the internal audit function.

OTHER STATUTORY INFORMATION

Annual General Meeting

The notice of the 2010 Annual General Meeting of the company to be held on Wednesday 21st July 2010 at 11.00 am at The Institution of Engineering and Technology (The Lecture Theatre), 2 Savoy Place, London WC2R 0BL is contained in the circular accompanying this Annual Report, together with an explanation of the resolutions to be considered at the meeting.

Dividends

The interim dividend of 11.1 pence per share (2009 11.1 pence) was paid in February 2010. The directors recommend a final dividend of 27.9 pence per share in respect of the year ended 31st March 2010 (2009 26.0 pence), making a total for the year of 39.0 pence per share (2009 37.1 pence), payable on 3rd August 2010 to shareholders on the register at the close of business on 11th June 2010.

A Dividend Reinvestment Plan is in place which allows shareholders to purchase additional shares in the company with their dividend payment. Further information and a mandate can be obtained from the company's registrars, Equiniti, whose details are set out on page 115.

Share Capital

On 21st July 2009, the authorised share capital of the company was increased from £291,550,000 to £365,000,000. As at 31st March 2010, the company's authorised share capital was £365,000,000 divided into 365,000,000 ordinary shares of £1.00 each. The issued share capital of the company at 31st March 2010 was 214,675,736 ordinary shares of £1.00 each (excluding treasury shares). As at 31st March 2010, the company held 5,997,877 treasury shares. There were no purchases, sales or transfers of treasury shares during the year ended 31st March 2010. The company did not allot any shares during the year ended 31st March 2010.

At the 2009 Annual General Meeting, shareholders renewed the company's authority to make market purchases of up to 21,467,573 ordinary shares representing 10% of the issued share capital of the company (excluding treasury shares) as at 31st May 2009.

The company did not make any purchases of its own shares during the year ended 31st March 2010. Authority to purchase up to 21,467,573 shares remained in place at 31st March 2010. At the forthcoming Annual General Meeting the board will again seek shareholders' approval to renew the annual authority for the company to make purchases of its own shares through the market.

Rights and Obligations Attaching to Shares

The holders of ordinary shares are entitled to receive dividends when declared, to receive the company's report and accounts, to attend and speak at general meetings of the company, to appoint proxies and to exercise voting rights.

There are no restrictions on the transfer or limitations on the holding of ordinary shares and no requirements to obtain prior approval to any transfers except where the company has exercised its right to suspend their voting rights, withhold a dividend or prohibit their transfer following the failure by the member or any other person appearing to be interested in the shares to provide the company with information requested under section 793 of the Companies Act 2006. The directors may, in certain circumstances, also refuse to register the transfer of a share in certificated form which is not fully paid up, where the instrument of transfer does not comply with the requirements of the Articles of Association, or if entitled to do so under the Uncertificated Securities Regulations 2001. No ordinary shares carry any special rights with regard to control of the company and there are no restrictions on voting rights except that a shareholder has no right to vote in respect of a share unless all sums due in respect of that share are fully paid. There are no known agreements between holders of securities that may result in restrictions on the transfer of securities or on voting rights and no known arrangements under which financial rights carried by securities are held by a person other than the holder of the shares.

Shares acquired by employees through the Johnson Matthey employee share schemes rank equally with the other shares in issue and have no special rights. Voting rights in respect of shares held through the group's share incentive plans are not exercisable directly by participants however participants can direct the trustee of the plans to exercise voting rights on their behalf.

Employee Share Schemes

At 31st March 2010, 4,383 current and former employees, representing approximately 49.0% of employees worldwide, were shareholders in Johnson Matthey through the group's employee share schemes. Through these schemes, current and former employees held 3,919,782 shares (1.83% of issued share capital, excluding treasury shares). As at 31st March 2010, 511 current and former employees held options over 2,474,307 shares through the company's executive share option schemes.

Major Shareholders

As at 1st June 2010, the following information had been disclosed to the company under the Financial Services Authority's Disclosure and Transparency Rules in respect of holdings exceeding the 3% notification threshold:

	Nature of holding	Total voting rights	% of total voting rights[1]
BlackRock, Inc.	Indirect	25,058,443	11.67
	Financial Instrument (CFD)	467,339	0.22
Prudential plc	Direct	14,305,996	6.66
	Indirect	126,712	0.06
Vanguard Precious Metals & Mining Fund	Direct	10,850,000	5.05
Lloyds Banking Group plc	Indirect	10,490,545	4.89
Legal & General Group Plc	Direct	8,581,762	3.99

[1] Total voting rights attaching to the issued ordinary share capital of the company (excluding treasury shares) at the date of disclosure.

Directors

The following served as directors during the year ended 31st March 2010:

Sir John Banham

Mr N A P Carson

Sir Thomas Harris
(appointed 1st April 2009)

Dr P N Hawker
(retired 21st July 2009)

Mr R J MacLeod
(appointed 22nd June 2009)

Mr D W Morgan
(retired 21st July 2009)

Mr L C Pentz

Mr M J Roney

Mr W F Sandford
(appointed 21st July 2009)

Mr J N Sheldrick
(retired 7th September 2009)

Mrs D C Thompson

Mr A M Thomson

Mr R J W Walvis

The names and biographical details of all the current directors are shown on pages 38 and 39.

In accordance with the provisions for retirement by rotation in the company's Articles of Association, Mr M J Roney, Mrs D C Thompson, Mr A M Thomson and Mr R J W Walvis will retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election. Also in accordance with the provisions of the company's Articles of Association, Mr W F Sandford will retire at the forthcoming Annual General Meeting and, being eligible, offer himself for election.

Details of the constitution of the board and its committees are set out on pages 40 and 41.

OTHER STATUTORY INFORMATION

Appointment and Replacement of Directors

The Articles of Association provide that the number of directors is not subject to any maximum but must not be less than six, unless otherwise determined by the company by ordinary resolution. Directors may be appointed by an ordinary resolution of the members or by a resolution of the directors. A director appointed by the directors must retire at the next following Annual General Meeting and is not taken into account in determining the directors who are to retire by rotation at the meeting.

At every Annual General Meeting at least one third of directors must retire by rotation. The directors to retire by rotation must include any director who has not been subject to election or re-election at the time of the two preceding Annual General Meetings, and (if so required to constitute one third of directors) those directors who have been longest in office since their last appointment or reappointment.

A director may be removed by a special resolution of the company. In addition, a director must automatically cease to be a director if (i) he or she ceases to be a director by virtue of any provision of the Companies Act 2006 or he or she becomes prohibited by law from being a director, or (ii) he or she becomes bankrupt or makes any arrangement or composition with his or her creditors generally, or (iii) he or she is suffering from a mental disorder, or (iv) he or she resigns from his or her office by notice in writing to the company or, in the case of an executive director, his appointment is terminated or expires and the directors resolve that his office be vacated, or (v) he or she is absent for more than six consecutive months without permission of the directors from meetings of the directors and the directors resolve that his or her office be vacated or (vi) he or she is requested in writing, or by electronic form, by all the other directors to resign.

Powers of the Directors

The powers of the directors are determined by the company's Articles of Association, the Companies Act 2006 and any directions given by the company in general meeting. The directors have been authorised by the Articles of Association to issue and allot ordinary shares and to make market purchases of shares. These powers are referred to shareholders at the Annual General Meeting for renewal. Any shares purchased may be cancelled or held as treasury shares.

Directors' Conflicts of Interests

Procedures are in place to ensure compliance with the directors' conflict of interest duties set out in the Companies Act 2006. The company has complied with these procedures during the year ended 31st March 2010 and the board believes that these procedures operate effectively. During the year the board undertook an annual review of previously approved conflict or potential conflict matters and agreed that they should continue to be authorised on the terms previously set out. In each case, the review was undertaken by directors who were genuinely independent of the conflict matter. No new conflict or potential conflict matters were approved during the year. The authorised conflict or potential conflict matters will continue to be reviewed by the board on an annual basis.

Directors' Indemnities

Under Deed Polls the company has granted indemnities in favour of each director of the company in respect of any liability that he or she may incur to a third party in relation to the affairs of the company or any group member. These provisions were in force during the year ended 31st March 2010 for the benefit of all persons who were directors of the company at any time during the year ended 31st March 2010 and remain in force for the benefit of all persons who are directors of the company as at the date when this report was approved.

Under Deed Polls the company has also granted indemnities in favour of each director of its subsidiaries in respect of any liability that he or she may incur to a third party in relation to the affairs of any group member. These provisions were in force during the year ended 31st March 2010 for the benefit of all persons who were directors of the subsidiaries at any time during the year ended 31st March 2010 and remain in force for the benefit of all persons who are directors of the subsidiaries as at the date when this report was approved.

Copies of the Deed Polls and the company's Articles of Association are available for inspection during normal business hours at the company's registered office and will be available for inspection at the forthcoming Annual General Meeting from 10.00 am on Wednesday 21st July 2010 until the conclusion of the meeting.

Corporate Governance and Remuneration

The board's statement on corporate governance matters is given on pages 40 to 42 and its report on directors' remuneration, which includes details of service contracts and the directors' interests in the shares of the company, is set out on pages 48 to 56.

Other than service contracts, no director had any interest in any material contract with any group company at any time during the year ended 31st March 2010.

Articles of Association

The Articles of Association may only be amended by a special resolution at a general meeting of the company. A special resolution proposing the adoption of new Articles of Association will be proposed at the forthcoming Annual General Meeting. Further details are set out in the Notice of the Annual General Meeting. The company's Articles of Association are available for inspection during normal business hours at the company's registered office and will be available for inspection at the forthcoming Annual General Meeting from 10.00 am on Wednesday 21st July 2010 until the conclusion of the meeting.

Change of Control

There are no significant agreements to which the company is a party that take effect following a change of control of the company but the company and its subsidiaries are party to a number of commercial agreements that may allow the counterparties to alter or terminate the agreements on a change of control of the company following a takeover bid. Other than the matters referred to below, these are not deemed by the company to be significant in terms of their potential effect on the group as a whole.

The group has a number of loan notes and borrowing facilities which may require prepayment of principal and payment of accrued interest and breakage costs if there is change of control of the company. The group has also entered into a series of financial instruments to hedge its currency, interest rate and metal price exposures which provide for termination or alteration if a change of control of the company materially weakens the creditworthiness of the group.

The company is party to a marketing agreement with a subsidiary of Anglo Platinum Limited, originally entered into in 1992, under which the company was appointed as sales and marketing agent for refined platinum group metals worldwide excluding the US and the company agreed to provide certain marketing services. The agreement contains provisions under which the counterparty may have the right to terminate the agreement on a change of control of the company.

The rules of the company's employee share schemes set out the consequences of a change of control of the company on participants' rights under the schemes. Generally such rights will vest and become exercisable on a change of control subject to the satisfaction of relevant performance conditions.

OTHER STATUTORY INFORMATION

Change of Control (continued)

The executive directors' service contracts each contain a provision to the effect that if the contract is terminated by the company within one year after a change of control of the company, the company will pay to the director as liquidated damages an amount equivalent to one year's gross basic salary and other contractual benefits less the period of any notice given by the company to the director. There are no other agreements between the company and its directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) on a change of control of the company following a takeover bid.

Other than the marketing agreement with a subsidiary of Anglo Platinum Limited referred to above, the group does not have any contractual or other arrangements with any persons which the directors consider are essential to the business of the company.

Disabled Persons

Details of the company's policy relating to the recruitment, employment and training of disabled employees can be found on page 32.

Employee Involvement

Information on the action taken by the company during the year relating to employee involvement can be found on pages 29 to 37.

Use of Financial Instruments

Information on the group's financial risk management objectives and policies and its exposure to price risk, credit risk, liquidity risk and cash flow risk can be found on pages 93 to 97.

Branches

The company and its subsidiaries have established branches in a number of different countries in which they operate.

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, subject to the supplier having performed its obligations under the relevant contract. It is not the group's policy to follow any specific code or standard on payment practice in respect of its suppliers. At 31st March 2010, the company's aggregate level of 'creditor days' amounted to 8 days. Creditor days are calculated by dividing the aggregate of the amounts which were outstanding as trade payables at 31st March 2010 by the aggregate of the amounts the company was invoiced by suppliers during the year ended 31st March 2010 and multiplying by 365 to express the ratio as a number of days.

Charitable Donations

During the year ended 31st March 2010 the group donated £458,000 (2009 £495,000) to charitable organisations worldwide, of which £298,000 (2009 £366,000) was in the UK.

Further details of contributions made by the group worldwide are given on pages 34 and 35 and in the Sustainability Report which can be found on the company's website at www.matthey.com.

Political Donations and Expenditure

It is the policy of the group not to make political donations. During the year ended 31st March 2010, no donations were made by the company or its subsidiaries to any EU political party, EU political organisation or to any EU independent election candidate (2009 £ nil), no EU political expenditure was incurred (2009 £ nil) and no contributions to political parties outside the EU were made within the meaning of Part 14 of the Companies Act 2006 (2009 £ nil).

Management Report

The Report of the Directors is the 'management report' for the purposes of the Financial Services Authority's Disclosure and Transparency Rules (DTR 4.1.8).

Auditors and Disclosure of Information

In accordance with section 489 of the Companies Act 2006, resolutions are to be proposed at the forthcoming Annual General Meeting for the reappointment of KPMG Audit Plc as auditors of the company and to authorise the directors to determine their remuneration.

So far as each person serving as a director of the company at the date this Report of the Directors was approved by the board is aware, there is no relevant audit information of which the company's auditors are unaware. Each director hereby confirms that he or she has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

The Report of the Directors was approved by the Board of Directors on 2nd June 2010 and is signed on its behalf by:

S. Farrant

Simon Farrant
Company Secretary

NOMINATION COMMITTEE REPORT

Role of the Nomination Committee

The Nomination Committee is a committee of the board whose purpose is to advise the board on the appointment and, if necessary, dismissal of executive and non-executive directors. The full terms of reference of the Nomination Committee are provided on the company's website at www.matthey.com.

Composition of the Nomination Committee

The Nomination Committee comprises all the independent non-executive directors together with the group Chairman. The quorum necessary for the transaction of business is two, each of whom must be an independent non-executive director. Biographical details of the independent directors and the group Chairman are set out on pages 38 and 39. Their remuneration is set out on page 51.

The group Chairman acts as the Chairman of the Nomination Committee, although the group Chairman may not chair the Nomination Committee when it is dealing with the matter of succession to the chairmanship of the company. A non-executive director may not chair the Nomination Committee when it is dealing with a matter relating to that non-executive director.

Only members of the Nomination Committee have the right to attend Nomination Committee meetings. However, the Chief Executive, the Director of Human Resources, external advisers and others may be invited to attend for all or part of any meeting as and when appropriate.

The Company Secretary is secretary to the Nomination Committee.

The Nomination Committee has the authority to seek any information that it requires from any officer or employee of the company or its subsidiaries. In connection with its duties, the Nomination Committee is authorised by the board to take such independent advice (including legal or other professional advice, at the company's expense) as it considers necessary, including requests for information from or commissioning investigations by external advisers.

Main Activities of the Nomination Committee

The Nomination Committee met twice during the financial year ended 31st March 2010; on 2nd February and 30th March 2010.

The Nomination Committee met on 2nd February 2010 to discuss board succession and consider proposed recommendations to the board for extensions to the terms of appointment of Mr M J Roney, Mrs D C Thompson and Mr R J W Walvis. After full review, the Nomination Committee recommended second three year terms for Mr Roney and Mrs Thompson and an extension of the term for Mr Walvis of one year (taking his term of appointment to nine years). After review, the board accepted these recommendations at its meeting on 30th March 2010.

Also at its meeting on 2nd February 2010, the Nomination Committee noted that the Chairman, Sir John Banham, would serve as Chairman until the Annual General Meeting in July 2011 in accordance with the terms of his appointment and that he would not be seeking a further term beyond that date. Consideration therefore needed to be given to the appointment of a successor and it was agreed that a draft specification for the role should be prepared. This was subsequently prepared and, at its meeting on 30th March 2010, the Nomination Committee considered the draft specification and also considered initial proposals from a number of executive search consultants to assist in the recruitment process. The draft specification was approved and it was agreed that the selection process, including the selection of executive search consultants, should be led by the Senior Independent Director and the Chief Executive, assisted by the Director of Human Resources. At both meetings, the Senior Independent Director chaired the discussions relating to the Chairman's successor.

Also at its meetings on 2nd February and 30th March 2010, the Nomination Committee discussed the prospective retirement in September 2011 of Mr A M Thomson, the Senior Independent Director and Chairman of the Audit Committee, and Mr R J W Walvis, Chairman of the Management Development and Remuneration Committee. It was agreed that the process for succession should be instigated later in the year.

On behalf of the Nomination Committee:

Sir John Banham
Chairman of the Nomination Committee

AUDIT COMMITTEE REPORT

Role of the Audit Committee

The Audit Committee is a committee of the board whose responsibilities include:

- Reviewing the half-yearly and full year accounts and results announcements of the company and any other formal announcements relating to the company's financial performance and recommending them to the board for approval.
- Reviewing the group's systems for internal financial control and risk management.
- Monitoring and reviewing the effectiveness of the company's internal audit function and considering regular reports from internal audit on internal financial controls and risk management.
- Considering the appointment of the external auditors, overseeing the process for their selection and making recommendations to the board in relation to their appointment to be put to shareholders for approval at a general meeting.
- Monitoring and reviewing the effectiveness and independence of the external auditors, agreeing the nature and scope of their audit, agreeing their remuneration, and considering their reports on the company's accounts, reports to shareholders and their evaluation of the systems of internal financial control and risk management.

The full terms of reference of the Audit Committee are provided on the company's website at www.matthey.com.

Composition of the Audit Committee

The Audit Committee comprises all the independent non-executive directors. Biographical details of the independent directors are set out on pages 38 and 39. Their remuneration is set out on page 51. The Chairman of the Audit Committee is Mr A M Thomson, who was formerly Finance Director of Smiths Group plc and is currently President of the Institute of Chartered Accountants of Scotland. The group Chairman, Chief Executive, Group Finance Director, Head of Internal Audit and external auditors (KPMG Audit Plc) attend Audit Committee meetings by invitation. The Committee also meets separately with the Head of Internal Audit and with the external auditors without management being present. The Company Secretary is secretary to the Audit Committee.

Main Activities of the Audit Committee

The Audit Committee met four times during the financial year ended 31st March 2010. At its meeting on 29th May 2009 the Committee reviewed the company's preliminary announcement of its results for the financial year ended 31st March 2009, and the draft report and accounts for that year. The Committee received reports from the external auditors on the conduct of their audit, their review of the accounts, including accounting policies and areas of judgment, and their comments on risk management and control matters.

The Audit Committee met on 20th July 2009 to receive reports on internal controls from both the internal and external auditors and approve amendments to the Group Control Manual. The external auditors also presented their proposed fees and scope for the forthcoming year's audit. The Committee also assessed the performance of both the internal and external auditors. The review of the external auditors was used to confirm the appropriateness of their reappointment and included assessment of their independence, qualification, expertise and resources, and effectiveness of the audit process. The Committee recommended to the board the reappointment of KPMG Audit Plc as auditors. In addition, the Committee received a presentation on the group's taxation management processes and strategy from the group's Director of Tax. The group's Sustainability Report 2008/09 was also reviewed, which is available on the company's website at www.matthey.com.

At its meeting on 23rd November 2009 the Audit Committee reviewed the company's half-yearly results, the half-yearly report and the external auditors' review and also papers on credit control and credit risk and on litigation affecting the group. The Committee received a presentation on the risks facing the Emission Control Technologies business from the Environmental Technologies Division Finance Director.

At its meeting on 2nd February 2010 the Audit Committee reviewed management's and internal audit's reports on the effectiveness of the company's systems for internal financial control and risk management. The Committee reviewed the group's credit control procedures and risks, controls over precious metals and IT controls. The group's corporate social responsibility reporting arrangements and whistleblowing procedures were also reviewed. Changes to the Group Control Manual were ratified. The Committee also received a presentation on the risks facing the Precious Metal Products Division from the Division Finance Director.

Since the year end the Committee has met to review the company's preliminary announcement of its results and draft report and accounts for the financial year ended 31st March 2010, and also the company's assessment of going concern.

Independence of External Auditors

Both the board and the external auditors have for many years had safeguards in place to avoid the possibility that the auditors' objectivity and independence could be compromised. Our policy in respect of services provided by the external auditors is as follows:

- Audit related services – the external auditors are invited to provide services which, in their position as auditors, they must or are best placed to undertake. This includes formalities relating to borrowings, shareholders' and other circulars, various other regulatory reports and work in respect of acquisitions and disposals.
- Tax consulting – in cases where they are best suited, we use the external auditors. All other significant tax consulting work is put out to tender.
- General consulting – in recognition of public concern over the effect of consulting services on auditors' independence, our policy is that the external auditors are not invited to tender for general consulting work where we believe it would compromise their audit independence and objectivity.

The split between audit and non-audit fees for the year ended 31st March 2010 and information on the nature of non-audit fees appear in note 5 on the accounts.

Internal Audit

During the year the Audit Committee reviewed the performance of the internal audit function, the findings of the audits completed during the year and the department's resource requirements and also approved the internal audit plan for the year ending 31st March 2011.

Internal audit independently reviews the risks and control processes operated by management. It carries out independent audits in accordance with an internal audit plan which is agreed with the Audit Committee before the start of the financial year.

The plan provides a high degree of financial and geographical coverage and devotes significant effort to the review of the risk management framework surrounding the major business risks.

Internal audit reports include recommendations to improve internal controls together with agreed management action plans to resolve the issues raised. Internal audit follows up the implementation of recommendations and reports progress to senior management and the Audit Committee.

The Audit Committee receives reports from the Head of Internal Audit on the department's work and findings.

The effectiveness of the internal audit function is reviewed and discussed on an annual basis with the Head of Internal Audit.

On behalf of the Committee:

Alan Thomson
Chairman of the Audit Committee

REMUNERATION REPORT

Remuneration Report to Shareholders

Management Development and Remuneration Committee and its Terms of Reference

The Management Development and Remuneration Committee of the board comprises all the independent non-executive directors of the company as set out on pages 38 and 39 and the group Chairman. The Chairman of the Committee throughout the year was Mr R J W Walvis.

The Committee's terms of reference include determination on behalf of the board of fair remuneration for the Chief Executive, the other executive directors and the group Chairman (in which case the group Chairman does not participate), which, while set in the context of what the company can reasonably afford, recognises their individual contributions to the company's overall performance. In addition, the Committee assists the board in ensuring that the current and future senior management of the group are recruited, developed and remunerated in an appropriate fashion. The Director of Human Resources, Mr I F Stephenson, acts as secretary to the Committee. The full terms of reference of the Committee are available on the company's website at www.matthey.com.

Non-executive directors' remuneration is determined by the board, within the limits prescribed by the company's Articles of Association. The remuneration consists of fees, which are set following advice taken from independent consultants and are reviewed at regular intervals.

Executive Remuneration Policy

The Committee believes strongly that remuneration policy should be closely aligned with shareholder interests. The Committee recognises that, in order to maximise shareholder value, it is necessary to have a competitive pay and benefits structure.

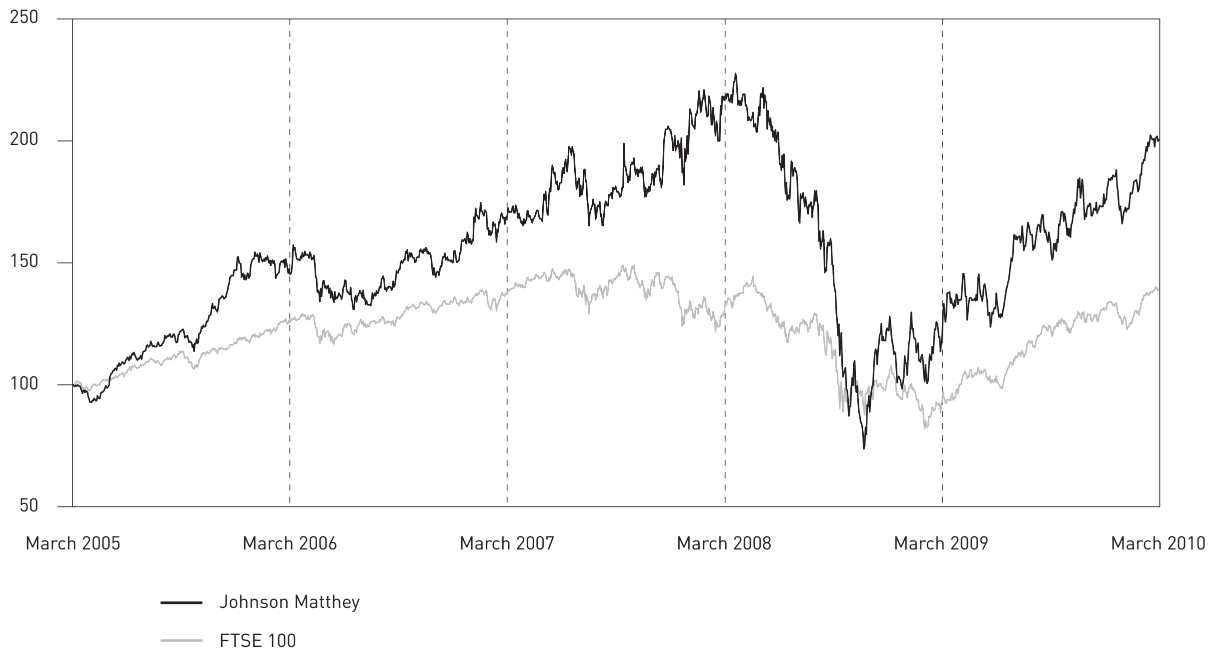
The Committee also recognises that there is a highly competitive market for successful executives and that the provision of appropriate rewards for superior performance is vital to the continued growth of the business. To assist with this, the Committee appoints and receives advice from independent remuneration consultants on the pay and incentive arrangements prevailing in comparably sized industrial companies in each country in which Johnson Matthey has operations. During the year, such advice was received from the Hay Group, which also provided advice on job evaluation, and PricewaterhouseCoopers LLP. PricewaterhouseCoopers LLP also provided expatriate tax advice and other tax advice, tax audit work, completion of overseas tax returns, advice on set up of new overseas operations and some overseas payroll services. A statement regarding the use of remuneration consultants for the year ended 31st March 2010 is available on the company's website at www.matthey.com. The Committee also receives recommendations from the Chief Executive on the remuneration of those reporting to him as well as advice from the Director of Human Resources. Total potential rewards are earned through the achievement of demanding performance targets based on measures that represent the best interests of shareholders.

The remuneration policy is normally reviewed by the Committee annually and a formal review is undertaken every three years. A triennial review was due to be held in 2009 but was delayed due to the uncertain market conditions at the time. It will be carried out in 2010, with any recommendations being implemented in 2011 subject to shareholder approval where necessary. Remuneration consists of basic salary, annual bonus, long term incentives and other benefits. Salaries are based on median market rates with incentives providing the opportunity for upper quartile total remuneration, but only for achieving outstanding performance.

To ensure the interests of the executive directors remain aligned with those of the shareholders, they are encouraged to build up over time and hold a shareholding in the company equal to at least their basic salary.

Johnson Matthey and FTSE 100 Total Shareholder Return rebased to 100

The following graph charts total cumulative shareholder return of the company for the five year period from 31st March 2005 to 31st March 2010 against the FTSE 100 as the most appropriate comparator group, rebased to 100 at 1st April 2005. Johnson Matthey was ranked 70th by market capitalisation in the FTSE 100 as at 31st March 2010.



Executive Remuneration

Executive directors' remuneration consists of the following:

- **Basic Salary** – which is in line with the median market salary for each director's responsibilities as determined by independent surveys. The remuneration comparator used by the Committee for executive directors other than the Chief Executive is the industrial and service sectors (excluding the oil and financial services sectors). In the case of the Chief Executive, the remuneration comparator group used by the Committee is based on FTSE 100 and 250 industrial companies (excluding the oil and financial services sectors) with market capitalisation of around £3 billion and with over 45% of revenue coming from overseas. Basic salary is normally reviewed on 1st August each year and the Committee takes into account individual performance and promotion during the year. Where an internal promotion takes place, the median salary relative to the market would usually be reached over a period of a few years, which can give rise to higher than normal salary increases while this is being achieved.
- **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 group's 190 or so most senior executives). The executive directors' bonus award is based on consolidated underlying profit before tax (PBT) compared with the annual budget. The Board of Directors rigorously reviews the annual budget to ensure that the budgeted PBT is sufficiently stretching. An annual bonus payment of 50% of basic salary (prevailing at 31st March) is paid if the group meets the annual budget. This bonus may rise on a straight line basis to a maximum 100% of basic salary if 110% of budgeted PBT is achieved. PBT must reach 95% of budget for a minimum bonus of 15% to be payable. The Committee has discretion to vary the awards made. The Committee has discretion in awarding annual bonuses and is able to consider corporate performance on environmental, social and governance issues when awards are made to executive directors. The Committee ensures that the incentive structure for senior management does not raise environmental, social and governance risks by inadvertently motivating irresponsible behaviour. The bonus awarded to executive directors for 2009/10 was 100% of basic salary at 31st March 2010 based on achieved PBT levels.
- **Long Term Incentive Plan (LTIP)** – which is designed to achieve above average performance and growth.

  Share allocations made in 2007 and onwards – share allocations made in 2007 and onwards are made under the terms of the Johnson Matthey Long Term Incentive Plan 2007 (which also applies to the group's 850 senior and middle managers). Shares are released on the third anniversary of the allocation date and are subject to an earnings per share (EPS) performance target. Although the plan allows share allocations of up to a maximum of 200% of basic annual salary each year (to take account of evolution of market practice if required), it is the Committee's current intention that allocations will be no higher than 150% of basic salary each year, which is considered appropriate based on current market conditions. Whilst it is intended that this level of allocation should normally only be made to the Chief Executive, the Committee approved an allocation of 170% of basic annual salary to the newly appointed Group Finance Director in 2009 to ensure close alignment of his objectives with those of the shareholders.

  The allocations in 2007 and in 2008 were 150% of basic annual salary for the Chief Executive and 120% for executive directors. The release of the share allocation is subject to the achievement of a performance target measured over a three year performance period commencing in the year of allocation. The performance target is based on the compound annual growth in the company's underlying EPS. The minimum release, of 15% of the allocation, requires underlying EPS growth of 6% compound per annum over the three year period. For the maximum release of 100% of the allocation, underlying EPS must have grown by at least 15% compound per annum over the three year performance period. The number of allocated shares released will vary on a straight line basis between these points. There is no retesting of the performance target and so allocations will lapse if underlying EPS growth is less than 6% compound per annum over the three year performance period.

  In 2009 the Committee approved an adjustment to the performance targets for one year only to reflect the market conditions prevailing at the time of allocation. The top ten major shareholders were consulted regarding this adjustment. For the 2009 allocation only, the minimum release, of 15% of the allocation, requires underlying EPS growth of 3% compound per annum over the three year period, with no retesting of the performance target. For the maximum release of 100% of the allocation, underlying EPS must have grown by at least 10% compound per annum over the three year performance period. As a result of this adjustment, the level of award was reduced to 120% of basic annual salary for the Chief Executive and 100% for executive directors (except for the newly appointed Group Finance Director as explained above).

  Although growth in underlying EPS is the primary financial measure, it is also a key objective of the company to achieve earnings growth only in the context of a good performance on return on invested capital (ROIC). As a result of this adjustment, the Committee is required to make an assessment of the group's ROIC over the performance period to ensure underlying EPS growth has been achieved with ROIC in line with the group's planned expectations. The Committee may scale back vesting to the extent that ROIC has not developed appropriately.

  Share allocations made prior to 2007 – Share allocations made prior to 2007 were made under the Johnson Matthey Long Term Incentive Plan which was established in 1998. The last allocation of shares under this plan was made in 2006 and these shares were released in 2009. No further allocations will be made under this plan. The allocations under this plan were subject to a relative total shareholder return (TSR) performance target. This compared the company's TSR over a three year performance period commencing in the year of allocation with that of a comparator group which comprised those companies placed 51-150 in the FTSE Index. All of the allocated shares were released if the company ranked in the 76th percentile or above. None of the shares were released if the company ranked in the 50th percentile or below. If the company ranked between these percentiles, 35% to 100% of the shares were released on a straight line basis. In addition, the company's EPS had to be at least equal to the increase in UK RPI plus 2% per annum over the three year performance period before any release was made. Shares were released on the third anniversary of the allocation date.
- **Share Options** – the Johnson Matthey Long Term Incentive Plan 2007 is now the company's single means for the provision of long term awards and from 2007 replaced the granting of share options under the Johnson Matthey 2001 Share Option Scheme (the 2001 Scheme). From 2001 to 2006 options were granted each year under the 2001 Scheme. There have been no option grants since 2006. Options were granted at the market value of the company's shares at the time of grant and were subject to performance targets over a three year period. Options may be exercised upon satisfaction of the relevant performance targets. Approximately 800 employees were granted options under the 2001 Scheme each year.

  Options granted from 2004 to 2006 – Grants made in 2004, 2005 and 2006 were subject to a three year performance target of EPS growth of UK RPI plus 3% per annum. If the performance target was not met at the end of the three year performance period, the options lapsed as there was no retesting of the performance target. In addition, to reduce the cost calculated under the International Financial Reporting Standard 2 – 'Share-based Payment', gains made on the exercise of options are capped at 100% of the grant price.

Executive Remuneration (continued)

The Committee had the discretion to award grants greater than 100% of basic annual salary. Grants which were made above this threshold were, however, subject to increasingly stretching performance targets. Grants between 100% and 125% of basic annual salary were subject to EPS growth of UK RPI plus 4% per annum and grants between 125% and 150% of basic annual salary were subject to EPS growth of UK RPI plus 5% per annum. The executive directors were granted options equal to 150% of basic annual salary. All the options, other than those granted in 2006 which were subject to EPS growth of UK RPI plus 5% per annum, have met their performance targets. The 2006 options which did not meet their performance targets have lapsed.

Options granted prior to 2004 – Prior to 2004, options granted to the executive directors under the 2001 Scheme were up to a maximum of 100% of basic annual salary each year. Such options were subject to a performance target of EPS growth of UK RPI plus 4% per annum over any three consecutive years during the life of the option. The performance target was subject to annual retesting until the lapse of the options on the tenth anniversary of grant. All of these options have met their performance targets.

There were also options outstanding under the Johnson Matthey 1995 UK and Overseas Executive Share Option Scheme. The last option grant under this scheme was made in 2000. All options were granted in annual tranches up to the maximum permitted of four times earnings and were subject to a performance target of EPS growth of UK RPI plus 2% over the three year performance period. Option grants were not made to executive directors in the years 1998, 1999 and 2000.

- **Pensions** – all the executive directors are members of the Johnson Matthey Employees Pension Scheme (JMEPS) in the UK.

  Full disclosure of the pension arrangements are set out on pages 55 to 56.

- **Other Benefits** – Other benefits available to the executive directors are private medical insurance, a company car and membership of the group's employee share incentive plans which are open to all employees in the countries in which the group operates such schemes.
- **Service Contracts** – The executive directors are employed on contracts subject to one year's notice at any time. On early termination of their contracts the directors would normally be entitled to 12 months' salary and benefits. The contracts of service of the executive directors and the terms and conditions of appointment of the non-executive directors are available for inspection at the company's registered office during normal business hours and at the forthcoming Annual General Meeting.

Former Directors

Dr P N Hawker and Messrs D W Morgan and J N Sheldrick left during the year.

Dr Hawker stepped down from the board on 21st July 2009 and his employment ceased on 31st July 2009. He received compensation for loss of office in accordance with his service contract of £443,000 and statutory redundancy payment of £10,000. Of this amount, £205,860 was paid into the pension scheme.

Mr Morgan stepped down from the board on 21st July 2009 and his employment ceased on 31st July 2009. He received compensation for loss of office in accordance with his service contract of £359,000, accrued holiday pay of £13,000, statutory redundancy payment of £8,000 and an additional year's credit into the pension scheme. To account for the credit in respect of this additional year's service, the compensation for loss of office payment was reduced by £23,000.

Mr Sheldrick retired on 7th September 2009 at the normal retirement age for directors of 60.

Directors' Emoluments 2009/10

	Date of service agreement	Date of appointment	Base salary £'000	Payment in lieu of pension (1) £'000	Annual bonus £'000	Benefits £'000	Compensation for loss of office £'000	Total excluding pension £'000	Total prior year excluding pension £'000
Executive									
N A P Carson	1.8.99	1.8.99	700	175	700	21	–	1,596	979
R J MacLeod (2)	3.2.09	22.6.09	294	–	285	12	–	591	–
L C Pentz (3)	1.1.06	1.8.03	365	–	365	57	–	787	434
W F Sandford (4)	21.7.09	21.7.09	209	52	200	10	–	471	–
Total Continuing Directors			**1,568**	**227**	**1,550**	**100**	**–**	**3,445**	**1,413**
P N Hawker (5)	1.8.03	1.8.03	113	28	113	8	453	715	487
D W Morgan (6)	1.8.99	1.8.99	112	–	112	9	380	613	405
J N Sheldrick (7)	24.11.97	3.9.90	194	48	185	6	–	433	626
Total Former Directors			**419**	**76**	**410**	**23**	**833**	**1,761**	**1,518**
Total			**1,987**	**303**	**1,960**	**123**	**833**	**5,206**	**2,931**

Directors' Emoluments 2009/10 (continued)

	Date of letter of appointment	Date of appointment	Fees £'000	Total excluding pension £'000	Total prior year excluding pension [11] £'000
Non-Executive [8]					
Sir John Banham (Chairman)	10.12.05	1.1.06	280	280	270
Sir Thomas Harris	22.1.09	1.4.09	45	45	–
M J Roney	29.3.07	1.6.07	45	45	45
D C Thompson	22.5.07	1.9.07	45	45	45
A M Thomson	1.8.02	24.9.02	50[9]	50	50
R J W Walvis	1.8.02	24.9.02	50[10]	50	50
Total			**515**	**515**	**460**

The aggregate amount of remuneration paid or receivable to directors and non-executive directors totalled £5,721,000 (2009 £3,436,000).

Notes

(1) Messrs Carson and Sandford and Dr Hawker ceased to accrue pensionable service in the Johnson Matthey Employees Pension Scheme with effect from 31st March 2006 and Mr Sheldrick did so with effect from 31st March 2008. They received an annual cash payment in lieu of pension equal to 25% of basic salary. This is taxable under the PAYE system.

(2) Mr MacLeod's emoluments relate to the period from 22nd June 2009 to 31st March 2010. Mr MacLeod is a non-executive director of Aggreko plc. His fees for the period from 22nd June 2009 to 31st March 2010 in respect of this non-executive directorship were £37,200. This amount is excluded from the table above and retained by him.

(3) Mr Pentz is a non-executive director of Victrex plc. His fees for the year in respect of this non-executive directorship were £41,000. This amount is excluded from the table above and retained by him.

(4) Mr Sandford's emoluments relate to the period from 21st July 2009 to 31st March 2010.

(5) Dr Hawker stepped down from the board on 21st July 2009 and his employment ceased on 31st July 2009. Compensation for loss of office was in accordance with his service contract.

(6) Mr Morgan stepped down from the board on 21st July 2009 and his employment ceased on 31st July 2009. Compensation for loss of office was in accordance with his service contract.

(7) Mr Sheldrick retired on 7th September 2009 at normal retirement age for executive directors of 60.

(8) Non-executive fees (other than for the Chairman) were reviewed on 1st May 2007 for the period from 1st April 2007 to 31st March 2010. The fees are £45,000 per annum, with the fee for chairmanship of committees being £5,000 per annum. The Chairman and the non-executive directors do not receive any pension benefits, LTIP allocations, share option grants or bonus payments. The Chairman's fees include £25,000 per annum to cover his administrative and secretarial support costs.

(9) Includes £5,000 per annum for chairmanship of the Audit Committee.

(10) Includes £5,000 per annum for chairmanship of the Management Development and Remuneration Committee.

(11) Excludes the emoluments of Mr I C Strachan who retired on 31st March 2009. His emoluments were £45,000 bringing the total to £505,000.

Directors' Interests

The interests (in respect of which transactions are notifiable to the company under the Financial Services Authority's Disclosure and Transparency Rules) of the directors as at 31st March 2010 in the shares of the company were:

1. Ordinary Shares

	31st March 2010	31st March 2009
Sir John Banham	18,400	18,400
N A P Carson	174,027	143,258
Sir Thomas Harris	1,180	500[1]
R J MacLeod	3,400	400[1]
L C Pentz	24,968	19,464
M J Roney	3,000	3,000
W F Sandford	4,839	1,644[1]
D C Thompson	9,721	9,721
A M Thomson	2,383	2,323
R J W Walvis	1,000	1,000

(1) At date of appointment.

All of the above interests were beneficial. The executive directors are also deemed to be interested in shares held by an employee share ownership trust (see note 32 on page 100).

Directors' interests as at 31st May 2010 were unchanged from those listed above, other than that the trustees of the Johnson Matthey Share Incentive Plan have purchased on behalf of Messrs Carson, Pentz and Sandford a further 45 shares each. In addition, Mr Carson has acquired 1 share through his automatic quarterly PEP reinvestment.

Directors' Interests (continued)

2. Share Options

As at 31st March 2010, individual holdings by the directors under the company's executive share option schemes were as set out below. Options are not granted to 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
Continuing Directors:						
N A P Carson	18.7.01	19,391	1,083.00	18.7.04	18.7.11	
	17.7.02	28,901	865.00	17.7.05	17.7.12	
	17.7.03	33,407	898.00	17.7.06	17.7.13	
	20.7.05	77,102	1,070.00	20.7.08	20.7.15	
	26.7.06	59,481	1,282.00	26.7.09	26.7.16	218,282
						(2009 248,214)
L C Pentz	18.7.01	12,952	1,083.00	18.7.04	18.7.11	
	17.7.02	17,730	865.00	17.7.05	17.7.12	
	17.7.03	17,185	898.00	17.7.06	17.7.13	
	20.7.05	37,850	1,070.00	20.7.08	20.7.15	
	26.7.06	28,765	1,282.00	26.7.09	26.7.16	114,482
						(2009 145,617)
W F Sandford	26.7.06	18,868	1,282.00	26.7.09	26.7.16	18,868
						(2009 18,868)[1]
Former Directors:						
P N Hawker	20.7.05	37,850	1,070.00	20.7.08	20.7.15	
	26.7.06	34,518	1,282.00	26.7.09	26.7.16	72,368[2]
						(2009 72,368)
D W Morgan	18.7.01	18,098	1,083.00	18.7.04	18.7.11	
	17.7.02	25,433	865.00	17.7.05	17.7.12	
	17.7.03	26,726	898.00	17.7.06	17.7.13	
	20.7.05	39,252	1,070.00	20.7.08	20.7.15	
	26.7.06	35,104	1,282.00	26.7.09	26.7.16	144,613[3]
						(2009 144,613)
J N Sheldrick	18.7.01	25,854	1,083.00	18.7.04	18.7.11	
	17.7.02	34,682	865.00	17.7.05	17.7.12	
	17.7.03	36,191	898.00	17.7.06	17.7.13	
	20.7.05	52,570	1,070.00	20.7.08	20.7.15	
	26.7.06	39,003	1,282.00	26.7.09	26.7.16	188,300[4]
						(2009 196,101)

Notes

[1] At date of appointment.

[2] At date ceased to be a director (21st July 2009). In accordance with the rules of the 2001 Scheme, Dr Hawker was permitted to retain his options upon cessation of his employment and was given six months from the date of his cessation of employment in which to exercise them, subject to the relevant performance targets being met. Dr Hawker has subsequently exercised all his remaining options (66,615 in total).

[3] At date ceased to be a director (21st July 2009). In accordance with the rules of the 2001 Scheme, Mr Morgan was permitted to retain his options upon cessation of his employment and was given six months from the date of his cessation of employment in which to exercise them, subject to the relevant performance targets being met. Mr Morgan has subsequently exercised all his remaining options (138,762 in total).

[4] At date of retirement as a director (7th September 2009). In accordance with the rules of the 2001 Scheme, Mr Sheldrick was permitted to retain his options upon his retirement and was given six months from the date of his retirement in which to exercise them. Mr Sheldrick has subsequently exercised all his remaining options.

Directors' Interests (continued)

2. Share Options (continued)

Between 1st April 2009 and 31st March 2010 the following options were exercised by directors and former directors:

	Date of grant	Date of exercise	Options exercised	Exercise price (pence)	Market price on exercise (pence)
Continuing Directors:					
N A P Carson	22.7.99	12.6.09	18,035	585.50	1,228.32
L C Pentz	22.7.99	5.6.09	12,158	585.50	1,224.00
	17.7.03	10.6.09	5,000	898.00	1,232.00
	19.7.00	1.12.09	8,224	942.00	1,500.00
Former Directors:					
P N Hawker	20.7.05	16.10.09	37,850	1,070.00	1,474.04
	26.7.06	16.10.09	28,765	1,282.00	1,474.04
D W Morgan	17.7.02	17.12.09	21,965	865.00	1,519.00
	17.7.03	18.12.09	26,726	898.00	1,504.30
	20.7.05	30.12.09	6,542	1,070.00	1,530.00
	20.7.05	5.1.10	6,542	1,070.00	1,579.00
	20.7.05	8.1.10	26,168	1,070.00	1,595.00
	18.7.01	15.1.10	18,098	1,083.00	1,620.25
	17.7.02	15.1.10	3,468	865.00	1,613.00
	26.7.06	19.1.10	15,000	1,282.00	1,623.70
	26.7.06	29.1.10	8,402	1,282.00	1,466.50
	26.7.06	29.1.10	5,851	1,282.00	1,460.00
J N Sheldrick	17.7.02	17.9.09	3,468	865.00	1,494.00
	17.7.02	17.9.09	31,214	865.00	1,486.05
	17.7.03	20.10.09	36,191	898.00	1,501.00
	20.7.05	11.11.09	8,761	1,070.00	1,525.00
	20.7.05	12.11.09	8,761	1,070.00	1,530.00
	20.7.05	13.11.09	10,000	1,070.00	1,550.00
	20.7.05	16.11.09	25,048	1,070.00	1,575.00
	18.7.01	18.11.09	10,000	1,083.00	1,620.00
	18.7.01	10.2.10	15,854	1,083.00	1,520.00
	26.7.06	11.2.10	16,202	1,282.00	1,573.00
	26.7.06	1.3.10	15,000	1,282.00	1,612.00
	26.7.06	2.3.10	7,801	1,282.00	1,635.00

Gains made on exercise of options by the directors (including amounts after they ceased to be directors) during the year totalled £2,106,852 (2009 £208,496).

The closing market price of the company's shares at 31st March 2010 was 1,746 pence. The highest and lowest closing market prices during the year ended 31st March 2010 were 1,761 pence and 1,070 pence respectively.

Between 1st April 2009 and 31st March 2010 the following options lapsed as the relevant performance target was not met:

	Date of grant	Date of lapse	Options lapsed
Continuing Directors:			
N A P Carson	26.7.06	26.7.09	11,897
L C Pentz	26.7.06	26.7.09	5,753
W F Sandford	26.7.06	26.7.09	3,774
Former Directors:			
P N Hawker	26.7.06	26.7.09	5,753
D W Morgan	26.7.06	26.7.09	5,851
J N Sheldrick	26.7.06	26.7.09	7,801

Directors' Interests (continued)

3. LTIP Allocations

Share allocations made prior to 2007

Number of allocated shares:

	As at 31st March 2009	Shares released during the year	Allocations lapsed during the year	As at 31st March 2010
Continuing Directors:				
N A P Carson	56,148	42,112	14,036	–
L C Pentz	21,723	16,292	5,431	–
W F Sandford	12,665 [(1)]	9,499	3,166	–
Former Directors:				
P N Hawker	21,723	16,292	5,431	–
D W Morgan	22,091	16,568	5,523	–
J N Sheldrick	29,455	22,092	7,363	–

(1) At date of appointment.

On 3rd August 2009 shares allocated in 2006 (at an allocation price of 1,358 pence) under the LTIP were released to participants. The release of this allocation was subject to the achievement of a relative TSR performance target, further details of which can be found on page 49. The company's TSR performance relative to the comparator group qualified for a release of 75% of the allocated shares. This resulted in the following gains:

	Number of shares released	Share price when released (pence)	Gain £
Continuing Directors:			
N A P Carson	42,112	1,401.619	590,250
L C Pentz	16,292	1,401.619	228,352
W F Sandford	9,499	1,401.619	133,140
Former Directors:			
P N Hawker	16,292	1,401.619	228,352
D W Morgan	16,568	1,401.619	232,220
J N Sheldrick	22,092	1,401.619	309,646
Total			**1,721,960**

Share allocations made under the Johnson Matthey Long Term Incentive Plan 2007

Number of allocated shares:

	As at 31st March 2009	Allocations during the year	Market price at date of allocation (pence)	Lapsed during the year	As at 31st March 2010 [(2)]
Continuing Directors:					
N A P Carson	112,943	71,611	1,173.00	–	184,554
R J MacLeod	– [(1)]	55,072	1,173.00	–	55,072
L C Pentz	44,180	31,116	1,173.00	–	75,296
W F Sandford	30,586 [(1)]	25,575	1,173.00	–	56,161
Former Directors:					
P N Hawker	44,180	–	–	21,710	22,470
D W Morgan	43,858	–	–	21,497	22,361
J N Sheldrick	58,017	37,936	1,173.00	62,772	33,181

Notes

(1) At date of appointment.

(2) Under the rules of the Johnson Matthey Long Term Incentive Plan 2007, Dr Hawker, Mr Morgan and Mr Sheldrick have retained their share allocations. These will be released on the normal release dates (the third anniversary of the allocation dates) subject to the performance targets over the whole of the performance periods. The extent to which the allocations will be released is subject to pro rating based on the time which has elapsed from the allocation dates to the dates of cessation of employment / retirement.

Pensions

Pensions and life assurance benefits for the executive directors are currently provided through the company's occupational pension scheme for UK employees – the Johnson Matthey Employees Pension Scheme (JMEPS) – which is constituted under a separate Trust Deed. JMEPS is an exempt approved scheme under Chapter I of Part XIV of the Income & Corporation Taxes Act 1988. It is also a registered scheme for the purposes of the Finance Act 2004.

All pension accruals under the final salary sections of JMEPS ceased on 31st March 2010. From 1st April 2010, retirement benefits for UK employees are being provided through a defined benefit career average salary pension arrangement (called the Johnson Matthey Pension Plan – JMPP). This includes executive directors whose benefits do not exceed the Life Time Allowance. JMPP is a subsidiary section of JMEPS. Defined benefits based on career average salaries are non-contributory. Members may pay contributions to a defined contribution account and the company will match contributions up to 3% of pensionable pay contributed each year.

Executive directors whose retirement benefits are valued in excess of the Life Time Allowance may withdraw from pensionable service and receive instead a supplemental payment of 25% of basic salary each year. Mr Carson, Dr Hawker and Mr Sandford withdrew from pensionable service and ceased paying member contributions on 31st March 2006 and Mr Sheldrick did so on 31st March 2008. No pensionable service in JMEPS has been accrued by these directors since those dates. The change in accrued pensions for these directors in the tables below is attributable solely to the increase in basic salary in 2009/10 and the effect of negative inflation. The supplemental payments received by Mr Carson, Dr Hawker, Mr Sandford and Mr Sheldrick are reflected in the table on page 50. The payments for Dr Hawker and Mr Sheldrick ceased when they left employment on 31st July 2009 and 7th September 2009 respectively.

Member contributions paid by executive directors to the final salary sections of JMEPS increased from 6% to 7% with effect from 1st April 2009.

Disclosure of directors' pension benefits has been made under the requirements of the United Kingdom Listing Authority Listing Rules and in accordance with the Directors' Remuneration Report Regulations 2002. The information below sets out the disclosures under the two sets of requirements.

a. United Kingdom Listing Authority Listing Rules

	Age as at 31st March 2010	Years of JMEPS pensionable service at 31st March 2010	Directors' contributions to JMEPS during the year (1,2) £'000	Increase in accrued pension during the year (net of inflation) (3) £'000 pa	Total accrued pension as at 31st March 2010 (4) £'000 pa	Total accrued pension as at 31st March 2009 £'000 pa	Transfer value of increase in accrued pension (less directors' contributions) (5) £'000
Continuing Directors:							
N A P Carson	52	25	–	5	329	329	69
R J MacLeod (2)	45	1	–	4	4	–	27
L C Pentz (6)	54	25	26	11	83	76	148
W F Sandford	56	28	–	23	155	135	399
Former Directors:							
P N Hawker (7,9)	56	20	–	1	160	160	13
D W Morgan (8,9)	52	20	8	13	77	65	173
J N Sheldrick (10)	60	17	–	4	73	69	89

b. Directors' Remuneration Report Regulations 2002

	Directors' contributions to JMEPS in the year (1,2) £'000	Increase in accrued pension in the year £'000 pa	Total accrued pension as at 31st March 2010 (4) £'000 pa	Transfer value of accrued pension as at 31st March 2010 (5) £'000	Transfer value of accrued pension as at 31st March 2009 (5) £'000	Increase in transfer value (net of directors' contributions) £'000
Continuing Directors:						
N A P Carson	–	–	329	4,952	3,921	1,031
R J MacLeod (2)	–	4	4	27	–	27
L C Pentz (6)	26	10	83	1,052	805	227
W F Sandford	–	20	155	2,734	2,005	729
Former Directors:						
P N Hawker (7,9)	–	–	160	2,712	2,421	291
D W Morgan (8,9)	8	12	77	1,090	730	352
J N Sheldrick (10)	–	4	73	1,503	1,310	193

Pensions (continued)

Notes

(1) With the exception of Mr MacLeod who accrued benefits under JMPP, member contributions to the final salary section of JMEPS were paid at the general scheme rate of 7% of pensionable pay.

(2) Mr MacLeod joined JMPP when he was appointed to the board on 22nd June 2009 and has paid voluntary contributions of 3% of pensionable pay to the defined contribution arrangement. In accordance with JMPP rules, the company paid a matching contribution of £8,550 into his defined contribution account.

(3) The disclosure regulations require the pension accrued to the end of the previous year to be adjusted for inflation. In a period of negative inflation, this adjustment effectively reduces the previous year's accrued pension. For example, in the case of Mr Carson for whom there was no change in pensionable salary or service during the year, the increase in accrued pension is entirely due to the effect of negative inflation. Inflation was -1.4% for the year to 30th September 2009 as prescribed by the Revaluation Order (SI 2008 No. 3070) issued under the Pensions Schemes Act 1993.

(4) The entitlement shown under 'Total accrued pension at 31st March 2010' is the pension which would be paid annually from normal retirement, based on pensionable service to 31st March 2010 (except in the case of Messrs Carson and Sandford whose pensionable service ceased on 31st March 2006). The pension would be subject to an actuarial reduction for each month that retirement precedes age 60.

(5) The transfer values have been calculated on the basis of actuarial advice in accordance with the transfer value regulations. No allowance has been made in the transfer values for any discretionary benefits that have been or may be awarded under JMEPS. The transfer value in the United Kingdom Listing Authority Listing Rules is the value of the increase (net of inflation) in the accrued pension as at 31st March 2010. The transfer values in the Directors' Remuneration Report Regulations 2002 have been calculated at the start and the end of the year and, therefore, also take account of market movements.

(6) Mr Pentz is a US citizen but became a member of JMEPS on 1st January 2006. Prior to that he was a member of the Johnson Matthey Inc. Salaried Employees Pension Plan (a non-contributory defined benefit arrangement) and a US savings plan (401k). He also has benefits in a Senior Executive Retirement Plan. The pension values reported above are the aggregate for his separate membership of the UK and US pension schemes and the Senior Executive Retirement Plan. US entitlements have been converted to sterling by reference to exchange rates on 31st March 2009 and 31st March 2010. Mr Pentz's US pension was fixed on 31st December 2005. The sterling equivalent of it has fluctuated over the year as a result of exchange rate movements. This is reflected in the transfer values.

(7) Dr Hawker stepped down from the board on 21st July 2009 and his employment ceased on 31st July 2009. He chose to draw his retirement benefits immediately with effect from 1st August 2009 and his pension was reduced appropriately to take account of early retirement. Dr Hawker's pensionable service stopped on 31st March 2006 and the increase in pension is attributable only to an increase in basic salary. The company made an additional payment into JMEPS of £205,860 on a defined contribution basis.

(8) Mr Morgan stepped down from the board on 21st July 2009 and his employment ceased on 31st July 2009. He has not drawn his retirement benefits, but holds a deferred pension in the scheme. In lieu of a contractual bonus earned in 2008/09, the company made an additional payment into JMEPS of £50,250 on a defined contribution basis.

(9) Any tax liability arising out of regulations under the Finance Act 2009 that may become chargeable on the additional payments for Dr Hawker and Mr Morgan is the responsibility of these individuals.

(10) Mr Sheldrick retired from the board at his normal retirement date, age 60, on 7th September 2009 and payment of his pension started from that date. As his pensionable service stopped on 31st March 2008, the increase in pension is attributable only to an increase in basic salary.

The Remuneration Report was approved by the Board of Directors on 2nd June 2010 and signed on its behalf by:

Robert Walvis
Chairman of the Management Development and Remuneration Committee

RESPONSIBILITY OF DIRECTORS

Statement of Directors' Responsibilities in Respect of the Annual Report and Accounts

The directors are responsible for preparing the Annual Report and the group and parent company accounts in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company accounts for each financial year. Under that law they are required to prepare the group accounts in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and applicable law and have elected to prepare the parent company accounts on the same basis.

Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the EU; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its accounts comply with the Companies Act 2006. 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.

Under applicable law and regulations the directors are also responsible for preparing a directors' report, directors' Remuneration Report and Corporate Governance statement that comply with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of accounts may differ from legislation in other jurisdictions.

Responsibility Statement of the Directors in Respect of the Annual Report and Accounts

Each of the directors as at the date of the Annual Report and Accounts, whose names and functions are set out on pages 38 and 39, confirms that to the best of their knowledge:

- the group and parent company accounts, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the management report (which comprises the Report of the Directors) includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

This responsibility statement was approved by the Board of Directors on 2nd June 2010 and is signed on its behalf by:

Sir John Banham
Chairman

CONSOLIDATED INCOME STATEMENT

for the year ended 31st March 2010

	Notes	2010 £ million	2009 £ million
Revenue	1,2	**7,839.4**	7,847.8
Cost of sales		**(7,325.4)**	(7,324.3)
Gross profit		**514.0**	523.5
Distribution costs		**(103.6)**	(101.2)
Administrative expenses		**(138.6)**	(123.8)
Major impairment and restructuring charges	3	**(11.3)**	(9.4)
Amortisation of acquired intangibles	4	**(9.9)**	(9.1)
Operating profit	1,6	**250.6**	280.0
Finance costs	7	**(30.5)**	(43.3)
Finance income	8	**11.1**	10.7
Share of profit of associate	19	**1.7**	2.0
Dissolution of associate	19	**(4.4)**	–
Profit before tax		**228.5**	249.4
Income tax expense	9	**(64.3)**	(76.7)
Profit for the year from continuing operations		**164.2**	172.7
Profit for the year from discontinued operations	41	**–**	1.2
Profit for the year		**164.2**	173.9
Attributable to:			
Equity holders of the parent company		**164.2**	174.1
Minority interests		**–**	(0.2)
		164.2	173.9

		pence	pence
Earnings per ordinary share attributable to the equity holders of the parent company			
Continuing operations			
Basic	11	**77.6**	82.0
Diluted	11	**77.3**	81.5
Total			
Basic	11	**77.6**	82.6
Diluted	11	**77.3**	82.1

CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME

for the year ended 31st March 2010

	Notes	2010 £ million	2009 £ million
Profit for the year		**164.2**	173.9
Other comprehensive income:			
Currency translation differences	33	**(5.7)**	190.0
Cash flow hedges	33	**27.0**	(19.9)
Fair value gains / (losses) on net investment hedges		**32.8**	(146.9)
Actuarial loss on post-employment benefits assets and liabilities	14	**(124.6)**	(156.7)
Share of other comprehensive income of associate		**0.2**	(0.2)
Tax on above items taken directly to or transferred from equity	34	**34.1**	64.3
Other comprehensive expense for the year		**(36.2)**	(69.4)
Total comprehensive income for the year		**128.0**	104.5
Attributable to:			
Equity holders of the parent company		**127.9**	104.1
Minority interests		**0.1**	0.4
		128.0	104.5

The notes on pages 68 to 107 form an integral part of the accounts.

CONSOLIDATED AND PARENT COMPANY BALANCE SHEETS

as at 31st March 2010

	Notes	Group 2010 £ million	Group 2009 £ million	Parent company 2010 £ million	Parent company 2009 £ million
Assets					
Non-current assets					
Property, plant and equipment	*15*	**921.6**	924.7	**245.3**	258.0
Goodwill	*16*	**513.8**	516.0	**110.5**	132.4
Other intangible assets	*17*	**131.6**	135.8	**6.3**	6.3
Investments in subsidiaries	*18*	**–**	–	**1,518.7**	1,303.8
Investment in associate	*19*	**3.4**	5.8	**–**	–
Deferred income tax assets	*31*	**57.1**	27.5	**49.1**	18.2
Available-for-sale investments	*20*	**7.5**	6.3	**–**	–
Swaps related to borrowings	*26*	**19.3**	28.8	**19.3**	28.8
Other receivables	*23*	**3.1**	5.0	**466.4**	315.4
Post-employment benefits net assets	*14*	**4.6**	2.2	**–**	–
Total non-current assets		**1,662.0**	1,652.1	**2,415.6**	2,062.9
Current assets					
Inventories	*21*	**390.1**	371.7	**101.2**	114.0
Current income tax assets		**12.9**	41.5	**–**	27.5
Trade and other receivables	*23*	**639.3**	500.2	**637.5**	767.1
Cash and cash equivalents – cash and deposits	*26*	**179.1**	115.2	**88.4**	33.6
Swaps related to borrowings	*26*	**–**	1.9	**–**	1.9
Other financial assets	*28*	**6.5**	5.7	**9.0**	8.2
Assets classified as held for sale	*25*	**–**	6.0	**–**	6.0
Total current assets		**1,227.9**	1,042.2	**836.1**	958.3
Total assets		**2,889.9**	2,694.3	**3,251.7**	3,021.2
Liabilities					
Current liabilities					
Trade and other payables	*24*	**(527.2)**	(508.1)	**(1,372.0)**	(1,291.8)
Current income tax liabilities		**(91.0)**	(47.4)	**(17.9)**	–
Cash and cash equivalents – bank overdrafts	*26*	**(14.7)**	(15.4)	**(10.3)**	(38.6)
Other borrowings and finance leases	*26*	**(98.8)**	(36.1)	**(84.7)**	(21.2)
Other financial liabilities	*27*	**(8.0)**	(32.9)	**(9.2)**	(33.7)
Provisions	*30*	**(8.7)**	(8.8)	**(0.4)**	(2.2)
Total current liabilities		**(748.4)**	(648.7)	**(1,494.5)**	(1,387.5)
Non-current liabilities					
Borrowings and finance leases	*26*	**(558.3)**	(628.8)	**(551.7)**	(621.4)
Deferred income tax liabilities	*31*	**(56.5)**	(70.3)	**–**	–
Employee benefits obligations	*14*	**(250.3)**	(153.8)	**(171.5)**	(57.4)
Provisions	*30*	**(19.6)**	(14.3)	**(9.5)**	(6.6)
Other payables	*24*	**(6.0)**	(2.3)	**–**	(175.5)
Total non-current liabilities		**(890.7)**	(869.5)	**(732.7)**	(860.9)
Total liabilities		**(1,639.1)**	(1,518.2)	**(2,227.2)**	(2,248.4)
Net assets		**1,250.8**	1,176.1	**1,024.5**	772.8
Equity					
Share capital	*32*	**220.7**	220.7	**220.7**	220.7
Share premium account		**148.3**	148.3	**148.3**	148.3
Shares held in employee share ownership trust (ESOT)		**(30.7)**	(61.8)	**(30.7)**	(61.8)
Other reserves	*35*	**73.4**	18.5	**0.2**	(19.5)
Retained earnings		**837.7**	849.6	**686.0**	485.1
Total equity attributable to equity holders of the parent company		**1,249.4**	1,175.3	**1,024.5**	772.8
Minority interests		**1.4**	0.8	**–**	–
Total equity		**1,250.8**	1,176.1	**1,024.5**	772.8

The accounts were approved by the Board of Directors on 2nd June 2010 and signed on its behalf by:

N A P Carson
R J MacLeod Directors

The notes on pages 68 to 107 form an integral part of the accounts.

CONSOLIDATED AND PARENT COMPANY CASH FLOW STATEMENTS

for the year ended 31st March 2010

	Notes	Group 2010 £ million	Group 2009 £ million	Parent company 2010 £ million	Parent company 2009 restated £ million
Cash flows from operating activities					
Profit before tax		**228.5**	249.4	**376.9**	49.0
Adjustments for:					
Share of profit in associate	19	**(1.7)**	(2.0)	**–**	–
Dissolution of associate	19	**4.4**	–	**–**	–
Discontinued operations	41	**–**	0.9	**–**	–
Depreciation, amortisation, impairment losses and profit on sale of non-current assets and investments		**140.3**	110.3	**41.2**	69.1
Share-based payments		**4.7**	–	**4.2**	–
(Increase) / decrease in inventories		**(22.1)**	80.1	**12.0**	(54.2)
(Increase) / decrease in receivables		**(123.1)**	215.9	**(53.9)**	685.0
Increase / (decrease) in payables		**47.1**	(91.8)	**(90.7)**	198.1
Increase / (decrease) in provisions		**2.5**	6.3	**1.1**	(13.9)
Employee benefit obligations charge less contributions		**(24.9)**	(9.0)	**(7.9)**	(10.1)
Changes in fair value of financial instruments		**1.3**	(6.0)	**1.6**	(5.1)
Dividends received from subsidiaries		**–**	–	**(276.8)**	(56.0)
Net finance costs		**19.4**	32.6	**(11.5)**	14.9
Income tax (paid) / received		**(0.7)**	(85.3)	**41.1**	(25.8)
Net cash inflow from operating activities		**275.7**	501.4	**37.3**	851.0
Cash flows from investing activities					
Dividends received from associate	19	**0.6**	–	**–**	–
Dividends received from subsidiaries		**–**	–	**276.8**	56.0
Purchases of non-current assets and investments	36	**(131.8)**	(209.3)	**(239.8)**	(1,004.9)
Proceeds from sale of non-current assets and investments		**0.3**	0.2	**–**	–
Purchases of businesses and minority interests	36	**(5.7)**	(8.2)	**–**	–
Net proceeds from sale of businesses and minority interests	36	**–**	17.6	**56.3**	187.6
Net cash (outflow) / inflow from investing activities		**(136.6)**	(199.7)	**93.3**	(761.3)
Cash flows from financing activities					
Net proceeds on ESOT transactions in own shares	36	**18.4**	0.8	**18.4**	0.8
Proceeds from / (repayment of) borrowings and finance leases	36	**30.1**	(48.6)	**31.9**	(7.7)
Dividends paid to equity holders of the parent company	10	**(78.4)**	(78.1)	**(78.4)**	(78.1)
Settlement of currency swaps for net investment hedging		**(25.3)**	(93.9)	**(25.3)**	–
Proceeds from minority interest on share issue		**0.3**	–	**–**	–
Interest paid		**(31.5)**	(42.7)	**(46.7)**	(84.0)
Interest received		**10.4**	9.0	**52.6**	69.2
Net cash outflow from financing activities		**(76.0)**	(253.5)	**(47.5)**	(99.8)
Increase / (decrease) in cash and cash equivalents in the year		**63.1**	48.2	**83.1**	(10.1)
Exchange differences on cash and cash equivalents		**1.5**	13.1	**–**	–
Cash and cash equivalents at beginning of year		**99.8**	38.5	**(5.0)**	5.1
Cash and cash equivalents at end of year	37	**164.4**	99.8	**78.1**	(5.0)

	Notes	Group 2010 £ million	Group 2009 £ million	Parent company 2010 £ million	Parent company 2009 restated £ million
Reconciliation to net debt					
Increase / (decrease) in cash and cash equivalents in the year		**63.1**	48.2	**83.1**	(10.1)
(Proceeds from) / repayment of borrowings and finance leases		**(30.1)**	48.6	**(31.9)**	7.7
Change in net debt resulting from cash flows		**33.0**	96.8	**51.2**	(2.4)
Exchange differences on net debt		**28.0**	(20.8)	**26.7**	(0.1)
Movement in net debt in year		**61.0**	76.0	**77.9**	(2.5)
Net debt at beginning of year		**(534.4)**	(610.4)	**(616.9)**	(614.4)
Net debt at end of year	26	**(473.4)**	(534.4)	**(539.0)**	(616.9)

The notes on pages 68 to 107 form an integral part of the accounts.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31st March 2010

	Share capital £ million	Share premium account £ million	Shares held in ESOT £ million	Other reserves (note 35) £ million	Retained earnings £ million	Total attributable to equity holders £ million	Minority interests £ million	Total equity £ million
At 1st April 2008	220.7	148.3	(68.6)	(20.6)	879.1	1,158.9	1.4	1,160.3
Profit / (loss) for the year	–	–	–	–	174.1	174.1	(0.2)	173.9
Actuarial loss on post-employment benefits	–	–	–	–	(156.7)	(156.7)	–	(156.7)
Cash flow hedges	–	–	–	(19.9)	–	(19.9)	–	(19.9)
Associate’s cash flow hedges	–	–	–	(0.2)	–	(0.2)	–	(0.2)
Net investment hedges	–	–	–	(146.9)	–	(146.9)	–	(146.9)
Currency translation differences	–	–	–	189.4	–	189.4	0.6	190.0
Tax on other comprehensive income	–	–	–	16.7	47.6	64.3	–	64.3
Total comprehensive income	–	–	–	39.1	65.0	104.1	0.4	104.5
Dividends paid (note 10)	–	–	–	–	(78.1)	(78.1)	(0.4)	(78.5)
Purchase of shares for ESOT	–	–	(2.6)	–	–	(2.6)	–	(2.6)
Purchase of minority interest	–	–	–	–	(4.6)	(4.6)	(0.6)	(5.2)
Share-based payments	–	–	–	–	5.6	5.6	–	5.6
Cost of shares transferred to employees	–	–	9.4	–	(11.6)	(2.2)	–	(2.2)
Tax on share-based payments	–	–	–	–	(5.8)	(5.8)	–	(5.8)
At 31st March 2009	220.7	148.3	(61.8)	18.5	849.6	1,175.3	0.8	1,176.1
Profit for the year	–	–	–	–	164.2	164.2	–	164.2
Actuarial loss on post-employment benefits	–	–	–	–	(124.6)	(124.6)	–	(124.6)
Cash flow hedges	–	–	–	27.0	–	27.0	–	27.0
Associate’s cash flow hedges	–	–	–	0.2	–	0.2	–	0.2
Net investment hedges	–	–	–	32.8	–	32.8	–	32.8
Currency translation differences	–	–	–	(5.8)	–	(5.8)	0.1	(5.7)
Tax on other comprehensive income	–	–	–	0.7	33.4	34.1	–	34.1
Total comprehensive income	–	–	–	54.9	73.0	127.9	0.1	128.0
Dividends paid (note 10)	–	–	–	–	(78.4)	(78.4)	(0.2)	(78.6)
Acquisition of minority interest	–	–	–	–	–	–	0.4	0.4
Share issue to minority interest	–	–	–	–	–	–	0.3	0.3
Share-based payments	–	–	–	–	10.4	10.4	–	10.4
Cost of shares transferred to employees	–	–	31.1	–	(18.4)	12.7	–	12.7
Tax on share-based payments	–	–	–	–	1.5	1.5	–	1.5
At 31st March 2010	**220.7**	**148.3**	**(30.7)**	**73.4**	**837.7**	**1,249.4**	**1.4**	**1,250.8**

The notes on pages 68 to 107 form an integral part of the accounts.

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31st March 2010

	Share capital £ million	Share premium account £ million	Shares held in ESOT £ million	Other reserves (note 35) £ million	Retained earnings £ million	Total equity £ million
At 1st April 2008	220.7	148.3	(68.4)	(0.4)	650.7	950.9
Profit for the year	–	–	–	–	12.7	12.7
Actuarial loss on post-employment benefits	–	–	–	–	(121.5)	(121.5)
Cash flow hedges	–	–	–	(18.0)	(0.6)	(18.6)
Currency translation differences	–	–	–	(6.6)	–	(6.6)
Tax on other comprehensive income	–	–	–	5.5	33.8	39.3
Total comprehensive income	–	–	–	(19.1)	(75.6)	(94.7)
Dividends paid (note 10)	–	–	–	–	(78.1)	(78.1)
Purchase of shares for ESOT	–	–	(2.6)	–	–	(2.6)
Share-based payments	–	–	–	–	3.4	3.4
Cost of shares transferred to employees	–	–	9.2	–	(9.2)	–
Tax on share-based payments	–	–	–	–	(6.1)	(6.1)
At 31st March 2009	220.7	148.3	(61.8)	(19.5)	485.1	772.8
Profit for the year	–	–	–	–	374.9	374.9
Actuarial loss on post-employment benefits	–	–	–	–	(122.0)	(122.0)
Cash flow hedges	–	–	–	26.6	(0.2)	26.4
Currency translation differences	–	–	–	0.5	–	0.5
Tax on other comprehensive income	–	–	–	(7.4)	33.6	26.2
Total comprehensive income	–	–	–	19.7	286.3	306.0
Dividends paid (note 10)	–	–	–	–	(78.4)	(78.4)
Share-based payments	–	–	–	–	8.0	8.0
Cost of shares transferred to employees	–	–	31.1	–	(16.0)	15.1
Tax on share-based payments	–	–	–	–	1.0	1.0
At 31st March 2010	**220.7**	**148.3**	**(30.7)**	**0.2**	**686.0**	**1,024.5**

The notes on pages 68 to 107 form an integral part of the accounts.

ACCOUNTING POLICIES

for the year ended 31st March 2010

The group's and parent company's significant accounting policies, together with the judgments made by management in applying those policies which have the most significant effect on the amounts recognised in the accounts, are:

Basis of accounting and preparation

The accounts are prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) or the Standing Interpretations Committee (SIC) as adopted by the European Union. For Johnson Matthey, there are no differences between IFRS as adopted by the European Union and full IFRS as published by the International Accounting Standards Board (IASB) and so the accounts comply with IFRS.

The accounts are prepared on the historical cost basis, except for certain assets and liabilities which are measured at fair value as explained below.

The parent company cash flow statement for the year ended 31st March 2009 has been restated to include dividends received from subsidiaries in profit before tax. This has no effect on net cash inflow from operating activities.

The parent company has not presented its own income statement, statement of total comprehensive income and related notes as permitted by section 408 of the Companies Act 2006.

Basis of consolidation

The consolidated accounts comprise the accounts of the parent company and all its subsidiaries, including the employee share ownership trust, and include the group's interest in its associate.

Entities over which the group has the ability to exercise control are accounted for as subsidiaries. Entities that are not subsidiaries or joint ventures but where the group has significant influence (i.e. the power to participate in the financial and operating policy decisions) are accounted for as associates.

The results and assets and liabilities of the associate are included in the consolidated accounts using the equity method of accounting.

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

Transactions and balances between group companies are eliminated. No profit is taken on transactions between group companies and the group's share of profits on transactions with its associate is also eliminated.

In the parent company balance sheet, businesses acquired by the parent company from other group companies are incorporated at book value at the date of acquisition. Where the consideration given exceeds the book value of the net assets acquired this difference is accounted for as goodwill.

Revenue

Revenue comprises all sales of goods and rendering of services at the fair value of consideration received or receivable after the deduction of any trade discounts and excluding sales taxes. Revenue is recognised when it can be measured reliably and the significant risks and rewards of ownership are transferred to the customer. With the sale of goods, this occurs when the goods are despatched or made available to the customer, except for the sale of consignment products located at customers' premises where revenue is recognised on notification that the product has been used. With the rendering of services, revenue is recognised by reference to the stage of completion as measured by the proportion that costs incurred to date bear to the estimated total costs. With royalties and licence income, revenue is recognised in accordance with the substance of the relevant agreement.

Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion. This is measured by the proportion that contract costs incurred to date bear to the estimated total contract costs.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that the total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Finance costs and finance income

Finance costs that are directly attributable to the construction of an asset that necessarily takes a substantial period of time to get ready for its intended use and for which construction was commenced after 1st April 2007 are capitalised as part of the cost of that asset. Other finance costs and finance income are recognised in the income statement in the year incurred.

Research and development

Research expenditure is charged to the income statement in the year incurred.

Development expenditure is charged to the income statement in the year incurred unless it meets the IFRS recognition criteria for capitalisation. When the recognition criteria have been met any further development expenditure is capitalised as an intangible asset.

Foreign currencies

Foreign currency transactions are recorded in the functional currency of the relevant subsidiary, associate or branch at the exchange rate at the date of transaction. Foreign currency monetary assets and liabilities are retranslated into the relevant functional currency at the exchange rate at the balance sheet date.

Income statements and cash flows of overseas subsidiaries, associates and branches are translated into sterling at the average rates for the year. Balance sheets of overseas subsidiaries, associates and branches, including any fair value adjustments and including related goodwill, are translated into sterling at the exchange rates at the balance sheet date.

Exchange differences arising on the translation of the net investment in overseas subsidiaries, associates and branches, less exchange differences arising on related foreign currency financial instruments which hedge the group's net investment in these operations, are taken to a separate component of equity. The group has taken advantage of the exemption allowed in IFRS 1 – 'First-time Adoption of International Reporting Standards' to deem the cumulative translation difference for all overseas subsidiaries, associates and branches to be zero at 1st April 2004.

Other exchange differences are taken to operating profit.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any provisions for impairment. Finance costs that relate to an asset that takes a substantial period of time to construct and for which construction was started after 1st April 2007 are capitalised as part of the cost of that asset. Other finance costs are not capitalised.

Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its useful life. Certain freehold buildings and plant and equipment are depreciated using the units of production method, as this more closely reflects their expected consumption. All other assets are depreciated using the straight line method. The useful lives vary according to the class of the asset, but are typically: leasehold property 30 years (or the life of the lease if shorter); freehold buildings 30 years; and plant and equipment 4 to 10 years. Freehold land is not depreciated.

Goodwill

Goodwill arises on the acquisition of a business when the fair value of the consideration given exceeds the fair value attributed to the net assets acquired (including contingent liabilities). It is subject to annual impairment reviews.

The group and parent company have taken advantage of the exemption allowed under IFRS 1 and so goodwill arising on acquisitions made before 1st April 2004 is included at the carrying amount at that date less any subsequent impairments. Up to 31st March 1998 goodwill was eliminated against equity.

Intangible assets

Intangible assets are stated at cost less accumulated amortisation and any provisions for impairment. They are amortised in accordance with the relevant income stream or by using the straight line method over their useful lives from the time they are first available for use. The estimated useful lives vary according to the specific asset but are typically: 1 to 12 years for customer contracts and relationships; 3 to 8 years for capitalised software; 3 to 10 years for patents, trademarks and licences; and 3 to 8 years for capitalised development currently being amortised.

Intangible assets which are not yet being amortised are subject to annual impairment reviews.

Investments in subsidiaries

Investments in subsidiaries are stated in the parent company's balance sheet at cost less any provisions for impairment. If a distribution is received from a subsidiary then the investment in that subsidiary is assessed for an indication of impairment.

Leases

Leases are classified as finance leases whenever they transfer substantially all the risks and rewards of ownership to the group. The assets are included in property, plant and equipment and the capital elements of the leasing commitments are shown as obligations under finance leases. The assets are depreciated on a basis consistent with similar owned assets or the lease term if shorter. The interest element of the lease rental is included in the income statement.

All other leases are classified as operating leases and the lease costs are expensed on a straight line basis over the lease term.

Grants

Grants related to assets are included in deferred income and released to the income statement in equal instalments over the expected useful lives of the related assets.

Grants related to income are deducted in reporting the related expense.

Precious metal inventories

Inventories 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 and backwardation. Other precious metal inventories owned by the group, which are unhedged, are valued at the lower of cost and net realisable value using the weighted average cost formula.

Other inventories

Non-precious metal inventories are valued at the lower of cost, including attributable overheads, and net realisable value. Except where costs are specifically identified, the first-in, first-out or weighted average cost formulae are used to value inventories.

Cash and cash equivalents

Cash and deposits comprise cash at bank and in hand, including short term deposits with a maturity date of three months or less from the date of acquisition. The group and parent company routinely use short term bank overdraft facilities, which are repayable on demand, as an integral part of their cash management policy. Therefore cash and cash equivalents in the cash flow statements are cash and deposits less bank overdrafts. Offset arrangements across group businesses have been applied to arrive at the net cash and overdraft figures.

Derivative financial instruments

The group and parent company use derivative financial instruments, in particular forward currency contracts and currency swaps, to manage the financial risks associated with their underlying business activities and the financing of those activities. The group and parent company do not undertake any trading activity in derivative financial instruments.

Derivative financial instruments are measured at their fair value. Derivative financial instruments may be designated at inception as fair value hedges, cash flow hedges or net investment hedges if appropriate. Derivative financial instruments which are not designated as hedging instruments are classified under IFRS as held for trading, but are used to manage financial risk.

Changes in the fair value of any derivative financial instruments that are not designated as or are not determined to be effective hedges are recognised immediately in the income statement.

Changes in the fair value of derivative financial instruments designated as fair value hedges are recognised in the income statement, together with the related changes in the fair value of the hedged asset or liability. Fair value hedge accounting is discontinued if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the designation is revoked.

Changes in the fair value of derivative financial instruments designated as cash flow hedges are recognised in equity, to the extent that the hedges are effective. Ineffective portions are recognised in the income statement immediately. If the hedged item results in the recognition of a non-financial asset or liability, the amount recognised in equity is transferred out of equity and included in the initial carrying amount of the asset or liability. Otherwise, the amount recognised in equity is transferred to the income statement in the same period that the hedged item is recognised in the income statement. If the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the designation is revoked, amounts previously recognised in equity remain in equity until the forecast transaction occurs. If a forecast transaction is no longer expected to occur, the amounts previously recognised in equity are transferred to the income statement.

For hedges of net investments in foreign operations, the effective portion of the gain or loss on the hedging instrument is recognised in equity, while the ineffective portion is recognised in the income statement. Amounts taken to equity are transferred to the income statement when the foreign operations are sold.

Other financial instruments

All other financial instruments are initially recognised at fair value plus transaction costs. Subsequent measurement is as follows:

- Unhedged borrowings are measured at amortised cost.
- Available-for-sale investments are investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be measured reliably and so are measured at cost.
- All other financial assets and liabilities, including short term receivables and payables, are measured at amortised cost less any impairment provision.

Taxation

Current and deferred tax are recognised in the income statement, except when they relate to items recognised directly in equity when the related tax is also recognised in equity.

Current tax is the amount of income tax expected to be paid in respect of taxable profits using the tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amount in the balance sheet. It is provided using the tax rates that are expected to apply in the period when the asset or liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. No deferred tax asset or liability is recognised in respect of temporary differences associated with investments in subsidiaries, branches and associates where the group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Provisions and contingencies

Provisions are recognised when the group has a present obligation as a result of a past event and a reliable estimate can be made of a probable adverse outcome, for example warranties, environmental claims and restructurings. Otherwise, material contingent liabilities are disclosed unless the transfer of economic benefits is remote. Contingent assets are only disclosed if an inflow of economic benefits is probable.

The group considers financial guarantees of its share of the borrowings and precious metal leases of its associate to be insurance contracts. The parent company considers financial guarantees of its subsidiaries' borrowings and precious metal leases to be insurance contracts. These are treated as contingent liabilities unless it becomes probable that it will be required to make a payment under the guarantee.

Share-based payments and employee share ownership trust (ESOT)

The fair value of outstanding share options granted to employees after 7th November 2002 was calculated using an adjusted Black-Scholes options valuation model and the fair value of outstanding shares allocated to employees under the long term incentive plans after 7th November 2002 is calculated by adjusting the share price on the date of allocation for the present value of the expected dividends that will not be received. The resulting cost is charged to the income statement over the relevant vesting periods, adjusted to reflect actual and expected levels of vesting where appropriate.

The group and parent company provide finance to the ESOT to purchase company shares in the open market. Costs of running the ESOT are charged to the income statement. The cost of shares held by the ESOT are deducted in arriving at equity until they vest unconditionally in employees.

Pensions and other post-employment benefits

The group operates a number of contributory and non-contributory plans, mainly of the defined benefit type, which require contributions to be made to separately administered funds.

The costs of the defined contribution plans are charged to the income statement as they fall due.

For defined benefit plans, the group and parent company recognise the net assets or liabilities of the schemes in their balance sheets. Obligations are measured at present value using the projected unit credit method and a discount rate reflecting yields on high quality corporate bonds. Assets are measured at their fair value at the balance sheet date. The changes in scheme assets and liabilities, based on actuarial advice, are recognised as follows:

- The current service cost is spread over the period during which benefit is expected to be derived from the employees' services based on the most recent actuarial valuation and is deducted in arriving at operating profit.
- The interest cost, based on the discount rate at the beginning of the year and the present value of the defined benefit obligation during the year, is included in operating profit.
- The expected return on plan assets, based on market expectations at the beginning of the year for returns over the entire life of the related obligation and amended for changes in the fair value of plan assets as a result of contributions paid in and benefits paid out, is included in operating profit.
- Actuarial gains and losses, representing differences between the expected return and actual return on plan assets and reimbursement rights, differences between actuarial assumptions underlying the plan liabilities and actual experience during the year, and changes in actuarial assumptions, are recognised in the statement of total comprehensive income in the year they occur.
- Past service costs are spread evenly over the period in which the increases in benefit vest and are deducted in arriving at operating profit. If an increase in benefits vests immediately, the cost is recognised immediately.
- Gains or losses arising from settlements or curtailments are included in operating profit.

Standards and interpretations adopted in the year

During the year, the following new and amendments to accounting standards and interpretations were adopted:

IFRS 8 – 'Operating Segments' has replaced International Accounting Standard (IAS) 14 – 'Segmental Reporting' and requires the identification of operating segments based on internal reporting to the chief operating decision maker and changes a number of disclosures. The business segments previously reported by the group have not changed as a result of adopting this standard and as such the adoption has not affected the reported results or financial position of the group and parent company.

The September 2007 revision to IAS 1 – 'Presentation of Financial Statements' resulted in a number of presentational changes to the primary statements of the group and parent company. The statements of changes in equity are now presented as primary statements rather than as notes on the accounts. The group has opted to continue presenting a separate income statement and statement of total comprehensive income (previously called statement of recognised income and expense). The revised standard has no impact on the reported results or financial position of the group and parent company.

Amendments to IFRS 7 – 'Improving Disclosures about Financial Instruments' has resulted in a number of changes to disclosures for the group and parent company about fair value measurement and liquidity risk but has no impact on the reported results or financial position of the group and parent company.

IFRIC 13 – 'Customer Loyalty Programmes', Amendment to IFRS 2 – 'Vesting Conditions and Cancellations', Amendments to IAS 32 and IAS 1 – 'Puttable Financial Instruments and Obligations Arising on Liquidation', Amendments to IFRS 1 and IAS 27 – 'Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate', 'Improvements to IFRSs' issued May 2008, IFRIC 15 – 'Agreements for the Construction of Real Estate', IFRIC 16 – 'Hedges of a Net Investment in a Foreign Operation', IFRIC 18 – 'Transfers of Assets from Customers', IFRS 1 – 'First-time Adoption of International Financial Reporting Standards', Amendments to IFRIC 9 and IAS 39 – 'Embedded Derivatives' and the parts of 'Improvements to IFRSs' issued in April 2009 which were to be applied to annual periods beginning on or after 1st January 2009 or before have all been adopted during the year. There was no material impact on the reported results or financial position of the group and parent company.

Standards and interpretations issued but not yet applied

IFRS 3 – 'Business Combinations' was revised and IAS 27 – 'Consolidated and Separate Financial Statements' was amended in January 2008 and are required to be applied for annual periods beginning on or after 1st July 2009. They require changes to the accounting for future business combinations and the accounting in the event of the loss of control over a subsidiary and so will not result in any restatement of reported results or net assets of the group and parent company.

Amendment to IAS 39 – 'Eligible Hedged Items' was issued in July 2008 and is required to be applied for annual periods beginning on or after 1st July 2009. This will not affect the reported results or net assets of the group and parent company.

IFRIC 17 – 'Distributions of Non-cash Assets to Owners' was issued in November 2008 and is required to be applied for annual periods beginning on or after 1st July 2009. This will not affect the reported results or net assets of the group and parent company.

'Improvements to IFRSs' was issued in April 2009 making minor amendments to a number of standards and is required to be applied mainly for annual periods beginning on or after 1st January 2010, with some amendments for annual periods beginning on or after 1st July 2009. The effect on the group and parent company is still being evaluated.

Amendment to IFRS 2 – 'Group Cash-settled Share-based Payment Transactions' was issued in June 2009 and is required to be applied for annual periods beginning on or after 1st January 2010. The amendment clarifies the scope of IFRS 2 and the accounting for group cash-settled share-based payments in the accounts of individual entities. The effect on the group and parent company is still being evaluated.

Amendments to IFRS 1 – 'Additional Exemptions for First-time Adopters' was issued in July 2009 and is applicable for annual periods beginning on or after 1st January 2010. This will not affect the reported results or net assets of the group and parent company.

Amendment to IAS 32 – 'Classification of Rights Issues' was issued in October 2009 and is applicable for annual periods beginning on or after 1st February 2010. This will not affect the reported results or net assets of the group and parent company.

IFRS 9 – 'Financial Instruments' was issued in November 2009 as the first stage of the IASB's project to review and replace IAS 39 – 'Financial Instruments: Recognition and Measurement', focusing on the classification and measurement of financial assets. The standard will be applicable for annual periods beginning on or after 1st January 2013. The effect on the group and parent company is still being evaluated.

IAS 24 – 'Related Party Disclosures' was issued in November 2009 and is applicable for annual periods beginning on or after 1st January 2011. The revision clarifies the definition of a related party for disclosure purposes and so will not result in any impact on the reported results or net assets of the group and parent company.

Amendments to IFRIC 14 – 'Prepayments of a Minimum Funding Requirement' was issued in November 2009 and is required to be applied for annual periods beginning on or after 1st January 2011. This will not affect the reported results or net assets of the group and parent company.

IFRIC 19 – 'Extinguishing Financial Liabilities with Equity Instruments' was issued in November 2009 and is applicable for annual periods beginning on or after 1st July 2010. This will not affect the reported results or net assets of the group and parent company.

Amendments to IFRS 1 – 'Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters' was issued in January 2010 and is required to be applied for annual periods beginning on or after 1st January 2010. They will not affect the reported results or net assets of the group and parent company.

'Improvements to IFRSs' was issued in May 2010 making minor amendments to a number of standards and is required to be applied mainly for annual periods beginning on or after 1st January 2011, with some amendments for annual periods beginning on or after 1st July 2010. The effect on the group and parent company is still being evaluated.

1 Segmental information

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

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

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

1 Segmental information (continued)

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

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

1 Segmental information (continued)

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

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

2 Revenue

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

3 Major impairment and restructuring charges

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

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

4 Amortisation of acquired intangibles

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

5 Fees payable to auditors

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

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

6 Operating profit

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

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

7 Finance costs

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

8 Finance income

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

9 Taxation

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

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

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

10 Dividends

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

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

11 Earnings per ordinary share

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

Earnings per ordinary share have been calculated by dividing the profit attributable to equity holders of the parent company by the weighted average number of shares in issue during the period.

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

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

Underlying earnings per ordinary share are calculated as follows:

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

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

12 Employee and key management personnel costs

12a Employee numbers

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

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

The actual number of employees was:

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

12b Employee benefits expense

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

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

12 Employee and key management personnel costs (continued)

12c Key management personnel

The key management of the group and parent company consist of the Board of Directors and the members of the Chief Executive's Committee (CEC). During the year ended 31st March 2010 the CEC had ten members (2009 ten members). Their compensation charged in the year was:

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

Termination benefits not included above were £0.8 million (2009 £ nil). In the year ended 31st March 2009 Mr N A P Carson, Chief Executive, bought his company car from the company for £8,500, which was its current market price at the time of the sale. This transaction was settled during that year. Other than this and the compensation above there were no transactions with any key management personnel. There were no balances outstanding at the year end.

Information on the directors' remuneration is given in the Remuneration Report on pages 48 to 56.

13 Share-based payments

Share options

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

Options granted in 2004 to 2006 were subject to a minimum three year performance target of earnings per share (EPS) growth of UK RPI plus 3% per annum. Other performance targets were EPS growth of UK RPI plus 4% per annum and EPS growth of UK RPI plus 5% per annum. If the performance targets were not met at the end of the three year performance period, the options would lapse. The targets for options granted in 2004, 2005 and the 3% and 4% targets for options granted in 2006 have been met and so these options are exercisable. The 5% target for options granted in 2006 was not met and so these options have lapsed. Gains are capped at 100% of the grant price.

Options granted in 2001 to 2003 can only be exercised if the normalised EPS has grown by at least UK RPI plus 4% per annum over any three consecutive years during the life of the options. They were subject to annual retesting until they lapse on the tenth anniversary of grant. Since the targets have been met all these options are exercisable.

Some options granted in 2000 are still outstanding. These were subject to a performance target of EPS growth of UK RPI plus 2% over the three year performance period. Since that target has been met these options are exercisable.

Long Term Incentive Plan (LTIP)

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

Under the previous LTIP, shares were allocated to directors and certain key executives of the group based upon a percentage of salary and were subject to performance conditions over a three year period. At 31st March 2010, no shares (at 31st March 2009, shares allocated in 2006) were outstanding in respect of which the performance period has not expired. The release of shares was subject to a relative total shareholder return (TSR) compared to those companies ranked 51 to 150 in the FTSE index over a three year period. All shares were released if the company ranked in the 76th percentile or above. None of the shares were released if the company ranked in the 50th percentile or below. If the company ranked between these percentiles 35% to 100% of the shares were released on a straight line basis. In addition EPS growth must have been at least equal to UK RPI plus 2% per annum over the three year performance period before any release was made.

Share Incentive Plan (SIP) – UK and Overseas

Under the SIP, all employees with at least one year of service with the group and who are employed by a participating group company are entitled to contribute up to 2.5% of basic pay each month, subject to a £125 per month limit. The SIP trustees buy shares (partnership shares) at market value each month with the employees' contributions. For each partnership share purchased, the group purchases two shares (matching shares) which are allocated to the employee. In the UK SIP, if the employee sells or transfers partnership shares within three years from the date of allocation, the linked matching shares are forfeited. In the Overseas SIP, partnership shares and matching shares are subject to a three year holding period and cannot be sold or transferred during that time.

13 Share-based payments (continued)

401k approved savings investment plans (401k plans)

In the US there are two 401k plans, one for salaried employees and one for hourly employees. Salaried employees may contribute up to 50% of their base pay and hourly employees up to 20% of their base pay, both subject to a statutory limit. Salaried employees choosing Johnson Matthey Plc shares matching are matched 100% of the first 4% contributed and hourly employees are matched 50% of the first 2% contributed. Employees may contribute after one month of service and are eligible for matching after one year of service.

Further details of the directors' remuneration under share-based payment plans are given in the Remuneration Report on pages 48 to 56.

Activity relating to share options was:

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

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

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

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

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

Activity relating to the LTIP was:

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

324,274 (2009 367,674) matching shares under the SIP and 80,505 (2009 97,235) shares under the 401k plans were allocated to employees during the year. They are nil cost awards on which performance conditions are substantially completed at the date of grant. Consequently the fair value of these awards is based on the market value of the shares at that date.

The total expense recognised during the year in respect of equity settled share-based payments, taking into account expected lapses due to leavers and the probability that EPS performance conditions will not be met, was £10.4 million (2009 £5.6 million).

14 Post-employment benefits

14a Group

The group operates a number of post-employment benefits plans around the world, the forms and benefits of which vary with conditions and practices in the countries concerned. The majority of the plans are defined benefit which require contributions to be made into separately administered funds and retirement benefits are based on factors such as employees' pensionable salary and length of service. Some of the plans are defined contribution, where the retirement benefits are determined by the value of funds arising from contributions paid in respect of each employee. The group also makes payments to employees' personal pension plans. The amount recognised as an expense for defined contribution plans was £2.9 million (2009 £2.5 million).

The major defined benefit plans are pension plans and post-retirement medical plans in the UK and the US. The pension plans are final salary plans except for the new section of the UK plan which is a career average salary plan and the US hourly plan which is a fixed benefit based upon years of service. Full actuarial valuations were carried out at 1st April 2009 for the main UK pension plan and 30th June 2009 for the US pension plans and the valuations of all of the UK and US plans were updated to 31st March 2010 by qualified independent actuaries.

The main assumptions were:

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

The group uses certain mortality assumptions when calculating plan obligations. The current mortality assumptions for all major plans retain prudent allowance for future improvements in longevity and take account of experience.

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

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

The mortality tables used for the other larger plans were:

US	RP2000 projected to 2010 using Scale AA
Netherlands	AG Prognosetafel 2005-2050 with one year age set back
Canada	UP 94 generational (including allowance for future mortality improvements)
Germany	RT2005 G
South Africa	PA(90), rated down by two years

A one percentage point change in the assumed medical cost trend rates would have the following effects on:

	One percentage point increase UK plan £ million	One percentage point increase US plan £ million	One percentage point decrease UK plan £ million	One percentage point decrease US plan £ million
At 31st March 2010				
Post-retirement medical plan expense	**0.1**	**0.4**	**(0.1)**	**(0.3)**
Post-retirement medical plan defined benefit obligation	**2.4**	**4.1**	**(1.9)**	**(4.3)**
At 31st March 2009				
Post-retirement medical plan expense	0.1	0.3	(0.1)	(0.3)
Post-retirement medical plan defined benefit obligation	1.8	4.5	(1.5)	(3.8)

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

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

14 Post-employment benefits (continued)

14a Group (continued)

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

	UK pensions Expected rate of return %	UK pensions Value £ million	US pensions Expected rate of return %	US pensions Value £ million	Other Expected rate of return %	Other Value £ million
At 31st March 2010						
Equities	**8.25**	**456.1**	**8.30**	**67.4**	**8.42**	**9.7**
Bonds	**5.00**	**394.6**	**5.30**	**55.1**	**5.25**	**7.3**
Property	**6.75**	**36.0**	**–**	**–**	**–**	**–**
Insurance policies	**–**	**–**	**–**	**–**	**4.83**	**19.0**
	6.74	**886.7**	**6.95**	**122.5**	**5.88**	**36.0**
At 31st March 2009						
Equities	8.25	351.2	8.40	52.2	8.66	7.2
Bonds	5.50	286.7	4.80	25.7	5.26	5.8
Property	6.75	32.5	–	–	–	–
Insurance policies	–	–	–	–	5.49	16.4
	7.00	670.4	7.21	77.9	6.22	29.4

The defined benefit pension plans do not invest directly in Johnson Matthey Plc shares and no property or other assets owned by the pension plans are used by the group. The overall expected rate of return is determined on a country by country basis by reference to market expectations for each class of asset. It is based upon the forecasts of actuaries and market professionals.

Movements in the defined benefit obligation during the year were:

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

14 Post-employment benefits (continued)

14a Group (continued)

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

	UK pensions £ million	UK post-retirement medical benefits £ million	US pensions £ million	US post-retirement medical benefits £ million	Other £ million	Total £ million
At 1st April 2008	809.5	–	78.5	–	27.1	915.1
Expected return on plan assets	55.8	–	6.4	–	1.8	64.0
Actuarial loss	(191.2)	–	(32.4)	–	(3.8)	(227.4)
Employee contributions	4.7	–	–	–	0.3	5.0
Company contributions	22.1	0.5	3.6	0.5	2.1	28.8
Benefits paid	(30.5)	(0.5)	(3.4)	(0.5)	(2.4)	(37.3)
Exchange adjustments	–	–	25.2	–	4.3	29.5
At 31st March 2009	670.4	–	77.9	–	29.4	777.7
Expected return on plan assets	46.8	–	5.4	–	1.7	53.9
Actuarial gain	173.4	–	19.8	–	1.9	195.1
Employee contributions	5.2	–	–	–	0.3	5.5
Company contributions	23.1	0.4	25.1	0.5	2.7	51.8
Benefits paid	(32.2)	(0.4)	(3.8)	(0.5)	(2.1)	(39.0)
Exchange adjustments	–	–	(1.9)	–	2.1	0.2
At 31st March 2010	**886.7**	**–**	**122.5**	**–**	**36.0**	**1,045.2**

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

Movements in the reimbursement rights during the year were:

	UK pensions £ million	UK post-retirement medical benefits £ million	US pensions £ million	US post-retirement medical benefits £ million	Other £ million	Total £ million
At 1st April 2008	–	–	–	2.6	–	2.6
Expected return	–	–	–	0.3	–	0.3
Actuarial gain	–	–	–	0.5	–	0.5
Exchange adjustments	–	–	–	1.1	–	1.1
At 31st March 2009	–	–	–	4.5	–	4.5
Expected return	–	–	–	0.4	0.6	1.0
Actuarial gain	–	–	–	0.9	–	0.9
Exchange adjustments	–	–	–	(0.3)	–	(0.3)
At 31st March 2010	**–**	**–**	**–**	**5.5**	**0.6**	**6.1**

14 Post-employment benefits (continued)

14a Group (continued)

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

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

These are included in the balance sheet as:

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

14 Post-employment benefits (continued)

14a Group (continued)

Amounts recognised in the income statement in respect of these plans were:

	UK pensions £ million	UK post-retirement medical benefits £ million	US pensions £ million	US post-retirement medical benefits £ million	Other £ million	Total £ million
Year ended 31st March 2010						
Current service cost	**(15.5)**	**(0.1)**	**(5.3)**	**(0.7)**	**(2.3)**	**(23.9)**
Interest on plan liabilities	**(45.5)**	**(0.8)**	**(7.3)**	**(1.5)**	**(2.5)**	**(57.6)**
Expected return on plan assets	**46.8**	**–**	**5.4**	**–**	**1.7**	**53.9**
Expected return on reimbursement rights	**–**	**–**	**–**	**0.4**	**0.6**	**1.0**
Past service cost – vested	**(0.4)**	**–**	**–**	**–**	**(0.2)**	**(0.6)**
Past service cost – non-vested	**–**	**–**	**–**	**0.3**	**–**	**0.3**
Charge to income	**(14.6)**	**(0.9)**	**(7.2)**	**(1.5)**	**(2.7)**	**(26.9)**
Year ended 31st March 2009						
Current service cost	(19.7)	(0.2)	(4.8)	(0.6)	(1.9)	(27.2)
Interest on plan liabilities	(47.4)	(0.7)	(6.4)	(1.1)	(2.1)	(57.7)
Expected return on plan assets	55.8	–	6.4	–	1.8	64.0
Expected return on reimbursement rights	–	–	–	0.3	–	0.3
Curtailment gains	–	–	–	–	0.8	0.8
Past service cost – vested	(0.2)	–	–	–	(0.1)	(0.3)
Past service cost – non-vested	–	–	–	0.3	–	0.3
Charge to income	(11.5)	(0.9)	(4.8)	(1.1)	(1.5)	(19.8)

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

The cumulative amount of actuarial gains / (losses) recognised in the statement of total comprehensive income were:

	UK pensions £ million	UK post-retirement medical benefits £ million	US pensions £ million	US post-retirement medical benefits £ million	Other £ million	Total £ million
At 1st April 2008	(8.1)	0.4	(4.6)	0.6	(0.9)	(12.6)
Recognised in year	(120.8)	(0.7)	(31.7)	(2.5)	(1.0)	(156.7)
At 31st March 2009	(128.9)	(0.3)	(36.3)	(1.9)	(1.9)	(169.3)
Recognised in year	(120.1)	(1.9)	1.6	(1.3)	(2.9)	(124.6)
At 31st March 2010	**(249.0)**	**(2.2)**	**(34.7)**	**(3.2)**	**(4.8)**	**(293.9)**

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

14 Post-employment benefits (continued)

14a Group (continued)

History of the plans and experience adjustments are:

	UK pensions £ million	UK post-retirement medical benefits £ million	US pensions £ million	US post-retirement medical benefits £ million	Other £ million	Total £ million
Year ended 31st March 2010						
Present value of defined benefit obligation	**(1,043.6)**	**(14.4)**	**(149.6)**	**(28.5)**	**(54.2)**	**(1,290.3)**
Fair value of plan assets	**886.7**	**–**	**122.5**	**–**	**36.0**	**1,045.2**
Reimbursement rights	**–**	**–**	**–**	**5.5**	**0.6**	**6.1**
Deficit in the plan	**(156.9)**	**(14.4)**	**(27.1)**	**(23.0)**	**(17.6)**	**(239.0)**
Experience adjustments arising on plan liabilities	**(5.2)**	**1.2**	**(2.1)**	**0.4**	**(0.2)**	**(5.9)**
Experience adjustments arising on plan assets	**173.4**	**–**	**19.8**	**–**	**1.9**	**195.1**
Year ended 31st March 2009						
Present value of defined benefit obligation	(715.6)	(12.0)	(128.3)	(26.7)	(45.3)	(927.9)
Fair value of plan assets	670.4	–	77.9	–	29.4	777.7
Reimbursement rights	–	–	–	4.5	–	4.5
Deficit in the plan	(45.2)	(12.0)	(50.4)	(22.2)	(15.9)	(145.7)
Experience adjustments arising on plan liabilities	24.4	(0.6)	0.9	(1.0)	0.3	24.0
Experience adjustments arising on plan assets	(191.2)	–	(32.4)	–	(3.8)	(227.4)
Year ended 31st March 2008						
Present value of defined benefit obligation	(744.4)	(10.9)	(86.4)	(15.6)	(39.0)	(896.3)
Fair value of plan assets	809.5	–	78.5	–	27.1	915.1
Reimbursement rights	–	–	–	2.6	–	2.6
Surplus / (deficit) in the plan	65.1	(10.9)	(7.9)	(13.0)	(11.9)	21.4
Experience adjustments arising on plan liabilities	(3.0)	–	5.9	1.8	(0.4)	4.3
Experience adjustments arising on plan assets	(87.7)	–	(6.9)	–	(2.8)	(97.4)
Year ended 31st March 2007						
Present value of defined benefit obligation	(801.0)	(11.6)	(87.4)	(16.5)	(33.5)	(950.0)
Fair value of plan assets	846.5	–	79.5	–	26.3	952.3
Reimbursement rights	–	–	–	2.8	–	2.8
Surplus / (deficit) in the plan	45.5	(11.6)	(7.9)	(13.7)	(7.2)	5.1
Experience adjustments arising on plan liabilities	(44.4)	0.5	(1.0)	(0.8)	2.8	(42.9)
Experience adjustments arising on plan assets	(8.3)	–	2.3	–	0.3	(5.7)
Year ended 31st March 2006						
Present value of defined benefit obligation	(736.4)	(11.9)	(90.4)	(20.2)	(30.9)	(889.8)
Fair value of plan assets	805.1	–	79.0	–	25.1	909.2
Reimbursement rights	–	–	–	2.6	–	2.6
Surplus / (deficit) in the plan	68.7	(11.9)	(11.4)	(17.6)	(5.8)	22.0
Experience adjustments arising on plan liabilities	0.7	1.7	(1.2)	0.3	(1.0)	0.5
Experience adjustments arising on plan assets	79.7	–	1.0	–	(0.2)	80.5

14 Post-employment benefits (continued)

14b Parent company

The parent company is the sponsoring employer of the group's UK defined benefit pension plan and the UK post-retirement medical benefits plan. There is no contractual agreement or stated policy for charging the net defined benefit cost for the plan to the individual group entities. The main assumptions used for these plans are disclosed in note 14a.

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

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

The defined benefit pension plan does not invest directly in Johnson Matthey Plc shares and no property or other assets owned by the pension plan are used by the company. The overall expected rate of return is determined by reference to market expectations for each class of asset. It is based upon the forecasts of actuaries and market professionals.

Movements in the defined benefit obligation during the year were:

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

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

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

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

14 Post-employment benefits (continued)

14b Parent company (continued)

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

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

These are included in the balance sheet as:

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

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

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

History of the plans and experience adjustments are:

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

15 Property, plant and equipment

15a Group

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

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

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

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

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

15 Property, plant and equipment (continued)

15b Parent company

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

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

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

16 Goodwill

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

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

Goodwill arising on the acquisition of businesses is allocated, at acquisition, to the cash-generating units (CGUs) that are expected to benefit from that business combination. Goodwill is allocated as follows:

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

The group and parent company test goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. The recoverable amounts of the CGUs are determined using value in use calculations which use cash flow projections based on financial budgets and plans approved by management, generally covering a three year period except as discussed below. The budgets and plans are based on a number of key assumptions. Assumptions on the likelihood and timing of new product launches are based on management's best estimate of what may happen. Foreign exchange rates are based on actual rates at the time the budgets were prepared and are held constant over the budget and plan years. Other assumptions such as market share, expected changes to selling prices, product profitability, precious metal prices and other direct input costs are based on past experience and management's expectations of future changes in the markets using external sources of information where appropriate. These cash flows are then extrapolated using the long term average growth rates for the relevant products, industries and countries in which the CGUs operate. The cash flows are discounted at the group's estimated pre-tax weighted average cost of capital adjusted for the estimated tax cash flows and risk applicable to each CGU.

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

16 Goodwill (continued)

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

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

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

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

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

17 Other intangible assets

17a Group

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

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

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

17 Other intangible assets (continued)

17b Parent company

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

The carrying amount of development expenditure includes £3.1 million (2009 £1.6 million) which is not yet being amortised as the assets are not yet available for use. These assets are tested for impairment annually and no impairment has been found.

18 Investments in subsidiaries

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

The principal subsidiaries are shown on page 107.

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

19 Investment in associate

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

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

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

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

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

20 Non-current available-for-sale investments

	2010 £ million	2009 £ million
Unquoted investments	**7.5**	6.3

21 Inventories

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

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

22 Construction contracts

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

23 Trade and other receivables

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

24 Trade and other payables

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

25 Assets classified as held for sale

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

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

26 Net debt

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

Of the 4.95% US Dollar Bonds 2015, US $35.0 million have been swapped into sterling at 5.15% and US $165.0 million have been swapped into floating rate US dollars. All the 4.25% US Dollar Bonds 2010 had been swapped into sterling at 4.93%. All the 5.67% US Dollar Bonds 2016 have been swapped into floating rate US dollars. The interest rate implicit in the finance leases is 5.9% and the lease term ends in 2017. Apart from the bonds, EIB loans and finance leases shown separately above, all the loans, overdrafts and bank deposits are denominated in various currencies and bear interest at commercial floating rates.

27 Other financial liabilities

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

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

28 Other financial assets

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

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

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

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

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

29 Financial risk management

The group's and parent company's activities expose them to a variety of financial risks including market risk, liquidity risk and credit risk. Market risk includes currency risk, interest rate risk and price risk. The main financial risks managed by the group and parent company, under policies approved by the board, are foreign currency risk, interest rate risk, liquidity risk and credit risk. The group and parent company use derivative financial instruments, in particular forward currency contracts and currency swaps, to manage their financial risks associated with their underlying business activities and the financing of those activities. Some derivative financial instruments used to manage financial risk are not designated as hedges and so are classified as 'held for trading'. The group and parent company do not undertake any trading activity in financial instruments.

29a Interest rate risk

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

29b Foreign currency risk

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

29 Financial risk management (continued)

29b Foreign currency risk (continued)

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

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

The group and parent company use forward exchange contracts, and occasionally currency options, to hedge foreign exchange exposures arising on forecast receipts and payments in foreign currencies. These are designated and accounted for as cash flow hedges. The majority of the cash flows are expected to occur and the hedge effect realised in the income statement in the year ending 31st March 2011.

The main impact of movements in exchange rates on the group's results arises on translation of overseas subsidiaries' profits into sterling. The group's largest exposure is to the US dollar and a 5% (8.0 cent (2009 8.6 cent)) movement in the average exchange rate for the US dollar against sterling would have had a £2.9 million (2009 £3.2 million) impact on operating profit. The group is also exposed to the euro and a 5% (5.6 cent (2009 6.0 cent)) movement in the average exchange rate for the euro against sterling would have had a £0.9 million (2009 £1.3 million) impact on operating profit. This exposure is part of the group's economic risk of operating globally which is essential to remain competitive in the markets in which the group operates.

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

29c Liquidity risk

The group's and parent company's policy on funding capacity is to ensure that they always have sufficient long term funding and committed bank facilities in place to meet foreseeable peak borrowing requirements. At 31st March 2010 the group and parent company had borrowings under committed bank facilities of £50.0 million (2009 £ nil). The group and parent company also have a number of uncommitted facilities, including metal leases, and overdraft lines at their disposal.

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

29 Financial risk management (continued)

29c Liquidity risk (continued)

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

Group as at 31st March 2010	Within 1 year £ million	1 to 2 years £ million	2 to 5 years £ million	After 5 years £ million	Total £ million
Bank overdrafts	**14.7**	**–**	**–**	**–**	**14.7**
Bank and other loans – principal	**98.5**	**55.9**	**382.9**	**98.9**	**636.2**
Bank and other loans – interest payments	**28.0**	**24.5**	**54.6**	**11.2**	**118.3**
Finance lease obligations	**0.4**	**0.4**	**1.4**	**1.0**	**3.2**
Financial liabilities in trade and other payables	**452.9**	**0.2**	**0.4**	**0.3**	**453.8**
Total non-derivative financial liabilities	**594.5**	**81.0**	**439.3**	**111.4**	**1,226.2**
Foreign exchange forwards, options and swaps – payments	**418.0**	**4.2**	**1.6**	**–**	**423.8**
Foreign exchange forwards, options and swaps – receipts	**(409.7)**	**(4.0)**	**(1.5)**	**–**	**(415.2)**
Total derivative financial liabilities	**8.3**	**0.2**	**0.1**	**–**	**8.6**

Group as at 31st March 2009	Within 1 year £ million	1 to 2 years £ million	2 to 5 years £ million	After 5 years £ million	Total £ million
Bank overdrafts	15.4	–	–	–	15.4
Bank and other loans – principal	35.8	88.6	267.5	244.4	636.3
Bank and other loans – interest payments	29.8	28.3	69.5	24.7	152.3
Finance lease obligations	0.5	0.4	1.3	1.5	3.7
Financial liabilities in trade and other payables	337.4	–	–	–	337.4
Foreign exchange forwards, options and swaps – payments	1,251.8	27.8	–	–	1,279.6
Foreign exchange forwards, options and swaps – receipts	(1,190.5)	(27.8)	–	–	(1,218.3)
	480.2	117.3	338.3	270.6	1,206.4

Parent company as at 31st March 2010	Within 1 year £ million	1 to 2 years £ million	2 to 5 years £ million	After 5 years £ million	Total £ million
Bank overdrafts	**10.3**	**–**	**–**	**–**	**10.3**
Bank and other loans – principal	**84.4**	**50.0**	**382.3**	**98.9**	**615.6**
Bank and other loans – interest payments	**27.9**	**24.5**	**54.6**	**11.2**	**118.2**
Finance lease obligations	**0.4**	**0.4**	**1.4**	**1.0**	**3.2**
Financial liabilities in trade and other payables	**1,352.9**	**–**	**–**	**–**	**1,352.9**
Total non-derivative financial liabilities	**1,475.9**	**74.9**	**438.3**	**111.1**	**2,100.2**
Foreign exchange forwards, options and swaps – payments	**493.3**	**4.8**	**1.6**	**–**	**499.7**
Foreign exchange forwards, options and swaps – receipts	**(482.8)**	**(4.6)**	**(1.5)**	**–**	**(488.9)**
Total derivative financial liabilities	**10.5**	**0.2**	**0.1**	**–**	**10.8**

Parent company as at 31st March 2009	Within 1 year £ million	1 to 2 years £ million	2 to 5 years £ million	After 5 years £ million	Total £ million
Bank overdrafts	38.6	–	–	–	38.6
Bank and other loans – principal	20.9	88.3	260.5	244.2	613.9
Bank and other loans – interest payments	29.7	28.3	69.5	24.7	152.2
Finance lease obligations	0.4	0.4	1.3	1.5	3.6
Financial liabilities in trade and other payables	1,246.8	3.1	9.3	208.2	1,467.4
Foreign exchange forwards, options and swaps – payments	1,137.4	27.8	–	–	1,165.2
Foreign exchange forwards, options and swaps – receipts	(1,077.9)	(27.8)	–	–	(1,105.7)
	1,395.9	120.1	340.6	478.6	2,335.2

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

29 Financial risk management (continued)

29d Credit risk

Within certain businesses, the group and parent company derive a significant proportion of their revenue from sales to major customers. Sales to individual customers are frequently high if the value of precious metals is included in the price. The failure of any such company to honour its debts could materially impact the group's and parent company's results. The group and parent company derive significant benefit from trading with their large customers and manage the risk at many levels. Each business and division has a credit committee that regularly monitors its exposure. The Audit Committee receives a report every six months that details all significant credit limits, amounts due and amounts overdue within the group and the relevant actions being taken. At 31st March 2010 trade receivables for the group amounted to £542.7 million (2009 £408.2 million) (parent company £181.3 million (2009 £160.4 million)). £352.8 million (2009 £224.8 million) of these receivables at group level (£130.0 million (2009 £106.1 million) at parent company level) arose in Emission Control Technologies (ECT) which is part of Environmental Technologies Division and mainly supplies the automotive industry including car and truck manufacturers and component suppliers. Although ECT has a wide spread of the available customers the concentrated nature of this industry means that amounts owed by individual customers can be large. Other parts of the group tend to sell to a larger number of customers and amounts owed tend to be lower. As at 31st March 2010 (and at 31st March 2009) for the group as a whole, no single outstanding balance exceeded 1% of the group's revenue. No assets have been taken possession of as collateral.

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

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

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

Movements in the allowances for impairments were:

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

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

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

The group guarantees its share of the borrowings and precious metal leases of its associate and its exposure at 31st March 2010 was £ nil (2009 £ nil). The parent company also guarantees some of its subsidiaries' borrowings, partly through interest netting arrangements, and precious metal leases and its exposure at 31st March 2010 was £16.2 million (2009 £20.9 million).

29 Financial risk management (continued)

29e Fair value of financial instruments

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

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

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

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

29f Capital management

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

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

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

30 Provisions and contingent liabilities

30a Group

	Restructuring provisions £ million	Warranty & technology provisions £ million	Other provisions £ million	Total £ million
At 1st April 2009	5.5	11.9	5.7	23.1
Charge for year	0.6	9.5	3.5	13.6
Utilised	(3.5)	(0.8)	(0.8)	(5.1)
Released	(0.3)	(3.1)	–	(3.4)
Unwinding of discount	–	–	0.3	0.3
Exchange adjustments	(0.1)	0.1	(0.2)	(0.2)
At 31st March 2010	**2.2**	**17.6**	**8.5**	**28.3**

	2010 £ million	2009 £ million
Current	**8.7**	8.8
Non-current	**19.6**	14.3
Total provisions	**28.3**	23.1

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

The warranty and technology provisions represent management's best estimate of the group's liability under warranties granted and remedial work required under technology licences, based on past experience in Environmental Technologies Division. Warranties generally cover a period of up to three years.

The other provisions include environmental, onerous leases and legal provisions. Amounts provided reflect management's best estimate of the expenditure required to settle the obligations at the balance sheet date. It is possible that these and further contingent environmental and legal liabilities may give rise to expenditure above that provided. Further details of environmental and legal provisions and contingent liabilities are not provided to avoid the potential of seriously prejudicing the group's stance in law.

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

30b Parent company

	Restructuring provisions £ million	Warranty provisions £ million	Other provisions £ million	Total £ million
At 1st April 2009	1.9	0.1	6.8	8.8
Charge for year	0.1	–	2.8	2.9
Utilised	(1.4)	–	–	(1.4)
Released	(0.3)	–	(0.1)	(0.4)
At 31st March 2010	**0.3**	**0.1**	**9.5**	**9.9**

	2010 £ million	2009 £ million
Current	**0.4**	2.2
Non-current	**9.5**	6.6
Total provisions	**9.9**	8.8

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

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

The other provisions include onerous leases and legal provisions and provisions to buy metal to cover positions created by the parent company selling metal belonging to subsidiaries. Amounts provided reflect management's best estimate of the expenditure required to settle the obligations at the balance sheet date.

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

31 Deferred taxation

31a Group

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

	2010 £ million	2009 £ million
Deferred tax assets	**(57.1)**	(27.5)
Deferred tax liabilities	**56.5**	70.3
	(0.6)	42.8

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

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

31b Parent company

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

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

32 Share capital

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

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

At the last annual general meeting on 21st July 2009 shareholders approved a resolution for the company to make purchases of its own shares up to a maximum number of 21,467,573 shares. The resolution remains valid until the conclusion of this year's annual general meeting. The company will purchase its own shares when the board believes it to be in the best interests of the shareholders generally and will result in an increase in earnings per share.

The group and parent company's employee share ownership trust (ESOT) also buys shares on the open market and holds them in trust for employees participating in the group's executive share option schemes and long term incentive plan. At 31st March 2010 the ESOT held 1,736,275 shares (2009 3,689,274 shares) which had not yet vested unconditionally in employees. Computershare Trustees (CI) Limited, as trustee for the ESOT, has waived its dividend entitlement.

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

33 Components of other comprehensive income

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

34 Tax effects relating to other comprehensive income

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

35 Other reserves

35a Group

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

35b Parent company

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

36 Gross cash flows

36a Purchases of non-current assets and investments

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

36b Purchases of businesses and minority interests

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

36c Net proceeds from sale of businesses and minority interests

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

36d Net proceeds on ESOT transactions in own shares

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

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

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

37 Cash and cash equivalents

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

38 Precious metal operating leases

The group leases, rather than purchases, precious metals to fund temporary peaks in metal requirements provided market conditions allow. These leases are from banks for specified periods (typically a few months) and for which the group pays a fee. These arrangements are classified as operating leases. The group holds sufficient precious metal inventories to meet all the obligations under these lease arrangements as they fall due. At 31st March 2010 precious metal leases were £55.8 million (2009 £68.2 million).

39 Commitments

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

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

40 Acquisitions

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

Process Vision SPRL

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

Alfa Aesar Synmax (HK) Ltd

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

40 Acquisitions (continued)

Applied Utility Systems Inc.'s business

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

The net assets acquired were:

	Carrying amounts under IFRS immediately prior to acquisition £ million	Fair value adjustments £ million	Fair value at time of acquisition £ million
Property, plant and equipment	0.1	–	0.1
Intangible assets – customer contracts and relationships	–	1.1	1.1
Intangible assets – research and technology	–	1.7	1.7
Trade and other receivables	6.1	–	6.1
Trade and other payables	(5.9)	–	(5.9)
Total net assets acquired	0.3	2.8	3.1
Goodwill on acquisition			2.9
			6.0

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

Australian metal products business

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

The net assets acquired were:

	Carrying amounts under IFRS immediately prior to acquisition £ million	Fair value adjustments £ million	Fair value at time of acquisition £ million
Property, plant and equipment	1.7	–	1.7
Intangible assets – customer contracts and relationships	–	0.7	0.7
Inventories	0.9	–	0.9
Trade and other payables	(0.2)	–	(0.2)
Deferred income tax liabilities	–	(0.2)	(0.2)
Total net assets acquired	2.4	0.5	2.9
Goodwill on acquisition			0.7
			3.6

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

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

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

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

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

41 Discontinued operations

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

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

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

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

42 Transactions with related parties

Transactions between the parent company and its subsidiaries, which are related parties, have been eliminated on consolidation and so are only disclosed for the parent company's accounts. The group's associate, as described in note 19, is a related party. Guarantees of subsidiaries' and associate's borrowings are disclosed in note 29d.

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

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

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

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

43 Post balance sheet events

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

44 Key sources of estimation uncertainty

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

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

Post-employment benefits

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

Goodwill

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

Other intangible assets

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

Provisions and contingent liabilities

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

Taxation

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

PRINCIPAL SUBSIDIARIES AND ASSOCIATE

Europe

	Company	Country of incorporation
	S.A. Johnson Matthey N.V.	Belgium
+	Avocado Research Chemicals Limited	England
+	Davy Process Technology Limited	England
+	Johnson Matthey Fuel Cells Limited (82.5%)	England
+	Tracerco Limited	England
	Johnson Matthey SAS	France
	Alfa Aesar GmbH & Co KG	Germany
	Johnson Matthey Catalysts (Germany) GmbH	Germany
	Johnson Matthey GmbH	Germany
	Johnson Matthey BV	Netherlands
	Macfarlan Smith Limited	Scotland
	Johnson Matthey AB	Sweden
	Johnson Matthey & Brandenberger AG	Switzerland

North America

	Company	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 Inc.	USA
	Johnson Matthey Catalog Company Inc.	USA
	Johnson Matthey Fuel Cells, Inc. (82.5%)	USA
	Johnson Matthey Pharmaceutical Materials, Inc.	USA

Asia

	Company	Country of incorporation
	Johnson Matthey (Shanghai) Chemicals Limited	China
	Johnson Matthey Hong Kong Limited	Hong Kong
	Johnson Matthey India Private Limited	India
	Johnson Matthey Chemicals India Private Limited	India
	Johnson Matthey Japan, Inc.	USA
+	Johnson Matthey Sdn. Bhd. (92%)	Malaysia
	Johnson Matthey Catalysts Korea Limited	South Korea

Africa

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

Australasia

	Company	Country of incorporation
*	AGR Matthey (20%)	Australia
	Johnson Matthey (Aust) Ltd	Australia

South America

	Company	Country of incorporation
+	Johnson Matthey Argentina S.A.	Argentina

Except where otherwise stated, all companies are wholly owned.
* Associate (see note 19 on page 90).
\+ Investments held directly by parent company.
All the subsidiaries and associates are involved in the principal activities of the group.

ACCOUNTS

INDEPENDENT AUDITORS' REPORT

to the members of Johnson Matthey Public Limited Company

We have audited the group and parent company accounts of Johnson Matthey Plc for the year ended 31st March 2010 which comprise the Consolidated Income Statement, the Consolidated Statement of Total Comprehensive Income, the Consolidated and Parent Company Balance Sheets, the Consolidated and Parent Company Cash Flow Statements, the Consolidated Statement of Changes in Equity, the Parent Company Statement of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the EU and, as regards the parent company accounts, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

As explained more fully in the directors' responsibilities statement set out on page 57, the directors are responsible for the preparation of the accounts and for being satisfied that they give a true and fair view. Our responsibility is to audit the accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the Audit of the Accounts

A description of the scope of an audit of accounts is provided on the APB's website at www.frc.org.uk/apb/scope/UKP.

Opinion on Accounts

In our opinion:

- the accounts give a true and fair view of the state of the group's and of the parent company's affairs as at 31st March 2010 and of the group's profit for the year then ended;
- the group accounts have been properly prepared in accordance with IFRS as adopted by the EU;
- the parent company accounts have been properly prepared in accordance with IFRS as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the accounts have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group accounts, Article 4 of the IAS Regulation.

Opinion on Other Matters Prescribed by the Companies Act 2006

In our opinion:

- the part of the directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the accounts are prepared is consistent with the accounts.

Matters on Which we are Required to Report by Exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company accounts and the part of the directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 23, in relation to going concern; and
- the part of the Corporate Governance statement on page 40 relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

D V Matthews (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
8 Salisbury Square, London

2nd June 2010

FIVE YEAR RECORD

	2006 £ million	2007 £ million	2008 £ million	2009 £ million	**2010 £ million**
Revenue	4,755.9	6,151.7	7,498.7	7,847.8	**7,839.4**
Sales excluding the value of precious metals	1,341.2	1,454.2	1,750.2	1,796.9	**1,885.5**
EBITDA	305.5	329.9	374.1	398.1	**382.7**
Depreciation	(64.7)	(68.6)	(68.3)	(88.7)	**(97.3)**
Amortisation	(5.3)	(6.1)	(9.0)	(10.9)	**(13.6)**
Underlying operating profit	235.5	255.2	296.8	298.5	**271.8**
Amortisation of acquired intangibles	(0.8)	(2.8)	(3.1)	(9.1)	**(9.9)**
Major impairment and restructuring charges	(6.0)	–	–	(9.4)	**(11.3)**
Operating profit	228.7	252.4	293.7	280.0	**250.6**
Net finance costs	(14.7)	(26.8)	(30.3)	(32.6)	**(19.4)**
Share of (loss) / profit of associates	(0.2)	0.9	(1.1)	2.0	**1.7**
Dissolution of associate	–	–	–	–	**(4.4)**
Profit before tax	213.8	226.5	262.3	249.4	**228.5**
Income tax expense	(62.5)	(64.7)	(77.2)	(76.7)	**(64.3)**
Profit after taxation	151.3	161.8	185.1	172.7	**164.2**
Profit for the year from discontinued operations	–	43.7	0.3	1.2	**–**
Minority interests	0.8	1.0	0.8	0.2	**–**
Profit attributable to equity holders of the parent company	152.1	206.5	186.2	174.1	**164.2**
Underlying earnings per ordinary share	73.0p	82.2p	89.5p	89.6p	**86.4p**
Earnings per ordinary share	70.8p	96.9p	88.5p	82.6p	**77.6p**
Dividend per ordinary share	30.1p	33.6p	36.6p	37.1p	**39.0p**
Summary Balance Sheet					
Assets employed:					
Goodwill	402.4	399.2	480.4	516.0	**513.8**
Property, plant and equipment / other intangible assets	702.4	640.8	827.9	1,060.5	**1,053.2**
Non-current investments / associates	10.2	9.6	8.9	12.1	**10.9**
Inventories	345.8	362.7	380.4	371.7	**390.1**
Receivables / current investments / tax assets / financial assets	497.1	549.2	712.4	585.9	**718.9**
Payables / provisions / tax liabilities / financial liabilities	(520.2)	(519.5)	(655.7)	(684.1)	**(717.0)**
Post-employment benefits net assets / employee benefits obligations	18.8	0.9	16.4	(151.6)	**(245.7)**
	1,456.5	1,442.9	1,770.7	1,710.5	**1,724.2**
Financed by:					
Net debt	412.0	364.8	610.4	534.4	**473.4**
Retained earnings	708.0	783.7	879.1	849.6	**837.7**
Share capital, share premium, shares held in ESOTs and other reserves	330.1	292.0	279.8	325.7	**411.7**
Minority interests	6.4	2.4	1.4	0.8	**1.4**
Capital employed	1,456.5	1,442.9	1,770.7	1,710.5	**1,724.2**
Return on invested capital (Underlying operating profit / average capital employed)	17.1%	17.6%	18.5%	17.1%	**15.8%**

The balance sheet for 2008 has been restated for the changes to Argillon Group's fair value at acquisition and goodwill on acquisition.

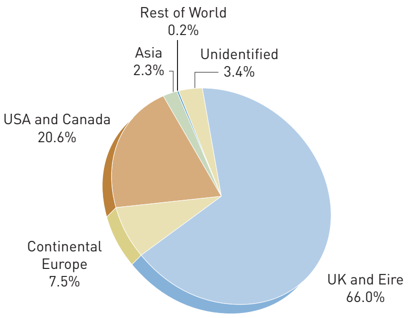
SHAREHOLDER INFORMATION

Johnson Matthey Share Price Five Year Performance versus FTSE 100 and FTSE 350

Johnson Matthey Share Price as at 31st March

2005	2006	2007	2008	2009	2010
989p	1,396p	1,576p	2,005p	1,053p	1,746p

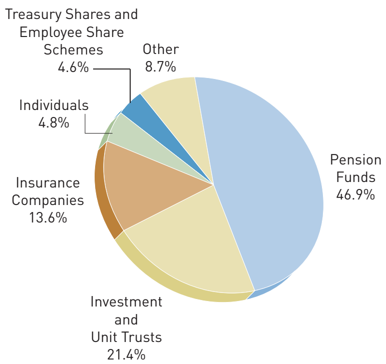
By Location



Analysis of Ordinary Shareholders as at 30th April 2010

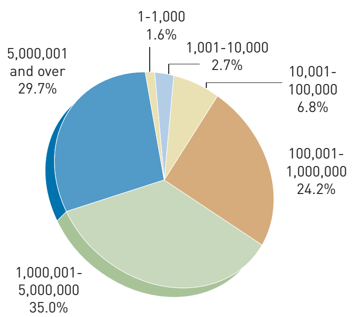
By location	Number of shares	Percentage
UK and Eire	145,658,014	66.0
Continental Europe	16,532,703	7.5
USA and Canada	45,510,251	20.6
Asia	5,129,277	2.3
Rest of World	335,784	0.2
Unidentified	7,507,584	3.4
	220,673,613	100.00

By Category



By category	Number of shares	Percentage
Pension Funds	103,548,021	46.9
Investment and Unit Trusts	47,213,698	21.4
Insurance Companies	29,894,040	13.6
Individuals	10,671,608	4.8
Treasury Shares and Employee Share Schemes	10,147,075	4.6
Other	19,199,171	8.7
	220,673,613	100.00

By Size of Holding



By size of holding	Number of holdings	Percentage	Number of shares	Percentage
1 – 1,000	8,831	74.6	3,437,401	1.6
1,001 – 10,000	2,364	20.0	5,913,326	2.7
10,001 – 100,000	409	3.5	15,077,132	6.8
100,001 – 1,000,000	178	1.5	53,360,146	24.2
1,000,001 – 5,000,000	38	0.3	77,279,807	35.0
5,000,001 and over	9	0.1	65,605,801	29.7
	11,829	100.00	220,673,613	100.00

SHAREHOLDER INFORMATION

Share Dealing Services

A telephone and internet dealing service for UK shareholders is provided by the company's registrars, Equiniti. For further details, including Equiniti's terms and conditions, log on to www.shareview.co.uk/dealing or call 08456 037 037.

Dividend History – Pence per Share

	2006	2007	2008	2009	2010
Interim	9.1	9.9	10.6	11.1	11.1
Final	21.0	23.7	26.0	26.0	27.9
Total	30.1	33.6	36.6	37.1	39.0

Dividend Policy

It is Johnson Matthey's policy to grow dividends in line with underlying earnings while maintaining dividend cover at about two and a half times to ensure sufficient funds are retained to support organic growth. Over the last five years from 2005/06, underlying earnings per share have grown at a compound annual growth rate of 6.7% p.a. The board is proposing a final dividend for 2009/10 of 27.9 pence to take the total for the year to 39.0 pence, which is 5% up. The dividend will be covered 2.2 times by underlying earnings. For further discussion of the group's financial objectives see the Strategy and Objectives section of the Business Review on page 7 of this Annual Report.

Dividend Payments and DRIP

Dividends can be paid directly into shareholders' bank or building society accounts. Shareholders wishing to take advantage of this facility should contact the company's registrars, Equiniti, or complete the dividend mandate form attached to their dividend cheque. A Dividend Reinvestment Plan (DRIP) is also available which allows shareholders to purchase additional shares in the company. Further information can be obtained from Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA. Telephone 0871 384 2268*. They can also be contacted via their website at www.shareview.co.uk.

American Depositary Receipts

Johnson Matthey has a sponsored Level 1 American Depositary Receipt (ADR) programme which BNY Mellon administers and for which it acts as Depositary. Each ADR represents two Johnson Matthey ordinary shares. The ADRs trade on the US over-the-counter (OTC) market under the symbol JMPLY. When dividends are paid to shareholders, the Depositary converts such dividends into US dollars, net of fees and expenses, and distributes the net amount to ADR holders. For enquiries, BNY Mellon can be contacted on 1-888-BNY-ADRS (1-888-269-2377) toll free if you are calling from within the United States. Alternatively, they can be contacted by e-mail at shrrelations@bnymellon.com or via their website at adrbnymellon.com.

Share Price and Group Information

Information on the company's current share price together with copies of the group's annual and half-yearly reports and major presentations to analysts and institutional shareholders are available on the Johnson Matthey website: www.matthey.com.

The website's Investor Centre contains extensive information and a number of tools which will be of assistance to investors including historic share price information downloads and a share price charting facility.

For capital gains tax purposes the mid-market price of the company's ordinary shares on 31st March 1982 was 253 pence.

Enquiries

Shareholders who wish to contact Johnson Matthey Plc on any matter relating to their shareholding are invited to contact the company's registrars, Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA. Telephone 0871 384 2344* or via their website www.shareview.co.uk.

Shareholders may also telephone the company on 020 7269 8400 or write to:

The Company Secretary
Johnson Matthey Plc
40-42 Hatton Garden
London
EC1N 8EE

For other enquiries shareholders may contact the Director, Investor Relations and Corporate Communications at the above address and telephone number.

* Calls to these numbers are charged at 8p per minute from a BT landline. Other telephony providers' costs may vary.

GLOSSARY OF TERMS

ADDERALL XR®	An extended release product used in the treatment of Attention Deficit Hyperactivity Disorder
ADR	American Depositary Receipt
AGM	Annual general meeting
Alfa Aesar	Brand name of Johnson Matthey's Research Chemicals business
AMOG	Ammonia, Methanol, Oil and Gas
APB	Auditing Practices Board
API	Active pharmaceutical ingredient
Apico	Johnson Matthey's new methanol synthesis catalyst
BID	Business Improvement District
Buprenorphine	A synthetic derivative of thebaine, used as an analgesic and also used in drug addiction therapy
CEC	Chief Executive's Committee
CGU	Cash-generating unit
CIA	Chemical Industries Association
CIPD	Chartered Institute of Personnel and Development
CO_2	Carbon dioxide
Codeine phosphate	Analgesic of moderate potency and antitussive
CSR	Corporate Social Responsibility
DPF	Diesel particulate filter
DPT	Davy Process Technology
DRIP	Dividend Reinvestment Plan
EBITDA	Earnings before interest, tax, depreciation and amortisation
ECT	Emission Control Technologies
EHS	Environment, health and safety
EIB	European Investment Bank
EPMF	European Precious Metals Federation
EPS	Earnings per share
ESOT	Employee Share Ownership Trust
ETF	Exchange Traded Fund
EU	European Union
Fentanyl	A highly potent synthetic narcotic analgesic used in surgery
Fischer Tropsch	Catalytic process used to convert syngas or gasified coal into sulphur free hydrocarbons, including diesel fuel
Fuel Cell	Technology which converts hydrogen or other fuels (methanol, natural gas) into clean electricity
Gas to Liquids	Multi stage catalytic process used to convert stranded natural gas into sulphur free hydrocarbons, including diesel fuel
GHS	Globally Harmonised System of Classification and Labelling of Chemicals
Group Control Manual	The group's compendium of policies, procedures and rules which is distributed to all group operations
GWP	Global warming potential
HDD	Heavy duty diesel
IAS	International Accounting Standard
IASB	International Accounting Standards Board
ICSA	Institute of Chartered Secretaries and Administrators
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
Interest cover	Underlying operating profit / net finance costs
ISO 14000	Internationally recognised series of standards which specify the requirements for an environmental management system
ISO 9000	Internationally recognised series of standards which specify the requirements for a quality management system
JMEPS	Johnson Matthey Employees Pension Scheme
JMPP	Johnson Matthey Pension Plan
KPI	Key performance indicator
LBG	London Benchmarking Group
LTIP	Long term incentive plan
MDRC	Management Development and Remuneration Committee
Methylphenidate	Synthetic controlled drug used in the treatment of narcolepsy and Attention Deficit Hyperactivity Disorder
N_2O	Nitrous oxide, a greenhouse gas with a global warming potential 310 times that of carbon dioxide
Naloxone	An opiate antagonist used to reverse the effect of opiates
Naltrexone	An opiate antagonist used to reverse the effect of opiates
NGO	Non-governmental organisation
NMR	Nuclear magnetic resonance, a spectroscopy technique
NOx	Nitrogen oxides
PBT	Underlying profit before tax
Pgm	Platinum group metal
R&D	Research and development
REACH	Registration, Evaluation and Authorisation of Chemicals. EU chemical control legislation which came into force in June 2007
ROIC	Return on invested capital
RPI	Retail price index
SCR	Selective catalytic reduction
SEC	Stationary emissions control
SIC	Standing Interpretations Committee
SIP	Share incentive plan
SNG	Synthetic natural gas
SO_2	Sulphur dioxide
STEM	Science, technology, engineering and mathematics
Syngas, synthesis gas	A mixture of hydrogen and carbon oxides
The Code	The Combined Code on Corporate Governance, issued by the Financial Reporting Council dated June 2008
TSCA	Toxic Substances Control Act
TSR	Total shareholder return

INDEX

FINANCIAL CALENDAR 2010/11

2010

9th June
Ex dividend date

11th June
Final dividend record date

21st July
119th Annual General Meeting (AGM)

3rd August
Payment of final dividend subject to declaration at the AGM

24th November
Announcement of results for the six months ending 30th September 2010

1st December
Ex dividend date

3rd December
Interim dividend record date

2011 (provisional)

1st February
Payment of interim dividend

2nd June
Announcement of results for the year ending 31st March 2011

8th June
Ex dividend date

10th June
Final dividend record date

19th July
120th Annual General Meeting (AGM)

2nd August
Payment of final dividend subject to declaration at the AGM

COMPANY DETAILS

Registered Office

40-42 Hatton Garden
London EC1N 8EE
Telephone: +44 (0)20 7269 8400
Fax: +44 (0)20 7269 8433
Internet address: www.matthey.com
E-mail: jmpr@matthey.com

Registered in England – Number 33774

Professional Advisers

Auditors

KPMG Audit Plc
8 Salisbury Square
London EC4Y 8BB

Brokers

Credit Suisse Securities (Europe) Limited
One Cabot Square
London E14 4QJ

Merrill Lynch International
2 King Edward Street
London EC1A 1HQ

Lawyers

Herbert Smith LLP
Exchange House
Primrose Street
London EC2A 2HS

Taylor Wessing LLP
5 New Street Square
London EC4A 3TW

Registrars

Equiniti
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA
Telephone: 0871 384 2344*
Internet address: www.shareview.co.uk

* Calls to this number are charged at 8p per minute from a BT landline. Other telephony providers' costs may vary.

The paper in this report is produced with FSC mixed sources pulp which is fully recyclable, biodegradable, pH Neutral, heavy metal absent and acid-free. It is manufactured within a mill which complies with the international environmental ISO 14001 standard.

Fulmar Colour is FSC certified, PEFC certified and ISO 14001 certified showing that it is committed to all round excellence and improving environmental performance is an important part of this strategy. Fulmar Colour aims to reduce at source the effect its operations have on the environment and is committed to continual improvement, prevention of pollution and compliance with any legislation or industry standards.

Fulmar Colour is a Carbon Neutral Printing Company.

FSC Mixed Sources
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GO ONLINE → www.matthey.com

To view our online annual report