

CORPORATE GOVERNANCE

Statement of Compliance with the Combined Code

The company has applied the principles set out in Section 1 of the Combined Code on Corporate Governance issued by the Financial Reporting Council dated June 2006 (the Code). This statement describes how the principles of the Code have been applied.

The company has complied with all relevant provisions set out in Section 1 of the Code throughout the year except that 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 eight 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, four 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 was appointed Senior Independent Director on 1st April 2008 following the retirement of Mr C D Mackay on 31st March 2008. Sir Thomas Harris joined the board as a non-executive director on 1st April 2009 following the retirement from the board of Mr I C Strachan on 31st March 2009. All non-executive directors are independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgment.

The executive directors have specific responsibilities, which are detailed on pages 38 and 39, and have direct responsibility for all operations and activities. As announced on 26th February 2009, Mr D W Morgan, Executive Director, Group Corporate Development, has decided to stand down from the board at the forthcoming Annual General Meeting on 21st July 2009. As announced on 1st April 2009, Dr P N Hawker, Executive Director, Process Technologies and Fine Chemicals & Catalysts, has decided to retire and will also stand down from the board at the forthcoming Annual General Meeting. Also as announced on 1st April 2009, Mr W F Sandford, Division Director, Precious Metal Products, has been appointed an executive director and will join the board with effect from the end of the forthcoming Annual General Meeting. Mr L C Pentz, previously Executive Director, Emission Control Technologies, was appointed Executive Director, Environmental Technologies with effect from 1st April 2009.

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.

The board has undertaken a formal evaluation of its performance and the performance of its committees and the individual directors. During the year, the Company Secretary conducted face to face interviews with each individual director. The interviews focused on the operation of the board and its committees and on individual directors' contributions. A summary of the responses was prepared by the Company Secretary and discussed at a board meeting.

One area covered by the board evaluation related to the training needs of the executive and non-executive directors. 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. 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.

Led by the Senior Independent Director, the non-executive directors met without the Chairman present to consider evaluation of the Chairman's performance.

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 five senior executives of the company.

The Audit Committee is a sub-committee of the board whose purpose is to assist the board in the effective discharge of its responsibilities for financial reporting and corporate control. The 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 46. Mr Thomson has recent and relevant financial experience as former Finance Director of Smiths Group plc and currently as Senior Vice President of the Institute of Chartered Accountants of Scotland.

The Nomination Committee is a sub-committee of the board responsible for advising the board and making recommendations on the appointment of new directors. The 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 45.

The Management Development and Remuneration Committee (MDRC) is a sub-committee of the board which determines on behalf of the board the remuneration of the executive directors. Mr R J W Walvis was appointed Chairman of the MDRC on 1st April 2008 following the retirement of Mr C D Mackay on 31st March 2008. The MDRC comprises all the independent non-executive directors of the company 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 47 to 53.

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Committees of the Board (continued)

Attendance at the board and board committee meetings in 2008/09 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	8	8	4	4	6	6	–	4 ⁽¹⁾
N A P Carson	8	8	–	4 ⁽¹⁾	–	6 ⁽¹⁾	–	4 ⁽¹⁾
P N Hawker	8	8	–	–	–	–	–	–
D W Morgan	8	8	–	–	–	–	–	–
L C Pentz	8	8	–	–	–	–	–	–
M J Roney	8	8	4	4	6	5	4	4
J N Sheldrick	8	8	–	–	–	–	–	4 ⁽¹⁾
I C Strachan	8	6	4	3	6	3	4	4
D C Thompson	8	8	4	4	6	6	4	4
A M Thomson	8	8	4	4	6	6	4	4
R J W Walvis	8	8	4	4	6	6	4	4

⁽¹⁾ Includes meetings attended by invitation for all or part of meeting.

Directors' Remuneration

The Remuneration Report on pages 47 to 53 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 results are announced and a half-yearly report and a full report are published. These reports are posted on Johnson Matthey's website (www.matthey.com). At the same time, executive directors give presentations on the results to institutional investors, analysts and the media in London and other international centres. Copies of major presentations are also posted on the company's website.

The 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 2009 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 also discusses 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 issues and concerns of major shareholders about the company. The board is provided with brokers' reports 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

The statement of the Responsibility of Directors for the preparation of the Annual Report and Accounts is set out on page 54.

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

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

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

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

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

The directors confirm that the system of internal control for the year ended 31st March 2009 and the period up to 3rd June 2009 has been established in accordance with the Turnbull Guidance included with the Code and that they have reviewed the effectiveness of the system of internal control.

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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 and Group EHS. 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 people 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

Dividends

The interim dividend of 11.1 pence per share (2008 10.6 pence) was paid in February 2009. The directors recommend a final dividend of 26.0 pence per share in respect of the year ended 31st March 2009 (2008 26.0 pence), making a total for the year of 37.1 pence per share (2008 36.6 pence), payable on 4th August 2009 to shareholders on the register at the close of business on 12th June 2009.

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 112.

Share Capital

As at 31st March 2009, the company's authorised share capital was £291,550,000 divided into 291,550,000 ordinary shares of £1.00 each. The issued share capital of the company at 31st March 2009 was 214,675,736 ordinary shares of £1.00 each, excluding 5,997,877 shares held as treasury shares.

There were no share allotments during the year.

At the 2008 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 30th May 2008).

The company did not make any purchases of its own shares during the year. Authority to purchase up to 21,467,573 shares remained in place at 31st March 2009. 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 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 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.

Annual General Meeting

The notice of the 2009 Annual General Meeting of the company to be held on Tuesday 21st July 2009 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.

Employee Share Schemes

At 31st March 2009 4,456 current and former employees, representing approximately 52.2% of employees worldwide, were shareholders in Johnson Matthey through the group's employee share schemes, which held 3,774,061 shares (1.76% of issued share capital, excluding treasury shares). A total of 661 current and former executives held options over 4,476,662 shares through the company's executive share option schemes.