

CORPORATE GOVERNANCE

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.

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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.

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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.