

Corporate Governance

Statement of Compliance with the Combined Code

The company has applied all of the principles set out in section 1 of the Combined Code on Corporate Governance (the Code) relating to the structure and composition of the board, the remuneration of the directors, relations with shareholders and procedures for financial reporting, internal control and audit. This statement describes how the principles of the Code have been applied. The group was in compliance with the provisions of the Code throughout the year with the exception of the following matters. For the period from 1st April 2004 to 20th July 2004 the number of executive directors exceeded the number of independent non-executive directors (see below). Also, the board has taken the view that it is not necessarily practical, efficient or desired by shareholders for the Chairman to discuss governance and strategy direct with major shareholders nor 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' below.

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.

Mr N A P Carson was appointed Chief Executive on the retirement of Mr C R N Clark on 20th July 2004. The board has since comprised the Chairman, the Chief Executive, four other executive directors and five independent non-executive directors. The Chairman's other commitments are disclosed on page 34. The roles of Chairman and Chief Executive are separate. The Chairman leads the board, ensuring that each director, particularly the non-executive directors, 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.

Mr C D Mackay is the Senior Independent Director. The role of non-executive directors is to enhance independence and objectivity of the board's deliberations and decisions. 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 34 and 35, and have direct responsibility for all operations and activities.

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.

During the year the board undertook a formal evaluation of its performance and the performance of its committees and the individual directors. A questionnaire, prepared by the Chairman with the assistance of the Company Secretary, was completed by all directors other than the Chairman. The questionnaire focused on the operation of the board, its committees and individual directors' contributions. A summary of the responses was prepared by the Company Secretary and discussed at a board meeting. In addition, during the year, 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. It comprises the executive directors and three senior executives of the company.

The **Audit Committee** is a sub-committee of the board whose purpose is to assist the board in the effective discharge of its responsibilities for financial reporting and corporate control. The Committee meets quarterly and is chaired by Mr A M Thomson. It comprises all the independent non-executive directors with the Chairman, the Chief Executive, the Group Finance Director and the external and internal auditors attending by invitation. A report from the Committee on its activities is given on page 41.

The **Nomination Committee** is a sub-committee of the board responsible for advising the board and making recommendations on the appointment of new directors. The Committee is chaired by Mr H M P Miles and also comprises all the independent non-executive directors. A report from the Committee on its activities is given on page 42.

The **Management Development and Remuneration Committee** (MDRC) is a sub-committee of the board, which determines on behalf of the board the remuneration of the executive directors. The Committee is chaired by Mr C D Mackay and comprises all the independent non-executive directors. 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 43 to 48.

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Committees of the Board (continued)

Attendance at the board and board committee meetings in 2004/05 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
H M P Miles	7	7	–	–	1	1	–	–
C R N Clark ⁽¹⁾	3	3	–	2 ⁽²⁾	–	–	–	1 ⁽²⁾
N A P Carson	7	7	–	4 ⁽²⁾	–	–	–	3 ⁽²⁾
M B Dearden	7	7	5	5	1	1	4	4
P N Hawker	7	7	–	–	–	–	–	–
C D Mackay	7	7	5	5	1	1	4	3
D W Morgan	7	7	–	–	–	–	–	–
L C Pentz	7	7	–	–	–	–	–	–
J N Sheldrick	7	7	–	–	–	–	–	4 ⁽²⁾
I C Strachan	7	7	5	4	1	1	4	4
A M Thomson	7	7	5	4	1	1	4	4
R J W Walvis	7	7	5	5	1	1	4	3

⁽¹⁾ Retired July 2004.

⁽²⁾ Includes meetings attended by invitation for all or part of meeting.

Directors' Remuneration

The Remuneration Report on pages 43 to 48 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 twice a year, when its half year and full year results are announced and an interim report and a full report are issued to shareholders. These reports are posted on Johnson Matthey's website (www.matthey.com). At the same time, executive directors give presentations on the results to institutional investors, analysts and the media in London and other international centres. Copies of major presentations are also posted on the company's website.

The company's Annual General Meeting (AGM) takes place in London and formal notification is sent to shareholders with the annual report at least 20 working days in advance of the meeting. The directors are available for questions, formally during the AGM and informally afterwards. Details of the 2005 AGM are set out in the notice of the meeting enclosed with this annual report.

Contact with major shareholders is essentially maintained by the Chief Executive and the Group Finance Director, who ensure that their views are communicated to the board as a whole. 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. A further step taken has been the canvassing of major shareholders' views for the board in a detailed investor survey conducted by external consultants in September 2004. The results of the survey were discussed by the board on 27th September 2004. The board intends that such a review be carried out periodically, although not necessarily annually. The views of the top ten shareholders were canvassed by the Senior Independent Director for the MDRC in respect of changes to remuneration prior to the 2004 AGM. Consultation with shareholders is also currently underway in respect of the proposed succession of the Chairman, Mr H M P Miles. 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 Chairman and the Senior Independent Director are available to attend meetings with major shareholders if requested.

Accountability, Audit and Control

The Statement of Directors' responsibilities in relation to the accounts is set out on page 49.

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

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

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Accountability, Audit and Control (continued)

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 2005 and the period up to 31st May 2005 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.

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 and the Chief Executive's Committee.

A review of the group's policies and targets for corporate social responsibility is set out on pages 24 to 33. A full version of the report is available on the company's website.

The identification, assessment and management of environment, health and safety (EHS) risks are standing items at the Chief Executive's Committee. Performance is monitored using monthly statistics and detailed site audit reports. An annual review of EHS performance 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.