

DIRECTORS' REPORT

The directors submit to shareholders their one hundred and seventeenth Annual Report, together with the audited accounts of the group for the year ended 31st March 2008.

Principal Activities

A review of the group's principal activities and an indication of likely future developments for the company and its subsidiaries are set out on pages 5 to 21 and a description of the group's activities in research and development can be found on page 23, both of which are incorporated into this directors' report by reference.

Business Review

The company is required to set out in this report a fair review of the business of the group during the financial year ended 31st March 2008 and of the position of the group at the end of that financial year and a description of the principal risks and uncertainties facing the group, consistent with the size and complexity of the business (known as a 'Business Review'). The Business Review is set out on pages 6 to 35.

Dividends

The interim dividend of 10.6 pence per share (2007 9.9 pence) was paid in February 2008. The directors recommend a final dividend of 26.0 pence per share in respect of the year ended 31st March 2008 (2007 23.7 pence), making a total for the year of 36.6 pence per share (2007 33.6 pence), payable on 5th August 2008 to shareholders on the register at the close of business on 13th June 2008.

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 109.

Share Capital

As at 31st March 2008, 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 2008 was 214,675,736 ordinary shares of £1.00 each, excluding 5,997,877 shares held as treasury shares.

During the year 196,330 ordinary shares of £1.00 each were allotted pursuant to the exercise of executive share options.

At the 2007 annual general meeting (AGM), shareholders renewed the company's authority to make market purchases of up to 21,707,361 ordinary shares (representing 10% of the issued share capital of the company (excluding treasury shares) as at 31st May 2007).

During the year the company purchased 2,397,877 of its own ordinary shares of £1 each (representing 1.1% of the called-up share capital of the company as at 31st March 2008) for an aggregate consideration of £39.1 million. All such purchases were made on-market and all of the purchased shares are held by the company as treasury shares. Authority to purchase up to 19,309,484 shares remained in place at 31st March 2008. At the forthcoming AGM 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, 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 2008 AGM of the company to be held on Tuesday 22nd July 2008 at 11.00 am at The Institution of Engineering and Technology (The Lecture Theatre), 2 Savoy Place, London, WC2R 0BL is contained in the AGM circular accompanying this Annual Report, together with an explanation of the resolutions to be considered at the meeting.

Employee Share Schemes

At 31st March 2008 5,487 current and former employees, representing approximately 56.9% of employees worldwide, were shareholders in Johnson Matthey through the group's employee share schemes, which held 3,329,070 shares (1.55% of issued share capital, excluding treasury shares). A total of 791 current and former executives held options over 4,946,246 shares through the company's executive share option schemes.

Directors

The names and biographical details of the directors of the company are shown on pages 36 and 37. During the year, Mr M J Roney and Mrs D C Thompson were appointed as non-executive directors and Mr M B Dearden and Mr C D Mackay retired as non-executive directors. In accordance with the provisions for retirement by rotation in the company's Articles of Association, Mr D W Morgan, Mr A M Thomson and Mr R J W Walvis retire by rotation at the forthcoming AGM and, being eligible, offer themselves for re-election. Mrs D C Thompson, who was appointed to the board as a non-executive director on 1st September 2007, offers herself for election.

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

DIRECTORS' REPORT

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 AGM and is not taken into account in determining the directors who are to retire by rotation at the meeting.

At every AGM 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 AGMs, and (if so required to constitute one third of directors) those directors who have been longest in office since their last appointment or re-appointment.

A director may be removed by an extraordinary resolution of the company. In addition, a director must automatically cease to be a director if (i) he ceases to be a director by virtue of any provision of the Companies Acts or he becomes prohibited by law from being a director, or (ii) he becomes bankrupt or makes any arrangement or composition with his creditors generally, or (iii) he is suffering from a mental disorder, or (iv) he resigns from his 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 is absent for more than six consecutive months without permission of the directors from meetings of the directors and the directors resolve that his office be vacated or (vi) he 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 Memorandum and Articles of Association, the Companies Act 1985 and 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 AGM for renewal. Any shares purchased may be cancelled or held as treasury shares.

Directors' Interests

Details of directors' remuneration, service contracts and interests in the shares of the company are set out in the Remuneration Report on pages 45 to 51.

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

Major Shareholders

As at 30th May 2008, the following information had been disclosed to the company under Rule 5 of the Financial Services Authority's Disclosure and Transparency Rules in respect of holdings exceeding the 3% notification threshold:

	Total voting rights ⁽¹⁾	% of total voting rights ⁽²⁾
Prudential plc	21,548,111	10.03
Aviva plc	13,749,083	6.41
BlackRock, Inc	10,984,350	5.11
Lloyds TSB Group plc	10,490,545	4.89
Legal & General Group Plc	8,879,144	4.13

⁽¹⁾ Includes direct and / or indirect voting rights.

⁽²⁾ Total voting rights attaching to the issued ordinary share capital of the company (excluding treasury shares) at the date of disclosure.

Change of Control

The company and its subsidiaries are party to a number of commercial agreements that may allow the counterparties to alter or terminate the arrangements 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 in control of the company. The group has also entered into a series of financial instruments to hedge its currency, interest rate and commodity 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.

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.

Disabled Persons

Details of the company's policy relating to the employment and training of disabled persons can be found on page 33.

Use of Financial Instruments

Information on the company's financial risk management and policies and its exposure to price risk, credit risk, liquidity risk and cash flow risk can be found on pages 87 to 91.

Employee Involvement

Information on the action taken by the company during the year relating to employee involvement can be found on pages 29 to 35.

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. At 31st March 2008, the company's aggregate level of 'creditor days' amounted to 5 days. Creditor days are calculated by dividing the aggregate of the amounts which were outstanding as trade payables at the end of the year by the aggregate of the amounts the company was invoiced by suppliers during the year and multiplying by 365 to express the ratio as a number of days.

Charitable Donations

During the year the group donated £415,000 (2007 £330,000) to charitable organisations worldwide, of which £264,000 (2007 £259,000) was in the UK.

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Charitable Donations (continued)

Further details of contributions made by the group worldwide are given on page 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 to 31st March 2008, no donations were made to EU political organisations (2007 £ nil), no EU political expenditure was incurred (2007 £ nil) and no contributions to political parties outside the EU were made within the meaning of Part XA of the Companies Act 1985 or Part 14 of the Companies Act 2006 (2007 £ nil).

Directors' Indemnities

The company has granted indemnities in favour of directors under Deed Polls. These provisions were in force during the year ended 31st March 2008 and remain in force as at the date of this report. 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 AGM.

Going Concern

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

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 is set out on pages 45 to 51.

Auditors and Disclosure of Information to Auditors

In accordance with section 489 of the Companies Act 2006, a resolution is to be proposed at the forthcoming AGM 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 is approved is aware, there is no relevant information needed by the company's auditors in connection with preparing its report set out on page 53 (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.

This report was approved by the Board of Directors on 3rd June 2008 and is signed on its behalf by:



Simon Farrant
Company Secretary

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 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 pages 41 and 42.

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, 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 36. 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 is to enhance independence and objectivity of the board's deliberations and decisions. Mr M J Roney and Mrs D C Thompson joined the board as non-executive directors on 1st June 2007 and 1st September 2007 respectively. Mr C D Mackay and Mr M B Dearden both retired from the board on 31st March 2008. Mr C D Mackay was the Senior Independent Director until his retirement from the board. He has been succeeded in this role by Mr A M Thomson with effect from 1st April 2008. 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 36 and 37, and have direct responsibility for all operations and activities.