

CORPORATE GOVERNANCE REPORT

INTRODUCTION

Our board of directors is responsible to our shareholders for ensuring the sound running of the company. This can only be achieved if the board is supported by appropriate and well managed governance processes. The key elements of these are described in this Corporate Governance Report.

UK CORPORATE GOVERNANCE CODE

The UK Corporate Governance Code was published by the Financial Reporting Council (FRC) in May 2010 with revised versions published in September 2012 and September 2014 (the Code). The Code contains broad principles and specific provisions which set out standards of good practice in relation to **leadership, effectiveness, remuneration, accountability** and **relations with shareholders**. This Corporate Governance Report is structured so as to report against the Code by reference to each of these key areas. Together with the Nomination Committee Report, the Audit Committee Report and the Remuneration Report, it describes how we have complied with the relevant provisions of the Code and applied its main principles during the year. We have complied with all relevant provisions of the Code throughout the year except in relation to Senior Independent Director contact with major shareholders. This is explained in more detail on page 97.

LEADERSHIP

Governance Framework

The group's principal decision making body is the board. It has responsibility for setting the group's strategic direction and for ensuring that the group manages risk effectively. The board is accountable to shareholders for the group's financial and operational performance.

Responsibility for implementing operational decisions and the day to day management of the business is delegated to the Chief Executive who is supported by the Group Management Committee (GMC).

The GMC is supported by four sub-committees – the Group Policy and

Compliance Committee, the Finance and Administration Committee, the IT Committee and the Contracts Review Committee, each of which has responsibility for certain areas within the group.

The governance framework is described on page 87.

There is a clear division of responsibilities between the running of the board and the executive responsibility for the running of the business. The board has identified certain matters which only it can approve. These are set out in a schedule of matters reserved for the board. The Chairman's and Chief Executive's roles are separate and this division of responsibilities is clearly established in a written statement.

This statement, together with the schedule of matters reserved for the board, as well as the terms of reference of the Audit Committee, Nomination Committee and Remuneration Committee, can be found in the Investor Relations / Corporate Governance section of our website.

Further information on the role of our board and its committees and how they operate is also set out in the Investor Relations / Corporate Governance section of our website. We also explain further the respective roles of our Chairman, our Chief Executive, our Executive Directors, our Non-Executive Directors, our Senior Independent Director and our Company Secretary.



Go online: www.matthey.com/investor/governance

Board Meetings

Annual Agenda Plan

Each year the board agrees an annual agenda plan designed to ensure that it has the right amount of time throughout the year to discuss all necessary matters. In particular, the board has sought to ensure there is sufficient time to discuss strategy so that the Non-Executive Directors have a good opportunity to challenge and help develop strategy proposals.

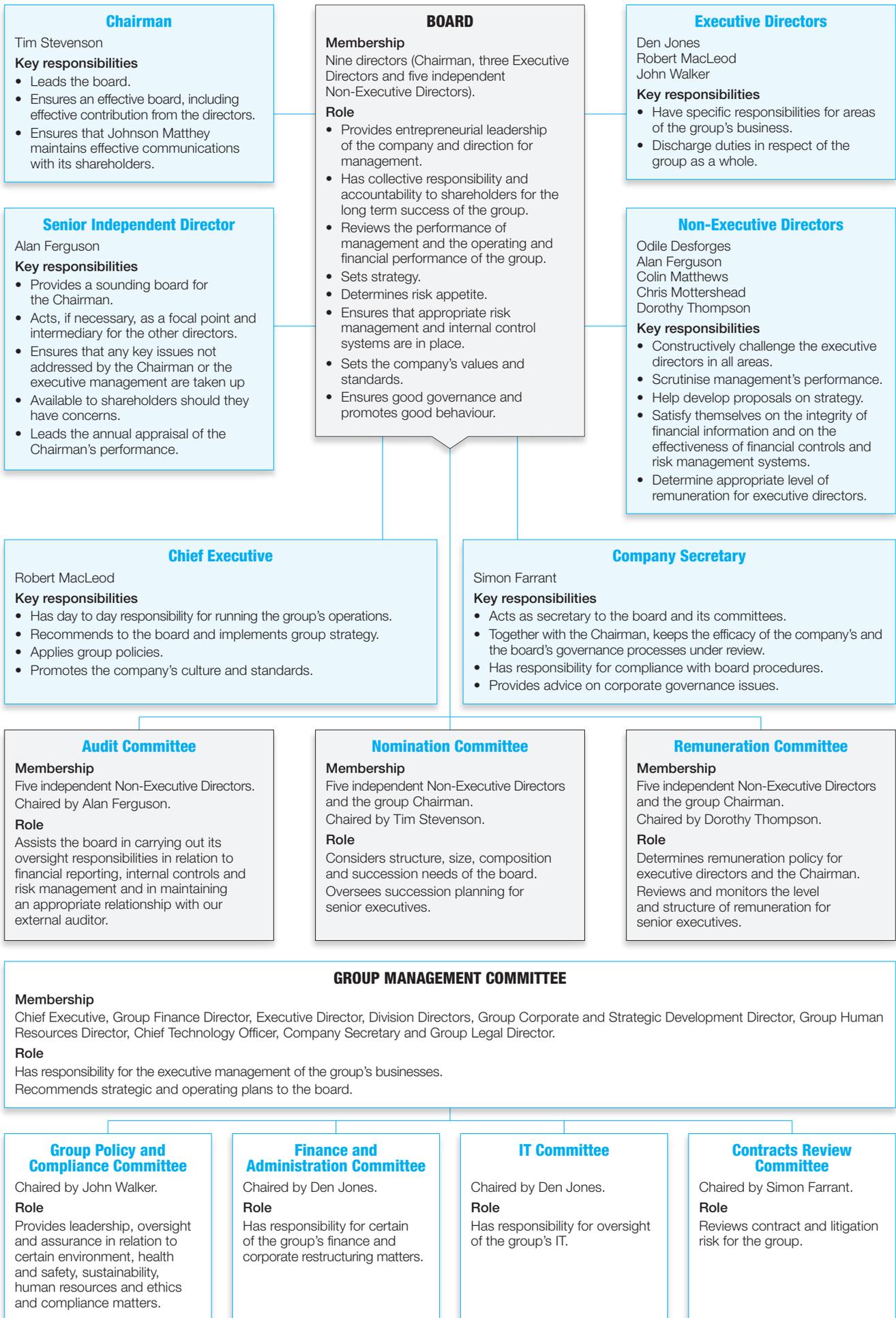
Board Activities During the Year

Our board usually meets formally six times a year. During the year these meetings were held at various locations and additional activities were carried out as shown below.

Date of board meeting	Location	Additional activities
1st April 2015	Royston, UK	Tour of Noble Metals' plant
2nd June 2015	London, UK	–
21st July 2015	London, UK	–
29th September 2015	Chilton, UK	Tour of Process Technologies' site Strategy review session
17th November 2015	London, UK	Fine Chemicals teach-in
2nd February 2016	London, UK	Battery Technologies teach-in

In addition to the above formal meetings, during the year board members participated in two scheduled board telephone conference calls. The purpose of these was to give the Executive Directors the opportunity to update the Non-Executive Directors on key matters during the longer gaps between scheduled board meetings.

OUR GOVERNANCE FRAMEWORK



Chairman

Tim Stevenson

Key responsibilities

- Leads the board.
- Ensures an effective board, including effective contribution from the directors.
- Ensures that Johnson Matthey maintains effective communications with its shareholders.

BOARD

Membership

Nine directors (Chairman, three Executive Directors and five independent Non-Executive Directors).

Role

- Provides entrepreneurial leadership of the company and direction for management.
- Has collective responsibility and accountability to shareholders for the long term success of the group.
- Reviews the performance of management and the operating and financial performance of the group.
- Sets strategy.
- Determines risk appetite.
- Ensures that appropriate risk management and internal control systems are in place.
- Sets the company's values and standards.
- Ensures good governance and promotes good behaviour.

Executive Directors

Den Jones
Robert MacLeod
John Walker

Key responsibilities

- Have specific responsibilities for areas of the group's business.
- Discharge duties in respect of the group as a whole.

Senior Independent Director

Alan Ferguson

Key responsibilities

- Provides a sounding board for the Chairman.
- Acts, if necessary, as a focal point and intermediary for the other directors.
- Ensures that any key issues not addressed by the Chairman or the executive management are taken up
- Available to shareholders should they have concerns.
- Leads the annual appraisal of the Chairman's performance.

Non-Executive Directors

Odile Desforges
Alan Ferguson
Colin Matthews
Chris Mottershead
Dorothy Thompson

Key responsibilities

- Constructively challenge the executive directors in all areas.
- Scrutinise management's performance.
- Help develop proposals on strategy.
- Satisfy themselves on the integrity of financial information and on the effectiveness of financial controls and risk management systems.
- Determine appropriate level of remuneration for executive directors.

Chief Executive

Robert MacLeod

Key responsibilities

- Has day to day responsibility for running the group's operations.
- Recommends to the board and implements group strategy.
- Applies group policies.
- Promotes the company's culture and standards.

Company Secretary

Simon Farrant

Key responsibilities

- Acts as secretary to the board and its committees.
- Together with the Chairman, keeps the efficacy of the company's and the board's governance processes under review.
- Has responsibility for compliance with board procedures.
- Provides advice on corporate governance issues.

Audit Committee

Membership

Five independent Non-Executive Directors. Chaired by Alan Ferguson.

Role

Assists the board in carrying out its oversight responsibilities in relation to financial reporting, internal controls and risk management and in maintaining an appropriate relationship with our external auditor.

Nomination Committee

Membership

Five independent Non-Executive Directors and the group Chairman. Chaired by Tim Stevenson.

Role

Considers structure, size, composition and succession needs of the board. Oversees succession planning for senior executives.

Remuneration Committee

Membership

Five independent Non-Executive Directors and the group Chairman. Chaired by Dorothy Thompson.

Role

Determines remuneration policy for executive directors and the Chairman. Reviews and monitors the level and structure of remuneration for senior executives.

GROUP MANAGEMENT COMMITTEE

Membership

Chief Executive, Group Finance Director, Executive Director, Division Directors, Group Corporate and Strategic Development Director, Group Human Resources Director, Chief Technology Officer, Company Secretary and Group Legal Director.

Role

Has responsibility for the executive management of the group's businesses. Recommends strategic and operating plans to the board.

Group Policy and Compliance Committee

Chaired by John Walker.

Role

Provides leadership, oversight and assurance in relation to certain environment, health and safety, sustainability, human resources and ethics and compliance matters.

Finance and Administration Committee

Chaired by Den Jones.

Role

Has responsibility for certain of the group's finance and corporate restructuring matters.

IT Committee

Chaired by Den Jones.

Role

Has responsibility for oversight of the group's IT.

Contracts Review Committee

Chaired by Simon Farrant.

Role

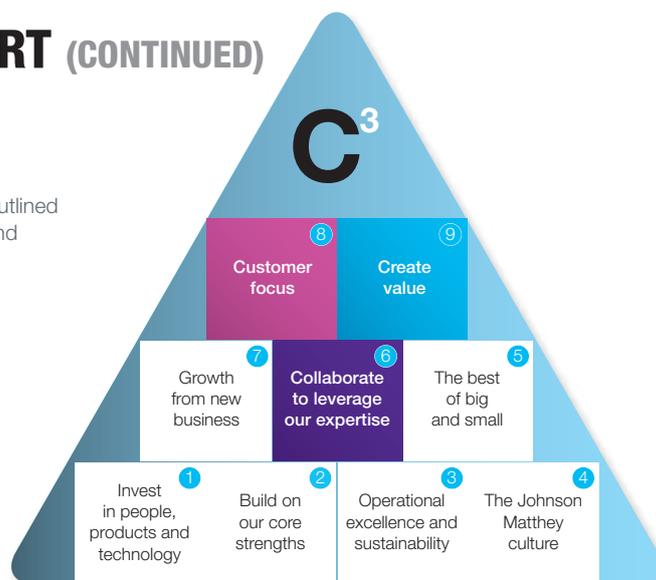
Reviews contract and litigation risk for the group.

4. Governance

CORPORATE GOVERNANCE REPORT (CONTINUED)

During the year the board focused on a number of specific areas which are outlined in the following table. Links to the group's 3C Strategy (shown on the right) and 12 principal risks (below) are also highlighted in the table.

- 1 Growth within our existing business
- 2 New business
- 3 Innovation
- 4 Global economic, political and regulatory uncertainty
- 5 Environment, health and safety
- 6 Supply chain
- 7 People
- 8 Security of assets
- 9 Intellectual capital
- 10 Failure of significant sites
- 11 Ethics and compliance
- 12 Business transition



Principal Board Activities

Activities	Key outcomes	Link to key strategy building blocks	Link to principal risks
Strategy			
<ul style="list-style-type: none"> Reviewed market and supply chain developments in respect of our Fuel Cells business' position in the automotive sector. 	Approved strategy to refocus the business on the stationary sector while maintaining the technology position in the automotive sector.	7 8 9	2
<ul style="list-style-type: none"> Reviewed Emission Control Technologies' (ECT's) strategy including global growth drivers and investment in technology. 	Approved strategy.	1 2 3 8 9	1 3 4
<ul style="list-style-type: none"> Reviewed Fine Chemicals' strategy. 	Approved strategy to establish Johnson Matthey as the leading integrated controlled substance and technology enabled Active Pharmaceutical Ingredient (API) supplier to the pharmaceutical sector. Endorsed accelerating the move up the value chain to formulated drug products.	1 2 8 9	1 3
<ul style="list-style-type: none"> Reviewed New Businesses Battery Technologies' strategy including the technology capabilities in battery materials. 	Approved strategy.	1 2 7 8 9	2 3
<ul style="list-style-type: none"> Reviewed innovation. 	Endorsed the approach being taken to build on technical competences and skills including the development and management of a groupwide innovation portfolio.	1 2 6 9	1 2 3
<ul style="list-style-type: none"> Considered performance against our Sustainability 2017 Vision and proposals for post-2017. 	Agreed to build on the success of Sustainability 2017 by developing a Sustainability 2025 programme.	3 4 9	3 5 6 7
<ul style="list-style-type: none"> Considered investment proposals. 	Approved acquisition of Stepac (Atmosphere Controls Technologies, New Businesses) and Miox (Water Technologies, New Businesses). Agreed investment in Shanghai Bi Ke Clean Energy Technology Co Ltd, (CECC), a Chinese chemical process technology commercialisation and licensing start-up company (PT).	1 4 7 9	1 2 3 11
<ul style="list-style-type: none"> Discussed 2025 Vision and Johnson Matthey's 200th anniversary in 2017. 	Considered how to use the anniversary in 2017 to support our strategic objectives, image, reputation and future growth.	4 6 8 9	-
Reviewed at off site strategy meeting: <ul style="list-style-type: none"> Johnson Matthey's growth portfolio; PT strategy; and aspects of group organisation. 	Agreed approach to securing short term profit potential of the portfolio and approach to longer term growth prospects across key sectors (including PT). Agreed approach to organisational design to enable delivery of strategy.	1 2 4 5 6 7 8 9	1 2 3 6 7 12
<ul style="list-style-type: none"> Two half day deep dive teach-ins on Fine Chemicals and Battery Technologies. 	Helped to facilitate board strategic review and discussion.	1 2 5 6 7 8 9	1 2 3

[Read more about our 3C Strategy on pages 20 and 21.](#)

[Read more about our principal risks on pages 28 to 35.](#)

Activities	Key outcomes	Link to key strategy building blocks	Link to principal risks
Environment, Health and Safety (EHS)			
<ul style="list-style-type: none"> Reviewed EHS performance at each board meeting. Considered significant EHS incidents. Reviewed key areas of focus and effectiveness of EHS reporting and management processes. 	Reviewed fatality at Riverside (Fine Chemicals) including management response and actions.	3 4	5
Risk and Governance			
<ul style="list-style-type: none"> Reviewed board's responsibilities in relation to risk assessment and monitoring of risk management and internal control systems following changes to the UK Corporate Governance Code. Reviewed principal risks, key assurance activities and risk appetite. 	Agreed processes. Assessed and agreed principal risks and the management and mitigation of these risks.	1 2 3 4 7 8 9	1 2 3 4 5 6 7 8 9 10 11 12
<ul style="list-style-type: none"> Reviewed key findings of board, committee and Chairman performance evaluation. Reviewed directors' conflicts of interest and Non-Executive Directors' independence. 	Agreed board development plan for 2016/17 (page 94).	4 9	-
Financial and Operational			
<ul style="list-style-type: none"> Reviewed group budget and three year plan. Reviewed full year results, half-yearly results, trading updates and the annual report. Reviewed the group's capital structure, dividend policy and proposals in respect of dividends. 	Approved.	1 2 3 4 5 6 7 8 9	1 2 3 4 5 6 7 10 12
<ul style="list-style-type: none"> Reviewed the group's information security strategy. 	Approved.	1 4 5	8 9 10 12
<ul style="list-style-type: none"> Reviewed progress on the development and implementation of new groupwide IT and business information systems. 	Approved major capital investment to upgrade core business systems.	1 5 6 9	8 9 10 12
<ul style="list-style-type: none"> Considered capital investment proposals and undertook post-investment reviews of key capital expenditure projects. 	Approved capital investments including an expansion in capacity at ECT's Redwitz, Germany facility, a new platinum group metals catalyst plant at PT's Emmerich, Germany facility and additional investment at Fine Chemicals' Annan, UK facility.	1 2 3 7 8 9	1 2 3 5 7
Shareholder Engagement			
<ul style="list-style-type: none"> Reviewed analyst and investor feedback following full year and half-yearly results announcements, Investor Day and outcome of biennial investor perception study. Reviewed proposed results presentations to investors and analysts. Received an update from one of our brokers, Bank of America Merrill Lynch, regarding share price performance, market perceptions and relevant macroeconomic factors. 	Key reflections taken into consideration by executive management.	-	-
Our Values			
<ul style="list-style-type: none"> Received a legal, ethics and compliance and intellectual property risk update. Code of ethics training session for board. 	Challenged pace of progress in embedding Johnson Matthey's new code of ethics.	4 5 9	9 11
Leadership and People			
<ul style="list-style-type: none"> Reviewed our people strategy in relation to recruitment, development and support, reward and retention, culture and values and supporting change. Considered board succession. 	Approved the appointment of Jane Griffiths as a Non-Executive Director.	1 2 4 5 6 9	7 11

4. Governance

CORPORATE GOVERNANCE REPORT (CONTINUED)

Board Committees

Our board has three committees: the Nomination Committee, the Audit Committee and the Remuneration Committee. Their terms of reference can be found in the Investor Relations / Corporate Governance section of our website.

Board Attendance

The attendance of members at board meetings in the year was as follows:

	Role	Date of appointment to board	Number of meetings eligible to attend	Number of meetings attended	% attended
Tim Stevenson	Chairman	29th March 2011 ¹	6	6	100%
Odile Desforges	Non-Executive Director	1st July 2013	6	6	100%
Alan Ferguson	Non-Executive Director	13th January 2011	6	6	100%
Den Jones	Group Finance Director	5th June 2014	6	6	100%
Robert MacLeod	Chief Executive	22nd June 2009 ²	6	6	100%
Colin Matthews	Non-Executive Director	4th October 2012	6	6	100%
Chris Mottershead	Non-Executive Director	27th January 2015	6	6	100%
Larry Pentz	Executive Director	1st August 2003	6	6	100%
Dorothy Thompson	Non-Executive Director	1st September 2007	6	6	100%
John Walker	Executive Director	9th October 2013	6	6	100%

¹ Tim Stevenson was appointed Chairman on 19th July 2011.

² Robert MacLeod was appointed Chief Executive on 5th June 2014.

Since the end of the year, the board has met twice and all members attended.

The attendance of members at board committee meetings in the year is set out in the Audit Committee Report, the Nomination Committee Report and the Remuneration Report (in respect of the Remuneration Committee) on pages 102, 98 and 118 respectively.

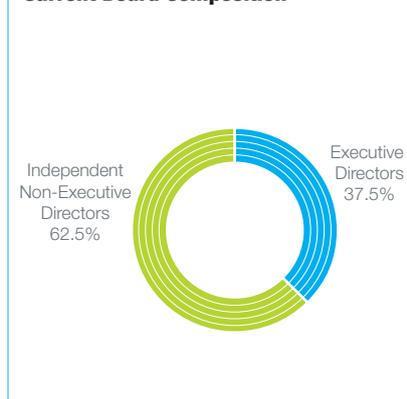
Where directors are unable to attend a board or board committee meeting, they communicate their comments and observations on the matters to be considered in advance of the meeting via the group Chairman, the Senior Independent Director or the relevant board committee chairman for raising as appropriate at the meeting. Individuals' attendance at board and board committee meetings is considered, as necessary, as part of the formal annual review of their performance.

EFFECTIVENESS

Our Board's Composition

As at 31st March 2016 (following the retirement of Larry Pentz as an Executive Director on that date) and as at the date of approval of this annual report, our board comprised the Chairman, three Executive Directors and five Non-Executive Directors, each of whom is determined by the board to be independent. Details of all our directors can be found on pages 82 and 83.

Our board seeks to ensure that both it and its committees have the appropriate range and balance of skills, experience, knowledge and independence to enable them to carry out their duties and responsibilities effectively. The board is of the view that it is the right size to meet the business' requirements, that changes to its composition and that of its committees can be managed without undue disruption and that it is not so large as to be unwieldy. It also believes that it includes an appropriate combination of Executive and Non-Executive Directors (and, in particular, independent Non-Executive Directors). The size and composition of the board is regularly reviewed by the Nomination Committee.

Current Board Composition¹

¹ Under the Code, the Chairman is excluded when considering the independent Non-Executive Director composition of the board.

Independence of the Non-Executive Directors

The board formally reviews Non-Executive Director independence annually, most recently at its meeting in May 2016. The board considers all relevant relationships and circumstances, including those set out in the Code. It considers, for example, whether the director has, or has had within the last three years, a material business relationship with Johnson Matthey, holds cross directorships or has significant links with fellow directors through involvement in other companies or bodies, or represents or has a material connection to a controlling or significant shareholder or is nominated by a shareholder.

The board considers that there are no business or other relationships or circumstances which are likely to affect, or may appear to affect, the judgment of any Non-Executive Director. Each Non-Executive Director is determined by the board to be independent in character and judgment.

Information on the company's procedures for authorising potential conflicts of interest is set out under 'Directors' Conflicts of Interest' on page 93.

Board and Committee Appointments

The board, through the Nomination Committee, follows a formal, rigorous and transparent procedure to select and appoint new board directors. The processes are similar for the appointment of Executive and Non-Executive Directors. The Nomination Committee leads the process and makes recommendations to the board. The board recognises the importance of developing internal talent for board appointments, as well as recruiting externally, and Johnson Matthey has a variety of mentoring arrangements and a wide range of management development programmes for all employee levels, as described on pages 66 and 67. The board also recognises the need to recruit Non-Executive Directors with the right technical skills and knowledge for its committees and who have the potential to chair them.

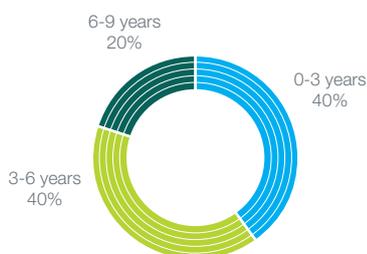
Terms of Appointment of the Non-Executive Directors

Our Non-Executive Directors are appointed for specified terms subject to annual election and to the provisions of the Companies Act 2006 (the 2006 Act) relating to the removal of a director.

In accordance with the Code, any term beyond six years for a Non-Executive Director is subject to particularly rigorous review and takes into account the need for progressive refreshing of the board.

Colin Matthews, one of our Non-Executive Directors who will be proposed for re-election at the 2016 AGM, has served on our board for three years. His term of appointment was reviewed and extended during the year to 3rd October 2018.

Non-Executive Director Tenure



Succession Planning

The board recognises that effective succession planning is not only a fundamental component of board effectiveness but is also integral to the delivery of Johnson Matthey's strategic plans. It is essential in ensuring a consistent level of quality in management, in avoiding instability by helping mitigate the risks which may be associated with any unforeseen events (such as the departure of a key individual), and in promoting diversity. The board, through the Nomination Committee, is actively engaged in succession planning to ensure plans are in place for the orderly and progressive refreshing of its membership and to identify and develop senior management with potential for board and GMC positions.

Below board level, there is a structured approach to succession planning designed to secure a pipeline of talented and capable individuals from within Johnson Matthey who will ultimately progress to board and GMC positions. Each of our divisions and corporate functions prepare and maintain succession plans, assisted by divisional and group Human Resources. The GMC rigorously reviews these plans each year. A key aim is to ensure broad experience and encourage cross fertilisation across our divisions. The identification and development of high potential individuals is also considered by the GMC. The GMC's review of the succession plans generally leads to further refinement and changes, resulting in the final plans which are submitted to the Nomination Committee. Each year the Nomination Committee, with input from the Group Human Resources Director, reviews the management development and succession planning processes for the directors and senior executives, approves succession plans for the board and considers succession plans for senior executives.

Johnson Matthey has in place a range of ongoing talent management and development initiatives designed to further develop senior management. Many of these are well established, but new initiatives are being developed and introduced which are designed to support current strategic imperatives. Key initiatives continued this year are our executive development programme with London Business School, aimed at developing senior level talent and boosting their capabilities around strategy and leadership, and a global training curriculum to support the group's Manufacturing Excellence programme, as described on page 25.

Succession planning at board and senior management level for Johnson Matthey includes potential succession to all senior roles, including that of Chief Executive, and considers the identification, development and readiness of potential internal successors. The board (through the Nomination Committee) will continue to focus during the coming year on the key issues of active talent management, mobility across the group and diversity.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Boardroom Diversity

Our board believes that diversity is important for board effectiveness.

Diversity Policy

Our board has adopted a diversity policy and this is set out in full in the Sustainability / Sustainability Governance / Our Policies section of our website. We have not set express diversity quotas or measurable objectives for implementing the policy. However, in recent Non-Executive Director selection processes the board has encouraged applications from women subject to the objective selection criteria being met and to the appointment of the best qualified candidate.

As at the date of approval of this annual report we had two women on our board, which represented 22% of our total board membership.

The company has taken, and continues to take, several steps to promote diversity and inclusion, including gender diversity, both at senior management level and in the boardroom. Developing policies and processes that prevent bias in relation to recruitment and promotion form the basis of this. However, the key to progress lies in ensuring that positive measures are taken. These include requiring balanced shortlists when recruiting, ensuring diversity mix at company events and conferences, actively discussing diversity in succession planning and talent management, promoting industrial and scientific careers to women and developing family friendly and flexible employment policies. There remain challenges to overcome, particularly in respect of gender diversity given the sector in which Johnson Matthey operates, but we are continuing to make good progress.



Read more on page 70.

Board Evaluation Process

Under the Code, evaluation of the board should consider the balance of skills, experience, independence and knowledge of the company on the board; its diversity, including gender; how the board works together as a unit and other factors relevant to its effectiveness. Our board followed this principle in its board and committee evaluation process in 2015/16. Further information is set out under 'Evaluation of the Board, Board Committees and Directors' on page 93.

Appointments to the Board

As described under 'Board and Committee Appointments' on page 91, the search for board candidates is conducted, and appointments made, on merit, against objective selection criteria, having due regard for the benefits of diversity on the board, including gender.

Time Commitment of the Chairman and the Non-Executive Directors

The board recognises that it is vital that all directors should be able to dedicate sufficient time to Johnson Matthey to effectively discharge their responsibilities. The time commitment required by Johnson Matthey is considered by the board and by individual directors on appointment. The letters of appointment of the Chairman and of each Non-Executive Director set out the expected minimum time commitment for their roles. Each undertake that they will have sufficient time to meet what is expected of them for the proper performance of their duties and acknowledge that there may, on occasion, be a need to devote additional time. The minimum time commitment considered by the board to be necessary for a Non-Executive Director, and provided in the letters of appointment, is two days per month following induction.

The other significant commitments of the Chairman and of each Non-Executive Director are disclosed to the board before appointment, with an indication of the time involved. The board requires to be, and is, informed of subsequent changes as they arise. Details of Tim Stevenson's other significant commitments are set out on page 82. There were no changes to his significant commitments during the year. Details of the other board members' other significant commitments are set out on pages 82 and 83.

Director Induction and Development

Induction

Johnson Matthey puts full, formal and tailored induction programmes in place for all its new board directors. While directors' backgrounds and experience are taken into account, the induction is aimed to be a broad introduction to the group's businesses and its areas of significant risk. Key elements are meeting the executive directors and senior and middle management individually and collectively and visiting the group's major sites in order to be briefed on group strategy and on individual businesses.

Familiarisation, Training and Development

Our intention is that all directors have familiarity with, and appropriate knowledge of, Johnson Matthey and gain access to our operations and employees. The board ensures that the company provides the necessary resources to allow this to happen. We take various steps to ensure that all of our directors continually refresh their knowledge and skills so that they can effectively fulfil their roles on our board and its committees and so that their contributions remain informed and relevant. Further details are provided in 'Getting to Know the Business' on page 85.

The board 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 business issues, risks and strategy with local management. Two such meetings were held during the year as detailed on pages 85 and 86. Individual Non-Executive Directors also undertake site visits. These presentations, meetings and site visits help the Non-Executive Directors to familiarise themselves with, and gain a greater insight into, Johnson Matthey's businesses and help to give a balanced overview of the group. They enable the Non-Executive Directors to continue to develop and refresh their knowledge and understanding of our businesses, the markets in which we operate and our key relationships. They are also important for building links with our employees.

As part of the annual performance review process referred to under 'Evaluation of the Board, Board Committees and Directors' on page 93, our Chairman, Tim Stevenson, discusses any individual training and development requirements. Tim is also available throughout the year to discuss these areas.

Information and Support

The board has processes in place to ensure that it receives the right information in the right form and at the right time to enable it to effectively discharge its duties. The Chairman, through the Company Secretary and with the support of the Executive Directors and management, ensures that this information is of high quality in terms of its accuracy, clarity, appropriateness, comprehensiveness and currency. Directors are able to seek clarification or amplification from management where necessary. Our directors have access to independent external professional advice at the company's expense where they judge this necessary to discharge their responsibilities as directors.

Indemnification of Directors and Insurance

Under Deed Polls dated 20th July 2005 Johnson Matthey granted indemnities in favour of each director of the company and of its subsidiaries 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 were in force during the year for the benefit of all persons who were directors of the company or of its subsidiaries at any time during the year. They remained in force for the benefit of all persons who were directors of the company or of its subsidiaries as at the date of approval of this annual report. The company has appropriate directors' and officers' liability insurance cover in place in respect of legal action against, amongst others, its executive and non-executive directors. Neither the company nor any subsidiary has indemnified any director of the company or a subsidiary in respect of any liability that he or she may incur to a third party in relation to a relevant occupational pension scheme.

Directors' Conflicts of Interest

We have established procedures in place in accordance with our Articles of Association to ensure we comply with the directors' conflicts of interest duties under the 2006 Act and for dealing with situations in which a director may have a direct or indirect interest that conflicts with, or may conflict with, the interests of the company. Johnson Matthey has complied with these procedures during the year.

In April 2016 the board undertook an annual review of potential conflict matters including in respect of directors' external appointments (both current and pending). In each case, the review was undertaken by directors who were genuinely independent of the matter. The board concluded that there were no matters which constituted a conflict matter. Therefore currently there are no approved conflict matters. Potential conflict matters will continue to be reviewed by the board on an annual basis.

The board confirms that Johnson Matthey complies with its procedures to authorise conflict situations and is satisfied that its powers to authorise conflict situations are being exercised properly and effectively and in accordance with its Articles of Association.

Evaluation of the Board, Board Committees and Directors

Our board carries out a formal annual evaluation of its own performance and that of its committees and individual directors with the aim of improving effectiveness. This is led by the Chairman and seeks to be as rigorous and objective as possible. The process considers the board's strengths and weaknesses, its range and balance of skills, experience, independence and knowledge of the company, its diversity, including gender, how the board works together as a unit and any other factors considered to be relevant. Individual evaluation aims to show whether each director continues to contribute effectively and to demonstrate commitment to the role (including time commitment). The Chairman acts on the results of the performance evaluation. Strengths are recognised and any weaknesses addressed.

In 2014/15 the board and its committees underwent an external evaluation process led by consultants, JCA Group. This year, 2015/16, our Chairman led an internal review process supported by the committee chairs and the Company Secretary. In January and February 2016 the Chairman had individual discussions with each member of the board, the Company Secretary, the Group Human Resources Director and the KPMG lead audit partner. The conversations were open, confidential and unattributed, using a discussion framework to steer but not prescribe the topics.

The Chairman discussed his findings with the Chief Executive and presented them to the board in April 2016 together with a number of ideas and key recommendations for consideration by the board. These have been discussed by the board and follow up actions and responsibilities considered. The board also discussed the evaluation process itself and agreed that this had been appropriate and effective.

Key discussion areas in the review included board composition, organisation of meetings and agendas (numbers of meetings, paperwork, management of board affairs, knowledge and information), the nature and style of discussions, key board responsibilities (succession management, culture and ethics and strategy), risk management and roles.

The 2015/16 review echoed the key findings of the prior year's review that the board was well founded in terms of composition, organisation and culture and operating effectively to support the business. Since the 2014/15 review, the Chairman and the board have sought to make continuous improvements and enhance focus in order to make the board even more useful both as a monitor of executive performance and (more importantly) a contributor to that performance. This was felt to be particularly relevant at a time when the market environment has become more challenging. Certain actions were developed by the board following the 2014/15 review and progress on these was reflected on in the 2015/16 review as well as further consideration being given in some areas.

A summary of findings and actions undertaken following the 2014/15 review and the key findings and recommendations from this year's review are outlined on the following page.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Board Evaluation

Culture, ethics and governance



Read more on pages 68 to 70.

The 2014/15 review emphasised the importance of the board being able to gain a deeper read on the culture of Johnson Matthey, together with the continued need to attend closely to ethics and governance as the group grows into new geographies and new sectors. In this context, the board recognised the importance of demonstrating its full support for the reinforcement of ethical conduct and the leadership of this by the Chief Executive.

The 2015/16 review reaffirmed the responsibility of the board in respect of style, tone and culture throughout the organisation, particularly in terms of continuing to ensure an open and straightforward culture which encourages and supports the raising of difficult issues.

Strategy



Read more on pages 20 and 21.

In 2014/15 the review focused on creating time for further discussion on the longer term strategy for the business to gain maximum benefit from the collective experience and input of all board members. It considered how best to ensure ongoing dialogue by the board to continue to evaluate investment decisions and, in particular, to ensure the board is able to provide effective challenge as it considers expansion into new areas and / or geographies.

The 2015/16 review found that the board's agendas allocate appropriate time to consideration of strategic issues and the continuing development of strategy as circumstances evolve.

Risk management



Read more on pages 28 to 35.

In 2014/15 the review recognised the need to continue to pay close attention to risk management, including non-financial risk, and the further embedding of risk management into Johnson Matthey's culture.

The 2015/16 review found that, in general, good progress is being made in the way in which risk in the business is identified and managed, but that there is further work to do in this area, including in enhancing and developing our processes. Proposals for improvements were made in respect of risk reviews by the board.

Board composition



Read more on pages 82 and 83.

In the 2014/15 review, consideration was given to the ongoing need to ensure appropriate board composition and mix of experience.

In the 2015/16 review, the board felt its size and the balance of non-executive and executive members was appropriate and would continue to be so after the retirement of Larry Pentz in March 2016. It was also felt the current mix of skills, experience and diversity (including of style and approach) across the Non-Executive Directors should continue to serve the board and the company well.

Board dynamics



Read more on page 85.

In 2014/15 the review focused on a desire for continued strengthening of engagement, contribution and constructive challenge by all board members.

The 2015/16 review found good engagement, strong and open contribution to discussion and decisions and constructive challenge to the executive. However, more challenge from the non-executive members would be welcome and valuable. Suggestions were considered on a range of matters, including the value of agenda free (sometimes exploratory) discussions and how to gain full value from presentations to the board. Consideration was given to our practice of having all Non-Executive Directors sit on all board committees and it was felt that this additional commitment for the Non-Executive Directors was outweighed by the value of everyone being kept up to date and contributing in all key committee areas. It was felt that 'teach-ins' on major business areas, explicitly separated from consideration of strategy, are an important and most valuable step forward in increasing non-executive understanding and contribution.

Succession management



Read more on pages 66, 67 and 99.

In 2014/15 the review underlined the need for continued focus on succession management, including providing the board with a deeper understanding and visibility of talent and higher potentials in the group below GMC level.

The 2015/16 review again reflected that a key role of the board, and particularly its Nomination Committee, is to ensure that there is a viable and effective process for management of succession to key positions and that this is backed up by processes for management of individual careers through development of skills (management moves and appropriate training). It was felt that, well supported by the group's Human Resources function, excellent progress was being made in this critical area. However, there were some important areas for focus on key succession strength and the development of individual talent. Several proposals were put forward to enable more to be achieved in this area.

Future Review

The board's intention remains to undertake an externally facilitated evaluation process at least every three years. In the intervening years, the review will be led by the Chairman supported by the committee chairs and the Company Secretary.

Review of the Chairman's Performance

The Non-Executive Directors recognise that the Chairman's effectiveness is vital to that of the board. Led by Alan Ferguson, the Senior Independent Director, the Non-Executive Directors are responsible for performance evaluation of the Chairman and for providing a fair and balanced assessment to shareholders.

In April 2016, the Non-Executive Directors, led by Alan, met without Tim Stevenson being present to discuss Tim's performance. Key considerations were his overall leadership of the board, the setting of tone, the setting of appropriate agendas and the effectiveness of structuring and facilitating discussions. The views of Executive Directors were also taken into account. Alan subsequently reported the outcome to the board that Tim's leadership of the board continued to be effective and engendered openness and constructive challenge of the board.

Review of Executive Director Performance

The Chairman met with the Non-Executive Directors without the Executive Directors being present in November 2015 in order to review the Executive Directors' performance.

Annual Re-Election of Directors

In accordance with the Code, all directors retire at each Annual General Meeting (AGM) and offer themselves for re-election by shareholders.

As announced on 3rd February 2016, Dorothy Thompson will be retiring from the board with effect from the close of the AGM and therefore will not be offering herself for re-election.

As announced on 2nd March 2016, Den Jones will step down as Group Finance Director and from the board over the summer this year. Den is therefore seeking re-election.

At the 2016 AGM, all other directors will be offering themselves for re-election.

As announced on 1st June 2016 Dr Jane Griffiths will be appointed to the board as a Non-Executive Director with effect from 1st January 2017. As required by our Articles of Association, she will retire at the AGM in 2017 and then offer herself for election.

We have five Non-Executive Directors, all of whom are determined by the board to be independent directors in accordance with the criteria set out in the Code.

The board considers that their skills, experience, independence and knowledge of the company enable them to discharge their respective duties and responsibilities effectively. Biographical details of each of the directors standing for re-election can be found on pages 82 and 83.

Our 2016 AGM circular details why the board believes each director should be re-elected based on continued satisfactory performance in the role. In the circular, the Chairman confirms to shareholders that, following formal performance evaluation, the performance of each Non-Executive Director continues to be effective and that they demonstrate commitment to the role (including commitment of time for board and board committee meetings).

REMUNERATION

The board has established a Remuneration Committee. The composition of the Remuneration Committee is set out in the Annual Report on Remuneration (pages 108 to 126), which describes the work of the Remuneration Committee in discharging its responsibilities.

ACCOUNTABILITY

Financial and Business Reporting

In its reporting to shareholders the board recognises its responsibility to present a fair, balanced and understandable assessment of the group's position and prospects. This responsibility covers the annual report and accounts and extends to half year and other price sensitive public reports and reports to regulators as well as to information required by statutory requirements.

The directors are responsible for preparing this annual report and consider it, taken as a whole, to be fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy.

The group reports the results of its five divisions: Emission Control Technologies, Process Technologies, Precious Metal Products, Fine Chemicals and New Businesses. The divisions are all separately managed but each reports to the board through a board director. The GMC reviews monthly summaries of financial results from each division through a standardised reporting process. Forecasts are prepared monthly throughout the year and the group has a comprehensive annual budgeting and planning process including plans for the following two years. Budgets are approved by the board. Variances from budget are

closely monitored. In addition to the annual budgeting process, there is a ten year strategy review process.



Read more about our five divisions on pages 44 to 62.

Risk Management and Internal Control

The board is ultimately responsible for maintaining sound risk management and internal control systems (including financial controls, controls in respect of the financial reporting process and controls of an operational and compliance nature).

The company's internal control systems are on a groupwide basis and the review of their effectiveness (including of the application of the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting issued by the FRC in September 2014 – FRC Guidance) is implemented and reported from a groupwide perspective, covering the company and its subsidiaries. There are no material joint ventures or associates which have not been dealt with as part of the group for the purposes of applying the FRC Guidance.

Our risk management systems and internal control systems are designed to meet the group's needs and to manage the risks to which it is exposed, including the risks of failure to achieve business objectives and of material misstatement or loss. However, such risks cannot be eliminated. Our systems can only provide reasonable, but not absolute, assurance. They can never completely protect against such factors as unforeseeable events, human fallibility or fraud.

The board confirms that there is an ongoing process in place (established in accordance with the FRC Guidance) for identifying, evaluating and managing the principal risks faced by the group. This process is regularly reviewed by the GMC, the board and the Audit Committee as appropriate and has been in place during the year and up to the date of approval of this annual report.

The board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives. The board's view of Johnson Matthey's key strategic and operating risks and how the company seeks to manage those risks is set out in this report.

The directors confirm that they have carried out a robust assessment of the principal risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity.



Read more about our principal risks and how they are being managed or mitigated on pages 28 to 35.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Risk Management and Internal Control Systems

The group's risk management and internal control systems comprise group policies, procedures and practices covering a range of areas including the appropriate authorisation and approval of transactions, the application of financial reporting standards and the review of financial performance and significant judgments. Our 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 procedure manuals issued by Johnson Matthey, its divisions and individual businesses or departments.

Review of Effectiveness of the Group's Risk Management and Internal Control Systems

The board has important responsibilities in respect of the group's risk management and internal control systems (including financial controls, controls in respect of the financial reporting process and controls of an operational and compliance nature). The board monitors these carefully throughout the year and carries out an annual review of their adequacy and effectiveness. The board has delegated part of this responsibility to the Audit Committee. The role and work of the Audit Committee in this regard and the role of the group's internal audit function are described in the Audit Committee Report (page 104).

The board, through setting its own annual agenda plan, defines the review process to be undertaken, including the scope and frequency of assurance reports received throughout the year. The board agenda plan, together with that of the Audit Committee, are designed to ensure that all significant areas of risk and the related risk management and internal control systems are reported on and considered during the course of the year. In addition to determining risk appetite, the board specifically reviews, amongst other things, risks relating to EHS, innovation, human resources, legal and compliance and intellectual capital.

The board, in part through the Audit Committee, has conducted an overarching review of the effectiveness of the company's risk management and internal control systems, covering all material controls, including financial, operational and compliance controls, and financial reporting processes, for the year. The review process accords with the FRC Guidance.



Read more about our principal risks on pages 30 to 35.

The Audit Committee

The composition of the Audit Committee is set out in the Audit Committee Report (pages 101 to 107), which describes the work of the Audit Committee in discharging its responsibilities.

Financial Experience

The board is satisfied that at least one member of the Audit Committee, Alan Ferguson, has recent and relevant financial experience.

RELATIONS WITH SHAREHOLDERS

Dialogue with Our Shareholders

Our board welcomes the opportunity to openly engage with shareholders as it recognises the importance of a continuing effective dialogue, whether with major institutional investors, private shareholders or employee shareholders. The board takes responsibility for ensuring that such dialogue takes place.

Reporting of Results and Investor Day

We report formally to our shareholders when we publish our full year results in June and our half-yearly results in November. These results are posted on our website. When we publish the results, our Executive Directors give presentations on the half-yearly and full year results in face to face meetings with institutional investors, analysts and the media in London. Live webcasts and transcripts of these presentations are available on our website. Our first quarter and third quarter trading updates (issued in July and late January / early February each year) are also posted on our website.

In addition, we hold an Investor Day for our institutional investors and analysts. At the February 2016 Investor Day, held in London, we gave presentations on 'Johnson Matthey and the Evolving Powertrain' to explain how global drivers are influencing future powertrain developments and creating market opportunities. We went on to detail how high technology solutions in both emission control and battery technologies will play a role and to highlight how Johnson Matthey is positioned to create superior value from these opportunities. A live webcast of the Investor Day presentation, a transcript of the event and a downloadable copy of the slides are available in the Investor Relations / Presentations section of our website.

Contact with Our Shareholders

Our Chairman takes overall responsibility for ensuring that the views of our shareholders are communicated to the board and that our directors are made aware of major shareholders' issues and concerns. However, contact with major shareholders is principally maintained by the Chief Executive and the Group Finance Director. They have a regular dialogue with institutional shareholders on performance, plans and objectives through a programme of one to one and group meetings and ensure that shareholder views are communicated to the board. Our Investor Relations Department acts as a focal point for contact with investors throughout the year.

The Chairman is available to meet with institutional investors to hear their views and discuss any issues or concerns, including on governance and strategy. The Senior Independent Director and the other Non-Executive Directors are similarly available if requested, but no such meetings were held or requested during the year.

Overall, 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. These have included, for example, analysts' and brokers' briefings, consideration by the board of six monthly brokers' reports and of feedback from shareholder meetings on a six monthly basis. Major shareholders' views are canvassed for the board in a detailed investor survey which is usually conducted every two years by external consultants. It is planned that the next such survey will be undertaken in September 2017. The purpose of these surveys is to obtain the views and opinions of a broad range of shareholders and non-shareholders.

The Remuneration Committee undertakes detailed consultation exercises with a selection of major institutional shareholders and institutional investor bodies as part of its comprehensive review of Executive Director and senior management remuneration arrangements within the group.

The board believes that these methods, taken together, are a practical and efficient way for all our directors to keep in touch with shareholder opinion and views and to reach a balanced understanding of major shareholders' objectives, issues and concerns.

While the board recognises that the company is primarily accountable to its shareholders, it also recognises the contribution made by other providers of

capital and confirms its interest in listening to their views, where relevant, to the company's overall approach to governance.

COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE

Code provision E.1.1 states that 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. We have not complied with this provision throughout the year. The board considers, and has done for a number of years, that there are appropriate mechanisms in place to listen to the views of shareholders and communicate them to the board without it being necessary for the Senior Independent Director to attend meetings with major shareholders. However, he is available to attend any such meetings if requested by shareholders. The board continues to believe that this approach is consistent with the relevant main principle of the Code on dialogue with shareholders, to which Code provision E.1.1 relates, and is consistent with good governance and the promotion of delivery of the company's objectives. This approach will continue throughout the current year but the board will keep the matter under review.

Annual General Meetings

The AGM is an important part of effective communication with shareholders. Our AGM takes place in London. Notice is sent to shareholders at least 20 working days beforehand and is published on our website. The circular sent to shareholders with the notice aims to set out a balanced and clear explanation of each proposed resolution.

All directors who are able to attend our AGMs do so. In 2015 the entire board attended. Our board welcomes the opportunity for face to face communication with our shareholders. Shareholders are encouraged to participate and all directors are available to answer questions, formally through the Chairman during the meeting and informally afterwards.

At the AGM we propose separate resolutions on each substantially separate issue. This year we are proposing separate resolutions in respect of the disapplication of pre-emption rights in accordance with the Pre-Emption Group's Statement of Principles. For each resolution, shareholders may direct their proxy to vote either for or against or to withhold their vote. The proxy form and the announcement of the results of a vote make it clear that a 'vote withheld' is not legally a vote and is not counted in the calculation of the proportion of the votes cast. All valid proxy appointments received are recorded and counted.

All resolutions at the AGM are decided on a poll rather than on a show of hands and poll voting is carried out by electronic means. The results of the poll are announced as soon as possible and posted on our website. This shows votes for and against as well as votes withheld.

Our 2016 AGM will be held on 20th July 2016. The notice, together with an explanation of the resolutions to be considered, is set out in a circular to shareholders.