

Remuneration Report to Shareholders

Management Development and Remuneration Committee and its Terms of Reference

The Management Development and Remuneration Committee (the Committee) of the board comprises all the non-executive directors of the company as set out on pages 22 and 23. Mr Retief retired from the Committee on 30th September 2001 and Mr Strachan joined the Committee on 23rd January 2002.

The Committee's terms of reference are to determine on behalf of the board fair remuneration for the executive directors, which, while set in the context of what the company can reasonably afford, recognises their individual contributions to the company's overall performance. The Committee also believes strongly that remuneration policy should be completely aligned with shareholder interests. In addition the Committee assists the board in ensuring that the current and future management of the group are recruited, developed and remunerated in appropriate fashion.

The Committee also reviews the amount of profit to be appropriated to the company's employee share participation schemes.

The remuneration of the non-executive directors is determined by the board, within the limits prescribed by the company's Articles of Association.

Executive Remuneration Policy

The Committee recognises that, in order to maximise shareholder value, it is necessary to have a competitive pay and benefits structure. The Committee also recognises that there is a highly competitive market for successful executives and that the provision of appropriate rewards for superior performance is vital to the continued growth of the business. To assist with this the company, on behalf of the Committee, receives advice from independent remuneration consultants on the pay and incentive arrangements prevailing in comparably sized industrial companies in each country in which Johnson Matthey has operations. Total potential rewards are earned through the achievement of demanding performance targets based on measures which represent the best interests of shareholders.

The remuneration policy was reviewed by the Committee in 2001 and consists of basic salary, annual bonus, a long term incentive plan, share options and other benefits as detailed below. Following a comprehensive review in 2000/01 shareholder approval was obtained for the introduction of a new employee share option scheme and for certain changes to the company's existing Long Term Incentive Plan.

Executive directors' remuneration consists of the following:

Basic Salary – which is in line with the median market salary for each director's responsibilities as determined by independent surveys. Basic salary is normally reviewed on 1st August each year and the Committee takes into account individual performance during the year.

Annual Bonus – which is paid as a percentage of basic salary under the terms of the company's Executive Compensation Plan (which also applies to the company's 150 or so most senior executives). The executive directors' bonus award is based on consolidated profit before tax (PBT) compared with the annual budget. An annual bonus payment of 30% of basic salary (prevailing at 31st March) is paid if the group meets the annual budget. This bonus may rise to 50% of basic salary if the group achieves PBT of 107.5% of budget. There is a provision that a maximum 105% of basic salary may be paid to the Chief Executive and 85% to other executive directors if 125% of budgeted PBT is achieved. PBT must reach 95% of budget for a minimum bonus to be payable. The Committee has discretion to vary the awards made. The bonus awarded to executive directors in 2001/02 was 25.2% of salary at 31st March 2002.

Long Term Incentive Plan (LTIP) – The LTIP, introduced in August 1998, is designed to achieve above average performance and growth. Shares are allocated to directors and key executives subject to performance conditions being met. For shares allocated in the years 1998, 1999 and 2000 the number of shares released to the individual is dependent upon growth in Johnson Matthey's relative total shareholder return (TSR) compared with the FTSE 250 over a three year performance period. Earnings per share (EPS) is used as a second performance measure and requires an increase in EPS to be at least equal to the increase in UK RPI plus 2% p.a. over the performance period. 100% of the allocated shares will be released to the individual if the company's relative TSR is in the 75th percentile or above; 35% will be released at the 51st percentile. Pro-rata allocations will be made for performance between these percentiles. No shares will be released at or below 50th percentile performance.

In 2001 shareholder approval was obtained for certain changes to the LTIP. The LTIP will continue to provide for the release of shares based on the company's ranking in terms of TSR relative to the TSR of the FTSE 250 companies and EPS measure, as described above, but such performance targets will only apply to one half of the shares awarded. The other half of the shares placed under an award will be released dependent upon the achievement of an absolute TSR. The absolute TSR test is that no shares will be released should TSR performance achieved over a three year period be less than 30%. This rises to 100% being released should TSR performance over a three year period be 45% or more.

In determining the precise number of shares to be released at the conclusion of the performance period, the LTIP trustee will also take into account the underlying financial performance of the company.

Executive Remuneration Policy (continued)

Share Options – Option grants were not made to executive directors in the years 1998, 1999 and 2000. Previously, options were granted to executive directors under the 1985 scheme (under which the final grant was made in November 1994) and the 1995 schemes with the latter having a performance threshold target of EPS growth of UK RPI plus 2% over a three year period. Options under all the schemes were granted in annual tranches, up to the maximum permitted of four times earnings.

Following the review by independent remuneration consultants, the Committee obtained shareholder approval in 2001 for the introduction of a new employee share option scheme, known as the Johnson Matthey 2001 Share Option Scheme. The executive directors and approximately 700 employees are awarded an annual grant of share options under the terms of this scheme. For executive directors the Committee will award options annually up to a normal maximum of basic salary. The options will only be exercisable upon the achievement of appropriate performance targets. For the first grant the performance target will be based on a growth in EPS which is at least 4% p.a. over the rate of increase in the UK RPI over any three year period. The Committee has the discretion to alter the performance targets for future options after consultation with institutional investors, but not so as to make the targets less challenging.

Pensions – All the executive directors are members of the Johnson Matthey Employees Pension Scheme. Under the scheme, members are entitled to a pension based on their service and final pensionable salary subject to Inland Revenue limits. The scheme also provides life assurance cover of four times annual salary. The normal pension age for directors is 60. None of the non-executive directors are members of the scheme. Details of the individual arrangements for executive directors are given on page 30.

Other Benefits – Available to the executive directors are private medical insurance, a company car and membership of the company's employee share participation schemes which are open to all employees in the countries in which the company operates such schemes.

Service Contracts – Messrs Clark, Sheldrick and Titcombe are employed on contracts subject to two years' notice at any time, which the Committee considers appropriate in the overall context of their terms of employment. As Mr Titcombe will retire from the board on 24th September 2002, when he reaches his normal retirement age, only three months of his contract remain. Messrs Carson and Morgan, who were appointed to the board on 1st August 1999, are employed on contracts subject to one year's notice at any time. In the event of early termination, the Committee strongly endorses the principle of requiring those directors on two years' notice to mitigate their loss.

Remuneration

Directors' Emoluments 2001/2

	Fees £'000	Salary £'000	Annual bonus £'000	Benefits £'000	Total excluding pension £'000	Total prior year excluding pension £'000
Executive						
C R N Clark	–	513	134	24	671	735
N A P Carson	–	201	53	26	280	287
D W Morgan	–	189	49	19	257	277
J N Sheldrick	–	272	71	19	362	400
D G Titcombe	–	288	75	26	389	427
Non-Executive⁽¹⁾						
H M P Miles (Chairman)	165			16	181	150
M B Dearden	33				33	28
H E Fitzgibbons	33				33	28
H R Jenkins	37				37	28
C D Mackay	33				33	28
P F Retief	17 ⁽²⁾				17	28
I C Strachan	6 ⁽³⁾				6	–

Notes:

⁽¹⁾ Non-executive directors' fees are reviewed every three years and were last reviewed on 1st April 2001 for all non-executives and on 1st October 2001 for the Chairman.

⁽²⁾ Retired September 2001.

⁽³⁾ From date of appointment.

The annual bonus above is stated on an earned basis, i.e. in relation to performance in the year in question.

Benefits are shown as the assessment to tax for each director arising from the provision of a company car and for the executive directors, private medical insurance, plus the cost of company contributions to the Johnson Matthey Share Participation Scheme.

Executive directors may, with the consent of the board, normally accept one and a maximum of two external directorships and retain any related remuneration.

Pensions

Pensions and life assurance benefits for executive directors are provided through the company's final salary occupational pension scheme for UK employees – The Johnson Matthey Employees Pension Scheme (JMEPS) – which is constituted under a separate Trust Deed. JMEPS is an exempt approved scheme under Chapter I of Part XIV of the Income & Corporation Taxes Act 1988 and its members are contracted-out of the State Earnings Related Pension Scheme.

The pensions benefits earned by the executive directors are as follows:

	Age as at 31st March 2002	Years of service at 31st March 2002	Director's contribution to JMEPS in the year ⁽⁴⁾ £'000	Increase in accrued pension in the year ⁽²⁾ £'000	Total accrued pension at 31st March 2002 ⁽¹⁾ £'000	Increase in the transfer value as at 31st March 2002 ⁽³⁾ £'000	FURBS contribution in the year ⁽⁶⁾ £'000	FURBS related tax payments ⁽⁶⁾ £'000
C R N Clark	60	39	17	42	371	705	N/A	N/A
N A P Carson	44	21	8	13	82	104	N/A	N/A
D W Morgan	44	13	4	3	26	21	40	27
J N Sheldrick	52	11	4	3	31	36	66	44
D G Titcombe	59	41	12	21	203	333	N/A	N/A

Notes:

- ⁽¹⁾ The entitlement shown under 'Total accrued pension at 31st March 2002' is the pension which would be paid annually on retirement, based on pensionable service to 31st March 2002. The pension would however be subject to an actuarial reduction of 0.3% per month for each month that retirement precedes age 60.
- ⁽²⁾ The increase in accrued pension during the year excludes any increase for inflation.
- ⁽³⁾ The transfer values have been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note 11 less directors' contributions. No allowance has been made in the transfer values for any discretionary benefits that have been or may be awarded under JMEPS.
- ⁽⁴⁾ Members' contributions are at the general scheme rate of 4% of pensionable pay, i.e. basic salary excluding bonuses.
- ⁽⁵⁾ On the recommendation of the actuary, the company has suspended contributions to JMEPS until the next actuarial valuation.
- ⁽⁶⁾ The JMEPS' benefits and contributions for Messrs Morgan and Sheldrick are restricted by reference to the 'earnings cap' imposed by the Finance Act No. 2, 1989. Contributions have therefore been paid to a Funded Unapproved Retirement Benefits Scheme (FURBS) established by the company, independently of JMEPS, with effect from 1st April 2000. The purpose of the FURBS is to provide retirement and death benefits in relation to basic salary in excess of the earnings cap on the same basis as the JMEPS. Because the FURBS is not exempt approved under Chapter I of Part XIV of the Income & Corporation Taxes Act 1988, payments have been made to meet the tax liabilities in respect of these contributions.

Directors' Interests

The interests of the directors in the shares of the company as at 31st March 2002, according to the register required to be kept by section 325(1) of the Companies Act 1985, were:

1 Ordinary Shares

	31st March 2002	31st March 2001
C R N Clark	26,362	24,706
N A P Carson	19,899	18,239
M B Dearden	2,000	2,000
H E Fitzgibbons	1,125	1,125
H R Jenkins	1,500	1,500
C D Mackay	12,500	12,500
H M P Miles	562	562
D W Morgan	18,586	16,930
J N Sheldrick	35,378	33,673
I C Strachan	1,000	—*
D G Titcombe	33,167	37,725

* at date of appointment.

The directors are also deemed to be interested in the shares held by two employee benefit trusts (see note 17 on page 51).

Directors' Interests (continued)

2 Share Options

As at 31st March 2002, individual holdings under the company's executive share option schemes were as set out below. Options are not granted to the non-executive directors.

	Date of grant	Ordinary shares under option	Exercise price (pence)	Date from which exercisable	Expiry date	Total number of ordinary shares under option
C R N Clark	17.7.96	41,379	574.50	17.7.99	17.7.06	136,400 (2001: 139,539)
	17.7.97	46,083	556.00	17.7.00	17.7.07	
	18.7.01	48,938	1083.00	18.7.04	18.7.11	
N A P Carson	14.7.98	15,964	524.00	14.7.01	14.7.08	53,390 (2001: 71,831)
	22.7.99	18,035	585.50	22.7.02	22.7.09	
	18.7.01	19,391	1083.00	18.7.04	18.7.11	
D W Morgan	14.7.93	12,086	447.95	14.7.96	14.7.03	138,399 (2001: 120,301)
	13.7.94	10,157	526.71	13.7.97	13.7.04	
	17.8.95	33,518	578.89	17.8.98	17.8.05	
	17.7.96	12,233	574.50	17.7.99	17.7.06	
	6.1.97	19,000	553.00	6.1.00	6.1.07	
	14.7.98	15,835	524.00	14.7.01	14.7.08	
	22.7.99	17,472	585.50	22.7.02	22.7.09	
18.7.01	18,098	1083.00	18.7.04	18.7.11		
J N Sheldrick	13.7.94	32,400	526.71	13.7.97	13.7.04	124,518 (2001: 98,664)
	17.7.96	30,776	574.50	17.7.99	17.7.06	
	27.11.97	35,488	553.00	27.11.00	27.11.07	
	18.7.01	25,854	1083.00	18.7.04	18.7.11	
D G Titcombe	17.8.95	38,098	578.89	17.8.98	17.8.05	110,548 (2001: 83,124)
	17.7.96	30,776	574.50	17.7.99	17.7.06	
	17.7.97	14,250	556.00	17.7.00	17.7.07	
	18.7.01	27,424	1083.00	18.7.04	18.7.11	

Notes:

a Between 1st April 2001 and 31st March 2002 the following options were exercised:

	Date of grant	Date of exercise	Options exercised	Exercise price (pence)	Market price on exercise (pence)
C R N Clark	17.8.95	31.7.01	52,077	578.89	1028.82
N A P Carson	17.7.96	31.7.01	8,758	574.50	1028.82
	6.1.97	31.7.01	17,500	553.00	1028.82
	17.7.97	31.7.01	11,574	556.00	1028.82

b Gains made on exercise of options by directors during the year totalled £412,092 (2001: £1,039,584).

c The closing market price of the company's shares at 31st March 2002 was 1046 pence and the range during 2001/02 was 768 pence to 1110 pence.

Directors' Interests (continued)

3 LTIP Allocations

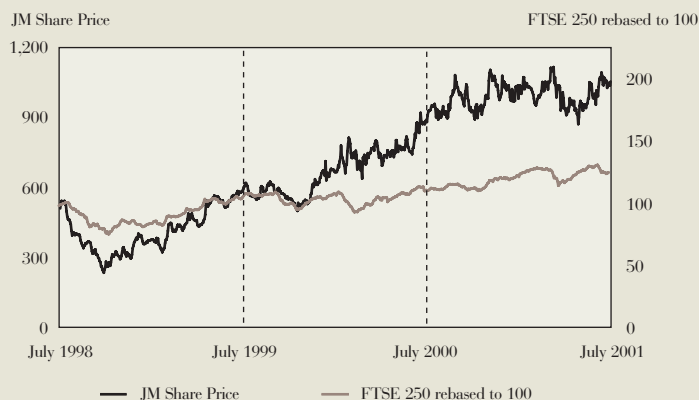
Number of allocated shares:

	As at 31st March 2001	Allocations during the year	Shares released during the year	As at 31st March 2002
C R N Clark	200,072	63,886	69,686	194,272
N A P Carson	57,340	20,251	8,833	68,758
D W Morgan	55,261	18,901	8,761	65,401
J N Sheldrick	109,884	27,001	38,676	98,209
D G Titcombe	113,460	28,640	38,676	103,424

The LTIP was introduced in 1998 and replaced the Term Plan. Final payments under the Term Plan were made in July 2000 and included payments to the executive directors totaling £318,643 as reported last year. On 31st July 2001 the 1998 LTIP allocation was released to participants. As the company's TSR performance relative to the FTSE 250 was in the 90th percentile during the periods under measurement, 100% of the shares were released in accordance with the rules as approved by shareholders. EPS performance targets as described on page 28 were also achieved. The outcome was that EPS increased by 31% over the performance period compared to the minimum target of 12.7%. This resulted in the following gains:

	Number of shares released	Share price when released pence	Gain £
C R N Clark	69,686	1028.82	716,944
N A P Carson	8,833	1028.82	90,876
D W Morgan	8,761	1028.82	90,135
J N Sheldrick	38,676	1028.82	397,906
D G Titcombe	38,676	1028.82	397,906

Johnson Matthey Share Price and FTSE 250 rebased to 100
(23rd July 1998 to 19th July 2001)



At the end of the three year period, Johnson Matthey was ranked 24th in the FTSE 250 in terms of percentage increase in average TSR. The company's TSR growth for the period was 104.7% compared with the average for the FTSE 250 of 38.9%.

Directors' interests at 30th May 2002 were unchanged from those listed above with the following exceptions:

The Trustees of the Johnson Matthey Share Incentive Plan, which replaced the Share Participation Scheme on 1st April 2002, have purchased on behalf of Messrs Clark, Carson, Morgan, Sheldrick and Titcombe a further 69 ordinary shares each.

Michael Miles,

Michael Miles OBE

Chairman