

REMUNERATION REPORT

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 26 and 27. Mr Fitzgibbons retired from the Committee on 16th July 2002. Messrs Thomson and Walvis joined the Committee on 24th September 2002. During the year Mr Miles stood down as Chairman of the Committee and was succeeded by Mr Mackay.

The Committee's terms of reference are to determine on behalf of the board competitive remuneration for the executive directors, which recognises their individual contributions to the company's overall performance. The Committee 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 an appropriate fashion.

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 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. During the year such advice was received from The Hay Group, which also provided advice on job evaluation, and the Monks Partnership. Watson Wyatt provided actuarial services and also gave advice on the acquisition of the Syntex division from ICI. The Committee also receives recommendations from the Chief Executive on the remuneration of those reporting to him as well as advice from the Director of Human Resources. Total potential rewards are earned through the achievement of demanding performance targets based on measures that represent the best interests of shareholders.

The remuneration policy was reviewed by the Committee in 2002. Salaries are based on median market rates with incentives providing the opportunity for upper quartile total remuneration, but only for achieving outstanding performance. Executive directors' remuneration consists of basic salary, annual bonus, a long term incentive plan, share options and other benefits as detailed below:

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 and promotion during the year. Where an internal promotion takes place, a competitive salary relative to the market would usually be reached over a period of a few years, which can give rise to higher than normal salary increases while this is being achieved.

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 group'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. The board of directors rigorously reviews the annual budget to ensure that the budgeted PBT is sufficiently stretching. 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 2002/03 was 40.8% of salary at 31st March 2003.

Long Term Incentive Plan (LTIP) – which was 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. For shares allocated in the years 1998, 1999 and 2000 the number of shares released to the individual was and is dependent upon growth in Johnson Matthey's relative total shareholder return (TSR) compared with the FTSE 250 over a three year 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. Between 35% and 100% of the allocated shares will be released pro rata between the 50th and the 75th percentiles. No shares will be released at or below 50th percentile performance. 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 before any release is made.

In 2001 shareholder approval was obtained for certain changes to the LTIP. The LTIP will continue to provide for the release of half of the allocated shares based on the company's relative TSR and EPS measures, as described above. The other half of the allocation will be released subject to the achievement of absolute TSR growth over a three year period. Under this test no shares will be released should the absolute TSR growth be less than 30%. 100% of the allocated shares will be released should the absolute TSR growth be 45% or more. Pro rata allocations will be made for absolute TSR growth between 30% and 45%.

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.

On 12th June 2002 Johnson Matthey moved into the FTSE 100, and as a consequence of this the Committee decided that a comparator group of those companies ranked 50 - 150 in the FTSE index would be more appropriate than the FTSE 250 previously used. Hence the August 2002 and subsequent allocations will be tested against this revised comparator group for that half of the allocation subject to the relative TSR test.

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 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.

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Executive Remuneration Policy (continued)

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 800 employees are awarded an annual grant of share options under the terms of this scheme. For executive directors the Committee will award options each year up to a maximum of basic annual salary. The options will only be exercisable upon the achievement of appropriate performance targets. The performance target is EPS growth of UK RPI plus 4% p.a. over any three year period. The Committee has discretion to alter the performance targets for future options, but not so as to make the targets less challenging, and would only do so after consultation with institutional investors.

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 34.

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

Service Contracts – Mr Clark, who was appointed to the board on 1st March 1990, Mr Sheldrick, who was appointed to the board on 1st September 1990 and 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. On early termination of their contracts the directors would normally be entitled to 12 months' salary and benefits.

Non-executive directors' remuneration consists of fees which are set following advice taken from independent consultants. They are reviewed at three year intervals.

Remuneration

Directors' Emoluments 2002/03

	Fees £'000	Salary £'000	Annual bonus £'000	Benefits £'000	Total excluding pension £'000	Total prior year excluding pension £'000
Executive						
C R N Clark	–	557	233	29	819	671
N A P Carson	–	237	102	27	366	280
D W Morgan	–	212	90	18	320	257
J N Sheldrick	–	293	122	11	426	362
TOTAL CONTINUING DIRECTORS	–	1,299	547	85	1,931	1,570
Former Executive Director ⁽¹⁾	50	150	63	7	270	389
TOTAL	50	1,449	610	92	2,201	1,959
Non-Executive⁽²⁾						
H M P Miles (Chairman)	180			18	198	181
M B Dearden	33			–	33	33
H E Fitzgibbons	11 ⁽³⁾			–	11	33
H R Jenkins	37 ⁽⁴⁾			–	37	37
C D Mackay	33			–	33	33
I C Strachan	33			–	33	6
A M Thomson	17 ⁽⁵⁾			–	17	–
R J W Walvis	17 ⁽⁵⁾			–	17	–
P F Retief	–			–	–	17 ⁽⁶⁾
TOTAL	361			18	379	340

Notes:

⁽¹⁾ Refers to Mr Titcombe, details on whom appear on page 36.

⁽²⁾ Non-executive fees were last reviewed on 1st April 2001 for all non-executives and on 1st October 2001 for the Chairman.

⁽³⁾ Retired July 2002.

⁽⁴⁾ Includes £4,000 per annum for chairmanship of the Audit Committee.

⁽⁵⁾ Appointed September 2002.

⁽⁶⁾ Retired September 2001.

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 Incentive Plan.

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

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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 and the State Second Pension.

In previous years' accounts, disclosure of directors' pension benefits has been made under the requirement of the Financial Services Authority Listing Rules. These rules are still in place but it is now also necessary to make disclosures in accordance with the Directors' Remuneration Report Regulations 2002. The information below sets out the disclosures under the two sets of requirements.

a. Financial Services Authority Listing Rules

	Age at 31st March 2003	Years of service at 31st March 2003	Director's contributions to JMEPS during the year ⁽¹⁾ £'000	Increase in accrued pension during the year ⁽²⁾ £'000 pa	Total accrued pension at 31st March 2003 ⁽³⁾ £'000 pa	Total accrued pension at 31st March 2002 £'000 pa	Transfer value of increase ⁽⁴⁾ £'000	FURBS contribution in the year ⁽⁵⁾ £'000	FURBS related tax payments ⁽⁵⁾ £'000
C R N Clark	61	40	-	19	396	371	331	N/A	N/A
N A P Carson	45	22	9	19	103	82	113	N/A	N/A
D W Morgan	45	14	4	3	29	26	11	45	30
J N Sheldrick	53	12	4	3	34	31	25	71	47

b. Directors' Remuneration Report Regulations 2002

	Years of service at 31st March 2003	Director's contributions to JMEPS during the year ⁽¹⁾ £'000	Increase in accrued pension during the year £'000 pa	Total accrued pension at 31st March 2003 ⁽³⁾ £'000 pa	Transfer value of accrued pension at 31st March 2003 ⁽⁴⁾ £'000	Transfer value of accrued pension at 31st March 2002 ⁽⁴⁾ £'000	Increase/ (decrease) in transfer value £'000	FURBS contribution for the year ⁽⁵⁾ £'000	FURBS related tax payment ⁽⁵⁾ £'000
C R N Clark	40	-	25	396	6,968	6,360	608	N/A	N/A
N A P Carson	22	9	21	103	654	730	(85)	N/A	N/A
D W Morgan	14	4	3	29	176	222	(50)	45	30
J N Sheldrick	12	4	3	34	356	380	(28)	71	47

Notes:

- ⁽¹⁾ Members' contributions are at the general scheme rate of 4% of pensionable pay, i.e. basic salary excluding bonuses. In accordance with the JMEPS' rules, Mr Clark ceased contributing to the scheme on attaining his normal retirement date at age 60.
- ⁽²⁾ The increase in accrued pension during the year excludes any increase for inflation.
- ⁽³⁾ The entitlement shown under 'Total accrued pension at 31st March 2003' is the pension which would be paid annually on retirement, based on pensionable service to 31st March 2003. The pension would, however, be subject to an actuarial reduction of 0.3% per month for each month that retirement precedes age 60.
- ⁽⁴⁾ 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. The transfer values in the Directors' Remuneration Report Regulations 2002 have been calculated at the start and at the end of the year and, therefore, take into account market movements.
- ⁽⁵⁾ 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 Funded Unapproved Retirement Benefits Schemes (FURBS) established by the company, independently of JMEPS, with effect from 1st April 2000. The purpose of each 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 FURBS are 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.

With the agreement of the scheme actuary, the company paid contributions of 10% of basic salaries to JMEPS during the year.

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Directors' Interests

The interests of the directors as at 31st March 2003 in the shares of the company, according to the register required to be kept by section 325(1) of the Companies Act 1985, were:

1 Ordinary Shares

	31st March 2003	31st March 2002
C R N Clark	65,770	26,362
N A P Carson	36,773	19,899
M B Dearden	2,000	2,000
H R Jenkins	1,500	1,500
C D Mackay	12,500	12,500
H M P Miles	562	562
D W Morgan	34,913	18,586
J N Sheldrick	91,860	35,378
I C Strachan	1,000	1,000
A M Thomson	2,000	N/A*
R J W Walvis	1,000	N/A*

* No shares were held 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 59).

2 Share Options

As at 31st March 2003, 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	
	18.7.01	48,938	1083.00	18.7.04	18.7.11	
	17.7.02	65,895	865.00	17.7.05	17.7.12	156,212 (2002: 136,400)
N A P Carson	14.7.98	15,964	524.00	14.7.01	14.7.08	
	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	
	17.7.02	28,901	865.00	17.7.05	17.7.12	82,291 (2002: 53,390)
D W Morgan	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	
	17.7.02	25,433	865.00	17.7.05	17.7.12	108,071 (2002: 138,399)
J N Sheldrick	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	
	17.7.02	34,682	865.00	17.7.05	17.7.12	96,024 (2002: 124,518)

Notes:

Between 1st April 2002 and 31st March 2003 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	17.7.97	17.6.02	46,083	556.00	1088.40
D W Morgan	14.7.93	17.6.02	12,086	447.95	1088.40
	13.7.94	17.6.02	10,157	526.71	1088.40
	17.8.95	17.6.02	33,518	578.89	1088.40
J N Sheldrick	13.7.94	17.6.02	32,400	526.71	1088.40
	17.7.96	17.6.02	30,776	574.50	1088.40

Gains made on exercise of options by directors during the year totalled £1,318,863 (2002: £412,092). This figure includes the gains made by Mr Titcombe, details of which appear on page 36.

The closing market price of the company's shares at 31st March 2003 was 737 pence and the range during 2002/03 was 725 pence to 1170 pence.

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Directors' Interests (continued)

3 LTIP Allocations

Number of allocated shares:

	As at 31st March 2002	Allocations during the year	Shares released during the year	As at 31st March 2003
C R N Clark	194,272	69,175	74,830	188,617
N A P Carson	68,758	24,272	27,211	65,819
D W Morgan	65,401	21,359	26,361	60,399
J N Sheldrick	98,209	29,126	41,531	85,804

The LTIP was introduced in 1998 and on 2nd August 2002 the 1999 LTIP allocation was released to participants. The company's TSR performance relative to the FTSE 250 was in the 92nd percentile during the periods under measurement and EPS performance targets as described on page 32 were also achieved. The outcome was that EPS increased by 41.1% over the performance period compared to the minimum target of 12.4%. 100% of the shares were therefore released in accordance with the rules as approved by shareholders. This resulted in the following gains:

	Number of shares released	Share price when released (pence)	Gain £
C R N Clark	74,830	872	652,518
N A P Carson	27,211	872	237,280
D W Morgan	26,361	872	229,868
J N Sheldrick	41,531	872	362,150

These figures do not include the gains made by Mr Titcombe, details of which appear on page 37.

Directors' interests at 31st May 2003 were unchanged from those listed above with the following exceptions:

The Trustees of the Johnson Matthey Share Incentive Plan have purchased on behalf of Messrs Clark, Carson, Morgan and Sheldrick a further 90 ordinary shares each.

Former Executive Director

Mr D G Titcombe

Mr Titcombe retired from the board of Johnson Matthey on 24th September 2002. His emoluments for 2002/03 until he retired were as follows:

Salary £'000	Annual bonus £'000	Benefits £'000	Total excluding pension £'000	Total prior year excluding pension £'000
150	63	7	220	389

Notes:

Mr Titcombe's annual bonus for the year 2002/03 is pro-rated for the period up to 30th September 2002. He will continue to receive private medical insurance cover for life at a cost of £1,639 p.a., in accordance with the terms of his contract. He has been engaged as a self-employed consultant since his retirement. His fee in the period from his retirement to 31st March 2003 was £50,000.

Share Options

Between 1st April 2002 and 31st March 2003 Mr Titcombe made a gain of £428,138 on the exercise of share options as follows:

Date of grant	Date of exercise	Options exercised	Exercise price (pence)	Market price on exercise (pence)
17.8.95	17.6.02	38,098	578.89	1088.40
17.7.96	17.6.02	30,776	574.50	1088.40
17.7.97	17.6.02	14,250	556.00	1088.40

Mr Titcombe did not receive share options in the 2002 grant in accordance with the Committee's policy on option grants within two years of retirement. Similarly, options granted on 18th July 2001 (27,424 options at 1083.00 pence) were forfeited since they had not been held for two years at retirement.

LTIP

The number of allocated shares held by Mr Titcombe was as follows:

As at 31st March 2002	Shares released during the year	Shares forfeited in the year	As at 31st March 2003
103,424	43,418	28,640	31,366

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Directors' Interests (continued)

Mr Titcombe did not receive an allocation of shares under the LTIP in 2002 in accordance with the trustees' policy of not allocating shares within two years of retirement.

On 2nd August 2002 the 1999 LTIP allocation was released to participants as previously detailed on page 36. This resulted in the following gains for Mr Titcombe:

Number of shares released	Share price when released (pence)	Gain £
43,418	872	378,605

Pension

Mr Titcombe retired on 24th September 2002. His pension was calculated in accordance with the Trust Deed and Rules of JMEPS. The total pension payable from 24th September 2002 is £214,000 p.a. and this will increase annually in line with the UK RPI up to a maximum of 5% p.a.

The increase in Mr Titcombe's annual pension between 31st March 2002 and the date of retirement was £11,000 and the value of that increase, calculated in accordance with Actuarial Guidance Note 11, based on market conditions at 31st March 2003 and less his own contribution of £5,000, was £193,000.

The transfer values of the pension accrued at the start of the year and the retirement pension at 24th September 2002 (but based on market conditions at 31st March 2003), calculated in accordance with Actuarial Guidance Note 11 and less his own contributions, were £3.366 million and £3.852 million respectively. This is an increase over the year of £481,000 which takes account of market movements.

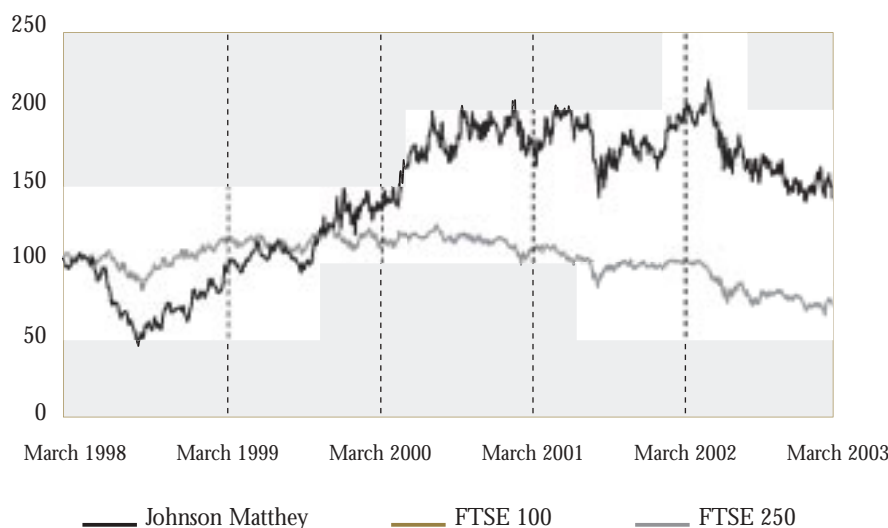
Total Shareholder Return

The following graph charts total cumulative shareholder return of the company for the five year period to 31st March 2003 against the FTSE 100 and the FTSE 250, as the most appropriate comparator groups, with each rebased to 100 at 1st April 1998.

Johnson Matthey joined the FTSE 100 on 12th June 2002. For the LTIP allocations in 1998, 1999 and 2000, the number of shares released was and is dependent on Johnson Matthey's relative TSR compared with the FTSE 250 over a three year performance period. Both indices are therefore included as comparators.

Johnson Matthey Total Shareholder Return, FTSE 100 and FTSE 250 rebased to 100

[31st March 1998 to 31st March 2003]



Charles Mackay

C D Mackay

Chairman of the Management Development and Remuneration Committee