

Remuneration Report

Remuneration Report to Shareholders

Management Development and Remuneration Committee and its Terms of Reference

The Management Development and Remuneration Committee of the board comprises all the non-executive directors of the company, other than the group Chairman, as set out on pages 12 and 13. Mr Jenkins retired from the Committee on 16th July 2003 and Mr Miles stepped down from the Committee on 25th November 2003.

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 senior 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 appoints and 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. 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 and consists of basic salary, annual bonus, a long term incentive plan, share options and other benefits as detailed below. Salaries are based on median market rates with incentives providing the opportunity for upper quartile total remuneration, but only for achieving outstanding performance. Following a further comprehensive review by the Committee in 2003/04, which included advice from independent consultants, changes are proposed to the annual bonus, long term incentive plan and share options. These require shareholder approval and are the subject of a separate circular.

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 and promotion during the year. Where an internal promotion takes place, the median 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, exceptional items and goodwill amortisation (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 2003/04 was 42.5% of salary at 31st March 2004.

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 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%.

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 51 – 150 in the FTSE index would be more appropriate than the FTSE 250 previously used. Hence the August 2002 and 2003 allocations will be tested against this revised comparator group for that half of the allocation subject to the relative TSR test.

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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 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 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 value equal to 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 in the UK, with the exception of Mr Pentz who is a member of the Johnson Matthey Inc. Salaried Employees Pension Plan in the US. Under the UK 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 schemes. Details of the individual arrangements for executive directors are given on page 37.

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 was appointed to the board on 1st March 1990, Mr Sheldrick on 1st September 1990, Messrs Carson and Morgan on 1st August 1999 and Dr Hawker and Mr Pentz on 1st August 2003. All 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.

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Directors' Emoluments 2003/04

	Fees £'000	Salary £'000	Annual bonus £'000	Benefits £'000	Total excluding pension £'000	Total prior year excluding pension ⁽¹⁰⁾ £'000
Executive						
C R N Clark ⁽⁸⁾	–	603	264	30	897	819
N A P Carson ⁽⁹⁾	–	283	128	23	434	366
P N Hawker ⁽¹⁾	–	127	54	10	191	–
D W Morgan	–	233	102	25	360	320
L C Pentz ⁽¹⁾⁽²⁾	–	146	52	53	251	–
J N Sheldrick	–	317	138	12	467	426
Total	–	1,709	738	153	2,600	1,931
Non-Executive⁽⁹⁾						
H M P Miles (Chairman)	180			20	200	198
M B Dearden	33			–	33	33
H R Jenkins ⁽⁴⁾	12			–	12	37
C D Mackay	37 ⁽⁵⁾			–	37	33
I C Strachan	33			–	33	33
A M Thomson	36 ⁽⁶⁾			–	36	17 ⁽⁷⁾
R J W Walvis	33			–	33	17 ⁽⁷⁾
Total	364			20	384	368

Notes:

⁽¹⁾ Appointed August 2003.

⁽²⁾ Mr Pentz's emoluments are based on US basic salary adjusted for the cost of living differential in the UK including UK taxation. He will be provided, for two years only, with an expatriation package commensurate with the company's policy on international assignments, including accommodation costs, education expenses and relocation expenses. One-off costs associated with Mr Pentz's move to the UK were £24,316. These costs are not included in the above table.

⁽³⁾ Non-executive fees were last reviewed on 1st April 2001 for all non-executives and on 1st October 2001 for the Chairman.

⁽⁴⁾ Retired July 2003. Includes £4,000 per annum for chairmanship of the Audit Committee.

⁽⁵⁾ Includes £4,000 per annum for chairmanship of the Management Development and Remuneration Committee.

⁽⁶⁾ Includes £4,000 per annum for chairmanship of the Audit Committee. Appointed July 2003.

⁽⁷⁾ Appointed September 2002.

⁽⁸⁾ Mr Clark is a non-executive director of Rexam PLC and FKI plc. His annual fees are £90,000 from Rexam PLC and £35,000 from FKI plc. These amounts are excluded from the table above and retained by him.

⁽⁹⁾ Mr Carson is a non-executive director of Avon Rubber plc. His annual fee is £25,000. This amount is excluded from the table above and retained by him.

⁽¹⁰⁾ Excludes emoluments of £281,000 for directors who retired in the year ended 31st March 2003.

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Directors' Interests

The interests of the directors as at 31st March 2004 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 2004	31st March 2003
C R N Clark	17,840	65,770
N A P Carson	44,959	36,773
M B Dearden	2,000	2,000
P N Hawker	7,034	6,703 ⁽¹⁾
C D Mackay	12,500	12,500
H M P Miles	562	562
D W Morgan	35,396	34,913
L C Pentz	9,442	8,686 ⁽¹⁾
J N Sheldrick	52,355	91,860
I C Strachan	1,000	1,000
A M Thomson	2,056	2,000
R J W Walvis	1,000	1,000

⁽¹⁾ at date of appointment

The directors are also deemed to be interested in the shares held by two employee share ownership trusts (see note 27 on page 64).

2 Share Options

As at 31st March 2004, 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	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	
						114,833 (2003: 156,212)
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	
	17.7.03	33,407	898.00	17.7.06	17.7.13	
						115,698 (2003: 82,291)
P N Hawker	19.7.00	6,130	942.00	19.7.03	19.7.10	
	18.7.01	10,253	1083.00	18.7.04	18.7.11	
	17.7.02	15,606	865.00	17.7.05	17.7.12	
	17.7.03	21,158	898.00	17.7.06	17.7.13	
						53,147 (2003: 53,147 ⁽¹⁾)
D W Morgan	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	
	17.7.03	26,726	898.00	17.7.06	17.7.13	
						103,564 (2003: 108,071)
L C Pentz	14.7.98	12,981	524.00	14.7.01	14.7.08	
	22.7.99	12,158	585.50	22.7.02	22.7.09	
	19.7.00	8,224	942.00	19.7.03	19.7.10	
	18.7.01	12,952	1083.00	18.7.04	18.7.11	
	17.7.02	17,730	865.00	17.7.05	17.7.12	
	17.7.03	22,185	898.00	17.7.06	17.7.13	
						86,230 (2003: 86,230 ⁽¹⁾)
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	
	17.7.03	36,191	898.00	17.7.06	17.7.13	
						132,215 (2003: 96,024)

⁽¹⁾ at date of appointment

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Directors' Interests (continued)

2 Share Options (continued)

Notes:

a Between 1st April 2003 and 31st March 2004 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	17.7.96	1.8.03	41,379	574.50	908.00
P N Hawker	22.7.99	18.7.03	9,299	585.50	907.00
D W Morgan	17.7.96 6.1.97	1.8.03 1.8.03	12,233 19,000	574.50 553.00	903.97 903.97
L C Pentz	17.7.97	24.7.03	10,879	556.00	895.00

b Gains made on exercise of options by directors during the year totalled £311,763 (2003: £1,318,863).

c The closing market price of the company's shares at 31st March 2004 was 879.5 pence and the range during 2003/04 was 763.5 pence to 1055 pence.

3 LTIP Allocations

Number of allocated shares:

	As at 31st March 2003	Allocations during the year	Shares released during the year	Allocations lapsed during the year	As at 31st March 2004
C R N Clark	188,617	–	33,889	21,667	133,061
N A P Carson	65,819	33,936	12,991	8,305	78,459
P N Hawker	25,219 ⁽¹⁾	21,493	2,471	1,580	42,661
D W Morgan	60,399	27,149	12,285	7,854	67,409
L C Pentz	30,693 ⁽¹⁾	22,537	3,315	2,120	47,795
J N Sheldrick	85,804	36,764	18,103	11,574	92,891

⁽¹⁾ and at date of appointment

On 1st August 2003 the 2000 LTIP allocation was released to participants. The company's TSR performance relative to the FTSE 250 was in the 60th percentile during the periods under measurement and EPS performance targets as described on page 33 were also achieved. The outcome was that EPS increased by 34.3% over the performance period compared to the minimum target of 12.0%. 61% 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	33,889	900.3	305,103
N A P Carson	12,991	900.3	116,958
P N Hawker	2,471	900.3	22,246
D W Morgan	12,285	900.3	110,602
L C Pentz	3,315	900.3	29,845
J N Sheldrick	18,103	900.3	162,981

Directors' interests at 28th May 2004 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, Hawker, Morgan and Sheldrick a further 84 ordinary shares each.

The Trustees of the Johnson Matthey Salaried Employees Savings Investment Plan (US) have purchased a further 236 ordinary shares on behalf of Mr Pentz.

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Pensions

Pensions and life assurance benefits for UK 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. With the agreement of the scheme actuary, the company paid contributions to JMEPS of 10% of basic salaries during the year.

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 2004	Years of service at 31st March 2004	Director's contributions to JMEPS during the year ⁽¹⁾ £'000	Increase in accrued pension during the year (net of inflation) ⁽²⁾ £'000 pa	Total accrued pension at 31st March 2004 ⁽³⁾ £'000 pa	Total accrued pension at 31st March 2003 £'000 pa	Transfer value of increase (less director's contributions) ⁽⁴⁾ £'000	FURBS contribution in the year ⁽⁵⁾ £'000	FURBS related tax payments ⁽⁵⁾ £'000
C R N Clark	62	41	–	26	433	396	460	–	–
N A P Carson	46	23	11	24	129	103	184	–	–
P N Hawker ⁽⁶⁾	50	17	5	18	80	61	180	–	–
D W Morgan	46	15	4	2	32	29	14	55	37
J N Sheldrick	54	13	4	2	38	34	27	76	51
L C Pentz ^{(6) (7)}	48	19	–	(2)	35	37	(8)	–	–

b. Directors' Remuneration Report Regulations 2002

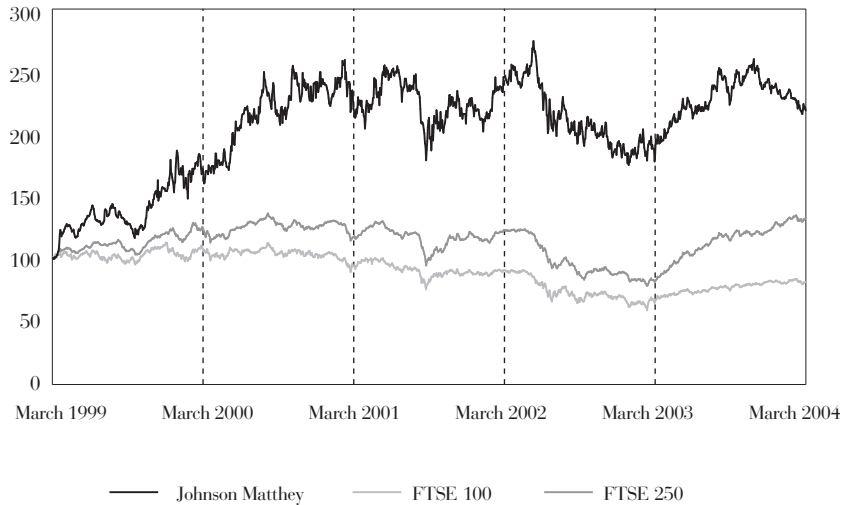
	Years of service at 31st March 2004	Director's contributions to JMEPS during the year ⁽¹⁾ £'000	Increase in accrued pension during the year £'000 pa	Total accrued pension at 31st March 2004 ⁽³⁾ £'000 pa	Transfer value of accrued pension at 31st March 2004 ⁽⁴⁾ £'000	Transfer value of accrued pension at 31st March 2003 ⁽⁴⁾ £'000	Increase in transfer value (less director's contributions) £'000	FURBS contribution for the year ⁽⁵⁾ £'000	FURBS related tax payment ⁽⁵⁾ £'000
C R N Clark	41	–	37	433	7,625	6,968	657	–	–
N A P Carson	23	11	26	129	1,065	654	400	–	–
P N Hawker ⁽⁶⁾	17	5	19	80	810	545	260	–	–
D W Morgan	15	4	3	32	252	176	72	55	37
J N Sheldrick	13	4	4	38	475	356	115	76	51
L C Pentz ^{(6) (7)}	19	–	(2)	35	118	112	6	–	–

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 from 31st March 2003.
- ⁽³⁾ The entitlement shown under "Total accrued pension at 31st March 2004" is the pension which would be paid annually on retirement, based on pensionable service to 31st March 2004. 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 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 Benefit 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. 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.
- ⁽⁶⁾ Dr Hawker and Mr Pentz were appointed to the board with effect from 1st August 2003. Pensions shown are the amounts accrued since appointment. The contributions are those that have been paid since appointment.
- ⁽⁷⁾ Mr Pentz is a US citizen and is not a member of the UK pension scheme. Instead, he is a member of the US salaried pension plan, which is a non-contributory defined benefit arrangement. The entitlements shown in the tables are those arising out of his membership of this arrangement converted into sterling by reference to the exchange rates on 31st July 2003 and 31st March 2004. The reduction in accrued pension is the result of exchange rate differences. Mr Pentz is also a member of a savings plan (401k), to which the company contributed \$8,000 between 1st August 2003 and 31st March 2004. This is not included in the tables above but is included in his benefits in the table on page 34.

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Johnson Matthey Total Shareholder Return, FTSE 100 and FTSE 250 rebased to 100
(31st March 1999 to 31st March 2004)



C D Mackay

Chairman of the Management Development and Remuneration Committee