Remuneration overview

Remuneration Policy

Below we publish the Remuneration Policy table, which includes the elements of directors' remuneration. For each element we describe its purpose and its link to strategy, how it works, the opportunity, boundaries and performance measures and any clawback or withholding conditions which may apply. This Remuneration Policy which was informed following consultation with our key shareholders during 2019/20, took effect immediately following its approval at the 2020 AGM and applies to all remuneration for the financial year 1st April 2020 onwards.

Approach to designing the Remuneration Policy

The committee is responsible for the determining, and agreeing with the board, the Directors' Remuneration Policy and has oversight of its implementation. The committee has clear terms of reference and works with management and independent advisers to develop proposals and recommendations and exercises independent judgement when making decisions. This process is considered to manage any potential conflicts of interest.

When considering how to structure and position the remuneration packages for the Executive Directors, the committee firstly considers the company's strategy and business objectives and then also takes into account market data from a range of sources that includes both UK-listed companies of a similar size and complexity and international peers. The committee also reviews information from the Chief HR Officer on pay and employment conditions applying to other group employees, consistent with the group's general aim of seeking to reward all employees fairly according to the nature of their role, their performance and market forces.

In designing an appropriate incentive structure for the Executive Directors and other senior management, the committee seeks to set challenging performance criteria that are aligned with the group's business strategy and the generation of sustained shareholder value. The committee is also mindful of the need to avoid inadvertently encouraging risky or irresponsible behaviour, including behaviour that could raise environmental, social or governance issues.

The committee considered the principles listed in the 2018 UK Corporate Governance Code when reviewing the Directors' Remuneration Policy and took these into account in its design and implementation:

Clarity: Remuneration arrangements have defined parameters which can be transparently communicated to shareholders and other stakeholders.

Simplicity: Remuneration arrangements for Executive Directors consist of salary, a fixed pension contribution set to reflect the typical rate provided to the UK workforce, participation in the annual bonus scheme, a portion of which is deferred into shares, and annual long term incentive plan awards which provide focus over the longer term performance. Unnecessary complexity is avoided by the committee in operating the arrangements.

Risk: The remuneration arrangements are designed to have a robust link between pay and performance thereby mitigating the risk of excessive reward. In addition, behavioural risks are considered when setting targets for performance related pay and the arrangements have safeguards to ensure that pay remains appropriate including committee discretion to adjust incentive outturns, deferral of incentive payments in shares, recovery provisions and share ownership requirements.

Predictability: The committee set specific targets for different levels of performance which are communicated to the individuals and disclosed to shareholders.

Proportionality: The annual bonus and long term incentive plans have performance metrics that are aligned with the company's KPIs and the payouts reflect achievement against the targets. The committee may reduce payouts under the bonus and long term incentive plan if they are not considered aligned with underlying performance. Safeguards are identified to ensure that poor performance is not rewarded.

Alignment to culture: The directors' remuneration arrangements are cascaded down through the organisation ensuring that there are common goals. The committee review remuneration arrangements throughout the company and take these into account when setting directors' remuneration.

Policy table

Purpose and link to strategy	Operation (and changes if appropriate) of the element	Potential value of element and performance measures
Base salary		
Base salary is the basic pay for doing the job. Its purpose is to provide a fair and competitive level of base pay to attract and retain individuals of the calibre required to lead the business.	Base salaries will be reviewed annually and any changes normally take effect from 1st April each year. In determining salaries and salary increases, the Remuneration Committee will take account of the performance of the individual director against a broad set of parameters including financial, environmental, social and governance issues. The Remuneration Committee will also take into account the director's knowledge, contribution to the role, length of time in post, and any additional responsibilities since the last salary review, as well as the level of salary increases awarded to the wider Johnson Matthey workforce. Salaries across the group are benchmarked against a comparator group of similarly sized companies within the FTSE, with a comparable international presence and geographic spread and operating in relevant industry sectors. New appointments or promotions will be paid at a level reflecting the executive directors' level of experience in the particular role and experience at board level. New or promoted executive directors may receive higher pay increases than typical for the group over a period of time following their appointment as their pay trends toward an appropriate level for their role.	**Maximum opportunity** No salary increase will be awarded which results in a base salary which exceeds the competitive market range. Details of the current salaries for the Executive Directors are shown in the Annual Report on Remuneration on page 115.
Annual Incentive Plan		
The Annual Incentive Plan (AIP) provides a strong incentive aligned to strategy in the short term. It allows the board to drive and reward both financial and non-financial metrics, including leadership behaviours, in order to deliver sustainable growth in shareholder value. The AIP bonus plays a key part in the motivation and retention of Executive Directors, one of the key requirements for long term growth. Bonus deferral as well as malus and clawback provisions ensure that longer term considerations are properly taken into account in the pursuit of annual targets.	The Remuneration Committee sets the AIP performance measures and targets for each new award cycle. At the end of the year, the Remuneration Committee determines the extent to which these have been achieved. The Remuneration Committee retains the discretion to reduce any bonus award if, in its opinion, the underlying financial performance of the company has not been satisfactory in the circumstances. **Deferral** Of any bonus paid, 50% is paid in cash and the remaining 50% is deferred into shares for a three year period as an award under the deferred bonus plan. No further performance conditions apply to awards under the Deferred Bonus Plan. Dividends that accrue on the deferred shares during the vesting period will be paid in either cash and / or shares at the time of vesting. **Malus and clawback** The cash and deferred elements of the bonus are subject to malus and clawback provisions such that they can be forfeited or recouped in part or in full in the event of a misstatement of results, error in the calculation, misconduct by the individual or serious reputational damage. **Adjustments** The Remuneration Committee retains discretion to change the performance targets if there is a significant and / or material event which causes the committee to believe the original targets are no longer appropriate (e.g. to reflect material acquisitions or disposals). The Remuneration Committee also retains discretion to amend the level of annual bonuses determined by the performance condition to seek to ensure that the incentive structure for Executive Directors does not raise environmental, social and governance risks by inadvertently motivating irresponsible behaviour. For example, reducing or eliminating bonuses where the company has suffered reputational damage or where other aspects of performance, including leadership behaviour, has been unacceptable. The Remuneration Committee retains the ability to increase bonus awards from the formulaic outcome where there is identifiable and exceptional performance by the Executive Director. Bonus payments in such circumstances would remain within the maximum bonus opportunity and shareholders would be fully informed of the justification.	**Performance measures** Bonuses are based on the achievement of demanding financial and, where appropriate, non-financial targets. The committee may use different performances and / or weightings for each performance cycle as appropriate to take into account the strategic needs of the business. However, a substantial proportion will be based on key financial measures, including underlying PBT. Targets are set on a robust bottom up process to achieve full accountability. The financial performance targets are retrospectively published in the immediately following Annual Report on Remuneration. Details of last year's bonus awards are on page 116. The performance period for annual bonus purposes matches the financial year (1st April to 31st March). **Maximum opportunity and vesting thresholds** Chief Executive – 180% of base salary. Other Executive Directors – 150% of base salary. Threshold vesting will result in a bonus of 15% of maximum opportunity. On-target performance will result in 50% payment of the maximum opportunity.

Purpose and link to strategy	Operation (and changes if appropriate) of the element	Potential value of element and performance measures
Performance Share Plan		
The Performance Share Plan (PSP) is designed to ensure that executives take decisions in the interest of the longer term success of the group. Having measures that look at profitable growth and performance relative to a comparator group over the longer term ensures that the interests of executives are aligned with shareholder wishes for long term value.	Shares may be awarded each year and are subject to performance conditions over a three year performance period. Subject to the performance conditions being met the shares will vest after which the directors will be required to hold any vested shares until the fifth anniversary of the award. The performance targets are set by the Remuneration Committee based on internal and external growth forecasts to ensure they remain appropriate and aligned with shareholder expectations. The awards are granted in accordance with the rules of the plan approved by shareholders. The maximum award level is 250% of base salary. Awards may be granted in the form of conditional shares, nil or nominal cost options or cash (where the awards cannot be settled in shares). Dividends that accrue during the post-vesting holding period will be managed in accordance with our dividend re-investment process. **Malus and clawback** Performance Share Plan awards are subject to malus and clawback provisions that can apply in the case of a misstatement of results, error in the calculation, misconduct by the individual, serious reputational damage, failures of risk management or corporate failure. **Adjustments** The Remuneration Committee has the power to adjust the annual award level, for example in the event of a material fall in share price, as well as the power to adjust the vesting level of an award based on the underlying performance of the company. The Remuneration Committee may adjust the performance measure to reflect material changes (e.g. significant acquisitions or disposals, share consolidation, share buy-backs or special dividends). Any such change would be fully explained to shareholders.	**Performance measures** PSP awards vest over a three year performance period and will be subject to financial and / or shareholder return targets. In addition, strategic and / or sustainability targets may also be included for a minority of future awards. In all cases, at least two-thirds of awards would be subject to financial and / or total shareholder return targets. It is expected that during the policy period the following two metrics will form the majority of awards: a) the compound annual growth rate (CAGR) of underlying EPS; and b) the Total Shareholder Return (TSR) relative to a comparator group (e.g. the FTSE 31-100 excluding financial services companies) Both of the above will be subject to a discretionary ROIC underpin and vesting is also subject to a broad Committee discretion that will enable the Committee to adjust the extent to which an award vests by overriding formulaic outcomes in order to reflect the wider financial circumstances of the group. The prospective weightings, targets and measures for the year commencing 1st April 2020 are shown on page 122. The Remuneration Committee retains the discretion to amend the weightings, targets and the performance measures detailed on page 122 for future awards as appropriate to reflect the business strategy and intends to look to include a further measure relating to sustainability during the Policy period. However, it is not anticipated that this would relate to more than 20% of a future award. Any material changes to the approach set out on page 122 will be subject to appropriate dialogue with major shareholders. **Awards levels and vesting thresholds** Chief Executive – 200% of base salary. Other Executive Directors – 175% of base salary. There is no intention to increase the award levels to current executive directors beyond the levels noted. If a new executive director is appointed during the policy period, awards may be granted up to 250% of salary if necessary for recruitment purposes (both in connection with their appointment and on an ongoing basis). Any adjustment to the ongoing annual award level would be subject to appropriate dialogue with our shareholders. Threshold vesting will result in a payment of up to 25% of the award. The actual threshold vesting will depend on the performance metric and the performance range set for the specific award.

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Benefits		
To provide a market aligned benefits package. The purpose of any benefit is to align with normal market practices, and to remove certain day to day concerns from Executive Directors, to allow them to concentrate on the task in hand.	Benefits include medical, life and income protection insurance, medical assessments, company sick pay, and a company car (or equivalent). Other appropriate benefits may also be provided from time to time at the discretion of the Remuneration Committee. Directors' and officers' liability insurance is maintained for all directors. Directors who are required to move for a business reason may, where appropriate, also be provided with benefits such as relocation benefits (e.g. the provision of accommodation, transport or medical insurance away from their country of residence) and schooling for dependents. The company may pay the tax on these benefits. Directors may be assisted with tax advice and tax compliance services. The company will reimburse all reasonable expenses (including any tax thereon) which the Executive Director is authorised to incur whilst carrying out executive duties.	Benefits are not generally expected to be a significant part of the remuneration package in financial terms and are there to support the director in his or her performance in the role. In general, benefits will be restricted to the typical level in the relevant market for an Executive Director. Car benefits will not exceed a total of £25,000 per annum. The cost of medical insurance for an individual Executive Director and dependents will not exceed £20,000 per annum. Company sick pay is 52 weeks' full pay.
Pension		
Provides for post-retirement remuneration, ensures that the total package is competitive and aids retention.	All Executive Directors will be paid a cash supplement in lieu of membership in a pension scheme.	The maximum supplement is 15% of base salary for new Executive Directors. This is aligned to the cost of providing pension benefits to other employees in the UK. Current Executive Directors will see their pension cash supplement reduce from 25% to 15% over the next few years as follows: 1st April 2020 – 23.0% of base salary 1st April 2021 – 20.0% of base salary 1st April 2022 – 15.0% of base salary
All employee share plan		
Encourages share ownership.	Executive Directors are entitled to participate in the company's all employee plan under which regular monthly share purchases are made and matched with the award of company shares, subject to retention conditions. Executive Directors would also be entitled to participate in any other all employee arrangements that may be established by the company on the same terms as all other employees.	Executive Directors are entitled to participate up to the same limits in force from time to time for all employees.
Shareholding requirements		
To encourage Executive Directors to build a shareholding in the company and ensure the interests of management are aligned with those of shareholders.	Executive Directors are expected to build up a shareholding in the company over a reasonable period of time, and upon cessation of employment are expected to retain a shareholding for a period of up to two years. Shares that count towards achieving these guidelines while an Executive Director include: all shares beneficially owned by an Executive Director or a person connected to the executive as recognised by the Remuneration Committee; deferred bonus shares and PSP awards which have vested and so are no longer subject to performance conditions but are within a holding period. Shares that count toward achieving the post-cessation guideline include the same as those while an Executive Director, except that only shares owned after 1st April 2020 count toward the post-cessation guideline. Executive Directors are expected to retain at least 50% of the net (after tax) vested shares that are released under the PSP and Deferred Bonus Plan until the required levels of shareholding are achieved. Executive Directors are not required to make personal share purchases should awards not meet the performance conditions and so a newly appointed director may take longer to reach the expected level, depending on the company's performance against targets over the period. In addition, a director who ceases employment with the company is not required to purchase shares to satisfy the post-cessation shareholding requirement.	The minimum shareholding requirement while an Executive Director and for the two year period after cessation of employment is as follows: Chief Executive – 250% of base salary. Other Executive Directors – 200% of base salary. If the Executive Director has not been able to build up their shareholding prior to cessation they are not required to purchase shares upon cessation to satisfy the requirement. There is no requirement for Non-Executive Directors to hold shares but they are encouraged to acquire a holding over time.

Purpose and link to strategy	Operation (and changes if appropriate) of the element	Potential value of element and performance measures
Non-Executive Director fees		
Attracts, retains and motivates Non-Executive Directors with the required knowledge and experience.	Non-Executive Director fees are determined by the board and the Non-Executive Directors exclude themselves from such discussions. The fees for the Chairman are determined by the Remuneration Committee taking into account the views of the Chief Executive. The Chairman excludes himself from such discussions. Non-Executive Directors are paid a base fee each year with an additional fee for each committee chairmanship or additional role held. Non-Executive Director fees are reviewed every year. Any increase will take into account the market rate for the relevant positions within the comparator group of similarly sized companies with a comparable international presence and geographic spread and operating in relevant industry sectors, the experience of the individuals and the expected time commitment of the role. In exceptional circumstances, additional fees may be payable to reflect a substantial increase in time commitment. The company will also reimburse the Chairman and Non-Executive Directors for all reasonable expenses (including any tax thereon) incurred whilst carrying out duties for the company.	Details of the current fee levels for the Chairman and Non-Executive Directors are set out in the Annual Report on Remuneration on page 115. The fee levels are set subject to the maximum limits set out in the Articles of Association.

Selection of performance targets

Annual Incentive Plan

Financial performance targets under the Annual Incentive Plan are set by the Remuneration Committee with reference to the prior year and to the budgets and business plans for the coming year, ensuring the levels to achieve threshold, target or maximum payout are appropriately challenging.

The performance targets for 2020/21 are predominantly based on financial measures (80% of maximum opportunity) including budgeted underlying PBT and working capital to ensure that there is strong attention paid to delivery of current operational plans and operational efficiency.

Commercial sensitivity precludes the advance publication of the actual bonus targets but these targets will be retrospectively published in the Annual Report on Remuneration for 2020/21.

Performance Share Plan

The performance targets under the PSP are set to reflect the company's longer term growth objectives at a level where the maximum represents genuine outperformance. The performance measures are currently based on underlying EPS and TSR.

Underlying EPS is considered a simple and clear measure of absolute growth in line with the company's strategy. It is also a key objective of the company to achieve earnings growth only in the context of a satisfactory performance on ROIC. Accordingly, the Remuneration Committee makes an assessment of the group's ROIC over the performance period to ensure underlying EPS growth has been achieved with ROIC in line with the group's planned expectations.

Total Shareholder Return is considered a simple and clear performance relative to a comparator group (FTSE 31-100 excluding financial services companies).