

Governance

Directors' Remuneration Report

Policy overview

In setting the remuneration policy for the Executive Directors, the Committee takes into account the following:

- The need to attract, retain and motivate Executive Directors and senior management;
- Internal pay and benefits practice and employment conditions within the group as a whole; and
- Periodic external comparisons to examine current market trends and practices and equivalent roles in similar companies.

There are five elements of the remuneration package for Executive Directors:

- Base salary
- Annual bonus
- Long-term incentives
- Pension provision
- Benefits

The key principles of the policy are:

- A reward structure that balances short-term and long-term performance.
- Base salaries set at around median level for a group of Alumasc's size, complexity and industry sectors, but with the potential to earn upper-quartile rewards for sustained medium to longer term exceptional performance.
- Competitive incentive arrangements underpinned by a balance of financial measures and linked to corporate performance, ensuring a focus on business performance and alignment with the interests of shareholders.

As a result, the Committee has determined that the remuneration of Executive Directors will provide an appropriate balance between fixed and performance-related elements. The Committee will continue to review the remuneration policy to ensure it takes due account of best remuneration practice and that it remains aligned with the interests of shareholders.

Remuneration policy report

This part of the Directors' Remuneration Report sets out the remuneration policy for the group which will become effective at the AGM on 30 October 2014.

Executive Director policy table

Element of pay and purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Base salary Help recruit and retain Executive Directors. Provides fixed remuneration for the Executive Directors, which reflects the individual's experience and the size and scope of the executive's responsibilities.	Normally reviewed annually on 1 July and fixed for twelve months. Salaries are determined by the Remuneration Committee taking account of those paid by other companies of a comparable size and complexity, but also takes into account a range of factors, including any change in responsibilities or the scope of the role.	Ordinarily salary increases will not exceed the range of salary increases to other employees in the group. However, salary increases may be above this level in certain circumstances as required, for example, to reflect: Increase in scope or responsibility; Performance in role; or An executive director being moved to align with changing market rates. No absolute maximum level of base salary has been set.	Not applicable.
Benefits Help recruit and retain Executive Directors. Ensures the overall package is competitive.	Executive Directors are entitled to a range of benefits, including but not limited to, membership of the group's healthcare scheme, ill health and life assurance, and car plus fuel (or equivalent cash) allowances. Other benefits may be provided based on individual circumstances. Such benefits may include but are not limited to relocation allowances.	Whilst the Remuneration Committee has not set an absolute maximum on the level of benefits executive directors receive, the value of benefits is set at a level which the Remuneration Committee considers is appropriately positioned against companies of a similar size and complexity in the relevant market.	Not applicable.

Element of pay and purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Pension To provide competitive post-retirement benefits and reward sustained contribution to the performance of the group.	The group may make payment either into a defined contribution plan and/or as a separate cash allowance. Group contributions are determined as a percentage of base salary and set at a level which the Remuneration Committee considers to be appropriately positioned against comparable roles in companies of a similar size and complexity.	Contribution rates (or equivalent cash allowances) are up to a maximum of 20% of base salary.	Not performance related.
Annual Bonus Rewards the achievement of annual financial and/or strategic business objectives.	Performance measures and targets are reviewed and set annually by the Remuneration Committee. Bonus pay-out is determined by the Remuneration Committee after the relevant year end.	Up to 100% of base salary could be earned. However, the usual bonus opportunity is up to 50% of salary based on achievement of results well ahead of target.	The bonus will principally be based on the achievement of targets related to key business objectives. The performance measures will include at least one of the following: Underlying profit before tax relative to budget; Achievement of cash flow performance including average working capital as a percentage of sales, relative to budget; or Other performance metrics that the Remuneration Committee considers appropriate from time to time, including personal objectives. The majority of the potential bonus will be based on achievement of profit targets. The Remuneration Committee will determine an appropriate performance range for each measure used. Below the threshold level of profit performance, 0% of maximum opportunity will be paid and a straight line entitlement will usually apply between this threshold and the target performance. Up to 12.5% of the normal maximum opportunity will be earned for target performance and 100% for maximum performance. There is usually straight line vesting between these performance points.

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Element of pay and purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
<p>Long Term Incentive Plan (LTIP)</p> <p>Incentivises Executive Directors to achieve higher returns for shareholders over a longer time frame.</p> <p>A claw back applies to unvested awards enabling the company to mitigate risk.</p>	<p>Subject to the limits set out in the schemes the Remuneration Committee may grant awards over conditional share awards, nil cost share options or such other form as has the same economic effect.</p> <p>Awards are typically granted annually and vesting is subject to achievement of performance measures normally over at least three years.</p> <p>The share scheme rules allow for LTIP awards to vest early on a change of control (or other relevant events) subject to the satisfaction of performance conditions and pro-rating for time, although the Remuneration Committee has discretion to increase the extent of vesting having due regard to performance over the period to the change of control.</p> <p>Future LTIP awards and vesting will be subject to a claw back provision such that, at the discretion of the Remuneration Committee, unvested awards may lapse for material errors or the misstatement of results or information coming to light which, had it been known, would have affected the award or vesting decision or caused reputational damage to the group.</p>	<p>The annual LTIP maximum opportunity is 75% of base salary in respect of each financial year.</p>	<p>Awards vest subject to the achievement of performance measures assessed over more than one financial year (normally three years). The performance measures for new awards are reviewed annually to ensure they remain relevant and aligned to the group's strategy.</p> <p>Performance measures will be based on growth in EPS and shareholder return.</p> <p>A minimum threshold of growth in EPS must be reached before any vesting occurs.</p> <p>25% of the maximum opportunity will vest at the minimum threshold.</p> <p>Above the minimum threshold, the performance measures for 2014 will be 50% based on EPS growth and 50% based on total shareholder return (TSR).</p> <p>For achievement of the upper target 100% of the maximum opportunity will vest; there is straight line vesting between the performance points of 25% and 100%.</p>

Policy for Non-Executive Chairman and Directors' fees

Element of pay and purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Non-executive Chairman and Director fees The sole element of non-executive Director remuneration is fees, set at a level that reflects market conditions and sufficient to attract individuals with appropriate knowledge and experience.	<p>Fees are reviewed periodically and are determined by the Chairman and the executive directors in the case of the non-executive Directors and the Remuneration Committee in respect of the Chairman.</p> <p>The fee structure is as follows:</p> <p>The Chairman is paid a single consolidated fee;</p> <p>The non-executive Directors are paid a basic fee plus additional fees for chairmanship of a committee, or for any additional work undertaken on behalf of the company;</p> <p>The non-executive Directors do not participate in any of the group's share incentive plans nor do they receive any pension contributions. Non-executive Directors may be eligible to benefits/expenses such as the use of secretarial support, travel costs or other benefits that may be appropriate.</p>	<p>Fees are subject to an overall cap as set out in the company's Articles of Association.</p> <p>Fees are based on the time commitment and responsibilities of the role.</p> <p>Fees are appropriately positioned against comparable roles in companies of a similar size and complexity in the relevant market.</p>	<p>No performance-related element of remuneration.</p>

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Remuneration Scenarios

Group Chief Executive – Paul Hooper

Minimum	100%				£308,400
On-target	80%	8%	12%		£384,025
Maximum	42%	33%	25%		£731,900

Fixed
 Short-term incentive
 Long-term incentive

Minimum performance

Fixed elements of remuneration only (being base salary, pension and benefits) of £308,400 in 2014/15.

"On-target" performance

Fixed elements of remuneration plus:

- 12.5% of salary paid in bonus (12.5% of maximum opportunity); and
- 25% of LTIP award (18.75% of salary).

Maximum performance

Fixed elements of remuneration plus the full payout of both short and long-term incentives.

Group Finance Director – Andrew Magson

Minimum	100%				£207,200
On-target	84%	8%	8%		£249,200
Maximum	45%	37%	18%		£459,200

Fixed
 Short-term incentive
 Long-term incentive

Minimum performance

Fixed elements of remuneration only (being base salary, pension and benefits) of £207,200 in 2014/15.

"On-target" performance

Fixed elements of remuneration plus:

- 12.5% of salary paid in bonus (12.5% of maximum opportunity); and
- 25% of LTIP award (12.5% of salary).

Maximum performance

Fixed elements of remuneration plus the full payout of both short and long-term incentives.

How shareholders' views are taken into account

The Committee considers shareholder feedback received in relation to the AGM each year. This, plus other feedback received during the year, is then considered as part of the group's annual review of remuneration policy. At the 2013 AGM over 99% of those voting chose to vote in favour of the Directors' Remuneration Report and the Committee is grateful to receive this level of support.

How employees' pay is taken into account

Pay and conditions elsewhere in the group were considered when finalising the current policy for Executive Directors and continues to be considered in relation to the implementation of this policy. In order to do so, the Committee assesses the wider pay and employment conditions in other parts of the group.

How the Executive Directors' remuneration policy relates to the wider group

Both executives, and employees below executive level, have their base pay reviewed each year taking into account wage and general inflation, affordability to the group/relevant operating company, performance/development of the individual in their role and general market rates for specific skills. Employees below executive level have lower proportions of their total remuneration subject to incentive based rewards. Long term incentives are reserved for those judged as having the greatest potential to influence the group's earnings growth and share price performance.

Service contracts

The Committee's policy on service contracts for Executive Directors is that they should provide for termination of employment by either side giving 12 months' notice. The group's policy going forward will be that no Executive Director should be entitled to a notice period or payments in excess of their contractual arrangements.

No Executive Director has the benefit of provisions in their service contract for the payment of pre-determined compensation in the event of termination of employment.

Provision	Contractual terms
Contract dates	G P Hooper – 28 January 2001 A Magson – 7 August 2006
Notice period	12 months
Termination payment	Base salary plus pension contributions and benefits. Any bonus accrued up to cessation may also be included at the discretion of the Committee.

Recruitment policy for directors

The remuneration package for a new Executive Director would be set in accordance with the terms of the company's prevailing approved remuneration policy at the time of appointment and takes into account the skills and experience of the individual, the market rate for a candidate of that experience and the importance of securing the relevant individual.

Salary would be provided at such a level as is required to attract the most appropriate candidate. It may be set initially at a below mid-market level on the basis that it may progress towards the mid-market level once expertise and performance has been proven and sustained. The specific individual annual bonus potential is limited to 100% of base salary and conditional awards under the Long Term Incentive Plan may be up to the plan maximum of 75% of salary. In addition, the Committee may offer additional cash and/or share-based elements to replace deferred or incentive pay forfeited by an executive leaving a previous employer. It would seek to ensure, where possible, that these awards would be consistent with awards forfeited in terms of vesting periods, expected value and performance conditions.

For an internal Executive Director appointment, any variable pay element awarded in respect of the prior role may be allowed to pay out according to its terms, adjusted as relevant to take into account the appointment. In addition, any other ongoing remuneration obligations existing prior to appointment may continue. For external and internal appointments, the Committee may agree that the company will meet certain relocation and other incidental expenses as appropriate.

If appropriate the Committee may agree on the recruitment of a new executive to a notice period in excess of twelve months, but to reduce it to twelve months over a specified period.

The fees for a new Chairman or non-executive Director will be reflective of experience, time commitment, responsibility and scope of the role, and will be consistent with the approved remuneration policy at the time.

Chairman and non-executive Directors

The non-executive Directors are engaged for fixed terms, with no notice period, with an entitlement to accrued fees and expenses only up to the date of termination. These appointments are subject to the Articles of Association. Directors submit themselves for re-election at the Annual General Meeting in accordance with the UK Corporate Governance Code and the company's articles.

The dates of the current letters of appointment for the non-executive Directors are as follows:

Name	Date of letter of appointment	Date term due to expire
R C C Saville	1 January 2014	31 December 2014
P H R Gwyn	1 July 2014	30 June 2015
J P Pither	1 July 2014	30 June 2015
J Pilkington	1 March 2014	28 February 2015
W K Walden	2 September 2012	30 October 2015*

*Mr Walden will retire from the Board following the announcement of group results on 2 September 2014.

The Remuneration Committee is permitted to make remuneration decisions within the above policy prior to the policy becoming effective on 30 October 2014.