

## Governance

# Directors' Remuneration Report – Statement from the Chairman



“We are focused on ensuring the group’s remuneration policy is aligned with shareholders’ interests and the company’s strategic goals”

**Jon Pither**

Chairman of the  
Remuneration Committee

**Dear Shareholder**

I am pleased to present the Directors' Remuneration Report for the year ending 30 June 2016. The Remuneration Committee's (the 'Committee' in this report) overall approach remains unchanged from prior years. We are focused on ensuring the group's remuneration policy is aligned with shareholders' interests and the company's strategic goals, whilst also enabling us to attract, retain and motivate high quality executive management.

In making remuneration decisions, the Committee considers the group's overall performance against its long-term goals. For the year to 30 June 2016, the group has delivered another positive set of results as described in the Strategic Report. Particular highlights include:

- Group revenues from continuing operations increased by 2% to £92.2 million
- Underlying profit before tax from continuing operations increased by 7% to £8.3 million
- The strategically important divestment of the Dyson Diecastings business was completed on 30 June 2016.

The Committee met three times during the year – the topics under discussion included:

- A review of the base salaries of the Executive Directors and group employees more generally
- A review and establishment of the achievement of the bonus criteria for the Executive Directors

- Decisions on the performance criteria to be applied to the LTIP and ESOS awards to be made in October 2016
- Decisions on the achievement of the performance criteria in relation to the LTIP and ESOS awards maturing in October 2016
- A review of and decisions on the way company pension contributions are made to individuals in light of the new pension rules introduced in April 2016.

**Summary of any discretion applied in the year**

The Committee used its discretion in amending the administrative rules of the LTIP originally approved by shareholders in 2008 to allow for current and future awards to become nil-cost options bringing these in line with the Remuneration Policy approved by shareholders in October 2014.

The committee used its discretion in respect of the 2012 LTIP award which vested in the year to include loss-making discontinued operations in the calculation of the EPS performance criteria and to align the TSR performance period with the group's financial year end. The impact of the discretion exercised was to reduce the award to 25% in respect of EPS performance criteria and 25% in respect of the TSR criteria, resulting in 50% of the overall award vesting.

The detail of the Directors' remuneration is contained in the report that follows and an overview of the Remuneration Policy can be found after the report.

**Jon Pither**

Chairman of the  
Remuneration Committee

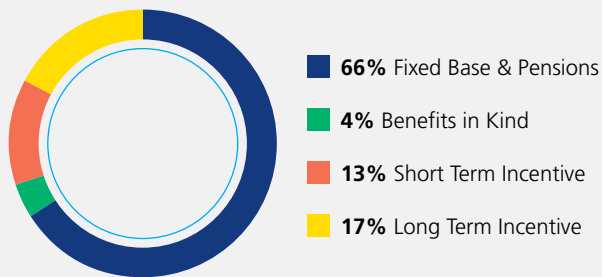
**Remuneration Committee membership**

The Remuneration Committee members who served during the year were:

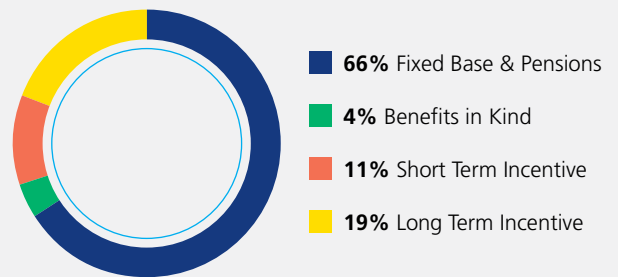
- Jon Pither (Chairman)
- Philip Gwyn
- Richard Saville
- John Pilkington (retired 3 September 2015)
- David Armfield

## Remuneration Dashboard

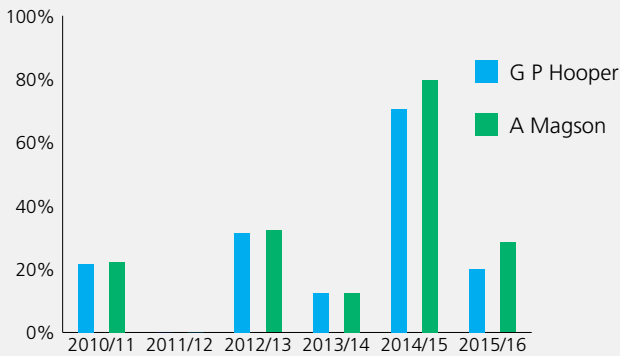
**Executive Directors' Remuneration Mix as at 30.06.2016**



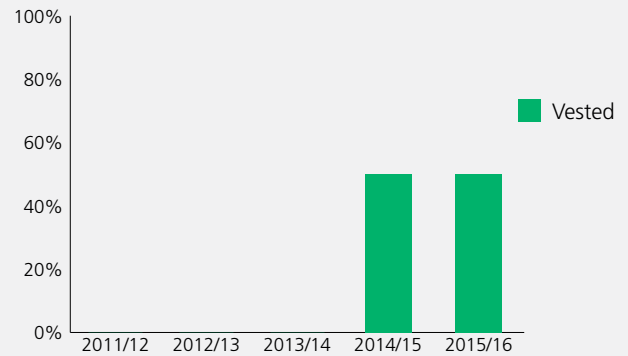
**Chief Executive as at 30.06.2016**



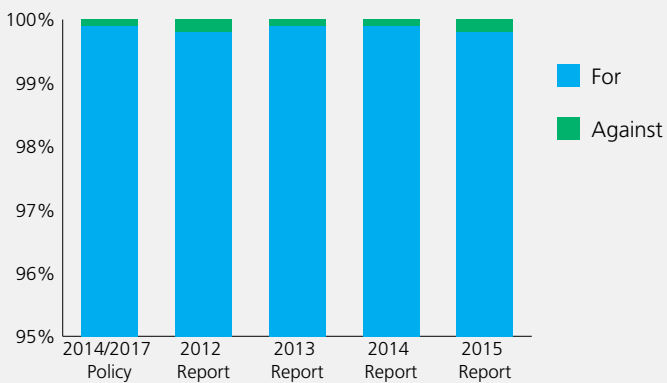
**Bonus Levels as a Percentage of Salary**



**Historical Vesting of LTIPs**



**AGM Votes on Directors Remuneration Policy and Report**



This report is on the activities of the Remuneration Committee (the 'Committee' in this report) for the period to 30 June 2016.

It has been prepared by the Committee, in accordance with Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in August 2013. It will be subject to a shareholders advisory vote at the forthcoming annual general meeting ('AGM') on 27 October 2016.

## Governance

# Directors' Remuneration Report

## – Annual Report on Remuneration

The following sections show how the policy described above was applied in 2015/16 and where appropriate will be applied in 2016/17. The information provided in this part of the Directors Remuneration Report is subject to audit.

### Single total figure of remuneration

The remuneration of the Executive Directors for the years 2014/15 and 2015/16 is made up as follows:

Director	Base salaries/fees		Bonuses		Benefits in kind		Pension contributions or payments in lieu of pension contributions		Long-term incentives with performance period ending during the year		Single figure of total remuneration	
	2015/16 £000	2014/15 £000	2015/16 £000	2014/15 £000	2015/16 £000	2014/15 £000	2015/16 £000	2014/15 £000	2015/16* £000	2014/15^ £000	2015/16 £000	2014/15^ £000
G P Hooper	250	242	50	171	17	16	50	48	88	156	455	633
A Magson	176	168	50	134	13	14	26	25	41	65	306	406
<b>Total</b>	<b>426</b>	<b>410</b>	<b>100</b>	<b>305</b>	<b>30</b>	<b>30</b>	<b>76</b>	<b>73</b>	<b>129</b>	<b>221</b>	<b>761</b>	<b>1,039</b>

^ Actual values based on the vesting of the 2012 LTIP award at a mid-market price of 178.5 pence on 18 March 2016, restated.

\* Estimated values as at 12 July 2016, pending the end of the period for calculating the TSR element, being 6 weeks after the date of the results announcement, subject to actual vesting of the 2013 LTIP award in October 2016.

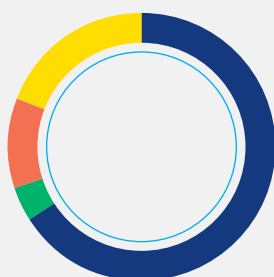
The group's Remuneration Policy caps bonuses payable to Executive Directors at 100% of base pay. In practice, bonuses will only exceed 50% of base pay in exceptional circumstances (for example successful execution of major strategic projects). For the year to 30 June 2016 the minimum bonus target was to achieve underlying PBT from all (including Dyson Diecastings) operations of £8.75 million. On the basis of actual underlying PBT from all operations of £8.3 million, the target for the profit linked bonus were not met therefore no bonus was paid in this respect. However success bonuses of £50,000 to each of G P Hooper and A Magson (20% and 28% of salary respectively) were paid in relation to the marketing and sale of the Dyson Diecastings business, concluding the strategic withdrawal of the group from its engineering products activities.

The group operates a policy whereby Executive Directors are provided with health insurance, disability insurance and life cover, and are given a cash alternative to a company car and associated expenses. None of these are considered individually significant.

The performance metrics used for the 2013 LTIP award, which will vest later in 2016, were stretching to incentivise a significant recovery in the group's profitability compared with the 2012/13 financial year. They comprised an earnings target based on underlying profit before tax (meaning profit before tax prior to deduction of non-cash pension interest and brand amortisation charges, 'UPBT'), which was used by the Committee as a proxy for growth in earnings per share ('EPS'), and a total shareholder return ('TSR') target.

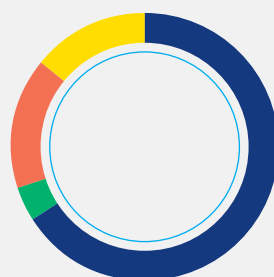
The group's total UPBT from continuing operations for the 2015/16 year was £8.3 million. The Committee in determining that the threshold level of £6.9 million UPBT had been achieved, granted a 25% vesting in respect of the total award. In respect of the actual UPBT figure achieved of £8.3 million, the committee determined that a further 20.8% had vested in respect of the UPBT element of the award.

G P Hooper as at 30.06.2016



- 66% Fixed Base & Pensions
- 4% Benefits in Kind
- 11% Short Term Incentive
- 19% Long Term Incentive

A Magson as at 30.06.2016



- 66% Fixed Base & Pensions
- 4% Benefits in Kind
- 16% Short Term Incentive
- 14% Long Term Incentive

It is expected that the group will achieve a second quartile performance in respect of the TSR element of the award. The TSR performance period, being the three years from September 2013 to September 2016, uses the average share price of the six-week period following the date of announcement of the annual results.

Therefore the Committee determined that, subject to the final calculation in October 2016 of the TSR element of the award, approximately 49.6% of the full LTIP award should vest, comprising 45.8% in respect of the earnings element and an estimated 3.8% in respect of the TSR element. Therefore, in October 2016, it is estimated that approximately 66,644 shares will vest in respect of G P Hooper and 30,907 shares in respect of A Magson. The actual figures, determined following vesting in October 2016, will be reported in the 2017 Directors' Remuneration Report.

The remuneration of the Non-Executive Directors for the years 2014/15 and 2015/16 is made up as follows:

Director	Base salaries/fees		Benefits in kind		Single figure of total remuneration	
	2015/16 £000	2014/15 £000	2015/16 £000	2014/15 £000	2015/16 £000	2014/15 £000
J S McCall	100	100	4	3	104	103
J P Pither	36	33	–	–	36	33
P H R Gwyn	31	28	–	–	31	28
R C C Saville	36	33	–	–	36	33
D Armfield*	31	21	–	–	31	21
J Pilkington <sup>†</sup>	7	28	–	–	7	28
<b>Total</b>	<b>241</b>	<b>243</b>	<b>4</b>	<b>3</b>	<b>245</b>	<b>246</b>

\* Retired 3 September 2015.

<sup>†</sup> Appointed 1 October 2014.

J Pilkington retired as a Director on 3 September 2015, no payment was made for loss of office. The Non-Executive Directors' fees were reviewed in the year (the previous review took place in 2013) and were increased by 23% in respect of J P Pither and R C C Saville and 27% in respect of P H R Gwyn and D Armfield with effect from 1 January 2016 bringing them back into line with current market rates. The Chairman declined the offer of an increase.

### Total pension entitlements

The group's defined benefit pension schemes are closed to future accrual and neither G P Hooper nor A Magson have benefits provided under these schemes. The group makes provision to pay 20% of G P Hooper's base salary and 15% of A Magson's base salary into a defined contribution pension scheme of each Executive's choosing or as a cash alternative.

### Payments to past Directors

There were no payments to past Directors during the year (2015: £nil).

### Payments for loss of office

There were no payments in relation to loss of office during the year (2015: £nil).

### Scheme interests awarded during the year

Long Term Incentive Plan awards were granted in December 2015 as detailed in the table below.

	Scheme	Basis of award granted	Face value of award <sup>†</sup>	% vesting for threshold performance	Vesting and performance period
G P Hooper	2008 LTIP	75% of base pay	£177,028	25%	3 years
A Magson	2008 LTIP	50% of base pay	£83,084	25%	3 years

<sup>†</sup> Based on share price of 177.5 pence on the day before the date of grant. The share price used to calculate the LTIP percentage of salary was 188.0 pence on 3 November 2015.

## Governance

# Directors' Remuneration Report

## – Annual Report on Remuneration

The performance measures for these awards over the three-year period will be benchmarked against the 2014/15 basic earnings per share from continuing operations in that year ('EPS') of 15.0 pence per share.

Threshold 2014/15 EPS growth (25% of award) is:	Vesting level
At least growth in RPI plus 2.5% per annum over the performance period	100%

If threshold performance above is achieved, then:

2014/15 EPS growth (50% of award) is:	Vesting level
Equal to or greater than the growth in retail prices index ('RPI') plus 10% per annum over the performance period	100%
Between RPI growth plus 2.5% and RPI growth plus 10% per annum over the performance period	Straight line between 0%-100%

Total shareholder Return (25% of award) is:	Vesting level
Top quartile performance relative to FTSE All Share Index.	100%
Between median and top quartile	Straight line between 0%-100%
Below median quartile	0%

### Statement of Director's shareholdings and share interests

#### Directors' shareholdings

	At 30 June 2016	At 30 June 2015
J S McCall	4,359,668	4,359,668
J P Pither	258,181	254,131
P H R Gwyn	3,057,605	3,057,605
G P Hooper	191,902	104,643
A Magson	61,538	25,000
R C C Saville	53,000	53,000
D Armfield	25,000	25,000

On 1 July 2016 D Armfield purchased a further 10,000 shares. On 4 July 2016 G P Hooper transferred 11,138 shares into his ISA and purchased a further 4,529 shares through his ISA.

The Directors' shareholdings are beneficial with the exception of 434,000 shares (2015: 434,000) in which J S McCall has a non-beneficial holding.

There is no requirement of directors to hold a specific number of shares in the company.

At the year end the Employee Trust, established to hold shares in relation to the Executive Share Option Scheme and the Long Term Investment Plan, held 622,528 ordinary shares. The market value of the shares held in trust at 30 June 2016 was £756,371.

#### Executive share option scheme

G P Hooper has in the past, been able to participate in the Executive Share Option Scheme approved by shareholders in 2004. This scheme was designed to encourage the matching of interests between management and shareholders. The Chief Executive's 2006 award lapsed during the year. This scheme ended in 2014 and was replaced by a new scheme approved by the shareholders on 30 October 2014 (the '2014 Scheme'). Currently none of the Executive Directors have any awards under the 2014 Scheme.

	Exercise price	Earliest exercise date	Expiry date	As at 1 July 2015	Exercised in year	Granted in year	Lapsed in year	At 30 June 2016
G P Hooper	171.2p	April 2009	April 2016	39,878	–	–	39,878	–

### Long term incentive plans

Each award is dependent partially on an EPS performance condition and partially on TSR, meaning a measure of the growth in value of the ordinary shares of the company over the performance period, assuming that all dividends are reinvested to purchase additional shares. The relative weighting to be attributed to EPS and TSR in a particular award is decided upon by the Remuneration Committee. All awards under the 2008 Plan have a £nil exercise price. The aggregate of gains made by Directors on the exercise of share options during the year was £220,978 (2014/15: £nil).

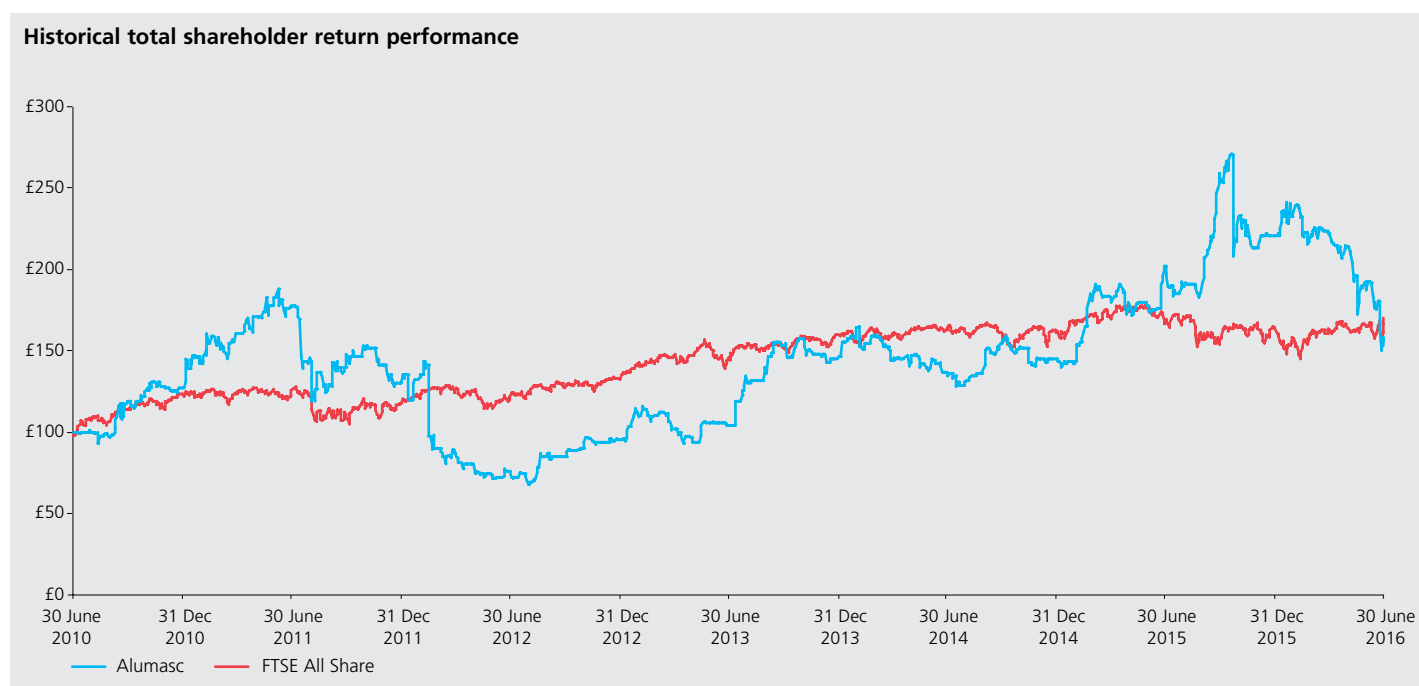
The table below reconciles movements in LTIP awards during the year:

	Date of award	Market price at award date*	Earliest exercise date	Interest as at 1 July 2015	vested in year	exercised in year	were granted in year	of which lapsed in year	Interest as at 30 June 2016
<b>G P Hooper</b>									
	Mar 2013	98p	Mar 2016	<b>174,519</b>	87,259	87,259	–	87,260	–
	Oct 2013	127p	Oct 2016	<b>134,241</b>	–	–	–	–	<b>134,241</b>
	Mar 2015	155.5p	Mar 2018	<b>140,154</b>	–	–	–	–	<b>140,154</b>
	Oct 2015	177.5p	Oct 2018	<b>0</b>	–	–	99,734	–	<b>99,734</b>
Total 2008 Plan				<b>448,914</b>	87,259	87,259	99,734	87,260	<b>374,129</b>
<b>A Magson</b>									
	Mar 2013	98p	Mar 2016	<b>73,076</b>	36,538	36,538	–	36,538	–
	Oct 2013	127p	Oct 2016	<b>62,257</b>	–	–	–	–	<b>62,257</b>
	Mar 2015	155.5p	Mar 2018	<b>64,865</b>	–	–	–	–	<b>64,865</b>
	Oct 2015	177.5p	Oct 2018	<b>0</b>	–	–	46,808	–	<b>46,808</b>
Total 2008 Plan				<b>200,198</b>	36,538	36,538	46,808	36,538	<b>173,930</b>

\* The market price at the award date is based on the price on the day before the date the Employee Trust granted the award. This price can differ from the market value at the date the Remuneration Committee recommended the award to the Trust.

### Performance graph and Chief Executive remuneration table

The information included in this part of the Directors' Remuneration Report is not subject to audit.



The graph shows the total shareholder return on a hypothetical holding of shares in the company compared with the FTSE All Share Index. This index has been selected as, in the opinion of the Directors, it provides a sounder comparison than any subset of the market.

## Governance

# Directors' Remuneration Report

## – Annual Report on Remuneration

The following table sets out the total remuneration and the amount vesting under short-term and long-term incentives (as a percentage of the maximum that could have been achieved) in each of the past five years for the Chief Executive.

Year	Chief Executive single figure of total remuneration £000	Annual bonus payout against maximum opportunity %	Long-term incentive vesting rates against maximum opportunity %
<b>2015/16</b>	455	20%	50%
2014/15*	633	71%	50%
2013/14	323	13%	0%
2012/13	355	63%	0%
2011/12	306	0%	0%

\* Adjusted to reflect actual figures following vesting of the March 2012 LTIP award in March 2016.

### Percentage change in Chief Executive's remuneration

The table below shows the percentage change in remuneration between the years ended 30 June 2015 and 30 June 2016 for the CEO and all group employees.

	CEO	Employees
Salary	3.3%	3.2%
Benefits	6.3%	3.0%
Bonus	-70.8%	-50.0%
<b>Total</b>	<b>-26.1%</b>	<b>-2.7%</b>

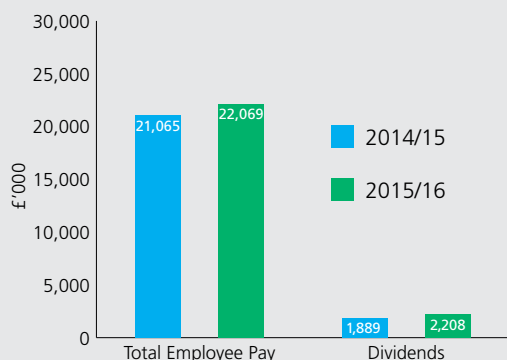
The comparative group for employees in the table excludes Alumasc Precision Components and Pendock Profiles as both businesses were sold during the prior year. This enables a like for like comparison to be made of the pay of employees in the Building Products division and Dyson Diecastings in both 2014/15 and 2015/16.

### Relative importance of spend on pay

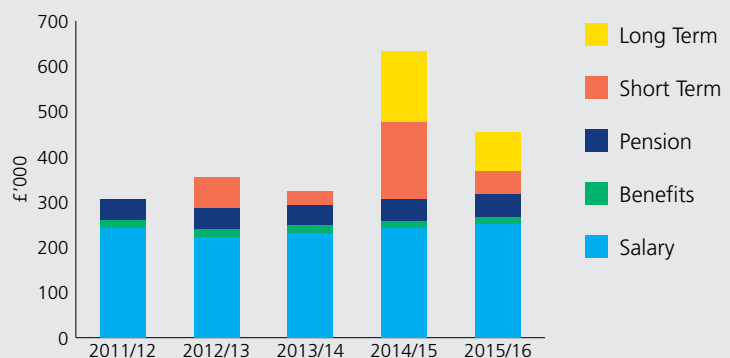
	Total employee pay £000	Dividends £000
2014/15	21,065	1,889
2015/16	22,069	2,208

The comparator figure for employee pay in the table excludes Alumasc Precision Components and Pendock Profiles as both businesses were sold in the prior year. This enables a like for like comparison to be made of the pay of employees in the Building Products division and Dyson Diecastings in both 2014/15 and 2015/16.

### Relative importance of spend on pay



### Chief Executive's remuneration 2011/12 – 2015/16



## Statement of implementation of remuneration policy in the following financial year

The following sections show how the Remuneration Policy will be applied in 2016/17.

### Base salary

Both the Chief Executive and the Group Finance Director base salaries were raised by 2.8% with effect from 1 July 2016 to £257,000 and £181,000 respectively.

### Non-Executive Directors

The remuneration of the Non-Executive Directors is set by the Chairman and the Executive Directors. The policy of the Board is that the remuneration of the Non-Executive Directors should be consistent with the levels of remuneration paid by companies of a similar size and complexity. Non-Executive Directors receive an annual fee and are reimbursed expenses incurred in performing their duties. They do not receive any performance related remuneration or pension contributions. The non-executive fees were increased during the year (as detailed on page 37) and there are no plans to make further increases in the 2016/17 financial year.

The Chairman and Non-Executive Directors do not have contracts of service but their terms are set out in letters of appointment.

### Bonus

For 2016/17 the annual bonus for Executive Directors will be determined by growth in group underlying profit before tax relative to stretching targets set at the beginning of the financial year. The board considers that these targets are commercially sensitive and therefore full details will not be disclosed until the 2016/17 report.

### Long Term Incentive Plan

It is intended that awards will be made in October 2016 for the Chief Executive, to the extent of 75% of base salary, and to the Group Finance Director, to the extent of 50% of base salary.

The earnings performance criteria for these awards over a three year period will be the growth in basic EPS from continuing operations above 14.5 pence per share base level as at 30 June 2016.

Threshold EPS growth above 14.5 pence (25% of award) is:	Vesting level
At least growth in RPI plus 2.5% per annum over the performance period	100%
If threshold performance is achieved then:	
2015/16 EPS growth (50% of award) is:	Vesting level
Equal to or greater than the growth in retail prices index ('RPI') plus 10% per annum over the performance period	100%
Between RPI growth plus 2.5% and RPI growth plus 10% per annum over the performance period	Straight line between 0%-100%
Total shareholder return (25% of award) is:	
Vesting level	
Top quartile performance relative to FTSE All Share Index.	100%
Between median and top quartile	Straight line between 0%-100%
Below median quartile	0%



## Governance

# Directors' Remuneration Report

## – Annual Report on Remuneration

### Consideration by the Directors of matters relating to Directors' remuneration

During the year the Committee considered the remuneration of the Chairman and the Executive Directors.

Details of the committee members who served during the year can be found on page 34. The Committee met three times during the year and a record of the meeting attendance by Committee members is set out on page 30. The Group Chairman generally attends meetings of the Committee but takes no part in deliberations relating to his own position. The Chief Executive and Group Finance Director can attend meetings of the Committee as requested but take no part in deliberations relating to their own position.

The increases in base salary for the Executive Directors were awarded within the range of salary increases granted to employees across the group, no external advice was taken on these matters.

Neither of the Executive Directors has any external paid directorships. Executive Directors may be permitted to accept external board or committee appointments provided they do not interfere with their obligations to the company. The Board will decide at the time of appointment whether the Executive Director may retain the fees for such appointments.

### Statement of voting at general meeting

At last year's Annual General Meeting (2015) the Directors' Remuneration Report received the following votes from shareholders:

	Total number of votes cast	% of votes cast
For	18,281,047	99.8
Against	35,449	0.2
Total votes cast (for and against)	18,316,496	100
Votes withheld	4,750	n/a
Total votes cast (including withheld votes)*	18,321,246	n/a

\* A vote withheld is not a vote in law and is not counted in the calculation of the proportion of votes cast 'For' or 'Against' a resolution.

### Approval

This report was approved by the Board of Directors on 1 September 2016 and signed on its behalf by:

#### Jon Pither

Chairman  
Remuneration Committee

# Directors' Remuneration Report






## – Policy Overview

The Remuneration Policy was approved at the company's annual general meeting ('AGM') on the 30 October 2014 and is intended to apply for three years. The full policy can be found in the company's 2014 Remuneration Report and at the Investor Relations section of the website ([www.alumasc.co.uk/investors](http://www.alumasc.co.uk/investors)).

In setting the Remuneration Policy for the Executive Directors the Committee takes into account wider considerations in order to agree the key principles of the policy.

Wider considerations	Key policy principles
The need to attract, retain and motivate Executive Directors and senior management.	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.
Periodic external comparisons to examine current market trends and practices and equivalent roles in similar companies.	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.
Internal pay and benefits practice and employment conditions within the group as a whole.	A reward structure that balances short-term and long-term performance.

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 remuneration package for Executive Directors is broken down into five key elements – base salary, benefits, pension provision, annual bonus and long term incentives.

	Base salary for each Executive Director is reviewed annually by the Committee, taking account of the Director's performance, experience and responsibilities. The Committee has regard to salary levels paid by UK listed companies of a similar size and nature, ensuring that the appropriate benchmark data is used and also considers wider economic factors, the performance of the group as a whole and the general level of salary increases across the group.
	The group operates a policy whereby Executive Directors are provided with health insurance, disability insurance and life cover, and are given a cash alternative to a company car.
	Pension provision is provided by company contributions into defined contribution schemes and/or as a separate cash allowance.
	The Committee's general policy is that Executive Directors should receive a bonus in relation to the achievement of stretching performance targets which reflect how well the group has performed against budget. The Committee wishes to retain the flexibility to set bonus targets which reward outperformance against predetermined performance objectives and which reflect the needs of the business.
	The group operates the Long Term Incentive Plan (the 'LTIP') which was approved by shareholders in October 2008. The purpose of the LTIP is to motivate key individuals to take the company upon a programme of long term growth and to reward them for exceptional performance. Under the LTIP each participant is allocated a number of shares. The vesting of shares under the LTIP is subject to the achievement of performance targets.

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. A new Remuneration Policy will be subject to a shareholder binding vote at the 2017 AGM.

## Governance

# Directors' Remuneration Report

## – Policy Overview

### How shareholders' views are taken into account

The Committee considers shareholder feedback received at 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.

### 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 Executive Directors, 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 stipulates 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 predetermined 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 variable compensation accrued up to cessation may also be included at the discretion of the Committee

### Chairman and Non-Executive Directors

The Non-Executive Directors are engaged for fixed terms, 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 AGM in accordance with the UK Corporate Governance Code and the company's articles of association.

The effective dates of the letters of appointment for the current Non-Executive Directors are as follows:

Name	Effective date of letter of appointment	Date term due to expire
J S McCall	1 May 2015	30 April 2018
R C C Saville	1 January 2016	31 December 2016
P H R Gwyn	1 July 2016	30 June 2017
J P Pither	1 July 2016	30 June 2017
D Armfield	1 October 2014	30 September 2017