

Directors' Remuneration Policy 2020

The Remuneration Committee is putting its Remuneration Policy to a shareholder vote at the Company's AGM on 22 October 2020.

This part of the Directors' Remuneration Report sets out the Directors' Remuneration Policy which, subject to shareholder approval, shall take effect from the close of the Company's 2020 AGM. The Company's existing Directors' Remuneration Policy was approved by shareholders at the 2017 AGM, with 98.8% of votes cast in favour of it. The Remuneration Committee, having reviewed that policy, and taking into account shareholder comments since the last policy vote, concluded that, in substance, it remains fit for purpose to support the implementation of the Group's strategy over the next three-year period.

The 2020 policy includes changes to reflect the approval of the 2018 LTIP and other good practice features which have emerged since approval of the 2017 policy. Any discretion to be retained by the Committee is detailed in the relevant sections within the policy. Other minor amendments have been made to the policy to aid its administration, to reflect the changes referred to above and to reflect changes in practice since the policy was last approved in 2017.

Fixed Remuneration			
Element	Purpose and link to strategy	Operation	Maximum
Fixed salary	Provides fixed remuneration for the Executive Directors, which reflects the individual's experience and the size and scope of the executive's responsibilities.	Set on appointment and normally reviewed annually in July. Salaries are determined by the Remuneration Committee taking into account a range of factors, including, but not restricted to, remuneration practices and general salary ranges within the Group, changes in scope or responsibility, market rates and the experience of the relevant Director.	While there is no maximum salary, ordinarily salary increases will not exceed the range of salary increases (in percentage terms) awarded to other employees in the Group. However, salary increases may be above this level in certain circumstances, for example: <ul style="list-style-type: none"> • Increase in scope or responsibility; • Performance in role; or • An Executive Director's remuneration being aligned with changing market rates; • An Executive Director being appointed on a below market salary with a view to moving to the desired positioning over time.
Retirement benefits	To provide competitive post-retirement benefits and reward sustained contribution.	Generally, payment may be made into a pension plan or as a separate cash allowance. Group contributions are determined as a percentage of base salary; for new appointees as a percentage of pay aligned to the pension contributions of employees.	The maximum company contribution for the CEO is up to 20% of salary and for the other Executive Directors is based on the contribution tables used by the workforce. For any new Executive Director appointments (including promotions), the pension contribution will be aligned with the contribution rates applying to the wider workforce.
Benefits	Ensures the overall package is competitive in order to help recruit and retain Executive Directors.	Executive Directors are entitled to a range of benefits, including but not limited to, membership of the Group's healthcare scheme, disability and life insurance, and car (or car allowance) and other associated expenses. Other benefits may be provided depending on individual circumstances, for example relocation expenses.	Whilst the Committee has not set a maximum on the level of benefits Executive Directors receive, it is based on the value of benefits, set at a level that the Remuneration Committee considers is appropriate, taking into account companies of a similar size (and complexity) in the relevant market.

Variable performance-linked remuneration				
Element	Purpose and link to strategy	Operation	Maximum	Performance conditions
Annual Bonus	Rewards the achievement of financial and/or strategic business objectives.	<p>Performance conditions and targets are reviewed and set each year by the Remuneration Committee. These targets will be challenging and will reflect both short term expectations and longer term strategic goals.</p> <p>The bonus will be based on the achievement of financial targets related to key business objectives.</p> <p>Other performance metrics that the Remuneration Committee considers appropriate from time to time, including personal objectives, may also be used.</p> <p>Bonus pay-out is determined by the Remuneration Committee after the relevant year end, following an assessment of performance against the targets. The Committee retains discretion to amend the pay-out should any formulaic output not reflect the Committee's assessment of overall business performance.</p> <p>Malus and clawback provisions apply.</p>	The Policy allows for up to 100% of base salary to be earned.	<p>Either all, or the majority of, the available bonus will be based on achievement of pre-determined profit targets.</p> <p>A straight-line bonus entitlement will usually apply between the minimum threshold and the maximum performance target.</p> <p>The Remuneration Committee retains flexibility to apply different performance measures and weightings for each year covered by the Remuneration Policy.</p>

Directors' Remuneration Policy 2020 continued

Variable performance-linked remuneration				
Long Term Incentive provision	<p>Incentivises and rewards Executive Directors and other key executives to achieve higher returns for shareholders over a longer time frame.</p> <p>Encourages a long-term shareholding in the company and strengthens alignment between the interests of Executive Directors, other key executives and those of shareholders.</p>	<p>Awards will be granted under the most recent Alumasc Group Long Term Incentive Plan ("LTIP"), or under any new long-term incentive plan approved by shareholders in due course.</p> <p>The Remuneration Committee may grant 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 over at least three years.</p> <p>Malus and clawback provisions apply as set out below this table.</p>	<p>The maximum level of award under the LTIP is up to 100% of base salary. This is in line with the LTIP approved by shareholders at the 2018 AGM.</p>	<p>Awards vest subject to the achievement of financial and/or market-based performance measures assessed over not less than three financial years. The performance conditions and targets for new awards are reviewed annually to ensure they remain relevant and aligned to the Group's strategy.</p> <p>Performance conditions are typically based on growth in earnings per share ("EPS") or underlying profit before tax ("UPBT") and total shareholder return ("TSR").</p> <p>A minimum threshold of growth in EPS/UPBT must be reached before any part of the award vests. Up to 25% of the maximum award opportunity will vest for achieving the threshold level of growth.</p> <p>The measures and their weightings are determined by the Committee in advance of each grant.</p> <p>Each element of the award will vest between 0% and 100% of the balance available for that element for performance between threshold and maximum, usually on a straight-line basis.</p>

Recovery provisions

LTIP

LTIP awards are subject to malus and clawback provisions 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.

For up to two years following the vesting of an LTIP award the Committee may reduce the award if shares have not been delivered to satisfy it or require repayment of some or all of the value delivered to the participant in the event of a material misstatement of results or information coming to light which had it been known, would have affected the vesting decision, or gross misconduct on the part of the participant.

Bonus

A malus provision exists which enables the Committee to cancel or reduce the bonus before payment in the event of material errors or the misstatement of results.

For up to two years following the payment of an annual bonus the Committee may require repayment of some or all of the bonus in the event of a material misstatement of results or information coming to light which had it been known, would have affected the payment decision, or gross misconduct on the part of the participant.

Explanation of performance metrics

Performance metrics for the annual bonus and LTIP are selected to reflect the Group's strategic priorities. Stretching performance targets are set taking into account a number of different factors.

The Committee retains the discretion to change the performance measures and targets and the weightings attached to the performance measures and targets part way through a performance period if there is a significant event which causes the Committee to believe the original measures, weightings and/or targets are no longer appropriate and/or if the Committee believes that the remuneration outcomes would otherwise not fairly reflect business performance. Any adjustments or discretion applied will be fully disclosed in the following year's Remuneration report.

Operation of share plans

The Committee may amend the terms of awards under its share plans in accordance with the rules of those plans in the event of a variation of the Company's share capital and may otherwise operate those plans in accordance with their terms. Awards may be satisfied wholly or partly in cash at the election of the Committee.

Shareholding requirement

Executive Directors are encouraged to build up shareholdings in the Company.

Change of control policy

LTIP

Awards may vest early on a change of control (or other relevant event) subject to the satisfaction of performance conditions at the change of control date and pro-rating for the proportion of the three year financial years served, although the Remuneration Committee retains discretion to determine otherwise.

Bonus

Awards may vest only to the extent that performance conditions have been satisfied or are reasonably expected to be satisfied up to the change of control date and pro-rated for the proportion of the financial year served, although the Remuneration Committee retains discretion to determine otherwise.

Policy for Non-executive Chairman and Directors' fees

Element	Purpose and link to strategy	Operation	Maximum opportunity
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 Chairman is paid a single consolidated fee and receives some benefits in kind as agreed by the company.</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 from time to time.</p> <p>Fees are appropriately positioned against comparable roles in companies of a similar size and complexity in the relevant market.</p>

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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.

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 taking 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 set at the level 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. Under the terms of this policy, the annual bonus potential for executives is limited to 100% of salary, and the maximum value of awards under a long-term incentive scheme is limited to 100% 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. Other elements of remuneration may be included in the following circumstances:

- an interim appointment being made to fill an executive role on a short-term basis;
- if exceptional circumstances require that the Chairman or a Non-executive Director takes on an executive function on a short-term basis;
- if an Executive Director is recruited at a time in the year when it would be inappropriate to provide a bonus or long-term incentive award for that year as there would not be sufficient time to assess performance. Subject to the limit on variable remuneration set out above, the quantum in respect of the months employed during the year may be transferred to the subsequent year so that reward is provided on a fair and appropriate basis.

The Committee may also alter the performance measures, performance period and vesting period of the annual bonus or LTIP, subject to the rules of the LTIP, if the Committee determines that the circumstances of the recruitment merit such alteration. The rationale will be clearly explained in the next Directors' Remuneration Report.

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 consider 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.

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.

Policy on payment for loss of office

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.

Provision	Terms
Notice period	12 months
Termination payment	Base salary plus pension contributions and benefits accrued to date of cessation. A payment in respect of bonus may also be made at the discretion of the Committee taking into account the circumstances of the departure, the extent to which performance conditions are satisfied and the contribution of the Executive to the business during the bonus period in question. Any bonus would typically be pro-rated for time in service to termination and paid at the usual time, although the Committee retains discretion to pay the bonus earlier in appropriate circumstances.
LTIP	<p>If a participant ceases employment due to death, redundancy, retirement, injury, disability or any other reason at the discretion of the Committee any unvested award the participant holds shall continue and be released at the normal release date to the extent the performance condition is satisfied and, unless the Committee determines otherwise, reduced to reflect the proportion of the performance period for which the participant was in service, although the Committee will retain discretion to release the award sooner.</p> <p>If a participant ceases employment for any other reason, any unvested award they hold will lapse on cessation.</p> <p>If a participant ceases employment for any other reason, any award they hold under the Company's current LTIP shall lapse on cessation.</p>
Other payments	In appropriate circumstances, payments may also be made in respect of accrued holiday and outplacement and legal fees. The Committee reserves the right to make additional exit payments where such payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of settlement or compromise of any claim arising in connection with the termination of a Director's office or employment.
Payments in lieu of notice	The Committee reserves the right to make a payment in lieu of some or all of the notice period. Such a payment would consist of salary for the notice period (or remaining portion of the notice period) and may also include a payment in respect of benefits (including pension contributions or cash allowance) for the applicable period.

How employees' pay is taken into account

Pay and employment conditions elsewhere in the Group continue to be considered in relation to the implementation of this policy.

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. 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.

Legacy remuneration arrangements

The Committee reserves the right to make remuneration payments and payments for loss of office notwithstanding that they are not in line with the Policy set out above where the terms of payments were agreed:

- (i) before the Policy came into effect (provided that, in the case of any payments agreed on or after 30 October 2017 they are in line with the Policy approved at the 2017 Annual General Meeting); or
- (ii) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company.

For these purposes, 'payments' includes the satisfaction of variable remuneration and, in relation to an award over shares, the terms of the payment are 'agreed' no later than the time the award is granted.