

## **DIPLOMA PLC**

### **TERM OF REFERENCE FOR THE REMUNERATION COMMITTEE**

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The Board hereby resolves to establish a Committee of the Board to be known as the Remuneration Committee (the "Committee").

#### **1. Membership**

- 1.1 Members of the Committee shall be appointed by the Board, on the recommendation of the Nomination Committee in consultation with the Chairman of the Committee. The Committee shall normally be made up of three members, but in any event not less than two, all of whom are independent Non-Executive Directors. The Chairman of the Board may also serve on the Committee as an additional member if he or she was considered independent on appointment as Chairman.
- 1.2 Appointments to the Committee shall be for a period of up to three years, which may be extended for further periods of up to three years, provided the Non-Executive Director remains independent in the view of the Board.
- 1.3 The Board shall appoint the Committee Chairman who shall be an independent Non-Executive Director. In the absence of the Committee Chairman and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting. The Chairman of the Board shall not be a Chairman of the Committee.
- 1.4 In deciding upon the chairmanship and membership of the Committee, the value of ensuring that membership of the Committee is refreshed and that undue reliance is not placed on particular individuals shall be taken into account.

#### **2. Secretary**

- 2.1 The Company Secretary or his or her nominee shall act as the Secretary of the Committee.

#### **3. Quorum**

- 3.1. The quorum necessary for the transaction of business shall be two members. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

#### **4. Meetings**

- 4.1 The Committee shall meet at least twice a year and at such other times as the Chairman of the Committee shall require.
- 4.2 Only members of the Committee have the right to attend Committee meetings. However, other individuals such as the Chief Executive, other Directors and external advisers may be invited to attend for all or part of any meeting as and when appropriate.

**5. Notice of Meetings**

- 5.1 Meetings of the Committee shall be summoned by the Secretary of the Committee at the request of any of its members.
- 5.2 Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Committee, any other person required or invited to attend and all other Non-Executive Directors, no later than five working days before the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees, as appropriate, at the same time.

**6. Minutes of Meetings**

- 6.1 The Secretary shall minute the proceedings and resolutions of all Committee meetings, including the names of those present and in attendance.
- 6.2 Minutes of the Committee meetings shall be circulated promptly to all members of the Committee and, once agreed, to all members of the Board, unless it would be inappropriate to do so.

**7. Annual General Meeting**

- 7.1 The Chairman of the Committee shall attend the Annual General Meeting prepared to respond to any shareholder questions on the Committee's activities.

**8. Duties**

The Committee shall carry out the duties below for the parent Company, major subsidiary undertakings and the Group as a whole, as appropriate. The Committee shall, subject to approval as required by the Board and shareholders:

- 8.1 Determine and agree with the Board the framework or broad policy for the remuneration of the Company's Chief Executive, Chairman, the Executive Directors, the Company Secretary and such other members of the executive management as it is designated to consider. The remuneration of Non-Executive Directors (including members of the Committee) shall be a matter for the Chairman and the executive members of the Board. No Director or manager shall be involved in any decision as to their own remuneration;
- 8.2 In determining such policy, take into account all factors which it deems necessary. The objective of such policy shall be to ensure that members of the Executive management of the Company are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Company;
- 8.3 Review the ongoing appropriateness and relevance of the remuneration policy;

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- 8.4 Approve the design of, and determine targets for, the Executive Directors and other designated senior executives operated by the Company and approve the total annual payments made under such schemes, taking into account the guidance on the design of performance-related remuneration for executive directors contained in Schedule A to the UK Corporate Governance Code;
- 8.5 Review the design of all share incentive plans for approval by the Board and shareholders. For any such plans, determine each year whether awards will be made, and if so, the overall amount of such awards, the individual awards to Executive Directors and other designated senior executives and the performance targets to be used;
- 8.6 Determine the policy for, and scope of, pension arrangements for each Executive Director and other designated senior executives;
- 8.7 Determine the policy in relation to compensation agreed to be paid to any Executive Director in connection with early termination of employment and, where appropriate, office as director and ensure that contractual terms on termination, and any payments made, are fair to the individuals, and to the Company, that failure is not rewarded and that the duty to mitigate loss is fully recognised;
- 8.8 Within the terms of the agreed policy and in consultation with the Chairman and/or Chief Executive, as appropriate, determine the total individual remuneration package of the Chairman, each Executive Director, including bonuses, incentive payments and share options or other share awards. The Committee will also annually monitor the remuneration of the other senior executives;
- 8.9 In determining such packages and arrangements, give due regard to any relevant legal requirements, the provisions and recommendations in the UK Corporate Governance Code and the UK Listing Authority's Listing Rules and associated guidance;
- 8.10 Review and note annually the remuneration trends across the Company or Group and, when setting remuneration policy for Directors, be sensitive to pay and employment conditions elsewhere in the Company or Group;
- 8.11 Review any major change in employee benefits structures throughout the Company or Group;
- 8.12 Agree the policy for authorising claims for expenses from the Chief Executive and Chairman;
- 8.13 Ensure that all provisions regarding disclosure of remuneration including pensions, as set out in the Companies Act 2006, in Part 4 of The Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008, and in the Listing Rules, the Disclosure and Transparency Rules and the UK Corporate Governance Code, are fulfilled;

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- 8.14 Be exclusively responsible for establishing the criteria for selecting, appointing and settling the terms of reference for any remuneration consultants who advise the Committee; and
- 8.15 Obtain reliable, up-to-date information about remuneration in other companies with a view to determining where to position the Company relative to other companies.

**9. Reporting Responsibilities**

- 9.1 The Committee Chairman shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.
- 9.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 9.3 The Committee shall produce an Annual Report of the Company's remuneration policy and practices which will form part of the Company's Annual Report and ensure each year that it is put to shareholders for approval at the AGM.
- 9.4 The Committee shall produce the statement required to be included in the annual report of the Company identifying the membership of the Committee and the frequency of, and attendance by members at, Committee meetings over the course of the year.

**10. Other**

- 10.1 The Committee shall:
  - a. have access to sufficient resources in order to carry out its duties including access to the Company secretariat for assistance as required; and
  - b. be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members.
- 10.2 In carrying out its duties, the Committee shall give due consideration to any relevant legal requirements, the provisions and recommendations in the UK Corporate Governance Code and the UK Listing Authority's Listing Rules, Prospectus and Disclosure and Transparency Rules and associated guidance and any other applicable Rules, as appropriate.

**11. Authority**

- 11.1 The Committee is authorised by the Board to seek any information it requires from any employee of the Company in order to perform its duties.
- 11.2 The Committee shall have full authority to commission any reports, surveys or information which it deems necessary to help it fulfil its obligations, within any budgetary restraints imposed by the Board.

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- 11.3 In connection with its duties the Committee is authorised by the Board to obtain, at the Company's expense, any outside or legal or other professional advice.

#### **12. Publication of the terms of reference**

- 12.1 These terms of reference shall be made available by publication on the Company's website with an explanation of the Committee's role and the authority delegated to it by the Board.

**By Order of the Board**

22 March 2011