DIRECTORS' REMUNERATION POLICY

THE REMUNERATION POLICY TABLE

The Remuneration Policy Table set out below summarises the components of reward for the Executive Directors of Diploma PLC that will govern the Company's intentions as regards future payments of remuneration until 16 January 2021, unless replaced or amended by a new Policy.

Executive Directors

Component	Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Base salary	To attract and retain people of the calibre and experience needed to develop and execute the Company's strategy.	Salaries are reviewed annually, with changes normally effective from 1 October.	There is no maximum limit set. Salaries are targeted at a mid-market range for equivalent roles in similar companies. Salary increases will generally be no higher than those awarded to other employees, although the Committee retains discretion to award larger increases if it considers it appropriate.	Salary levels and increases are determined based on a number of factors, including individual and business performance, level of experience, scope of responsibility, salary increases both for UK employees and for the senior management cadre more generally and the competitiveness of total remuneration against companies of a similar size and complexity.
Pensions	Designed to be competitive within the market to reward sustained contribution by Executive Directors.	Pension contributions up to 20% of base salary, which are either paid into personal pension savings schemes or paid as a separate cash allowance.	No maximum limit set.	No performance metric.
Benefits	To provide a competitive package of benefits.	Includes various cash/non-cash benefits such as: payment in lieu of a company car, life assurance, income protection, annual leave, medical insurance.	No maximum limit is prescribed, but the Committee monitors annually the overall cost of the benefit provision.	No performance metric.
Annual Performance Bonus Plan	To incentivise and reward Executive Directors on the achievement of the annual budget and other business priorities for the financial year.	Provides an opportunity for additional reward based on annual performance against targets set and assessed by the Committee. Where shareholding guidelines have not been met, half of any annual bonus awarded (net of tax) will be deferred in shares for up to three years, but will remain eligible for dividends. The remaining bonus shall be paid in cash following the relevant year end. Malus and clawback provisions apply.	Maximum of 125% of base salary for the Chief Executive Officer and 100% for other Executive Directors. Performance below threshold results in zero payment. On-target bonus is 50% of maximum bonus and threshold performance is 5% of base salary.	Performance metrics are selected annually based on the current business objectives. The majority of the bonus will be linked to financial performance. For FY2018, bonuses are based on adjusted operating profit (as defined in note 2 to the consolidated financial statements) on a constant currency basis. Discretion to reduce awards if satisfactory threshold levels are not achieved for adjusted operating margin, free cash flow or ROATCE. Different performance measures, including personal objectives, may be used for future cycles to take into account changes in the business strategy. Personal objectives, if used, will account for no more than 20% of the bonus.

REMUNERATION COMMITTEE REPORT CONTINUED

DIRECTORS' REMUNERATION POLICY CONTINUED

Component	Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Long Term Incentive Plan – PSP Awards	Align Executive Directors to the Company's long term strategy and incentivise Executive Directors to achieve superior returns and long term value growth for shareholders.	Performance assessed over rolling three-year performance periods. Awards are discretionary and do not vest until the date on which the performance conditions are determined. If employment ceases during a three-year performance period, other than in the case of a "good leaver", awards will normally lapse. For awards granted after the adoption of the new Policy on 17 January 2018, Executive Directors will be required to retain shares vesting under the LTIP (net of tax) until the fifth anniversary of grant. Awards may include dividend equivalents, which are cash bonuses or shares in lieu of dividends forgone on vested shares, from the time of award up to the time of vesting. Malus and clawback provisions apply.	The maximum opportunity as a percentage of salary is 175% for each award made to the Executive Directors under the 2011 Performance Share Plan ("PSP"). The Committee has discretion to increase awards under the PSP to 250% of salary in exceptional circumstances. No more than 25% of the award will be payable at threshold performance.	Awards will be granted subject to a combination of financial measures (including, for example, adjusted EPS, ROATCE and TSR), tested over a period of at least three years. The Committee may change the weighting of the performance measures or introduce new performance measures for future awards, so that they are aligned with the Company's strategic objectives.

Chairman and non-Executive Directors

Component	Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Chairman and non-Executive Directors' fees	To attract and retain a Chairman and independent non-Executive Directors of the required calibre and experience.	Paid quarterly in arrears and reviewed each year. Any reasonable business related expenses (including tax thereon) can be reimbursed.	The Chairman's and non-Executive Directors' fees are determined by reference to the time commitment and relevant benchmark market data.	Annual Board evaluation.

EXECUTIVE DIRECTORS

Base salary

In determining the annual base salary increases that apply from 1 October, the Committee considers comparative salaries in companies of a similar size and complexity and the range of remuneration increases applying across the Group.

The Committee also takes into account the salary increases applying across the senior management cadre. This comparator group comprises ca. 100 senior managers across the Group's businesses. This senior management cadre has been chosen as a representative group, as it provides a meaningful comparison considering the global and diverse nature of the Group's business.

Annual performance bonus

The Diploma PLC Annual Performance Bonus Plan is substantially a cash based scheme designed to reward Executive Directors for meeting stretching annual performance targets.

Under the new Policy approved by shareholders at the AGM on 17 January 2018, the previous financial performance target of "adjusted EPS" was replaced by "Group adjusted operating profit" that is calculated on a basis that excludes the impact of currency on the translation of Group adjusted operating profit. The replacement performance target applies to the financial year ended 30 September 2018 and thereafter.

At the start of the financial year (1 October), the Board sets a financial performance target principally focused on achievement of a target Group adjusted operating profit. Adjusted operating profit is calculated on a constant currency basis. The level of bonus payable for achieving the minimum target is 5% of base salary. No bonus is payable if performance does not meet the minimum target.

The definition of adjusted operating profit is consistent with the Group's financial statements (see note 2). However, the Committee has discretion to modify the definition in the event of changes in accounting policy and/or material operational, market, exchange rate or environmental factors in order to more appropriately reflect management performance. The Committee has discretion to reduce awards if minimum thresholds are not achieved for adjusted operating margins, free cash flow and return on adjusted trading capital employed ("ROATCE"). Where used, the rationale for the exercise of this discretion will be disclosed in the next Remuneration Committee Report.

Different performance measures may be used for future cycles of the Annual Performance Bonus Plan to those set out in the Policy Table to take into account changes in the business strategy.

While retaining flexibility under the Policy, in relation to the setting of individual objectives, the bonus payable for the financial year ending 30 September 2018 and thereafter is based solely on adjusted operating profit on a constant currency basis.

At the end of the financial year, the Committee meets to assess the performance of each Executive Director against the bonus targets. Bonuses are normally paid in cash in December.

The Policy requires that 50% of any bonus awarded for the financial year ending 30 September 2018 or thereafter, is deferred on a net of tax basis into shares until minimum shareholding guideline levels, set at 200% of base salary for Executive Directors under the Policy, have been met.

Long term incentive award

The Company operates a long term incentive award plan for Executive Directors, the Diploma PLC 2011 Performance Share Plan ("PSP"). The PSP is designed to promote the long term success of the Company, while also aligning the Directors' interests with those of Diploma PLC shareholders.

The PSP provides for a grant of conditional awards of a specified number of ordinary shares in the Company, or an option to acquire a specified number of shares at an exercise price determined by the Committee (which may be nil or a nominal amount). No payment is required for the grant of an award.

Awards, which are normally granted annually, must generally be made within 42 days after the announcement of the Company's annual results. When making the decision on the level of award, the Committee takes into consideration a number of factors, including the face value of the award and plan dilution limits.

The face value of an award is equal to the number of shares, or shares under option, multiplied by the relevant share price. The relevant share price will be the mid-market closing share price on the dealing day before the award. A face value limit of 175% of base salary applies to each PSP award to Executive Directors, although the Committee, at its discretion, may increase the face value of an award to a maximum of 250% in exceptional circumstances.

All awards will normally vest on the date on which the performance conditions are determined and confirmed by the Committee, following the end of the performance period. The vesting of awards is conditional on:

- continued employment;
- the Company's growth in adjusted EPS over a three-year performance period; and
- the Company's TSR performance over a three-year performance period.

The latter two performance conditions apply to each award so that the vesting of 50% of the award is based on growth in adjusted EPS and 50% of the award is based on the relative TSR performance. These measures align with our long term goal of value creation for shareholders through underlying financial growth and above-market shareholder returns.

Each performance condition is measured over a three-year period commencing on the first day of the financial year in which the award is made. There is no retesting of the performance metrics. At the minimum performance threshold, 25% of the PSP awards will vest.

The Committee will regularly monitor the continuing suitability of the performance conditions and may impose different performance conditions or targets for awards granted in subsequent years, to align with the Company's strategic objectives and having regard to prevailing market practice.

The Committee may decide, on or before the grant of a share incentive award, that on exercise of the award, the participants may receive, in addition to the shares in which they then become entitled, a dividend equivalent in respect of the dividends (excluding any tax credit) which would have been paid to the participant in respect of shares vesting between the date of the award and the time of vesting. These dividend equivalent payments may be made in cash or in an equivalent number of shares.

For awards granted after 17 January 2018, Executive Directors will be required to retain shares vesting under the LTIP (net of tax) until the fifth anniversary of grant ("the Holding Period"), to reflect developments in best practice and the Committee's continued focus on long term shareholder alignment. The Holding Period shall expire on the earliest of:

- the fifth anniversary of the date of grant of an award;
- the date of a change of control event;
- the death of the participant; or
- such other date as determined by the Committee in its discretion.

REMUNERATION COMMITTEE REPORT CONTINUED

DIRECTORS' REMUNERATION POLICY CONTINUED

Service contracts

The Executive Directors' service contracts, including arrangements for early termination, are carefully considered by the Committee and are designed to recruit, retain and motivate Directors of the calibre required to manage the Company and successfully deliver its strategic objectives.

The Committee considers that a rolling contract with a notice period of one year is appropriate for existing and newly appointed Directors.

The Executive Directors' service contract, a copy of which is held at the Company's registered office, was updated in March 2014 to recognise developments in law and best practice relating to such contracts. This service contract, together with any service contract for new appointments, contains provisions for compensation in the event of early termination or change of control, equal to the value of salary and contractual benefits for the Director's notice period. The Company may make a payment in lieu of notice in the event of early termination and the Company may make any such payment in instalments with the Director being obliged in appropriate circumstances to mitigate loss (for example by gaining new employment).

The Committee considers that these provisions assist with recruitment and retention and that their inclusion is therefore in the best interests of shareholders.

Details of the service contracts of the Executive Directors who served during the year are set out below:

	Contract date	Unexpired term	Notice period	Compensation payable upon early termination
Bruce Thompson	20 Mar 2014	Retired, 8 May 2018	1 year	1 year
Richard Ingram	29 Jan 2018	Left, 28 Aug 2018	1 year	1 year
John Nicholas[1]	29 Aug 2018	Rolling	1 month	1 month
Nigel Lingwood	20 Mar 2014	Rolling	1 year	1 year

1 John Nicholas was appointed interim Executive Chairman following the departure of Richard Ingram as Chief Executive Officer on 28 August 2018.

OTHER REMUNERATION POLICIES

Payment for loss of office

The Committee has considered the Company's policy on remuneration for Executive Directors leaving the Company and is committed to applying a consistent approach to ensure that the Company pays no more than is fair and reasonable in the circumstances.

The loss of office payment policy is in line with market practice and will depend on whether the departing Executive Director is, or is deemed to be treated as, a "good leaver" or a "bad leaver". In the case of a good leaver the Policy includes:

- Notice period of 12 months' base salary, pension and contractual benefits or payment in lieu of notice.
- Bonus payable for the period worked, subject to achievement of the relevant performance condition. Different performance measures (to the other Executive Directors) may be set for a departing Director as appropriate, to reflect any change in responsibility.
- Vesting of award shares under the Company's LTIP is not automatic and the Committee would retain discretion to allow partial vesting depending on the extent to which performance conditions had been met and the length of time the awards have been held. Time pro-rating may be disapplied if the Committee considers it appropriate, given the circumstances. For awards granted prior to 17 January 2018, performance will be measured to the date of cessation of employment and, to the extent applicable, vest shortly thereafter. For awards granted after the adoption of the new Policy on 17 January 2018, performance will be measured to the end of the normal performance period and, to the extent applicable, vest on the normal vesting date, save in exceptional circumstances when the Committee may determine that early vesting should still apply.
- The Committee will provide for the leaver to be reimbursed for a reasonable level of legal fees in connection with a settlement agreement.

When calculating termination payments, the Committee will take into account a variety of factors, including individual and Company performance, the obligation for the Executive Director in appropriate circumstances to mitigate loss (for example, by gaining new employment) and the Executive Director's length of service.

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.

Change of control

Change of control provisions provide for compensation equal to the value of salary and contractual benefits for the notice period. In the event of a change in control, vesting of an award of shares under the Company's PSP depends on the extent to which performance conditions had been met at that time. Time pro-rating may be disapplied if the Committee considers it appropriate, given the circumstances of the change of control.

Malus and clawback

Malus provisions apply to all awards made under the Company's long term incentive and annual bonus plans, which give the Committee the right to cancel or reduce unvested share awards (or in the case of the Annual Performance Bonus Plan, cash payments) in the event of material misstatement of the Company's financial results, miscalculation of a participant's entitlement or individual gross misconduct.

Clawback arrangements, which also apply to all awards made under the Company's long term incentive and annual bonus plans, permit the Committee to recover amounts paid to Executive Directors in specified circumstances to safeguard shareholders' interests.

Remuneration for new appointments

The Committee has determined that new Executive Directors will receive a compensation package in accordance with the terms of the Group's approved Policy in force at the time of appointment.

The Committee has agreed the following principles that will apply when arranging a remuneration package to recruit new Executive Directors:

- The remuneration structure will be kept simple where practicable, hence the use of base salary, benefits, pension (or cash allowance in lieu), annual performance bonus and long term incentives.
- The emphasis on linking pay with performance shall continue; hence the use of variable pay in the form of an annual performance bonus and a long term incentive award, which will continue to be a significant component of the Executive Directors' total remuneration package.
- Initial base salary will take into account the experience and calibre of the individual and their existing remuneration package. Where it is appropriate to offer a lower salary initially, a series of increases to the desired salary positioning may be given over subsequent years subject to individual performance.

- The structure of variable pay will be in accordance with Diploma's approved Policy, set out above, with an exceptional maximum aggregate variable pay opportunity of 375% of salary. Different performance measures may be set in the first year for the annual bonus, taking account of the responsibilities of the individual and the point in the financial year that the executive joined the Company.
- Benefits will generally be provided in accordance with the approved Policy, with relocation expenses and an expatriate allowance paid if appropriate.
- In the case of an external recruitment, the Committee may also offer additional cash and/or share-based elements when it considers these to be in the best interests of Diploma and shareholders, to replace variable remuneration awards or arrangements that an individual has foregone in order to join the Group. This includes the use of awards made under section 9.4.2 of the UK Listing Rules. Any such payments would take account of the details of the remuneration foregone including the nature, vesting dates and any performance requirements attached to that remuneration and any payments would not exceed the expected value being forfeited.
- In the case of an internal appointment, any outstanding variable pay awarded in relation to the previous role will be allowed to pay out according to the terms of grant.
- For all new Executive Director appointments, the mandated shareholding guidelines, deferral of annual performance bonus and the Holding Period for LTIP awards will apply in accordance with the Policy and the relevant Plan rules.
- Fees for a new Chairman or non-Executive Director will be set in line with the approved Policy.

Committee discretion

The Committee operates the Annual Performance Bonus Plan and the LTIP in accordance with the relevant plan rules and where appropriate, the Listing Rules and HMRC legislation. As a matter of course, the Committee will normally seek to avoid the use of discretion. However in order to ensure that outcomes are always in the interests of shareholders, the Committee retains discretion over a number of areas relating to the operation and administration of the plans. These include, the timing of awards and of the setting of performance criteria each year, dealing with leavers, discretion to waive or shorten the Holding Period for shares acquired under the LTIP, the discretion to retrospectively amend performance targets in exceptional circumstances and in respect of share awards, to adjust the number of shares subject to an award in the event of a variation in the share capital of the Company. The Committee will exercise its powers in accordance with the terms of the relevant plan rules. The Committee also has discretions to set components of remuneration within a range from time to time as set out in the maximum opportunity sections of the Policy Table.

Dilution

In any ten-year period, the number of shares which are or may be issued under option or other share awards under any discretionary share plan established by the Company may not exceed 5% of the issued ordinary share capital of the Company from time to time. In any ten-year period, the aggregate number of shares that are or may be issued under option, or other share awards under all share plans established by the Company, may not exceed 10% of the issued ordinary share capital of the Company, from time to time.

Consultation with shareholders and employees

The Committee will consult with its major shareholders in advance of any significant changes to the approved Policy or exercise of discretion, as appropriate, to explain their approach and rationale fully and to understand shareholders' views. Additionally, the Committee considers shareholder feedback received in relation to each AGM alongside any views expressed during the year. The Committee also reviews the executive remuneration framework in the context of published Investor Guidelines.

The Committee does not consult directly with employees when formulating the Policy for Executive Directors.

Policy in respect of external board appointments for Executive Directors

The Committee recognises that external non-Executive directorships may be beneficial for both the Company and the Executive Director. At the discretion of the Board, Executive Directors are permitted to retain fees received in respect of any such non-Executive directorship.

Shareholding guidelines

The Committee has adopted guidelines for Executive Directors, to encourage substantial long term share ownership. These specify that, over a period of five years from the date of appointment, each Executive Director should build up and then retain a holding of shares with a value equivalent to 200% of base salary. The guidelines also require that, in relation to long term incentive awards, vested shares (net of tax) must be retained by the individual until the required shareholding level is reached.

CHAIRMAN AND NON-EXECUTIVE DIRECTORS

Recruitment and term

The Board aims to recruit non-Executive Directors of a high calibre, with broad and diverse commercial, international or other relevant experience. Non-Executive Directors are appointed by the Board on the recommendation of the Nomination Committee. Appointments of the non-Executive Directors are for an initial term of three years, subject to election by shareholders at the first AGM following their appointment and subject to annual re-election thereafter. The terms of engagement are set out in letters of appointment that can be terminated by either party serving three months' notice.

Chairman

John Nicholas was appointed Chairman on 21 January 2015, having previously been the Senior Independent Director. His appointment is subject to annual re-election by shareholders at the AGM. John Nicholas was appointed interim Executive Chairman on 28 August 2018.

Chairman and non-Executive Directors' letters of appointment:

	Date of original appointment	Date of re-election	Expiry of term
John Nicholas	1 Jun 13	17 Jan 18	20 Jan 21
Charles Packshaw	1 Jun 13	17 Jan 18	1 Jun 19
Andy Smith	9 Feb 15	17 Jan 18	9 Feb 21
Anne Thorburn	7 Sep 15	17 Jan 18	7 Sep 21

Fees

The non-Executive Directors are paid a competitive basic annual fee, which is approved by the Board on the recommendation of the Chairman and the Executive Directors. The Chairman's fee is approved by the Committee, excluding the Chairman. Additional fees may also be payable for chairing a Committee of the Board or for acting as Senior Independent Director. The fees are reviewed each year and take account of the fees paid in other companies of a similar size and complexity, the non-Executive Directors responsibilities and the required time commitment.

If there is a temporary yet material increase in the time commitments for non-Executive Directors, the Board may pay extra fees on a pro-rata basis to recognise the additional workload. In 2018, the Board approved an additional fee of £144,600 per annum to be payable to the Chairman, while he serves as interim Executive Chairman.

The non-Executive Directors are not eligible to participate in any of the Company's share plans, incentive plans or pension schemes and there is no provision for payment in the event of early termination.