

# REMUNERATION COMMITTEE REPORT

“OUR REMUNERATION POLICY ALIGNS WITH BEST PRACTICE AND PROVIDES A STRONG BASIS FOR LINKING DIPLOMA'S STRATEGY AND PERFORMANCE TO EXECUTIVE REMUNERATION”

Andy Smith, Chairman of the Remuneration Committee



| Members of Committee                 | Attendance |
|--------------------------------------|------------|
| Andy Smith (Chairman)                | 6/6        |
| Anne Thorburn                        | 6/6        |
| John Nicholas (until 31 August 2018) | 6/6        |
| Charles Packshaw                     | 6/6        |

## DEAR SHAREHOLDER

This is the first year of the new Remuneration Policy (“the Policy”) that shareholders adopted at this year’s AGM. I am pleased to report that the Policy has worked well and continues to align with latest best practice. Company performance has once again been very strong this year as management continue to successfully execute the Company’s strategy.

The Committee set the trigger for maximum payment under the annual performance bonus plan at 10% adjusted operating profit growth on a constant currency basis. In the year, the Company delivered an impressive 11.7% on this measure. Accordingly, Executives were awarded maximum payment.

Long term performance has been impressive too. The long term incentive plan targets relate to annual growth in earnings per share (“EPS”) and relative total shareholder returns (“TSR”) compared with the FTSE250 (excluding investment trusts) over a three-year period. To achieve the maximum award, Executives needed to achieve a minimum 14% EPS growth and 14.4% TSR in each of the three years of the performance period. They achieved 13.9% and 25.9% respectively, which translated into a payment of 99.6% of the maximum award under the long term incentive plan. The Committee is content that there is a strong alignment between performance delivery and these awards.

This year’s Annual Report on Remuneration is set out in full on pages 51 to 63 of the Annual Report & Accounts and reflects the Remuneration Policy approved by shareholders in 2018. There were three matters, both relating to CEO remuneration that required careful judgement of the Committee in its application of the Policy.

The Company said farewell this year to Bruce Thompson, former CEO, after 22 years. The Committee had no hesitation in acknowledging Bruce’s long and outstanding service for the Company during which he shaped Diploma into the Company it is today and consistently delivered excellent value for shareholders. Full details are available on page 56 but, in summary, the Committee treated him as a good leaver and approved early-vesting of his long term incentives, appropriately performance-tested and pro-rated for time served.

The Committee developed and approved a competitive package for Richard Ingram to attract him to join the Company as CEO. In line with the Policy, this took account of the remuneration package he had received in his former employment. When he stepped down from the Company, the Committee carefully and thoroughly considered its obligations to shareholders with specific reference to the Policy and the legal and contractual commitments made to Richard Ingram. The Committee approved payments to him under a settlement agreement that were in line with the Policy and were no more than was fair and reasonable in the circumstances. Details are set out on pages 56 and 57.

The Committee also considered the exceptional circumstances that will prevail whilst the Company works through the recruitment, appointment and on-boarding of a new CEO and in particular, the significant additional load and responsibility that will fall to the Group Finance Director. The Committee believes that it is in shareholders’ interests to grant an LTIP award in 2019 of 225% of salary as allowed by Policy in such exceptional circumstances.

Base salaries for the new financial year (that is, from 1 October 2018) will increase by 3.0% (2017: 3.0%) for Executive Directors and by 4.5% across the senior management cadre. This reflects general pay inflation in the geographies the Company operates in.

Executive remuneration continues to attract attention, analysis and debate. The Committee will continue to note emerging views and trends and take an active role in reviewing the overall remuneration at senior levels in the organisation to ensure that they remain consistent with the actual performance delivered and are effective in attracting and retaining talent for the Group.

The Report of the Remuneration Committee was approved by the Board on 19 November 2018.

I look forward to meeting shareholders at this year’s AGM on 16 January 2019 and will be pleased to answer any questions or concerns they have on the Company’s remuneration policies.

**Andy Smith**  
19 November 2018

# REMUNERATION COMMITTEE REPORT CONTINUED

## REMUNERATION COMMITTEE

The Remuneration Committee ("the Committee") is chaired by Andy Smith and comprises independent non-Executive Directors. John Nicholas stepped down from the Committee on 31 August 2018, following his appointment as interim Executive Chairman.

The interim Executive Chairman/Chief Executive Officer attends meetings at the invitation of the Committee to provide advice to the Committee to help it make informed decisions. The Group Company Secretary attends meetings as Secretary to the Committee.

## THE REMUNERATION COMMITTEE REPORT

The Report has again been presented this year in two sections. The first section repeats the key elements of the Director's Remuneration Policy, which was approved by shareholders at the AGM on 17 January 2018. This Policy, which was set out in the 2017 Annual Report, will continue for a period of three years until 16 January 2021, unless replaced or amended by a new Policy.

The second section of this Report sets out the annual remuneration paid to the Directors in the year ended 30 September 2018 in accordance with the Policy approved on 17 January 2018. This section of the Report will continue to be subject to an advisory vote by shareholders at the AGM.

## REMUNERATION PRINCIPLES AND STRUCTURE

The Committee has adopted remuneration principles which are designed to ensure that senior executive remuneration:

- is aligned to the business strategy and promotes the long term success of the Company;
- supports the creation of sustainable long term shareholder value;
- provides an appropriate balance between remuneration elements and includes performance-related elements that are transparent, stretching and rigorously applied;
- provides an appropriate balance between immediate and deferred remuneration; and
- encourages a high-performance culture by ensuring performance-related remuneration constitutes a substantial proportion of the remuneration package and by linking maximum payout opportunity to outstanding results.

The Policy Table set out on the next page summarises the components of reward for the Executive Directors of Diploma PLC that will govern the Company's intentions as regards future payments. More detailed descriptions of the incentive plans are given in the following sections.

There have been no changes made to this Policy since it was approved by shareholders at the AGM on 17 January 2018.

## KEY DUTIES AND FOCUS IN 2018

The Remuneration Committee agrees, on behalf of the Board, all aspects of the remuneration of the Executive Directors and the Executive Committee, and agrees the strategy, direction and policy for the remuneration of the senior executives who have a significant influence over the Group's ability to meet its strategic objectives.

The Committee's role and responsibilities are set out in its Terms of Reference, which are reviewed annually and approved by the Board. The Terms of Reference are available on Diploma PLC's website at [www.diplomaplc.com/governance/constitutional-documents](http://www.diplomaplc.com/governance/constitutional-documents).

The Committee's key responsibilities and focus during the year have been:

- Reviewed Executive Directors' salaries, pensions and benefits.
- Approved Annual Performance Bonus targets and the subsequent bonus awards for 2018.
- Approved new PSP awards to Executive Directors and confirmed the performance conditions for such awards.
- Approved Recruitment Award Agreement and Long Term Incentive Award for new CEO.
- Approved retirement arrangements for Bruce Thompson.
- Approved remuneration aspects relating to the termination of Richard Ingram's employment.
- Accepted resignation of John Nicholas from the Remuneration Committee and approved interim Executive Chairman fees.
- Confirmed the vesting percentages for the PSP awards made in December 2015 which crystallised in 2018.
- Approved the exercise of nil cost options.
- Approved the 2018 Remuneration Committee Report.
- Reviewed the AGM 2018 votes on the 2017 Remuneration Committee Report and the 2018 Policy.
- Reviewed remuneration of senior management in the operating businesses.
- Approved updates to the rules of the Long Term Incentive Plan, required by the adoption of the new Policy and for new legislation (i.e. General Data Protection Regulation).
- Maintained watching brief on external reports on Directors' remuneration.
- Approved Remuneration Committee work programme for 2018.

## 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   |
|--------------------------------------|---|---|--|---|
| <b>Base salary</b>                   | 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.<br><br>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.   |
| <b>Pensions</b>                      | 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.  |
| <b>Benefits</b>                      | 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.  |
| <b>Annual Performance Bonus Plan</b> | 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.<br><br>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.<br><br>Malus and clawback provisions apply. | Maximum of 125% of base salary for the Chief Executive Officer and 100% for other Executive Directors.<br><br>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.<br><br>For FY2018, bonuses are based on adjusted operating profit (as defined in note 2 to the consolidated financial statements) on a constant currency basis.<br><br>Discretion to reduce awards if satisfactory threshold levels are not achieved for adjusted operating margin, free cash flow or ROATCE.<br><br>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   |
|---|--|--|---|---|
| <b>Long Term Incentive Plan – PSP Awards</b>      | 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. | <p>Performance assessed over rolling three-year performance periods.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>Malus and clawback provisions apply.</p> | <p>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.</p> <p>No more than 25% of the award will be payable at threshold performance.</p> | <p>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.</p> <p>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.</p> |
| <b>Chairman and non-Executive Directors</b>       |  |  |   |   |
| Component   | Purpose and link to strategy   | Operation  | Maximum opportunity   | Performance metrics   |
| <b>Chairman and non-Executive Directors' fees</b> | To attract and retain a Chairman and independent non-Executive Directors of the required calibre and experience.   | <p>Paid quarterly in arrears and reviewed each year.</p> <p>Any reasonable business related expenses (including tax thereon) can be reimbursed.</p>  | 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,<br>8 May 2018 | 1 year        | 1 year                                      |
| Richard Ingram             | 29 Jan 2018   | Left,<br>28 Aug 2018   | 1 year        | 1 year                                      |
| John Nicholas <sup>1</sup> | 29 Aug 2018   | Rolling                | 1 month       | 1 month                                     |
| Nigel Lingwood             | 20 Mar 2014   | Rolling                | 1 year        | 1 year                                      |

<sup>1</sup> 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 disappplied 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 disappplied 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.

# REMUNERATION COMMITTEE REPORT CONTINUED

## ANNUAL REPORT ON REMUNERATION

The following section of this Report provides details of the implementation of the existing Remuneration Policy for the Executive Directors for the years ended 30 September 2018 and 2017. All of the information set out in this section of the Report has been audited, unless indicated otherwise.

### EXECUTIVE DIRECTORS

#### Total remuneration in 2018 and 2017

|   | John<br>Nicholas <sup>1</sup> | Richard<br>Ingram <sup>2</sup> | Bruce Thompson <sup>3</sup> |              | Nigel Lingwood |              |
|---|-------------------------------|--------------------------------|-----------------------------|--------------|----------------|--------------|
|   | 2018<br>£000                  | 2018<br>£000                   | 2018<br>£000                | 2017<br>£000 | 2018<br>£000   | 2017<br>£000 |
| Fees/Salary   | 14                            | 191                            | 303                         | 486          | 323            | 314          |
| Benefits  | -                             | 9                              | 15                          | 24           | 18             | 18           |
| Pension   | -                             | 35                             | 61                          | 97           | 65             | 63           |
| Annual performance bonus  | -                             | -                              | 625                         | 607          | 323            | 310          |
| Short term remuneration (cash)                                    | 14                            | 235                            | 1,004                       | 1,214        | 729            | 705          |
| Long term incentive plans – dividend equivalent (cash)            | -                             | -                              | 102                         | 43           | 46             | 28           |
| Long term incentive plans – performance element (non-cash)        | -                             | -                              | 1,677                       | 714          | 534            | 461          |
| Long term incentive plans – share appreciation element (non-cash) | -                             | -                              | 1,059                       | 287          | 501            | 186          |
| Total long term share price based remuneration (non-cash)         | -                             | -                              | 2,736                       | 1,001        | 1,035          | 647          |
| <b>Total</b>  | <b>14</b>                     | <b>235</b>                     | <b>3,842</b>                | <b>2,258</b> | <b>1,810</b>   | <b>1,380</b> |

1 John Nicholas was appointed interim Executive Chairman on 28 August 2018. The fees above relate to his Executive service from 28 August to 30 September 2018; as interim Executive Chairman, John Nicholas is not entitled to benefits, pension, annual bonus or an LTIP. John Nicholas's fees for his role as non-Executive Chairman are set out on page 63.

2 Richard Ingram's salary, benefits and pension are for the period from appointment as Chief Executive Officer (designate) on 23 April 2018 to 28 August 2018, when he stood down as Chief Executive Officer and Executive Director and left the Company. Further details regarding his remuneration are set out below.

3 Bruce Thompson's salary, benefits and pension are for the period from 1 October 2017 to 8 May 2018, while he served as Chief Executive Officer and Executive Director of the Company. The table above includes his annual performance bonus and the full value of all long term incentive awards that vested at 30 September 2018. Bruce Thompson's salary for the period from 9 May 2018 to 30 September 2018 was £197,000.

The aggregate short term remuneration paid to Executive Directors in the year ended 30 September 2018 was £2.0m (2017: £1.9m).

### RETIREMENT OF BRUCE THOMPSON

Bruce Thompson retired as Chief Executive Officer and as an Executive Director of the Company on 8 May 2018; he retired as an employee of the Company on 30 September 2018. Bruce Thompson was treated as a "good leaver" as he had played the leading role in developing and implementing the successful growth strategy of the Group over many years. Bruce Thompson's long term incentive awards vested to the extent to which the applicable performance conditions were met. These awards were pro-rated for time served, (that is, two out of three years and one out of three years for awards that would, but for his retirement, have vested at 30 September 2019 and 30 September 2020, respectively). The vesting of these awards was based on the testing of the performance criteria for the year ended 30 September 2018.

### REMUNERATION ARRANGEMENTS FOR RICHARD INGRAM

#### Appointment

On 23 April 2018, Richard Ingram joined the Board as Chief Executive Officer (designate). Bruce Thompson retired from the Board and handed over his Chief Executive Officer responsibilities to Richard Ingram at the close of the Board meeting on 8 May 2018.

Richard Ingram was to receive an annual salary of £535,000 and a pension allowance of 15% of base salary. Richard Ingram was also eligible to participate in both the Annual Bonus Plan (up to a maximum of 125% of base salary) and in the LTIP up to 175% of base salary. All of these remuneration arrangements are consistent with the terms of the Directors' Remuneration Policy approved by shareholders on 17 January 2018.

The Board also agreed in accordance with the Remuneration Policy to compensate Richard Ingram on his appointment as Chief Executive Officer to replace the balance of his existing incentives from his previous employment. To replace incentives relating to the year ended 30 September 2018, Richard Ingram was eligible for a performance bonus of £1.0 million before tax, of which up to 40% was payable in cash and the balance in the form of a nil cost option over Company shares. To replace incentives relating to the years ending September 2019 and September 2020, Richard Ingram was also eligible to receive a long term incentive award (nil cost option) over shares in the Company, on terms similar to the Company's LTIP, representing 116.7% and 175% of his base salary with vesting dependent upon performance conditions.

#### Departure and payment for loss of office

Richard Ingram stepped down from his role as Chief Executive Officer and Executive Director and left the Company on 28 August 2018. The financial terms below were agreed with Richard Ingram in a settlement agreement dated 8 November 2018. These payments are in accordance with the shareholder approved Remuneration Policy and the Company is honouring its contractual commitments.

The following arrangements will apply in respect of Richard Ingram's notice period:

- Richard Ingram will receive the sum of £507,200 as a payment in lieu of his unworked contractual notice period. A 20% deduction was applied to the full 12 month notice entitlement (£634,137) by way of mitigation.

Other terms agreed with Richard Ingram in November 2018, which were the subject of careful consideration by the Remuneration Committee were as follows:

- an additional exit payment of £360,000 by way of settlement of potential claims by Richard Ingram for loss of bonus and incentive opportunities; and
- a contribution of £20,000 (plus VAT) towards Richard Ingram's legal fees incurred in connection with the above arrangement.

No other payments were made to Richard Ingram under either the annual performance bonus plan, the long term incentive award or the recruitment award, all of which lapsed as at 30 September 2018.

#### EXECUTIVE DIRECTORS' OTHER ROLES

John Nicholas is non-Executive Chairman of Porvair plc and received fees of £8,804 for the period from 28 August 2018 to 30 September 2018. Bruce Thompson was appointed non-Executive Director of DiscoverIE Group plc on 26 February 2018 and received fees of £8,914 during the period from 26 February 2018 to 8 May 2018.

#### Base salary

The average base salary increase for Executive Directors which applied from 1 October 2017 was 3.0%, compared with 6.5% for the Group's senior management cadre. On 13 November 2018, the Committee approved an increase of 3.0% in base salary for the interim Executive Chairman and the Group Finance Director that will apply in respect of the year commencing 1 October 2018 which compares with 4.5% for the Group's senior management cadre.

#### Benefits

|                             | 2018                                    |  |                           |                       | 2017                                    |  |                           |                       |
|-----------------------------|---|--|---------------------------|-----------------------|---|--|---------------------------|-----------------------|
|                             | Cash allowance in lieu of a car<br>£000 | Life assurance and income protection<br>£000 | Medical insurance<br>£000 | Total benefit<br>£000 | Cash allowance in lieu of a car<br>£000 | Life assurance and income protection<br>£000 | Medical insurance<br>£000 | Total benefit<br>£000 |
| John Nicholas <sup>1</sup>  | -                                       | -  | -                         | -                     | -                                       | -  | -                         | -                     |
| Richard Ingram <sup>2</sup> | 5                                       | 3  | 1                         | 9                     | -                                       | -  | -                         | -                     |
| Bruce Thompson <sup>3</sup> | 9                                       | 4  | 2                         | 15                    | 13                                      | 7  | 4                         | 24                    |
| Nigel Lingwood              | 11                                      | 6  | 1                         | 18                    | 11                                      | 6  | 1                         | 18                    |

<sup>1</sup> John Nicholas is not entitled to benefits in his role as interim Executive Chairman.

<sup>2</sup> Richard Ingram's benefits are for the period from 23 April 2018 to 28 August 2018.

<sup>3</sup> Bruce Thompson's benefits are for the period from 1 October 2017 to 8 May 2018; his benefits for the period from 9 May 2018 to 30 September 2018 were £9,000.

#### Pension

The Executive Directors receive pension contributions from the Company, which they may pay into personal savings vehicles or may take as a separate cash allowance, subject to income tax.

Pension contributions were applied as follows:

|                             | 2018                               |                                |                                      |                         | 2017                           |                                      |                         |
|-----------------------------|------------------------------------|--------------------------------|--------------------------------------|-------------------------|--------------------------------|--------------------------------------|-------------------------|
|                             | Contribution rate % of base salary | Paid as cash allowance<br>£000 | Paid as pension contribution<br>£000 | Total cash paid<br>£000 | Paid as cash allowance<br>£000 | Paid as pension contribution<br>£000 | Total cash paid<br>£000 |
| John Nicholas <sup>1</sup>  | -                                  | -                              | -                                    | -                       | -                              | -                                    | -                       |
| Richard Ingram <sup>2</sup> | 15                                 | 35                             | -                                    | 35                      | -                              | -                                    | -                       |
| Bruce Thompson <sup>3</sup> | 20                                 | 61                             | -                                    | 61                      | 97                             | -                                    | 97                      |
| Nigel Lingwood              | 20                                 | 65                             | -                                    | 65                      | 63                             | -                                    | 63                      |

<sup>1</sup> John Nicholas is not entitled to a pension contribution in his role as interim Executive Chairman.

<sup>2</sup> Richard Ingram's pension contributions are for the period from 23 April 2018 to 28 August 2018.

<sup>3</sup> Bruce Thompson's pension contributions are for the period from 1 October 2017 to 8 May 2018; his pension contributions for the period from 9 May 2018 to 30 September 2018 were £39,000.

# REMUNERATION COMMITTEE REPORT CONTINUED

## ANNUAL REPORT ON REMUNERATION CONTINUED

### Annual performance bonus

The following table summarises the performance assessment by the Committee in respect of 2018 with regard to the Group financial objectives:

| Performance measure                                      | Performance in 2018   | Overall assessment against targets |
|--|---|------------------------------------|
| Adjusted Operating Profit (on a constant currency basis) | The minimum performance target was equal to the 2017 adjusted Operating Profit (as defined in note 2 to the consolidated financial statements) on a constant currency basis. The on-target performance was equal to the FY2018 budget (4% growth on 2017). The maximum target was at least 10% growth above 2017 adjusted Operating Profit. Adjusted Operating Profit (on a constant currency basis) grew by 11.7%. Minimum thresholds were exceeded for adjusted operating margins, free cash flow and ROATCE. | 100% of the maximum award          |

Based on the performance set out above, the resulting bonus for each Executive Director relating to 2018 is as follows:

|                             | 2018 actual bonus – as a percentage of 2018 base salary |           |         |                      |             | 2018 bonus delivered as cash |
|-----------------------------|---|-----------|---------|----------------------|-------------|------------------------------|
|                             | Minimum   | On-target | Maximum | Financial objectives | Total bonus | £000                         |
| John Nicholas <sup>1</sup>  | –   | –         | –       | –                    | –           | –                            |
| Richard Ingram <sup>2</sup> | 5%  | 63%       | 125%    | 125.0%               | –           | –                            |
| Bruce Thompson <sup>3</sup> | 5%  | 63%       | 125%    | 125.0%               | 125.0%      | 625                          |
| Nigel Lingwood              | 5%  | 50%       | 100%    | 100.0%               | 100.0%      | 323                          |

1 John Nicholas is not entitled to a bonus in his role as interim Executive Chairman.

2 Richard Ingram was not awarded a bonus for the year ended 30 September 2018.

3 Bruce Thompson's bonus is for the period from 1 October 2017 to 30 September 2018.

The Annual Performance Bonus for the financial year beginning 1 October 2018 will be based solely on adjusted operating profit, measured on a constant currency basis. The financial performance targets set for the Annual Performance Bonus will be disclosed in next year's Annual Report & Accounts.

### Long term incentive awards

#### Performance conditions

Set out below is a summary of the performance conditions that apply to the PSP awards that vest in 2018 and the outstanding PSP awards, including those granted in December 2016 and December 2017. PSP awards since 1 October 2014 have been granted at 175% of base salary. The performance conditions applying to these awards made under the PSP are set out below. In determining the 2019 long term incentive award for the Executive Director, the Committee considered the exceptional circumstances that will prevail whilst the Company works through the recruitment, appointment and on-boarding of a new CEO. During this period, a significant additional load and responsibility will fall to the Group Finance Director, Nigel Lingwood. The Committee believes that it is in shareholders' interests in these exceptional circumstances to provide him with additional incentivisation. Accordingly and as allowed under the Policy, a grant of 225% of salary for the 2019 long term incentive was approved.

The performance condition for the first half of the PSP awards is that the average annual compound growth in the Company's adjusted EPS, over the three consecutive financial years following the financial year immediately prior to the grant, must exceed the specified absolute figures. The performance conditions are as follows:

|  | % of awards vesting |
|--|---------------------|
| Adjusted EPS growth (over three years) | PSP                 |
| 14% p.a.                               | 100                 |
| 5% p.a.                                | 25                  |
| Below 5% p.a.                          | Nil                 |

Where the Company's adjusted EPS performance is between these percentage bands, vesting of the award is on a straight-line basis. For the purposes of this condition, EPS is adjusted EPS as defined in note 2 to the consolidated financial statements and this definition remains consistent with the definition of adjusted EPS approved by the Committee in previous years.

The performance condition for the second half of the PSP awards compares the growth of the Company's TSR over a three-year period to that of the companies in the FTSE 250 Index (excluding Investment Trusts). The performance conditions are as follows:

|                | % of awards vesting |
|----------------|---------------------|
|                | PSP                 |
| Upper quartile | 100                 |
| Median         | 25                  |
| Below median   | Nil                 |

Where the Company's TSR performance is between these percentage bands, vesting of the award is on a straight-line basis. The FTSE 250 Index was chosen because this is a recognised broad equity market index of which the Company is a member.

### Awards vesting in 2018

The PSP awards made to the Executive Directors on 17 December 2015, and the PSP awards made to Bruce Thompson on 22 December 2016 and 28 December 2017, were subject to operating performance conditions as set out in the table on page 58, independently assessed over a three-year period ended 30 September 2018 and for the 2016 and 2017 awards to Bruce Thompson only, over the two and one-year period ended 30 September 2018, respectively. The outcome of each award is shown in the table below:

#### Adjusted earnings per share:

|                                     | Base EPS | EPS at 30 Sep 2018 | CAGR in EPS | Maximum target | Maximum award | Vested award |
|-------------------------------------|----------|--------------------|-------------|----------------|---------------|--------------|
| PSP (17 December 2015)              | 38.2p    | <b>56.4p</b>       | 13.9%       | 14.0%          | 50%           | 49.6%        |
| PSP (22 December 2016) <sup>1</sup> | 41.9p    | <b>56.4p</b>       | 16.0%       | 14.0%          | 50%           | 50.0%        |
| PSP (28 December 2017) <sup>1</sup> | 49.8p    | <b>56.4p</b>       | 13.3%       | 14.0%          | 50%           | 47.1%        |

<sup>1</sup> Award vesting to Bruce Thompson only, following his retirement from the Board on 8 May 2018, on the basis explained on page 56.

#### TSR growth against FTSE 250 (excluding Investment Trusts):

|                                     | TSR at 30 Sep 2018 | Median     | Maximum target | Maximum award | Vested award |
|-------------------------------------|--------------------|------------|----------------|---------------|--------------|
| PSP (17 December 2015)              | <b>25.9%</b>       | 5.3% p.a.  | 14.4% p.a.     | 50%           | 50.0%        |
| PSP (22 December 2016) <sup>1</sup> | <b>28.5%</b>       | 12.1% p.a. | 23.3% p.a.     | 50%           | 50.0%        |
| PSP (28 December 2017) <sup>1</sup> | <b>28.4%</b>       | 3.75% p.a. | 19.2% p.a.     | 50%           | 50.0%        |

<sup>1</sup> Award vesting to Bruce Thompson only, following his retirement from the Board on 8 May 2018, on the basis explained on page 56.

As a result of the above performance conditions, 99.6% of the shares awarded as nil cost options vested to each Director under the PSP award granted on 17 December 2015. In addition, 100% and 97.1% of the shares awarded as nil cost options under the PSP awards granted on 22 December 2016 and on 28 December 2017 respectively, vested to Bruce Thompson.

Set out below are the shares that vested to each Executive Director at 30 September 2018 in respect of these awards. The shares vesting to Bruce Thompson are stated after each of the awards have been time pro-rated to reflect his retirement as explained on page 56.

|                                   | Share price at date of grant pence | Share price at 30 Sep 2018 pence | Proportion of award vesting | Shares vested number | Performance element <sup>1</sup> £000 | Share appreciation element <sup>2</sup> £000 | Total £000   |
|-----------------------------------|------------------------------------|----------------------------------|-----------------------------|----------------------|---------------------------------------|--|--------------|
| Bruce Thompson <sup>3</sup> – PSP | 730p                               | 1,416p                           | <b>99.6%</b>                | <b>113,175</b>       | 827                                   | 776  | <b>1,603</b> |
| – PSP (2016)                      | 997.5p                             | 1,416p                           | <b>100.0%</b>               | <b>56,842</b>        | 567                                   | 238  | <b>805</b>   |
| – PSP (2017)                      | 1,221p                             | 1,416p                           | <b>97.1%</b>                | <b>23,195</b>        | 283                                   | 45   | <b>328</b>   |
| Nigel Lingwood – PSP              | 730p                               | 1,416p                           | <b>99.6%</b>                | <b>73,063</b>        | 534                                   | 501  | <b>1,035</b> |
| John Nicholas <sup>4</sup>        | –                                  | –                                | –                           | –                    | –                                     | –  | –            |

<sup>1</sup> The performance element represents the face value of awards that vested, having met the performance conditions set out above.

<sup>2</sup> The share appreciation element represents the additional value generated through appreciation of the share price from the date the awards were granted to the end of the three-year performance period on 30 September 2018, and additionally in the case of Bruce Thompson, the two and one-year periods ended 30 September 2018 respectively.

<sup>3</sup> The awards for Bruce Thompson have been pro-rated for two of three years for the 2016 PSP and pro-rated for one of three years for the 2017 PSP. These awards vested based on the testing of performance criteria for the period to 30 September 2018.

<sup>4</sup> John Nicholas is not eligible for any LTIPs.

### Dividend equivalent payments

Dividend equivalent payments of £117,516 (2017: £70,340) will be payable to Bruce Thompson and Nigel Lingwood in respect of the 2015 PSP awards which vested on 30 September 2018. These payments are included in this year's Annual Report on Remuneration. Dividend equivalent payments of £25,352 and £5,520 will be payable to Bruce Thompson in respect of awards which vested on 30 September 2018 relating to the 2016 PSP and 2017 PSP awards respectively.

### Long term incentive plan – awards granted in the year

Bruce Thompson and Nigel Lingwood received grants of PSP awards on 28 December 2017, in the form of nil-cost options as set out on page 60. These awards were based on a share price of 1,221p, being the mid-market price of an ordinary share in the Company at close of business on the day immediately preceding the award.

Under normal circumstances, the options will not become exercisable until the performance conditions are determined after the end of the three-year measurement period which begins on the first day of the financial year in which the award is made and provided the Director remains in employment. The level of vesting is dependent on the achievement of specified performance criteria at the end of the three-year measurement period.

The award granted on 28 December 2017 to Bruce Thompson vested to the extent to which the applicable performance conditions were met for the year ended 30 September 2018. The award was pro-rated for time served, that is on the basis of one out of three years completed.

The performance conditions for these awards are set out on page 58.

# REMUNERATION COMMITTEE REPORT CONTINUED

## ANNUAL REPORT ON REMUNERATION CONTINUED

### Outstanding share-based performance awards

Set out below is a summary of the share-based awards outstanding at 30 September 2018, including both share awards which have vested during the year (based on performance) and share awards which have been granted during the year. The awards set out below were granted based on a face value limit of 175% of base salary for each award. No awards will vest unless the performance conditions set out on page 58 are achieved.

#### Diploma PLC 2011 Performance Share Plan

|                                   | Market price at date of award | Face value of the award at date of grant £000 | End of performance period | Vesting date | Shares over which awards held at 1 Oct 2017 | Shares over which awards granted during the year | Vested during the period | Lapsed during the period | Shares over which awards held at 30 Sep 2018 |
|-----------------------------------|-------------------------------|---|---------------------------|--------------|---|--|--------------------------|--------------------------|--|
| <b>Bruce Thompson<sup>1</sup></b> |                               |   |                           |              |   |  |                          |                          |  |
| 17 December 2015                  | 730p                          | 829   | 30 Sep 2018               | 30 Sep 2018  | 113,630                                     | -  | 113,175                  | 455                      | -  |
| 22 December 2016                  | 997.5p                        | 850   | 30 Sep 2019               | 30 Sep 2018  | 85,263                                      | -  | 56,842                   | 28,421                   | -  |
| 28 December 2017                  | 1,221p                        | 875   | 30 Sep 2020               | 30 Sep 2018  | -   | 71,664   | 23,195                   | 48,469                   | -  |
| <b>Nigel Lingwood</b>             |                               |   |                           |              |   |  |                          |                          |  |
| 17 December 2015                  | 730p                          | 535   | 30 Sep 2018               | 30 Sep 2018  | 73,356                                      | -  | 73,063                   | 293                      | -  |
| 22 December 2016                  | 997.5p                        | 549   | 30 Sep 2019               | 30 Sep 2019  | 55,035                                      | -  | -                        | -                        | 55,035                                       |
| 28 December 2017                  | 1,221p                        | 565   | 30 Sep 2020               | 30 Sep 2020  | -   | 46,294   | -                        | -                        | 46,294                                       |

<sup>1</sup> The awards for Bruce Thompson have been pro-rated for two of three years for the 2016 PSP award (85,263 shares awarded and pro-rated to 56,842 shares) and pro-rated for one of three years for the 2017 PSP award (71,664 shares awarded and pro-rated to 23,888 shares). These awards vested based on the testing of performance criteria for the period to 30 September 2018, as explained on page 56.

The PSP awards vest on the date on which the performance conditions are determined and confirmed by the Committee, following the end of the performance period.

The PSP awards are granted in the form of nil-cost options (there is a notional exercise price of £1 per award). To the extent that the awards vest, the options are then exercisable until the tenth anniversary of the award date; a good leaver must exercise his awards within 12 months of leaving the Company. Details of options exercised during the year and outstanding at 30 September 2018 are set out on page 62.

#### Long Term Incentive Award (on recruitment)

|                                   | Market price at date of award | Face value of the award at date of grant £000 | End of performance period | Vesting date | Shares over which awards held at 1 Oct 2017 | Shares over which awards granted during the year | Vested during the period | Lapsed during the period | Shares over which awards held at 30 Sep 2018 |
|-----------------------------------|-------------------------------|---|---------------------------|--------------|---|--|--------------------------|--------------------------|--|
| <b>Richard Ingram<sup>1</sup></b> |                               |   |                           |              |   |  |                          |                          |  |
| 15 May 2018                       | 1,233p                        | 624   | 30 Sep 2019               | 30 Sep 2019  | -   | 50,618   | -                        | 50,618                   | -  |
| 15 May 2018                       | 1,233p                        | 936   | 30 Sep 2020               | 30 Sep 2020  | -   | 75,932   | -                        | 75,932                   | -  |

<sup>1</sup> Richard Ingram received a Long Term Incentive Award on 15 May 2018 in the form of nil-cost options. The award was made in accordance with Listing Rule 9.4.2R(2) and comprised 50,618 award shares with a two-year performance period to 30 September 2019 and 75,932 award shares with a three-year performance period to 30 September 2020. Both of these awards lapsed when Richard Ingram stood down as Chief Executive Officer and Executive Director on 28 August 2018.

#### SERVICES FROM EXTERNAL ADVISORS (UNAUDITED)

Stephenson Harwood LLP provide legal advice to the Committee on remuneration matters and on the Directors' Remuneration Policy. Ashurst LLP provide legal advice on employment matters.

The Committee also received advice and assistance from Aon on market practice, governance trends and the application of Policy during the year. The Committee also engaged MEIS to provide certain data analyses to the Committee.

The Committee has considered and is satisfied that the advice received from the external advisors it has appointed is objective and independent. None of the advisors have any relationships with the Company.

| Advisor                | Appointed by | Services provided to the Committee | Other services provided to the Company | Fees (£) |
|------------------------|--------------|------------------------------------|--|----------|
| Aon                    | Committee    | Remuneration advice                | None                                   | 32,404   |
| MEIS                   | Committee    | Data analysis                      | None                                   | 7,000    |
| Stephenson Harwood LLP | Committee    | Legal and remuneration advice      | None                                   | 35,833   |
| Ashurst                | Committee    | Legal advice                       | None                                   | 118,423  |

**SHAREHOLDER VOTING AT PREVIOUS ANNUAL GENERAL MEETING (UNAUDITED)**

The Remuneration Committee's Annual Report ("the Report") and the Remuneration Committee's Report on Directors' Remuneration Policy ("the Policy") for the year ended 30 September 2017 was approved by shareholders at the AGM held on 17 January 2018, with the following votes being cast:

|               | Policy     |        | Report     |        |
|---------------|------------|--------|------------|--------|
| Votes for     | 91,393,536 | 97.92% | 90,383,863 | 96.84% |
| Votes against | 1,941,428  | 2.08%  | 2,951,100  | 3.16%  |
| Withheld      | 12,500     |        | 12,500     |        |

**ALIGNING PAY WITH PERFORMANCE (UNAUDITED)**

The graph below shows the Total Shareholder Return ("TSR") performance of Diploma PLC for the ten-year period ended 30 September 2018 against the FTSE 250 Index as the Company is a member of this Index.

**Growth in the value of a hypothetical £100 holding over ten years**

— Diploma PLC — FTSE 250 (excluding Investment Trusts)

TSR is defined as the return on investment obtained from holding a company's shares over a period. It includes dividends paid, the change in the capital value of the shares and other payments to or by shareholders within the period.

**CHIEF EXECUTIVE OFFICER REMUNERATION COMPARED WITH ANNUAL GROWTH IN TSR**

| Year        | Name                              | Chief Executive Officer single figure of total remuneration (£'000) | Annual Bonus against maximum opportunity | Actual share award vesting | Annual growth in TSR |
|-------------|-----------------------------------|---|--|----------------------------|----------------------|
| <b>2018</b> | <b>John Nicholas<sup>1</sup></b>  | <b>14</b>   | <b>-</b>                                 | <b>-</b>                   | <b>+36%</b>          |
| <b>2018</b> | <b>Richard Ingram<sup>2</sup></b> | <b>235</b>  | <b>-</b>                                 | <b>-</b>                   | <b>+36%</b>          |
| <b>2018</b> | <b>Bruce Thompson<sup>2</sup></b> | <b>3,842</b>  | <b>100%</b>                              | <b>99%</b>                 | <b>+36%</b>          |
| 2017        | Bruce Thompson                    | 2,258   | 100%                                     | 89%                        | +24%                 |
| 2016        | Bruce Thompson                    | 1,634   | 95%                                      | 45%                        | +36%                 |
| 2015        | Bruce Thompson                    | 1,139   | 51%                                      | 25%                        | -1%                  |
| 2014        | Bruce Thompson                    | 1,846   | 65%                                      | 61%                        | +8%                  |
| 2013        | Bruce Thompson                    | 2,401   | 33%                                      | 100%                       | +42%                 |
| 2012        | Bruce Thompson                    | 1,830   | 95%                                      | 100%                       | +54%                 |
| 2011        | Bruce Thompson                    | 1,701   | 100%                                     | 100%                       | +16%                 |
| 2010        | Bruce Thompson                    | 1,287   | 100%                                     | 100%                       | +71%                 |
| 2009        | Bruce Thompson                    | 834   | 30%                                      | 91%                        | +21%                 |

<sup>1</sup> John Nicholas is not eligible for an Annual Bonus or share award.

<sup>2</sup> These amounts are pro-rated for the period served as CEO, as explained on page 56.

# REMUNERATION COMMITTEE REPORT CONTINUED

## ANNUAL REPORT ON REMUNERATION CONTINUED

Set out below is the change over the prior year in base salary, benefits, pension, annual performance bonus and short-term remuneration of the Chief Executive Officer and the Group's senior management cadre.

|                                      | Change in base salary % | Change in pension % | Change in benefits % | Change in annual performance bonus % |
|--------------------------------------|-------------------------|---------------------|----------------------|--------------------------------------|
| Chief Executive Officer <sup>1</sup> | +3                      | +3                  | -                    | +3                                   |
| Senior management cadre              | +6                      | +3                  | -                    | +16                                  |

<sup>1</sup> Based solely on amounts paid to Bruce Thompson while he was Chief Executive Officer.

The Committee chose the senior management cadre for pay comparisons with the Chief Executive Officer as it provided the most closely aligned comparator group, considering the global and diverse nature of the Group's business.

## RELATIVE IMPORTANCE OF EXECUTIVE DIRECTOR REMUNERATION (UNAUDITED)

|                             | 2018<br>£m | 2017<br>£m | Change<br>£m |
|-----------------------------|------------|------------|--------------|
| Total employee remuneration | 92.7       | 86.4       | +6.3         |
| Total dividends paid        | 26.8       | 23.5       | +3.3         |

## EXECUTIVE DIRECTORS' INTERESTS

### In options over shares

In respect of nil cost options granted under the PSP, the remuneration receivable by an Executive Director is calculated on the date that the options first vest. The remuneration of the Executive Director is the difference between the amount the Executive Director is required to pay to exercise the options to acquire the shares and the total value of the shares on the vesting date.

If the Executive Director chooses not to exercise the nil cost options on the vesting date (he may exercise the options at any time up to the day preceding the tenth anniversary of the date of grant), any subsequent increase or decrease in the amount realised will be due to movements in the underlying share price between the initial vesting date and the date of exercise of the option. This increase or decrease in value reflects an investment decision by the Executive Director and, as such, is not recorded as remuneration.

The nil cost options outstanding at 30 September 2018 and the movements during the year are as follows:

|                       | Year of vesting | Options as at 1 Oct 2017 | Exercised in year | Vested during the year | Options unexercised as at 30 Sep 2018 | Exercise price <sup>5</sup> | Earliest normal exercise date | Expiry date |
|-----------------------|-----------------|--------------------------|-------------------|------------------------|---------------------------------------|-----------------------------|-------------------------------|-------------|
| <b>Bruce Thompson</b> | 2017            | 94,565                   | 94,565            | -                      | -                                     | £1                          | Nov 2017                      | Dec 2024    |
|                       | 2018            | -                        | -                 | 193,212                | 193,212                               | £1                          | Nov 2018                      | Dec 2025    |
| <b>Nigel Lingwood</b> | 2017            | 61,056                   | 61,056            | -                      | -                                     | £1                          | Nov 2017                      | Dec 2024    |
|                       | 2018            | -                        | -                 | 73,063                 | 73,063                                | £1                          | Nov 2018                      | Dec 2025    |

<sup>1</sup> Bruce Thompson exercised 94,565 options on 24 November 2017, at a market price of 1,196p per share and the total proceeds before tax were £1,130,997.

<sup>2</sup> Nigel Lingwood exercised 61,056 options on 24 November 2017, at a market price of 1,196p per share and the total proceeds before tax were £730,230.

<sup>3</sup> On 24 November 2017, the aggregate number of shares received by the participants was reduced by 73,141 shares as part of arrangements under which the Company settled the PAYE liability that arose as a result of the exercise in full by the Executive Directors of options held over shares. The market price at that time was 1,196p.

<sup>4</sup> The closing price of an ordinary share on 30 September 2018 was 1,416p (2017: 1,059p).

<sup>5</sup> All awards have a notional exercise price of £1 per award.

### In ordinary shares

The Executive Directors' interests in ordinary shares of the Company were as follows:

|                                  | As at 30 Sep 2018 <sup>1</sup> |                                |  | As at 30 Sep 2017 |                                |  |
|----------------------------------|--------------------------------|--------------------------------|--|-------------------|--------------------------------|--|
|                                  | Ordinary shares                | Options vested but unexercised | Interest in shares with performance measures | Ordinary shares   | Options vested but unexercised | Interest in shares with performance measures |
| Bruce Thompson at 8 May 2018     | 516,450                        | -                              | 270,557                                      | 570,000           | 94,565                         | 198,893                                      |
| Richard Ingram at 28 August 2018 | -                              | -                              | 126,550                                      | -                 | -                              | -  |
| Nigel Lingwood                   | 180,000                        | 73,063                         | 101,329                                      | 200,000           | 61,056                         | 128,391                                      |

<sup>1</sup> Bruce Thompson's interests are shown as at the date of his retirement from the Board on 8 May 2018 and are before vesting of the PSP option awards. Richard Ingram's interests are shown as at 28 August 2018 when he stood down from the Board.

Interests in ordinary shares include shares held through personal saving vehicles. As of 19 November 2018, there have been no changes to the interests in ordinary shares of the Company held by Nigel Lingwood.

At 30 September 2018 the ordinary shares held by Nigel Lingwood represented 789% of his base salary. The Committee has set a minimum shareholding guideline of 200% for the Executive Directors.

**CHAIRMAN AND NON-EXECUTIVE DIRECTORS' REMUNERATION**

Individual remuneration for the year ended 30 September was as follows:

|                  | Total fees   |              |
|------------------|--------------|--------------|
|                  | 2018<br>£000 | 2017<br>£000 |
| John Nicholas    | 145          | 140          |
| Charles Packshaw | 55           | 54           |
| Andy Smith       | 55           | 54           |
| Anne Thorburn    | 55           | 54           |

The non-Executive Directors received a basic annual fee of £50,000 during the year and there were additional fees paid in 2018 of £5,000 (2017: £5,000) for chairing a Committee of the Board or for acting as Senior Independent Director. No additional fee for chairing a Committee of the Board is payable to the Chairman of the Company. The fees for non-Executive Directors are reviewed every year by the Board, taking into account their responsibilities and required time commitment. Following a review undertaken on 13 November 2018, the Board approved an increase of 3.0% in the Chairman's fee to £148,950 p.a. and in the basic annual fee paid to non-Executive Directors to £51,500. The additional fee for chairing a Committee of the Board will increase to £12,000 and for acting as Senior Independent Director will increase to £10,000. All these fee increases will take effect from 1 October 2018.

**CHAIRMAN AND NON-EXECUTIVE DIRECTORS' INTERESTS IN ORDINARY SHARES**

The non-Executive Directors' interests in ordinary shares of the Company at the start and at the end of the financial year were as follows:

|                  | Interest in ordinary shares |                         |
|------------------|-----------------------------|-------------------------|
|                  | As at<br>30 Sep<br>2018     | As at<br>30 Sep<br>2017 |
| John Nicholas    | 7,000                       | 5,000                   |
| Charles Packshaw | 1,500                       | 1,500                   |
| Andy Smith       | 5,500                       | 5,500                   |
| Anne Thorburn    | 3,000                       | 3,000                   |

**SENIOR EXECUTIVES BELOW THE BOARD (UNAUDITED)**

The policies and practices with regard to the remuneration of senior executives below the Executive Directors are generally treated consistently with the Executive Directors. These senior executives all have a significant portion of their reward package linked to performance. Annual bonuses are linked to short term financial targets which use similar performance metrics to the targets for the Executive Directors. Members of the Executive Management Committee ("EMC") participate in the Diploma PLC 2011 Performance Share Plan. Senior management outside the EMC participate in cash based long term incentive plans that are focused on the operating profit growth of their businesses over rolling three-year periods.

Set out below is a summary of the share-based awards outstanding at 30 September 2018 which have been granted to members of the EMC, including share awards which have vested during the year based on performance and share awards that have been granted both last year and during this year. The awards set out below were granted based on a face value limit that varied between 30% and 60% of base salary. No awards will vest unless the performance conditions set out on page 58 are achieved over a three-year measurement period.

**DIPLOMA PLC 2011 PERFORMANCE SHARE PLAN**

|                  | Market price<br>at date of<br>award | Face value of<br>the award at<br>date of grant<br>£000 | End of<br>performance<br>period | Maturity date | Shares<br>over which<br>awards held<br>at 1 Oct 2017 | Shares over<br>which<br>awards<br>granted<br>during the<br>year | Vested<br>during the<br>period | Lapsed<br>during the<br>period | Shares over<br>which<br>awards held<br>at 30 Sep<br>2018 |
|------------------|-------------------------------------|--|---------------------------------|---------------|--|---|--------------------------------|--------------------------------|--|
| 17 December 2015 | 730p                                | 159  | 30 Sep 2018                     | 30 Sep 2018   | 21,781   | -   | 13,917                         | 7,864                          | -  |
| 22 December 2016 | 997.5p                              | 390  | 30 Sep 2019                     | 30 Sep 2019   | 39,126   | -   | -                              | 18,045                         | 21,081   |
| 28 December 2017 | 1,221p                              | 430  | 30 Sep 2020                     | 30 Sep 2020   | -  | 35,206  | -                              | 16,708                         | 18,498   |

In November 2017, 18,961 nil cost options, in respect of awards which vested at 30 September 2017, were exercised by participants.

The Committee anticipates making similar awards to members of the EMC in December 2018.