

DIPLOMA PLC ("Diploma" or the "Company")

The Company is grateful for the support it received from its shareholders at the Annual General Meeting ("AGM") held on 15 January 2020. It notes that 79.98% of votes were cast in favour of the Directors' Remuneration Policy – (the "Policy") and 55.81% of votes were cast in favour of the Directors' Remuneration Report (the "Report"), reflecting concerns raised by some shareholders.

Both before and after the Company's 2019 AGM, the Company had consulted extensively with shareholders and with the main proxy advisory agents. The issues raised during consultation are set out below, along with the Remuneration Committee's ("the Committee") response.

The Report

- Understanding overall quantum of Johnny Thomson's package relative to his predecessor.

Diploma's long-standing CEO of 22 years retired in 2018. The Company has a strong track record of growth and the scale and complexity of the business had increased. It was evident that a CEO of appropriate calibre had to be sourced to maintain performance and deliver ongoing growth.

From thorough searches the Nomination Committee gained a comprehensive insight into the talent available in the market. It was clear a candidate with the necessary experience and skills was not available in the FTSE250 at the time. Johnny Thomson was the candidate who satisfied the detailed specification for the role and Johnny previously held a Board level position in Compass, a FTSE100 company.

The Committee was cognisant of the relative increase in the quantum of the remuneration package but agreed the package to secure Johnny's appointment. The total remuneration is reasonable for Diploma's scale and complexity and the construct supports a high-performance culture and long-term shareholder value.

- Johnny Thomson's FY2019 bonus was not pro-rated.

The decision to pay a full bonus was made as part of constructing the total compensation package required to secure Johnny Thomson's appointment. However, the Committee will now require bonuses to be pro-rated for new joiners. The Committee implemented this approach in the appointment of Barbara Gibbes as CFO (designate until June 2020) whose FY2020 bonus, should one be paid, will be pro-rated.

The Policy

- Increase in LTIP award maximums for Executive Directors (i.e. the CEO and CFO) and an increase in annual bonus maximum for other Executive Directors (i.e. the CFO).

The evolution of the policy is a pragmatic response to the business-critical question of securing the right CEO and CFO and incentivising them to deliver the performance required to continue to generate the value shareholders expect.

Diploma has shown strong and consistent compound growth every year. Over the last ten years, the Group has grown adjusted earnings per share at an average of ca. 16% p.a. and the market capitalisation of the Group has increased 43% since the Policy was last approved. There have been no material changes to remuneration parameters since 2014,

as a result of which executive compensation was no longer competitive as compared to companies of a similar size.

Total remuneration levels for Executive Directors under the Policy are competitive, without being excessive. They are aligned with shareholders' interests with more than 70% of Executives' remuneration being performance based and payable only on delivery of performance that meets stretching targets that are directly linked to Diploma's KPIs. The long-term opportunity is positioned in the upper quartile for companies of a similar size, balanced by a bonus opportunity at the lower quartile. It is also worth reinforcing that the new maximums are not entitlements; it is envisaged that the typical PSP award for Barbara Gibbes will be 175% of base salary which is below the new maximum of 200% allowable under the Policy.

Considering these points and noting, alongside the support, shown by most shareholders in the AGM vote, for the changes, the Committee will maintain the incentive levels.

- Johnny Thomson's pension allowance percentage is higher than that of the UK workforce, and that Diploma has not published an action plan to align them.

Johnny Thomson's current pension allowance is 15% of base salary. Whilst this is higher than Diploma's UK workforce, it is in line with other Diploma managers. The Committee understand that pension provision is an increasing area of focus for shareholders and will continue to take shareholder views into consideration as further decisions are made on pension arrangements for the workforce.

As committed in the 2019 Annual Report and Accounts, Johnny Thomson will take a reduction in his pension contribution from 1 October 2020, as a step towards aligning with the UK workforce and the Management team will review the pension provision for the UK workforce.

Barbara Gibbes has been recruited as CFO on a pension allowance of 4%, which is in line with the majority of Diploma's UK workforce.

- Post-cessation shareholding requirements do not meet the Investment Association recommended levels.

The Policy included the introduction of post-cessation shareholding requirements. The CEO is required to hold shares in value of 125% of salary (other Executive Directors of 100%) for twelve months after leaving. Post cessation shareholding requirements will apply to shares which have been granted under the Company's Performance Share Plan after the approval of the Policy.

Having reviewed the matter in light of the feedback received, the Committee is content that the present Policy is appropriate. The Committee understands that this is an evolving area of policy development with many companies taking different approaches and will continue to review the practices that Diploma follows.

With regards to the approval of the Policy as a whole, the Committee notes that voting fell only 0.02% short of the 80% threshold trigger for the inclusion of the Company on the Investment Association Public Register. There were many other developments in the Policy which were well received by shareholders and the proxy advisory agencies. The Committee is satisfied that the Policy is right for Diploma and its shareholders.

23 June 2020