REMUNERATION COMMITTEE REPORT

"

It has been a very positive year for Diploma with strong returns; we are confident that our remuneration is supporting sustainable long-term shareholder value."

Andy Smith
Chairman of the Remuneration Committee

Members of the Committee	Attendance
Andy Smith (Chairman)	6/6
Anne Thorburn	6/6
John Nicholas	6/6
Geraldine Huse	6/6
Dean Finch	1/2[1]

1 Dean Finch was appointed to the Committee on 21 May 2021.

Dear Shareholder

On behalf of the Board, I am pleased to present our Directors' Remuneration Report ("DRR") for the year ended 30 September 2021. This covers the required regulatory information and provides further context and insight into our executive pay arrangements. The report includes activities undertaken to implement remuneration plans designed to attract and retain a talented management team, incentivise them to deliver outstanding long-term value for shareholders and reward them for doing so. The Committee remains committed to regular engagement with our shareholders to ensure that our executive remuneration decisions are clear and fair in the context of the Group's wider stakeholders.

2021 performance and alignment to remuneration outcomes

I am particularly pleased to be presenting this year's DRR against the backdrop of strong 2021 financial results which add to the Group's long-term track record of excellent business performance and returns for shareholders.

All three Sectors performed strongly, delivering a 46% increase in revenue and a 71% increase in adjusted operating profit, driven by a 270bps increase in adjusted operating profit margin to 18.9%. Free cash conversion was very strong at 103%, well ahead of our targeted 90%+. Recent acquisitions, including Windy City Wire, have outperformed our expectations.

Based on this performance, targets under the annual bonus (see page 72) have been achieved at maximum, resulting in a full bonus payment of 125% of salary for both Johnny Thomson and Barbara Gibbes.

Our long-term performance also continues to create considerable shareholder value. Our Total Shareholder Return ("TSR") growth over the last three-year period of 134% (a compound annual growth rate ("CAGR") of 33%) places Diploma in the 95th percentile of FTSE 250 companies (excluding Investment Trusts). Compound adjusted Earnings Per Share ("EPS") growth is 15.1% over the three-year performance period. To ensure the quality of these earnings, the Committee has also reviewed return on adjusted trading capital employed ("ROATCE") performance and is satisfied that it is ahead of the Board's expectations. Based on these excellent results, the Performance Share Plan ("PSP") (PSP (2018)) has vested at maximum for Johnny Thomson, which was 250% of base salary. Barbara Gibbes does not have an award vesting this year; her first award vests, subject to performance, at the end of FY 2022.

Beyond our financials, we are pleased with the strategic progress in building high-quality, scalable businesses for sustainable growth alongside the development of the Group's environmental, social and governance ("ESG") programme, Delivering Value Responsibly. The resilient performance through the pandemic and our ability to capitalise on the recovery is testament to the commitment of our colleagues to excellent customer service.

REMUNERATION COMMITTEE REPORT CONTINUED

In line with the 2018 Corporate Governance Code (the "Code"), the Committee reviewed individual Directors' incentive plan outcomes and overall remuneration in light of the Group's underlying performance. This is a very strong set of results for the Group, underpinned by excellent implementation of the strategy and plan. Accordingly, the Committee is satisfied that the incentive plan outcomes and the total remuneration received by Executive Directors in respect of the year ended 30 September 2021 are consistent with the levels of company performance delivered by management and that the Remuneration Policy is operating as intended.

Voting outcomes from 2020

The Committee has given considerable thought to recent voting outcomes on remuneration: 54.3% in favour of our 2020 DRR and 79.98% in favour of the Remuneration Policy, which was approved at the Annual General Meeting ("AGM") in January 2020. The Committee would like to reassure shareholders that it is committed to ensuring remuneration is aligned with shareholders' interests. After the 2020 DRR vote, we wrote to shareholders accounting for around 75% of the Group's share register, to invite their feedback. We subsequently conducted a comprehensive engagement process, with our Chairman John Nicholas and I meeting virtually with over 55% of the Group's share register and three advisory agencies. The meetings generated some excellent and informative dialogue, and it was very helpful to be able to gain shareholders' views and explain ours first-hand. I am grateful to all of those who took the time to meet with us.

Our dialogue confirmed that last year's concerns arose predominantly from matters relating to management transition and, in particular, the decision to allow early vesting of the retiring Finance Director's PSP awards. The circumstances relating to his retirement after 19 years' service were unique and will not recur. The Committee has reconfirmed that it does not intend to apply such discretion to PSP awards in the future.

In the engagement sessions, shareholders expressed overall support for the Group's Remuneration Policy and raised no major concerns. The Committee is confident that the Policy remains fit for purpose for the year ahead. We believe that shareholder dialogue is important, and we are committed to considering the interests of all stakeholders in our approach to remuneration. We will continue to seek, listen to and respond to feedback and this will include consultation during 2022 in advance of our next policy review.

Remuneration in the workforce

The skill and dedication of our colleagues lies at the heart of the business. Our senior management's resilience has been tested during the last few years and they have responded with brilliant leadership, with many taking on more complex roles as the Group grows. Amongst our workforce, we are pleased to see high levels of colleague engagement from the recent Group Colleague Engagement Survey (engagement index 79%, compared to industry norms of less than 70%).

The Committee is conscious of the challenges that the business and our colleagues are presently facing. All are impacted by the inflationary pressures arising from the macro-environment, including energy prices, and our colleagues are also facing additional daily challenges, not least those created by supply chain pressures in the business. Labour markets, particularly in the US and UK, are strained with fewer workers in the system and high demand from businesses recovering from the pandemic. All of this makes for an uncertain and particularly challenging remuneration environment.

The 2022 overall base salary increase across the Group is 4% for the workforce, including senior managers. The Committee considers this to be reasonable and is supportive.

The management team and Committee will continue to review total compensation proactively and take workforce views into account on executive compensation and workforce pay concerns.

Remuneration for 2022

The Committee views the design of the executive remuneration arrangements as appropriate for the year ahead and that the remuneration approach continues to follow our remuneration principles, which include supporting the creation of sustainable, long-term shareholder value.

The Committee is focused on maintaining stretching performance targets aligned with shareholder and other stakeholder interests. Remuneration plans follow the strategic plans that are reviewed and approved by the Board. The framework (summarised on page 70) works well and is simple, relevant to the business model and aligned with the Group's strategy. We continue to follow our remuneration principles which are listed on page 77, as well as listening to the views of the workforce.

The Committee also considers remuneration alignment throughout the Group and has reviewed the CEO pay ratio (shown on page 75). The Committee recognises that the single figure for the CEO has increased this year as a result of the exceptional performance delivered and the balance of performance-related pay in his package, which has impacted the ratio. The Committee is satisfied that, since the Policy is operating as intended in aligning executive pay with performance, no policy changes are required for the year ahead.

The Committee is paying particular attention to ESG and is pleased to note that the Group is doing a huge amount to develop its approach to ESG through the Delivering Value Responsibly programme (described on page 34). Non-financial key performance indicators ("KPIs") are published on page 17. As the Group's target setting develops, the Committee will assess how the remuneration framework needs to adapt to incentivise and reward delivery against ESG objectives.

Fixed pay:

Johnny Thomson received a 3% increase to his base salary from 1 October 2021. This is below the increase awarded to the workforce and senior managers. Johnny Thomson has voluntarily committed to lowering his cash in lieu of pension from 12.5% of base salary to 10% of base salary from 1 October 2021. From 1 January 2023, these contributions will reduce to 4% to bring them into line with that received by the majority of the UK workforce.

Barbara Gibbes received an increase of 7.4% to her base salary from 1 October 2021 to £365,000. The Committee decided on this increase having carefully considered Barbara's performance, the increasing size and complexity of the Group, the Group's financial performance and total CFO compensation in comparable organisations. This increase moves her salary to a level that the Committee believes to be fair and equitable at the present time. She received no increase in 2020 in line with the wider arrangements in place at the height of the Covid-19 pandemic. Barbara already receives a company contribution in lieu of pension of 4% of base salary, in line with the workforce.

Barbara was appointed as CFO in June 2020, having joined the Group as CFO designate in March 2020, her first Group CFO Board appointment. At the time of her appointment, the Committee informed shareholders that increases higher than normal might be required in her first few years of appointment to reflect her growth in role. Provided that she continues to progress positively, and the Group continues to perform well, we anticipate increases of a similar magnitude in 2022 and 2023. In the recent shareholder and advisory agency engagement, we received overall support for our chosen approach of phased increases alongside a continued review of performance.

Variable pay:

In 2022 the annual performance bonus will follow the same target metrics as 2021, namely 50% adjusted operating profit, 25% revenue, 25% free cash flow. These targets will be based on the budget agreed by the Board.

The PSP will also continue with its existing metrics, 50% adjusted EPS with a ROATCE underpin and 50% relative TSR compared to the FTSE 250 (excluding Investment Trusts). Awards under the PSP have been granted at the same level as last year to Johnny Thomson (250% of base salary) and Barbara Gibbes (175% of base salary). The methodology used to measure the performance conditions remains the same (see pages 72-73).

In the 2020 DRR we indicated our intention to reassess adjusted EPS targets given the considerable growth in the size of the Group following a number of acquisitions. The strategy remains the same: to deliver strong underlying growth supplemented by acquisitions, each needing to deliver good margins and returns. With a bigger base of business, the Board expects management to deliver more acquisitions than historical levels. It is, however, essential that we maintain the quality of our business acquisitions. We need to remain financially disciplined, acquiring only quality businesses at the right price in order to protect and enhance returns for shareholders. In determining future EPS targets, the Committee considered several inputs including financial modelling of growth scenarios as well as market consensus. We also took views from shareholders in our recent engagement.

Taking all these factors into account, the Committee has decided to set the EPS target maximum for the PSP at 12% CAGR. This is a suitably ambitious and stretching target that requires excellent underlying growth, above GDP, sustained high margins and a considerably higher acquisition spend than historical levels. The threshold remains at 5% and the Committee will issue the 2021 PSP grant with an EPS target range of 5% to 12%.

Directorate changes

Charles Packshaw retired as Senior Independent Director in January 2021. We welcomed Dean Finch to the Committee following his appointment to the Board as non-Executive Director on 12 May 2021. More recently, David Lowden joined the Board as non-Executive Director and Chairman designate on 19 October 2021. He will succeed John Nicholas as Chairman at the conclusion of this year's AGM when John will stand down from the Board after nearly nine years of service. The Chairman's remuneration arrangements are shown on page 74. The retiring Chairman, John Nicholas, was appointed in 2015 when the Group was 60% smaller and has since received typical annual fee inflationary increases. The new Chairman's fee has been determined in relation to the Group's present size and complexity.

Conclusion

I would once again like to thank shareholders for the level and quality of engagement over this last year. We will maintain a close dialogue as we seek to deliver a competitive, motivating pay framework that is tightly aligned to shareholder experience whilst maintaining good governance standards. We are very grateful to those investors who took the time to meet with us and for the feedback they provided, and we will plan further discussion during 2022 ahead of our 2023 Policy review. I look forward to receiving your support at the AGM on 19 January 2022.

Andy Smith
22 November 2021

REMUNERATION COMMITTEE REPORT CONTINUED

Remuneration at a glance

Key strategic highlights

- Building high-quality, scalable businesses for sustainable growth.
- Revenue initiatives driving strong underlying growth.
- £456m invested in strategically important acquisitions to accelerate our growth.
- Excellent progress with Delivering Value Responsibly ("DVR").

Performance snapshot

Revenue
+46%

Adjusted operating profit
+71%

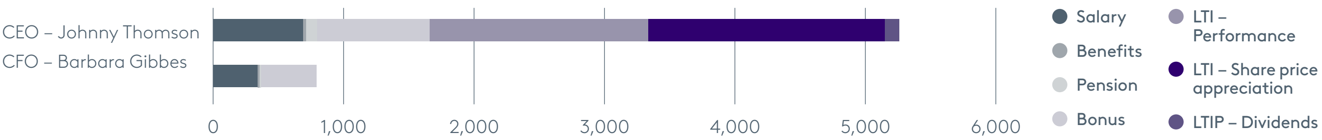
EPS (3-year CAGR)
15.1%

TSR (3-year CAGR)
+33%

Aligning awards to performance

Performance measures	Incentive plan	Weighting	Achievement of max
Adjusted operating profit	Annual bonus	50	100%
Revenue	Annual bonus	25	100%
Free cash flow	Annual bonus	25	100%
Earnings per share ("EPS")	PSP	50	100%
Total shareholder return ("TSR")	PSP	50	100%

Reflecting performance in remuneration (single figure)



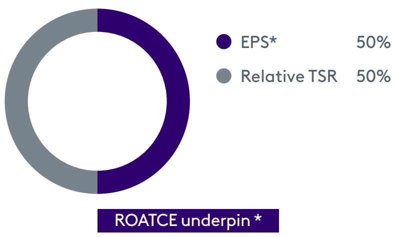
Looking ahead

	Fixed remuneration	Annual bonus	Long-term incentives	Shareholding guideline	Post-cessation guideline
Johnny Thomson (CEO)	Base pay: £711,000 Pension: equivalent to 10% of base pay	Max: 125% base pay Target: 63% base pay	Max: 250% base pay Performance period: three years Holding period: five years from grant	Minimum holding requirement ("MSR"): 250% base pay	Holding requirement: 50% of the MSR for 12 months after the termination date
Barbara Gibbes (CFO)	Base pay: £365,000 Pension: equivalent to 4% of base pay	Max: 125% base pay Target: 63% base pay	Max: 200% base pay Performance period: three years Holding period: five years from grant	MSR: 200% base pay	Holding requirement: 50% of the MSR for 12 months after the termination date
Change from 2021	Base pay increased by 3.0% for the CEO and 7.4% for the CFO CEO pension will reduce again this year from 12.5% to 10% of base pay from October 2021 with a final reduction to 4% in January 2023	Policy maximum unchanged	Policy maximum unchanged PSP grant issued at same levels as 2021 at 250% for CEO and 175% for CFO	CEO has met MSR, CFO has not met MSR so 50% of 2021 annual bonus will be paid in shares	

Our executive pay framework

Annual bonus

PSP



ANNUAL REPORT ON REMUNERATION

The following section of this Report provides details of the implementation of the Remuneration Policy for the Executive Directors for the year ended 30 September 2021. All of the information set out in this section of the Report has been audited, unless indicated otherwise.

Executive Directors (audited)
Total remuneration in 2021 and 2020

	Johnny Thomson		Barbara Gibbes			
	2021 £000	2020 £000	**2021 £000**	2020[1] £000	**2021 £000**	2020 £000
Salary[2]	**690**	655	**340**	92	**1,030**	747
Taxable benefits[3]	**25**	24	**19**	5	**44**	29
Pension	**86**	104	**14**	4	**100**	108
Total fixed	**801**	783	**373**	101	**1,174**	884
Annual performance bonus	**863**	216	**425**	62	**1,288**	278
Long-term incentive plans – dividend equivalent (cash)	**88**	–	**–**	–	**88**	–
Long-term incentive plans – performance element	**1,675**	–	**–**	–	**1,675**	–
Long-term incentive plans – share appreciation element	**1,815**	–	**–**	–	**1,815**	–
Long-term share-based remuneration	**3,490**	–	**–**	–	**3,490**	–
Total variable	**4,353**	216	**425**	62	**4,778**	278
Single total figure	**5,242**	999	**798**	163	**6,040**	1,162

1 Barbara Gibbes joined the Group in the prior year on 2 March 2020 as CFO designate and was appointed CFO and Executive Director of the Company on 22 June 2020. The table above includes her salary, benefits and pension in the prior year for the period from 22 June 2020 to 30 September 2020 and also includes her annual performance bonus in the prior year which has been time prorated for the period from 2 March 2020 to 30 September 2020.
2 Each of the Executive Directors voluntarily waived 20% of their base salary for the three-month period from April 2020 to June 2020.
3 Taxable benefits comprises cash allowance in lieu of a car, private medical, life assurance and income protection.

Executive Directors' base salary (unaudited)

There was no base salary increase for Executive Directors from 1 October 2020. On 16 November 2021, the Committee approved a 3.0% increase in base salary for the CEO and 7.4% for the CFO from 1 October 2021. Explanations of how the Committee has considered remuneration in the workforce are in the Chairman's letter on pages 67-69, along with the rationale for the CFO increase.

	Salary from 1 October 2021 £000	Salary from 1 October 2020 £000	Increase in salary
Johnny Thomson	**711**	690	3.0%
Barbara Gibbes	**365**	340	7.4%

Pension (audited)

The Executive Directors receive pension contributions from the Company. During 2021 and 2020, both Executive Directors took this as a cash allowance. None of the Executive Directors have a right to a Company Defined Benefit pension plan. Johnny Thomson has voluntarily committed to lowering his cash in lieu of pension from 12.5% of base salary to 10% of base salary from 1 October 2021 and from 1 January 2023, his pension contributions will be reduced further to 4% of base salary, in line with the majority of the UK workforce.

	2021		2020	
	Contribution rate % of base salary	**Pension paid as cash £000**	Contribution rate % of base salary	Pension paid as cash £000
Johnny Thomson	**12.5**	**86**	15	104
Barbara Gibbes[1]	**4**	**14**	4	4

1 Barbara Gibbes' pension contributions in the prior year are for the period from 22 June 2020 to 30 September 2020.

REMUNERATION COMMITTEE REPORT CONTINUED

ANNUAL REPORT ON REMUNERATION CONTINUED

Annual performance bonus (audited)

Bonus payout for year ended 30 September 2021

The Board approves a stretching budget each year. For each performance measure threshold is minus 5% on budget, target is budget and maximum is plus 5% on budget. Based on the performance of the Group, the Executive Directors will receive 100% of their maximum bonus for the year ended 30 September 2021. The following table summarises the performance assessment by the Committee in respect of 2021 with regard to the Group financial objectives and the bonus awarded to each of the Executive Directors:

Performance measure	Targets for 2021	Overall assessment against targets
Adjusted operating profit (calculated on a constant currency basis) 50% of bonus opportunity	Minimum: £122m On-target: £129m Maximum: £135m	Adjusted operating profit for FY 2021 was £153.0m at FY 2020 exchange rates. The maximum threshold was met and the maximum award is payable.
Revenue (calculated on a constant currency basis) 25% of bonus opportunity	Minimum: £678m On-target: £714m Maximum: £750m	Revenue for FY 2021 was £809.7m at FY 2020 exchange rates. The maximum threshold was met and the maximum award is payable.
Free cash flow (reported) 25% of bonus opportunity	Minimum: £72.5m On-target: £76m Maximum: £80m	Free cash flow for the year was £108.8m. The maximum threshold was met and the maximum award is payable.

Bonus awarded to each of the Executive Directors for year ended 30 September 2021

	Base salary	2021 actual bonus – as a percentage of 2021 base salary					2021 bonus
	£000	Minimum	On-target	Maximum	**Financial objectives**	**Total bonus**	**£000**
Johnny Thomson	690	5%	63%	125%	**125%**	**125%**	**863**
Barbara Gibbes	340	5%	63%	125%	**125%**	**125%**	**425**

In line with the Company's Shareholding Policy, Johnny Thomson has met his minimum shareholding requirement (250%) and therefore his bonus for the year will be paid as cash; 50% of the 2021 bonus for Barbara Gibbes will be paid as cash and 50% will be deferred into shares until she reaches her minimum shareholding requirement (200%) set out in the Policy.

Bonus awards for year ended 30 September 2022

In the financial year beginning 1 October 2021, the Annual Performance Bonus Plan will be based on the following metrics: 50% will be based on adjusted operating profit, 25% will be based on revenue (both metrics measured on a constant currency basis) and the remaining 25% will be based on free cash flow. The financial performance targets set for the Annual Performance Bonus Plan for this year will be disclosed in next year's Annual Report & Accounts, due to their commercial sensitivity.

Long-term incentive awards (audited)

The Company's long-term incentive plan is the Performance Share Plan ("PSP").

Performance conditions

Set out below is a summary of the performance conditions that apply to the PSP awards which vest in 2021 (PSP (2018)), 2022 (PSP (2019)) and 2023 (PSP (2020)).

Vesting of the award is based 50% on growth in adjusted EPS and 50% on relative TSR performance. In addition, in order for any payment to be earned under the EPS element of awards vesting on or after 30 September 2022, the Committee must consider that a satisfactory level of ROATCE performance has been achieved. The ROATCE underpin will be measured as the reported ROATCE in the third year of the performance condition.

For the PSP 2021 as explained in the Chairman's letter on page 69, the performance condition will remain the same with the exception of the EPS targets, which will be 5% to 12% per annum.

EPS

The performance condition for 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 targets are as follows:

Adjusted EPS growth (over three years)	% of awards vesting
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.

TSR

The performance condition 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 targets are as follows:

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

Where the Company's TSR performance is between these percentage bands, vesting of the award is calculated based on ranking. 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 2021 (audited)

The PSP award granted on 25 February 2019 (PSP (2018)) to Johnny Thomson, an Executive Director, was subject to the performance conditions as set out in the table above, independently assessed over a three-year period ended 30 September 2021. The outcome of this award is shown in the table below:

Adjusted earnings per share

	Base EPS	**EPS at 30 Sep 2021[1]**	CAGR in EPS	Maximum target	Maximum award	Vested award
PSP (2018)	56.4p	**86.1p**	15.1%	14%	50%	50%

1 The pre-IFRS 16 adjusted EPS figure has been used for the purposes of assessing the vesting criteria of the PSP (2018) award. It was explained in the 2020 DRR that the Committee intends to use this approach until the change in accounting standard reaches its three-year anniversary.

Whilst the ROATCE underpin on the adjusted EPS vesting does not apply for the PSP (2018) award, the Committee has reviewed the ROATCE outturn and concluded that 17.4% is ahead of the Board's expectations.

TSR growth against FTSE 250 (excluding Investment Trusts)

	TSR at 30 Sep 2021	Median	Upper quartile	Maximum award	Vested award
PSP (2018)	**32.9% p.a.**	4.5% p.a.	13.9% p.a.	50%	50%

Set out below are the shares which vested to Johnny Thomson at 30 September 2021 in respect of this award.[1]

	Share price at date of grant pence	Share price at 30 Sep 2021 pence	**Proportion of award vesting**	**Shares vested number**	Performance element[2] £000	Share appreciation element[3] £000	Total £000
PSP (2018)	1,364	2,842	**100%**	**122,801**	1,675	1,815	3,490

1 Barbara Gibbes did not receive an award in 2018 because she was not yet employed.
2 The performance element represents the face value of awards that vested, having met the performance conditions set out above.
3 The share appreciation element represents the additional value generated through appreciation of the share price from the date the award was granted to the end of the three-year performance period on 30 September 2021.

Dividend equivalent payments (audited)

Dividend equivalent payments of £87,803 (2020: £nil) are payable to Johnny Thomson in respect of the PSP (2018) award which vested on 30 September 2021. At 30 September 2020, dividend equivalent payments of £26,992 were payable to the retiring finance director.

Long-term incentive plan – awards granted in the year (audited)

Johnny Thomson and Barbara Gibbes received a grant of the PSP 2020 award on 23 November 2020, in the form of nil-cost options. This award was based on a share price of 2,306p, being the mid-market price of an ordinary share in the Company at close of business on the day immediately preceding the award. The award for Johnny Thomson was 250% of base salary and for Barbara Gibbes was 175% of base salary.

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 participating 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 performance conditions for this award are set out on pages 72-73.

Outstanding share-based performance awards (audited)

Set out is a summary of the share-based awards outstanding at 30 September 2021, 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 were granted based on a face value of 250% of base salary to Johnny Thomson and a face value of 175% (PSP (2020)) and 100% (PSP (2019)) of base salary to Barbara Gibbes; PSP (2019) being the prorated award for time served (including as CFO designate). No awards will vest unless the performance conditions set out on page 72-73 are satisfied.

REMUNERATION COMMITTEE REPORT CONTINUED

ANNUAL REPORT ON REMUNERATION CONTINUED

Diploma PLC 2011 and 2020 Performance Share Plan (audited)

	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 2020	Shares over which awards granted during the year	Vested during the period	Lapsed during the period	Shares over which awards held at 30 Sep 2021
Johnny Thomson									
PSP (2018)	1,364p	1,675	30 Sep 2021	30 Sep 2021	122,801	–	122,801	–	–
PSP (2019)	2,018p	1,725	30 Sep 2022	30 Sep 2022	85,481	–	–	–	85,481
PSP (2020)	2,306p	1,725	30 Sep 2023	30 Sep 2023	–	74,804	–	–	74,804
Barbara Gibbes									
PSP (2019)	1,755p	340	30 Sep 2022	30 Sep 2022	19,374	–	–	–	19,374
PSP (2020)	2,306p	595	30 Sep 2023	30 Sep 2023	–	25,802	–	–	25,802

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. Shares will be held for a minimum of five years from grant date in line with the Policy.

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. Details of options exercised during the year and outstanding at 30 September 2021 are set out below.

Chairman and non-Executive Directors' remuneration (audited)

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

	Total fees 2021 £000	Total fees 2020[5] £000
John Nicholas	**153**	146
Charles Packshaw[1]	**19**	60
Andy Smith	**65**	62
Anne Thorburn[2]	**72**	62
Geraldine Huse[3]	**53**	35
Dean Finch[4]	**19**	–

1 The fee for Charles Packshaw was prorated following his retirement on 20 January 2021.
2 The fee for Anne Thorburn includes the prorated additional fee following her appointment as Senior Independent Director on 20 January 2021.
3 The fee for Geraldine Huse was prorated in 2020 following her appointment on 20 January 2020.
4 The fee for Dean Finch was prorated in 2021 following his appointment on 21 May 2021.
5 Each of the non-Executive Directors agreed to a 20% reduction in their base fees in the prior year for the three-month period from April 2020 to June 2020.

The non-Executive Directors received a basic annual fee of £53,000 during the year and additional fees are paid of £12,000 (2020: £12,000) for chairing a Committee of the Board or £10,000 (2020: £10,000) 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. Aligned to the approach to the pay review for the Group and the Executive Directors there has been a 3% increase to non-Executive Director and Chairman fees from 1 October 2021. There were no taxable expenses for non-Executive Directors in 2021 and 2020.

The Company recently confirmed the appointment of David Lowden as Chairman designate. David joined the Board as a non-Executive Director on 19 October 2021 and will succeed John Nicholas as the Company's Chairman at the conclusion of the AGM on 19 January 2022 when John will stand down from the Board having completed nearly nine years of service. A basic fee as non-Executive Director of £54,500 pro rata will be paid for the period from 19 October 2021 to 19 January 2022 and an all-inclusive annual fee of £275,000 pro rata will be paid on appointment as Chairman from 19 January 2022. The Company Chairman's fee is explained in the Chairman's letter on page 69.

Executive Directors' interests (audited)

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 Directors is the difference between the amount the Executive Directors are 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 Directors choose not to exercise the nil cost options on the vesting date (they 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 2021 and the movements during the year are as follows:

	Year of vesting	Options as at 1 Oct 2020	Exercised in year	Vested during the year[1]	Options unexercised as at 30 Sep 2021	Exercise price[2]	Earliest normal exercise date	Expiry date
Johnny Thomson	2021	–	–	122,801	**122,801**	**£1**	Nov 2021	Feb 2029

1 The closing price of an ordinary share on 30 September 2021 was 2,842p (2020: 2,202p).
2 All awards have a notional exercise price of £1 per award.

Directors' interests in ordinary shares

	As at 30 Sep 2021			As at 30 Sep 2020		
	Ordinary shares	Options vested but unexercised	Options with performance measures	Ordinary shares	Options vested but unexercised	Options with performance measures
Johnny Thomson	**37,246**	**122,801**	**160,285**	34,556	–	208,282
Barbara Gibbes	**1,649**	**–**	**45,176**	876	–	19,374

As set out on page 85, the Committee has set a minimum shareholding requirement of 250% for the CEO and at least 200% for other Executive Directors. Johnny Thomson has met his minimum shareholding requirement and Barbara Gibbes is still below her minimum. As of 30 September 2021, Johnny Thomson's shareholding was 421% of salary and Barbara Gibbes' shareholding was 14% of salary. Barbara Gibbes' shareholding will increase as a result of 50% of her 2021 bonus being deferred in shares. The shareholding calculation is in line with the Company's Shareholding Policy and includes shares from vested PSP awards.

As of 22 November 2021, there have been no changes to these interests in ordinary shares of the Company.

Chairman and non-Executive Directors' interest in ordinary shares (audited)

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

	Interest in ordinary shares	
	As at 30 Sep 2021	As at 30 Sep 2020
John Nicholas	**9,045**	9,045
Charles Packshaw[1]	**3,545**	3,545
Andy Smith	**7,545**	7,545
Anne Thorburn	**5,045**	5,045
Geraldine Huse	**2,045**	2,045
Dean Finch	**–**	–

1 As at 20 January 2021.

As of 22 November 2021, there have been no changes to these interests in ordinary shares of the Company.

Remuneration in context
Chief Executive pay ratio (unaudited)

The table below sets out the Chief Executive pay ratios as at 30 September 2021.

The ratios compare the single total figure of remuneration of the CEO with the equivalent figures for the lower quartile (P25), median (P50) and upper quartile (P75) employees. Option A has been used as it is the most statistically accurate method, considered best practice by the Government and investors, and is directly comparable to the CEO's remuneration.

The employee data was measured on 30 September 2021, using the most up-to-date bonus estimates. The approach used was the same as the single total figure methodology with the exception that bonus estimates were used and colleagues who work part time were converted to full time equivalent and those who worked part of the year were annualised.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2021	Option A	228:1	180:1	126:1
2020	Option A	44:1	35:1	24:1

	Base salary	Ratio of base pay to CEO base pay	Total pay and benefits
CEO	£690,000	n/a	£5,242,000
25th percentile	£20,904	33:1	£23,010
Median	£26,302	26:1	£29,036
75th percentile	£37,981	18:1	£41,523

The median pay ratio for employees represents the Group's principles for workforce remuneration. A significant proportion of the CEO's remuneration is delivered through variable pay, whereby awards are linked to financial performance and share price movements over the longer term. This means that the ratios will depend on variable pay outcomes and may fluctuate from year to year. The ratio has increased in 2021 because the CEO has received maximum vesting on his PSP including share price growth of 208% and maximum annual bonus payment, which is 125% of base salary. In 2020, the CEO bonus was 31% of base salary and no PSP award was due to vest.

However, the base pay ratio is consistent from 2021 to 2020. More detailed explanation of how the Committee has considered remuneration of the workforce in determining executive remuneration is contained in the Chairman's letter on pages 67 to 69. The Committee considers the executive remuneration approach to be appropriate in the context of this data.

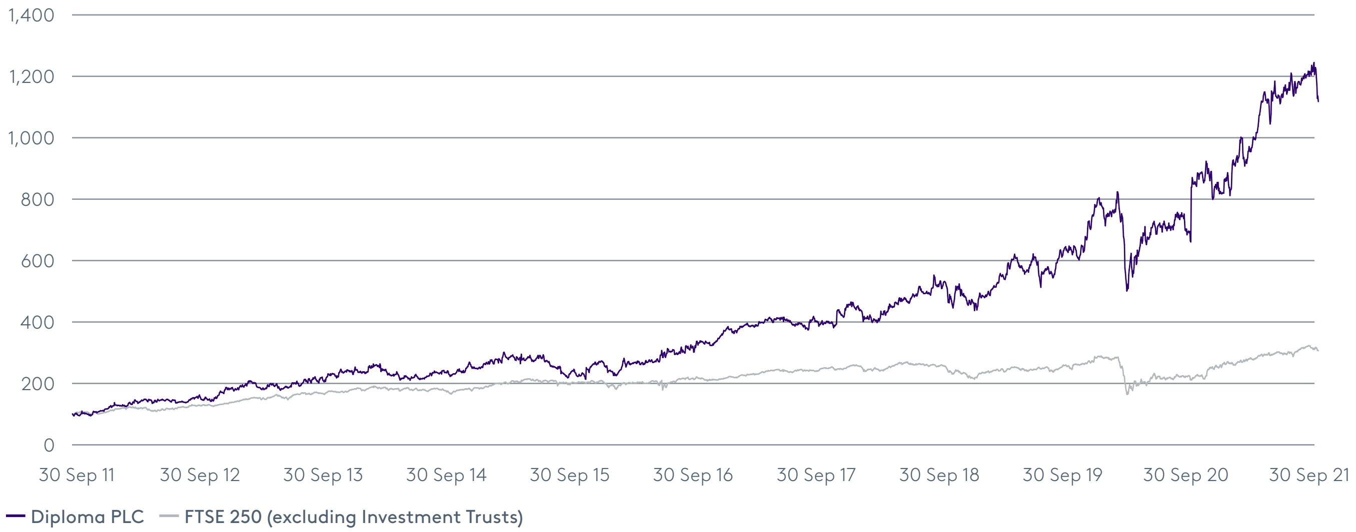
REMUNERATION COMMITTEE REPORT CONTINUED

ANNUAL REPORT ON REMUNERATION CONTINUED

Aligning pay with performance (unaudited)

The graph below shows the TSR performance of Diploma PLC for the ten-year period ended 30 September 2021 against the FTSE 250 Index (excluding Investment Trusts) as the Company is a member of this Index. The FTSE 250 Index was chosen because this is a recognised broad equity market index.

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



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 (unaudited)

Year	Name	CEO single figure of total remuneration (£000)	Annual bonus against maximum opportunity	Actual share award vesting against maximum opportunity	Annual growth in TSR
2021	**Johnny Thomson**	**5,242**	**100%**	**100%**	**+32%**
2020	Johnny Thomson	999	25%	–	+34%
2019	Johnny Thomson[2]	1,079	72%	–	+20%
2019	John Nicholas[1]	62	–	–	+20%
2018	John Nicholas[1]	14	–	–	+36%
2018	Richard Ingram[2]	235	–	–	+36%
2018	Bruce Thompson[2]	3,842	100%	99%	+36%
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%

1 John Nicholas was not eligible for an annual bonus or share award for service as interim Executive Chairman for the period 28 August 2018 to 25 February 2019.
2 These amounts were prorated for the period served as CEO, with the exception of the annual bonus payable to Johnny Thomson, who joined the Company on 25 February 2019.

Relative importance of Executive Director remuneration (unaudited)

	2021 £m	2020 £m	Change £m
Total employee remuneration	**136.9**	108.1	28.8
Total dividends paid	**52.9**	23.2	29.7

Percentage change in remuneration of Directors and employees (unaudited)

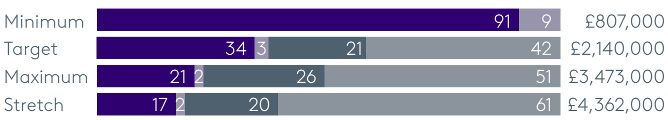
Set out below is the change over the prior financial year in base salary/fees, benefits, pension and annual performance bonus of the Board and the Group's senior managers. Senior managers is a defined group of ca. 120 colleagues. The Committee chose senior managers for pay comparisons with the Board as it provided the most closely aligned comparator group, considering the global and diverse nature of the Group's business. The figures for the Board are all on a full year basis to show the intended movement.

	Base salary/fee change (%)[2]		Pension change (%)		Taxable benefits change (%)		Bonus change (%)	
	2021 vs 2020	2020 vs 2019	**2021 vs 2020**	2020 vs 2019	**2021 vs 2020**	2020 vs 2019	**2021 vs 2020**	2020 vs 2019
Executive Directors								
Johnny Thomson[3]	**no change**	+3	**-17**	+3	**+4**	no change	**+300**	-64
Barbara Gibbes	**no change**	n/a	**no change**	n/a	**+7**	n/a	**+300**	n/a
Non-Executive Directors								
John Nicholas	**no change**	+3	**n/a**	n/a	**n/a**	n/a	**n/a**	n/a
Charles Packshaw	**no change**	+3	**n/a**	n/a	**n/a**	n/a	**n/a**	n/a
Andy Smith	**no change**	+3	**n/a**	n/a	**n/a**	n/a	**n/a**	n/a
Anne Thorburn[4]	**11**	+3	**n/a**	n/a	**n/a**	n/a	**n/a**	n/a
Geraldine Huse	**no change**	n/a	**n/a**	n/a	**n/a**	n/a	**n/a**	n/a
Dean Finch	**n/a**	n/a	**n/a**	n/a	**n/a**	n/a	**n/a**	n/a
Employees of the Parent Company[1]	**n/a**	n/a	**n/a**	n/a	**n/a**	n/a	**n/a**	n/a
Senior management team	**+1**	+5	**+1**	+5	**no change**	no change	**+77**	-25

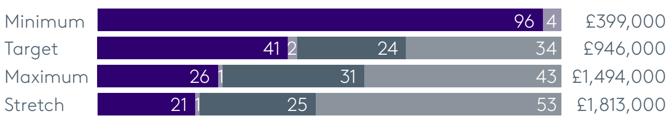
1 There are no employees of the Parent Company.
2 This does not take account of the voluntary pay reduction in the prior year.
3 The reduction in pension was a voluntary reduction from 15% of base salary to 12.5% of base salary.
4 The increase for Anne Thorburn was the result of her appointment to Senior Independent Director on 20 January 2021.

Pay-for-performance: Executive Directors' potential value of 2022 remuneration packages

Johnny Thomson (%)



Barbara Gibbes (%)



Fixed: Base salary and benefits, Pension
Variable: Annual performance bonus, Long-term incentive plans

1 Base salary is as at 1 October 2021; benefits are as set out on page 71.
2 Stretch is calculated on the same basis as the Maximum bar; however, it includes a share price uplift of 50% over three years for the PSP.

On-target remuneration assumes an Annual Performance Bonus Plan of 50% of the maximum for the Executive Directors. It has been assumed that a face value limit of 250% of base salary (CFO: 175%) applies to each PSP award. On-target vesting of PSP awards assumes an adjusted EPS growth of 8% p.a. and TSR performance which is equivalent to 50% of the maximum vesting under the PSP. Maximum remuneration assumes maximum annual performance bonus and maximum vesting of PSP awards. No dividend equivalents are assumed, and no share price growth is assumed other than in the Stretch bar.

GOVERNANCE

Remuneration Committee

The Committee is chaired by Andy Smith and comprises independent non-Executive Directors. Charles Packshaw retired as Senior Independent Director on 20 January 2021. The remaining members, John Nicholas, Anne Thorburn and Geraldine Huse, continue to serve on the Committee. Dean Finch joined the Committee on 21 May 2021. The Group CEO and the Group HR Director attend meetings at the invitation of the Committee to provide advice to help it make informed decisions. The Group Company Secretary attends meetings as Secretary to the Committee.

The Remuneration Committee Report

The Directors' Remuneration Report and the Chairman's Statement will continue to be subject to an advisory vote by shareholders at the 2022 AGM.

Remuneration principles and structure

The Committee has adopted remuneration principles which are designed to ensure that 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 which 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.

These principles apply equally to those of senior management and align to those of the wider workforce.

REMUNERATION COMMITTEE REPORT CONTINUED

ANNUAL REPORT ON REMUNERATION CONTINUED

Key duties and focus in 2021

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

The Committee's roles 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.

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

- Approved Remuneration Committee work programme for 2021.
- Reviewed the AGM 2021 votes.
- Conducted extensive shareholder engagement following the voting outcome on the 2020 Remuneration Committee Report.
- Approved annual performance bonus targets and the subsequent bonus awards for 2021.
- Approved new PSP awards to Executive Directors and confirmed the performance conditions for such awards.
- Confirmed the vesting percentages for the PSP (2018) which crystallised in 2021.
- Reviewed Executive Directors' salaries, pensions and benefits.
- Reviewed the fees of the Chairman and non-Executive Directors, including oversight of non-Executive Director changes.
- Planning for the appointment of a new Chairman; appointment was confirmed in first few weeks of FY 2022.
- Reviewed remuneration framework for executive management and senior management in the operating businesses.
- Reviewed workforce remuneration framework.
- Approved the 2021 Remuneration Committee Report.

Services from external advisors (unaudited)

The Committee ran a tender process in January 2021 and appointed Willis Towers Watson to provide advice and assist on remuneration matters. There was some residual work completed by Alvarez & Marsal Taxand UK LLP prior to the appointment of Willis Towers Watson. Stephenson Harwood LLP provided advice on the 2020 DRR. Going forward, legal advice will be provided to the Committee by the Company's appointed lawyers Simmons & Simmons LLP. The fees are agreed in advance with the advisor, based on the scope of work. All advisors are selected by the Committee based on their technical expertise and independence. None of the advisors have any relationship with any Director and the Committee is satisfied that the services of advisors are independent, which it validates by checking that the advisors are not providing other services to the Company. Details are shown in the table below:

Advisor	Appointed by	Services provided to the Committee	Other services provided to the Company	Fees (£)
Willis Towers Watson	Committee	Remuneration advice	None	41,123
Alvarez & Marsal Taxand UK LLP	Committee	Remuneration advice	None	12,873
Stephenson Harwood LLP	Committee	Legal and remuneration advice	None	7,600

Shareholder voting at previous Annual General Meeting (unaudited)

The Director's Remuneration Policy was approved by shareholders at the AGM held on 15 January 2020 and the Remuneration Committee's Annual Report ("Report") for the year ended 30 September 2020 was approved by shareholders at the AGM held on 20 January 2021, with the following votes being cast:

	Policy		2020 Report	
Votes for	60,768,041	79.98%	55,418,505	54.33%
Votes against	15,209,003	20.02%	46,588,460	45.67%
Withheld	21,745,098	–	1,261,627	–

At the AGM in January 2021, the 2020 DRR was approved with 54.33% of votes in favour. In accordance with the Investment Association Guidelines, the Group consulted shareholders and the main proxy advisory agents after the AGM. We published our response to the consultation on the Investment Association Register in June.

In summary, the main issue was the Committee's decision to allow early vesting of PSP awards for the retiring Finance Director, Nigel Lingwood. The circumstances relating to his retirement after 19 years of service were unique and will not recur. Nonetheless, the Committee notes shareholders' views and has reconfirmed that it does not intend to apply such discretion to PSP awards in the future.

A second concern that was raised by some shareholders was the lack of clear statement about Johnny Thomson's pension. This issue has been addressed in this year's report and Johnny's pension contribution will reduce to 4% with effect from 1 January 2023, which is in line with the majority of the UK workforce.

Chairman and non-Executive Directors' letters of appointment

	Date of original appointment	Date of re-election	Expiry of term
John Nicholas	1 Jun 13	19 Jan 22	1 Jun 22
David Lowden	19 Oct 21	19 Jan 22	19 Oct 24
Andy Smith	9 Feb 15	19 Jan 22	9 Feb 24
Anne Thorburn	7 Sep 15	19 Jan 22	7 Sep 24
Geraldine Huse	20 Jan 20	19 Jan 22	20 Jan 23
Dean Finch	21 May 21	19 Jan 22	21 May 24

Provision 40 table

The following table summarises how the Remuneration Policy fulfils the factors set out in provision 40 of the 2018 UK Corporate Governance Code.

Clarity Remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce. **Example:** the structure of the Annual Performance Bonus Plan is completely based on financial metrics which align with published accounts.	The Committee is committed to providing open and transparent disclosures to shareholders, the workforce and other stakeholders with regard to executive remuneration arrangements. The Committee determines the Remuneration Policy and agrees the remuneration of each Executive Director as well as the remuneration framework for other senior managers. The effectiveness of the Remuneration Policy and its alignment with the strategy is reviewed annually, unless circumstances require additional review, and all variable pay schemes are established and kept under review by the Committee. The Remuneration Report sets out the remuneration arrangements for the Executive Directors in a clear and transparent way.
Simplicity Remuneration structures should avoid complexity and their rationale and operation should be easy to understand. **Example:** variable pay for Executive Directors is a simple Annual Bonus Plan and a Performance Share Plan.	Our remuneration arrangements for Executive Directors, as well as those throughout the organisation, are simple in nature and well understood by participants. The structure for Executive Directors consists of fixed pay (salary, benefits, pension) and variable pay (annual bonus plan and a long-term incentive plan, the PSP).
Risk Remuneration arrangements should ensure reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated. **Example:** the ROATCE underpin in the PSP reduces risk of low quality earnings.	Targets are reviewed to ensure they do not encourage excessive risk taking. Malus and clawback provisions also apply to both the annual bonus and long-term incentive plans. Members of the Committee are provided with regular briefings on developments and trends in executive remuneration.
Predictability The range of possible values of rewards to individual Directors and any other limits or discretions should be identified and explained at the time of approving the Policy. **Example:** variable pay maximums are set out in the Policy.	The potential value and composition of the Executive Directors' remuneration packages at below threshold, target and maximum scenarios are provided in the relevant policy.
Proportionality The link between individual awards, the delivery of strategy and the long-term performance of the Company should be clear. Outcomes should not reward poor performance. **Example:** 95% of budget must be achieved to trigger payment of Annual Performance Bonus; 95% of budget only results in 5% payment.	Annual bonus payments and PSP awards require robust performance against challenging conditions that are aligned to the Company's strategy. The Committee has discretion to override formulaic results to ensure that they are appropriate and reflective of overall performance.
Alignment to culture Incentive schemes should drive behaviours consistent with company purpose, values and strategy. **Example:** one of the Diploma values is continuous improvement; continuous improvement is required each year to reach remuneration targets.	The variable incentive schemes and performance measures are designed to be consistent with the Group's purpose, values and strategy.

REMUNERATION COMMITTEE REPORT CONTINUED

REMUNERATION POLICY

The Policy Table set out below summarises the key 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 subsequent sections.

The Remuneration Policy applies to our Executive and non-Executive Directors. The Remuneration Policy was approved by shareholders at the Annual General Meeting held on 15 January 2020 and is effective for three years. We have included below the Policy table which we consider to be the most helpful section of the Policy for investors. The full and original version of the Policy as approved by shareholders is available at diplomaplc.com/media/1353/directors-remunerationpolicy.pdf

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 will be market competitive to retain skilled executive talent and attract new talent as required. 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 fair.	Pension contributions can either be paid directly into a personal pension savings scheme or taken as a separate cash allowance.	For current Executive Directors' pension contributions of up to 15% of salary. Pension contributions for new Executive Director appointments will be no higher than the rate offered to the majority of our UK workforce, which is currently 4% of salary.	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. The Committee may offer any additional benefits it considers appropriate in line with the interests of the Company and local market practice. Any renewable business related expenses (including tax thereon) can be reimbursed if determined to be a taxable benefit.	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, but will remain eligible for dividends. The remaining bonus shall be paid in cash following the relevant year end. Malus and clawback provisions apply to bonus awards. The Committee may amend the formulaic outcome should it not be a fair reflection of the Company's underlying performance or in exceptional circumstances.	Maximum of 125% of base salary for the 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. 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.

Component	Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Long-Term Incentive Plan – PSP Award	Incentivise Executive Directors to achieve superior returns and long-term value growth.	Performance assessed over rolling three-year performance periods. Awards are discretionary and do not vest until the date on which the performance is measured. If employment ceases during a three-year performance period, awards will normally lapse except in the case of a "good leaver". The Committee expects that typically awards of 250% will be made to the CEO, and awards of up to 200% will be made to the other Executive Directors. For awards granted after 17 January 2018, Executive Directors are required to retain shares vesting under the PSP (net of tax) until the fifth anniversary of grant. Awards may include dividend equivalents which are cash bonuses or shares in lieu of dividends foregone on vested shares, from the time of award up to the time of vesting. Malus and clawback provisions apply. The Committee may amend the formulaic outcome should it not be a fair reflection of the Company's underlying performance or in exceptional circumstances.	The maximum opportunity as a percentage of salary is 250% for the CEO and 200% for other Executive Directors for each award made under the 2020 PSP. 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) if determined to be a taxable benefit 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.

REMUNERATION COMMITTEE REPORT CONTINUED

REMUNERATION POLICY CONTINUED

Executive Directors

Base salary

Salary levels are determined based on a number of factors, including individual calibre and experience, their latest pay package, scope of responsibility and competitiveness of total remuneration against companies of a similar size and complexity.

In determining the annual base salary increases which apply from 1 October, the Committee considers a number of factors, including individual and business performance, scope of responsibility, 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. 110 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 businesses.

Annual performance bonus

The Diploma PLC Annual Performance Bonus Plan is designed to reward the Executive Directors for meeting stretching annual performance targets. 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.

At the start of the financial year the Committee agrees the performance measures for the Annual Performance Bonus Plan for the year ahead based on agreed financial targets for the business.

The 2020 Annual Performance Bonus Plan saw a diversification of performance measures to better align with the Company's objectives under Johnny Thomson's leadership as CEO. Group adjusted operating profit at constant currency remains the key deliverable and accounts for 50% of the bonus. 25% of the bonus is based on revenue performance at constant currency and 25% is based on free cash flow. Threshold will be reached at minus 5% on budget, on-target will be budget and maximum will be plus 5% on budget. This structure has remained consistent since 2020.

As part of the Policy, the Committee has discretion to override formulaic outcomes and amend payouts under the Annual Bonus Plan, should it determine that either it is not a fair reflection of the underlying performance of the business over the relevant performance period or in exceptional circumstances.

The definition of adjusted operating profit is consistent with the Group's financial statements (see note 2 to the consolidated financial statements). However, the Committee has discretion to make amendments to take account of changes in accounting policy and/or material operational, market, exchange rate or environmental factors in order to more appropriately reflect management performance.

At the end of the financial year, the Committee meets to assess the performance of each Executive Director against the objectives. Bonuses are normally paid in cash in December. The Policy requires that 50% of any bonus awarded for the financial year ended 30 September is deferred on a net of tax basis into shares until minimum shareholding requirement levels have been met.

Long-term incentive – Performance Share Plan ("PSP")

The Company operates a long-term incentive award plan for Executive Directors, being the Diploma PLC 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.

Shareholders approved a new PSP, based on the 2011 PSP but updated to reflect changes in policy and best practice developments at the 2020 AGM ("2020 PSP").

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. Normal awards are expected to be at 250% of salary for the CEO and up to 200% of salary for other Executive Directors.

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 and the fulfilment of the agreed performance measures.

The 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, in both cases measured over a three-year period. These measures align with our long-term goal of value creation for shareholders through underlying financial growth and above-market shareholder returns.

The Committee believes that these continue to be the right measures to assess the delivery of the Board's updated strategy. Reflecting the importance of ROATCE, the Company introduced a ROATCE underpin on the adjusted EPS element which will ensure adjusted EPS growth is in the best interests of shareholders. This will be measured as the reported ROATCE against an agreed target in the third year of the performance condition; effective for awards issued after 15 January 2020.

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.

As part of the Policy the Committee has discretion to override formulaic outcomes and amend payments under the PSP, should it determine it is either not a fair reflection of the underlying performance of the business over the relevant performance period, or in exceptional circumstances.

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 end of the holding period, or if earlier, the date of exercise. 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 are required to retain shares vesting under the PSP (net of tax) until the fifth anniversary of grant ("the Holding Period"), in order to provide longer-term shareholder alignment. The Holding Period continues to apply to post-cessation of employment and 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.

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 contracts, copies of which are held at the Company's registered office, together with any service contract for new appointments, contain 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
Johnny Thomson	15 Jan 2019	Rolling	1 year	1 year
Barbara Gibbes[1]	5 Feb 2020	Rolling	1 year	1 year

1 Barbara Gibbes started as CFO designate on 2 March 2020 and was appointed to the Board as CFO on 22 June 2020.

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 long-term incentive plan 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 prorating 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 17 January 2018, performance will be normally 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 and outplacement services, where appropriate.

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 prorating may be disapplied if the Committee considers it appropriate, given the circumstances of the change of control.

REMUNERATION COMMITTEE REPORT CONTINUED

REMUNERATION POLICY CONTINUED

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, individual gross misconduct or of corporate failure (resulting in a liquidation or the appointment of administrators).

The clawback arrangements permit the Committee to recover amounts paid to Executive Directors in specified circumstances and further 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 detailed above with a maximum aggregate variable pay opportunity of 375% of salary for the CEO and 325% for other Executive Directors. 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/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 requirement, deferral of annual performance bonus and the Holding Period for PSP 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 Performance Share Plan ("the Plans") in accordance with the relevant Plan rules and, where appropriate, the Listing Rules and HMRC legislation.

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.

The Committee retains discretion over a number of areas relating to the operation and administration of the Plans. These include, but are not limited to:

- selecting the participants for the annual bonus and PSP awards;
- timing of awards and grants of setting performance criteria each year;
- determining the quantum of grants and/or payments (within the limits set out in the Policy Table);
- adjusting the constituents of the TSR comparator group;
- determining the extent of vesting based on the assessment of performance;
- overriding formulaic outcomes and amending payouts under the Annual Bonus Plan and for PSP should it determine that either it is not a fair reflection of the underlying performance of the business or in exceptional circumstances;
- applying or disapplying time prorating;
- dealing with leavers;
- discretion to waive or shorten the Holding Period for shares acquired under the PSP;
- discretion to retrospectively amend performance targets in exceptional circumstances, including making the appropriate adjustments required in certain circumstances (e.g. rights issues, corporate restructuring events, variation of capital and special dividends); 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.

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 which 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

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 or appropriate regulation including the UK Corporate Governance Code.

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 Executive Director. At the discretion of the Board, Executive Directors are permitted to retain fees received in respect of any such non-executive directorship.

Employee and post-employment shareholding requirements

The Committee has adopted shareholding requirements 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 250% of base salary in the case of the CEO, and for other Executive Directors, to 200% of base salary ("the MSR").

Vested PSP awards and deferred annual bonus payments which are issued as shares must be retained until the required shareholding level is reached.

As explained in the long-term incentive award section on page 81, Executive Directors are required to hold shares vesting under the PSP (net of tax) until the fifth anniversary of the grant ("the Holding Period"). The Holding Period applies to post-cessation of employment except where cessation is by reason of death, if there is a change of control, or the Committee exercises its discretion.

In addition, a post-cessation shareholding requirement is being introduced of 50% of the MSR for 12 months after the termination date (or if less than the MSR, the value of shares held at the cessation date). Post-cessation holding will apply to shares which are granted under the PSP after the approval of the 2020 Policy.

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, sectoral 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 which can be terminated by either party serving three months' notice.

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, for acting as Senior Independent Director, or in respect of any other material additional responsibilities taken up. Fees are reviewed each year and take account of the fees paid in other companies of a similar size and complexity, the responsibilities of the role 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.

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.