Board of Directors

John Nicholas[1,3]
Chairman

Appointed:
Joined the Board on 1 June 2013 and appointed Chairman on 21 January 2015.

Skills and experience:
A Chartered Certified Accountant with a Masters degree in Business Administration from Kingston University. John has a wealth of business and commercial experience and spent much of his early career in technology-focused international manufacturing and service companies involved in analytical instruments, fire protection and food processing.

He has been Group Finance Director of Kidde plc (on its demerger from Williams Holdings) and of Tate & Lyle PLC.

External appointments:
John is currently non-Executive Director and Chairman of the Audit Committees of Mondi plc and Hunting PLC. John is Senior Independent Director of Rotork plc.

Bruce Thompson
Chief Executive Officer

Appointed:
Joined the Board in 1994 as a Group Director and appointed Chief Executive Officer in 1996.

Skills and experience:
Bruce started his career in the automotive industry, first as a design engineer and then in product marketing. He then spent three years in international marketing with a construction materials company, developing new markets in Europe, the Middle East and North Africa. Prior to joining Diploma, he was a Director with Arthur D Little Inc., the technology and management consulting firm, initially in the UK and then as Director of the firm's Technology Management Practice based in Cambridge, Massachusetts.

External appointments:
None.

Charles Packshaw[1,2,3]
Senior Independent Non-Executive Director

Appointed:
Joined the Board on 1 June 2013 and appointed Senior Independent Director on 27 February 2015.

Skills and experience:
Charles is Head of UK Advisory and Managing Director in HSBC's global banking business. He has over 30 years of City experience, including 18 years at Lazard in London, where he was Head of Corporate Finance, prior to joining HSBC in 2002. Charles has been a non-Executive Director of two listed companies and he is also a Chartered Engineer.

External appointments:
Charles is a non-Executive Director of BMT Group Limited.

Nigel Lingwood
Group Finance Director

Appointed:
Joined the Company in June 2001 and appointed Group Finance Director in July 2001.

Skills and experience:
Prior to joining the Company, Nigel was the Group Financial Controller at Unigate PLC where he gained experience of working in a large multinational environment and on a number of large corporate transactions. Nigel qualified as a Chartered Accountant with Price Waterhouse, London.

External appointments:
Nigel is Senior Independent Director and Chairman of the Audit Committee of Creston plc.

Anne Thorburn[1,2,3]
Non-Executive Director

Appointed:
Joined the Board on 7 September 2015 and appointed Chairman of the Audit Committee on 17 November 2015.

Skills and experience:
Anne was Chief Financial Officer of Exova Group plc until 30 November 2015 and has many years of experience at Board level in listed international groups. Anne was previously Group Finance Director at British Polythene Industries PLC. Anne is a member of the Institute of Chartered Accountants in Scotland.

External appointments:
None.

Andy Smith[1,2,3]
Non-Executive Director

Appointed:
Joined the Board and appointed Chairman of the Remuneration Committee on 9 February 2015.

Skills and experience:
Andy is Managing Director, Severn Trent Business Services with responsibility for the company's non-regulated businesses. He has many years of plc Board level experience having previously served on the Boards of The Boots Company PLC as Group HR Director and Severn Trent PLC as Water Services Director. Andy is a Mechanical Engineering graduate and has significant operational and HR experience. He has worked in the UK and overseas previously with global businesses including BP, Mars and Pepsi.

External appointments:
None.

Member of:
1 Remuneration Committee
2 Audit Committee
3 Nomination Committee

Corporate Governance

John Nicholas
Chairman

"We made good progress this year with delivering a number of the objectives we identified at our Strategy Meeting held in 2015."

Members of Board	Attendance
Chairman	
John Nicholas	7/7
Independent non-Executive Directors	
Marie-Louise Clayton (retired on 16 November 2015)	1/1
Andy Smith	7/7
Charles Packshaw	7/7
Anne Thorburn	7/7
Executive Directors	
Iain Henderson (retired on 20 January 2016)	2/2
Nigel Lingwood	7/7
Bruce Thompson	7/7

Dear Shareholder
This year has been a much quieter and more stable year in terms of Governance activities after the past two years during which the Board was substantially refreshed and more formal Governance policies and processes developed and implemented.

This period of stability has provided an opportunity for me to focus on both the principal tasks and objectives that arose from the Board's Strategic Review held in June last year and the recommendations that arose from the external evaluation of the Board carried out in September last year. Similarly, both Anne Thorburn and Andy Smith have this year settled into their new roles as Chairs of the Audit and Remuneration Committee respectively, following their appointments last year.

In June this year, the scheduled Board meeting was largely devoted to reviewing the progress achieved to date in addressing the key objectives and actions agreed at our Strategy Meeting held the previous year. One of these tasks related to the greater emphasis to be focused on finding high quality acquisitions and it was therefore very encouraging to have completed three new acquisitions this year which have both broadened the Group's activities into new geographies and market sectors. Overall I am satisfied that we have made good progress this year with delivering a number of the objectives we identified at our Strategy Meeting and we hope to continue with this next year.

We have an ongoing objective to ensure that the Board has an opportunity to meet with management and employees of our businesses by holding at least one scheduled Board meeting each year at one of the Group's operating companies. In March we visited the Clarendon facility in Leicester during which we received presentations from management of the Clarendon specialty fasteners businesses and had an opportunity to talk with employees who work at this facility. Further visits to our businesses have been planned for the next financial year.

Succession planning continues to be a principal focus of the Board. Following Iain Henderson's retirement from the Board earlier this year, good progress has been made by the Chief Executive Officer in setting up a formal Executive Management Group comprising a small group of senior managers drawn from across the businesses. The Board is encouraged by the breadth of experience and challenge this team has brought to the Group's operations and look forward to continuing this development in the future.

The coming financial year brings a busy work load to the Board with Anne Thorburn leading the Audit Committee's audit tender process as we approach the tenth year with Deloitte LLP as Company auditor and with Andy Smith commencing the formal triennial review of the Board's policies governing Directors' remuneration. The result of the audit tender is likely to be announced later in 2017 and the proposed policies on Directors' Remuneration will be put to shareholders for approval at the AGM in January 2018.

Finally, as ever I do hope that as shareholders in the Company you will be able to find time to attend our AGM on Wednesday, 18 January 2017. It provides an excellent opportunity to meet the Board of Directors and challenge them on any matters you feel are important to the development of the Company.

John Nicholas
21 November 2016

Compliance with the Code

Diploma PLC is required to state whether it has complied with the Main Principles of the UK Corporate Governance Code ("the Code"). The previous Code published in September 2014 was revised with minor amendments and reissued by the Financial Reporting Council in April 2016. Set out on pages 39 to 61 is an explanation of how the Company has complied with the Main Principles of the Code.

The Board confirms that throughout the financial year, the Company applied all of the Principles set out in sections A to E of the Code for the period under review. The Board also confirms that it complies with all of the Provisions of the Code as at the date of this Report.

The Company's auditor Deloitte LLP, is required to review whether the above statement reflects the Company's compliance with the Provisions of the Code specified for their review by the Listing Rules of the UK Listing Authority and to report if it does not reflect such compliance.

Framework of Corporate Governance

The Board

The Diploma PLC Board is accountable to the Company's shareholders for standards of Governance across the Group's businesses. Certain strategic decision-making powers and authorities of the Company are reserved as matters for the Board. The principal matters reserved for the Board are set out below. Day-to-day operational decisions are managed by the Chief Executive Officer.

- Setting the overall strategic direction and oversight of the management of Diploma PLC.
- Recommending or declaring dividends.
- Approval of the Group and Company financial statements.
- All new bank facilities, or significant changes to existing facilities.
- Assessment and approval of the principal risks facing the Group and how they are being managed.
- Approval of the Viability Statement.
- Maintaining sound internal control and risk management systems.
- Approval of major corporate transactions and commitments.
- Succession planning and appointments to the Board.
- Review of the Group's overall corporate governance arrangements and reviewing the performance of the Board and its Committees annually.
- Approval of the delegation of authority between the Chairman and the Chief Executive Officer and the terms of reference of all Committees of the Board.

Where appropriate, matters are delegated to a Committee which will consider them in accordance with its terms of reference. Details of each Committee's terms of reference are available on the Diploma PLC website at www.diplomaplc.com.

Audit Committee

Chaired by Anne Thorburn
Number of meetings in the year: six

Role of the Committee
The Audit Committee has responsibility for overseeing and monitoring the Company's financial statements, accounting processes, audit (internal and external), internal control systems and risk management procedures and also monitors issues relating to fraud, anti-bribery and corruption, sanctions and whistleblowing.

Nomination Committee

Chaired by John Nicholas
Number of meetings in the year: two

Role of the Committee
The Nomination Committee regularly reviews the structure, size and composition of the Board and its Committees. It identifies and nominates suitable candidates to be appointed to the Board (subject to Board approval) and considers succession generally.

Remuneration Committee

Chaired by Andy Smith
Number of meetings in the year: four

Role of the Committee
The Committee reviews and recommends to the Board, the framework and policy for the remuneration of the Chairman and the Executive Directors. The remuneration of the non-Executive Directors is determined by the Chairman and the Executive Directors. The Committee takes into account the business strategy of the Group and how remuneration policy should reflect and support that strategy.

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Corporate Governance continued

Leadership

Board composition

The Board currently comprises a Chairman, two Executive Directors and three independent non-Executive Directors. The non-Executive Directors are appointed for specified terms and the details of their respective appointments are set out in the Remuneration Committee Report on page 53. The biographical details of the Board members are set out on pages 36 and 37.

John Nicholas is Chairman of the Board and the Nomination Committee. Each of the three independent non-Executive Directors performs additional roles; Charles Packshaw serves as Senior Independent Director, Andy Smith is Chairman of the Remuneration Committee and Anne Thorburn is Chairman of the Audit Committee.

Activities of the Board

The Company's governance framework is set out on page 39 together with a summary of the formal terms of reference. The core activities of the Board and its Committees are planned on an annual basis and this framework forms the basic structure within which the Board operates.

The Board's terms of reference also set out the separate and distinct roles of the Chairman and the Chief Executive Officer.

The Chairman is responsible for the overall leadership and governance of the Board and ensures that the Directors have an understanding of the views of the Company's major shareholders. The Chairman sets the Board's agenda and ensures that there is a healthy culture of challenge and debate at Board and Committee meetings.

The Board appoints the Chief Executive Officer and monitors his performance in leading the Company and providing operational and performance management in delivering the agreed strategy. The Chief Executive Officer is responsible for developing, for the Board's approval, appropriate values, culture and standards to guide all activities undertaken by the Company and for maintaining good relationships and communications with investors.

The approval of acquisitions, for the most part, is a matter reserved for the Board, save that it delegates to the Chief Executive Officer the responsibility for such activities to a specified level of authority. Similarly, there are authority levels covering capital expenditure which can be exercised by the Chief Executive Officer. Beyond these levels of authority, projects are referred to the Board for approval.

Other matters reserved to the Board include treasury policies, internal control and risk management.

The Company has purchased insurance to cover its Directors and Officers against the costs of defending themselves in legal proceedings taken against them in that capacity and in respect of any damages resulting from those proceedings.

The Company also indemnifies its Directors and Officers to the extent permitted by law. Neither the insurance nor the indemnity provides cover where the Director or Officer has acted fraudulently or dishonestly.

To ensure that non-Executive Directors can constructively challenge and support proposals on strategy, the Board has adopted a process of reviewing and approving the agreed strategy for the Company on a three-yearly basis. The Board met for a formal review of the Company's strategy at the end of June 2015 in Zurich, Switzerland. The Board received a number of presentations and had thorough and challenging reviews with Executive management. In 2016, the Board reviewed progress against the objectives set at the Group strategy session and will undertake the next formal review in late 2017 or early 2018.

Meetings of the Board

The Board has this year increased its scheduled meetings in the financial year to seven, largely to provide more time to address the substantial additional regulatory matters that it is now required to consider on a more formal basis. The Board will meet more frequently if required.

The Board ensures that at least one of the scheduled meetings is held on site at one of the Group's facilities, where the Board has an opportunity to both receive presentations from local management and meet employees of that business. In June 2016 the Board's scheduled meeting reviewed the Group's strategic objectives identified at the strategy session held in 2015 and the Chief Executive Officer provided an update on the progress achieved in implementing these objectives.

Each Director is expected to attend all meetings of the Board or Committees of which they are a member. In addition, senior management from across the Group and advisors attend certain meetings for the discussion of specific items in greater depth.

This exposure to the members of senior management from across the businesses helps enhance the Board's understanding of the businesses, the implementation of strategy and the changing dynamics of the markets in which the businesses operate.

Effectiveness

Independent non-Executive Directors

The non-Executive Directors are determined by the Board to be independent in character and judgement and there are no relationships or circumstances which could affect, or appear to affect, a Director's judgement. The Chairman, John Nicholas was considered independent by the Board both at the time of his appointment as Director on 1 June 2013 and as Chairman on 21 January 2015. In accordance with the Code, the ongoing test of independence for the Chairman is not relevant.

All non-Executive Directors are advised of the likely time commitments at appointment. The ability of individual Directors to allocate sufficient time to the discharge of their responsibilities is considered as part of the Directors' annual evaluation process, overseen by the Chairman. Any issues concerning the Chairman's time commitment are dealt with by the Nomination Committee, chaired for this purpose by the Senior Independent Director.

Each non-Executive Director is required to inform the Board of any changes to their other appointments.

During the year, the Chairman has also held meetings with the non-Executive Directors, without the Executive Directors present.

The appointments of non-Executive Directors are subject to formal, rigorous and transparent procedures which are described more fully in the Nomination Committee Report which is set out on page 47.

Diversity

The Board is committed to a culture that attracts and retains talented people to deliver outstanding performance and further enhance the success of the Group. In that culture, diversity across a range of criteria is valued, primarily in relation to skills, knowledge and experience and also in other criteria such as gender and ethnicity. The Board has considered setting objectives in relation to diversity, but does not believe that such objectives are appropriate at this juncture, given the relatively small Board. The Board will however keep this matter under review, particularly in light of Board succession and development.

Information and professional development

An induction programme is agreed for all new Directors aimed at ensuring that they are able to develop an understanding and awareness of the Group's core processes, its people and businesses. The non-Executive Directors' awareness of the businesses is further developed through periodic visits to the principal business locations and presentations to the Board by senior management of the businesses. In 2016, the Board received presentations from senior management of the Clarendon specialty fasteners business.

Following the new appointments to the Board last year, a managed induction programme was set up which included a visit by each of the new non-Executive Directors to the major business units in each of the Group's Sectors where they have an opportunity to meet with senior management in these businesses. Meetings were also held individually between each of the non-Executive Directors and the Executive Directors and with some of the principal advisors to the Company.

The Chairman, with the assistance of the Chief Executive Officer and the Group Company Secretary, is responsible for ensuring that Directors are supplied with information in a timely manner that is in a form and of a quality appropriate to enable them to discharge their duties. In the normal course of business, the Chief Executive Officer gives an oral report to the Board at each meeting and information is provided and reported through formal Board reports that include information on operational matters and strategic developments. There are also reports on the performance of the Group's businesses, financial performance relative to the budget, risk management, business development and investor relations.

The training needs of the Directors are periodically discussed at Board meetings and where appropriate, briefings as necessary are provided on various elements of corporate governance and other regulatory issues.

The Group Company Secretary acts as an advisor to the Board on matters concerning governance and regulatory issues and ensures compliance with Board procedures. All Directors have access to his advice and a procedure also exists for Directors to take independent professional advice at the Company's expense. No such advice was sought during the year. The appointment and removal of the Group Company Secretary and his remuneration are matters for the Board as a whole.

Board evaluation

The Board undertakes an annual evaluation of effectiveness using specially designed evaluation forms and under the direction of the Chairman. This exercise encompasses an evaluation of the performance of the Board as a whole, as well as of each of the Committees and individuals. Feedback on Board performances is presented by the Chairman to the Board and actions and objectives are agreed for the following year.

Following the externally led evaluation of the effectiveness of the Board carried out in 2015, the Board this year completed its annual evaluation of the Board's effectiveness using internal resources. The exercise encompassed an evaluation of the Board as a whole, the Board Committees and of individual Directors.

The externally led evaluation of the Board carried out in 2015 covered seven topics: Board role and responsibilities; oversight; arrangements for Board meetings; support of the Board; Board composition; working together and outcome and achievements.

The facilitator of this evaluation concluded last year that the Board's effectiveness was strong with an average score of 73% across each of the seven topics assessed. The facilitator also recommended a small number of items that the Board should address with the aim of strengthening the Board's effectiveness. The principal matters were:

- the Board should formally review the Group's controls over cyber-risk on a more regular basis. During the year, the Board received a Paper which set out both the risks that existed across the Group's businesses in connection with cyber-crime and the controls that had been set up at the larger business clusters to mitigate this risk. The Board also agreed to appoint a member of senior management who would have responsibility for monitoring and reporting to the Board any significant potential cyber-attacks on the Group's businesses.
- the Board should target a timetable for circulating Board papers and minutes to all members of the Board. A revised timetable has now been agreed and has been put into operation.

The internal Board evaluation which was carried out in August 2016 was less rigorous than the externally led evaluation carried out last year. The results of the review were satisfactory and there were no negative performance issues identified from the evaluation that related to individual Directors or the performance of the Board Committees.

The issues identified in this evaluation were more broadly focused on matters that the Board believed should be further developed for discussion at meetings of the Board. These matters included:

- competitive factors facing the principal businesses in each of the Sectors;
- potential impact of innovative or disruptive technologies on the Group's activities; and
- strategies to manage the Group in a post Brexit and potentially lower growth environment.

The Board will report on progress made with implementing these recommendations in next year's Annual Report & Accounts.

The Senior Independent Director, together with the non-Executive Directors also carried out a performance evaluation of the Chairman, having taken account of the views of all of the Directors.

Re-election

All Directors of the Board are subject to election by the shareholders at the first AGM following their appointment by the Board and in accordance with the Code, all Directors will also stand for re-election annually at the AGM.

Corporate Governance continued

Conflicts of interest
Directors are subject to a statutory duty under the Companies Act 2006 ("the Act") to avoid a situation where they have, or could have, a direct or indirect interest that conflicts, or possibly could conflict, with the Company's interests. The Act allows directors of public companies to authorise conflicts and potential conflicts where appropriate, where the Articles of Association ("the Articles") contain a provision to this effect. The Act also allows the Articles to contain other provisions for dealing with Directors' conflicts of interest to avoid a breach of duty.

Procedures adopted to deal with conflicts of interest continue to operate effectively and the Board's authorisation powers are being exercised properly in accordance with the Company's Articles.

Charles Packshaw, the Company's Senior Independent Director, is also Head of UK Advisory and Managing Director in HSBC's global banking businesses which is one of the principal banks that provide bank facilities and ancillary banking services to the Group and its businesses. The Board remains satisfied that this relationship does not provide a conflict of interest.

Accountability
The Board is responsible for ensuring that the Annual Report & Accounts taken as a whole present a fair, balanced and understandable assessment of the Group and provides the information necessary to shareholders to assess the Group's position and performance, business model and strategy. This is achieved through this Annual Report & Accounts, the Annual Review and through other periodic financial statements and announcements.

The Board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives and for maintaining sound risk management and internal control systems. The Board is also responsible for monitoring the Group's risk management and internal control systems and it reviews the effectiveness of these systems through the work of the Audit Committee.

The principal risks which the Board has identified this year are set out in the section on Internal Control and Risk Management on pages 30 to 33 of the Strategic Report.

Relations with shareholders
The Company has a well-developed investor relations programme managed by the Chief Executive Officer and Group Finance Director. Through this programme, the Company maintains regular contact with major shareholders to communicate clearly the Group's objectives and monitors movements in significant shareholdings.

During the past several years, these communications have been enhanced by the introduction of Investor Days, both in the UK and in Canada which were well attended. In addition, Investor Roadshows are now held each year in the US and Canada as well as in the UK and formal investor presentations are made twice a year to groups of private client fund managers.

Most shareholder contact is with the Chief Executive Officer and Group Finance Director through presentations made twice a year on the operating and financial performance of the Group and its longer term strategy. The Chief Executive Officer and Group Finance Director generally deal with questions from individual shareholders.

The Group's website contains up-to-date information for shareholders which includes the Annual Report & Accounts of the past seven years, current and historic share price information, news releases, and presentations to analysts and key shareholders. The website also contains factual data on the Group's businesses, products and services.

The non-Executive Directors are given regular updates as to the views of institutional shareholders and an independent insight is sought through research carried out twice a year by the Company's advisors, focused on both investors and analysts.

Through these processes, the Board is kept abreast of key issues and the opportunity is available on request for shareholders to meet the Chairman or Senior Independent Director, separately from the Executive Directors.

Electronic communications to shareholders include the Notice of the AGM which is sent at least 20 working days prior to the meeting. The Company proposes a separate resolution on each separate issue and for each resolution, proxy appointment forms provide shareholders with the option to vote in advance of the AGM.

All shareholders have the opportunity to put questions at the Company's AGM, when the Chairman and Chief Executive Officer give a statement on the Group's performance during the year, together with a statement on current trading conditions. The Chairman of the Board and of the Remuneration and Audit Committees are available to answer questions at the meeting.

The Board has resolved, in line with best practice, to conduct a poll on each resolution proposed at the AGM. The results of the AGM resolutions, including details of votes cast, are published on the Company's website.

With regard to other shareholder meetings, other than AGMs, the Board will continue, in ordinary circumstances, to provide as much notice as possible and certainly no less than 14 working days. However, the Board considers that it should still retain the flexibility to reduce the timescale to 14 clear days in the case of non-routine business and where it is merited by the business of the meeting. For this reason, the Board has again proposed a resolution at the AGM to reduce the notice period for General Meetings from 21 to no less than 14 clear days.

Audit Committee Report

Anne Thorburn
Chairman of the Audit Committee

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"There is a strong culture across the Group of maintaining robust and effective systems of internal control."

Members of Committee:	Attendance
Anne Thorburn (Chairman, appointed on 17 November 2015)	6/6
Marie-Louise Clayton (retired on 16 November 2015)	1/1
Charles Packshaw	6/6
Andy Smith	6/6

Dear Shareholder
I was appointed to the Board in September last year and became Chairman of the Audit Committee in November. I completed a detailed induction process with excellent input from the executives and finance staff, particularly the Group Internal Audit Manager. I also visited a number of the larger business units and had discussions with senior operational management. I observed a strong culture across the Group of maintaining robust and effective systems of internal control over both financial and operational processes. I also noted a particular focus on rapid integration of new acquisitions to achieve the required Group standards.

While there were no significant new regulatory requirements to address this year, the Committee's agenda was very full and is described in detail on page 44. The Group's financial and operational policies and processes are well established and no significant control weaknesses were noted from the issues reviewed by the Committee during this year. However, it is important to continuously review and develop the risk management and control systems to support the ongoing growth of the Group. During 2016 we introduced an improved whistleblowing process and approved plans to increase the Internal Audit resource.

The Committee remains satisfied that the external auditor carries out a robust and effective audit with appropriate challenge of executive management. However, in 2017 we will be initiating an external audit tender process as Deloitte LLP approaches its ten year anniversary as Group auditor.

Finally, I look forward to meeting shareholders at the AGM on 18 January 2017 and will be happy to respond to any questions relating to the activities of the Audit Committee.

Anne Thorburn
21 November 2016

Key Duties

(Full terms of reference are available on the Company's website.)

- Monitors the integrity of the financial statements of the Group and assists the Board in fulfilling its responsibilities relating to external financial reporting and similar announcements, including Half Year and Annual financial statements and quarterly trading updates.
- Reviews key accounting and auditing issues.
- Reviews the Group's internal control systems and risk management procedures.
- Recommends appointment and/or reappointment of the external auditor and approves their terms of engagement.
- Reviews and monitors independence of the external auditor and the effectiveness of the audit process.
- Monitors policy on external auditor supplying non-audit services.
- Monitors fraud reports and operation of the Company's Whistleblowing and anti-Bribery and Corruption policies.
- Reviews effectiveness of the Internal Audit function and makes recommendations to the Board.
- Approves the Internal Audit work programme and reviews the results of the work undertaken.
- Reviews the basis on which the Company and its principal subsidiaries continue to prepare their financial statements on a going concern basis.
- Reports to the Board on how it has discharged its responsibilities.

For more information, please visit:
www.diplomaplc.com/investor-relations.aspx

Audit Committee Report continued

Audit Committee

The Committee is chaired by Anne Thorburn and comprises three independent non-Executive Directors. The Chair of the Committee is a qualified accountant, who has recent and relevant financial experience.

The Audit Committee is satisfied that as a whole, the Committee has sufficient knowledge and competence in the Sectors in which the Group operates in order to provide appropriate challenge to management.

The Group Company Secretary acts as Secretary to the Committee. The Executive Directors also attend Committee meetings and the Internal Audit Manager also attended two Committee meetings. The Committee met with the external auditor and Internal Audit Manager during the year, without the Executive Directors being present.

Engagement of the external auditor

The external auditor is engaged to express an opinion on the financial statements of the Group and of the Company. The audit includes the review and testing of the systems of internal financial control and the data contained in the financial statements, to the extent necessary for expressing an audit opinion on the truth and fairness of the financial statements.

Deloitte LLP has been the Company's auditor since its appointment in 2008. Deloitte LLP provides the Committee with relevant reports, reviews and advice throughout the year, as set out in their terms of engagement.

In accordance with UK regulations, the Company's auditor adheres to a rotation policy based on best practice and a new Group lead engagement partner was appointed in 2013 in place of the previous lead engagement partner who had completed a term of five years in that role.

During the year, the Committee carried out an assessment of the effectiveness of the external audit process. The assessment was led by the Chair of the Committee, assisted by the Group Finance Director and focused on certain criteria which the Committee considered to be important factors in demonstrating an effective audit process. These factors included the quality of audit staff, the planning and execution of the audit, and the role of management in the audit process. Following this assessment, the Committee concluded that the external audit process remained effective and that it provides an appropriate independent challenge of the Group's senior management.

The Committee remains satisfied that Deloitte continues to provide a robust and effective audit, and supports the work of the Committee through clear and objective communication on developments in financial reporting and governance.

In 2016, the Committee commenced its review of the Company's audit tender timetable and processes in preparation for the audit tender which is likely to carried out during the Spring/Summer of 2017. As part of this process, the Committee Chair arranged initial meetings with potential engagement partners from the audit firms that are likely to be asked to tender for the audit. This timing will ensure that there is sufficient opportunity, if necessary to transition the audit of the Group from the incumbent auditor to the auditor-elect. It is currently anticipated that the auditor-elect will shadow the audit of 30 September 2017 results, before taking on sole responsibility as auditor of the Company following the AGM in 2018.

The Audit Committee confirms that the Company has complied with the provisions of the Competition & Markets Authority Order throughout its financial year ended 30 September 2016 and up to the date of this report.

Audit Committee Agenda – 2016

- Reviewed and agreed the scope of work to be undertaken by the external auditor and agreed the terms of engagement and fees to be paid for the external audit.
- Reviewed the Annual Report & Accounts and received reports from the Group Finance Director and the external auditor on the key accounting issues and areas of significant judgement.
- Reviewed the processes necessary to ensure that the Board was able to confirm that the Annual Report & Accounts are "fair, balanced and understandable".
- Reviewed the report from the Group Finance Director on the controls in place to mitigate fraud risk.
- Reviewed the Half Year Announcement and received reports from the Group Finance Director and the external auditor on the key accounting issues and areas of significant judgement.
- Reviewed the effectiveness of the Group's internal control and risk management procedures and, where appropriate, made recommendations to the Board on areas for improvement.
- Reviewed the Group's policy on anti-Bribery and Corruption and the procedures in place to ensure compliance across the Group.
- Reviewed the Trading Updates at meetings held in January, March and August.
- Invited the Internal Audit Manager to attend meetings in September and January to review the results of the Internal Audit work for the current year and to agree the scope and focus of Internal Audit work to be carried out in the following year.
- Reviewed the scope of sanctions issued by the European Union and the US and the procedures being followed by the Group's businesses to monitor compliance.
- Reviewed the effectiveness of the external audit process and recommended the reappointment of the Group's external auditor.
- Reviewed the Group's policy on whistleblowing and the introduction of a dedicated external telephone hotline service for all employees to raise concerns.
- Reviewed the Group's policy on non-audit services which may be provided by the auditor.
- Reviewed the ESMA guidance on "Alternative Performance Measures" to ensure that the Group's adjusted measures remained compliant.
- Reviewed the implications of FRS 101 that will impact the Group's UK statutory reporting companies, including the Parent Company, Diploma PLC.
- Reviewed terms and implications of the Competition & Markets Authority Order and the EU Audit Directive and Audit Regulation.
- Reviewed the Audit Committee terms of reference.

Financial reporting and significant judgements

As part of its monitoring of the integrity of the financial statements, the Committee reviews whether suitable accounting policies have been adopted and whether management has made appropriate estimates and judgements and seeks support from the external auditor to assess them.

The main issues reviewed in the year ended 30 September 2016 are set out below:

Impairment of goodwill

The Committee considered the carrying value of goodwill and the assumptions underlying the impairment review. The judgements in relation to goodwill impairment largely relate to the assumptions underlying the calculations of the value in use of the Sector being tested for impairment. These judgements are primarily the calculation of the discount rate, the achievability of strategic business plans and macroeconomic assumptions underlying the valuation process. This area is a prime source of audit focus and accordingly the external auditor provided detailed reporting to the Committee.

Accounting for acquisitions

The Committee reviewed the accounting for acquisitions completed during the year and the assumptions underlying the valuation of intangible assets. They discussed the nature of the intangible assets with the Group Finance Director and the period over which these assets are to be amortised. The Committee also discussed the fair value adjustments and the value attributed to deferred consideration. The Committee also discussed with the external auditor the work they had carried out to satisfy themselves that the valuation assumptions were appropriate.

Valuation of inventory

The Committee reviewed the Report of the Group Finance Director that set out the gross balances by business, together with any related provision against the carrying value. The Committee reviewed the bases used to value and confirm existence of inventory held across the Group; they also considered the appropriateness of provisions held against the carrying value of inventory, having regard to the age and volumes of inventory, relative to expected usage. This matter was also discussed with the external auditor.

The Committee was satisfied that each of the matters set out above had been fully and adequately addressed by the Executive Directors, appropriately tested and reviewed by the external auditor and that the disclosures made in the Annual Report & Accounts were appropriate.

In addition to the main issues reviewed above, the Committee also seeks confirmation from the auditor that the Group's businesses follow appropriate policies to recognise material streams of revenue and that the audit work carried out more generally has assessed any instances where management may be able to override key internal controls designed to guard against fraud or material misstatement. The auditor also reports to the Committee on other less material matters relating to the calculation of, and accounting for the gain on sale of assets in 2016, the Group's two pension scheme arrangements, (accounted for in accordance with IAS 19 (Revised)) and the Group's taxation position.

Risk management and internal control

The principal risks and uncertainties which are currently judged to have the most significant impact on the Group's long term performance are set out in a separate section of the Strategic Report on Internal Control and Risk Management on pages 30 to 33.

The Committee is responsible for reviewing the effectiveness of the Group's system of internal control. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has established a clear organisational structure with defined authority levels. The day-to-day running of the Group's business is delegated to the Executive Directors of the Company. The Executive Directors visit each operating unit on a regular basis and meet with both operational and finance management and staff.

Key financial and operational measures relating to revenues, cash and receivables are reported on a weekly basis. Detailed management accounts and KPIs are prepared monthly using a robust proprietary reporting system to collect and analyse financial data in a consistent format. Monthly results are measured against both budget and half year reforecasts which have been approved and reviewed by the Board. All capital expenditure above pre-defined amounts must be supported by a paper prepared by business management.

All financial data is taken directly from the trial balances of each business held in their local ERP systems and re-analysed and formatted into a separate Group management reporting system, operated by the Group finance department. There is no re-keying of financial data and very limited use is made of spreadsheets by the Group businesses to report monthly financial results. The Group finance department continues to develop the functionality of this management reporting system to provide greater insights into the activities of the Group's businesses. The Group's internal auditor regularly audits the base data at each business to ensure it is collected by the management reporting system.

As part of the year end close process each business is required to complete a self-assessment which evaluates their financial control environment in the business designed to identify weaknesses in controls. These assessments are critically reviewed by the Group's Internal Audit Manager and a summary for each business is prepared for the Audit Committee. In addition, senior management of each business are required to confirm their adherence with Group accounting policies, processes and systems of internal control by means of a representation letter addressed to the Audit Committee.

The Committee has reviewed the effectiveness of the Group's risk management and internal control systems for the period from 1 October 2015 to the date of this Report. Taking into account the matters set out on pages 30 to 33 relating to principal risks and uncertainties and the reports from the Internal Audit Manager, the Board, with the advice of the Committee, is satisfied that the Group has in place effective risk management and internal control systems.

Audit Committee Report continued

Internal Audit

The Group's finance department includes a separate Internal Audit function. This function is managed by a qualified internal auditor who is based in one of the Group's businesses in Minneapolis in the US. The internal auditor remains a member of the Group management team in Diploma PLC and reports directly to both the Group Finance Director and Chair of the Audit Committee. The Audit Committee has approved the recruitment of an additional internal audit resource, to commence in the New Year and be based from the United Kingdom.

A full programme of internal audit visits has been completed during the year. The scope of work carried out by internal audit generally focuses on the internal financial controls and risk management procedures operating within each business. In January, the Internal Audit Manager presents his audit plan for the year to the Committee for their approval. Written reports are prepared on the results of each visit which set out weaknesses identified during the work, together with recommendations to improve the control environment. These reports are reviewed and discussed with the Executive Directors.

At the conclusion of the financial year, the Internal Audit Manager reports to the Committee on the results of the audit work carried out in the year. The Committee reviews management's response to matters raised, including the time taken to resolve such matters. There were no significant matters identified in the internal audits undertaken during the current year, with the exception of concerns reported in connection with weak systems of internal control in the recently acquired WCIS businesses. These weaknesses were quickly addressed by local management with the assistance of resources in Group Finance and the control environment has now been stabilised. More generally, recommendations were made on other internal audits this year relating to inadequate inventory reconciliations, weak user access controls in some ERP systems and more timely and detailed employee expense reporting.

As well as carrying out Internal Audit on financial transactions, work was also targeted this year to ensure high level controls were in place to mitigate the risk of cyber-attacks and on processes and documentation supporting foreign currency hedging.

The Internal Audit Manager also continues to assist the Committee in its oversight of the Group's controls designed to ensure compliance with the policy on anti-Bribery and Corruption.

The Internal Audit Manager reported to the Committee that good progress had been made by the Group's businesses in implementing recommendations communicated last year and in particular in improving procedures operating over formalising month end close procedures, policies for inventory provisioning and controls over supplier master file data.

The Committee continues to keep under review the need for a more independent Internal Audit function in the Group. The Committee remains satisfied that the Group's system of internal control is appropriate for a group of the size and nature of Diploma PLC and the Committee's current view is that a separate formal independent Internal Audit function is not required at this time.

Non-audit services

The Committee has reviewed its internal guidelines covering the type of non-audit work that can be carried out by the external auditor of the Company, in light of the new regulation set out in the EU Audit Directive and Audit Regulation 2014. These Regulations came into force on 17 June 2016 and apply to the Company from 1 October 2017.

The Regulations substantially curtail those non-audit services which can be provided by the auditor to the Company and in particular, prohibits all tax related services, including compliance services as well as general advice, and all consultancy and advisory services. The Regulations require that Board approval is required if eligible non-audit services, such as due diligence and similar assurance services exceed 30% of the prior year Group audit fee and the Company may not allow eligible non-audit services to exceed 70% of the Group audit fee, calculated on a rolling three-year basis.

In Diploma PLC, taxation services are not provided by the Group's audit firm; a separate firm is retained to provide tax advice and any assistance with tax compliance matters generally. In addition, due diligence exercises on acquisitions and similar transactions are not provided by the auditor, but are placed with other firms.

The Group auditor is retained to carry out assurance services to the Committee in connection with carrying out "agreed upon procedures" on the Group's Half Year consolidated financial statements.

The Group Finance Director does not have delegated authority to engage the auditor to carry out any non-audit work, but must seek approval from the Chairman of the Audit Committee.

The Committee assures itself of the auditor's independence by receiving regular reports from the external auditor which provide details of any assignments and related fees carried out by the auditor in addition to their normal audit work, and these are reviewed against the above guidelines.

Details of the external auditor's total fees, including non-audit fees of £13,000 paid to Deloitte LLP during the year are set out in note 28 to the consolidated financial statements.

Sanctions

The Audit Committee continued to work with senior management of the Company, in conjunction with local management of Kentek's Russian operations, to ensure ongoing compliance with EU and US led sanctions. The Committee has received reports on compliance with these sanctions and will continue to monitor developments until the sanctions are suspended or revoked.

Anti-Bribery and Whistleblowing

Diploma has a Group-wide anti-Bribery and Corruption policy to comply with the Bribery Act 2010 and it periodically reviews its procedures to ensure continued effective compliance in its businesses around the world. During the year, the Group rolled out an e-learning training programme to all its businesses. This training has been undertaken by all senior management and employees in customer or supplier facing roles. These training programmes are regularly carried out and the e-learning training programme is being extended to encompass other regulatory and compliance based topics, including Code of Conduct.

During the year, the Committee updated the Group's Whistleblowing Policy, which provides the framework to encourage and give employees confidence to "blow the whistle" and report irregularities. The Committee approved the roll out of a dedicated 24/7 Whistleblowing Hotline across the Group. The Policy, together with Hotline posters are placed on site noticeboards across the Group. Employees are encouraged to raise concerns via the Hotline which is managed by an independent external company. Reports to the Hotline are investigated and reported to the Committee, together with details of corrective action taken. The Group's Whistleblowing Policy is monitored by the Committee and no Whistleblowing matters were reported to the Committee under this policy during the year.

Nomination Committee Report

Members of Committee	Attendance
John Nicholas (Chairman)	2/2
Marie-Louise Clayton (retired on 16 November 2015)	–
Charles Packshaw	2/2
Andy Smith	2/2
Anne Thorburn	2/2

The Nomination Committee is chaired by John Nicholas, the Chairman of the Company. The Committee is chaired by the Senior Independent Director on any matter concerning the chairmanship of the Company. The Committee comprises the non-Executive Directors.

The Group Company Secretary acts as Secretary to the Committee.

Appointment of Directors

As part of any appointment process for new Directors, the Committee determines the selection criteria for each Director which takes account of diversity, including gender and sets out a detailed description of the requirements for the role. The Committee works with external search agencies as appropriate, who draw up a long list of candidates from a range of industries and backgrounds for initial appraisal by the Committee. From this, a shortlist is prepared of suitable candidates that most closely meet the selection criteria and these candidates are interviewed by members of the Committee. Following these interviews, the Committee recommends to the Board the appointment of a Director. As part of this process the Committee ensures that it follows the Board's policy on diversity, described on page 41.

Andy Smith and Anne Thorburn, the two non-Executive Directors appointed in 2015, completed their tailored induction programmes during 2016, having visited the larger facilities since appointment. The Chairman has reviewed and agreed the training and development needs of individual Directors and encourages them to continually update their skills, together with knowledge and familiarity with the Company to fulfil their role on the Board and Board Committees.

Succession planning

At the strategy meeting held in June 2015, the Board reviewed succession planning for the Executive Directors and for the senior management cadre comprising ca.90 senior managers across the Group's businesses. At this meeting the Board agreed with the Chief Executive Officer to establish an Executive Management Group ("EMG") of key senior managers who will have the potential to provide leadership in the future. This initiative forms a key part of the Board's succession planning activities. Members of the EMG were confirmed in the early part of the year and formal meetings over two days were held in March and September at which members of the EMG discussed key issues relating to both the shorter term challenges facing the Group and longer term development of strategy and operational initiatives.

The Committee also carries out a review of the Board's succession plans for management and their direct reports at a formal meeting of the Committee and the Board in January each year. This exercise also sets out development plans to target potential successor senior management in the Group over the next five years.

The Committee has also reviewed succession planning for the non-Executive Directors. While the Board has been recently refreshed, the Chairman's intention is to stagger retirement among the non-Executive Directors in order to maintain continuity and to preserve Board balance.

Key Duties

(Full terms of reference are available on the Company's website.)

- Reviews the size, composition and structure of the Board and the Board Committees.
- Ensures the right balance of skills, knowledge, experience and diversity on the Board.
- Identifies, evaluates and nominates candidates to fill Board and Committee vacancies.
- Reviews succession planning for the Board and senior executives, taking account of experience, knowledge, skills and diversity.
- Reviews the Group policy on conflicts of interest and register and ensures there are no material conflicts of interest.
- Reviews, as part of the annual evaluation exercise, the time commitment of non-Executive Directors to the role and externally.

Agenda 2016

- Completed the initial managed induction programmes of non-Executive Directors appointed in 2015.
- Evaluated the balance of skills, knowledge and experience on the Board and its diversity, including gender.
- Considered succession planning in relation to the Executive Directors and senior management.
- Reviewed Board members' register of conflicts of interest.

Remuneration Committee Report

Andy Smith
Chairman of the Remuneration Committee

"Our remuneration policies remain appropriate and continue to deliver a fair and balanced reward package."

Members of Committee:	Attendance
Andy Smith (Chairman)	4/4
Anne Thorburn	4/4
John Nicholas	4/4
Marie-Louise Clayton (retired on 16 November 2015)	–
Charles Packshaw	4/4

Dear Shareholder

Executive remuneration has been the subject of much analysis and debate generally this year and the Committee has noted the emerging views and trends. The Committee is confident that the Company's present policy, as approved by shareholders in January 2015, remains appropriate and continues to provide an effective mechanism to reward and incentivise Executives to deliver outstanding performance and achieve the Company's strategic objectives.

The Regulations governing Directors' remuneration require the remuneration policy to be reviewed during 2017 and this will enable the Committee to present an updated remuneration policy for shareholder approval at the AGM in January 2018. In carrying out the review, the Committee will take into account appropriate external guidance, including the recent publication on Principles of Remuneration issued by the Investment Association, and will consult as appropriate with the Company's larger shareholders.

This year's Annual Report on Remuneration is set out on pages 54–61 of the Annual Report. Remuneration policies have been applied without adjustment.

Base salaries for Executive Directors for the new financial year (that is, from 1 October 2016) have increased by 2.5% (2015: 3%) in line with general wage inflation and the increases applied generally across the Group's senior management cadre.

The financial element of the annual performance bonus paid to the Executive Directors this year was at 95% of the maximum (2015: 51% of the maximum) as determined by the targets set for the increase in adjusted earnings per share. The Group delivered an increase of 10% in adjusted EPS and the Committee considers the bonus payment to be an appropriate level of reward for a very strong performance in a global environment of sluggish growth.

The LTIP awards for the three years ended 30 September 2016 vested at 45% of the maximum (2015: 25%). This was determined by a compound increase of 7% p.a. in adjusted earnings per share and of 14% p.a. in total returns to shareholders over the period. The shareholder returns from Diploma PLC have for many years remained well above the median returns reported by the FTSE 250 Index, as shown in the graph on page 59, and, accordingly, the Committee considers the level of LTIP awards vesting to be appropriate.

As indicated in last year's Report, Iain Henderson retired as an Executive Director of the Company following the AGM on 20 January 2016 and from full-time employment with the Group on 31 March 2016. The Committee was clear that Iain should be treated as a "good leaver" given his performance and contribution over 18 years' service and this was communicated to all shareholders via the London Stock Exchange RNS at the time. Accordingly, Iain received his salary and contractual benefits up to 31 March 2016. His annual performance bonus and LTIP awards (including the award that would have vested at 30 September 2017) have been performance-tested as at 30 September 2016 and then reduced pro-rata to recognise Iain's actual employment period.

The Committee will continue to 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 effective in attracting and retaining the talent that the Group needs.

I look forward to meeting shareholders at this year's AGM on 18 January 2017 and will be pleased to answer any questions or concerns they have on the Company's remuneration policy.

Andy Smith
21 November 2016

Remuneration Committee
The Remuneration Committee ("the Committee") is chaired by Andy Smith and comprises independent non-Executive Directors.

Bruce Thompson, 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 21 January 2015. This Policy, which was set out in the 2014 Annual Report, will continue for a period of three years until 21 January 2018, 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 2016. 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 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.

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 in January 2015, with the exception that the Committee has approved clawback provisions to PSP awards and the annual bonus plan granted to Executive Directors after 1 October 2015. This recommendation was included in the 2014 UK Corporate Governance Code.

Key Duties

(Full terms of reference are available on the Company's website.)

- Sets, reviews and recommends to the Board for approval the Group's overall Remuneration Policy and strategy.
- Sets, reviews and approves individual remuneration arrangements for the Executive Directors, including terms and conditions of employment and any Policy changes.
- Reviews and monitors remuneration arrangements for the senior managers of the operating businesses, including terms and conditions of employment and any Policy changes.
- Approves the rules and design of any Group share-based incentive plans, and the granting of awards under any such plans.
- Sets, reviews and approves the fees of the Chairman.

Agenda 2016

- Reviewed Executive Directors' salaries, pensions and benefits.
- Approved Annual Performance Bonus targets and the subsequent bonus awards for 2016.
- Approved new PSP awards to Executive Directors and confirmed the performance conditions for such awards.
- Confirmed the vesting percentages for the PSP and SMP awards made in 2013 which crystallised in 2016.
- Approved the exercise of nil cost options.
- Approved the 2016 Remuneration Committee Report.
- Reviewed the AGM 2016 votes on the 2015 Remuneration Committee Report.
- Reviewed the Committee's terms of reference.
- Maintained watching brief on external reports on Directors' remuneration.

Strategic Report
Governance
Financial Statements

Remuneration Committee Report continued

Directors' Remuneration Policy

Policy table

Executive Directors

Component	Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Base salary	To attract and retain talent by ensuring that salaries are competitive. To reflect the individual's experience and role within the Group.	Salaries are paid monthly and are reviewed annually, with changes normally effective from 1 October.	There is no maximum limit set. Salaries are targeted at a mid-market range for equivalent roles in similar companies.	Salary levels and increases are determined based on a number of factors, including individual and business performance, level of experience, scope of responsibility, salary increases for employees more generally and the competitiveness of total remuneration against companies of a similar size and complexity.
Pensions	Designed to be competitive within the market to reward sustained contribution by Executive Directors.	Pension contributions at 20% of base salary, which are either paid into personal pension savings schemes or paid as a separate cash allowance.	No maximum limit set.	As for base salary.
Benefits	To provide a competitive package of benefits.	Payment in lieu of a company car. Life assurance, income protection, annual leave and medical insurance.	No maximum limit is prescribed, but the Committee monitors annually the overall cost of the benefit provision.	As for base salary.
Annual Performance Bonus Plan	A cash-based scheme designed to focus Executive Directors on achievement of the annual budget and other business priorities for the financial year.	Dependent on adjusted EPS of the Group for the Chief Executive Officer. For other Executive Directors, 75% of bonus opportunity is based on the same financial criteria as the Chief Executive Officer, with the remaining 25% of bonus opportunity subject to achievement of specific personal objectives.	Maximum 125% of base salary for the Chief Executive Officer and 100% for other Executive Directors. On-target bonus is 50% of maximum bonus and threshold performance is 5% of base salary.	Adjusted EPS is the principal metric. Discretion related to minimum thresholds for adjusted operating margin, free cash flow and ROATCE. Personal objectives for Chief Operating Officer and Group Finance Director.
Long Term Incentive Plan – Share Awards	Incentivise Executive Directors to achieve superior returns and long term value growth. Align the interests of the Executive Directors with those of Diploma PLC shareholders through building a shareholding in the Company.	Performance assessed over rolling three-year performance periods. Awards are discretionary and do not vest until the date on which the performance conditions are determined. If employment ceases during a three-year performance period, awards will normally lapse. Awards include dividend equivalents which are cash bonuses or shares in lieu of dividends forgone on dividends accrued up to time of vesting, but not thereafter.	Opportunity as a percentage of salary is 175% for each award made to the Executive Directors under the 2011 Performance Share Plan. The Committee has discretion to increase awards under the Performance Share Plan to 250% of salary in exceptional circumstances. Dependent on the level of dividends as applied to the number of unvested PSP awards.	• 50% on adjusted EPS relative to a set of absolute performance targets set by the Committee. • 50% on Total Shareholder Return ("TSR") relative to the median performance of the FTSE 250 Index (excluding Investment Trusts).

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 suitable independent non-Executive Directors by ensuring that fees are competitive.	Paid quarterly in arrears and reviewed each year.	The Chairman's and non-Executive Directors' fees are determined by reference to the time commitment and relevant benchmark market data. A Board Committee Chairman and the Senior Independent Director may also receive an additional fee in recognition of the greater time commitment.	Annual Board evaluation.

Executive Directors

Base salary

In determining the annual base salary increases which apply from 1 October, the Committee considers comparative salaries in similar companies and the range of remuneration increases applying across the Group and in particular for the Group's senior management cadre comprising ca.90 senior managers across the Group's businesses.

Annual Performance Bonus

The Diploma PLC Annual Performance Bonus Plan is a cash-based scheme designed to reward Executive Directors for meeting stretching shorter term performance targets. At the start of the financial year (1 October), the Board sets a financial performance target principally focused on achievement of a target adjusted EPS, which to pay out at the maximum is significantly ahead of both internal annual budgets and market consensus. The level of bonus payable for achieving the minimum target is 5% of base salary. No bonus is payable if adjusted EPS does not meet the minimum target.

The definition of adjusted EPS is consistent with the Group's financial statements, 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 and weightings 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.

Individual objectives have also been set for the Chief Operating Officer (for the six months until his retirement on 31 March 2016) and for the Group Finance Director relating to factors including operating performance, business and management development activities. At the end of the financial year, the Committee meets to assess the performance of each Executive Director against the financial and individual objectives. Bonuses are normally paid in cash in December.

Long term incentive award

The Company operates a long term incentive award plan for Executive Directors, being 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 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. 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 either performance metric. 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 conditions on awards granted in subsequent years, having regard to prevailing market conditions.

The Committee may decide, on or before the grant of a share incentive award, that on exercise of the award, the participant may receive, in addition to the shares in which he then becomes 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.

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, have been updated to recognise developments in law and best practice relating to such contracts during recent years. These service contracts 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).

Remuneration Committee Report continued

Directors' Remuneration Policy

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	24 March 2014	Rolling	1 year	1 year
Nigel Lingwood	24 March 2014	Rolling	1 year	1 year
Iain Henderson[1]	24 March 2014	Rolling	1 year	1 year

1 Retired from the Board on 20 January 2016.

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 necessary.

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 at the date of cessation and the length of time the awards have been held. Time pro-rating may be disapplied if the Committee considers it appropriate, given the circumstances.
- The Committee will also 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.

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 award shares under the Company's PSP depends on the extent to which performance conditions had been met at that time. Time pro-rating may be disapplied if the Committee considers it appropriate, given the circumstances of the change of control.

Malus and clawback

Malus provisions apply to 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 provisions apply to PSP and Annual Bonus Performance Plan awards granted to Executive Directors after 1 October 2015. The clawback arrangements will permit the Committee to recover amounts paid to Executive Directors in specified circumstances and will 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 Remuneration 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 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.
- 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 and after having taken into account any variable pay awards to be granted to the executive, 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, deferral arrangements will apply, to be set according to the circumstances of individual appointments and will involve a requirement to acquire shares with a proportion of any post-tax annual bonus and/or retention of a proportion of PSP shares received (after tax), in either case, any such shares to be retained for at least two years after vesting or until the mandated shareholding guidelines have been met.
- Fees for a new Chairman or non-Executive Director will be set in line with the approved Policy.

Committee discretion
The Committee has powers delegated by the Board under which it operates. In addition, it complies with rules which have either been approved by shareholders (e.g. the PSP) or by the Board (e.g. the Annual Performance Bonus Plan). These rules provide the Committee with certain discretions which serve to ensure that the implementation of the Policy is fair both to the Executive Director and to shareholders, taking the overall performance and position of the Company into account. The Committee also has discretions to set components of remuneration within a range from time to time. The extent of such discretions are set out in the relevant rules or 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 executive 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 and employees
The Committee will consult with its major shareholders in advance of any significant changes to the approved Policy. The Committee also receives reports from the Group Company Secretary on correspondence received from shareholders relating to remuneration matters when their approval of the Remuneration Committee Report is sought at the AGM.

The Committee has not consulted with employees on setting the Policy for Executive Directors.

Comparison with employee conditions
In determining annual increases in base salary, annual performance bonuses and benefits, the Committee takes into account the employment conditions applying across the senior management cadre. This comparator group comprises ca.90 senior managers across the Group's businesses. This senior management cadre has been chosen as a representative group, since comparisons drawn from across the globe and by differing roles, skills, experience and qualifications would reduce the scope for meaningful comparisons.

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 which 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.

Chairman and non-Executive Directors' letters of appointment

	Date of original appointment	Date of election/ re-election	Expiry of term
John Nicholas	1 Jun 13	20 Jan 16	20 Jan 18
Charles Packshaw	1 Jun 13	20 Jan 16	1 Jun 19
Andy Smith	9 Feb 15	20 Jan 16	9 Feb 18
Anne Thorburn	7 Sep 15	20 Jan 16	7 Sep 18

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 responsibilities and the required time commitment.

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 Remuneration Policy for all Directors for the year ended 30 September 2016. All of the information set out in this section of the Report has been audited, unless indicated otherwise.

Executive Directors

Total remuneration in 2016 and 2015

	Bruce Thompson		Nigel Lingwood		Iain Henderson[1]	
	2016 £000	2015 £000	2016 £000	2015 £000	2016 £000	2015 £000
Salary	474	460	306	297	90	286
Benefits	24	23	19	18	4	17
Pension	95	92	61	59	18	57
Annual performance bonus	565	294	288	181	139	174
Short term remuneration (cash)	1,158	869	674	555	251	534
Long term incentive plans – dividend equivalent (cash)	6	–	4	–	3	–
Long term incentive plans – performance element	374	204	242	132	358	127
Long term incentive plans – share appreciation element	96	66	62	43	76	41
Long term share price based remuneration (non-cash)	470	270	304	175	434	168
Total	1,634	1,139	982	730	688	702

1 Iain Henderson's salary, benefits and pension are for the 16 week period ended 20 January 2016 and includes the value of all long-term incentive awards.

The aggregate short term remuneration paid to the Executive Directors in the year ended 30 September 2016 was £2.1m (2015: £2.0m).

Iain Henderson retired as a Director of the Company on 20 January 2016 and from full-time employment on 31 March 2016, following 18 years' service. Iain Henderson was treated as a "good leaver" as he had played a major role in developing and implementing the growth strategy of the Group. Iain Henderson received full salary and contractual benefits (including pension contributions) up to the date of his retirement on 31 March 2016. Iain Henderson was also eligible for a pro-rated bonus up to a maximum of 50% of his annual salary for the year ended 30 September 2016. Iain Henderson's long-term incentive awards vested to the extent to which the applicable performance conditions were met, with pro-rating applied for time served, on the basis of 2.5 out of 3 years completed for awards which vested at 30 September 2016 and 1.5 out of 3 years completed for awards which would, but for his retirement, have vested at 30 September 2017, based on the testing of performance criteria for the two years ended 30 September 2016.

Base salary

The average base salary increase for Executive Directors which applied from 1 October 2015 was 3%, compared with 4% for the Group's senior management cadre. On 15 November 2016, the Committee approved an increase of 2.5% in base salaries for the Executive Directors which will apply in respect of the year beginning 1 October 2016.

Benefits

	2016				2015			
	Cash allowance in lieu of a car £000	Life assurance and income protection £000	Medical insurance £000	Total benefit £000	Cash allowance in lieu of a car £000	Life assurance and income protection £000	Medical insurance £000	Total benefit £000
Bruce Thompson	13	10	1	24	13	9	1	23
Nigel Lingwood	11	7	1	19	11	6	1	18
Iain Henderson[1]	2	2	–	4	10	6	1	17

1 Iain Henderson's benefits are for the 16 week period ended 20 January 2016.

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, which are equivalent to 20% (2015: 20%) of base salary were applied as follows:

	2016			2015		
	Paid as cash allowance £000	Paid as pension contribution £000	Total cash paid £000	Paid as cash allowance £000	Paid as pension contribution £000	Total cash paid £000
Bruce Thompson	95	–	95	92	–	92
Nigel Lingwood	61	–	61	59	–	59
Iain Henderson[1]	18	–	18	57	–	57

1 Iain Henderson's pension contributions are for the 16 week period ended 20 January 2016.

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Annual performance bonus

The following table summarises the performance assessment by the Committee in respect of 2016 with regard to the following performance measures:

(1) Group financial objectives – Bruce Thompson: 100% of bonus. Nigel Lingwood and Iain Henderson: 75% of bonus

Performance measure	Performance in 2016	Overall assessment against targets
Adjusted EPS	The minimum performance target was 95% of 2015 adjusted EPS, the on-target performance was 39.0p (which was equivalent to 2% above 2015 adjusted EPS) and the maximum target was at least 10.5% growth above 2015 adjusted EPS. Adjusted EPS grew by 10% in reported terms. Minimum thresholds were exceeded for adjusted operating margins, free cash flow and ROATCE.	95% of maximum

(2) Individual objectives – Nigel Lingwood and Iain Henderson: 25% of bonus

The performance of Nigel Lingwood and Iain Henderson was assessed against a range of specific individual objectives under the following headings:

Performance measure	Performance in 2016	Overall assessment against targets
Nigel Lingwood	Maintain strong control environment and develop finance capabilities across the Group. Maximise value to the Group from management of tax, pensions and property. Ensure compliance with FRC guidance and regulation. Contribute to strategic development of Group. Manage and develop Investor Relations programme.	90% of maximum
Iain Henderson	Delivery of specified projects. Orderly handover of responsibilities.	90% of maximum

Based on the performance set out above, the resulting bonus for each Executive Director relating to 2016 is as follows:

	2016 actual bonus – as a percentage of 2016 base salary						2016 bonus delivered as cash
	Minimum	On-target	Maximum	Financial objectives	Individual performance objectives	Total bonus	£000
Bruce Thompson	5%	63%	125%	119.2%		119.2%	565
Nigel Lingwood	5%	50%	100%	71.0%	23.0%	94.0%	288
Iain Henderson[1]	5%	50%	100%	71.0%	23.0%	94.0%	139

1 Iain Henderson's bonus has been pro-rated for the six month period ended 31 March 2016.

The annual performance bonus for the financial year beginning 1 October 2016 will be in accordance with the Policy set out on page 51. The 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 both the long-term incentive awards which vest in 2016 and the outstanding PSP awards, including those granted in February 2015 and December 2015.

With effect from 1 October 2014, new PSP awards were granted at 175% of base salary; no further awards have been made under the SMP and the final SMP awards vested in November 2016. The performance conditions applying to new awards made under the PSP have been revised from those set out below for existing awards granted in 2013, as set out below.

Remuneration Committee Report continued

Annual Report on Remuneration

The first 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 annual compound growth rate in the UK Retail Price Index ("RPI") by a specified amount over the same period. For the new awards, the adjusted EPS targets will be specified as absolute figures, not relative to RPI. The performance conditions are as follows:

Existing awards (December 2013) Adjusted EPS growth (over three years)	Percentage of existing awards vesting PSP	SMP	New awards (from October 2014) Adjusted EPS growth (over three years)	% of new awards vesting PSP
RPI + 15% p.a. or above	100	100		
RPI + 12% p.a.	100	50	14% p.a.	100
RPI + 3% p.a.	30	15	5% p.a.	25
Below RPI + 3% p.a.	Nil	Nil	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 second 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 conditions are as follows:

Existing awards (2013) TSR relative to FTSE 250 Index (over three years)	Percentage of existing awards vesting PSP	SMP	New awards (from 2014)	% of new awards vesting PSP
Median + 15% p.a. or greater	100	100		
Median + 12% p.a.	100	50	Upper Quartile	100
Median	30	15	Median	25
Below Median	Nil	Nil	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 2016

The PSP and SMP awards made to the Executive Directors on 9 December 2013 and the PSP award made to Iain Henderson on 5 February 2015, were subject to operating performance conditions as set out in the table above, independently assessed over a three year period ended 30 September 2016 and over a two year period ending 30 September 2016, respectively. The outcome of each award is shown in the table below:

Adjusted earnings per share:

	Base EPS	EPS at 30 Sep 2016	CAGR in EPS	Maximum target	Maximum award	Vested award
PSP (9 December 2013)	34.5p[1]	**41.9p**	6.7%	13.7%	50%	**22.8%**
SMP (9 December 2013)	34.5p[1]	**41.9p**	6.7%	16.7%	50%	**11.4%**
PSP (5 February 2015)[2]	36.1p	**41.9p**	7.7%	14.0%	50%	**23.8%**

1 Amended to reflect change in accounting policy for notional pension interest.
2 Award vesting to I Henderson only, following his retirement from the Board on 20 January 2016, as explained above.

TSR growth against FTSE 250 (excluding Investment Trusts)

	TSR at 30 Sep 2016	Median	Maximum target	Maximum award	Vested award
PSP (9 December 2013)	**14.3% p.a.**	6.7% p.a.	18.7% p.a.	50%	**37.0%**
SMP (9 December 2013)	**14.3% p.a.**	6.7% p.a.	21.7% p.a.	50%	**18.5%**
PSP (5 February 2015)[1]	**16.1% p.a.**	5.3% p.a.	19.1% p.a.	50%	**41.4%**

1 Award vesting to I Henderson only, following his retirement from the Board on 20 January 2016, as explained above.

As a result of the above performance conditions, 59.8% and 29.9% respectively, of the shares awarded as nil cost options vested to each director under the PSP and SMP awards made on 9 December 2013. In addition 65.2% of the shares awarded as nil cost options vested to Iain Henderson (only) under the PSP award made on 5 February 2015.

Set out below are the shares which vested to each Executive Director at 30 September 2016 in respect of these awards. The shares vesting to Iain Henderson are stated after each of the awards have been time pro-rated to reflect Iain Henderson's retirement as explained on page 54.

		Share price at date of grant pence	Share price at 30 Sep 2016 pence	Proportion of award vesting	Shares vested Number	Performance element[1] £000	Share appreciation element[2] £000	Total £000
Bruce Thompson	– PSP	700.0p	879.0p	59.8%	35,624	249	64	313
	– SMP	700.0p	879.0p	29.9%	17,812	125	32	157
					53,436	374	96	470
Nigel Lingwood	– PSP	700.0p	879.0p	59.8%	23,066	161	42	203
	– SMP	700.0p	879.0p	29.9%	11,533	81	20	101
					34,599	242	62	304
Iain Henderson[3]	– PSP	700.0p	879.0p	59.8%	18,510	130	33	163
	– SMP	700.0p	879.0p	29.9%	9,255	65	16	81
	– PSP (2015)	755.5p	879.0p	65.2%	21,597	163	27	190
					49,362	358	76	434

1 The performance element represents the face value of awards that vested, having met the performance conditions set out above.
2 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 2016 or, in the case of Iain Henderson, the two year period ended 30 September 2016.
3 The awards for I Henderson have been pro-rated for 2.5 of 3 years for three year performance period ended 30 September 2016 and pro-rated at 1.5 of 3 years for two year performance period ended 30 September 2016.

Dividend equivalent payments
Dividend equivalent payments were paid in respect of outstanding nil cost options which were exercised during the year.

Long term incentive plan – awards granted in the year
The CEO and Group Finance Director received grants of PSP awards on 17 December 2015, in the form of nil-cost options. These awards were based on 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 performance conditions for these awards are set out on page 56.

Outstanding share-based performance awards
Set out below is a summary of the share-based awards outstanding at 30 September 2016, 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 100% of base salary for December 2013 and 175% of base salary for February and December 2015. No awards will vest unless the performance conditions set out on page 56 are achieved over a three-year measurement period.

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	Maturity date	Shares over which awards held at 1 Oct 2015	Shares over which awards granted during the year	Vested during the period	Lapsed during the period	Shares over which awards held at 30 Sep 2016
Bruce Thompson									
9 December 2013	700.0p	417	30 Sep 2016	30 Sep 2016	59,571	–	35,624	23,947	–
5 February 2015	755.5p	805	30 Sep 2017	30 Sep 2017	106,552	–	–	–	106,552
17 December 2015	730.0p	829	30 Sep 2018	30 Sep 2018	–	113,630	–	–	113,630
Nigel Lingwood									
9 December 2013	700.0p	270	30 Sep 2016	30 Sep 2016	38,571	–	23,066	15,505	–
5 February 2015	755.5p	520	30 Sep 2017	30 Sep 2017	68,795	–	–	–	68,795
17 December 2015	730.0p	535	30 Sep 2018	30 Sep 2018	–	73,356	–	–	73,356
Iain Henderson[1]									
9 December 2013	700.0p	260	30 Sep 2016	30 Sep 2016	37,143	–	18,510	18,633	–
5 February 2015	755.5p	500	30 Sep 2017	30 Sep 2017	66,248	–	21,597	44,651	–

1 The awards for I Henderson have been pro-rated for 2.5 of 3 years for three year performance period ended 30 September 2016 and pro-rated at 1.5 of 3 years for two year performance period ended 30 September 2016.

Remuneration Committee Report continued

Annual Report on Remuneration

Diploma PLC 2011 Share Matching Plan

	Market price at date of award	Face value of the award at date of grant £000	Pledged investment shares	End of performance period	Maturity date	Shares over which awards held at 1 Oct 2015	Vested during the period	Lapsed during the period	Shares over which awards held at 30 Sep 2016
Bruce Thompson									
9 December 2013	700.0p	417	15,786	30 Sep 2016	30 Sep 2016	59,571	**17,812**	**41,759**	**–**
Nigel Lingwood									
9 December 2013	700.0p	270	10,221	30 Sep 2016	30 Sep 2016	38,571	**11,533**	**27,038**	**–**
Iain Henderson[1]									
9 December 2013	700.0p	260	9,843	30 Sep 2016	30 Sep 2016	37,143	**9,255**	**27,888**	**–**

1 The award for I Henderson has been pro-rated for 2.5 of 3 years for three year performance period ended 30 September 2016.

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

Both the PSP and SMP 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 2016 are set out on page 60.

Services from external advisors (unaudited)
Stephenson Harwood LLP provide legal advice to the Remuneration Committee on remuneration matters and Ashurst LLP provide advice on employment matters. During the year Stephenson Harwood LLP provided advice to the Remuneration Committee on matters relating to the long-term incentive plans and to clawback provisions.

The Committee also receives general advice from New Bridge Street on remuneration matters from time to time. The Committee engages 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.

Advisor	Appointed by	Services provided to the Committee	Other services provided to the Company	Fees
Stephenson Harwood LLP	Committee	Legal advice	None	£856
New Bridge Street	Committee	General advice on Remuneration Policy	None	–
MEIS	Committee	Data analysis	None	£7,000

Shareholder voting at previous Annual General Meeting (unaudited)
The Remuneration Committee's Annual Report ("Report") for the year ended 30 September 2015 was approved by shareholders at the AGM held on 20 January 2016, with the following votes being cast:

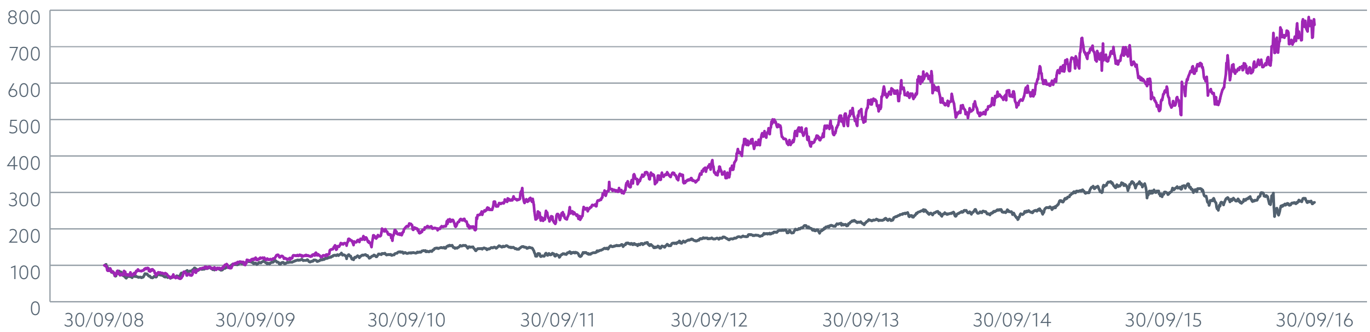
	Report	
Votes for	92,480,463	98.8%
Votes against	1,095,620	1.2%
Withheld	38,145	

There is no requirement to propose a resolution on the Directors' Remuneration Policy ("Policy") at the AGM held in 2017 and shareholders will next be asked to vote on the Remuneration Policy at the AGM in 2018, following a review of Policy in 2017. The votes in favour of the Policy at the AGM held on 21 January 2015 was 94.6%.

Aligning pay with performance (unaudited)

The graph below shows the Total Shareholder Return ("TSR") performance of Diploma PLC for the eight-year period ended 30 September 2016 against the FTSE 250 Index as the Company is a member of this Index.

Growth in the value of a hypothetical £100 holding over eight 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

	2016	2015	2014	2013	2012	2011	2010	2009
Annual growth in TSR	**+36%**	–1%	+8%	+42%	+54%	+16%	+71%	+21%
	£000	£000	£000	£000	£000	£000	£000	£000
Salary, pensions and benefits	**593**	575	523	504	484	454	435	429
Annual performance bonus	**565**	294	339	164	367	360	345	102
Short term remuneration	**1,158**	869	862	668	851	814	780	531
Long term incentive plans (including dividend equivalent)	**476**	270	984	1,733	979	887	507	303
Chief Executive Officer total remuneration	**1,634**	1,139	1,846	2,401	1,830	1,701	1,287	834
Actual bonus as a percentage of the maximum	**95%**	51%	65%	33%	95%	100%	100%	30%
Actual share award vesting as a percentage of the maximum	**45%**	25%	61%	100%	100%	100%	100%	91%

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 %	Change in short term remuneration %
Chief Executive Officer	+3	+3	+3	+92	+33
Senior management cadre	+4	0	0	+17	+7

The Committee chose the senior management cadre for pay comparisons with the Chief Executive Officer as it provided the most closely aligned comparator group whereas comparisons with employees drawn from across the globe and by differing roles, skills, experience and qualifications would reduce the scope for meaningful comparisons.

For more information, please visit:
www.diplomaplc.com/investor-relations.aspx

Remuneration Committee Report continued

Annual Report on Remuneration

Relative importance of Executive Director remuneration (unaudited)

	2016 £m	2015 £m	Change £m
Total employee remuneration	**75.8**	63.8	**12.0**
Total dividends paid	**21.0**	19.7	**1.3**

Executive Directors' interest in options over shares

In respect of nil cost options granted under the PSP and SMP, 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 2016 and the movements during the year are as follows:

	Year of vesting	Options as at 1 Oct 2015	Exercised in year	Vested during the year	Options unexercised as at 30 Sep 2016[5]	Exercise price	Earliest normal exercise date	Expiry date
Bruce Thompson	2015	40,579	40,579	–	**–**	£1	Nov 2015	Dec 2022
	2016	–	–	53,436	**53,436**	£1	Nov 2016	Dec 2023
Nigel Lingwood	2015	26,311	26,311	–	**–**	£1	Nov 2015	Dec 2022
	2016	–	–	34,599	**34,599**	£1	Nov 2016	Dec 2023
Iain Henderson	2015	25,299	25,299	–	**–**	£1	Nov 2015	March 2017
	2016	–	–	49,362	**49,362**	£1	Nov 2016	March 2017

1 Bruce Thompson exercised 40,579 options on 11 December 2015, at a market price of 740.5p per share and the total proceeds before tax were £300,487.
2 Nigel Lingwood exercised 26,311 options on 11 December 2015, at a market price of 740.5p per share and the total proceeds before tax were £194,833.
3 Iain Henderson exercised 25,299 options on 11 December 2015, at a market price of 740.5p per share and the total proceeds before tax were £187,339.
4 On 11 December 2015, the aggregate number of shares received by the participants was reduced by 43,328 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 740.5p.
5 The closing price of an ordinary share on 30 September 2016 was 879.0p (2015: 665.0p).

Executive Directors' interests in ordinary shares

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

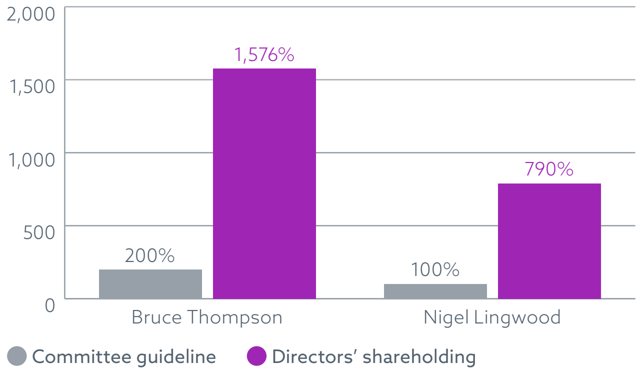
	As at 30 Sep 2016[1]				As at 30 Sep 2015			
			Interest in shares with performance measures				Interest in shares with performance measures	
	Ordinary shares	Options vested but unexercised	PSP	SMP	Ordinary shares	Options vested but unexercised	PSP	SMP
Bruce Thompson	**850,000**	**53,436**	**220,182**	**–**	993,385	40,579	166,123	59,571
Nigel Lingwood	**275,000**	**34,599**	**142,151**	**–**	275,000	26,311	107,366	38,571
Iain Henderson	**506,022**	**–**	**103,391**	**37,143**	517,912	25,299	103,391	37,143

1 Iain Henderson's interests shown as at date of retirement from the Board on 20 January 2016 and are before vesting of these long-term incentive awards and before any pro-ration of awards.

Interests in ordinary shares include investment shares pledged under the Company's 2011 SMP and shares held through personal saving vehicles. As of 21 November 2016, there have been no changes to these interests in ordinary shares of the Company.

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, the Chief Executive Officer should build up and then retain a holding of shares with a value equivalent to 200% of base salary. The guideline holding for the Group Finance Director is 100% of base salary. The guidelines also require that, in relation to long-term incentive awards, vested shares (net of tax) should be retained by the individual until the required shareholding level is reached. As at 21 November 2016, both Executive Directors exceeded the applicable shareholding guidelines.

Shareholdings at 30 September 2016 against guidelines (%)



Nigel Lingwood was Senior Independent Director and Chairman of the Audit Committee at Creston plc and received £37,917 as fees during the year ended 30 September 2016.

Chairman and non-Executive Directors' remuneration

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

	Total fees	
	2016 £000	2015 £000
John Nicholas	**137**	106
Marie-Louise Clayton (retired on 16 November 2015)	**6**	46
Charles Packshaw	**52**	46
Andy Smith	**52**	29
Anne Thorburn (appointed on 7 September 2015)	**52**	4

The non-Executive Directors received a basic annual fee of £47,400 during the year and there were additional fees paid in 2016 of £5,000 (2015: £Nil) for chairing a Committee of the Board or for acting as Senior Independent Director. 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 in November 2016, the Board approved an increase of 2.5% in the Chairman's fee to £140,400 per annum and in the total annual fee paid to non-Executive Directors to £53,600, both to take effect from 1 October 2016.

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 30 Sep 2016	As at 30 Sep 2015
John Nicholas	**5,000**	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

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. They also participate in cash based long term incentive plans which are focused on the operating profit growth of their businesses over rolling three-year periods. The Committee reviews and monitors the senior executive remuneration arrangements.