CHAIR'S INTRODUCTION TO GOVERNANCE

Compliance with the UK Corporate Governance Code
It is the Board's view that for the financial year ended 30 September 2022, the Company has been compliant with all of the principles and provisions set out in the UK Corporate Governance Code 2018 (the Code), with the exception of provision 38 (alignment of executive director pension contribution rates with those available to the workforce), for which arrangements are in place to ensure compliance by 31 December 2022, as detailed in the Remuneration Report on page 121. The current Remuneration Policy also provides that, for directors appointed since the Policy was approved, the annual maximum pension allowance or contribution will be aligned to the maximum rate available to the majority of the wider UK workforce.

Principles of the UK Corporate Governance Code 2018	More information
Board leadership and company purpose Diploma is led by an effective and committed Board, dedicated to promoting the long-term sustainable success of the Company, generating value for shareholders and stakeholders, and contributing to wider society.	Read more on pages 72 to 75, and page 99.
Division of responsibilities The roles of the Chair and the Group CEO are separate and there is an appropriate balance of Executive and Independent Non-Executive Directors.	Read more on pages 96 to 98.
Composition, succession and evaluation Appointments are subject to a formal, rigorous and transparent procedure. Succession plans are in place for the Board and senior management. An evaluation of the Board and its committees is undertaken annually, in line with the Code.	Read more on page 96, and pages 108 to 113.
Audit, risk and internal control Formal, transparent policies and procedures are in place to ensure the independence and effectiveness of the internal and external audit functions, and the integrity of financial and narrative statements, and to manage and mitigate risks.	Read more on pages 80 to 88, and pages 102 to 107.
Remuneration Diploma has remuneration policies designed to attract the best talent and promote long term sustainable performance aligned with shareholder interests. Executive remuneration is aligned to the Company's purpose and values and is clearly linked to the delivery of long-term strategy.	Read more on pages 114 to 138.

Dear Shareholder,
On behalf of the Board, I am delighted to present the Company's Corporate Governance Report for the year ended 30 September 2022, which is my first report as your Chair. One of the responsibilities of my role as Chair is to promote and oversee the highest standards of corporate governance within the Board and across the Group. The Board plays a critical role in ensuring that every part of our Group conducts its business in a manner which is consistent with ethical standards appropriate to a responsible corporate citizen. A sound corporate governance framework with the right systems and controls is key to ensuring sustainable long-term success; we are also very conscious that effective governance is not purely a matter of regulatory compliance but encompasses many issues including operating with integrity and honesty, promoting diversity and enabling better decision-making through inclusion to ensure we balance the needs of all stakeholders and operate in a fair and transparent manner.

This year will be the 30th anniversary of the publication of the Cadbury Committee's report on corporate governance, the founding document for today's UK Corporate Governance Code (the Code). The report highlighted the importance of an effective board in creating and maintaining good corporate governance and set out the fundamentals of good governance which remain in the current Code. As the environment in which corporate citizens operate has evolved and our Group has continued to grow in scale and complexity, we have continued to develop and improve what constitutes good governance with a particular focus on stakeholders, sustainability, and long-term value creation.

"The high standards of corporate governance underpin everything we deliver."

The Board is very conscious of the role it plays in ensuring that Diploma operates in a manner which is consistent with the highest standards of corporate governance. The pandemic has accelerated the evolution in the approaches of shareholders and other stakeholders to these and broader topics. Financial performance is no longer the sole guiding reason for a corporation, instead it must consider its place and role in society, its resilience and its ability to create value over time for a wide range of different stakeholders. Throughout the last few years, we have developed our approach and thinking around shareholders and stakeholders, how we capture their views and deliver their interests. A core element of this is the work that the Board has done over the year to ensure that Diploma contributes to wider society through sustainable, long-term practices as well as through our Delivering Value Responsibly (DVR) targets. Further information on our sustainability programmes can be found on pages 42 to 53. We have also continued to evolve and embed our DVR programme throughout the Group. Insights from our DVR programme have been used to inform steps taken by the Board, executive management and our businesses to improve the efficiency of systems and processes, with the goal of further empowering our colleagues, increasing agility and speed in execution and enhancing local accountability.

Effective leadership and optimal colleague engagement depends on a healthy, empowered and positive business culture. Diploma has a strong purpose, set of values and cohesive cultural fundamentals which govern our actions and provide guidance across our varied businesses even in recent challenging times. The importance of culture has been particularly acute this year as our colleagues continued to adapt to new ways of working. Further details on how the Board has monitored and assessed culture can be found on page 99.

We will continue to refine and develop our governance processes, to ensure robustness and efficiency, at Board level and throughout the Group, in a way which enables the creation of sustainable long-term value for our shareholders and stakeholders.

Board succession and evaluation
Board succession remains a key area of activity and focus. Following the retirement of John Nicholas at our Annual General Meeting (AGM) on 19 January 2022, I assumed the role of Chair of your Board. Barbara Gibbes stepped down as CFO on 30 September 2022, and Chris Davies was appointed to the role on 1 November 2022. Anne Thorburn and Andy Smith are due to retire prior to the 2024 AGM and therefore the Board has commenced the process of seeking suitable candidates to take over their Committee Chair positions. The Board is keenly aware of the need for diversity and inclusion, which is a key component of the Group's DVR programme. The Board will continue to set the right conditions and lead by example through its own approach to inclusion and diversity across its composition; further information can be found in our Nomination Committee Report on pages 108 to 113.

A key aspect of good governance is for the Board to critically self-analyse itself, its members and Committees, in order to continually improve its effectiveness. The Board carries out effectiveness reviews annually, and in FY22 this was undertaken internally in line with the Code. This evaluation has also enabled the Board to identify opportunities for it to further improve its effectiveness; additional detail on the evaluation results and areas of agreed focus can be found on page 113.

The Board's priorities for 2023 remain consistent, with a continued focus on the implementation of the Group' strategy; challenging and empowering management; succession planning and management of risk. Your Board is well placed to execute its stewardship role to ensure that the Group continues to evolve, scale and deliver long-term sustainable growth. We will also continue to be agile, adapting our thinking and priorities and promoting the interests of our investors, employees and other stakeholders over the coming years.

Our AGM will be held on 18 January 2023. I hope that as shareholders in the Company, you will be able to attend to meet with the Board of Directors and discuss any matters you feel are important to the future success of the Group.

David Lowden
Chair

GOVERNANCE AT A GLANCE

Ethnic diversity

- **100%** Non-ethnic minority

Gender diversity

- **57%** Male
- **43%** Female

Length of tenure

- **57%** 0–3 years
- **14%** 3–6 years
- **29%** 6–9 years

Skills and experience

B2B, Industrial & Distribution Sectors	●●●●●●
Retail and FMCG Sectors	●●●●
Financial and Risk Management	●●●●●
Operations	●●●●●
Customer Service	●●●●●
Health & Safety	●●●
Strategy	●●●●●●
M&A/Financing	●●●●●●
International Business	●●●●●●●

Board and Committee attendance FY22 (as at 30 September 2022)

Member	Board	Audit Committee	Nomination Committee	Remuneration Committee
David Lowden	**8/8**	**–**	**4/4**	**6/6**
John Nicholas	**3/3**	**–**	**1/1**	**1/1**
Johnny Thomson	**10/10**	**–**	**–**	**–**
Barbara Gibbes	**9/9**	**–**	**–**	**–**
Anne Thorburn	**10/10**	**5/5**	**5/5**	**6/6**
Andy Smith	**10/10**	**5/5**	**5/5**	**6/6**
Geraldine Huse	**10/10**	**5/5**	**5/5**	**6/6**
Dean Finch[1]	**9/10**	**5/5**	**4/5**	**6/6**

1 Dean Finch was unable to attend the Board and Nomination Committee meetings to approve the appointment of David Lowden as Chair, as they were called on short notice.

Changes to the Board

- John Nicholas stepped down from the Board on 19 January 2022.
- David Lowden was appointed as Chair of the Board and Nomination Committee on 19 January 2022.
- Barbara Gibbes stepped down from the Board on 30 September 2022.

Board activity and focus area

00 25 50 75 100

- Strategy and strategic execution
- Colleagues and Culture
- Finance
- Risk
- Operations
- Governance

Our governance framework

The Board comprises the Chair, Executive Directors and Independent Non-Executive Directors, and is responsible for the performance and long-term success of the Company, including health and safety, leadership, strategy, values, standards, controls and risk management.

David Lowden
Chair

Leads the Board and ensures its overall effectiveness in discharging its duties.

Anne Thorburn
Senior Independent Director

The Senior Independent Director provides a sounding board for the Chair and serves as an intermediary for other Directors and shareholders.

Independent Non-Executive Directors

Independent Non-Executive Directors ensure that no individual or small group of individuals can dominate the Board's decision making.

Group Company Secretary

The Group Company Secretary supports the Chair and ensures that Directors have access to accurate and timely information that they need to perform their roles.

Board Committees

Audit Committee
Chair: Anne Thorburn

Oversees and monitors the Company's financial statements, accounting processes, audit (internal and external), internal controls systems and financial risk management procedures. Also monitors the effectiveness of the internal audit function and reviews the external auditor independence and performance.
See more on pages 102 to 107.

Nomination Committee
Chair: David Lowden

Regularly reviews structure, size and composition of the Board and its Committees. Identifies and nominates suitable candidates to be appointed to the Board. Leads the Board's succession planning and keeps the senior leadership needs of the Group under review. Oversees the development of a diverse succession pipeline.
See more on pages 108 to 113.

Remuneration Committee
Chair: Andy Smith

Reviews and recommends the framework and policy on Executive Director and senior management remuneration. Reviews workforce remuneration policies and alignment with culture.
See more on pages 114 to 138.

Treasury Committee

Provides oversight of treasury activities in implementing the treasury policies approved by the Board.

Administration Committee

Conducts general business administration on behalf of the Company within clearly defined limits delegated by the Board and subject to the matters reserved to the Board.

Disclosure Committee

Oversees the disclosure of market sensitive information.

Executive Directors
Chief Executive Officer and Chief Financial Officer

The Group CEO and CFO lead the implementation of the Group's strategy set by the Board.

Executive team

The Executive team provide strategic and operational leadership to the Group, ensuring that strategies are executed effectively. The team comprises the direct reports of the Group CEO.

Senior Leadership Team

The Senior Leadership Team oversee essential day-to-day business operations and talent strategy, lead core initiatives and implement policies and procedures. The team is made up of members of the Executive team, Managing Directors of the businesses and key Group roles.

BOARD OF DIRECTORS

Geraldine Huse
Non-Executive Director

Joined
January 2020

Johnny Thomson
Chief Executive Officer

Joined
February 2019

Andy Smith
Non-Executive Director

Joined
February 2015


Dean Finch
Non-Executive Director
Joined
May 2021
David Lowden
Board Chair
Joined
October 2021
Anne Thorburn
Senior Independent Director
Joined
September 2015

BOARD OF DIRECTORS SKILLS AND EXPERIENCE

David Lowden
Board Chair & Nomination Chair

Joined
October 2021

Current external appointments:
- Senior Independent Director, Morgan Sindall plc
- Chair, Capita PLC

Relevant skills and experience:
- Industrial and Distribution Sectors
- Financial and Risk Management
- Operations
- Strategy
- M&A and Financing
- International Business

Past appointments:
- Chair, PageGroup plc
- Senior Independent Director, Berendsen plc
- Chair, Huntsworth plc
- Non-Executive Director, William Hill plc and Cable & Wireless Worldwide plc
- Chief Executive, Taylor Nelson Sofres

Johnny Thomson
Chief Executive Officer

Joined
February 2019

Current external appointments:
- None

Relevant skills and experience:
- B2B Industrial, Distribution and Service Sectors
- Financial and Risk Management
- Operations and Customer Service
- Strategy
- M&A and Financing
- International Business

Past appointments:
- Group Finance Director, Compass Group PLC
- Regional Managing Director, Latin America, Compass Group PLC

Anne Thorburn
Senior Independent Director & Audit Chair

Joined
September 2015

Current external appointments:
- Non-Executive Director and Chair of the Audit Committee, TT Electronics plc

Relevant skills and experience:
- B2B Industrial and Manufacturing Sectors
- Financial and Risk Management
- Strategy
- M&A and Financing
- International Business

Past appointments:
- Chief Financial Officer, Exova Group plc
- Group Finance Director, British Polythene Industries plc
- Non-Executive Director, BTG plc

Chris Davies
Chief Financial Officer

Joined
November 2022

Relevant skills and experience
- Retail and FMCG Sectors
- Financial & Risk Management
- Strategy
- M&A and Financing
- International Business
- Operations and Customer Service

Past appointments
- Chief Financial Officer, National Express Group PLC
- Group Financial Controller and Treasurer (and Interim Group CFO), Inchcape plc
- Chief Financial Officer for North America, Diageo plc

Current external appointments
- Non-Executive Director, Motability Operations Group PLC

Committee membership

- R Remuneration
- A Audit
- N Nomination
- ■ Chair

Andy Smith
Independent Non-Executive Director
& Remuneration Chair

Joined
February 2015

Current external appointments:
- None

Relevant skills and experience:
- Healthcare, Retail, FMCG and Utilities Sectors
- Operations, HR and Customer Service
- Strategy and Risk Management
- Sustainability, Diversity Equity & Inclusion and Health & Safety
- International Business

Past appointments:
- Managing Director, Severn Trent Services
- Water Services Director, Severn Trent plc
- Group HR Director, The Boots Company PLC
- Customer, Retail and Technology Director, Severn Trent plc

Geraldine Huse
Independent Non-Executive Director

Joined
January 2020

Current external appointments:
- President, Procter & Gamble, Canada

Relevant skills and experience:
- Retail and FMCG Sectors
- Customer Service
- Sales and Marketing
- Diversity, Equity & Inclusion
- Organisational Development
- International Business

Past appointments:
- Chief Executive Officer, P&G Central Europe
- Chair of the Institute of Grocery Distribution

Dean Finch
Independent Non-Executive Director

Joined
May 2021

Current external appointments:
- Group Chief Executive, Persimmon PLC

Relevant skills and experience:
- B2B Industrial, Services and Retail Sectors
- Financial and Risk Management
- Operations and Customer Service
- Health & Safety
- M&A and Financing
- Strategy
- International Business

Past appointments:
- Chief Executive Officer, National Express Group plc
- Group Chief Executive, Tube Lines
- Group Finance Director & Group Chief Operating Officer, FirstGroup plc

John Morrison
Group Company Secretary
& Head of Legal

Joined
April 2020

An experienced FTSE Company Secretary and commercial solicitor, John is responsible for the Group's legal, compliance and governance framework.

John provides support and advice to the Directors, the Board and its Committees. He brings rigour to corporate governance and ensures that Board procedures are fit for purpose and adhered to. John has expertise in regulatory and contractual law and legal risk management.

BOARD OF DIRECTORS
DIVISION OF RESPONSIBILITIES

The Board is responsible to shareholders for the Group's financial and operational performance, risk management, culture, and is collectively responsible for promoting the long-term success of the Group.

The Board is responsible for monitoring progress made against strategic objectives, approving proposed actions and ensuring that the appropriate internal controls are in place and that they are operating effectively.

There is a formal schedule of matters reserved for the Board which sets out the structure under which the Board manages its responsibilities, providing guidance on how it discharges its authority and manages the Board's activities. The Board is assisted by three principal committees (Audit, Nomination and Remuneration), each of which is responsible for reviewing and dealing with matters within its own terms of reference.

Matters reserved for the Board
The Board has a formal schedule of matters reserved for its decisions:

- purpose, strategy and management
- values, culture and stakeholders
- membership of the Board and other appointments
- financial and other reporting and controls
- audit, risk and internal controls
- contracts and capital structure
- communication
- remuneration
- delegation of authority
- corporate governance and other matters

ROLES IN THE BOARDROOM

Non-Executive Chair

- leads the Board and ensures its overall effectiveness in discharging its duties.
- shapes the culture in the boardroom and promotes openness, challenge and debate.
- sets the agenda for Board meetings, focusing on strategy, performance, value creation, risk management, culture, stakeholders and accountability.
- chairs meetings ensuring there is timely information flow before meetings and adequate time for discussion and debate.
- fosters relationships based on trust, mutual respect and open communication inside and outside the boardroom.
- leads relations with major shareholders in order to understand their views on governance and performance against strategy.

Independent Non-Executive Directors

- ensure that no individual or small group of individuals can dominate the Board's decision making.
- provide constructive challenge, give strategic guidance, offer specialist advice and hold executive management to account.

Independent Non-Executive Directors meeting the independence criteria set out in the Code comprise more than half of Board membership.

Senior Independent Non-Executive Director

- leads the Board and ensures its overall effectiveness in discharging its duties.
- provides the Chair with support in the delivery of objectives, where necessary works closely with the Nomination Committee, leads the process for the evaluation of the Chair and ensures orderly succession of the Chair's role.
- acts as an alternative contact for shareholders, providing a means of raising concerns other than with the Chair or senior management.

Group CEO & Group CFO

- lead the implementation of the Group's strategy set by the Board.
- Group CEO is responsible for delivering the strategy and for the overall management of the Group.
- Group CEO leads the Executive team and ensures its effectiveness in managing the overall operations and resources of the Group.
- Executive Directors provide information and presentations to the Board and participate in Board discussions regarding Group management, financial and operational matters.

Matters delegated to the CEO and CFO include managing the Group's business in line with the Group's strategy, annual budget and implementation of the risk governance framework.

Group Company Secretary

- supports the Chair and ensures the Directors have access to accurate and timely information they need to perform their roles.
- is the trusted interlocutor within the Board and its Committees, and between executive management and the Non-Executive Directors.
- advises the Board on legal and corporate governance matters and supports the Board in applying the Code and complying with UK listing obligations, and other statutory and regulatory requirements.

BOARD OF DIRECTORS MONITORING CULTURE

Purpose, culture and values

The Board is responsible for ensuring that the Group achieves its purpose, which is to consistently deliver value and reward its stakeholders by making a difference to our colleagues, customers and communities. In reviewing and ensuring the implementation of the Group's strategy, the Board ensures that the objectives of our purpose are met while also taking into account the risks and opportunities facing the Group.

The 2018 UK Corporate Governance Code (the Code) emphasises the importance of the role of the Board regarding culture, with specific recommendations that the Board assesses and monitors. Our decentralised model means that culture is embedded in our businesses, each of which has its own unique aspects which we believe are critical to the autonomy and empowerment that underpins the Group's success. However, there are core shared values across our businesses: respect, continuous improvement and accountability.

During the year, the Board has monitored culture in a number of ways. This includes business visits, presentations from Sector leadership, strategy review sessions as well as updates on people and culture from the Group HR Director. Successfully scaling up our value-add model requires constant evolution, and our culture has a critical role to play in supporting growth. When considering acquisition strategies, cultural fit is also an important area of focus and discussion.

One of the key ways in which the Board can experience and evaluate the culture is through meeting with colleagues across our businesses. We were delighted to travel to the USA in March 2022 and visit Windy City Wire in Chicago and Hercules Aftermarket in Louisville. The results of our Group Colleague Engagement Survey (discussed on page 36 to 37) have also provided further insight.

How the Board monitors culture

The Board

- Strategy updates
- CEO's report
- Presentations by the Group HR Director
- Sector and function presentations
- Employee engagement survey
- Site visits
- Board Committees

Our Board Committees also play an important role in monitoring our culture:

- Remuneration Committee receives updates from the Group HR Director that provide an overview of pay structures across the Group and their alignment with our purpose, values and strategy. This allows the Committee to ensure that the relevant policies and practices are consistent with our values.
- Audit Committee has oversight of internal controls and continuous access to internal audit, both of which can give an indication of culture, particularly homing in on any negative elements that don't align with the Group's culture.

Employee engagement

The Board is committed to engaging with employees and has considered the employee engagement methods specified by the Code but felt that alternative methods are more appropriate. Given the Group's decentralised model and its geographical spread, the Board has continued with a multi-faceted approach to engagement with the global workforce that is not led by any one Director or group of Directors.

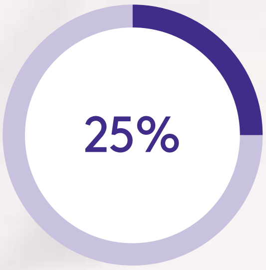
We consider that engagement by the local Managing Directors (MDs) with their own workforce, together with strong channels of communication from MDs to their respective Sector CEO as well as communication with the global workforce led by the Group's central functions, provides an effective platform for transparent two-way dialogue with employees.

The Board feels well informed on colleague views and matters and uses a combination of methods to comply with the Code's requirements:

- Regular updates to the Board at every scheduled Board meeting on people matters. Over the past year, colleague wellbeing and morale have been areas of keen focus.
- Colleague, talent and culture updates from the Group HR Director.
- The Remuneration Committee reviews workforce pay practices across Diploma.
- The Board regularly undertakes site visits.
- Executive Board members regularly interact with individual businesses and our flat structure ensures strong channels of communication.
- The Board was presented with the outcomes of the Group Colleague Engagement Survey and discussed these together with key learnings. We were delighted with the high participation rate and engagement index score; the full results of the survey are detailed on pages 36 to 37.

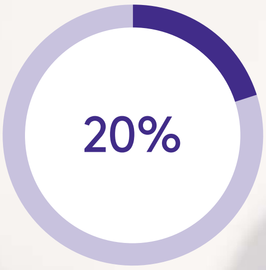
Set out below are some of the key activities, matters considered and decisions made by the Board in the year.

Strategy & strategic execution



- Regularly reviewed the Group's performance against the strategy including actions taken in respect of managing the pandemic.
- Presentations by the Corporate Development Director and Sector leadership on strategic priorities and execution against those priorities.
- Reviewed and discussed our ESG strategy and approach, Delivering Value Responsibly.
- Reviewed and approved the Group's M&A and business development activities, reorganisations and various other projects.
- Strategy review session.

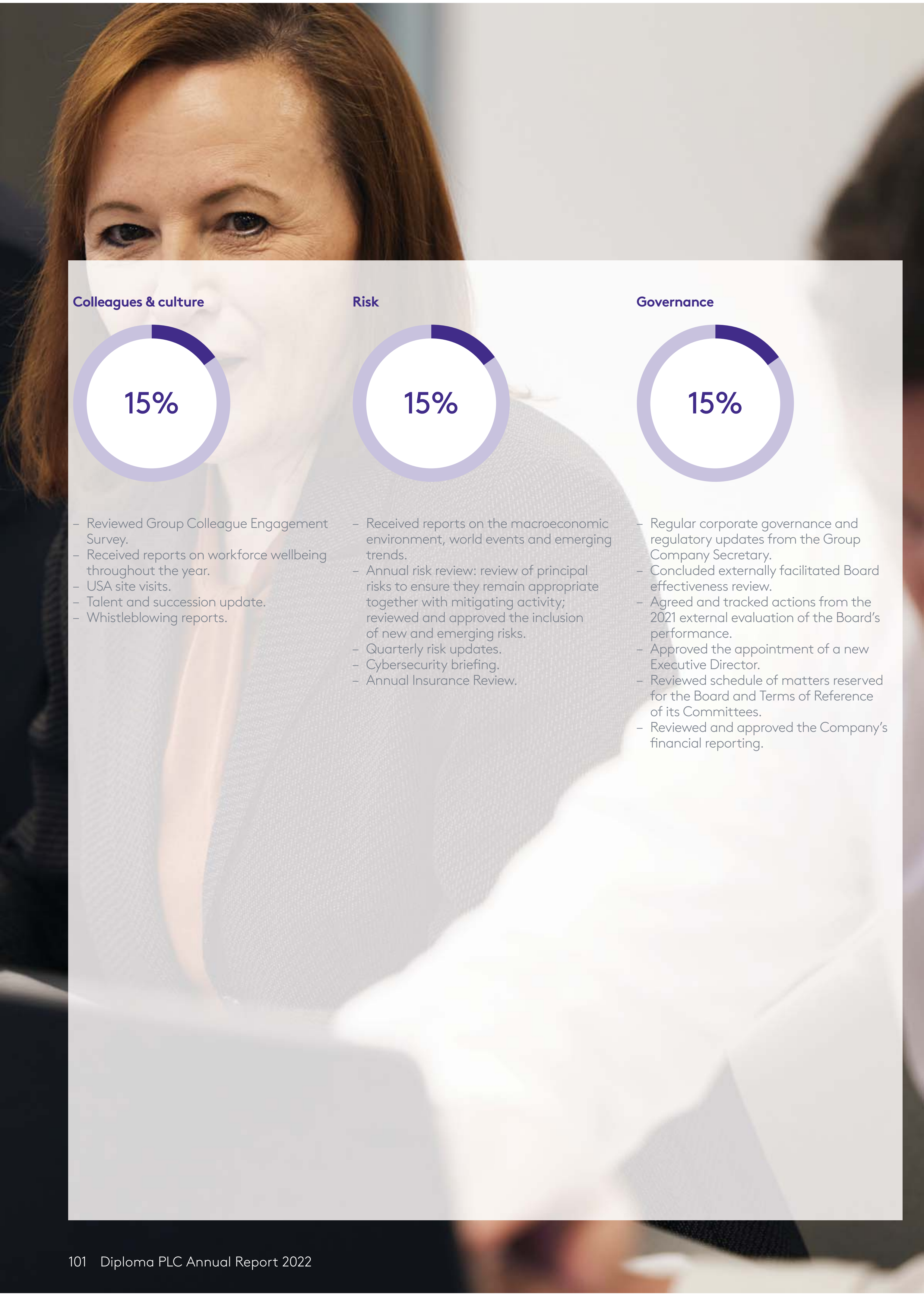
Finance



- Received updates on the Group's financial performance.
- Approved the 2023 budget; monitored performance against the 2022 budget through regular presentations from the CFO.
- Assessed and approved the proposed dividend payments, balancing the views of various stakeholders.
- Investor relations: received regular reports including share register movement and feedback from analysts and investors.
- Presentations from Tax and Treasury Functions.
- Control of Treasury and Tax policies.

Operations

- Regular updates from the CEO.
- Monitored and discussed the impact of Covid-19 on the Group's operations.
- Modern Slavery Statement.
- Sector presentations.



Colleagues & culture

15%

- Reviewed Group Colleague Engagement Survey.
- Received reports on workforce wellbeing throughout the year.
- USA site visits.
- Talent and succession update.
- Whistleblowing reports.

Risk

15%

- Received reports on the macroeconomic environment, world events and emerging trends.
- Annual risk review: review of principal risks to ensure they remain appropriate together with mitigating activity; reviewed and approved the inclusion of new and emerging risks.
- Quarterly risk updates.
- Cybersecurity briefing.
- Annual Insurance Review.

Governance

15%

- Regular corporate governance and regulatory updates from the Group Company Secretary.
- Concluded externally facilitated Board effectiveness review.
- Agreed and tracked actions from the 2021 external evaluation of the Board's performance.
- Approved the appointment of a new Executive Director.
- Reviewed schedule of matters reserved for the Board and Terms of Reference of its Committees.
- Reviewed and approved the Company's financial reporting.

AUDIT COMMITTEE REPORT

Member	Meetings attended
Anne Thorburn (Chair)	**5/5**
Andy Smith	**5/5**
Geraldine Huse	**5/5**
Dean Finch	**5/5**

The role of the Committee
The Audit Committee is responsible for ensuring that the Group maintains a strong control environment. It provides effective governance over the Group's financial reporting, including oversight and review of the systems of internal control and risk management, the performance of internal and external audit functions, as well as the behaviour expected of the Group's employees through the whistleblowing policy and similar codes of conduct. The Committee continues to focus on monitoring and overseeing management on these improvements to governance, compliance and financial safeguards.

Terms of reference can be found on our website at www.diplomaplc.com

Key matters discussed

- Reviewed and agreed the scope of audit 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 CFO and the external auditor on the key accounting issues and areas of significant judgement.
- Reviewed the report on compliance with the UK Corporate Governance Code 2018 and reports on the provision of information to the auditor.
- Reviewed the report from the CFO on the controls in place to mitigate fraud risk.
- Reviewed the Half Year Announcement and received reports from the external auditor on the key accounting issues and areas of significant judgement.
- Reviewed the trading updates.
- 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.
- Invited the Group Internal Audit Director to attend meetings 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 UK Corporate Governance Code 2018 and future reporting under section 172 Companies Act 2006.
- Approved the Committee work programme for 2023.
- Approved the Going Concern and Viability Statements.
- Continued to monitor developments in audit reform and changing best practice.
- Received training and key updates from external advisors on ESG issues and TCFD reporting requirements.
- Oversaw the audit partner rotation process.

Dear Shareholder

The Audit Committee assists the Board in discharging its responsibilities with regard to monitoring the integrity of Group financial reporting, external and internal audits and controls. This includes advising on the reappointment and independence of external auditors and assessing the quality of their services; and reviewing the effectiveness and appropriateness of the Company's internal audit activities, internal controls and management systems.

During the year ended 30 September 2022, the Committee has ensured that it has had oversight of all these areas while also focusing on diverse changes in the external environment, both regulatory and political, including any continued residual impact of the Covid-19 pandemic, which has had a range of implications on the risk management activities of the Company.

The Committee continues to monitor the uncertainties arising from these changes and consider the management and mitigation of these risks. In addition, the Committee has received reports on internal audits for the Group's businesses, together with several deep dive sessions including in respect of audits of recently acquired businesses, as well as updates on the steps being taken to address internal audit findings and control issues.

I commented in last year's report that the Committee was mindful of the changing governance landscape and potential weight of anticipated regulation in the near future, given the number of recent formal reviews undertaken regarding different aspects of corporate governance and audit market reform. In particular, we note the UK government's proposed reforms to the audit and corporate governance regime which were published on 31 May 2022 and which include the creation of a new regulator for the audit industry and increased disclosure requirements in respect of internal controls. In anticipation of these reforms and under the supervision of the Committee, management has started planning for expected changes, including preliminary steps in determining the scope and contents of the Company's audit and assurance policy.

The Committee has also monitored initiatives of other regulatory authorities to provide investors with consistent, comparable and reliable information on climate-related and ESG matters. We are supportive of regulation that enables informed investment decisions and support efforts to encourage harmonisation across regulatory regimes.

As Audit Chair, I have regular conversations with the CFO, Group Internal Audit Director, Group Financial Controller, Group Company Secretary & Head of Legal and also the audit partner at PricewaterhouseCoopers LLP (PwC), our external auditor.

PwC has now completed its fifth full annual cycle, and we value the rigour and challenge of its approach. I am pleased to report that again there have been no significant control deficiencies or accounting irregularities reported to the Committee this year. The Committee plans to commence a retender process for the audit during 2026/2027 for the FY28 Annual Report and Accounts in order to make any necessary changes to providers of other services in a timely and orderly fashion and to appoint an auditor before the start of that year as this is in the best interests of our shareholders. I am confident that the Audit Committee has carried out its duties effectively and to a high standard during the year, providing independent oversight with the support of management and assurance from the external auditors. In accordance with UK regulations, PwC adheres to a rotation policy based on best practice and the Group engagement partner will serve a period of no longer than five years. Chris Burns became the lead audit partner for the year ended 30 September 2018 following the appointment of PwC, and therefore this will be his final audit.

I look forward to meeting shareholders at the Annual General Meeting on 18 January 2023 and will be happy to respond to any questions relating to the activities of the Audit Committee.

Anne Thorburn
Chair of the Audit Committee
21 November 2022

"Adapting to a changing environment and new ways of working to ensure financial integrity and robust and effective internal controls."

Audit Committee
The Committee is chaired by Anne Thorburn and comprises four Independent Non-Executive Directors. The Committee acts independently of the Executive Directors and management. Our members have a range of skills and the Committee as a whole has experience relevant to the Sectors in which the Group operates. Anne has recent and relevant financial experience, as required by the Code.

The Group Company Secretary & Head of Legal acts as Secretary to the Committee. The Executive Directors also attend Committee meetings and subject matter experts are invited to present on specific topics as and when required. The Committee met with the external auditor during the year, without the Executive Directors being present.

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 2022 and up to the date of this report.

Financial reporting and significant financial judgements and estimates
The Committee considered and assessed:
- the full year and half year results, and trading updates for recommendation to the Board;
- the appropriateness of accounting policies and practices, as well as critical accounting estimates and key judgements; and
- whether the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

The Committee considered the matters set out below as being significant in the context of the consolidated financial statements for the year ended 30 September 2022. These were discussed and reviewed with management and the external auditor; the Committee then challenged judgements and sought clarification where necessary.

The Committee considered the judgements made in preparing the financial statements, including the accounting for acquisitions and associated valuation of intangible assets, the provisions for excess and slow-moving inventory, the potential for impairment of goodwill and the appropriateness of the Going Concern assumption. The Committee also reviewed the movements in the Group's defined benefit pension schemes.

Accounting for acquisitions and disposals
The Committee reviewed the accounting for acquisitions completed during the year, in particular the acquisitions of R&G Fluid Power Group and Accuscience. The acquisitions were material for the FY22 audit and, in accordance with IFRS 3 (Business Combinations), management has performed a full fair value exercise for these two acquisitions in this year's financial statements. As part of their audit of the Group, the external auditor has performed work on:
a) the Purchase Price Allocation (PPA);
b) the opening balance sheet as at the acquisition date; and
c) audit of any material fair value adjustments arising on the acquisition balance sheet.

The Committee reviewed and challenged management's assessment, which also included consideration of the external audit findings. The Committee concluded that the accounting for these two acquisitions and the other five smaller acquisitions is appropriate.

The Group completed two disposals in the year for combined proceeds of £21m resulting in a net profit on disposal of £7.3m. The profit on disposal has been presented within acquisition and other related items.

Provisions for excess and slow-moving inventory
The Committee reviewed the report of the CFO that set out the gross balances, together with any related provision against the carrying value of inventory. The Committee reviewed the bases used to value 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 and considering the actions taken in response to supply chain disruptions during the year and any continued impact of the Covid-19 pandemic.

Following its review, which also included consideration of the external audit findings, the Committee concluded that the provision for excess and slow-moving inventory is appropriate.

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 cash-generating units (CGUs) being tested for impairment. These judgements are primarily the calculation of the discount rates, which have increased due to rising risk free rates and the cost of debt, the achievability of management's forecasts in the short to medium term against the backdrop of a challenging macroeconomic environment, residual impact of the Covid-19 pandemic and the selection of the long-term growth rate. Following the review, which also included consideration of the external audit findings, the Committee concluded that the carrying value of the goodwill recorded is appropriate.

Other audit matters

The Committee also considered other less material matters including the valuation of the Group's defined benefit scheme and the impact of the key actuarial assumptions on the balances. The Committee is satisfied with the year end position and the assumptions used.

In addition to the above, the Committee also seeks comments from the auditor on whether the Group's businesses follow appropriate policies to recognise material streams of revenue, and their audit work carried out more generally has assessed whether there is any evidence of management override of key internal controls designed to guard against fraud or material misstatement.

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.

Going Concern and Viability

The Going Concern and Viability assessment was prepared by management. In preparing the assessment, management carried out reverse stress testing as well as scenario analysis. Two scenarios were considered – the base case and the downside case. The base case reflects actual recent trading and takes account of any further residual impact of Covid-19. The downside case reflects a more significant decline in trading, adverse movements in working capital and lower than forecast operating margin, and is considered by management to be a severe but plausible scenario.

The Group has ample liquidity and covenant headroom in each scenario for both Going Concern and Viability Statement purposes. The Audit Committee reviewed the assumptions underpinning each scenario and is satisfied with management's assessment and conclusions in respect of Going Concern and Viability. Further detail on the assessment of Viability and the Viability Statement are set out on page 89. Further details on Going Concern can be found on page 170.

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 consideration 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.

During the year, the Committee carried out an assessment of the audit process, led by the Chair of the Committee and assisted by the CFO. The assessment focused on certain criteria that the Committee considered to be important factors in demonstrating an effective audit process. These factors included the quality of the audit process and the robustness of challenge to management, key audit risks and how these have been addressed, the planning and execution of the audit and the role of management in the audit process.

The Committee was satisfied that the PwC audit of the Company and Group had provided a robust and effective audit and an appropriate independent challenge of the Group's senior management. It also supported the work of the Committee through clear and objective communication on developments in financial reporting and governance.

The Committee also oversaw the audit partner rotation process as Chris Burns, the current lead audit partner, is due to rotate after this FY22 year end. A replacement has been identified and has been shadowing the audit process to ensure a smooth handover.

Non-audit services

The Committee has approved the Group's internal guidelines covering the type of non-audit work that can be carried out by the external auditor of the Group, in light of the regulation set out in the EU Audit Directive and Audit Regulation 2014 (the Regulations) and the Financial Reporting Council (FRC) Revised Ethical Standard 2019.

The Regulations substantially curtail those non-audit services that can be provided by the auditor to the Group and in particular prohibits all tax related services, including compliance services as well as general advice and all consultancy and advisory services. The Regulations stipulate 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.

The CFO does not have delegated authority to engage the external auditor to carry out any non-audit work, but must seek approval from the Chair of the Audit Committee.

Taxation services are not provided by the Group's current audit firm; a range of different firms are used for the provision of 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 external auditor is retained to carry out assurance services to the Committee in connection with `agreed upon procedures' on the Group's half year consolidated financial statements (£28,000). The external auditor also provides access to its Viewpoint technical subscription service (£1,200).

With the exception of these services, PwC has not provided any non-audit services to the Group or its subsidiaries and has confirmed its independence to the Audit Committee. Further information is set out in note 25 to the consolidated financial statements.

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 its normal audit work, and these are reviewed against the above guidelines. PwC has reconfirmed its independence for the current financial year.

Risk management and internal control

The principal risks and uncertainties that 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 80 to 88.

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 Group has the necessary procedures in place to ensure that there is an ongoing process for identifying, evaluating and managing the principal risks to the Group. These procedures are in line with the FRC's guidance. 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 Group who are supported by the heads of each business Sector and functional heads of the Group.

Key financial and operational measures relating to revenue, cash and receivables are reported on a weekly basis. Detailed management accounts and key performance indicators 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 predefined amounts must be supported by a paper prepared by management.

All financial data is taken directly from each business' trial balance held in their local ERP system and reanalysed and formatted in a separate Group management reporting system, operated by the Group Finance department. There is no rekeying of financial data 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 financial and operational activities of the Group's businesses.

The Group's internal auditor regularly audits the base data at each business to ensure it is properly reported through to the Group management reporting system.

As part of the year end close process, each business is required to complete a self-assessment that evaluates the financial control environment in their business, designed to identify weaknesses in controls. These assessments are critically reviewed by the Group Internal Audit Director and evaluated as part of regular Internal Audit reviews.

A summary for each business is prepared for the Audit Committee. In addition, senior management of each business is required to confirm its adherence with Group accounting policies, processes and systems of internal control by means of a representation letter.

The Committee has reviewed the effectiveness of the Group's risk management and internal control systems for the period from 1 October 2021 to the date of this report. Taking into account the matters set out on pages 82 to 88 relating to principal risks and uncertainties and the reports from the Group Internal Audit Director, the Board, with the advice of the Committee, is satisfied that the Group has in place effective risk management and internal control systems.

Internal audit

The Group maintains an internal audit department which reports directly to both the CFO and Chair of the Audit Committee. The department comprises a Group Internal Audit Director and a Group Internal Auditor based at the Group's offices in London.

In January 2022, the Group Internal Audit Director presented his audit plan for the year to the Committee for its approval. Increasingly during the year, internal audit undertook audits in person as travel restrictions were lifted in a number of key jurisdictions. The department continued to effectively rely on remote visits with the use of appropriate communication technology where site visits were not possible.

The scope of work carried out by internal audit generally focuses on the internal financial, operational and compliance controls operating within each business, including risk management activities and business process improvements. Formal written reports are prepared on the results of each internal audit visit that set out internal control weaknesses/risks identified during their work, together with recommendations to improve the internal control environment and mitigate these weaknesses/risks. These reports are timely and regularly discussed with senior management within the Group. The reports are also shared with the external auditors.

At the end of the financial year, the Group Internal Audit Director formally reports to the Committee on the results of the internal audit work carried out by his department during the year. The Committee reviews management's responses to matters raised, including the time taken to resolve such matters. Updated reports on progress against the plan are provided at regular intervals and the Audit Chair also meets separately with the Group Internal Audit Director at least twice a year to review some of the department's reports and discuss their findings.

There were no significant or high-risk matters identified in the internal audits undertaken during the current financial year. Several recommendations were again made this year to the businesses in regard to implementing adequate and effective internal controls and procedures aimed at improving existing processes around cybersecurity, inventory management and procurement.

The Committee conducted the annual review of the effectiveness of the internal audit department, including its audit plan, general performance and relationship with the external auditors. Based on its review, the Committee was satisfied with the effectiveness of the Group's internal audit function, specifically that the internal audit department is sufficiently independent of executive management and has sufficient resources and scope that is appropriate for the size and nature of the Group.

Whistleblowing

The Committee also monitors the adequacy of the Group's whistleblowing policy, which provides the framework to encourage and give employees confidence to 'blow the whistle' and report irregularities. The policy, together with hotline posters, are placed on site noticeboards across the Group. Employees are encouraged to raise concerns via the confidential multilingual hotline, which is managed by an independent external company and is available 24/7, 365 days a year.

All reports are provided to the Group Company Secretary & Head of Legal for review, to ensure that they are appropriately investigated – with the support of internal audit and external resource, if required. Most matters reported through the whistleblowing service relate to personnel/ HR matters and, while these are not areas for review by the Committee, such matters are duly investigated in the same manner as any other issue raised.

NOMINATION COMMITTEE REPORT

Member	Meetings attended
David Lowden (Chair)	**4/4**
Anne Thorburn	**5/5**
Andy Smith	**5/5**
Geraldine Huse	**5/5**
Dean Finch	**4/5[1]**
John Nicholas	**1/1**

1 Dean Finch was unable to attend the meeting to confirm the appointment of David Lowden as it was called on short notice.

The role of the Committee

The Nomination Committee reviews the composition of the Board and principal Committees, considering skills, knowledge, experience and diversity requirements before making appropriate recommendations to the Board regarding any changes. It also manages succession planning for Directors and the Group Company Secretary and oversees succession planning for senior leadership across the Group.

Terms of reference can be found on our website at www.diplomaplc.com

Key matters discussed

- Recruitment of a Chief Financial Officer and broader succession planning for Chairs of Audit and Remuneration Committee.
- Consideration of a detailed skills, experience and diversity matrix that sought to identify recruitment priorities based on identified gaps, industry expectations and good practice.
- Facilitating a more diverse list of potential candidates ahead of the search for two Non-Executive Directors by setting clear objectives for the external search consultants and ensuring a clear articulation of the company's ongoing commitment to improving diversity in role specifications.
- Consideration of the contributions and effectiveness of the Non-Executive Directors seeking re-election at the 2022 Annual General Meeting, prior to giving recommendations to the Board and shareholders for their re-elections.

Dear Shareholder,
I am pleased to set out below the report on the activities of the Nomination Committee during the year.

The Board is of the view that it is essential to have an appropriate mix of experience, expertise, diversity and independence. Such diverse attributes enable the Board as a whole to provide informed opinions and advice on strategy and relevant topics, thereby discharging its duty of oversight. Appointments to the Board are made following consideration of the experience and expertise of existing Directors, any required skill sets or competencies, and the strategic requirements of the Group. During 2022, the composition of the Board changed slightly, reflecting: (i) John Nicholas stepping down from the Board, and (ii) the departure of Barbara Gibbes.

A fundamental responsibility of the Committee is to ensure plans are in place for orderly succession to the Board, as well as our Group Company Secretary and senior management positions, and the Committee debates these regularly. The main focus of the Committee during this past year has been on Board succession planning, including the appointment of our new Chief Financial Officer and the search for the Chairs of the Audit and Remuneration Committees to ensure these positions are appointed in time for an orderly handover. The Committee continually monitors the balance on the Board to ensure we have the right combination of skills, experience and knowledge consistent with the long-term strategy of the Company. This allows us to identify where further focus is needed in the coming years and beyond.

We are mindful of the discussions around improving diversity and inclusion, together with the targets set by the Hampton-Alexander Review and the Parker Review. Following the departure of Barbara Gibbes at the end of the financial year, two out of seven Directors (28.57%) are women. It is the Board's aim to meet the targets set by the Hampton-Alexander and Parker reviews, dealing with gender and ethnic diversity respectively, which is feasible given current succession plans.

The Board will maintain oversight of the range of activities the Group is pursuing aimed at increasing the diversity of our workforce – including the executive pipeline that is essential for Executive Director succession planning. We have written elsewhere (see page 40) about our Group-wide approach to diversity and inclusion, which emanates from the Board and impacts the approach of the Nomination Committee.

The FRC's guidance on board effectiveness recognises a breadth of diversity that goes beyond just gender and race, and includes personal attributes including intellect, critical assessment, judgement, courage, honesty and tact; and the ability to listen and forge relationships and develop trust. This ensures that a board is not comprised of like-minded individuals. The Committee agrees that diversity is vital when reviewing the composition of the Board and setting the criteria for the recruitment of new appointees, alongside succession planning activities. External search consultants are expected to make every effort to put forward diverse candidates for new Board positions. Whilst appointments will continue to be made on merit and against objective criteria, it remains the Committee's intention that the diversity on the Board will continue to increase over time.

The Committee has also maintained its focus on the executive succession pipeline and senior management succession plans within the Group, reflecting its responsibility to ensure appropriate plans are in place.

David Lowden
Chair of the Board and Nomination Committee
21 November 2022

"Ensuring the right mix of skills and experience to deliver long-term value for our stakeholders."

Nomination Committee

The Nomination Committee is chaired by David Lowden, Board Chair. The Committee comprises the Non-Executive Directors and meets as necessary to discharge its responsibilities.

The Group Company Secretary acts as Secretary to the Committee.

The Committee reviews the composition of the Board and principal Committees, considering skills, knowledge, experience and diversity requirements before making appropriate recommendations to the Board regarding any changes. It also manages succession planning for Directors and the Group Company Secretary, and oversees succession planning for senior leadership across the Group.

The Committee's role and responsibilities are set out in its Terms of Reference, which were reviewed during the year and approved by the Board.

Induction and professional development

The Chair, assisted by the Group Company Secretary, is responsible for ensuring that there is a properly constructed and timely induction for new Directors upon joining the Board. Upon appointment, all new Directors are provided with a comprehensive induction, where they meet with key members of management and familiarise themselves with all core aspects of the Group, its businesses and the markets in which it operates.

Directors are encouraged, wherever possible, to visit the Group's sites so that they can get a better understanding of the business and interact with employees. While travel was restricted and complex during the Covid-19 pandemic, site visits by individual Directors (and the Board as a whole) have resumed and allowed Directors to see Diploma's safety and sustainability processes, to talk with local management and workforces and to assess how effectively Diploma's culture is communicated and embedded at all levels.

The Chair also has the responsibility of ensuring that Directors receive training on a continual basis in support of their ongoing development. This training is provided by way of technical updates, reports and briefings prepared for Board meetings. Directors have full access to our corporate advisors as well as a regular and comprehensive supply of financial, operational, strategic and regulatory information to help them discharge their responsibilities.

During the year, the Board held a strategy review session to confirm the Company's strategic goals as well as receiving detailed updates on operations and support functions.

Process for Board appointments

When making Board appointments, we follow the five steps outlined below. We disclose the name of the search agent and any other connection they have with Diploma in our Annual Report & Accounts published following the search. In due course, a tailored induction programme is developed for the new Director.

During the year we engaged Russell Reynolds in connection with the recruitment of Chris Davies. Russell Reynolds do not have any other connection to the Group, other than providing executive search services.

Step 1

The Committee reviews and approves an outline brief and role specification and appoints a search agent to facilitate the search

Step 2

A Committee member discusses the specification with the independent search agent, who prepares an initial longlist of candidates

Step 3

The Committee then defines a shortlist of candidates and we hold interviews

Step 4

The Committee makes a recommendation to the Board for its consideration

Step 5

Following Board approval the appointment is announced in line with the requirements of the FCA's Listing Rules

Induction of our new Chair

David Lowden was appointed Board Chair earlier this year, and a comprehensive induction programme was put in place to enable a smooth transition into the role. A number of key induction highlights are outlined below.

Calendar of activities

November 2021

Meeting all Board colleagues, both individually and collectively

Meeting Group heads of functions

January 2022

Handover with outgoing Chair

March 2022

Visit to Windy City Wire in Chicago, and Hercules Aftermarket in Louisville in the USA

Visit to Shoal Group, IS Group and Clarendon in the UK

April 2022

Chair Q&A published in the Purple Portal, the Group's newsletter

Onboarding processes

The decentralised nature of the Group has always made induction processes complex. The pandemic led us to reconsider how these processes can be conducted effectively. Customarily there would have been face-to-face meetings with key executives and management, introductions to their direct reports, one-to-ones following the initial meetings, and site visits arranged to key businesses. Now parts of the induction plan are conducted via video calls; particularly where key people are located outside of Europe. This permits Directors to have considerably greater exposure to the various businesses and personnel and we are pleased that we can once again encourage Directors to visit our businesses and appreciate our culture and colleagues in person as well as continuing to develop their understanding of each business.

Succession planning

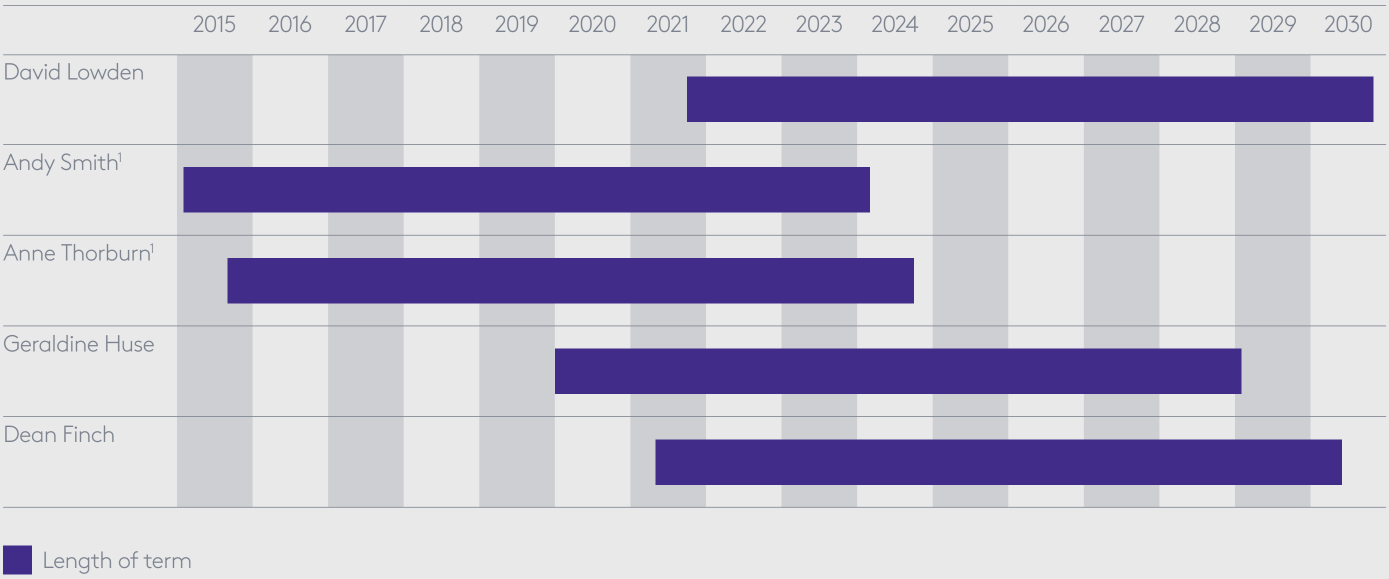
The Committee formally reviews succession planning for the Board, Group Company Secretary and Head of Legal, and senior management at least once each year, taking into account the challenges and opportunities facing the Group and the background, skills and expertise that will be required by the Group in the future. During 2022, following the appointment of the new Board Chair, the Committee undertook a more thorough analysis of the Board's competencies. The Committee also considered how the Board would be required to evolve to be fit for the future, as well as any potential gaps that may need to be filled through succession or training.

The CEO manages the development of succession plans for executive management, and these are overseen by the Committee. The CEO and Group HR Director presented a succession planning update to the Board in January 2022.

The Committee is aware of the importance of identifying critical roles within the businesses to ensure we retain and motivate key talent and have the necessary skills for the future. Overall, it was clear that we have a good executive and management succession planning process and, importantly, succession is being actively managed by the Executive team to achieve the desired long-term outcomes.

The standard term for Non-Executive Directors is three years. They normally serve for a maximum of nine years, which is split across three terms of three years each. All Directors are subject to annual re-election. With only specific exceptions that may be necessary to ensure Board continuity, Non-Executive Directors shall not stand for re-election after they have served for the period of their independence, as determined by applicable UK standards, of nine years.

Length of tenure



1 Director in third and final term.

Board evaluation

The Board conducts an annual evaluation of its performance and that of its committees and, in accordance with good practice, engages an independent third-party facilitator to assist in this process every three years. For the year ended 30 September 2022, the evaluation of the Board as a whole and of its committees was undertaken internally, led by the Board Chair. Board members completed questionnaires regarding the operation and effectiveness of the Board and its committees. Findings were collated by the Group Company Secretary and the Board Chair discussed the conclusions and recommendations separately with each Director.

The performance of the Non-Executive Directors was reviewed by the Board Chair. The performance of the Executive Directors was reviewed by the Board Chair and the Non-Executive Directors and the results of the 2022 evaluation process were considered by the Board. The conclusion was that the Board continued to function well, and the onboarding of the Board had been well received, resulting in improvement to Board processes and workplans. Directors operated in an atmosphere of open and constructive debate with a good breadth of skills, experience, and viewpoints. Following the evaluation, the below recommendations were made:

Recommendation	Action
Consider the diversity of the Board, from both a gender and ethnicity standpoint.	Nomination Committee to address diversity requirements in succession planning and during the Non-Executive Director recruitment process.
Continue to challenge and support on the progress of DVR actions.	Consider ESG skillsets during the Non-Executive Director recruitment process, creation of an ESG Committee as well as enhanced focus on climate-related financial risks.
Improve information shared with the Board to enhance visibility on certain topics and improve decision-making.	Board papers to include executive summaries to bring focus to discussions, and Sector presentations to the Board to include key indicators of customer and supplier performance.

The Company expects to update shareholders on the progress made in relation to the matters identified above in its 2023 Annual Report.

Key areas for development

The below recommendations were made following the 2021 external Board performance evaluation.

Recommendation	Action
Consider increasing the size of the Board and bringing in further skills relevant to Diploma's size and operations.	Nomination Committee reviewed the composition of the Board and incorporated this into succession planning.
Board training programme to be evolved.	Additional sessions included as part of annual calendar as well as bespoke sessions from advisors as required.
Employee engagement to be reviewed.	Increased number of site visits, with Non-Executive Directors conducting these individually on occasion and providing feedback to the Board.
Board schedule to be reviewed.	Board dinner in the evening prior to meetings included to cover specific areas of focus or concern and permit further informal engagement with key management.

REMUNERATION COMMITTEE REPORT

Member	Meetings attended
Andy Smith (Chair)	6/6
Anne Thorburn	6/6
David Lowden	6/6
Geraldine Huse	6/6
Dean Finch	6/6
John Nicholas	1/1

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

Terms of reference can be found on our website at www.diplomaplc.com

Key matters discussed
- Approved Remuneration Committee work programme for 2022.
- Reviewed the AGM 2022 votes on the 2021 Remuneration Committee Report.
- Reviewed and proposed the new Directors' Remuneration Policy, and as a result, proposed amendments to the rules of the Diploma PLC 2020 PSP.
- Approved the service contract for the new CFO.
- Approved annual performance bonus targets and the subsequent bonus awards for 2022.
- Approved new Performance Share Plan (PSP) awards for Executive Directors and Group senior management.
- Confirmed the vesting percentages for the PSP awards made in December 2019, which crystallised in 2022.
- Reviewed Executive Directors' salaries, pensions, and benefits.
- Reviewed the fees of the Chair and Non-Executive Directors.
- Reviewed remuneration framework for Executive Team and senior management in the operating businesses.
- Reviewed workforce remuneration framework.
- Approved the 2022 Remuneration Committee Report.

Dear Shareholder

As Chair of the Board Remuneration Committee (Committee), I am pleased to present our Directors' Remuneration Report (DRR) for the year ended 30 September 2022 and our revised Remuneration Policy for which shareholder approval will be sought at the January 2023 AGM.

Context and approach to remuneration

Our people lie at the heart of our success. As our business grows and becomes more complex, our people, teams and organisation must grow with it. It is vital that we have the right calibre of people and that we incentivise excellent performance and reward them when they do. On page 118, Diploma's approach to remuneration is illustrated showing how strategy, performance and reward align. In a decentralised Group, we work hard to balance alignment with local accountability and agility. Our reward policies and practices have supported the growth of the business well over the years. During this policy period, our performance has been excellent and our talented management team have doubled the size of the business.

> "Reinforcing alignment of strategy and reward, 2022 was a very strong year of performance, strategic execution and consequently reward. Long term growth and shareholder returns are excellent. Our plans remain ambitious and we are pleased to set out our Remuneration Policy for the next phase of growth."

It is against this backdrop that we have considered our remuneration policy for the upcoming three years.

2022 performance and pay

The Diploma team has delivered another year of strong financial results, adding to the Group's long-term track record of excellent business performance and shareholder returns. Organic growth has been driven by revenue initiatives, positive demand, and pricing. Alongside this, implementation of our strategy continues apace with the acquisition of new businesses to bring new capabilities and opportunities to drive future organic growth. With regards to scaling, it has been a year of excellent progress building infrastructure for scale, developing the target operating model, and evolving the structures, capability and culture of the Group.

Excellent delivery against our strategic priorities of growth, scaling and Delivering Value Responsibly have resulted in strong performance (shown in table on page 119). Adjusted operating profit (+29%), reported revenue (+29%) and free cash (+11%) all exceeded annual bonus targets (on page 130), resulting in a full bonus payment of 125% of salary for both Johnny Thomson and Barbara Gibbes.

Our long-term performance continues to create excellent shareholder returns. Our three-year compound annual growth rate (CAGR) for adjusted earnings per share (EPS) is 19%. This exceeds the performance target maximum of 14%, and the return on adjusted trading capital employed (ROATCE) is 17.3% meaning that the underpin applying to our PSP is in line with the Group's financial model and meets the Board's expectation. Our relative three-year total shareholder return (TSR) performance is in the 91st percentile of FTSE 250 companies (excluding financial services and investment trusts), ranking 15 out of 158 companies. Based on these excellent results, the Performance Share Plan (PSP) (PSP (2019)) has vested at maximum for Johnny Thomson and Barbara Gibbes, as well as all other PSP participants.

Johnny Thomson's total compensation for 2022 (shown in the Single Figure table on page 129) is £3.8m (2021 £5.2m). The difference versus last year is mainly due to lower share price appreciation.

In line with the Code, the Committee reviewed individual Directors' incentive plan outcomes and overall remuneration considering the Group's underlying performance. We have not made any adjustments to our remuneration schemes as a result of Covid, no furlough support was taken, and no discretional adjustments have been applied to outcomes. Accordingly, the Committee is satisfied that the incentive plan outcomes and the total remuneration received by Executive Directors in respect of the year ended 30 September 2022 are consistent with the levels of company performance delivered and that the Remuneration Policy is operating as intended.

Appointment of new CFO

Chris Davies joined Diploma as CFO on 1 November 2022 after Barbara Gibbes left the Company on 30 September 2022. Having played an important role in helping to steer Diploma through the pandemic and building strong foundations for the future, the Committee determined to treat Barbara as a good leaver and her remuneration arrangements on departure were in accordance with the Remuneration Policy and plan rules. Her exit arrangements are set out on page 129.

We appointed Chris following a thorough process, which considered internal and external candidates. Diploma was Barbara's first FTSE Board appointment and her package was set accordingly. Chris' package is commensurate with his experience as an established CFO with an excellent track record in decentralised, service-led, multi-national organisations. It reflects the increasing size and complexity of Diploma and the important support he will provide in the delivery of strategy, business performance and a robust financial control framework. This provides the right balance within the company and reflects a fair package. The details of Chris's package are laid out on page 124. Consistent with our policy, Chris received buy-out awards in the form of cash, Diploma shares and Diploma PSP grants to compensate him for some of the variable remuneration awards that he has surrendered in order to join Diploma. Payments take account of the details of the remuneration foregone including the nature, vesting dates and performance requirements attached to that remuneration and payments will not exceed the expected value being forfeited. Exact amounts will be finalised following the publication of his previous employer's results and will be disclosed in next year's DRR.

Remuneration in the workforce

The skill and dedication of Diploma's colleagues lie at the heart of our success. The Group achieved outstanding levels of colleague engagement again this year (more information on page 36 to 37). Remuneration in Diploma provides a careful balance that enables local decision-making in line with our decentralised business model, whilst ensuring guidance and governance from the Group, and including a review of pay equity, which is one of the Group's ESG priorities.

The CEO pay ratio for 2022 (detail on page 135) has reduced from 180:1 to 129:1. The principal reason for the reduction is lower share price appreciation from market movements. The median pay for UK colleagues has remained at a similar level £29,074 (2021: £29,036), with the addition of ca. 400 new employees from UK acquisitions. If we exclude employees who joined through acquisitions, the median pay for the UK workforce has increased marginally to £29,550.

This year's Group reward guidance to the businesses focused on looking after colleagues. The first priority was focusing on colleagues affected by inflationary pressures arising from the macro-environment, including energy prices and other rising costs of living. For the first time the Group's governance included an independent review of colleagues in lower paid roles (<£40k per annum), and these colleagues received an average increase of 7.5%, higher than the overall workforce increase.

For senior leaders, the rationale for increasing remuneration is recognition of increasing responsibilities in a growing business and incentivising future growth aligned to Diploma's strategy. We remain conscious of ensuring we can retain top talent in highly competitive international markets.

The 2022 overall base salary increase across the Group is 7% for the workforce (2021, 4%), including senior managers. The management team and Committee will continue to review total compensation proactively in order to ensure our wider workforce is fairly rewarded. The Committee considers workforce perspectives when setting Remuneration Policy, Executive Director compensation and overseeing senior management compensation frameworks.

Remuneration policy review

The Committee completed a comprehensive policy review in 2022. The review process is set out on page 120 and covered a number of key factors.

The Group has increased considerably in size and complexity in this policy period (shown in the diagram on page 120). Since the appointment of our CEO in 2019, the Group has doubled in size from a combination of strong organic growth, strategic execution and the acquisition of 25 strategically important businesses. Shareholders have benefited and Diploma has grown from FTSE 185 to FTSE 111 over the period and the Group's plans remain ambitious. Designing our policy to recognise the increased responsibilities to attract, retain and incentivise management for the next phase of growth was a top priority.

ESG is increasingly important to all our stakeholders and we wish to introduce targets into our variable pay. Ensuring that bonus measures are rigorous, specific, stretching and go beyond the 'day job' is an essential principle of reward in Diploma.

Work is underway to develop Delivering Value Responsibly as part of the strategy and we have set some non-financial KPIs and targets (shown on page 59) but more time is needed to assure these measures before we can introduce them into variable pay. Accordingly, our proposed policy has flexibility to introduce ESG metrics during this policy period (at an appropriate point).

Within the wider stakeholder context, we considered how we reward our whole workforce, as covered earlier. The senior management team engages frequently with employees, either on a business-wide basis or in the context of smaller focus groups, to solicit feedback generally on a wide range of matters, including remuneration. Feedback is passed to the Committee via the Executive team and is taken into account by the Committee when setting Executive Directors' Remuneration Policy. Additionally, we paid attention to how governance is evolving and have made a number of enhancements in our new policy which are set out on page 121 including increasing minimum shareholding requirements (MSR) and post cessation shareholding requirements.

The last step in the policy review was to review relevant market data to inform (but not drive) the Committee's considerations. (data overview is set out on page 120). The Committee is aware of, and shares, shareholder concerns regarding the risk of over reliance on benchmarking. The Committee's driver for any increased reward is greater responsibility or complexity in the relevant role and to recognise greater capability in the individual. In a growing, very successful business such as ours, we are cognisant of retaining our key people as they gain increasing market worth from their proven capabilities and track record. In this regard, market data does provide a useful 'sense-check'.

From the multiple steps of the review, the Committee concluded there was a compelling case to increase total compensation potential for our Executive Directors. The Committee believes that incorporating the increase into the PSP to incentivise long-term performance best aligns performance delivery, strategic execution and shareholder value. Therefore we propose to increase the maximum award potential for the PSP from 250% to 300% of base salary for the CEO, and from 200% to 250% of base salary for the CFO alongside the increases to both our in-situ and post-cessation shareholding guidelines.

Shareholder consultation on proposed changes

Our 2021 DRR was supported with 93% of votes in favour. During 2022, we consulted extensively on our policy and DRR 2022 implementation and engaged with 21 of our largest shareholders, representing around 65% of our register, as well as the key proxy agencies. The quality of the interactions was excellent, and we appreciate the engagement and valuable feedback. There was a range of views and preferences expressed, but we were pleased that the overall weight of opinion was strongly supportive.

Remuneration for 2023 – implementation

Fixed pay:

As disclosed previously, Johnny Thomson's cash allowance in lieu of pension contribution will reduce to 4% of basic pay from 1 January 2023 to align with the majority of the UK workforce.

The Committee considered Johnny Thomson's salary as part of the review. The Committee is aware that high inflation is not a solid rationale for increasing executive pay. The Committee considered the increased size and complexity of the Group (doubled in size as shown in the diagram on page 120), and Johnny's value as a high-performing CEO, and concluded that a base pay increase was required as part of increasing his total compensation opportunity. Shareholders asked us to review the increase in the context of intended wider workforce pay increases, the macro-economic environment, inflationary pressures faced by our colleagues and the overall quantum of CEO reward.

Having taken these views on board we agreed an increase to his pay of 6%, which remains below the increase awarded to our wider workforce at 7%. We believe this provides the right balance within the Company and will deliver a competitive CEO package.

Annual bonus:

The 2023 annual performance bonus will follow the same measures as 2022, namely 50% adjusted operating profit, 25% revenue, 25% free cash flow. Targets will be based on the Board approved budget. Maximum bonus for the CEO and CFO will remain unchanged at 125% of base salary.

PSP:

Arising from the compelling case to increase total compensation for the CEO, the Committee plans to implement the new PSP maximum this year for the CEO, subject to shareholder approval of the policy. Johnny Thomson will receive a PSP award of 300% of base salary (PSP 2022). Chris Davies will receive a PSP award of 200% of base salary (PSP 2022) (which will be pro-rated based on him working eleven months of the year).

A number of shareholders have expressed a preference for EPS over TSR (provided the ROATCE underpin remains), and in our consultation we discussed increasing the weighting of three-year CAGR adjusted EPS growth to 75% of the total award (from 50%), with 25% (previously 50%) remaining on TSR relative to the FTSE 250 (excluding financial services and investment trusts). As the majority of shareholders were supportive, we intend to progress with this change for PSP (2022). We will retain the ROATCE underpin, recognising this is critically important to shareholders.

During consultation shareholders asked that we ensure targets are appropriately stretching given the greater quantum of reward proposed. The Committee recognises that increased quantum of reward should be accompanied by appropriately high levels of performance delivery. In setting targets, we seek to ensure that the focus on organic growth is strong, the quality of acquisitions remains high and that the right risk appetite is maintained. In response to feedback, we intend to increase EPS growth required for maximum payout under the PSP from 12% to 13% for the award in 2022. The minimum threshold will remain at 5%. This provides the right degree of stretch ambition for Diploma at this time considering the organic growth opportunities, the acquisition pipeline and the prevalent market conditions. The Board will maintain oversight of ROATCE. We will continue to review the level of stretch annually for each PSP grant cycle.

Non-Executive Directors and Committee evaluation

John Nicholas retired as Chair of the Board in January 2022 and was succeeded by David Lowden. David joined the Board as Non-Executive Director and Chair designate on 19 October 2021. Non-Executive Director fees were reviewed using equivalent inputs and increases are shown on page 133.

The Committee's performance was assessed as part of the annual Board evaluation. I am pleased to report that the Committee is regarded as operating effectively and that the Board takes reassurance from the quality of the Committee's work.

Conclusion

In closing I would once again like to thank shareholders for their engagement over this last year. We will maintain a close dialogue as we seek to deliver a competitive, motivating pay framework that is tightly aligned to shareholder experience whilst maintaining good governance standards. I trust you find this report useful and look forward to receiving your support at the AGM on 18 January 2023.

Andy Smith
Chair of the Remuneration Committee
21 November 2022

Set out below is an illustration of how remuneration aligns to strategy and how it cascades in our decentralised business model

Our Purpose: Diploma's purpose is to **consistently deliver value and reward our stakeholders by making a positive difference to our colleagues, our customers and suppliers and our communities.**

Diploma's Strategy: build high-quality, scalable businesses for organic growth

Strategic pillar	Short term incentive: Annual Bonus	Long term incentive: Performance Share Plan	Remuneration Principles
1: GROWTH	Operating profit: 50% Revenue: 25%	EPS (ROATCE underpin): 75% Relative TSR: 25%	– Remuneration aligned to business strategy and promoting the long-term success of the Company. – Supporting creation of long-term shareholder value. – Providing an appropriate balance between remuneration elements which are transparent, stretching and rigorously applied. – Providing a balance between immediate and deferred remuneration and encouraging a high performance culture.
2: SCALING	Free cash: 25%		
3: DELIVERING VALUE RESPONSIBLY	Non-financial KPIs and targets in place, flexibility to introduce DVR (ESG) metrics into remuneration included in the Policy		

CASCADE OF REMUNERATION IN OUR DECENTRALISED BUSINESS:

EXECUTIVE DIRECTORS

- Remuneration Policy: updated Policy presented to shareholders for voting at AGM in January 2023; implementation reviewed annually.
- Emphasis on pay for performance and alignment with shareholders on sustainable long-term performance: Group Annual Bonus and PSP measured on a balanced set of defined financial measures linked to strategy.

LEADERSHIP ROLES

- Set locally by referring to Group framework which aligns metrics, targets and quantum for different types of role. Group governance (including pay equity).
- Reviewed annually.
- Emphasis on pay for performance. Aligned variable pay, using a blend of Group and local performance targets.
- Wider participation in Group PSP.

WORKFORCE

- Set locally, Group/Sector governance.
- Reviewed annually.
- Fair and competitive in local market.
- Linked to colleague value proposition.

Business Performance 2022 Annual Report of Remuneration

Strategic execution	Performance	Reward
Growth Revenue diversification: revenue initiatives delivering strong growth in structurally growing end markets, further penetrating core developed economies and extending product ranges. M&A to accelerate organic growth, £187m invested in seven strategically important acquisitions. Disciplined portfolio development: disposals of Kentek and a1-envirosciences. **Scaling** A year of exciting progress. Building the infrastructure for scale, developing target operating model; evolving the structures, capability and culture of the Group for scale.	**Adjusted operating profit** +29% **Revenue** +15% **Free cash flow** +11% **Adjusted EPS** 19% (3-year CAGR) **ROATCE:** 17.3% **Relative TSR: percentile rank** 91% (3-year performance)	Maximum bonus payable Maximum vesting on PSP
DVR Excellent progress and accelerated momentum as businesses embed DVR in commercial strategies and operations. A year of more consistent and robust reporting. Targets set for the first time.	**Engagement index** 79% (2021: 79%) **Scope 1 & 2 emissions** 10,615 tonnes CO_2 e (baseline year) **Waste to landfill** 60% (first year of measurement)	Flexibility to introduce DVR metrics in remuneration included in Policy.

2022 Broader Reward Priorities

Goal	Action
Support lower paid colleagues most affected by the cost of living crisis	**Wage increase for colleagues paid less than £40k of 7.5%, which is higher than the overall workforce increase.**
Retain talent in the competitive talent market	**Wage increase for the workforce of 7% (2021: 4%). Review of variable pay structures and quantum.**
Incentivise brilliant leaders on long-term success	**PSP participation increased to ca. 50 participants (2021: ca. 35 participants, 2020: ca. 15 participants). To keep pace with the growing Group variable pay structures and quantum reviewed, high pay for high performance.**

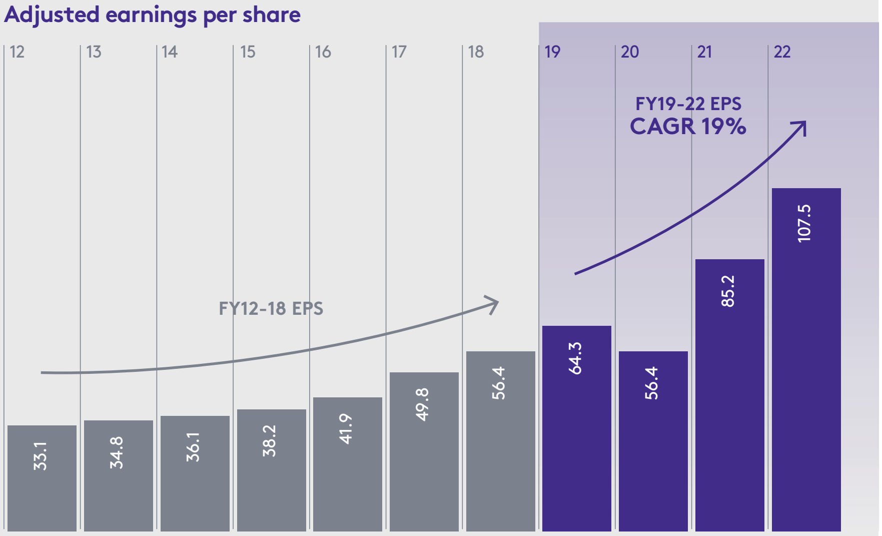
2022 Remuneration Policy Review – process

Changes to Remuneration Policy and its implementation

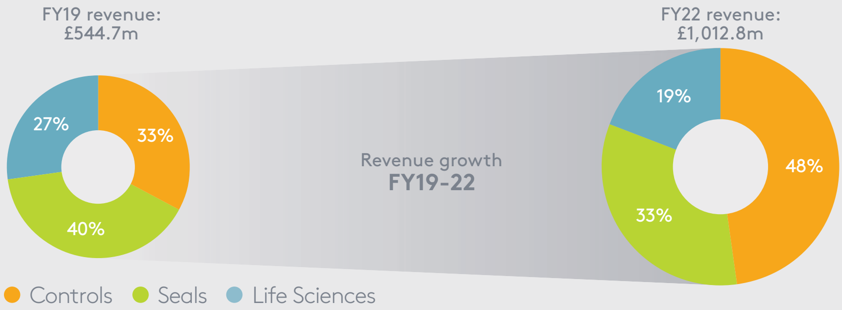
This section sets out the Directors' Remuneration Policy (the Policy) proposed for approval by shareholders at the Company's AGM on 18 January 2023. The Company's current Remuneration Policy (the Policy) was approved by shareholders at the 15 January 2020 AGM and the updated policy, subject to shareholder approval is intended to remain in effect for three years from the AGM.

1. Excellent performance and increased scale and complexity of the Group: moved from FTSE ca. 185 to FTSE ca. 111

Adjusted earnings per share



The Group has doubled whilst improving operating margin



FY19
Adjusted Operating Profit £97.2m
(operating margin 17.8%)

FY22
Adjusted Operating Profit £191.2m
(operating margin 18.9%)

2. Wider stakeholder context considered during Policy review:

- Ambitious growth plans.
- Attracting, retaining and incentivising management.
- Increased market worth of management given performance track record.
- Workforce remuneration experience and views.
- Focus on supporting wider workforce during macro environment affecting workforce-inflation, energy.
- Increasing importance of ESG performance.
- Broader indicators of culture e.g. colleague engagement (Engagement index 79%).
- Market developments in governance practices, ensuring our governance aligns with needs of stakeholders.

3. Market insight: used to 'sense check':

a) Information on UK pay levels for companies of similar size FTSE 150-100 (Diploma: FTSE 111, 30 September 2022).
b) There are few direct peers for Diploma. Hence we use a range of companies in similar markets or with similar value-add business models to provide a comparison (RS Group plc, Bunzl plc, Inchcape plc, Spirax-Sarco Engineering plc, Rentokil Initial plc, Howden Joinery Group Plc, Spectris plc, Halma plc, DS Smith plc, Travis Perkins plc, Johnson Matthey plc). Some within this list are larger than Diploma but provide useful insight.
c) Variable pay targets for FTSE 250.

4. Shareholder consultation on proposed changes:

- Extensive, direct shareholder consultation with ca. 65% of the register.
- Consultation with key proxy voting agencies.
- Conversations with shareholders shaped policy proposals including considerations of quantum and stretch in performance targets.

2022 Remuneration Policy proposals and rationale

Pension alignment with wider workforce	Pension contribution for CEO reduced to 4% of base pay from 10% of base pay from January 2023. CFO pension value already aligned to wider workforce rate of 4% of base pay.
Improving the competitiveness of Executive Directors' compensation opportunity, reflecting growing business and criticality of leadership	We recognise the need to retain and motivate our team over the next period of exceptional Company growth. The renewed Policy and its implementation for 2022 will align pay to performance and investor expectations, as follows: – No change to annual bonus Policy maximum. – Increase to PSP maximum from 250% of salary to 300% of salary for CEO and from 200% to 250% for the CFO. – For 2022, the CEO's PSP award will be aligned to the new Policy maximum at 300% of base pay. The newly appointed CFO's PSP award will be 200% of base pay (prorated).
Shareholder alignment	Increased shareholding guideline (MSR) to align with new PSP policy maxima – 300% of salary for CEO and 250% of salary for CFO. Extension of post employment shareholding requirement to now require 50% of MSR to be held for two years after termination date.
Introduction of ESG	Flexibility to include ESG metrics during next policy period.

Proposed implementation of policy in FY23

	Fixed remuneration	**Annual bonus**	**Long-term incentives**	**Shareholding guideline**	**Post-cessation guideline**
Johnny Thomson (CEO)	Base pay: £754,000 Benefits fund Pension: £41,085 (equivalent to 4% of base pay from 1 Jan 23)	Max: 125% base pay Target: 62.5% base pay	Max: 300% base pay PSP (2022): 300% base pay Performance period: three years Holding period: five years from grant	Holding requirement: 300% base pay	Holding requirement: 50% of MSR for 2 years after the termination date
Chris Davies[1] (CFO)	Base pay: £450,000 Benefits fund Pension: £18,000 (equivalent to 4% of base pay)	Max: 125% base pay Target: 62.5% base pay	Max: 200% base pay PSP (2022): 200% base pay Performance period: three years Holding period: five years from grant	Holding requirement: 250% base pay	Holding requirement: 50% of the MSR for 2 years after the termination date
Change from 2021	CEO base pay 6% increase; CEO pension reduced; New CFO appointed	No change	Policy maximum increased for CEO & CFO PSP award increased for CEO New CFO appointed	Shareholding guideline increased in line with new PSP maxima	Increased post-cessation guideline from 12 months to 2 years

1 Chris Davies was appointed from 1 November 2022. Remuneration amounts in the table above are annualised. When implemented, all his fixed and variable pay is prorated in FY23.

Remuneration Policy

The Committee reserves the right to approve payments on terms that differ from the Policy where the terms of the payment were agreed before the Policy came into effect or were agreed at a time when the relevant individual was not a Director of the Company.

The Committee may also make minor amendments to the arrangements for Directors described in the Policy without shareholder approval for regulatory, tax or administrative purposes or to take account of a change in legislation.

Executive Directors

Component	Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Base salary	To attract and retain people of the calibre and experience needed to develop and execute the Company's strategy.	Salaries are reviewed annually, with changes normally effective from 1 October.	There is no maximum limit set. Salaries will be market competitive to retain skilled executive talent and attract new talent as required. Salary increases will generally be no higher than those awarded to other employees, although the Committee retains discretion to award larger increases if it considers it appropriate.	Salary levels and increases are determined based on a number of factors, including individual and business performance, level of experience, scope of responsibility, salary increases both for UK employees and for senior management more generally and the competitiveness of total remuneration against companies of a similar size and complexity.
Pensions	Designed to be fair.	Pension contributions can either be paid directly into a pension savings scheme or taken as a separate cash allowance.	Maximum pension contributions will be no higher than the rate offered to the majority of our UK workforce for UK-based Executive Directors. Maximum pension contributions for non UK-based Executive Directors will be aligned with employees in the relevant local market.	No performance metric.
Benefits	To provide a competitive package of benefits.	Includes various cash/non-cash benefits such as: payment in lieu of a company car, life assurance, income protection, annual leave, medical insurance. The Committee may offer any additional benefits it considers appropriate in line with the interests of the Company and local market practice. Any renewable business related expenses (including tax thereon) can be reimbursed if determined to be a taxable benefit.	No maximum limit is prescribed, but the Committee monitors annually the overall cost of the benefit provision.	No performance metric.

Component	Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Annual Performance Bonus Plan	To incentivise and reward Executive Directors on the achievement of the annual budget and other business priorities for the financial year.	Provides an opportunity for additional reward based on annual performance against targets set and assessed by the Committee. Where shareholding guidelines have not been met, half of any annual bonus awarded (net of tax) will be used to purchase shares on behalf of the Executive. The shares, which are beneficially owned by the Executive, are eligible for dividends and will only be released once the Executive reaches the minimum shareholding requirement. The remaining bonus shall be paid in cash following the relevant year end. Malus and clawback provisions apply to bonus awards. The Committee may amend the formulaic outcome should it not be a fair reflection of the Company's underlying performance or in exceptional circumstances.	Maximum of 125% of base salary for the Executive Directors. Performance below threshold results in zero payment. Achievement of threshold performance results in payment of 5% of base salary. On-target bonus is 50% of maximum bonus.	Performance metrics are selected annually based on the current business objectives. The majority of the bonus will be linked to financial performance. Personal or strategic objectives, if used, will account for no more than 20% of the bonus.
Performance Share Plan (PSP)	Incentivise Executive Directors to achieve superior returns and long-term value growth.	Performance assessed over rolling three-year performance periods. Awards are discretionary and do not vest until the date on which the performance is measured. If employment ceases during a three-year performance period, awards will normally lapse except in the case of a 'good leaver'. Executive Directors are required to retain shares vesting under the PSP (net of tax) until the fifth anniversary of grant. Awards may include dividend equivalents which are cash bonuses or shares in lieu of dividends foregone on vested shares, from the time of award up to the time of vesting. Malus and clawback provisions apply. The Committee may amend the formulaic outcome should it not be a fair reflection of the Company's underlying performance or in exceptional circumstances.	The maximum opportunity as a percentage of salary is 300% for the CEO and 250% for other Executive Directors. No more than 25% of the award will be payable at threshold performance.	Awards will be granted subject to a combination of financial and strategic measures closely aligned to the Company's strategy and measured over a period of no less than three years. Strategic non-financial objectives, if used, will account for no more than 20% of the PSP.

Chair and Non-Executive Directors

Component	Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Chair and Non-Executive Directors' fees	To attract and retain a Chair and Independent Non-Executive Directors of the required calibre and experience.	Paid quarterly in arrears and reviewed each year. Although Non-Executive Directors currently receive their fees in cash, the Company may pay part or all of their fees in the form of shares. Any reasonable business related expenses (including tax thereon if determined to be a taxable benefit can be reimbursed).	The Chair's and Non-Executive Directors' fees are determined by reference to the time commitment and relevant benchmark market data.	No performance metric

Selection of performance measures and targets for Annual Bonus and PSP

The Annual Bonus Plan is designed to drive the annual financial and strategic objectives of the business. Performance measures are selected aligned to the company's strategic plan and key objectives. Targets are set by reference to internal budget. Details of the measures selected for 2023 and the rationale behind the selection can be found in the Annual Report on Remuneration.

The PSP is designed to drive the delivery of the Company's longer-term objectives and support the delivery of value for shareholders. Performance measures are selected to align with these objectives and targets are set by reference to internal long-term business plans. Any major adjustment in the calculation of performance measures will be disclosed to shareholders on vesting. Details of the measures selected for 2023 and the rationale behind the selection can be found in the Annual Report on Remuneration.

Illustration of application of Policy

Pay-for-performance: Executive Directors' potential value of 2023 remuneration packages

1 Base salary is as at 1 October 2022; benefits are as set out on page 121.
2 Stretch is calculated on the same basis as the Maximum bar; however, it includes a share price uplift of 50% over three years for the PSP.

New CFO Remuneration package

Chris Davies was appointed as Group CFO and an Executive Director on 1 November 2022. Chris was appointed on a salary of £450,000 with maximum incentive opportunities of 125% and 200% of salary respectively for the annual bonus and PSP in line with the Company's remuneration policy. His pension contribution of 4% of salary is in line with the wider UK workforce. The chart above presents his potential remuneration on a fully annualised base salary, pension, benefits, bonus and LTIP. In line with the Remuneration Policy the Company is making 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 Chris Davies has foregone in order to join the Group. Payments will 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 will not exceed the expected value being forfeited.

On-target remuneration assumes an Annual Performance Bonus Plan of 50% of the maximum for the Executive Directors. It has been assumed that a face value limit of 300% of base salary (CFO: 200%) applies to each PSP award. On-target vesting of PSP awards assumes an adjusted EPS growth of 7.67% p.a. and TSR performance which is equivalent to 50% of the maximum vesting under the PSP. Maximum remuneration assumes maximum annual performance bonus and maximum vesting of PSP awards. No dividend equivalents are assumed, and no share price growth is assumed other than in the Stretch bar.

Consideration of shareholder views
The Committee will consult with its major shareholders in advance of any significant changes to the approved Policy or exercise of discretion, as appropriate, to explain their approach and rationale fully and to understand shareholders' views. Additionally, the Committee considers shareholder feedback received in relation to each AGM alongside any views expressed during the year. The Committee also reviews the executive remuneration framework in the context of published investor guidelines or appropriate regulation including the UK Corporate Governance Code. A thorough consultation was conducted for this policy review as explained on page 120. In response for feedback, we intend to increase EPS growth required for maximum payout under the PSP from 12% to 13% for the award in 2022. On reflection, and incorportating feedback from shareholders, we reconsidered the CEO base pay increase in the context of wider workforce pay increases, the macro-economic environment, inflationary pressures faced by our colleagues and the overall quantum of CEO reward.

Differences in remuneration policy for other employees
The Group seeks to promote positive relations with colleagues. The Committee is mindful of the pay increases, incentive outcomes and share award participation in relevant markets across the rest of the Group when considering the remuneration of the Executive Directors.

The Board as a whole takes responsibility for gathering the views of Diploma's workforce, and does so through multiple channels of engagement. While the Committee does not consult employees directly when setting the Executive Directors' remuneration policy, the senior management team engages with employees, either on a business-wide basis in the context of smaller focus groups, to solicit feedback generally on a wide range of matters, including remuneration. Feedback is passed to the Committee via the Executive team.

The Company reviews compensation arrangements including base salaries for the wider employee population annually. In line with the Group's decentralised model, compensation is agreed locally, with governance and guidance provided by the Group. Salary increases for the wider population are determined based on a number of factors, including individual and business performance, level of experience, scope of responsibility, external competitive benchmarking, and general salary increases across the Group. The Company also seeks to provide an appropriate range of competitive benefits (including pension) to employees in line with their local markets. Senior managers have incentive plans aligned with the Executive Directors and there is a framework on remuneration which ensures alignment at different levels. Bonus plans for the workforce are agreed locally with oversight from the Sector management teams.

Service contracts
The Executive Directors' service contracts, including arrangements for early termination, are carefully considered by the Committee and are designed to recruit, retain and motivate Directors of the calibre required to manage the Company and successfully deliver its strategic objectives. The Committee considers that a rolling contract with a notice period of one year is appropriate for existing and newly appointed Directors.

The Executive Directors' service contracts, copies of which are held at the Company's registered office, together with any service contract for new appointments, contain provisions for compensation in the event of early termination or change of control, equal to the value of salary, pension and contractual benefits for the Director's notice period. The Company may make a payment in lieu of notice in the event of early termination and the Company may make any such payment in instalments with the Director being obliged in appropriate circumstances to mitigate loss (for example by gaining new employment). The Committee considers that these provisions assist with recruitment and retention and that their inclusion is therefore in the best interests of shareholders.

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

	Contract date	Unexpired term	Notice period	Compensation payable upon early termination
Johnny Thomson	15 Jan 2019	Rolling	1 year	1 year
Barbara Gibbes[1]	5 Feb 2020	Rolling	1 year	1 year

1 Barbara Gibbes stepped down from the Board as CFO and left the Group on 30 September 2022.

Payment for loss of office

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

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

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

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

The Committee reserves the right to make additional exit payments where such payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of settlement or compromise of any claim arising in connection with the termination of a Director's office or employment.

Change of control

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

Malus and clawback

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

The clawback arrangements permit the Committee to recover amounts paid to Executive Directors in specified circumstances and further safeguard shareholders' interests.

Remuneration for new appointments

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

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

- The remuneration structure will be kept simple where practicable.
- The emphasis on linking pay with performance shall continue, with variable pay representing a significant component of the Executive Directors' total remuneration package.
- Initial base salary will take into account the experience and calibre of the individual and their existing remuneration package. Where it is appropriate to offer a lower salary initially, a series of increases to the desired salary positioning may be given over subsequent years subject to individual performance.
- The structure of variable pay will be in accordance with Diploma's approved Policy detailed above with a maximum aggregate variable pay opportunity of 425% of salary for the CEO and 375% for other Executive Directors. Different performance measures may be set in the first year for the annual bonus, taking account of the responsibilities of the individual and the point in the financial year that the executive joined the Company.
- Benefits will generally be provided in accordance with the approved Policy, with relocation expenses/an expatriate allowance paid, if appropriate.
- In the case of an external recruitment, the Committee may also offer additional cash and/or share-based elements when it considers these to be in the best interests of Diploma and shareholders, to replace variable remuneration awards or

arrangements that an individual has foregone in order to join the Group. This includes the use of awards made under section 9.4.2 of the UK Listing Rules. Any such payments would take account of the details of the remuneration foregone including the nature, vesting dates and any performance requirements attached to that remuneration and any payments would not exceed the expected value being forfeited.
- In the case of an internal appointment, any outstanding variable pay awarded in relation to the previous role will be allowed to pay out according to the terms of grant.
- For all new Executive Director appointments, the mandated shareholding requirement, deferral of annual performance bonus and the Holding Period for PSP awards will apply in accordance with the Policy and the relevant Plan rules.
- Fees for a new Chair or Non-Executive Director will be set in line with the approved Policy.

Committee discretion

The Committee operates the Annual Performance Bonus Plan and the Performance Share Plan (the Plans) in accordance with the relevant Plan rules and, where appropriate, the Listing Rules and HMRC legislation.

The Committee will exercise its powers in accordance with the terms of the relevant Plan rules.

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

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

Policy in respect of external board appointments for Executive Directors

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

Employee and post-employment shareholding requirements

The Committee has adopted shareholding requirements for Executive Directors, to encourage substantial long-term share ownership. These specify that, over a period of five years from the date of appointment, each Executive Director should build up and then retain a holding of shares with a value equivalent to 300% of base salary in the case of the CEO, and for other Executive Directors, to 250% of base salary (the MSR).

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

As explained in the long-term incentive award section on page 123, Executive Directors are required to hold shares vesting under the PSP (net of tax) until the fifth anniversary of the grant (the Holding Period). The Holding Period continues to apply to post-cessation of employment except where cessation is by reason of death, if there is a change of control, or the Committee exercises its discretion.

In addition, a revised post-cessation shareholding requirement will apply being 50% of the MSR for two years after the termination date (or if less than the MSR, the value of shares held at the cessation date). Post-cessation holding continues to apply to shares granted under the PSP since the approval of the 2020 Policy.

Chair and Non-Executive Directors

Recruitment and term

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

Fees

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

If there is a temporary yet material increase in the time commitments for Non-Executive Directors, the Board may pay extra fees on a pro rata basis to recognise the additional workload.

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

Provision 40 table

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

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

ANNUAL REPORT ON REMUNERATION

The following section of this Report provides details of the implementation of the Remuneration Policy for the Executive Directors for the year ended 30 September 2022. All of the information set out in this section of the Report has been audited, unless indicated otherwise.

Executive Directors (audited)
Total remuneration in 2022 and 2021

	Johnny Thomson		Barbara Gibbes[1]			
	2022 £000	2021 £000	**2022 £000**	2021 £000	**2022 £000**	2021 £000
Salary	**711**	690	**365**	340	**1,076**	1,030
Taxable benefits[2]	**25**	25	**19**	19	**44**	44
Pension	**71**	86	**15**	14	**86**	100
Total fixed	**807**	801	**399**	373	**1,206**	1,174
Annual performance bonus	**889**	863	**456**	425	**1,345**	1,288
Long-term incentive plans – dividend equivalent (cash)	**75**	88	**17**	–	**92**	88
Long-term incentive plans – performance element	**1,725**	1,675	**340**	–	**2,065**	1,675
Long-term incentive plans – share appreciation element	**262**	1,815	**110**	–	**372**	1,815
Long-term share-based remuneration[3]	**2,062**	3,578	**467**	–	**2,529**	3,578
Total variable	**2,951**	4,441	**923**	425	**3,874**	4,866
Single total figure	**3,758**	5,242	**1,322**	798	**5,080**	6,040

1 Barbara Gibbes stepped down as CFO and an Executive Director on 30 September 2022.
2 Taxable benefits comprises cash allowance in lieu of a car, private medical, life assurance and income protection.
3 Dividend equivalents are included in long-term share based remuneration and total variable pay. 2021 has been re-presented to also include dividend equivalents.

Departure of Barbara Gibbes and appointment of Chris Davies (audited)
As announced on 10 August 2022, Barbara Gibbes stepped down from her role as Group CFO and left the Company on 30 September 2022. Remuneration terms on leaving were in line with the approved Remuneration policy. Barbara will receive a payment in lieu of notice (PILON) from the Company equivalent to base salary, pension allowance and benefits only, paid in ten monthly instalments covering the period from 1 October 2022 to 9 August 2023 and reflecting her contractual notice. The maximum PILON is £341,357 and will be subject to deductions for tax and National Insurance contributions in the usual way and also subject to deduction for any mitigation, including if she secures alternative employment.

Barbara was treated as a good leaver and her outstanding long-term incentive awards (PSP (2020), PSP (2021)) will vest subject to the applicable performance criteria being met for the three-year period to 30 September 2023 and 30 September 2024 respectively. These awards have been prorated for time served to 30 September 2022 (two of the three years for the PSP (2020) and one of the three years for PSP (2021)). Further detail on her outstanding long-term incentives awards is included in this report on page 133.

Barbara will receive a contribution of up to £25,000 (excluding VAT) for outplacement counselling and up to £3,000 (excluding VAT) towards legal fees.

Chris Davies was appointed as Group CFO and an Executive Director on 1 November 2022. Details of his remuneration are included on page 124.

Executive Directors' base salary (unaudited)
On 16 November 2022, the Committee approved a 6% increase in base salary for the CEO. Explanations of how the Committee has considered remuneration in the workforce are in the Chair's letter on page 116.

	Salary from 1 October 2022 £000	Salary from 1 October 2021 £000	Increase in salary
Johnny Thomson	**754**	711	6.0%
Barbara Gibbes[1]	**–**	365	n/a
Chris Davies (appointed 1 November 2022)[2]	**450**	–	n/a

1 Barbara Gibbes stepped down from her role as Group CFO and left the Company on 30 September 2022.
2 Chris Davies was appointed Group CFO on 1 November 2022. His annualised salary is £450,000.

Pension (audited)

The Executive Directors receive pension contributions from the Company. During 2022 and 2021, both Executive Directors took this as a cash allowance. None of the Executive Directors have a right to a Company Defined Benefit pension plan. Johnny Thomson lowered his cash in lieu of pension from 12.5% of base salary to 10% of base salary from 1 October 2021 and from 1 January 2023, his pension contributions will be reduced further to 4% of base salary, in line with the majority of the UK workforce.

	2022		2021	
	Contribution rate % of base salary	**Pension paid as cash £000**	Contribution rate % of base salary	Pension paid as cash £000
Johnny Thomson	**10**	**71**	12.5	86
Barbara Gibbes	**4**	**15**	4	14

Annual performance bonus (audited)

Bonus pay out for year ended 30 September 2022

The Board approves a stretching budget each year. For each performance measure, threshold is minus 5% on budget, target is budget and maximum is plus 5% on budget. Based on the performance of the Group, the Executive Directors will receive 100% of their maximum bonus for the year ended 30 September 2022. The following table summarises the performance assessment by the Committee in respect of 2022 with regard to the Group financial objectives and the bonus awarded to each of the Executive Directors:

Performance measure	Targets for 2022[1]	Overall assessment against targets
Adjusted operating profit (calculated on a constant currency basis) 50% of bonus opportunity	Minimum: £154.7m On-target:£162.4m Maximum: £170.5m	Adjusted operating profit for FY22 was £179.6m at FY21 exchange rates. The maximum threshold was met and the maximum award is payable.
Revenue (calculated on a constant currency basis) 25% of bonus opportunity	Minimum: £809.0m On-target: £849.4m Maximum: £891.9m	Revenue for FY22 was £975.9m at FY21 exchange rates. The maximum threshold was met and the maximum award is payable.
Free cash flow (reported) 25% of bonus opportunity	Minimum: £99.0m On-target: £104.0m Maximum: £109.0m	Free cash flow for the year was £120.4m. The maximum threshold was met and the maximum award is payable.

1 All figures for the FY22 targets are adjusted to FY21 exchange rates.

Bonus awarded to each of the Executive Directors for year ended 30 September 2022

	Base salary	2022 actual bonus – as a percentage of 2021 base salary					**2022 bonus**
	£000	Minimum	On-target	Maximum	**Financial objectives**	**Total bonus**	**£000**
Johnny Thomson	711	5%	63%	125%	**125%**	**125%**	**889**
Barbara Gibbes	365	5%	63%	125%	**125%**	**125%**	**456**

In line with the new Remuneration Policy, minimum shareholding requirement (MSR) for the CEO will increase to 300% of base salary and will increase to 250% of base salary for other Executive Directors. In line with the Company's Shareholding Policy, Johnny Thomson has met his minimum shareholding requirement (300%) and therefore his bonus for the year will be paid as cash. The MSR no longer applies to Barbara Gibbes since she stepped down from her role as CFO and left the Company on 30 September 2022 and therefore her bonus for the year will be paid as cash. Post-termination shareholding (as laid out in the Company's existing Remuneration Policy) will apply for Barbara Gibbes which means that 50% of her MSR or her actual shareholding will be retained for 12 months post termination.

Bonus awards for year ended 30 September 2023

In the financial year beginning 1 October 2022, the Annual Performance Bonus Plan will be based on the following metrics: 50% will be based on adjusted operating profit, 25% will be based on revenue (both metrics measured on a constant currency basis) and the remaining 25% will be based on free cash flow. The financial performance targets set for the Annual Performance Bonus Plan for this year will be disclosed in next year's Annual Report & Accounts, due to their commercial sensitivity.

Long-term incentive awards (audited)

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

Performance conditions

Set out below is a summary of the performance conditions that apply to the PSP awards which vest in 2022 (PSP (2019)), 2023 (PSP (2020)) and 2024 (PSP (2021)).

Vesting of the award is based 50% on growth in adjusted EPS and 50% on relative TSR performance. In order for any payment to be earned under the EPS element of awards, the Committee must consider that a satisfactory level of ROATCE performance has been achieved. The ROATCE underpin will be measured as the ROATCE in the third year of the performance condition and as defined in note 27 to the consolidated financial statements.

For the PSP (2022) as explained in the Chair's letter on page 117, the performance condition will remain the same as the PSP (2021) with the exception of the weighting between EPS and the relative TSR performance and the EPS targets. The vesting of this award will be weighted 75% on growth in adjusted EPS (subject to the ROATCE underpin) and 25% on relative TSR performance. The EPS target will be 5% to 13% growth per annum (PSP (2021): 5% to 12%).

EPS

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

Adjusted EPS growth (over three years)	% of awards vesting
14% p.a. (PSP (2020) and PSP (2019))	100
13% p.a. (PSP (2022))	100
12% p.a. (PSP (2021))	100
5% p.a.	25
Below 5% p.a.	Nil

Where the Company's adjusted EPS performance is between these percentage bands, vesting of the award is on a straight-line basis. For the purposes of this condition, EPS is adjusted EPS as defined in note 27 to the consolidated financial statements and this definition remains consistent with the definition of adjusted EPS approved by the Committee in previous years.

TSR

The performance condition compares the growth of the Company's TSR over a three-year period to that of the companies in the FTSE 250 Index (excluding financial services and Investment Trusts). The performance targets are as follows:

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

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

Awards vesting in 2022 (audited)

The PSP award granted on 23 December 2019 (PSP (2019)) to Johnny Thomson and on 10 March 2020 (PSP (2019)) to Barbara Gibbes, was subject to the performance conditions as set out in the table above and independently assessed over a three-year period ended 30 September 2022. The outcome of this award is presented in the table below:

Adjusted earnings per share

	Base EPS	EPS at 30 Sep 2022[1]	CAGR in EPS	Maximum target	Maximum award	Vested award
PSP (2019)	64.3p	**109.4**	19.4%	14%	50%	50%

1 The pre-IFRS 16 adjusted EPS figure has been used for the purposes of assessing the vesting criteria of the PSP (2019) award. It was explained in the 2020 and 2021 DRR that the Committee intends to use this approach until the change in accounting standard reaches its three-year anniversary.

The Committee has reviewed the ROATCE outturn and concluded that 17.3% meets the Board's expectations.

TSR growth against FTSE 250 (excluding financial services and Investment Trusts)

	TSR at 30 Sep 2022	Median	Upper quartile	Maximum award	Vested award
PSP (2019)	**20.0% p.a.**	-1.28% p.a.	8.24% p.a.	50%	50%

Set out below are the shares which vested to Johnny Thomson and Barbara Gibbes at 30 September 2022 in respect of this award.

	Share price at date of grant pence	Share price at 30 Sep 2022 pence	Proportion of award vesting	Shares vested number	Performance element[1] £000	Share appreciation element[2] £000	Total £000
Johnny Thomson PSP (2019)	2,018	2,324	**100%**	**85,481**	1,725	262	1,987
Barbara Gibbes PSP (2019)	1,755	2,324	**100%**	**19,374**	340	110	450

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 award was granted to the end of the three-year performance period on 30 September 2022.

Dividend equivalent payments (audited)

Dividend equivalent payments of £74,881 (2021: £87,803) are payable to Johnny Thomson and dividend equivalent payments of £16,972 (2021: Nil) are payable to Barbara Gibbes in respect of the PSP (2019) award which vested on 30 September 2022. Dividend equivalent payments cover all payments made in the three-year performance period.

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

Johnny Thomson and Barbara Gibbes received a grant of the PSP 2021 award on 29 November 2021 in the form of nil-cost options. This award was based on a share price of 3,118p, being the mid-market price of an ordinary share in the Company at close of business on the day immediately preceding the award. The award for Johnny Thomson was 250% of base salary and for Barbara Gibbes was 175% of base salary.

Under normal circumstances, the options will not become exercisable until the performance conditions are determined after the end of the three-year measurement period which begins on the first day of the financial year in which the award is made and provided the participating Director remains in employment. The level of vesting is dependent on the achievement of specified performance criteria at the end of the three-year measurement period. The performance conditions for this award are set out on page 131.

Outstanding share-based performance awards (audited)

Set out is a summary of the share-based awards outstanding at 30 September 2022, including both share awards which have vested during the year (based on performance) and share awards which have been granted during the year. The awards set out were granted based on a face value of 250% of base salary to Johnny Thomson and a face value of 175% (PSP (2021) and PSP (2020)) and 100% (PSP (2019)) of base salary to Barbara Gibbes; PSP (2019) being the prorated award for time served (including as CFO designate). No awards will vest unless the performance conditions set out on page 131 are satisfied.

Diploma PLC 2011 and 2020 Performance Share Plan (audited)

	Market price at date of award[2]	Face value of the award at date of grant £000	End of performance period	Vesting date	Shares over which awards held at 1 Oct 2021	Shares over which awards granted during the year	Vested during the period	Lapsed during the period	Shares over which awards held at 30 Sep 2022
Johnny Thomson									
PSP (2019)	2,018p	1,725	30 Sep 2022	30 Sep 2022	85,481	**–**	**85,481**	**–**	**–**
PSP (2020)	2,306p	1,725	30 Sep 2023	30 Sep 2023	74,804	**–**	**–**	**–**	**74,804**
PSP (2021)	3,118p	1,777	30 Sep 2024	30 Sep 2024	–	**57,007**	**–**	**–**	**57,007**
Barbara Gibbes[1]									
PSP (2019)	1,755p	340	30 Sep 2022	30 Sep 2022	19,374	**–**	**19,374**	**–**	**–**
PSP (2020)	2,306p	595	30 Sep 2023	30 Sep 2023	25,802	**–**	**–**	**(8,601)**	**17,201**
PSP (2021)	3,118p	639	30 Sep 2024	30 Sep 2024	–	**20,485**	**–**	**(13,656)**	**6,829**

1 Barbara Gibbes stepped down as Group CFO and left the Group on 30 September 2022. Her awards have been prorated for two of the three years for the PSP (2020) award and prorated for one of three years for the PSP (2021) award. These awards will vest based on the testing of performance criteria for the three year period to 30 September 2023 and 30 September 2024 respectively.
2 The market price is the share price at the close of business on the day before the grant date.

The PSP awards vest on the date on which the performance conditions are determined and confirmed by the Committee, following the end of the performance period. Shares will be held for a minimum of five years from grant date in line with the Policy, which also applies to Barbara Gibbes despite her leaving the Group.

The PSP awards are granted in the form of nil-cost options (there is a notional exercise price of £1 per award). To the extent that the awards vest, the options are then exercisable until the tenth anniversary of the award date. Details of options exercised during the year and outstanding at 30 September 2022 are set out later in this report.

Chair and Non-Executive Directors' remuneration (audited)

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

	Total fees	
	2022 £000	2021 £000
David Lowden[1]	**207**	–
John Nicholas[2]	**48**	153
Andy Smith	**67**	65
Anne Thorburn[3]	**77**	72
Geraldine Huse	**55**	53
Dean Finch[4]	**55**	19

1 The amount for David Lowden includes his fee as an Independent Non-executive Director from 19 October 2021 to 18 January 2022 and then as Chair from 19 January 2022. The Chair's annualised fee was £275,000.
2 The fee for John Nicholas was prorated following his retirement as Chair on 19 January 2022.
3 The fee for Anne Thorburn was prorated in 2021 following her appointment as Senior Independent Director on 20 January 2021.
4 The fee for Dean Finch was prorated in 2021 following his appointment on 21 May 2021.

The Non-Executive Directors received a basic annual fee of £54,500 during the year and additional fees are paid of £12,000 (2021: £12,000) for chairing a Committee of the Board or £10,000 (2021: £10,000) for acting as Senior Independent Director. No additional fee for chairing a Committee of the Board is payable to the Chair of the Company. The fees for Non-Executive Directors are reviewed every year by the Board, taking into account their responsibilities and required time commitment. From 1 October 2022, there has been a 5% increase to the Non-Executive Director fee to £57,250 and 5% increase to the Chair's fee to £288,750 per annum. The additional fee for chairing a Committee of the Board has increased 4% and for acting as Senior Independent Director to £10,500 per annum the additional fee has increased 5% to £12,500 per annum. There were no taxable employment benefits for Non-Executive Directors in 2022 and 2021.

Executive Directors' interests (audited)

In options over shares

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

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

The nil-cost options outstanding at 30 September 2022 and the movements during the year are as follows:

	Year of vesting	Options as at 1 Oct 2021	Exercised in year	Vested during the year[3]	**Options unexercised as at 30 Sep 2022**	**Exercise price[4]**	Earliest normal exercise date	Expiry date
Johnny Thomson[1, 2]	2021	122,801	122,801	–	**–**	**£1**	Nov 2021	Feb 2029
	2022	–	–	85,481	**85,481**	**£1**	Nov 2022	Nov 2029
Barbara Gibbes	2022	–	–	19,374	**19,374**	**£1**	Nov 2022	Mar 2030

1 Johnny Thomson exercised 122,801 options on 22 November 2021 at a market price of 3,204p per share and the total proceeds before tax was £3,934,544 less the exercise price of £1.
2 On 22 November 2021, the aggregate number of shares received by the participant was reduced by 57,717 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 Director of options held over shares.
3 The closing price of an ordinary share on 30 September 2022 was 2,324p (2021: 2,842p).
4 All awards have a notional exercise price of £1 per award.

Directors' interests in ordinary shares

	As at 30 Sep 2022			As at 30 Sep 2021		
	Ordinary shares	**Options vested but unexercised**	**Options with performance measures**	Ordinary shares	Options vested but unexercised	Options with performance measures
Johnny Thomson	**102,330**	**85,481**	**131,811**	37,246	122,801	160,285
Barbara Gibbes	**5,082**	**19,374**	**24,030**	1,649	–	45,176

In the new Policy, as set out on page 121, the Committee has increased the MSR of 300% (previously 250% for the CEO and at least 250% for other Executive Directors). As of 30 September 2022, Johnny Thomson's shareholding was 503% of salary and therefore he has met his MSR.

MSR no longer applies to Barbara Gibbes and post cessation holding of 50% of MSR (which is assessed against the existing policy as 200% of base salary) for 12 months applies, meaning that Barbara should hold 100% of base salary in shares for 12 months post cessation of employment. PSP awards must be held until the 5th anniversary of the PSP grant. By adhering to the five-year holding rule, Barbara Gibbes complies with the post cessation MSR. The shareholding calculations are in line with the Company's Shareholding Policy and includes shares from vested PSP awards.

As of 21 November 2022, there have been no changes to these interests in ordinary shares of the Company.

Chair and Non-Executive Directors' interests in ordinary shares (audited)

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

	Interest in ordinary shares	
	As at 30 Sep 2022	As at 30 Sep 2021
David Lowden	**2,500**	–
John Nicholas[1]	**9,045**	9,045
Andy Smith	**7,545**	7,545
Anne Thorburn	**5,045**	5,045
Geraldine Huse	**2,045**	2,045
Dean Finch	**640**	–

1 As at 19 January 2022.

As of 21 November 2022, there have been no changes to these interests in ordinary shares of the Company.

Remuneration in context

Chief Executive pay ratio (unaudited)

The table below sets out the Chief Executive pay ratios as at 30 September 2022.

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

The employee data was measured on 30 September 2022, using the most up-to-date bonus estimates. The approach used was the same as the single total figure methodology with the exception that bonus estimates were used and colleagues who work part time were converted to full time equivalent and those who worked part of the year were annualised.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2022	Option A	156:1	129:1	93:1
2021	Option A	228:1	180:1	126:1
2020	Option A	44:1	35:1	24:1

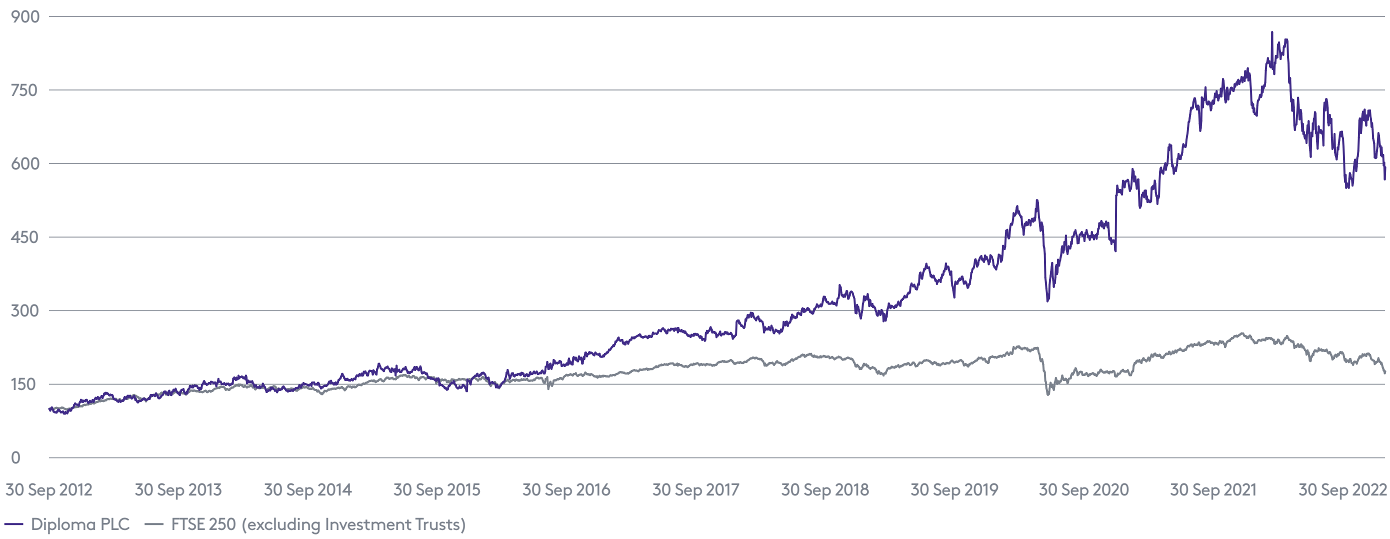
	Base salary	Ratio of base pay to CEO base pay	Total pay and benefits
CEO	£711,000	n/a	£3,758,000
25th percentile	£22,531	32:1	£24,090
Median	£27,040	26:1	£29,074
75th percentile	£36,050	20:1	£40,216

The median pay ratio for employees represents the Group's principles for workforce remuneration. A significant proportion of the CEO's remuneration is delivered through variable pay, whereby awards are linked to financial performance and share price movements over the longer term. This means that the ratios will depend on variable pay outcomes and may fluctuate from year to year. The CEO pay ratio for 2022 has reduced from 180:1 to 129:1. The principal change for the CEO's single figure is due to lower share price appreciation. The median pay for UK colleagues has remained at a similar level £29,074 (2021: £29,036) with the addition of ca. 400 new employees from UK acquisitions. If we exclude employees who joined through acquisition during 2022, the median pay for the UK workforce has increased marginally to £29,550.

Aligning pay with performance (unaudited)

The graph below shows the TSR performance of Diploma PLC for the ten-year period ended 30 September 2022 against the FTSE 250 Index (excluding Investment Trusts) as the Company is a member of this Index. The FTSE 250 Index (excluding Investment Trusts) was chosen because this is a recognised broad equity market index.

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



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

Chief Executive Officer remuneration compared with annual growth in TSR (unaudited)

Year	Name	CEO single figure of total remuneration (£000)	Annual bonus against maximum opportunity	Actual share award vesting against maximum opportunity	Annual growth in TSR
2022	**Johnny Thomson**	**3,758**	**100%**	**100%**	**-17%**
2021	Johnny Thomson	5,242	100%	100%	+32%
2020	Johnny Thomson	999	25%	–	+34%
2019	Johnny Thomson[2]	1,079	72%	–	+20%
2019	John Nicholas[1]	62	–	–	+20%
2018	John Nicholas[1]	14	–	–	+36%
2018	Richard Ingram[2]	235	–	–	+36%
2018	Bruce Thompson[2]	3,842	100%	99%	+36%
2017	Bruce Thompson	2,258	100%	89%	+24%
2016	Bruce Thompson	1,634	95%	45%	+36%
2015	Bruce Thompson	1,139	51%	25%	-1%
2014	Bruce Thompson	1,846	65%	61%	+8%
2013	Bruce Thompson	2,401	33%	100%	+42%

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

Relative importance of Executive Director remuneration (unaudited)

	2022 £m	2021 £m	Change £m
Total employee remuneration	**177.5**	136.9	40.6
Total dividends paid	**56.2**	52.9	3.3

Percentage change in remuneration of Directors and employees (unaudited)

Set out below is the change over the prior financial year in base salary/fees, benefits, pension and annual performance bonus of the Board and the Group's senior managers. Senior managers is a defined group of ca. 130 colleagues. The Committee chose senior managers for pay comparisons with the Board as it provided the most closely aligned comparator group, considering the global and diverse nature of the Group's business. The figures for the Board are all on a full year basis to show the intended movement.

	Base salary/fee change (%)[1]			Pension change (%)			Taxable benefits change (%)			Bonus change (%)		
	2022 vs 2021	2021 vs 2020	2020 vs 2019	**2022 vs 2021**	2021 vs 2020	2020 vs 2019	**2022 vs 2021**	2021 vs 2020	2020 vs 2019	**2022 vs 2021**	2021 vs 2020	2020 vs 2019
Executive Directors												
Johnny Thomson[2]	**+3**	No change	+3	**-18**	-17	+3	**+2**	+4	No change	**+3**	+300	-64
Barbara Gibbes	**+7**	No change	n/a	**+7**	No change	n/a	**+2**	+7	n/a	**+7**	+300	n/a
Non-Executive Directors[3]												
David Lowden	**n/a**	No change	n/a									
John Nicholas[4]	**-69**	No change	+3									
Andy Smith	**+3**	No change	No change									
Anne Thorburn[5]	**+6**	+11	+3									
Geraldine Huse	**+3**	No change	+n/a									
Dean Finch[6]	**+185**	+n/a	+n/a									
Employees of the Parent Company[7]	**n/a**	n/a	n/a	**n/a**	n/a	n/a	**n/a**	n/a	n/a	**n/a**	n/a	n/a
Senior management team	**+7.5**	+1	+5	**+7.5**	+1	+5	**No change**	No change	No change	**+22**	+77	-25

1 This does not take account of the voluntary pay reduction in 2020.
2 The reduction in pension was a voluntary reduction from 12.5% of base salary to 10.0% of base salary.
3 The Non-Executive Directors do not receive any pension, bonus or taxable benefits.
4 The fee for John Nicholas was prorated following his retirement as Chair on 19 January 2022. The like for like increase is +3%.
5 The increase for Anne Thorburn was the result of her appointment for only part of the prior year to Senior Independent Director on 20 January 2021. The like for like increase is +3%.
6 The increase for Dean Finch was due to the prior year being prorated from his date of appointment on 21 May 2021. The like for like increase is +3%.
7 There are no employees of the Parent Company.

Executives and senior management below the Board (unaudited)

Set out below is a summary of the share-based awards outstanding at 30 September 2022, which have been granted to members of the executive team and other senior employees, including share awards which have vested during the year based on performance and share awards which have been granted both last year and during this year. The awards set out below were granted based on a fair value that varied between 15% and 100% of base salary. No awards will vest unless the performance conditions set out on page 131 are achieved over a three-year measurement period. The committee anticipates making similar awards to members of the executive team and other senior employees in December 2022.

	Market price at date of award	Face value of the award at date of grant £000	End of performance period	Share over which awards held at 1 October 2021	**Shares over which awards granted during the year**	**Vested during the year**	**Lapsed during the year**	**Shares over which awards held at 30 Sep 2022**
PSP (2019)	2,018p	686	30 Sep 2022	34,006	**–**	**29,546**	**4,460**	**–**
PSP (2020)	2,306p	1,141	30 Sep 2023	49,472	**–**	**–**	**9,612**	**39,860**
PSP (2021)	3,108p/ 2,574p/ 2,682p	2,360	30 Sep 2024	–	**102,258**	**–**	**8,086**	**94,172**

GOVERNANCE

Remuneration Committee

The Committee is chaired by Andy Smith and comprises five Independent Non-Executive Directors. John Nicholas retired as Chair on 19 January 2022 and was replaced by David Lowden. The remaining members, Anne Thorburn, Dean Finch and Geraldine Huse, continue to serve on the Committee. The Group CEO and the Group HR Director attend meetings at the invitation of the Committee to provide advice to help it make informed decisions. The Group Company Secretary attends meetings as Secretary to the Committee.

The Remuneration Committee Report

The Annual Report on Remuneration and the Chair's Statement will continue to be subject to an advisory vote by shareholders at the 2023 AGM.

Remuneration principles and structure

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

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

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

Key duties and focus in 2022

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

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

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

- Approved Remuneration Committee work programme for 2022.
- Reviewed the AGM 2022 votes.
- Conducted extensive shareholder consultation on the new Remuneration Policy and its implementation.
- Approved annual performance bonus targets and the subsequent bonus awards for 2022.
- Approved new PSP awards to Executive Directors and confirmed the performance conditions for such awards.
- Confirmed the vesting percentages for the PSP (2019) which crystallised in 2022.
- Reviewed Executive Directors' salaries, pensions and benefits.
- Oversight of leaving arrangements for the CFO and remuneration arrangements for the new CFO.
- Reviewed the fees of the Chair and Non-Executive Directors, including oversight of non-Executive Director changes.
- Finalisation of the appointment of a new Chair.
- Reviewed remuneration framework for executive management and senior management in the operating businesses.
- Reviewed workforce remuneration framework.
- Approved the 2022 Remuneration Committee Report.

Services from external advisors (unaudited)

The Committee has continued to receive its remuneration advice from WTW and legal remuneration advice from Simmons and Simmons. The fees are agreed in advance with the advisor, based on the scope of work. All advisors are selected by the Committee based on their technical expertise and independence. None of the advisors have any relationship with any Director and the Committee is satisfied that the services of advisors are independent, which it validates by checking that the advisors are not providing other services to the Company. Fees during 2022 were higher due the Policy review and the change of CFO. Details are shown in the table below:

Advisor	Appointed by	Services provided to the Committee	Other services provided to the Company	Fees (£)
Willis Towers Watson	Committee	Remuneration advice	None	129,872
Simmons and Simmons LLP	Committee	Legal and remuneration advice	None	10,375

Shareholder voting at previous Annual General Meeting (unaudited)

The Director's Remuneration Policy was approved by shareholders at the AGM held on 15 January 2020 and the Remuneration Committee's Annual Report (Report) for the year ended 30 September 2021 was approved by shareholders at the AGM held on 19 January 2022, with the following votes being cast:

	Policy		2021 Report	
Votes for	60,768,041	79.98%	101,036,465	93.26%
Votes against	15,209,003	20.02%	7,304,995	6.74%
Withheld	21,745,098	–	206,630	–

At the AGM in January 2022, the 2021 DRR was approved with 93.26% of votes in favour. Given the positive voting outcome there was no immediate need for shareholder follow up. Extensive consultation was conducted during 2022 on the new Policy and the 2022 DRR. During consultation there was an opportunity to check with shareholders if they had any outstanding issues from 2021 and none were raised.

This section comprises information which the Directors are required by law and regulation to include within the Annual Report & Accounts. The Directors who held office during the year are set out on page 92.

Shareholders

Incorporation and principal activity

Diploma PLC is domiciled in England and registered in England and Wales under Company Number 3899848. At the date of this report there were 124,679,542 ordinary shares of 5p each in issue, all of which are fully paid up and quoted on the London Stock Exchange.

The principal activity of the Group is the supply of specialised technical products and services. A description and review of the activities of the Group during the financial year including the Company's business model and strategy, principal risks and uncertainties facing the Group and how these are managed and mitigated, together with an indication of future developments is set out in the Strategic Report on pages 2 to 89, which incorporates the requirements of the Companies Act 2006 (the Act).

Annual General Meeting

The Annual General Meeting (AGM) will be held at 09.00 am on Wednesday, 18 January 2023 in The Charterhouse, Charterhouse Square, London EC1M 6AN. The Notice of the AGM, which is a separate document, will be sent to all shareholders and will be published on the Diploma PLC website.

Substantial shareholdings

At 30 September 2022, the Company had received formal notifications of the following holdings in its ordinary shares in accordance with the requirements of the Financial Conduct Authority's Disclosure Guidance and Transparency Rules (DTRs):

	Percentage of ordinary shares (September 2022)	Percentage of ordinary share capital (November 2022)
Mawer Investment Management Limited	9.80	No change
Capital Research Global Investors	12.01	13.06
Royal London Group	4.95	No change
The Vanguard Group, Inc	3.42	No change
Mondrian Investment Partners Limited	3.14	No change
BlackRock Inc	5.07	Below 5

Other than Capital Research Global Investors and BlackRock Inc, there have been no changes in the interests notified to the Company pursuant to the DTRs up to the date of this report.

Share capital

The rights attaching to the Company's ordinary shares, as well as the powers of the Company's Directors, are set out in the Company's Articles of Association (the Articles), a copy of which is available on the Company's website. The Articles may be amended by special resolution of the Company's shareholders.

Shareholders

Shareholders are entitled to attend and speak at general meetings of the Company and to appoint one or more proxies, or corporate representatives. On a show of hands each holder of ordinary shares shall have one vote, as shall proxies. On a poll, every holder of ordinary shares present in person or by proxy shall have one vote for every share of which they are the holder. Electronic and paper proxy appointments and voting instructions must be received not later than 48 hours before a general meeting.

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfers of securities and/or voting rights. No person holds securities in the Company carrying special rights with regard to control of the Company.

Contracts of significance and change of control

There are a number of agreements that take effect, alter or terminate upon a change of control of the Company, principally bank facility agreements, the Company's Long-Term Incentive Plan and the Annual Performance Bonus Plan.

Restrictions on transfer of shares

The Directors may refuse to register a transfer of a certificated share that is not fully paid, provided that the refusal does not prevent dealings in shares in the Company from taking place on an open and proper basis, or where the Company has lien over that share. The Directors may also refuse to register a transfer of a certificated share, unless the instrument of transfer is: (i) lodged, duly stamped (if necessary), at the registered office of the Company or any other place as the Board may decide accompanied by the certificate for the share(s). Transfers of uncertificated shares must be carried out using CREST and the Directors can refuse to register a transfer of an uncertified share.

Participants in the Company's Performance Share Plan (PSP), who have yet to meet shareholding requirements, have vested PSP shares held in trust until the earlier occurrence of them meeting their shareholder requirement or for a period of two years, during which period these shares cannot be transferred to them. Executive Directors who participate in the Annual Performance Bonus Plan, who have yet to meet shareholding requirements, have 50% of their net annual bonus held in shares until the earlier occurrence of them meeting their shareholding requirement or five years.

Share allotment

A general allotment power and a limited power to allot shares in specific circumstances for cash, otherwise than pro rata to existing shareholders, were given to the Directors by resolutions approved at the AGM of the Company held on 19 January 2022.

Authority to make market purchases of own shares

An authority to make market purchases of up to 10% of the issued share capital shares was given to the Directors by a special resolution at the AGM of the Company held on 19 January 2022. In the year to 30 September 2022, the Company has not acquired any of its own shares.

Liability insurance and indemnities

As at the date of this report, the Company has granted qualifying third-party indemnities to each of its Directors against any liability that attaches to them in defending proceedings brought against them, to the extent permitted by the Companies Act. In addition, Directors and officers of the Company and its subsidiaries have been, and continue to be, covered by Director and officer liability insurance.