

# DIRECTORS' REMUNERATION REPORT CONTINUED

## DIRECTORS' REMUNERATION POLICY

### Directors' remuneration policy

This section of the report details the Policy for Executive and Non-Executive Directors which shareholders approved at the 2017 AGM and is effective for up to three years. The Policy remains unchanged from that presented last year, save for the removal of the reference to the Roxboro UK Pension Scheme, which is a legacy defined benefit scheme in which neither Executive Director participates and which is closed to new members. The committee continues to have a clear policy on remuneration; namely that base salary and benefits for Executive Directors should represent a fair return for employment but that the majority of remuneration should be variable, dependent on the continued success of the Company, and aligned with the creation of shareholder value and delivery of Dialight's strategic plan. The committee believes that the Policy continues to reinforce these principles, while also taking account of prevailing best practice,

investor expectations, and the level of remuneration and pay awards made generally to employees of the Group.

### Compliance statement

This Report has been prepared in accordance with the provisions of the Companies Act 2006 and Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the "Regulations"). It also meets the requirements of the UK Listing Authority's Listing Rules and the Disclosure and Transparency Rules.

In accordance with the Regulations, the following sections of the Report are subject to audit: the single total figure of remuneration for Directors and accompanying notes (page 74), scheme interests awarded during the financial year and payments to past Directors (pages 77 and 80), payments for loss of office and the statement of Directors' shareholdings and share interests (page 81). The remaining sections of the Report are not subject to audit.

A breakdown of all elements of executive remuneration and their place in the Company's policy can be found below:

### Remuneration Policy table

Element/link to strategy	Operation	Opportunity	Performance metrics
<p><b>Base salary</b></p> <p>To ensure that fixed pay represents a fair return for employment.</p>	<p>The committee sets base salary with reference to relevant market data and an individual's experience, responsibilities and performance.</p> <p>Base salary is considered by the committee on an individual's appointment and then reviewed once a year or when an individual changes position or responsibilities.</p> <p>When making a determination as to the appropriate level of remuneration, the committee firstly considers pay and conditions for employees across the Group, the general performance of the Company and the wider economic environment and, where considered relevant, the committee benchmarks remuneration against a bespoke group of comparator companies incorporated in both the US and the UK (size adjusted on the basis of market capitalisation and revenue).</p> <p>Benchmarking is not the only driver in salary reviews.</p>	<p>Any base salary increases are applied in line with the outcome of the review.</p> <p>In respect of existing Executive Directors, it is anticipated that salary increases will generally be in line with the broader employee population. In exceptional circumstances (including, but not limited to, a material increase in role size or complexity), the committee has discretion to make appropriate adjustments to salary levels to ensure that they remain market competitive. It is not envisaged that this will be a frequent occurrence.</p> <p>Detail of current salaries for the Executive Directors can be found on page 74.</p>	<p>None.</p>

Element/link to strategy	Operation	Opportunity	Performance metrics
<p><b>Benefits</b></p> <p>The approach of the committee is that other benefits payable remain in line with market practice to ensure that Dialight retains its ability to be competitive and remain attractive to prospective candidates.</p>	<p>Executive Directors receive benefits which consist primarily of the provision of a car allowance, life insurance and medical insurance, although they may include such benefits as the committee deems appropriate.</p>	<p>Benefits vary by role and individual circumstances; eligibility and cost are reviewed periodically.</p> <p>The committee retains the discretion to approve a higher total benefit cost in exceptional circumstances (e.g. relocation) or in circumstances where factors outside the Company's control have changed materially (e.g. increases in life insurance premiums).</p> <p>The value of benefits awarded to the Executive Directors can be found in the table on page 74.</p>	<p>None.</p>
<p><b>Pension</b></p> <p>The Company provides this benefits package in order to be competitive in the relevant market and to ensure its ability to recruit and retain executives.</p>	<p>The Company operates a 401(k) and Supplemental Executive Retirement Plan ("SERP") in the US, with both employee and employer contributions made to the relevant schemes.</p> <p>Executive Directors in the UK are entitled to join the existing defined contribution scheme offering employer contributions of up to 15% or to receive an equivalent cash payment in lieu.</p> <p>Executive Directors in the US are entitled to participate in the 401(k) and the SERP. In relation to the SERP, a participant is entitled to receive a cash equivalent payment in lieu of employer contribution.</p> <p>Salary is the only element of remuneration that is pensionable.</p>	<p>The new Group Chief Executive Officer does not currently participate in the SERP and instead receives a cash payment in lieu of employer contribution. The Group Chief Executive Officer does participate in the 401(k) scheme and receives an employer contribution of up to 3% of base salary in accordance with the plan rules.</p> <p>It is not anticipated that pension contributions (as a percentage of salary) will exceed the levels currently provided.</p> <p>Further details of what has been paid during 2017 can be found on page 74.</p>	<p>None.</p>

# DIRECTORS' REMUNERATION REPORT CONTINUED

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Element/link to strategy	Operation	Opportunity	Performance metrics
<p><b>Sharesave Plan</b></p> <p>To provide a mechanism by which employees can save up to purchase shares at a discount to the prevailing market price on an annual basis, encouraging employee retention and engagement with the Company.</p>	<p>The Sharesave Plan currently operates in the UK, the US and Mexico but may be introduced to other parts of the world at a future date.</p> <p>The Sharesave Plan has typically been operated on an annual basis and is open to all eligible employees, including Executive Directors.</p>	<p>Employees will be able to save up to the maximum of the limits approved by HM Revenue &amp; Customs from time to time (or local currency equivalent) for a total period of three years.</p> <p>At the beginning of each savings period, employees will be granted options over shares in Dialight plc up to a maximum discount of 20% to the prevailing market price. The employees' savings are then used to purchase and exercise these options at the end of three years.</p>	<p>None.</p>
<p><b>Annual Performance Bonus Plan</b></p> <p>The APBP rewards performance against our annual goals, and directly supports the achievement of EBIT, one of the key financial KPIs of the Company.</p>	<p>APBP measures, weightings and targets are set by the Committee at the beginning of each financial year following the finalisation of the budget for that year.</p> <p>Bonuses up to target are paid in cash, with payouts above target delivered in Dialight shares. Where the executive receives Dialight shares, half of these vest after two years with the balance vesting after three years, subject to continued employment with the Group.</p> <p>Dividends are accrued on these deferred shares and are paid to the participant on release of shares that are subject to the award.</p> <p>The rules of the APBP allow for the clawback of deferred share awards prior to their vesting should the committee take the decision that to allow such awards to vest would be contrary to the best interests of the Company's shareholders.</p>	<p>The maximum bonus opportunity is 175% of salary.</p> <p>Threshold performance will deliver payouts of up to 20% of maximum, while payouts for target performance will be up to 60% of maximum.</p>	<p>Performance is assessed on an annual basis, as measured against specific objectives set at the start of each year.</p> <p>The primary measure is Company EBIT, although other financial measures may be rewarded, as may additional specific objectives, that can be triggered following satisfactory achievement of the primary EBIT targets.</p> <p>Further details of the measures, weightings and targets applicable for 2018 can be found on page 79.</p>

Element/link to strategy	Operation	Opportunity	Performance metrics
<p><b>Performance Share Plan</b></p> <p>The PSP provides direct alignment between the interests of shareholders and those of the Executive Directors by linking vesting of awards to the Company's long-term financial and share price performance.</p>	<p>PSP awards may be structured as conditional shares or nil-cost options with a two-year exercise window from the date of vesting.</p> <p>The release of awards may, at the discretion of the committee, be deferred in whole or in part following the end of a three-year vesting period. All vested awards will be subject to a two-year post-vesting holding period.</p> <p>The committee has the power to authorise the payment of dividends or dividend equivalents under the rules of the PSP.</p> <p>The PSP rules contain provisions that allow for clawback and malus in respect of both vested and unvested awards in exceptional circumstances.</p>	<p>The maximum PSP award is 150% of salary per annum, although the committee has historically made awards of between 25% and 125% of salary.</p> <p>Threshold vesting delivers up to 25% of maximum.</p>	<p>Vesting of PSP awards is subject to continued employment and performance measures. The performance measures relating to grants are weighted as follows:</p> <ul style="list-style-type: none"> <li>– Between 25% and 75% on three-year earnings per share ("EPS") growth.</li> <li>– Between 25% and 75% on TSR relative to a relevant peer group or index.</li> </ul> <p>The committee will review the performance measures, weightings and targets prior to each grant to ensure that they continue to be well aligned with the delivery of Company strategy.</p> <p>Further details of the measures, weightings and targets applicable for 2018 can be found on page 79.</p>

# DIRECTORS' REMUNERATION REPORT CONTINUED

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<p><b>Non-Executive Director fees</b></p> <p>The Company sets fee levels to attract and retain Non-Executive Directors with the necessary experience and expertise to advise and assist with establishing and monitoring the strategic objectives of the Company.</p>	<p>Fee levels are typically considered every year, taking into account fees paid for equivalent roles at companies of similar size, time commitment and complexity.</p> <p>The fees paid to the Chairman are determined by the Committee, while fees for Non-Executive Directors are determined by the Board.</p> <p>Additional fees are payable for acting as Senior Independent Director and as Chair of any of the Board's committees.</p> <p>Non-Executive Directors do not receive any bonus, do not participate in awards under the Company's share plans and are not eligible to join the Company's pension scheme.</p>	<p>The Company's policy in relation to fees is to reflect the time commitment and responsibilities of the roles, normally by paying up to median level fees, compared to market, depending on the experience and background of the Non-Executive Directors. The Company also reimburses the Non-Executive Directors for expenses reasonably and properly incurred in the performance of their duties.</p> <p>In normal circumstances, increases to fees will be broadly in line with price inflation, subject to cases of material misalignment with the market or a change in the complexity, responsibility or time commitment required to fulfil a Non-Executive Director role.</p> <p>It remains important for the Board to have the necessary flexibility to step outside this general policy should the requirement be clear that a certain type of individual is required to conform with new governance requirements or legislation.</p> <p>Aggregate fees for all Non-Executive Directors will be within the limits set by the Articles of Association.</p> <p>Details of current Non-Executive Director fees can be found on page 79.</p>	<p>None.</p>