Directors' remuneration policy

This section of the report details the Remuneration Policy for Executive and Non-Executive Directors. The remuneration policy was approved at the 2017 AGM and is effective for up to three years.

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 (Regulations). It also meets the requirements of the UK Listing Authority's Listing Rules and the Disclosure and Transparency Rules.

The sections of the Remuneration Report that are subject to audit are marked as Audited Information. The remaining sections of the Remuneration Report are not subject to audit.

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

Remuneration Policy table

Element/link to strategy	Operation	Opportunity	Performance metrics
Base salary To ensure that fixed pay represents a fair return for employment.	The Remuneration Committee sets base salary with reference to relevant market data and an individual's experience, responsibilities and performance. Base salary is considered by the Remuneration Committee on an individual's appointment and then reviewed once a year or when an individual changes position or responsibilities. When making a determination as to the appropriate level of remuneration, the Remuneration 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 Remuneration 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). Benchmarking is not the only driver in salary reviews.	Any base salary increases are applied in line with the outcome of the review. 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. Detail of current salaries for the Executive Directors can be found on page 77.	None.

Element/link to strategy	Operation	Opportunity	Performance metrics
Benefits The approach of the Remuneration 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.	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.	Benefits vary by role and individual circumstances; eligibility and cost are reviewed periodically. The Remuneration 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). The value of benefits awarded to the Executive Directors can be found in the table on page 77.	None.
Pension 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.	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. 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. 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. Salary is the only element of remuneration that is pensionable.	The 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. It is not anticipated that pension contributions (as a percentage of salary) will exceed the levels currently provided. Further details of what has been paid during 2018 can be found on page 77.	None.
Sharesave Plan 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.	The Sharesave Plan currently operates in the UK, the US and Mexico but may be introduced in other parts of the world at a future date. The Sharesave Plan has typically been operated on an annual basis and is open to all eligible employees, including Executive Directors.	Employees will be able to save up to the maximum of the limits approved by HM Revenue & Customs from time to time (or local currency equivalent) for a total period of three years. At the beginning of each savings period, employees will be granted options over shares in Dialight plc up to a maximum discount of 20% of the prevailing market price. The employees' savings are then used to purchase and exercise these options at the end of three years.	None.

Element/link to strategy	Operation	Opportunity	Performance metrics
Annual Performance Bonus Plan The APBP rewards performance against our annual goals, and directly supports the achievement of EBIT, one of the key financial KPIs of the Company.	APBP measures, weightings and targets are set by the Remuneration Committee at the beginning of each financial year following the finalisation of the budget for that year. 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. Dividends are accrued on these deferred shares and are paid to the participant on release of shares that are subject to the award. 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.	The maximum bonus opportunity is 175% of salary. Threshold performance will deliver payouts of up to 20% of maximum, while payouts for target performance will be up to 60% of maximum.	Performance is assessed on an annual basis, as measured against specific objectives set at the start of each year. The primary measure is Company EBIT, although other financial measures may be rewarded, as may additional specific objectives, which can be triggered following satisfactory achievement of the primary EBIT targets. Further details of the measures, weightings and targets applicable for 2019 can be found on page 81.
Performance Share Plan 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.	PSP awards may be structured as conditional shares or nil-cost options with a two-year exercise window from the date of vesting. 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. The Remuneration Committee has the power to authorise the payment of dividends or dividend equivalents under the rules of the PSP. The PSP rules contain provisions that allow for clawback and malus in respect of both vested and unvested awards in exceptional circumstances.	The maximum PSP award is 150% of salary per annum, although the Remuneration Committee has historically made awards of between 25% and 125% of salary. Threshold vesting delivers up to 25% of maximum.	Vesting of PSP awards is subject to continued employment and performance measures. The performance measures relating to grants are weighted as follows: – Between 25% and 75% on three-year "EPS" growth. – Between 25% and 75% on TSR relative to a relevant peer group or index. The Remuneration 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. Further details of the measures, weightings and targets applicable for 2019 can be found on page 81.

Element/link to strategy	Operation	Opportunity	Performance metrics
Non-Executive Director fees 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.	Fee levels are typically considered every year, taking into account fees paid for equivalent roles at companies of similar size, time commitment and complexity. The fees paid to the Chairman are determined by the Remuneration Committee, while fees for Non-Executive Directors are determined by the Board. Additional fees are payable for acting as Senior Independent Director and as Chair of any of the Board's committees. 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.	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. 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. 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. Aggregate fees for all Non-Executive Directors will be within the limits set by the Company's Articles of Association. Details of current Non-Executive Director fees can be found on page 77.	None.

Notes to the remuneration policy table

Explanatory detail for future remuneration policy table

Executive Directors are eligible to receive payment from any award made prior to the approval and implementation of the remuneration policy detailed in this Report.

Performance measures and targets

For the APBP, EBIT has been selected as the primary measure to provide a direct link to one of our KPIs and ensure that the bonus is self-financing. Any other measures will be agreed on an annual basis to ensure alignment with the Company's strategy for the coming year. Targets are set on an annual basis taking into account the Company's budget as well as external expectations for Dialight and the sector.

For the PSP, the Remuneration Committee considers that TSR provides clear alignment between Executive Directors' interests and those of shareholders and provides an objective measure of the Company's success over time, while EPS provides good line of sight and helps to focus participants on the Company's financial performance. EPS targets will be reviewed and confirmed prior to each grant, taking account of the Company's strategic plan, analyst estimates, historical performance and EPS performance ranges used at other FTSE companies. Other performance measures may be adopted for future awards, should the Remuneration Committee consider that these would be beneficial in aligning remuneration with Company strategy.

If an event occurs which causes the Remuneration Committee to consider that an outstanding PSP award or bonus would not achieve its original purpose without alteration, the Remuneration Committee has discretion to amend the targets, provided the new conditions are materially no less challenging than was intended when originally imposed. Such discretion could be used to appropriately adjust for the impact of material acquisitions or disposals, or for exceptional and unforeseen events outside the control of the management team.

Difference between the Directors' remuneration policy and that for other employees

All employees receive salaries and benefits which are consistent with local market practice, with any review of fixed pay taking into account experience, responsibility, individual performance and salary levels at comparable companies.

Senior management is typically eligible to participate in the APBP, with opportunities and performance measures reflecting organisational level and business area, as appropriate. PSP awards at senior management level and to other key employees now take the form of restricted share units with vesting subject only to continued employment over a number of years. This change provides participants below Executive Director level greater flexibility and helps Dialight remain competitive in the main talent markets in which it operates, while also continuing to align plan participants with the interests of shareholders in growing the value of the Company over the longer term. Share awards (whether subject to performance conditions or not) to participants below Executive Director level are not subject to a holding period.

Shareholding guidelines

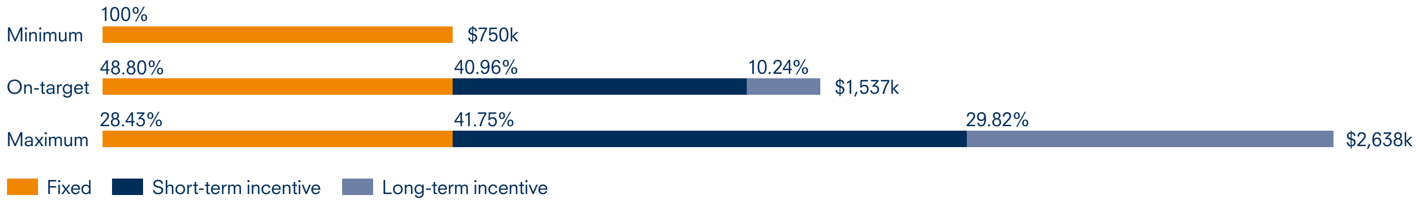
Executive Directors are required to accumulate and maintain a holding of Dialight shares equivalent in value to their last annual PSP award. Executives have five years from their date of joining to build their shareholdings to the required level. Current shareholding levels are included on page 83.

Pay-for-performance

The following charts provide an estimate of the potential future rewards for executive directors, and the potential split between different elements of pay, under three different performance scenarios: 'Fixed', 'On-target' and 'Maximum'. The policy of the Remuneration Committee is to align Executive Directors' interests with those of shareholders and to give the Executive Directors an incentive to perform at the highest levels. To achieve this, it seeks to ensure that a significant proportion of the remuneration package varies with the financial performance of the Group and that targets are aligned with the Group's stated business objectives.

Remuneration scenarios

Group Chief Executive – Martin L. Rapp



Minimum performance

Fixed elements of remuneration only, including employer pension contributions, life insurance, healthcare and car allowance.

On-target performance

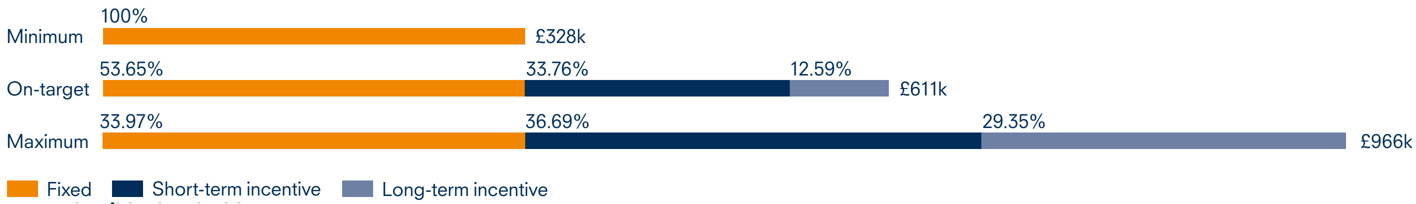
Fixed elements of remuneration plus:

- 100% of salary paid in bonus (57% of maximum opportunity); and
- 25% of PSP award (31% of salary)

Maximum performance

Fixed elements of remuneration plus the full payout of both short and long-term incentives.

Group Finance Director – Fariyal Khanbabi



Fixed elements of remuneration only.

On-target performance

Fixed elements of remuneration plus:

- 75% of salary paid in bonus (60% of maximum opportunity); and
- 25% of PSP award (25% of salary)

Maximum performance

Fixed elements of remuneration plus the full payout of both short and long-term incentives.

Recruitment policy

In cases of appointing a new Executive Director from outside the Company, the Remuneration Committee may make use of all the existing components of remuneration as follows:

Component	Approach
Salary	Executive Directors will receive a base salary which will be determined by reference to relevant market data, experience and skills of the individual, internal relativities and their current basic salary. Where new appointees have initial basic salaries set below market, any shortfall may be managed with phased increases over a period of two to three years subject to the individual's development in the role.
Benefits	New appointees will be eligible to receive benefits in line with the current policy, as well as expatriation allowances and any necessary expenses relating to an executive's relocation on appointment.
Pension	New appointees will be eligible to participate in the Company's defined contribution, or receive a cash supplement or local equivalent.
APBP	The scheme as described in the policy table will apply to new appointees. The maximum level of variable pay (excluding any buy-outs) offered to any new Executive Directors on appointment would be 325% of salary (comprising 175% of salary in the APBP and 150% in the PSP).
PSP	New appointees will be granted performance awards under the ESP on the same terms as other Executives, as described in the policy table.

The approach to the recruitment of internal candidates would be similar but the Remuneration Committee would continue to honour existing contractual commitments prior to any promotion.

For Non-Executive Directors, the Remuneration Committee and the Company would seek to pay fees in line with the Company's existing Policy. A base fee in line with the prevailing fee schedule would be payable for Board membership, with additional fees payable for acting as Senior Independent Director and/or as Chair of a Board committee.

Service contracts

Executive Directors' service contracts, including arrangements for early termination, are carefully considered by the Remuneration Committee. Executive Directors' service contracts contain provisions that require up to 12 months' notice of termination on either side. Such contracts do not contain any provisions for payments outside the scope of those contained in the contract. Executive Director service contracts are available to view at the Company's registered office.

Non-Executive Directors have specific terms of engagement provided in formal letters of appointment, which contain three-month notice periods that are mutual. The Non-Executive Directors are appointed for a three-year term, subject to annual re-election by the shareholders at the Company's AGM.

Notice periods

Executive Directors' service contracts require up to 12 months' notice to be given by Dialight in the event of termination. Both can be terminated with and without cause and require up to 12 months' notice from either party.

Subject to his compliance with those restrictive covenants in the contract, the Group Chief Executive is entitled to a severance payment equivalent to a full year's salary, continuing healthcare under the Consolidated Omnibus Budget Reconciliation Act 1985 benefits for the same period and an amount equal to the current annual cost of life insurance to Dialight if his employment is terminated without cause. This does not apply should he resign or be terminated with cause.

The Group Finance Director's contract provides for pay in lieu of notice but does not contain any additional compensation provisions. None of the current Executive Directors' contracts contain liquidated damages clauses.

If a contract is to be terminated, the Remuneration Committee will determine such mitigation as it considers fair and reasonable in each case. In determining any compensation, it will take into account the best practice provisions of the 2016 Code and published guidance from recognised institutional investor bodies, and will take legal advice on the Company's liability to pay compensation and the appropriate amount. The Remuneration Committee periodically considers what compensation commitments the Executive Directors' contracts would entail in the event of early termination. There are no contractual arrangements that would guarantee a pension with limited or no abatement on severance or early retirement.

The Remuneration Committee will exercise discretion in making appropriate payments in the context of outplacement, settling legal claims or potential legal claims by a departing Executive Director, including any other amounts reasonably due to the Executive Director, for example, to meet the legal fees incurred in connection with the termination of employment, where the Company wishes to enter into a settlement agreement and the individual must seek independent legal advice.

Treatment of outstanding variable incentives will be as follows:

APBP

In the event of an Executive Director leaving Dialight before the end of a bonus year or prior to the payment of a bonus, the Remuneration Committee has discretion to allow them to be paid a portion of bonus relative to their point of leaving. This will be highly contingent on the manner of the Executive Director's departure and whether they are classified as a 'good leaver' pursuant to the rules of the APBP.

PSP

The PSP would operate in a similar way to the APBP. Assuming the Executive Director is classed as a 'good leaver', outstanding PSP shares would typically be pro-rated for the proportion of the performance period served and released, subject to applicable performance conditions, at the normal vesting date. The Remuneration Committee has flexibility to allow awards to vest earlier than above when an individual leaves; however, the default position will be for awards not to be released early.

The treatment of shares subject to deferral or holding periods will be subject to the Remuneration Committee's discretion and will take into account the circumstances at the time.

For the purpose of the above, "good leaver" is defined as a participant ceasing to be employed by the Group by reason of death, disability, ill health, redundancy, retirement with agreement of the Company or any other reason that the Remuneration Committee determines in its absolute discretion. Should the Executive Director leave the Company in any other circumstances, outstanding awards would typically lapse.

The Remuneration Committee also retains discretion in the event of a change of control to release awards under the PSP. It is usual in this situation that awards would be pro-rated for time and performance subject to the discretion of the committee. In relation to the APBP, the scheme rules allow the Remuneration Committee to determine that all deferred share elements of the bonus awards will vest on a change of control and may be exercised within such period as the Remuneration Committee shall specify.

External appointments

It is the Company's policy that, except in extraordinary circumstances, Executive Directors should only accept one appointment with a third party as a Non-Executive Director. Any such appointment is subject to prior Board approval and consideration will be given to potential conflicts of interest with Dialight and the time demands of the external appointment. The Executive Director concerned is entitled to retain any fees from such a non-executive directorship.

Employment conditions elsewhere in the Company

The Remuneration Committee takes into account what the general rise in employee salaries was across the Company at the review date when considering changes to the remuneration of the Executive Directors. The Company did not expressly seek the views of employees when drawing up the remuneration policy but does carry out an annual review of salaries across the Group.

Shareholder views

The Remuneration Committee maintains a regular dialogue with its major shareholders and will continue to monitor trends and developments in corporate governance and market practice to ensure that the structure of executive remuneration remains appropriate.

The following section provides details of how the Policy was implemented during the financial year ending 31 December 2018, and how it will be implemented in 2019.

Roles and responsibilities

The primary responsibilities of the Remuneration Committee are to:

- set the remuneration policy for all Executive Directors, the Company's Chairman and the Company Secretary including, where appropriate, bonuses, incentive payments, share-based incentive schemes and post-retirement benefits;
- determine the remuneration packages for the Executive Directors, the Company's Chairman and the Company Secretary, within the terms of the Policy;
- recommend and monitor the structure of the remuneration of the senior management group as defined by the Board;
- approve the design of, and determine targets for, any performance-related incentive schemes operated by the Company and approve the total annual payments made under such schemes (in accordance with the provisions of Schedule A of the UK Corporate Governance Code); and
- review the design of all share incentive plans requiring approval by the Board and shareholders. For any such plans, the Committee shall determine each year, taking into account the recommendations of the Group Chief Executive Officer, whether awards will be made and, if so, the amount of such awards to the Executive Directors, Company Secretary, members of the Executive Committee and other senior Group employees from time to time nominated by the Group Chief Executive Officer, and any performance targets to be used.

A copy of the terms of reference for the Remuneration Committee is available on the Company's website or on request from the Company Secretary at the registered office.

Other decisions

The Remuneration Committee's other principal activities and key decisions during the year included:

- On 7 January 2018: approving the heads of terms and settlement agreement for Michael Sutsko, Dialight's former Group Chief Executive Officer;
- On 22 February 2018: setting the 2018 salary increases for Executive Directors;
- On 22 February 2018: reviewing of cash bonuses in respect of the 2017 financial year;
- On 22 February 2018: reviewing the performance targets outcome in relation to the 2015 PSP award;
- On 22 February 2018: setting APBP objectives for 2018;
- On 20 March 2018: approving the 2018 PSP awards and setting the associated PSP performance targets;
- On 26 July 2018: reviewing the Company's all-employee Sharesave plan;
- On 22 August 2018: considering the Company's pay-ratio disclosures and shareholder engagement; and
- On 10 December 2018: reviewing and approving the Remuneration Committee's terms of reference.

Committee members

The names of those who served on the Remuneration Committee during the year can be found in the table below:

Committee member	Member from/until
Gaelle Hotellier (Committee Chair)	from 8 January 2018 (Chair from 1 June 2018)
David Thomas	from 26 April 2016
Steve Good	from 1 June 2018
Stephen Bird	until 1 June 2018
Marty Rapp	until 8 January 2018

All members of the Remuneration Committee are considered independent within the definition set out in the 2016 Code. None of the Remuneration Committee has any personal financial interest in Dialight (other than as shareholders), conflicts of interests arising from cross directorships or day-to-day involvement in running the business.

During the year, the Remuneration Committee met face-to-face four times and held additional meetings by conference call to deal with the review and approval of specific matters falling outside of the scheduled meetings. Attendance by individual members of the Remuneration Committee is disclosed in the Corporate Governance report on page 48.

Only members of the Remuneration Committee have the right to attend Remuneration Committee meetings. The Group Chief Executive Officer, the Group Finance Director, the Company Secretary and the Group HR Director attend the Remuneration Committee's meetings by invitation, but are not present when their own remuneration is discussed. The Remuneration Committee also takes independent professional advice as required.

External advice

The Remuneration Committee has access to the advice of the Group Chief Executive Officer and the Company Secretary as well as external advisers as required. During the year ended 31 December 2018, the Remuneration Committee consulted:

- Kepler Associates, a part of the Mercer Group, which provided independent advice on: long-term incentive measures and targets; updates on the external remuneration environment; performance testing for long-term incentive plan; and, Directors' remuneration report drafting support for a fee of £21,000; and
- Clifford Chance, which advised on the operation of the Company's share and other incentive plans during the year, including on the vest of the 2015 Sharesave Plan, and which gave ad hoc advice on other remuneration issues for a fee of £15,000.

In addition, Slaughter and May was engaged at the start of 2018 to provide advice on Michael Sutsko's compensation arrangements on leaving.

The Remuneration Committee retains the responsibility for the appointment of remuneration advisers and their associated fees and undertakes due diligence periodically to ensure that its advisers remain independent and that the advice provided is impartial and objective.

Statement of shareholder voting

The following table shows the results of the voting at the 2017 (policy) and 2018 (report) annual general meetings.

	% of votes for	% of votes against	Votes withheld
Directors' Remuneration report (2018)	96.10	3.90	7,352,766
Remuneration policy (2017)	99.42	0.58	3,911

2018 outcomes

Single figure of total remuneration (audited information)

The following tables provide details of the Directors' remuneration for the 2018 financial year, together with their remuneration for the 2017 financial year, in each case before deductions for income tax and national insurance contributions (where relevant):

2018 (all figures in 000s)	Salary/Fee 2018	Benefits 2018	Pension 2018	Sub-total fixed 2018	Bonus 2018	PSP 2018	Sub-total variable 2018	Total remuneration 2018
Executive Directors								
Marty Rapp	$599	$28	$123	$750	–	–	–	$750
Fariyal Khanbabi	£275	£22	£31	£328	–	–	–	£328
Non-Executive Directors								
Wayne Edmunds	$197[1]	–	–	$197	–	–	–	$197
Stephen Bird	£49[1]	–	–	£49	–	–	–	£49
David Blood	£42[1]	–	–	£42	–	–	–	£42
Gaelle Hotellier	€60[1]	–	–	€60	–	–	–	€60
David Thomas	£47[1]	–	–	£47	–	–	–	£47
Steve Good[2]	£25	–	–	£25	–	–	–	£25
Past Director								
Michael Sutsko[3]	$14	$1	$4	$19	–	–	–	$19

1 The Chairman's and the Non-Executive Directors' fees were reviewed at the end of 2017 and a decision was made to increase these by 3% with effect from 1 January 2018. The enhancements for chairing a Board committee and acting as Senior Independent Director ("SID") were also increased by 3%.
2 Steve Good was appointed on 1 June 2018 and received a pro-rated amount of his annual fee of £42,000.
3 Michael Sutsko resigned as a Director on 8 January 2018.

2017 (all figures in 000s)	Salary/Fee 2017	Benefits 2017	Pension 2017	Sub-total fixed 2017	Bonus 2017	PSP 2017	Sub-total variable 2017	Total remuneration 2017
Executive Directors								
Michael Sutsko	$593	$53	$100	$746	–	–	–	$746
Fariyal Khanbabi	£267	£13	£40	£320	–	–	–	£320
Non-Executive Directors								
Wayne Edmunds	$192[1]	–	–	$192	–	–	–	$192
Stephen Bird	£46	–	–	£46	–	–	–	£46
David Blood	£41	–	–	£41	–	–	–	£41
Gaelle Hotellier	€55[1]	–	–	€55	–	–	–	€55
Marty Rapp	$67[1]	–	–	$67	–	–	–	$67
David Thomas	£46	–	–	£46	–	–	–	£46

1 Wayne Edmunds, Gaelle Hotellier and Marty Rapp received "local" currency fees with effect from 1 January 2017.

Additional disclosures (audited information)

Executive Directors' benefits

Executive Directors receive benefits comprising life insurance, healthcare and car allowances. In addition, Marty Rapp is entitled to reimbursement of his costs of travel and accommodation in travelling from his home to the Farmingdale office in New Jersey. In addition, the figure for Fariyal Khanbabi includes a one-off payment of £18,700 in lieu of holiday. This payment was calculated on a consistent basis to other payments made to a small number of other finance and operations staff who were required to deploy for extended periods of time at short notice to the outsourced manufacturing partner located in central Mexico to address urgent operational problems facing the Group. The Committee view the circumstances leading to the payment of cash in lieu as exceptional and do not anticipate any requirement for similar payments in the future

Pensions

The figure includes the amount of Company contributions to Fariyal Khanbabi's and Marty Rapp's pensions during the year. Fariyal Khanbabi received Company contributions of 15% of base salary and mid-year elected to receive a cash payment in lieu. Marty Rapp received employer contributions under a US 401(k) plan. Marty Rapp did not participate in the SERP and instead received a cash payment in lieu of employer contribution.

APBP

The APBP operates on the basis that is set out in the remuneration policy report on page 70. Maximum bonus potential, paid in a mixture of cash and, in respect of performance above target, deferred shares, is 175% of salary for the Group Chief Executive Officer and 125% for the Group Finance Director.

2017 APBP

As discussed in the 2017 Remuneration Committee report, in light of the EBIT outturn for 2017 being below the objective target set, no bonuses became payable under the APBP 2017

2018 APBP The 2018 APBP was based primarily on EBIT performance with up to 15% of the Executive Directors' target bonus being subject to the achievement of certain individual goals linked to Dialight's key strategic goals. The performance range in respect of 2018 EBIT was as follows:

	Threshold	Target	Maximum	Actual
EBIT (after provision for bonus)	£10.9m	£13.3m	£15.6m	£8.0m

No bonus is payable under either element for below threshold EBIT.

Actual EBIT performance for 2018 was £8m and as a result no bonuses were payable in respect of the 2018 financial year.

PSP

Awards made in 2015

Awards made under the PSP in 2015 lapsed in 2018 due to the fact that the related performance conditions were not achieved.

Awards made in 2016

Awards made under the PSP in 2016 have lapsed as the related performance conditions were not achieved during the three-year performance period to 31 December 2018.

Percentage change in the remuneration of the Group Chief Executive Officer

The following table sets out the change in remuneration paid to the Group Chief Executive Officer from 2017 to 2018 compared with the average percentage change for employees as a whole:

	% change 2017–2018	
	Group Chief Executive Officer	Group employees
Salary	3%	3%
Bonus	0%	0%
Benefits	0%	0%

Due to operational performance, no bonus was payable in relation to 2018 or 2017. The main benefits provided include healthcare, life insurance and car allowance. There has been no change in the level of benefits provided to Group employees.

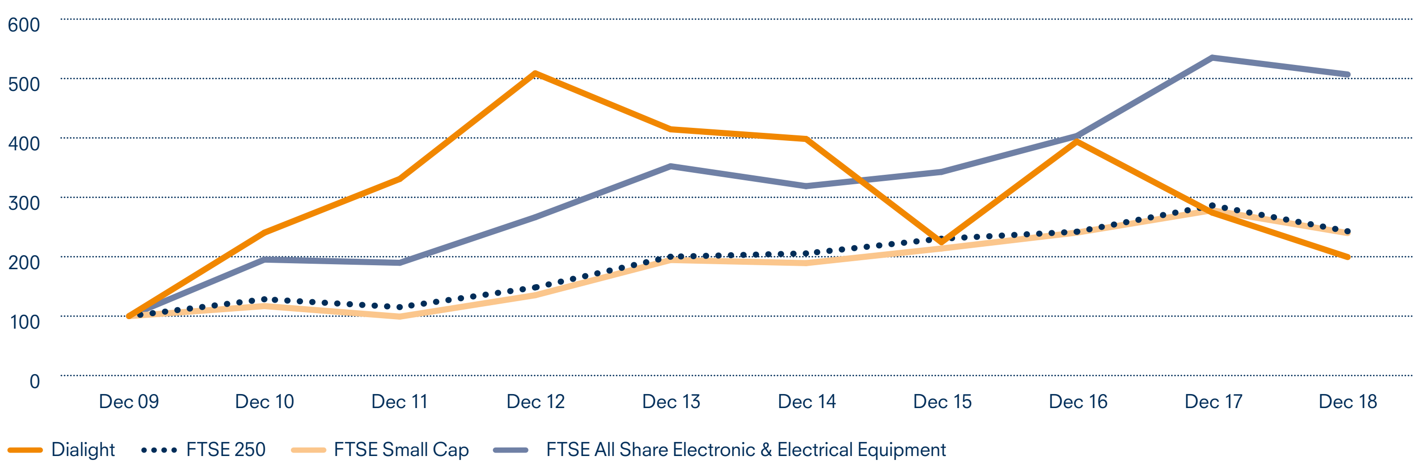
Relative importance of spend on pay

The table below shows the total amount paid by the Company to its employees (excluding severance costs) for 2018 and 2017. Details of the total amount of distributions for the same two years can also be seen.

Spend on pay		Distributions	
2018	**£31.9m**	**2018**	**£0m**
2017	£34.4m	2017	£0m

Performance graph and table

The graph below demonstrates the Company's TSR performance over the past nine years relative to the FTSE 250 Mid Index (excluding investment trusts), the FTSE SmallCap Index (excluding investment trusts) and the FTSE All-Share Electronic and Electrical Equipment Index, indices of which Dialight has been a constituent over the period.



Source: Datastream

The table below sets out the "single figure" of total remuneration of the Group Chief Executive Officer over the same nine-year period:

	2010	2011	2012	2013	2014	2015	2016	2017	2018
	R Burton	R Burton	R Burton	R Burton	R Burton	R Burton (to Feb) R Stuckes (Mar to Jun) M Sutsko (from Jul)	M Sutsko	M Sutsko	M Rapp
Total remuneration ($'000)	$2,845	$4,170	$3,843	$1,564	$1,153	$112 £185 $523	$1,466	$746	$750
Bonus outcome (% of max)	100	100	66.6	0	29	0 n/a 0	74	0	0
PSP vesting outcome (% of max)	100	100	100	100	0	0 n/a n/a	n/a	n/a	n/a

PSP awards made in 2018

Awards granted in 2018 are measured against EPS and TSR on the following basis:

EPS

EPS is used in respect of 75% of awards. For awards made in 2018, no part of the award that is subject to the EPS condition will vest if the Company's 2020 EPS over the three-year vesting period is below 45 pence, 25% of the award that is subject to the EPS condition will vest if the Company's 2020 EPS equals 45 pence; rising on a straight-line basis to 100% vesting if the Company's 2020 EPS exceeds 60 pence. The Remuneration Committee will review the performance targets prior to the grant of any future awards to ensure that they are appropriately stretching, but achievable.

TSR

TSR is used in respect of the remaining 25% of awards in order to maintain strong shareholder alignment. No part of the awards made in 2018 that are subject to the TSR condition will vest if the percentage increase in the Company's TSR over the three-year vesting period is below the percentage increase in the TSR of the comparator index; 25% of the awards that are subject to the TSR condition will vest if the percentage increase in the Company's TSR is equal to the percentage increase in the TSR of the comparator index; rising on a straight-line basis to 100% vesting if the percentage increase in the Company's TSR is equal to the increase in the TSR of the comparator index plus 10% per annum. The comparator index for these purposes is the FTSE SmallCap Index, excluding investment trusts.

Holding period

A mandatory two-year post-vesting holding period will apply to any shares received by executive directors on the vesting or exercise of the 2018 PSP awards.

The 2018 awards made to the Executive Directors are set out below:

Director	Plan	% of salary awarded	Nature of interest	Exercise price per share	Number of shares subject to an award	Face value of an award[1]	Performance conditions	Date of grant of award	Date of end of performance period
Fariyal Khanbabi	PSP	100%	Nil-cost option	n/a	50,862	£267,131	TSR/EPS	15.03.18	31.12.20
Marty Rapp	PSP	125%	Conditional share award	n/a	104,280	£547,678	TSR/EPS	15.03.18	31.12.20

1 Based on five-day average share price on date of award of £5.2520.

Payments to past Directors or for loss of office (audited information)

Exit payments

Following the end of the 2017 financial year, Michael Sutsko stepped down as Group Chief Executive Officer of Dialight. The key elements of the remuneration package payable on leaving, which would continue to be paid during his 12-month garden leave, were fully disclosed in the 2017 Annual Report and Accounts. Michael Sutsko then notified the Company on 23 August 2018 that he wished to bring forward the date of termination of his employment with the Company to 30 September 2018. As a result of this notice his outstanding deferred shares awarded as conditional shares as part of his 2017 bonus under the APBP vested on 30 September 2018. In relation to Michael Sutsko's outstanding PSP awards, the Remuneration Committee had already exercised its discretion under the rules of the PSP to determine that these will vest on their normal vesting dates (subject to the satisfaction of the applicable performance conditions) and have already been pro-rated to reflect Michael's revised leaving date of 30 September 2018. These PSP awards would not be subject to the usual mandatory two-year post-vesting holding period.

No bonus was paid in respect of 2017 performance as the 2017 EBIT targets were not met. He was not entitled to a bonus in respect of the 2018 financial year. Up until his termination on 30 September 2018 he was entitled to a payment equivalent to the cost to the Company of continuing healthcare benefits under the Consolidated Omnibus Budget Reconciliation Act 1985 for him and his qualified beneficiaries and the cost to The Company of his benefits under the Company's group life insurance plan.

He will continue to be covered by his current tax equalisation programme, and the Company will continue to pay the reasonable cost of foreign tax advice, in relation to any year in which tax advice is required on earnings related to his employment by the Company.

The costs of Michael Sutsko's compensation on leaving fell into the 2018 accounting period. The total costs (in thousands) paid in the year were $544 salary, $50 benefits, $91 pension and $30 for outplacement fees.

Implementation of the remuneration policy for 2019

Executive Director salaries

The Remuneration Committee will review the salary for the Group Chief Executive Officer and Group Finance Director with effect from 1 April 2019.

Pensions

The Group Chief Executive Officer does not currently participate in the SERP and will receive a cash payment in lieu of employer contribution of 15% of base salary. The Group Chief Executive Officer does, however, participate in the 401(k) scheme and will receive an employer contribution of 3% of base salary in accordance with the plan rules.

The Group Finance Director will receive either a contribution of 15% of base salary into a defined contribution pension scheme or a cash payment in lieu.

APBP

The 2019 APBP will be based on targets linked primarily to EBIT performance with a small element based on personal objectives, as in 2018. The maximum annual bonus achievable will remain as 175% of salary in respect of Marty Rapp and 125% of salary in respect of Fariyal Khanbabi. Target bonuses will remain 100% of salary and 75% of salary respectively with any bonus earned above target being payable in the form of deferred shares, 50% of which vest after two years and 50% of which vest after three years.

It is the Remuneration Committee's view that detailed disclosure of the performance targets in advance for the future financial year is commercially sensitive. The targets are based on profit projections for the year ahead which would provide the Company's competitors with a potential commercial advantage and would also be price sensitive. The Remuneration Committee will, however, provide full retrospective disclosure of the performance conditions and targets at the end of the relevant financial year.

PSP

PSP awards to Executive Directors for 2018 will be made in March or April this year, subject to EPS and TSR performance targets. The weighting on EPS was increased from 50% to 75% in 2017, with a commensurate reduction in the weighting on relative TSR from 50% to 25%. The Remuneration Committee is of the view that this rebalancing focuses participants on Dialight's financial performance over the three-year vesting period of these awards, whilst also recognising the strong shareholder alignment and objectivity offered by TSR. Awards made to the Executive Directors continue to be subject to a two-year post-vesting holding period. At the time of the production of this Remuneration Report, the targets applying to the 2019 awards had not formally been approved by the Remuneration Committee. We will be finalising targets over the coming weeks, taking into account a range of internal and external reference points, and will provide full disclosure both at the time of award, and in next year's Annual Report and Accounts.

Outstanding awards under the PSP and APBP (audited information)

	Type of award	Award date	Number at 1 January 2018	Awarded in year	Vested in year	Exercised in year	Lapsed in year	Number at 31 December 2018	Exercise price	Earliest vesting/ exercise date	Expiry date
Fariyal Khanbabi											
PSP	NCO	07.04.15	32,325	–	–	–	(32,325)	–	–	07.04.18	07.04.20
PSP	NCO	16.03.16	49,240	–	–	–	–	49,240	–	16.03.19	16.03.21
APBP[1]	NCO	09.03.17	2,384	–	(1,192)	–	–	1,192	–	31.01.19	10.03.22
PSP	NCO	24.03.17	26,588	–	–	–	–	26,588	–	24.03.20	24.03.22
PSP	NCO	16.03.18	–	50,862	–	–	–	50,862	–	16.03.21	16.03.23
Total			**110,537**	**50,862**	**(1,192)**	**–**	**(32,325)**	**127,882**	**–**	**–**	**–**

1 Of the 2,384 deferred share options originally awarded to Fariyal Khanbabi, 1,192 had vested on 31 January 2018 and the balance on 31 January 2019.

	Type of award	Award date	Number at 1 January 2018	Awarded in year	Vested in year	Exercised in year	Lapsed in year	Number at 31 December 2018	Exercise price	Earliest vesting/ exercise date	Expiry date
Marty Rapp											
PSP	CSA	16.03.18	–	104,280	–	–	–	104,280	–	16.03.21	n/a
Total			**–**	**104,280**	**–**	**–**	**–**	**104,280**	**–**	**–**	**–**

Notes:
CSA denotes conditional share awards. These are subject to performance conditions set out on page 70.
NCO denotes nil-cost options. These are subject to performance conditions set out on page 70.
The average closing market price of a share over the five trading days of 9–15 March 2018, which was used for the purpose of calculating award values on 16 March 2018, the date of the awards recorded in the tables above made during the year, was 525.2 pence.
Options under the PSP granted from 2015 are exercisable for two years from the date of vesting. Awards granted since 2018 are subject to a mandatory two-year post-vesting holding period.
Options under the APBP are exercisable for five years from the date of grant.
Under the APBP scheme, awards vest 50% on or after 31 January in the second year after grant with the remaining 50% vesting on or after 31 January in the third year after grant.
During the year, the range of share prices was 295 pence to 650 pence, with the price on 31 December 2018 being 395 pence.

Executive directors' shareholding guidelines

Executive Directors are currently required to accumulate and maintain a holding of Dialight shares equivalent in value to their last annual PSP award (i.e. currently 125% of salary for the Group Chief Executive and 100% for the Group Finance Director). In accordance with the guidelines, Executive Directors have five years from joining Dialight to acquire the requisite holding. All Dialight shares, whether purchased on the open market or received through vestings and/or exercises under the various Dialight share plans, shall be included to satisfy the requirements. The Dialight share price used to value a holding for the purposes of the guidelines will be the higher of: (i) the prevailing price on the date that the holding is valued; and (ii) the acquisition price (i.e. the price on the date on which the awards were acquired).

Whilst the Group Chief Executive Officer has over four years to accumulate the requirement holding, the Group Finance Director has until September 2019 to meet the required holding. Fariyal Khanbabi's shareholding position reflects the fact that none of her PSP awards have vested in recent years. The Remuneration Committee is aware of the significance of Executive Directors having a personal holding of shares in Dialight as that creates an alignment of management's interests with those of the shareholders. Although the Committee recognises the forthcoming deadline for Fariyal Khanbabi, the Remuneration Committee acknowledges the mitigating circumstances surrounding this issue.

The table below shows the holdings of ordinary shares in the Company as at 31 December 2018 by Executive Directors and their compliance with the guidelines:

Executive Director	Shares held at 1 January 2018	Shares held at 31 December 2018
Fariyal Khanbabi	5,483	6,675
Marty Rapp	13,500	46,000

Total shareholding of directors (audited information)

	Beneficially held shares[1]		Shares under incentive plans		
	Ordinary shares at 1 January 2018	Ordinary shares at 31 December 2018[2]	Subject to deferral[3]	Unvested and/or subject to performance conditions[4]	Shareholding guidelines met
Marty Rapp	13,500	46,000	–	104,280	No
Fariyal Khanbabi	5,483	6,675	1,192	126,690	No
Wayne Edmunds	–	12,000	–	–	–
Stephen Bird	28,000	41,728	–	–	–
David Blood	–	–	–	–	–
David Thomas	1,294	5,994	–	–	–
Gaelle Hotellier	882	882	–	–	–
Steve Good	–	7,500	–	–	–

1 Some of these shares are held through nominees.
2 50% of Fariyal Khanbabi's 2016 APBP of 2,384 award became exercisable on 31 January 2019.
3 Relates to deferred shares held under the APBP scheme.
4 Relates to outstanding awards under the PSP.

Directors' service agreements and letters of appointment

The dates on which Directors' initial service agreements/letters of appointment commenced and the expiry dates as at 31 December 2018 are as follows:

	Commencement date	Expiry date of current employment/service agreement or letter of appointment
Chairman and Executive Directors		
Wayne Edmunds	25 January 2016	Letter of appointment was for an initial term of three years.
Marty Rapp	8 January 2018	The agreement is terminable by the Company or by the Director on 12 months' notice.
Fariyal Khanbabi	8 September 2014	The agreement is terminable by the Company or by the Director on six months' notice.
Non-Executive Directors		
Stephen Bird	10 January 2013	Letter of appointment was for an initial term of three years. During 2016, this was extended for a further three-year period. During 2019, this was extended for a further three-year period.
David Blood	1 July 2015	Letter of appointment was for an initial term of three years. During 2018, this was extended for a further three-year period.
David Thomas	26 April 2016	Letter of appointment was for an initial term of three years.
Gaelle Hotellier	3 October 2016	Letter of appointment was for an initial term of three years.
Steve Good	1 June 2018	Letter of appointment was for an initial term of three years.