Directors' remuneration policy

Dialight's current remuneration policy was published in the Dialight Annual Report and Accounts for the year ended 31 December 2013 and approved by shareholders at the AGM held on 16 April 2014. As discussed in the Annual statement, the Committee undertook a review of the Policy during the course of 2016 to ensure that it remains appropriate in terms of driving strategy, motivating and retaining executives, and that it reflects changes in best practice over the last three years.

As required, the Committee is seeking shareholder approval for a new Policy at the 2017 AGM. The proposed changes are minor and reflect developments in best practice since the previous policy was put to shareholders. The principal change is the introduction of a mandatory two-year holding period on vested PSP shares. There are also amendments to wording in places to provide the Committee with sufficient flexibility to make minor changes over the life of the Policy.

Further detail is set out below.

Background and overview of the Policy

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 Policy has been designed and reviewed so that it 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.

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
Base salary To ensure that fixed pay represents a fair return for employment.	The Committee sets base salary with reference to relevant market data and an individual's experience, responsibilities and performance. 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. 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 cap 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 67.	None.
Benefits 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.	Executive Directors receive benefits which consist primarily of the provision of a car allowance, life insurance and medical insurance, although they may include any such benefits as that the Committee deems appropriate.	Benefits vary by role and individual circumstances; eligibility and cost are reviewed periodically. 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 insurance premiums). The value of benefits awarded to the Executive Directors can be found in the table on page 67.	None.

Element/link to strategy	Operation	Opportunity	Performance metrics
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 the Roxboro UK Pension Scheme in the UK and 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 does not currently participate in the SERP and in 2016 received a cash payment in lieu of employer contribution of $86,400. The Group Chief Executive does participate in the 401(k) scheme and in 2016 received an employer contribution of $10,600 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 2016 can be found on page 67.	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 to 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% to the prevailing market price. The employees' savings are then used to purchase and exercise these options at the end of three years.	None.
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 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, that can be triggered following satisfactory achievement of the primary EBIT targets. Further details of the measures, weightings and targets applicable for 2017 can be found on page 71.

Element/link to strategy	Operation	Opportunity	Performance metrics
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 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 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 earnings per share ("EPS") growth. — Between 25% and 75% on TSR relative to a relevant peer group or index. 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. Further details of the measures, weightings and targets applicable for 2017 can be found on page 71.
Non-Executive Director fees The Company sets fee levels to attract and retain experienced and skilled 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 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 Articles of Association. Details of current Non-Executive Director fees can be found on page 67.	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 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 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 Committee consider that these would be beneficial in aligning remuneration with Company strategy.

If an event occurs which causes the Committee to consider that an outstanding PSP award or bonus would not achieve its original purpose without alteration, the 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 Director 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.

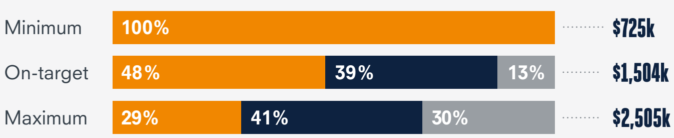
Senior management is typically eligible to participate in the APBP, with opportunities and performance measures reflecting organisational level and business area, as appropriate. PSP awards at senior management level and to other key employees have historically been operated on a similar basis as for Executive Directors, with the same performance measures applying. It is the Committee's intention that, going forward, there will be greater flexibility (for participants below Executive Director level) for some or all of such awards to take the form of restricted share units with vesting subject only to continued employment over a number of years. It is intended that this change will help Dialight to 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 will not be 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 will have five years from their date of joining to build their shareholdings to the required level. Current shareholding levels are included on page 73.

Remuneration scenarios

Group Chief Executive – Michael Sutsko

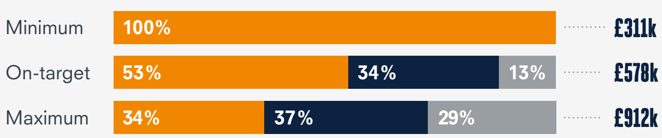


Minimum performance
Fixed elements of remuneration only.

On-target performance
Fixed elements of remuneration plus:
— 100% of salary paid in bonus (57% of maximum opportunity); and
— 31% of PSP award (25% of salary).

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

Group Finance Director – Fariyal Khanbabi



Minimum performance
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.

Fixed Short-term incentive Long-term incentive

The composition and value of the Executive Directors' remuneration packages at "minimum", "on-target" and "maximum" scenarios are set out above. The policy of the 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.

Recruitment policy

In cases of appointing a new Executive Director from outside the Company, the Committee may make use of all the existing components of remuneration. Executive Directors will receive a base salary, pension contributions and other benefits, and will be eligible to participate in the APBP and PSP in line with the normal policy. The maximum level of variable pay (excluding any buy-outs) offered to any new Executive Director on appointment would be 325% of salary (comprising 175% of salary in the APBP and 150% in the PSP).

Base salaries of new appointees 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.

The Committee may elect to make an award in respect of a new appointment to 'buy out' incentive arrangements forfeited on leaving a previous employer on a like-for-like basis, which may be awarded in addition to the remuneration structure outlined above. If the Committee determines that it is appropriate to do so it will apply the following approach:

The fair value of these incentives will be calculated taking into account:

— the proportion of the performance period completed on the date of the Executive's cessation of employment;
— the performance conditions attached to the vesting of these incentives and the likelihood of them being satisfied; and
— any other terms and conditions having a material effect on their value ("lapsed fair value").

The Committee may then grant up to the same fair value as the lapsed fair value where possible under the Company's incentive plans (subject to the annual limits under these plans). The Committee, however, retains the discretion to provide the lapsed fair value under specific arrangements in relation to the recruitment of the particular individual. Listing Rule 9.4.2 may be utilised in order to provide the flexibility to the Committee to offer a remuneration structure outside of the Group's existing plans, as appropriate.

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

For Non-Executive Directors, the 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 the Board Committees.

Service contracts

Executive Directors' service contracts, including arrangements for early termination, are carefully considered by the Committee. Executive 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 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 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 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 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 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 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 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 Committee determines in its absolute discretion. Should the Executive Director leave the Company in any other circumstances, outstanding awards would typically lapse.

The 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 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 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 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 has not expressly sought the views of employees when drawing up the Policy but has conducted a review of current job roles and salaries across the Group.

Shareholder views
The Committee maintains a regular dialogue with its major shareholders, and most recently consulted with its top shareholders and the main shareholder representative bodies, the Investment Association and Institutional Shareholder Services, Inc., regarding proposed changes to the Policy. The Committee will continue to monitor trends and developments in corporate governance and market practice to ensure that the structure of the executive remuneration remains appropriate.