Expanding our global reach

Dialight plc Annual report and accounts 2012

Dialight

Dialight is a global leader in the supply of high performance LED lighting applications.

Innovation
Expertise
Sustainability

These are the values at the heart of our success.

Turn to page 3 to find out more

Santa Cruz Water Treatment Plant, California, USA

Highlights

Underlying Profit before tax from continued operations increased 26.7% to £19.7m (2011: £15.5m)

2012 Lighting Revenues increased 72.7% to £45.5m (2011: £26.4m)

Lighting Contribution Margin increased by 8.6 points to 44.3%

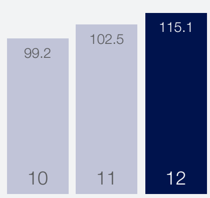
Disposal of Utility Switch business completed

Year-end net cash of £15.0m (2011: £13.7m) with significant investment in Lighting

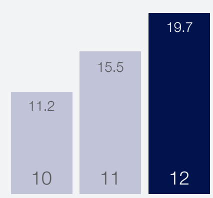
Earnings per share ("EPS") of 41.4 pence on continuing operations excluding the £0.7m profit on the disposal of the Utility Switch business (2011: 31.3 pence)

Final dividend of 9.5 pence per share, giving a total dividend for the year of 13.5 pence per share (2011: 10.0 pence per share)

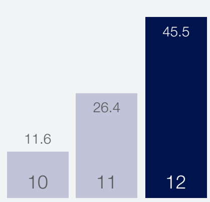
Group revenue
£115.1m +12.3%



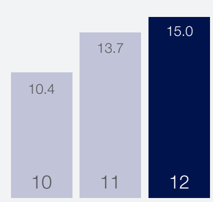
Underlying Profit before tax
£19.7m +26.7%



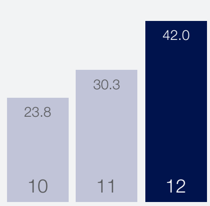
Lighting revenue
£45.5m +72.7%



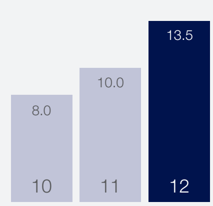
Year End Net cash
£15.0m +9.2%



Group EPS*
42.0p +38.6%



Dividend per share
13.5p +35.0%



* Includes the £0.7m profit before tax on the disposal of the Utility Switch business.

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report online
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Overview

Dialight at a glance

Revolutionary technology

Dialight is leading the lighting revolution for industrial users across the world. Applying leading edge LED technology, it produces retro-fittable lighting fixtures designed specifically for hazardous locations, obstruction signals and traffic signalling to vastly reduce maintenance, save energy, improve safety and ease disposal.

Dialight comprises the following business segments:

Lighting

which addresses the increasing demands for energy efficient Lighting solutions through the use of high-brightness LEDs and utilisation of a number of associated technologies. Areas of business include Solid State Lighting products for Hazardous and Non-Hazardous Industrial applications.

£45.5m

Revenue

Signals

which addresses the increasing demands for energy efficient Signalling solutions through the use of high-brightness LEDs and utilisation of a number of associated technologies. Areas of business include Traffic, Vehicle and Obstruction Signals.

£48.1m

Revenue

Components

whose sales are primarily to Electronics OEMs for status indication and residual disconnect components for automotive and niche industrial application.

£21.5m

Revenue

Key markets

We operate within various markets:

Oil, gas and petrochemical
Customers involved in exploration and production through to the refining and processing of natural resources are benefiting from improved safety, quality of light and reliability.

Chemical and pharmaceutical
Process heavy chemical and pharmaceutical operations take advantage of Dialight's maintenance free fixtures eliminating the need to change bulbs in these dangerous environments.

Mining
Specified due to our products extreme ability to withstand shock and vibration, Dialight has seen tremendous growth in mining applications.

Heavy industrial
Steel processing, pulp, paper and automotive manufacturers and other heavy industrial applications are realising the switch to Dialight's technology not only improves production but also makes financial sense.

Overview

Natural Gas Compressor Station, Colorado, USA

Our values:

Innovation

Major new product introductions, including our 25kw High Bay and other 100 lumen per watt ("lm/W") products, continue to be the first to market in the industry.

Expertise

Our 40+ years of LED proficiency is illustrated by our ability to continually push the boundaries with our industry leading LED lighting fixtures.

Sustainability

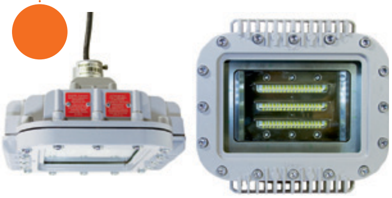
Our LED products not only reduce energy consumption, but significantly lower greenhouse gas emissions and eliminate the need for the use of mercury in lighting technology.

Key products

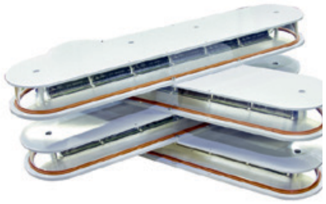
We are constantly developing new products for markets and applications which were unable to benefit from LED technology until now.

DuroSite® 25,000 Lumen LED High Bay
Introduced in 2012, this 100+ lm/W fixture is used in very high ceiling applications and can often eliminate the number of light fixtures required to illuminate an area.

SafeSite® LED Area Light
Available with a simple retrofit kit, this versatile LED area light replaces up to 250w traditional fixtures while consuming only 70w of power.



Vigilant® L-856 LED High Intensity Strobe
The world's first and only available LED High Intensity Strobe is used in obstruction signals applications above 500 feet, eliminating costly tower climbs to replace existing fixtures.



Overview

Our marketplace

Spotlight on global expansion

North America

Our success across North America spans all of our vertical markets, from oil and gas in the Gulf Coast to mining in the north-west.

Europe

Even in difficult economic conditions, we have increased sales throughout Europe and provide our customers attractive payback periods and return on investment.

Middle East

With very low energy costs, the market is driven by maintenance cost reduction and safety improvements.

Expanding regions

Throughout 2012, we were committed to expanding our presence in many key geographical locations and markets. From adding direct employees, growing sales channels and adding global certifications to our product line, our reach has grown and is paying off. Dialight is becoming known worldwide as the leader in technology advancements, reliability and longevity in lighting.

The Americas

£93.0m

Revenue

G.S. Dunn Limited, Ontario, Canada

Overview

With momentum building in all target markets in the US, 2012 was the year that we also broke ground with some larger installations in Canada and Mexico, while creating a pipeline of projects in various South American countries as well.

Growth potential

As the number of individual facilities installing Dialight's fixtures grows, we are starting to see installation successes shared internally at larger companies.

See page 14

Australia

Quickly becoming recognised as the leading brand for LED lighting in Australia, we've made great strides with key customers.

Asia/Pacific

With the formation of Dialight Asia Pte Ltd ("Dialight Asia") in 2012, Dialight recognised significant growth throughout the region especially within the oil and gas markets.

Asia Pacific/ Australia

£10.8m

Revenue

Ribbon cutting ceremony, Dialight Penang, Malaysia

Overview

With some of the richest and most stable economies in the world, Dialight continues to invest and expand in this region.

Growth potential

With massive mining operations in Australia and Indonesia and growing oil and gas capacity throughout the entire region, the adoption of LED lighting will continue to grow and provide safer and more efficient illumination for these environments.

See page 16

Europe/ Middle East

£25.9m

Revenue

MMD Shipping Logistics, Portsmouth, UK

Overview

Major programs are in place to cut energy usage and CO_2 emissions in many countries such as Germany and the UK, along with a growing energy deficit in Saudi Arabia forcing lighting users to consider efficient alternatives.

Growth potential

With significant heavy industry across the region including approximately 200 refineries and 500 platforms in the North Sea, there is a massive opportunity for our customers to improve safety and reduce maintenance with our certified LED lighting fixtures.

See page 18

Overview

Chairman's statement

> 2013 should see continued strong growth in Lighting driven by expanded sales channels and new products.

Financial results

Another year of solid financial performance. Revenue from continuing operations grew by 12.3% to £115.1m (2011: £102.5m) with Lighting segment revenue growth of 72.7% to £45.5m (2011: £26.4m). Group contribution margin has increased from 45.8% to 46.1% with contribution margins in the Lighting segment growing from 35.7% in 2011 to 44.3% in 2012. Operating leverage has resulted in additional operating profit in Lighting of £6.6m from £2.0m in 2011 to £8.6m in 2012. Profit before tax from continued operations has increased 26.7% to £19.7m (2011: £15.5m). Despite an increase in seasonal working capital requirements to support growth, strong operating cash flow generation of £13.8m has resulted in year-end net cash of £15.0m (2011: £13.7m).

Group Earnings per share ("EPS") has risen 38.6% to 42.0 pence including a £0.7m profit before tax on disposal of the Utility Switch business (2011: 30.3 pence).

Included in the income statement is a non-underlying profit of £0.5m after tax on the sale of the Utility Switch business (proceeds from the sale of intellectual property of £3.1m) and losses from operations of the business of £0.4m net of tax (2011: £0.3m loss).

Dividend

In line with the Group's progressive dividend policy the Board is recommending, subject to approval by the shareholders, a final dividend of 9.5 pence per share giving a total dividend for the year of 13.5 pence per share (2011: 10.0 pence per share). This will be paid on 8 May 2013 to shareholders on the register on the 12 April 2013.

Developments

During 2012 the Group completed a number of acquisitions in different regions. In June 2012 Dialight successfully acquired the trade and assets of Airinet Inc ("Airinet"), a company in Colorado, US and established a new manufacturing facility in Malaysia (Dialight Penang Sdn Bhd) in July 2012. Dialight Asia was established in August 2012 in Singapore with Lumina Holdings Systems Limited.

Board changes

During the year Harry Tee CBE announced his decision to step down from his position as Chairman of the Board and in September 2012, following an external recruitment process, I was appointed Group Chairman having previously been Dialight's Senior Independent Director. The Board has also recently announced the appointment of two new Non-Executive Directors, Stephen Bird who joins the Board as Senior Independent Director and Tracey Graham who joins as Chair of the Remuneration Committee.

Staff

Many significant changes were made at Dialight during 2012. Throughout the year our employees continued to work hard and their efforts are evident in the Group's results. I would like to thank everyone for their continued commitment, support and hard work.

Current trading and outlook

2013 should see continued strong growth in Lighting driven by expanded sales channels and new products. We see further enhancements to the value that our products bring to our customers as Dialight's technical teams capitalise on the ongoing developments in LED technology.

The growth in revenues and the Group's focus on the cost and performance of its products gives us confidence for a future of sustainable profit improvement in this year and the years to follow.

Bill Ronald
Chairman

Performance review

Chief Executive's review

Our strategy is delivering

Once again Lighting has demonstrated significant growth based on our strategy of targeting the hazardous and industrial lighting market. Improved performance in both Lighting efficacy and expected lifetime resulting from our extensive investment in the introduction of new products has made it easier for our customers to adopt our Lighting products.

Dialight's Lighting sales force has more than doubled in 2012 and the deployment of these extra sales staff is a precursor to continued significant growth in the coming years.

2012 is just the fourth year of our participation in this business which is now significant enough to become a separate reportable segment and within that segment it is clear that not only have revenues increased but also profitability has now reached a par with our other reportable segments, with more improvement to come.

Lighting

	2012	2011
Revenue	£45.5m	£26.4m
Profit	£8.6m	£2.0m

Since early 2009 when Dialight's first industrial light was introduced, the strategy has been to focus on sizeable niche markets with defensible barriers to entry. These deliver strong returns for customers through the application of the most current LED technology. Our focus has been to provide products which address the heavy industrial market and in particular those applications which demand the use of lighting which is rated for use in hazardous locations.

The value that Dialight's products bring to this hazardous market applies to the installed base of industrial lighting and to brand new installations giving an addressable market size in the tens of billions of pounds globally. Our sales of £45.5m are tiny in relation to the available market and bearing in mind that Dialight is the pioneer of LED lighting for industrial applications, the opportunity for superior growth exists for years to come.

It is useful to understand why it is that this market is appropriate for our products and what value we bring to our potential customers. We address customers in the Oil and Gas, Power Generation, Heavy Process Industry and Manufacturing and Food and Beverage markets, most of whom will have round the clock operations with lighting running 24/7 and no ability to easily shut down their processes. It is in these applications that our ability to save more than 50% of the energy bill and guarantee uninterrupted lighting for up to ten years drives rapid paybacks and significant return on investment.

These customers operate on a global basis and following our expansions into Australia, the Middle East and Japan in 2011, we established Dialight Asia based in Singapore to address the ASEAN market. Additionally we continued our programme of recruitment of sales personnel in the US, Mexico, Eastern Europe, Western Europe, Russia and Australia to more than double the number of Dialight sales people throughout the world. A key part of our expansion has been the establishment of a Dialight office in Houston, Texas. A large proportion of all Oil and Gas projects are specified by major engineering companies based in Houston. These projects typically have a long gestation period and will provide long-term business for Dialight.

Towards the end of 2012, we introduced a further extension to our High Bay range of products which will extend the applications which our LED lights can address. This new product produces over 25,000 lumens and allows us to replace up to 1,000 watts of conventional lighting using only 250 watts. This is just the latest in a continuing flow of improved new products.

Since our Solid State Lights are based on semiconductor technology, they lend themselves to control and monitoring which cannot be achieved with conventional lighting. In June of 2012, Dialight purchased the trade and assets of Airinet, based in Pueblo, Colorado for their ability to develop unique controls for our industrial lights. Multiple features will be available with the Airinet product set which will significantly enhance the payback of our lighting systems with minimal extra cost. We expect first significant sales to be in 2013.

Performance review

Signals

	2012	2011
Revenue	**£48.1m**	£52.5m
Profit	**£11.3m**	£11.8m

Revenues reduced by 8% in the year driven by difficult conditions in the Traffic market. Obstruction signals were broadly flat due to the deferral of a major contract in the USA. Contribution Margins were held at last year's levels.

Traffic signals

Sales into this market were down in both Europe and North America. The potential for growth in Europe remains due to low penetration of LED based signals but current economic conditions are delaying significant adoption rates. Our relationships with key Traffic Systems OEMs throughout Europe remain strong and business with Siemens in both Germany and the UK is particularly important. Our sales to towns and cities throughout Europe are through these OEMs who supply a complete traffic system. One would expect that with the current low level of adoption we would see a return to growth as the economy improves or as capital for cost saving projects becomes available.

The North American market for LED Traffic signals is now mature. The majority of the installed base of traffic signals has already been converted to LED technology. We are now beginning to replace the LED signals which were supplied over ten years ago. A major issue in funding this replacement is the fact that efficient signals are being replaced with even more efficient signals saving perhaps a further 10 watts of power. Put simply, there is minimal saving produced by the new lights. In an effort to encourage this replacement, Dialight has introduced an integrated signal head which will give the cities a twenty year life for their new lights with only a single, simple power supply change, thus allowing our customers to use a twenty year life for their payback calculations.

Obstruction signals

Dialight has pioneered the use of LED technology for aircraft warning lights on tall structures around the world. For the US market, these lights are regulated by the Federal Aviation Administration and Dialight has often been the only qualified source for an LED version of various of these lights. The benefits of LEDs in this application are obvious being much more reliable than the more conventional light sources that have been used by other suppliers. The lights themselves can be put into roughly three categories: red beacons for wind turbines and painted structures; medium intensity white strobe lights for telecommunications towers between 200 and 500 feet; and, high intensity white strobes for broadcast towers of more than 500 feet.

The market for red beacons is the most mature and has been serviced by a number of suppliers for the past several years. The market for medium intensity white strobes has been the exclusive province of Dialight since 2007 with significant sales in 2010, 2011 and 2012. Channel to market is through value added resellers who have added extra features and functionality to our signals. The potential remaining market for this product in the US is still in excess of $200m so some competition was to be expected and in the latter part of the year one of our former resellers introduced a competing product to the market. This had the effect of delaying the award of a major contract from an operator of over 7,000 towers which had previously been expected by Dialight. It is likely that this will be awarded in 2013 and Dialight is in a good position to be awarded a significant piece of this. More than 50% of this market rests with the top ten tower operators and Dialight is confident in its position with those operators. In order to safeguard our channel position, the Company has decided to take a more direct approach to its customers and has enhanced its offering to the market to give control and monitoring options to its customers using technology derived from its Airinet acquisition (which is discussed further in the Lighting segment above).

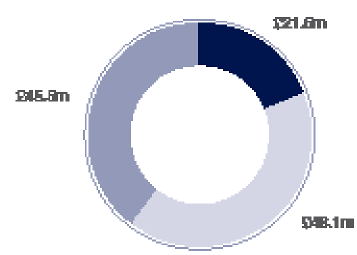
In late 2011, the Company introduced a high intensity strobe for very tall towers in the US market and during 2012 sold some 20 systems. The potential for this market is at least the same as that for the medium intensity product and the product is significantly more complicated. This product will largely be sold on a direct basis to end users. It is expected that this product will extend the growth horizon to the Obstruction signals product line.

Our European business supplies Obstruction signals primarily for the Offshore Wind Turbine market. Several major German projects were deferred to 2013 but we were still able to show some minor growth in Europe and it is expected these projects will be shipped in the New Year.

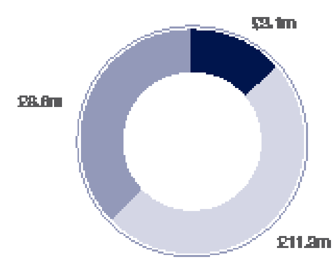
Segmental analysis

- Lighting
- Signals
- Components

Revenue breakdown



Profit breakdown



Performance review

Components

	2012	2011
Revenue	**£21.5m**	£23.7m
Profit	**£3.1m**	£4.9m

Up until this year, we have reported two components segments; one being LED Indication Components the other being Electromagnetic Disconnects. During 2012 the part of Electromagnetic Disconnects which relates to Utility Switches was divested and so we will now report a combined Components Segment which is the combination of LED Indication and the remaining small portion of Electromagnetic Disconnects. This segment is cyclical and over time is not expected to grow. Much of the business is channelled through distributors and has a very diverse customer base. Margins are strong and stable and are expected to remain so. The business is split between sales through distributors, which constitutes more than half of the revenues and address over 15,000 Dialight customers. The balance of the business goes through contract manufacturers who assemble for our major OEM customers who supply high end servers, internet access equipment, cellular infrastructure and storage. We believe the fundamentals of the business remain sound and should provide several years of continued profit input albeit with fluctuations in line with the general electronics market.

Operations and engineering

Once again our Engineering and Operations teams had a busy year. From the introduction of ground breaking new products to establishing manufacturing on a new continent, our technical staff were kept fully engaged all year.

Major new product introductions this year saw our first 100 lm/W products hit the market – the first in the industry. This has now become our standard and we are striving to further improve this efficiency in 2013 but significantly this improvement will not be as a result only of improved LED efficiency. Within any LED lighting system losses occur due to optical, thermal and electronic inefficiencies. Dialight engineers and scientists work to optimise the performance of all three technologies to give the best possible performance as they have done over the last four years. The efficiency of our lights has doubled since the introduction of our first Safesite® product. This improved efficiency translates directly into savings in electricity usage and therefore cost. In addition to electricity savings, reliability is vital to many of our customers.

In applications where access is difficult or dangerous, process shutdowns are expensive, reliable lighting is paramount. From the launch of our first lights, all of our products have carried a five-year comprehensive warranty. Once again an industry exclusive for Dialight is the announcement of a ten year warranty for our latest products thus giving our customers an even longer period over which to calculate savings and return on investment as well as enjoying maintenance free lighting. In addition to these technical improvements, our engineers have reduced our costs to give over 8% improvement in Lighting contribution margins. Ongoing redesign to reduce our costs as well as improving performance is the watchword for our engineers and we will continue this task in 2013.

In order to service the growth in our Lighting business we have expanded production capacity in existing facilities as well as opening a new facility in Penang, Malaysia. Our plan is that this new plant will be used for the duty free supply of Lighting products into most of the fast growing Asia Pacific region. Malaysia gives us not only a cost effective base but also closeness to important geographies in the Oil and Gas markets.

Intellectual property is important to us and in the year we had eight new patents granted. We filed 36 new applications and we had 115 patent applications pending at the year end.

Summary

Once again our niche strategy has delivered top and bottom line growth with a road map to sustain this for the coming years. Our products have improved during 2012 and have brought better savings in energy, less maintenance and improved safety to our customers. The key Lighting segment is positioned to drive the Group forward to achieve continued growth which will be more strongly fuelled by our continued developments and innovations in Lighting as we enable the penetration of our solutions into the vast installed base of Industrial Lighting.

The following pages set out the Group's business model and investment proposition, and its strategy and Key Performance Indicators ("KPIs"). To demonstrate some achievements during the year and to highlight the future we have included a regional review of the Americas, Asia Pacific/Australia and Europe/Middle East alongside relevant case studies.

Roy Burton
Group Chief Executive

Performance review

Our business model

Creating long-term value for our customers

Our investment proposition: it's all about lighting

Dialight defines the current state of LED lighting technology with continuous innovations in light output, efficacy and reliability for our complete line of high-specification lighting fixtures specifically designed for industrial, commercial, hazardous location and transportation applications.

These results are directly related to our ongoing commitment to advancing Solid State Lighting products that vastly reduce maintenance, improve safety, ease disposal and are more environmentally friendly – thereby helping to reduce CO_2 emissions, the dominant Greenhouse Gas contributor to global warming.

With our high-specification range of products we are uniquely positioned for a number of long-term global growth trends, many of which are driven by government regulations and environmental initiatives.

Why Dialight LED fixtures?

1

Mechanical design/ thermal heatsinking

Our LED fixtures are optimally designed to dissipate heat generated by LEDs and electrical components in order to meet lifetime expectations set by our customers.

2

Electrical design

Highly efficient universal power supplies are custom built for each luminaire, tailored to meet specific certifications, extreme temperatures and rugged environments.

3

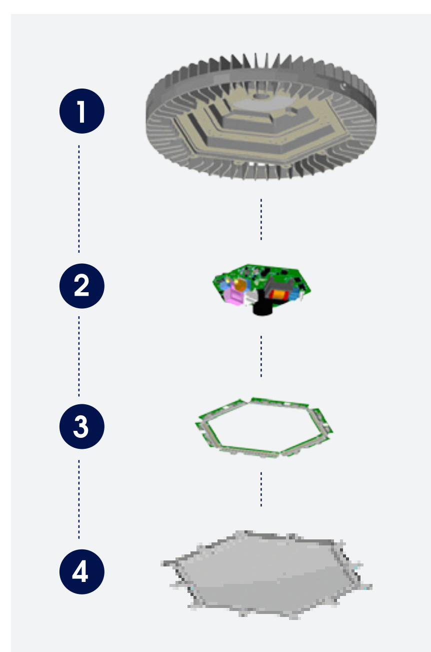
High-brightness LEDs and optics system

We apply the brightest LEDs from the world's most recognised manufacturers, which have third-party test data and analysis to support our lifetime claims and full performance warranty. Paired with our proprietary optics, we concentrate light to the targeted area, rather than waste it on walls, tops of shelves or into the night sky.

4

Highly durable and efficient lenses

Dialight provides its customers with extremely durable lens options for a range of indoor and outdoor applications. Depending on our customers' specific needs, we offer lenses made from glass, polycarbonate or acrylic.



Performance review

The corner stones of our business model

With continuing improvements in LED technology and our ability to turn these into even stronger value propositions for our customers, we are seeing exciting opportunities for the Group in new products, markets and sectors across the world.

1

Markets

We focus on large niche markets, each with a barrier to entry, offering compelling operational, environmental and cost-efficiency benefits using advances enabled by LED technology to expand our presence in new markets.

2

Development

We use our technological expertise in thermal management, optics and electronic circuitry to innovate through the development and improvement of new and existing products, bringing further efficiencies through cost improvements and product design.

3

Technology

We apply for intellectual property protection for all newly developed products and designs whenever possible.

4

Acquisitions

Our expansion into key regions continues with the acquisition of the trade and assets in Airinet, the establishment of Dialight Asia, a joint venture company in Singapore, and the establishment of a new manufacturing facility in Malaysia.

Delivering long-term value propositions

Performance review

Our strategy and KPIs

It's all about lighting

Diamond Pet Foods, California, USA

Lighting profit (£m)

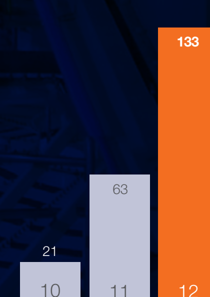
£8.6m +323%

Lighting contribution (£m)

£20.2m +114%

Lighting units sold ('000's)

133,000 +111%



Performance review

Our vision

is to bring the value of Solid State Lighting to customers in a broad range of industries and markets.

Our aim

is to achieve our vision through our continued belief in our existing strategy.

Identify

We focus on niche markets with compelling operational and cost-efficiency benefits for our customers and expand our presence in new markets enabled by advances in LED technology.

Expansion into the hazardous and industrial lighting markets including the following:

- Oil, gas and petrochemicals
- Chemical and pharmaceutical plants
- Mining
- Heavy industrial

Develop

We create intellectual property rights across all research teams and develop new products incorporating this defensible technology.

Through this process of developing and improving we have managed to:

- Be the first to market in LED applications for over 20 years
- File and register a large number of patents
- Demonstrate a commitment to highly educated and skilled engineering teams

Protect

We use our low-cost manufacturing base and continually review and monitor cost-saving opportunities to reduce our material cost.

Never complacent

- LED efficiency and cost improvement supports our customer value proposition
- We vigorously defend any intellectual property infringement
- We have a strong pipeline of new and improved products
- Ongoing redesign and re-engineering to reduce costs and improve performance

Focus

We use our technological expertise in thermal management, optics and electronic circuitry to develop innovative products in niche markets.

Our award winning High Bay is dominating the LED market. At the end of 2012 we have:

- Increased High Bay light output from 17,000 to 25,000 lm/W
- Increased the installed base of High Bays
- Reduced the amount of power required

Target

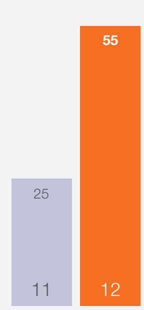
We consider acquisitions with valid channel to market, strong geographical coverage and proven technology.

During the year we have:

- Acquired the trade and assets of Airinet
- Established a presence in Singapore following the incorporation of Dialight Asia
- Established a manufacturing facility in Malaysia
- Continued our search for appropriate acquisitions

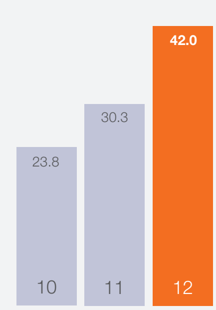
Sales heads

55 +120%



Group EPS

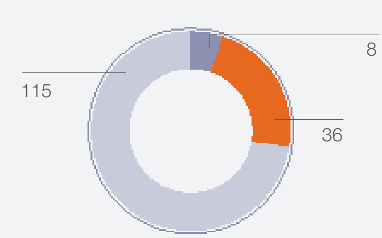
42.0p +38.6%



Patents filed, pending and granted

In 2012 Dialight had 115 patents pending, 36 having been filed and 8 granted This contrasted with figures of 78, 25 and 8, respectively, in 2011.

Filed Granted Pending



Performance review

Regional review

The Americas

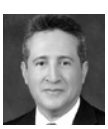
£93.0m

Revenue

Home to the Group's largest manufacturing facility and the largest region by revenue. As Dialight moves into 2013, the Americas will see continued investment and expansion.

Summary

- **Setting the standard for hazardous location lighting**
- **Acquisition of Airinet, controls company in Colorado**
- **Proximity to oil and gas multinationals**



Ariel Abam
General Manager
Dialight de Mexico

> In the last 12 months we have seen great results in the Americas, delivering to new customers and driving growth across the board"

The region includes a manufacturing facility in Roxboro, NC, a sales office in Houston, TX, corporate headquarters in Farmingdale, NJ and Dialight's largest factory, located 75 miles south of the USA-Mexico border in the city of Ensenada, Baja California.

The Ensenada site has over 700 employees and more than 175,000 sq ft of production space in two large facilities. The mild climate and strategic position of Ensenada in the Pacific rim make this location perfect for year round manufacturing and distribution. Ensenada has capabilities to build Solid State Lighting, Traffic signals, Obstruction signals, and panel mount LED indicators. It is certified by ISO9001-2008, INMETRO, IECEX, ATEX, FAA, NOM and RETIELAB.

Manufacturing processes in Ensenada range from state-of-the-art Surface Mount Technology ("SMT") to Computerized Numeric Control ("CNC") milling machines for machining of aluminium castings and electrical test equipment for finished products. The strong growth of Lighting in 2012 required investment in these types of machinery and equipment and will continue through 2013.

The year also saw the acquisition of the assets of Airinet. Airinet has developed leading edge networked management systems for Lighting, which deliver features such as dimming, daylight harvesting, flexible scheduling, tailored occupancy, diagnostics, power monitoring, and real time data reporting. These networks are based on power line, wireless, or hybrid communications to deliver two way capabilities. Among its existing patent applications is its Light Control Module which instantly upgrades an ordinary light to a "smart" light without modification to existing equipment. This system will allow substantial energy savings on top of those that are already available from switching to Dialight's LED lights.

Dialight is established as a leading supplier in the Lighting market in North America. Sales into México, Colombia and Venezuela grew in 2012 and are expected to continue to do so through 2013. These emerging markets are adopting LED industrial technology and Dialight has won several projects in the industrial and oil and gas sectors in 2012 with major clients.

Case study
Major oil refinery

Key facts:

Start date	November 2012
End date	Ongoing
Cost	**£850,000**

-19GWh

Energy consumption reduction

Market: Oil, Gas and Petrochemical

A major US rig owner purchased over 1,200 Dialight LED lighting fixtures to outfit eight new land based drilling rigs in November 2012. The installation represents a small part of the potential market for this type of application, and shows our customers' awareness of the advantages our lights bring.

The Texas-based customer, who has in excess of 1,000 land rigs in its fleet including platform and barge rigs, decided to move forward with the installation following a highly successful trial of Dialight's LED light fixtures. Dialight was uniquely positioned to provide the lighting system as the only manufacturer of the specific types of LED fixtures with the hazardous location certifications required for the application.

The decision to purchase Dialight LED lighting fixtures was made to avoid installing fluorescent and HID fixtures which typically have frequent bulb failures due to the severe shock and vibration of the rig, costing the operator thousands per year in maintenance costs.

View this case study online
www.dialight.com

Performance review

Regional review continued

Asia Pacific/ Australia

£10.8m

Revenue

Dialight's presence in Asia has been significantly strengthened through the establishment of Dialight Asia in Singapore and a new manufacturing facility in Malaysia that will operate alongside our American and European facilities. Dialight is also significantly investing and expanding in Australia.

Summary

» **Increased sales capability in South East Asia**
» **Manufacturing facilities closer to our customers**
» **100% growth in sales and 150% increase in employees in Australia**

Maran Elangkathir
Plant Manager,
Dialight Penang Sdn Bhd
(Malaysia)

"The addition of a manufacturing presence in Malaysia is in line with Dialight's strategy for global expansion. It brings us closer to our growing customer base in Asia while strengthening our value proposition"

Malcolm Lee
Managing Director
Dialight ILS Australia Pty Ltd

"2012 has seen real growth in our capabilities through the addition of sales resource which allows us to increase our reach throughout Australia"

Overview

July 2012 saw Dialight take on a five year lease for a new 40,000 square foot facility in Penang, Malaysia. This allowed the Group to improve its speed to market and reduce the level of inventory held at other locations. Whilst the Malaysian facility will initially be involved in the manufacture of products for the largest electronics OEMs it will be producing LED lighting products from 2013. The facility was established in cooperation with a highly experienced local management team, all of whom have been involved with similar projects before.

In September 2012 Dialight entered into a joint venture arrangement which resulted in the establishment of a new Company, Dialight Asia, that would bear responsibility for the sale and promotion of Dialight Lighting products in South East Asia. Dialight Asia will benefit from a number of sales personnel that are currently employed by our new joint venture partner but will also seek to build up a much larger sales organisation as time moves on so that Dialight Asia is equipped to address key oil and gas markets in the region. It is envisaged that ultimately all products sold by Dialight Asia will be supplied from the Company's new facility in Penang.

During 2012 Dialight also expanded its reach to New Zealand with the appointment of a new distributor. In Australia, Dialight increased its small base in Perth, Western Australia, with the successful recruitment of key staff including a regional oil and gas sector manager and business development managers in Adelaide, Brisbane, Melbourne, Perth and Sydney. This recruitment has continued into 2013.

The year also saw the appointment of a third party warehousing company in Sydney to distribute stock on the east coast of Australia and the appointment of 16 electrical wholesaler stockists nationally.

Performance review

Case study
Leading chemical plant

Lanxess Pte Ltd, Jurong Island, Singapore

Key facts:

- Provision of 2,370 LED lighting fixtures for indoor/outdoor process areas and internal roads
- Resulting 55% energy reduction
- Annual power savings of 1,150,000kWh (equivalent to SGD 241,500)
- 811 metric tons CO_2 emissions avoided annually
- Return on investment in 1.5 years for fixtures operated 24/7

View this case study online
www.dialight.com

Market: Chemical and Pharmaceutical

A leading specialty chemicals company announced the construction of a new, best in class, energy efficient and environmentally friendly butyl rubber plant. The facility is located on a 200,000 square metre plot of land on Jurong Island, Singapore and is fitted with Dialight applications throughout.

At the outset the key objectives for the plant were to be more energy and resource efficient, and also more environmentally friendly. As part of this the project team recognised that the lighting solution would play an important role in achieving these objectives.

The challenge was to find suitable light fixtures that were certified for use in the hazardous environment, would deliver reliable lighting in normal and emergency mode operation, and would meet the requirements for reduced energy consumption and reduced maintenance. The original design for the facility featured a mix of fluorescent T8s and metal halide fixtures, but Dialight were given the opportunity to propose a new lighting design featuring its LED lighting technology and the benefits immediately became apparent. Dialight provided the lighting design to convert the conventional lighting for indoors and outdoors areas to LED products for both non-hazardous and hazardous application.

The decision to use LED lighting throughout the five major production areas of the facility was made simple with the five-year performance warranty from Dialight which would result in eliminating the burden of maintenance. By converting to LED lighting, energy consumption and carbon emissions reduced by 55%. The low operating temperature of the LED fixtures was also a health and safety benefit, as it removed the risk of burn injury common with metal halides for anyone who might come into contact with the fixture.

Performance review

Regional review continued

Europe/ Middle East

£25.9m

Revenue

The last 12 months has seen on-going improvements in respect of Dialight's European Lighting products. Planning and teamwork were some of the key ingredients to delivering success in 2012.

Summary

» **17 direct sales personnel in the region**
» **Strong regional distributors in Abu Dhabi, UAE and Qatar**
» **Manufacturing facility in Newmarket, UK**
» **Vertical integration of supply chain**

Simon Scott
Operations Manager
Dialight Europe Limited (UK)

> "We're building on what we've learnt over the years and will continue to grow by working closely together as a team. This means ensuring we understand the changing needs of our customers and developing new reliable technologies so that we keep delivering what they want at the right price and time"

Overview

Dialight Europe Limited operates out of Newmarket, UK with facilities in Germany and Denmark and a sales office in Dubai.

2012 presented many challenges as Dialight constantly kept up with changes, as more and more product variants as well as design improvements were introduced. The number of changes and the rate of change accelerated throughout the year.

Dialight's vertical integration strategy – setting up key production processes in-house, has delivered great results over the last few years, reducing costs and lead times, as well as increasing flexibility and responsiveness. This shift began with significant investment in: moulding equipment to support the Traffic programme; new SMT and through hole equipment that enabled us to build light engines and power supplies for all LED Lighting; a second machining centre to machine High Bay castings; a powder coating plant to paint them; and, cable processing equipment to produce the ever increasing variety of wiring harnesses that we now use.

Taken together, these developments mean that Dialight now has control of the majority of significant processes required to produce products such as the High Bay.

2012 was also possibly Europe's busiest year so far but also one of the most organised as Dialight has made changes to working practices in order to deliver to customers. We've drastically increased the capacity of processes and assembly lines through a combination of investments and by running key areas 24/7 as required.

Sales in mainland Europe ended 2012 with trials and orders of products at key hazardous customers as well as increased penetration of the industrial market with orders from large multinational companies Europe wide. In the Middle East we secured our first large Oil and Gas offshore project in Abu Dhabi and our increasing sales presence now covers Saudi Arabia, Oman, Kuwait, Qatar, Bahrain and the UAE, giving us the opportunity to establish long-term concrete relations with key customers in the area.

Performance review

Case study
Consumer packaging company

Rexam, Milton Keynes, UK

Key facts:

- Annual savings of £43,000 in energy costs
- Replacement of 340 x 400w MV with 150w LED High Bays
- Over 60% reduction in energy needs
- 460 tonnes annual reduction in CO_2 emissions
- Expensive maintenance eliminated
- Improved safety and productivity
- Payback in just over two years

View this case study online
www.dialight.com

Market: Heavy industrial

As a leading consumer packaging company with 83 manufacturing sites across the globe, Rexam makes the packaging for many of the world's favourite brands, striving to produce it as efficiently and sustainably as possible.

Producing 4.5 million cans a day for the UK and Northern Europe at its beverage canning plant in Milton Keynes UK, the company took the decision to review its lighting at this facility in order to reduce energy consumption.

The Milton Keynes production line and warehouse are in constant use and the lighting runs 24/7. The company previously had issues in two other plants with mercury vapour lamps, so had taken a decision to enclose them all or change them out altogether. It therefore looked at a new lighting solution that would save energy as well as meet safety standards.

With 340 x 400w mercury vapour high bays throughout the facility, energy costs were high, but maintenance was also a big consideration. The mercury vapour high bay lamps were averaging a 2–3 year lifespan and being replaced when they failed or looked ready to fail at a rate of around 40 per year. This often involved bringing in specialist hired riggers at a cost of £750 per day.

Rexam looked at six alternative lighting solutions from a variety of manufacturers, trying out samples over a three month test period, before choosing Dialight's DuroSite® Series LED High Bays on the combined basis of price and performance. Rather than re-wire the plant, they replaced the 400w mercury vapours one-for-one with 150w LED High Bays throughout the production and warehouse areas.

Rexam calculate that its lighting energy needs for the High Bays have reduced from 1,100kWh to 433kWh per year, saving £43,000 annually at a rate of £0.06/kWh, and estimates a payback period of a little over two years when compared with the alternative solution of open rated lamps. Further savings can be counted from the reduced maintenance burden thanks to Dialight's continuous performance warranty.

Performance review

Financial review

Strong financial position

"The Group has considerable financial resources together with a broad spread of customers across different geographic areas and industries. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully."

Going concern

The Group's business activities together with the factors likely to affect its future development, performance and position are described within this Financial Review. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described below.

The Group has considerable financial resources together with a broad spread of customers across different geographic areas and industries. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully. The Directors have also considered the Group's forecasts and projections. After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Income statement

Revenue in 2012 grew by 12.3% to £115.1m compared with £102.5m in 2011. This excludes revenue from discontinued operations. This performance is in mixed market conditions with Lighting growing by 72.7% growth year-on-year to £45.5m, Signals revenue down by 8.2% and Components revenue down 9.3% at £21.5m. Overall, sales pricing has remained broadly constant with growth in Lighting achieved purely in volume alone. There has been no impact of acquisitions in the year as Airinet (acquired in June 2012) is a development opportunity only with controls for our industrial LED lighting business with product expected to be launched in the first half of 2013.

Revenue in 2012 is split geographically:

	2012 % of Total	2011 % of Total
North America	**69.5**	68.2
UK	**9.0**	10.3
Rest of Europe	**9.9**	11.6
Rest of World	**11.6**	9.9

This demonstrates the Group's sensitivity to our North American business and the potential impact of US dollar exchange rates. The major currencies the Group is exposed to are the US Dollar and the Euro. The following exchange rates were used in translating the Income Statement and Consolidated statement of total financial position of the Group and Company:

	2012 Average rate	**2012 At reporting date**	2011 Average rate	2011 At reporting date
USD	**1.58**	**1.63**	1.60	1.55
Euro	**1.23**	**1.23**	1.15	1.20

The overall impact of the currency movements has been to increase turnover by £0.5m and operating profit by £0.2m.

As reported in the Interim Management Statement in November 2012 we will now report our key business segments as Lighting, Signals and Components. The Components segment includes a small element of disconnect non-utility switch revenue with the residual utility switch business now treated as Discontinued. The major and fastest growing segment is Lighting and the Group's long-term growth is dependent on continued high growth in this segment.

Performance review

The tables beneath demonstrate the performance of the respective segments:

Lighting	2012	2011
Turnover £m	**45.5**	26.4
Operating profit £m	**8.6**	2.0
Return on sales %	**18.9**	7.7
Proportion of Group operating profit %*	**37.3**	10.8

Signals	2012	2011
Turnover £m	**48.1**	52.5
Operating profit £m	**11.3**	11.8
Return on sales %	**23.6**	22.4
Proportion of Group operating profit %*	**49.3**	63.1

Components	2012	2011
Turnover £m	**21.5**	23.7
Operating profit £m	**3.1**	4.9
Return on sales %	**14.4**	20.6
Proportion of Group operating profit %*	**13.4**	26.1

* Note this is the Segment EBIT as a percentage of the Continuing Operations EBIT before central costs.

The Lighting segment has had a strong year. There has as noted been profit growth in excess of 300% driven by the 72.7% increase in sales, a growth in contribution margin, of a 8.6 percentage point gain (from 35.7% in 2011 to 44.3% in 2012) and an almost 150% growth in return on sales percentage from 7.7% to 18.9%. The overall investment in sales resource has risen significantly in 2012 with an incremental £2.7m of sales cost or a 74% increase on 2011. This has funded a more than doubling of sales headcount and this is key to our future growth.

The Signals segment had a poor year with traffic signal volumes down 19% and not able to be offset by obstruction signals revenue which only grew by 2% which is disappointing. Contribution margin remained in the 47% range with an overall return on sales in excess of 20%.

The Components segment, which as now reported includes the residual non-utility meter disconnect component activity, has had a marginally worse year, as expected, with market conditions weaker and with overall revenue reduced by 9.3% to £21.5m. Profitability has been impacted by a less profitable product mix as well as incurring one-off start-up cost of establishing our new Malaysian facility in the second half of 2012.

A significant contributor to these increasing returns in Lighting particularly is the impact of the Group's re-engineering and cost reduction initiatives. In 2012, the Group has invested over £5.2m (2011: £5.1m) on research and development which largely relates to the Signals and Lighting segments and which represents 5.6% of the combined Signals and Lighting revenue. The key focus is to drive down the material cost of sales which for the Group as a whole represents 48.6% of revenue (2011: 48.9%) compared to direct labour which only represents 4.6% of revenue (2011: 5.3%). The largest single material cost item the Group is exposed to is the cost of LED's and forecast market price reductions in LED's as well as increases in light output give the Group confidence to make significant investment in re-engineering to reduce the number of LED's purchased per product. Overall there has been a 2.1% improvement in return on sales from material cost down.

In addition to the leverage of material cost through cost down which has driven up contribution margin we also achieved leverage of our plant overhead, development cost as well as administration costs. With overall sales revenue up 12.3% plant development cost was broadly flat and administration costs marginally increased from £8.8m to £9.1m.

Performance review

Financial review continued

Increasing UK **profits**

Income statement continued

The overall impact of material cost down, leverage of plant overhead, leverage of development and leverage of administration cost has been to achieve £4.1m of incremental EBIT (2012 over 2011) on £12.6m of incremental sales (2012 over 2011). This is what we refer to as our Operating Leverage and the level achieved of 31.7% has marginally exceeded our target, communicated publically, of 30.0%. Lighting has however performed better with a 2012 operating leverage of 35%.

The only other significant cost which we publicly state that we do not wish to leverage is sales and marketing costs, particularly in Lighting. We do not forecast to leverage these as the recruitment of additional sales staff is the key constraint to our future Lighting revenue growth. Sales and marketing cost grew by 21% in 2012 to an increase in overall headcount from 25 heads at the end of 2011 to 55 heads at the end of 2012. We plan to double sales headcount again in 2013.

The Operating Leverage has increased the overall Group Return on Sales to 17.0% in 2012 from 15.1% in 2011.

In 2011 there were one-off non-underlying expenses relating to the settlement of a dispute with a rail signalling customer of £2.8m and the buy-out of the US defined benefit pension scheme of £0.7m. The latter is disclosed in non-underlying financial expense and the former in non-underlying administrative expenses. In 2011, we granted a lifetime licence to a third party for the use of a number of our utility disconnect switch patents. The income from this licence was £2.7m and is included within non-underlying other operating income.

The underlying tax charge for 2012 is £6.4m (2011: £5.2m) which represents an effective tax rate of 32.7%. This is lower than the effective rate of 33.3% in 2011 as the mix of profit generated in the UK has increased together with the lower effective rates in the UK. As the trend of increasing UK profits continues, this, together with lower future rates of UK corporation tax and the benefit of the so called Patent Box lowering tax rates for UK companies with UK patents on the products its sells should enable the Group to continue to marginally lower the effective rate going forward.

Profit for the period attributable to Equity Holders of the Company increased by 40.4% to £13.6m from £9.7m in 2011.

EPS from continuing operations has increased 32.3% to 41.4 pence in 2012 from 31.3 pence in 2011.

Consolidated statement of total financial position

Group net assets have increased to £63.0m from £54.8m in 2011. The main reason for this increase has been the increase in working capital to support the growth of the Group. Overall working capital has increased to £24.2m from £19.6m in 2011. The working capital to sales percentage has increased marginally to 21% of sales. Other increases in net assets have been investment in plant and equipment to expand capacity to support growth and increases in intangibles from the acquisitions of Airinet £4.9m (being upfront cash consideration of £1.6m as well as the future contingent consideration of £4.6m discounted to a present value of £3.3m).

We have a good mix and ageing of inventory moving forward to achieve our ambitious growth targets.

The split and movement in working capital is outlined below:

	2012 £m	2011 £m
Inventories	19.6	15.8
Trade and other receivables	27.0	22.8
Trade and other payables	(22.4)	(19.1)
	24.2	19.6

The Group's cash position at 31 December 2012 was £15.0m compared with £13.7m at the end of 2011. This is after the additional working capital build to support growth, paying tax of £4.3m, the acquisition of Airinet for upfront cash consideration of £1.6m and dividends of £3.4m.

The Group has no debt other than potentially to its UK pension schemes which currently have a small deficit of £1.2m (2011: £0.8m surplus). This deficit has arisen as the corporate bond rate to discount the liabilities has fallen, the inflation rate used to pay pensions has increased as well as other changes in actuarial assumptions.

Cash flow

The significant improvement in operating profit has been offset by increases in working capital which has resulted in net cash from operations of £13.8m (2011: £12.4m). From this we have funded capital expenditure of £4.2m (2011: £2.5m), supported new product development to achieve

Performance review

cost savings in product costing and other cost improvement of £2.8m (2011: £1.6m). There has also been tax of £4.3m paid in 2012, a significant increase on the £1.7m paid in 2011 as the premium paid to buyout the US pension scheme of £2.3m in 2011 was fully allowed for tax, the acquisition of Airinet has been completed for £1.6m and dividends of £3.4m paid.

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board considers consolidated total equity as capital. As at 31 December 2012 this totalled £63.0m (2011: £54.8m).

In respect of dividend, the Board has a progressive dividend policy and aims for three times cover. The result for 2012 was 3.2 times (2011: 3.0 times).

The Board has historically monitored Total Shareholder Return ("TSR") compared to the FTSE SmallCap Index and FTSE Electronics/ Electrical Index to ensure that Dialight's performance is in line with peer companies. Going forward performance will be compared to the FTSE mid-250 Index excluding Investment Trusts.

There were no changes in the Group's approach to capital management during the year.

Dividend

In line with the Group's progressive dividend policy it is proposed to pay a final dividend of 9.5 pence per share giving a total dividend for the year of 13.5 pence per share an increase of 35% over 2011 when an interim of 3.3 pence per share and a final of 6.7 pence per share was paid (total 10.0 pence per share). The final dividend, if approved, would be paid to members on the register on 12 April on 8 May 2013.

Banking

The Group has its banking relationships with Barclays Bank PLC and our US subsidiary has its banking relationships with Wells Fargo. The Group has a £3m overdraft facility as well as a revolving secured credit facility of £7m. There was no use of either of these facilities at the end of 2012 or 2011.

The Group has relationships with Capital One in the US and SME EuroFinance in Europe to offer finance facilities to its customers. These facilities are not underwritten by the Group.

Mark Fryer
Group Finance Director

Performance review

Principal risks and uncertainties

The following section sets out the principal risks and uncertainties facing the Group. There may be other risks and uncertainties, which are not yet known or which are currently considered to be immaterial, but later turn out to have a material impact. Some of the areas set out will be outside of any influence that the business may exert. Should any of the risks actually materialise then Dialight's business, financial condition, prospects and share price could be materially adversely affected.

Area of risk	Description and mitigating activity
Macro-economic conditions The Group's sales and profits may be impacted by spending slowdowns and/or increasing inflationary pressures.	A continuing significant slowdown in economic conditions globally and in certain territories such as North America could have a material effect on sales and operating profit, in particular for the Components segment. Increasing inflationary pressures on areas such as raw material and sub-contract costs may have an adverse impact in operating margins. The current adverse conditions for public organisations to reduce and/or defer their capital spending budgets may impact on sales of some of our products. **Mitigating activities include:** - We closely monitor the general electronics demand index as well as industry forecasts so as to become aware of market trends. - Monthly data provided by distributors in America is examined, documented and reviewed as this is also considered to provide valuable information on market demand.
Changes in government legislation or policy National and local policies with regard to energy savings in a number of areas such as transport and communication are constantly evolving.	This should favour Dialight's efforts in growing sales in some key niche current and potential opportunities identified by the Signals segment. Additionally, legislation may introduce new higher and more exacting specifications for existing products which will require product redesign and regulatory re-certification. Therefore changes in product specifications should favour Dialight in giving it an advantage over competition. **Mitigating activities include:** - It is Dialight's policy to operate in highly regulated markets which require suppliers to achieve compliance with demanding product standards. - Our design and engineering departments have a proven track record in technical ability evidenced by strong working relationships with customers and regulatory bodies, the design and introduction of new products and a portfolio of registered intellectual property.
Competitive environment We operate in competitive markets and there exists a threat that existing competitors or potential new entrants will be successful in taking marketshare.	The threat may, for example, come from an extremely aggressive pricing policy for larger traffic contract bids in America and Europe. **Mitigating activities include:** - Our focus on identifying, developing and maintaining sales routes to market, servicing strong customer relationships, competitive and leading-edge product portfolios and cost-efficient manufacturing plants support Dialight as a major player in its chosen markets and helps to reduce the risk of losing market share to competition.
Laws and regulations The Group's operations are subject to a wide range of laws and regulations including employment, environmental and health and safety legislation.	**Mitigating activities include:** - Group policies and procedures are documented and communicated throughout the Group. All Group companies have an employee handbook detailing employment practices and staff who receive the appropriate training and support to operate in their roles. - A Governance and Risk Committee has been established to monitor compliance with existing policies and procedures and consider improvements and changes to these on an ongoing basis.

Area of risk	Description and mitigating activity
Strategy for revenue growth – LED Lighting The achievement of our goals is dependent on growing sales in the chosen markets for industrial white lighting.	The adoption by the market of LEDs for new applications is principally dependent on the increased efficiency and reduced cost of LEDs versus existing technologies such as fluorescent or high-intensity discharge. The achievability of the Group's longer-term sales growth would be seriously at risk if the parties who are developing the LEDs did not achieve the expected progress such that new applications did not become feasible. Additionally with the fast-changing technology world that exists there is a possibility of a technology being developed that supersedes LEDs. **Mitigating activities include:** - Our engineers are actively contributing with their presence on industry related boards, attendance and presentations at industry seminars etc, so as to be proactively involved and to keep abreast of developments on a regular basis.
Intellectual property The development and ownership of intellectual property is critical in underpinning the growth potential for the business.	The Group operates a stringent policy on the sharing of know-how with third parties as well as having a well defined policy on the in-house identification and registration of patents. If the Group fails to or is unable to protect, maintain and enforce its existing intellectual property, it may result in the loss for the Group of the exclusive right to use technologies and processes which are included or used in its businesses. **Mitigating activities include:** - Plans to improve the quality of the new product introduction systems across the businesses have been implemented with good progress being made as evidenced by the expanding patent portfolio.
Product liability risks Products should conform to agreed specifications.	If a product of the Group does not conform to agreed specifications or is otherwise defective, the Group may be subject to claims by its customers arising from end-product defects or other such claims. **Mitigating activities include:** - The Group carries appropriate product liability insurance. - We have a well developed stringent quality control system to help identify any defects before they are despatched to customers.
Financial markets Turmoil in global financial markets could pose risks to financial position.	Any turmoil poses risks to the financial position of both our customers and suppliers, and also to the ability of the Group to renegotiate bank facilities. **Mitigating activities include:** - There are ongoing reviews of supplier bases to ensure wherever possible that there is not over-reliance on one specific supplier. - The Group has a banking relationship with a number of banks. Currently the Group has not drawn down any borrowings against the existing facility with Barclays Bank plc. Regular contact will be kept with the banks to ensure that they understand the business and its requirements. - Customers are subject to credit checks and there is very close review of trade debtor days outstanding and overdue amounts. Purchase limits are set for all customers.
Currency exchange The Group is exposed to translation exchange rate risk.	As a significant proportion of the Group's results, assets and liabilities are reported in US Dollars and Euros, they are subject to exchange rate risk when translated to UK Sterling for incorporation into the Group's results. In addition, transactions are carried out by Group companies in currencies other than UK sterling leading to transactional foreign exchange risk. **Mitigating activities include:** - Where possible the Group nets such exposures and will maintain a hedging programme utilising foreign exchange forward contracts and currency overdrafts to cover specific contracts and such proportion of other anticipated exposures as can be estimated with reasonable certainty.
Acquisition strategy Inability to identify suitable acquisition targets and to integrate successfully acquired businesses into the Group.	The successful implementation of Dialight's acquisition strategy depends on its ability to identify targets, successful completion of the transaction, achievement of an acceptable rate of return and a successful and timely integration post-acquisition. **Mitigating activities include:** - The Board plans to make acquisitions of businesses where the targets fit appropriately into the Group strategy by strengthening Dialight's product range and existing technologies, offering new and attractive sales routes to markets, having high performance and motivated management and having a proven profit record.

Governance

Chairman's overview/ Board of directors

You will see that the layout of the following pages is slightly different to that of last year but still provides all that information that is required by existing legislation, the UK Listing Rules and current corporate governance requirements.

The Company has again seen significant growth during 2012 and this continues to present challenges to those structures and processes in place to manage the Group's compliance with both external and internal regulations. Expansion into new geographies including Malaysia and Singapore ensures that Dialight's governance framework is continually evolving to accommodate changing conditions and requirements.

The new Corporate Governance Code issued by the Financial Reporting Council ("FRC") in September 2012 has been reviewed by the Board although the Company is reporting against the Corporate Governance Code published in June 2010 in respect of the 2012 financial year. Our disclosure in relation to Directors' remuneration has been slightly amended to reflect the changing landscape and this can be found on pages 42 to 49. Governance developments will be kept under observation by the Board.

Finally, I would like to extend a warm welcome to our two new Non-Executive Directors who joined the Board on 10 January 2013. Stephen Bird and Tracey Graham assumed their respective roles of Senior Independent Director and Chair of Remuneration Committee respectively, with effect from 21 February 2013.

Bill Ronald
Chairman

Bill Ronald (57)
Chairman

On 12 September 2012 Bill Ronald was appointed Group Chairman and Chairman of the Nominations Committee following the retirement of Harry Tee CBE. Having joined the Board in May 2009, Bill previously held the positions of Senior Independent Director (from August 2010), Chairman of the Remuneration Committee and member of the Audit Committee. Bill remains a member of the Remuneration Committee. Outside of the Group Bill is also Chairman of the Compleat Food Group, Senior Non-Executive Director for Halfords Group and Chair of Trustees of the Muscular Dystrophy Campaign.

Roy Burton (65)
Group Chief Executive

Appointed President and Chief Executive Officer of Dialight Corporation in July 2002, Roy Burton became Group Chief Executive in September 2005. Roy has many years' experience in the electronics industry, having started his career in the UK working with Philips Electronics, ITT and Amphenol Corporation with whom he relocated to the US. In 1994 he became Group President Electronics for Thomas and Betts Corporation headquartered in Memphis, Tennessee and prior to his appointment at Dialight was Chief Executive Officer of Coraza Systems Inc. Roy is based at Dialight Corporation's headquarters in Farmingdale, New Jersey.

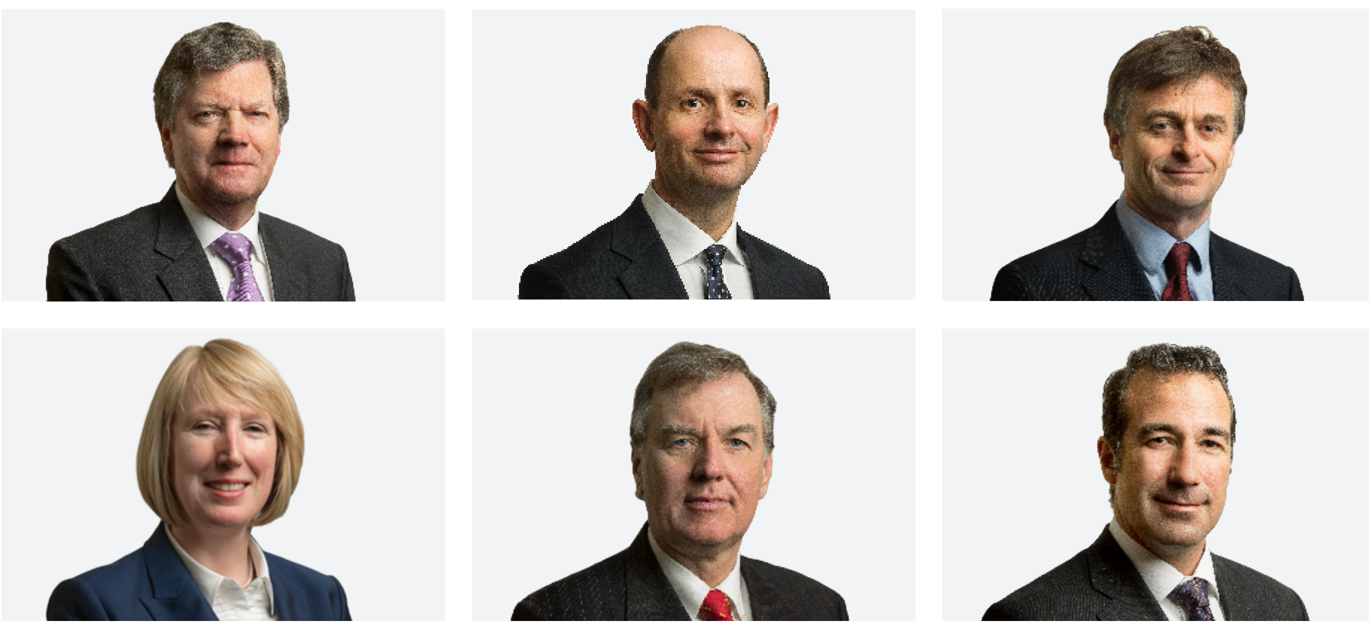
Mark Fryer (45)
Group Finance Director

Mark Fryer was appointed as Group Finance Director on 31 August 2010. Prior to his appointment Mark was the Group Finance and Business Development Director of Manganese Bronze Holdings plc (2002 to August 2010). Prior to this he worked at GKN plc as Finance Director of the Industrial Services Division and was latterly Chief Financial Officer of a GKN subsidiary in the US. He was also Financial Controller of Mercury Communications, a subsidiary of Cable & Wireless plc. Mark is a Chartered Accountant, having qualified with Ernst & Young in 1988.

Stephen Bird (52)
Senior Independent Director

Stephen Bird joined Dialight as a Non-Executive Director on 10 January 2013 and was appointed Senior Independent Director on 21 February 2013. Stephen is a member of the Audit, Nominations and Remuneration Committees. He is currently Group Chief Executive of The Vitec Group plc, an international Group principally serving customers in the broadcast, photographic and military, aerospace and government markets headquartered in the UK. He was formerly a Non-Executive Director of Umeco plc and previously Divisional Managing Director of Weir Oil & Gas, part of Weir Group plc. Prior to this he worked in senior roles at Danaher Corporation, Black & Decker, Unipart Group, Hepworth PLC and Technicolor Group.

Governance



Left to right, top to bottom: Bill Ronald, Roy Burton, Mark Fryer, Stephen Bird, Tracey Graham, Robert Lambourne, Richard Stuckes.

Tracey Graham (47)
Non-Executive Director

Tracey Graham joined Dialight as a Non-Executive Director on 10 January 2013 and was appointed Chair of the Remuneration Committee on 21 February 2013. Tracey is also a member of the Audit and Nominations Committees. Tracey was previously Chief Executive of Talaris Limited, an international cash management technology business until 2010 where she led the company's management buy-out from De La Rue Plc, backed by private equity house Carlyle in 2008. Prior to this, Tracey held senior positions in banking and insurance with HSBC and AXA insurance. Tracey is currently Non-Executive Director of RPS Group plc and Albemarle and Bond Holdings plc, and chairs their respective Remuneration Committees. She is also a Non-Executive Director of the Royal London Group.

Robert Lambourne (60)
Non-Executive Director

Robert Lambourne joined Dialight as a Non-Executive Director in May 2010. He is Chairman of the Audit Committee and a member of the Remuneration and Nominations Committees. He is a Chartered Accountant and has held a number of public company executive directorships, most recently as Finance Director of RMC Group Plc. He is an experienced Non-Executive Director of both public and private companies in the UK and overseas. In the UK, he has been a Non-Executive Director of Pace Micro Technology plc, Abacus Group Plc and Analyst Investment Management plc as well as a number of private companies. Outside the UK, he has been a Non-Executive Director of Huttig Inc in the USA and Chairman of Penox SA in France. He is currently the Chairman of Gabem Holdings Limited, Gabem Management Limited and The Learn Centre Limited and is Non-Executive Director of The Tintometer Limited.

Richard Stuckes (45)
Non-Executive Director

Richard Stuckes joined Dialight as a Non-Executive Director in May 2009 and is a member of the Audit, Nominations and Remuneration Committees. He is currently the managing director of the paints business in EMEA for AkzoNobel who acquired the business from Imperial Chemical Industries ("ICI") in 2008. Richard originally joined ICI Paints on 1 January 2005 as Chief Executive Officer, ICI Paints UK and Ireland. Prior to this, Richard gained extensive experience in the lighting industry through his 13 years with Philips Lighting, including his role as Managing Director for the UK activity and for both the Spanish and Portuguese businesses.

Find out more online
www.dialight.com

Governance

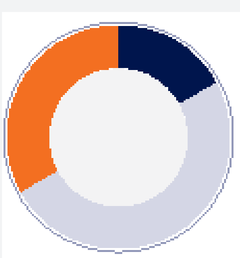
Directors' and Corporate Governance report

Governance and accountability

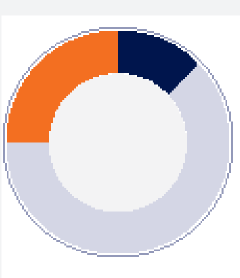
Membership of the Board

In 2012 the Board consisted of a Chairman, two Executive Directors and three Non-Executive Directors. Following Harry Tee CBE's retirement in September 2012 this reduced the number of Non-Executive Directors to two as Bill Ronald was appointed as Chairman. The balance has once again changed in 2013 with the successful appointment of two additional Non-Executive Directors.

2012



2013



- Chairman
- Executive Directors
- Non-Executive Directors

UK Corporate Governance Code

The main corporate governance rules that apply to the Group for the year ended 31 December 2012 are contained in the UK Corporate Governance Code ("Code") as published and updated by the FRC in June 2010 and the UK Financial Services Authority ("FSA") Listing Rules. These require Dialight to describe, in its annual report, its corporate governance from two points of view: the first dealing generally with the application of the Code's main principles and the second dealing specifically with non-compliance with any of the Code's provisions. It is the view of the Board that Dialight has been compliant with the provisions of the Code throughout the year ended 31 December 2012. This statement, together with the Remuneration report, explains how Dialight has applied the main principles and complied with the provisions of the Code during the year.

Leadership

The role of the Board

The Board is accountable to the Group's stakeholders, including its shareholders, for the standards of governance operated throughout the Group. It is committed to high standards throughout all of the Group's operating locations.

The Board has adopted a formal schedule of matters that are specifically reserved for its decision including, the approval of annual and interim results; recommendation of dividends; approval of annual budgets; review of Group strategic plans; approval of larger capital expenditure and investment proposals; review of the overall system of internal control and risk management; and, the review of corporate governance arrangements. Specific responsibilities are delegated to the Audit, Nominations and Remuneration Committees and these are documented through the relevant committee terms of reference. The matters reserved for Board decision and the committees' terms of reference are reviewed on an annual basis. These are available on the Company's website at www.dialight.com or from the Company Secretary at Exning Road, Newmarket, Suffolk, CB8 0AX ("Registered Office").

The Board delegates authority, within clearly defined limits, to the Group Chief Executive and the Group Finance Director ("the Executive") for acquisitions, investments, capital expenditure and other major contracts committing the Group's expenditures or other such liabilities. The Executive, in turn, may further delegate this authority to senior management or Directors of Group subsidiary companies. Levels of authority delegated to the Executive and senior management and Directors of Group subsidiaries are reviewed from time to time.

The Board held seven scheduled meetings during 2012 including a three-day annual strategy and planning meeting hosted in the UK. They also met on a number of other occasions as the situation and circumstances required. Further details of Directors' attendance at all scheduled meetings of the Board and its Committees can be found in the table on page 29. Attendance details in respect of Stephen Bird and Tracey Graham do not appear as both were appointed following the end of the year on 10 January 2013 and, neither were invited to or attended any meetings during 2012. There are eight Board meetings scheduled to take place in 2013.

Division of responsibilities

There are clearly established roles for the Chairman and Group Chief Executive. Individual, documented role statements are available on the Company's website or from the Registered Office.

Governance

Read our committees terms of reference online
www.dialight.com

The Group Chief Executive has delegated responsibility for the management of the Group's day-to-day operations to senior management. In addition he is responsible for the preparation and presentation of strategic options for the Group's growth in shareholder value and sets the operating plans and budgets required to deliver the agreed strategy. He is also responsible for ensuring that the Group maintains appropriate risk management and control mechanisms.

The Chairman

In addition to other matters, the Chairman has responsibility for the leadership of the Board, ensuring the effectiveness of the Board, organising and planning Board meetings and the effective and timely communication of information to shareholders. The Chairman provides advice, counsel and support to the Group Chief Executive as and when required and maintains open and continual contact with the Non-Executive Directors to allow any issues to be addressed outside of the formal scope of the regular Board meetings.

Board agendas are prepared by the Chairman in conjunction with the Group Chief Executive and the Company Secretary. At each meeting the Board is provided with regular and timely information on the financial performance of businesses within the Group, and of the Group as a whole, together with reports on trading, health and safety, performance, markets and other relevant issues. Board and committee papers are distributed to Directors in advance of Board and committee meetings to facilitate informed debate at the meeting.

The Non-Executive Directors

Following the appointment of Stephen Bird and Tracey Graham on 10 January 2013, the Board now comprises four independent Non-Executive Directors, the remaining two being Robert Lambourne and Richard Stuckes. Following Bill Ronald's appointment as Group Chairman on 12 September 2012, Robert Lambourne took on Bill Ronald's existing responsibilities and became Acting Senior Independent Director and Acting Chairman of the Remuneration Committee until additional Directors were appointed. Stephen Bird and Tracey Graham became Senior Independent Director and Chair of the Remuneration Committee, respectively, with effect from 21 February 2013, at which point Robert Lambourne relinquished these additional responsibilities.

All Non-Executive Directors constructively challenge the Board and assist in developing the strategy of the Group and scrutinise the performance of management against the Group's objectives and strategy. The Chairman holds meetings with the Non-Executive Directors without the Executive Directors present on a range of matters whilst the Senior Independent Director does the same with other Non-Executive Directors as part of the Chairman's annual performance appraisal as well as on such other occasions as required.

Governance

Number of meetings attended

	Board	Audit Committee	Remuneration Committee	Nominations[1] Committee
Bill Ronald[2]	7/7	4/4	4/4	5/10[3]
Roy Burton[4]	7/7	n/a	n/a	10/10
Mark Fryer[4]	7/7	n/a	n/a	n/a
Robert Lambourne	7/7	4/4	4/4	10/10
Richard Stuckes	7/7	4/4	4/4	9/10

1 There were a large number of Nominations Committee meetings during 2012 to consider both the succession to Harry Tee CBE as Chairman and the search process for two additional Non-Executive Directors.

2 Bill Ronald was appointed Group Chairman on 12 September 2012.

3 Bill Ronald was not invited and did not attend those Nominations Committee meetings regarding the search for a successor to Harry Tee CBE although he did attend all of those for which he received an invitation.

4 Neither Roy Burton or Mark Fryer are members of the Audit and Remuneration Committees and attend meetings by invitation only.

Governance

Directors' and Corporate Governance report continued

Board effectiveness, composition and appointments

The composition of the Board demonstrates a range of experience that brings independent judgement to issues of strategy, performance, resources and standards of conduct which are vital to the future success of the Group.

Effectiveness

Composition of the Board

In addition to the Non-Executive Directors, the Board also includes three further Directors: the Chairman; the Group Chief Executive; and the Group Finance Director.

All of the Non-Executive Directors are considered to be independent in accordance with the Code and it is thought that the current balance on the Board ensures that no individual or group dominates the Board's decision making process. The Non-Executive Directors are independent of management and are free from any relationship which could affect the exercise of their independent judgement and therefore meet the criteria set out in the Code. Their biographies appear on pages 26 and 27. These demonstrate a range of experience that brings independent judgement to issues of strategy, performance, resources and standards of conduct which are vital to the future success of the Group. The Board has considered and confirmed that each Non-Executive Director continues to demonstrate that he has sufficient time to devote to the Company's business.

Each Non-Executive Directors' knowledge and understanding of the Group is enhanced by visits to Group facilities and through presentations from members of senior management.

No individuals apart from the Committee Chairmen and Committee members are allowed to be present at Committee meetings although other individuals, including the Chairman, Group Chief Executive, Group Finance Director, Group HR Director and external auditors, may attend meetings at the prior invitation of the relevant Committee Chairman.

Appointments to the Board

The Board has established a Nominations Committee to lead the process for all Board appointments, making recommendations where required. Membership details of the Committee can be found in the table below.

Group structure and Committee membership

The Board

Nominations Committee	Remuneration Committee	Audit Committee
Members	Members	Members
Bill Ronald (Chairman)	**Tracey Graham (Chairman)***	**Robert Lambourne (Chairman)**
Stephen Bird*	Stephen Bird*	Stephen Bird*
Roy Burton	Robert Lambourne	Tracey Graham*
Tracey Graham*	Bill Ronald	Richard Stuckes
Robert Lambourne	Richard Stuckes	
Richard Stuckes		

* Stephen Bird and Tracey Graham's appointments to these Committees became effective from 21 February 2013. Neither were members during the year under review.

Governance

With the exception of Harry Tee CBE who retired on 12 September 2012, all members served throughout the year and, with the exception of Roy Burton, are considered independent pursuant to the Code.

The Nominations Committee is responsible for reviewing the size, structure and composition of the Board, making recommendations where necessary, giving consideration to the provision of adequate succession planning for Senior Executives and Directors and making recommendations regarding re-election and re-appointment of Directors should this be required. In appropriate cases, recruitment consultants are engaged to assist with any recruitment process. During the year the Committee led the process to appoint a new Group Chairman in advance of Harry Tee CBE's retirement as well as the search for two additional Non-Executive Directors to join the Board. Harry Tee CBE did not attend any meetings concerning the succession to the Group Chairman role as required pursuant to the Code. Bill Ronald, having been put forward as a candidate did not attend any Committee meetings regarding this issue either.

Commitment

Service contracts of the Executive Directors and the terms and conditions of appointment of the Non-Executive Directors are available for inspection at the Company's Registered Office during normal business hours on any weekday (except Bank Holidays) and at the Annual General Meeting ("AGM"). Further details of these can be found in the Remuneration report on pages 42 to 49.

Development

All new Directors receive a full and formal induction programme on joining the Board. This includes the provision of information on the Group, its products and markets, financial information and general advice on Directors' duties under the Companies Act 2006 and the UK Listing Rules. Visits to Group locations also form part of the process as do meetings with key senior management.

Further training needs are provided as required following discussion between individual Directors and the Chairman. Any resources required in this respect are provided by the Company.

Information and support

The Company Secretary, in accordance with guidance from the Chairman, takes the lead on ensuring that the Board and its Committees receive the necessary information that they require to operate efficiently. All Directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. The Company Secretary is also responsible for advising the Board, through the Chairman, on all matters of governance and best practice. In addition, the Company Secretary ensures that the Directors receive appropriate training as necessary. Directors may take independent professional advice on any matter at the Company's expense if they deem it necessary in order to carry out their responsibilities effectively. No such advice was taken during the year.

Evaluation

Evaluation of the Board and its Committees is by way of responses to a questionnaire issued to all members of the Board. Feedback from these questionnaires is then gathered and collated by the Company Secretary for presentation to the Board in order to facilitate discussion. The Chairman is responsible for conducting the performance evaluation of the Group Chief Executive. The Non-Executive Directors, led by the Senior Independent Director, are responsible for evaluating the performance of the Chairman and the Group Chief Executive conducts evaluations of the other Executive Directors and senior management. The Board will look to conduct an external evaluation for 2013.

The questionnaire issued to Board members covers a range of topics including the Board's remit, its objectives and its procedures and administration. The findings from the results of this exercise were submitted to the Board in February 2013. A number of issues were identified and appropriate actions agreed for the future, for example the need for an external Board evaluation in 2013.

Re-election

The Company's Articles of Association ("Articles") and the Companies Act 2006 govern the appointment and re-appointment of directors. However, the Board has decided to adopt provision B.7.1 of the Code so that all Directors will stand for re-election on an annual basis. An amendment to the Articles is proposed at the forthcoming AGM to formalise this provision.

Directors' and Corporate Governance report continued

Accountability and auditors

Effectiveness continued

Financial and business reporting
The basis on which the Company generates and preserves value over the longer term and the strategy for delivering the objectives of the Company can be found in the Business model, in the Performance review section on pages 10 to 11.

Risk management and internal control
The Board has overall responsibility for the Group's system of internal control and risk management and for reviewing its effectiveness on an annual basis. Such systems can only be designed to manage, and not eliminate, the risk of failure to achieve business objectives. They can provide reasonable, but not absolute, assurance against material misstatement or loss.

The following controls are in place which enable the Board to review the effectiveness of its systems of internal control:

Management structure

The Board has overall responsibility for the Group and there is a formal schedule of matters specifically reserved for decision by the Board. Each Executive Director has been given responsibility for specific aspects of the Group's affairs. The Executive Directors also meet regularly with senior management of the operating businesses on a range of issues.

Risk assessment

Risk registers are produced by the regions and centrally by Dialight plc, on a quarterly basis. Completed registers are then considered and reviewed by the Governance and Risk Committee (comprising the Group Chief Executive and Group Finance Director and representatives from the business, where required). This results in the production of what are considered to be the Group's principal risks for presentation to the Board for consideration and approval.

The registers classify risks as strategic, macro-economic, operational, financial and organisational or health and safety/compliance risks and include information on the risk, its likely consequences, an assessment of the risks' impact, an assessment of the risks' likelihood, details of the controls to mitigate risks, a rating of the existing controls and details of the owner of each risk.

Health and safety issues are also considered and reviewed by the Group Health and Safety Committee (comprising the Company Secretary, the Group Health and Safety Officer and various nominated health and safety individuals from each site worldwide). This Committee was established to provide oversight, challenge and support implementation of the Group's Health and Safety Policy and to ensure Group wide compliance with obligations to provide a safe working environment for all staff.

Code of Business Conduct and supporting policies

In 2011, the Board approved the Code of Business Conduct ("CBC"), which set out the standards for what Dialight believe constitute acceptable behaviour for all employees as well as the Group's dealings with shareholders, customers, suppliers and agents and its impact on the environment and the community. The CBC is underpinned by a number of supporting policies. Both the CBC and the supporting policies contain provisions that cover implementation, compliance and monitoring to ensure consistency of application throughout the Group. The Governance and Risk Committee is responsible for monitoring and reporting on the Group's compliance with the CBC and supporting policies to the Audit Committee.

Governance

The Manual

The existing Group Policies and Procedures Manual includes detail concerning delegation of authority and authorisation levels, segregation of duties and other control procedures together with accounting policies and procedures.

Quality and integrity of personnel

The integrity and competence of personnel is ensured through high recruitment standards and ongoing development and training. High quality personnel are seen as an essential part of the control environment. Ethical standards the Company expects from its staff are also communicated through the CBC and relevant supporting policies.

Financial information

There is a comprehensive strategic planning, budgeting and forecasting system. Each year the Board approves the annual budget and updated business strategic plan. Key risk areas are identified and reported to the Board. Performance is monitored on a monthly basis against budget and the prior year and relevant actions identified.

The business produces detailed five-year strategy and one-year business plans. Plans will include consideration of the financial projections and the evaluation of business alternatives. Business plans are presented by each management team to the Board as part of the strategic review meeting.

The Board receives and reviews monthly management accounts together with full year forecasts which are updated monthly. Performance against forecast and budget is closely monitored.

The Group Chief Executive and the Group Finance Director submit papers to the Board on a monthly basis that focus on key developments, performance and issues in the businesses.

Investment appraisal

Capital expenditure and research and development projects are regulated by budgetary process and authorisation levels set out in the Manual. For expenditure beyond specified levels, detailed written proposals have to be submitted to the Board for approval. Reviews are carried out after the acquisition is complete and, for some projects during the acquisition period, to monitor expenditure; major overruns are investigated. Due diligence work is carried out if a business is to be acquired.

Audit Committee

The Audit Committee monitors, through reports to it by the Group Finance Director, the controls that are in force and any perceived gaps in the control environment. The Audit Committee also considers and determines relevant action in respect of any control issues raised by these reports or the external auditors, as well as considering issues raised in accordance with the Group's Confidential Disclosure Policy.

Internal audit

The Group Finance Director has instigated a series of peer group financial control reviews during 2012 following the successful use of these in 2011. The Audit Committee agrees the annual scope of these reviews in advance and this scope may be revised from time to time according to changing business requirements and circumstances. Reporting of the findings of these assessments is initially to executive management to seek response and corrective actions which are then reported to the Audit Committee. This process has been supplemented with further testing in 2012 including a detailed review of security systems by specialist external consultants.

For 2013 the same peer group internal audit approach will be adopted, supplemented by additional specialist external assessments of the Group's financial systems and controls. The scope of these assessments has been agreed by the Audit Committee in advance.

Insurance

The Group maintains insurance cover to insure all major risk areas based on the scale of the risk and availability of cover in the external market.

Legal and compliance

Reports are presented to the Board on any material legal or compliance issues that may impact the Group.

Compliance with controls

A process of control risk self-assessment is used in the Group where senior managers are required to detail and certify controls in operation to ensure the control environment in their business area is appropriate. They also confirm monthly, in writing, that risk management processes and appropriate controls are in place and are operating effectively.

The Board confirms that it has conducted a review of the system of internal controls in respect of the year ended 31 December 2012 covering all material controls, including financial, operational and compliance controls and risk management systems.

Directors' and Corporate Governance report continued

Audit Committee and Auditors

Membership details of the Audit Committee can be found on page 30. With the exception of Bill Ronald, whose membership ceased upon his appointment as Group Chairman on 12 September 2012, Stephen Bird and Tracey Graham, who were appointed on 10 January 2013, all members of the Committee served throughout the year and are considered independent pursuant to the Code. The Board considers that the Committee Chairman has recent and relevant financial experience and an understanding of accounting and financial issues relevant to the industries in which the Group operates.

The Committee is responsible for reviewing a wide range of matters including the half year and annual accounts before their submission to the Board for approval and monitoring the controls that are in force to ensure the integrity of the information reported to the shareholders. The Committee makes recommendations to the Board on the appointment and responsibilities of external auditors and on their remuneration both for audit and non-audit work and discusses the nature, scope and results of the audit with external auditors.

The Committee monitors risk management and internal control processes as part of its responsibilities and reviews reports on the effectiveness of the Group's systems of internal financial control, financial reporting and risk management. The Committee also monitors the integrity of internal financial controls and it will assess the scope and the effectiveness of the established systems to identify, assess, manage and monitor financial and non-financial risks.

The Committee has oversight of the internal audit process.

The Committee considers the cost-effectiveness, independence and objectivity of KPMG Audit Plc ("Auditors" or "KPMG"), the external auditors, on a regular basis, agrees their level of remuneration, and reviews the extent of non-audit services provided by KPMG during the year. The Auditors bi-annually confirm their policies to ensure independence and provide the Committee with a report on their own internal quality control procedures.

Committee meetings are attended by the Auditors at the invitation of the Committee Chairman to ensure full communication of matters relating to the audit. The Committee also meets with the Auditors without the Executive Directors present to discuss the adequacy of controls and any material judgemental areas.

Prior approval of the provision of any non-audit services must be provided by the Group Finance Director, although assignments with proposed fees over £20,000 require the approval of the Committee as a whole. This serves to ensure that independence is maintained and other potential providers of the service under discussion have also been adequately considered.

Remuneration Committee

Details of the role and activities of the Remuneration Committee during the year can be found in the Directors' remuneration report on pages 42 to 49. Membership information can be found on page 30. Robert Lambourne was appointed Acting Chairman of the Committee following Bill Ronald's appointment as Group Chairman on 12 September 2012 until the appointment of a new chair in February 2013. Bill Ronald continues to be a member of the Committee as he was considered independent on his appointment as Chairman pursuant to provision D.2.1 of the Code.

Full Remuneration report
p42

Governance

Shareholder relations are a Board priority

Relations with shareholders

Dialogue with shareholders

Communications with shareholders are given high priority. The Chairman has overall responsibility for ensuring that there is effective communication with investors including being aware of the views of major shareholders on matters such as corporate governance.

On a day-to-day basis the Board's primary contact with major shareholders is via the Group Chief Executive and Group Finance Director, who have regular dialogue with individual institutional shareholders and deliver presentations to analysts after the full and half year results. Copies of the shareholder presentations are made available on the website at www.Dialight.com.

The Non-Executive Directors are kept appraised of shareholder views through the provision of a report at each Board meeting on shareholder activity. In addition to updates on share price and trading activity, this could include the consideration of recent analyst briefings and feedback from results road shows. In addition all members of the Board are offered invitations to attend all presentations and meetings with shareholders.

Constructive use of the AGM

The AGM presents an additional opportunity to communicate with private and institutional investors. The Chairman aims to ensure that the Chairmen of the Audit, Remuneration and Nominations Committees are available at these meetings to answer questions. Each substantially separate issue is proposed as a separate resolution. Details of resolutions to be proposed at the AGM on 25 April 2013 can be found in the separate circular to shareholders. The Notice of the AGM and related documents are sent to shareholders at least 20 working days before the date of the meeting.

Substantial shareholdings

As at 7 March 2013 the Company had received the following notifications pursuant to DTR 5 of the Disclosure and Transparency Rules of the Financial Services Authority.

Shareholder	Number of voting rights	% of issued share capital/ voting rights
Generation Investment Management LLP	3,209,284	10.09
BlackRock Inc.	3,168,908	9.86
Standard Life Investments Ltd	2,759,830	8.58
Impax Asset Management Ltd	1,538,820	4.87
BlackRock UK Special Situations Fund[1]	1,300,855	4.05
Legal and General Group plc	1,207,443	3.82
The Tee family	1,015,128	3.16

1 Note that this holding also forms part of the larger holding of BlackRock Inc, but was notified in its own right.

Other statutory information

Principal activities

Dialight plc ("the Company") is the holding company of the Dialight Group of Companies, the world leader in applied LED technology. The Group's operations comprise three segments: Lighting; Signals; and Components. Details of each segment's operations can be found in the Performance Review on pages 7 to 9.

Business review and management report

The Board is required to present a fair view of the business performance of the Group during the financial year ended 31 December 2012, a description of the principal risks and uncertainties facing the Group and the future developments of the business. The information that satisfies the requirements of the Companies Act 2006 can be found in the Overview, Performance review and Sustainability report sections on pages 1 to 25 and 39 to 41. Each is incorporated by reference into, and forms part of, this Directors' and Corporate Governance report.

Disclosure and Transparency Rule 4.1.5(2) also requires the Annual Report to include a management report. The information that fulfils this requirement can be found in the Overview and Performance review sections on pages 1 to 25 and this Directors' and Corporate Governance report on pages 28 to 38.

Governance

Directors' and Corporate Governance report continued

Communication with employees is key

Other statutory information continued

Results and dividends

Results for the year are set out in the consolidated income statement on page 51. The Board recommends a final dividend of 9.5 pence per share, making a total dividend for the year of 13.5 pence per share (2011: 10.0 pence per share). Subject to the approval of shareholders at the 2013 AGM, the final dividend will be paid on 8 May 2013 to shareholders on the register at the close of business on 12 April 2013.

Acquisitions and investments

On 7 June 2012 Dialight announced the acquisition of the trade and assets of Airinet, a lighting controls company based in Pueblo, Colorado in America. Up-front consideration was US $2.6m with additional sums being payable on future revenue though to 2020 of up to US $7.4m. Completion took place on 1 August 2012.

The Group acquired a lease commencing on 1 July 2012 for a manufacturing facility in Penang, Malaysia. The facility began manufacturing in September 2012. Dialight Penang Sdn Bhd, a wholly owned subsidiary, was established to facilitate this growth in the Group on 27 April 2012.

On 29 August 2012 the Group announced the establishment of Dialight Asia, a joint venture with Lumina Holdings Systems Limited in Singapore. Dialight Asia will be responsible for the promotion and sale of lighting products in South East Asia. The transaction completed on 31 August 2012.

Directors and interests

The names of those Directors that served on the Board during 2012 and that have been appointed following the end of the year can be found on pages 26 and 27, together with brief biographical details for each. Stephen Bird and Tracey Graham joined the Board on 10 January 2013.

The interests of the Directors and their families in the share capital of the Company as well as details of the Directors' remuneration and service contracts can be found in the Remuneration report on pages 42 to 49. None of the Directors had or has an interest in any material contract relating to the business of the Company or any of its subsidiary undertakings.

The Company has arrangements in place to consider and deal with Directors' conflicts of interest. An annual review is undertaken, facilitated by the Company Secretary, with all identified conflicts recorded on a register that is adopted by the Board.

Directors' indemnities and insurance

During the year the Company maintained liability insurance and third party qualifying indemnity provisions pursuant to the Companies Act 2006 for its Directors and officers.

Financial instruments

The financial risk management objectives and policies of the Group including interest rate, currency and credit risk are outlined in note 23 to the Group's consolidated financial statements.

AGM

The Company's AGM will take place at 11.30 am on 25 April 2013 at Glazier's Hall, 9 Montague Close, London Bridge, London SE1 9DD. An explanation of the business to be transacted at the AGM can be found in the separate circular to shareholders.

At the 2012 AGM shareholders granted the Directors the authority to purchase up to 3,180,023 ordinary shares in the Company, which will expire on 30 April 2013. A resolution to renew this authority will be put to shareholders at the AGM on 25 April 2013.

Political and charitable contributions

During the year the Group made contributions of £1,229 (2011: £1,270) to various charities. It is Group policy that no donations are made nor expenditure incurred for political purposes and as a result there were no such political donations or expenditure made or incurred during the year (2011: £nil).

Employees

Regular communication with employees is key to ensuring that there is clarity which allows all to understand their role in improving the Group's business performance. Regular meetings are held by management teams to discuss performance and strategy. All are encouraged to contribute to discussions.

Employment policies are designed to attract, retain and motivate the best people. These cover performance management, employee development, succession planning and recruitment, as well as including guidelines on staff appraisals and consultations between individuals and local management. Training and development is undertaken locally but all employees are given equal opportunities to develop their experience and their careers.

The Group gives full and fair consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a disabled person. Employees who become disabled are provided, where practicable, with continuing employment under normal terms and conditions and are provided with training and career development wherever appropriate.

Governance

Find out more online at
www.dialight.com

Research and development
The Group continues to invest resources engaged in technology and product development in America, Denmark, Germany and the UK and to update and expand its product range. Investment in this area is essential for the Group to retain and increase its market share in its competitive markets. Where appropriate intellectual property applications are made in relevant jurisdictions, the Group acts on any suspected infringements of our intellectual property and the use of confidentiality agreements are encouraged when dealing with third parties.

Payments to suppliers
Terms of payment are agreed with individual suppliers prior to supply. It is the Group's policy to settle with its suppliers as payments fall due, provided the supplier has delivered the goods and services in accordance with agreed terms and conditions. As the Company is a non-trading holding company it has no trade creditors. At 31 December 2012, the Group had an average of 81 days' (2011: 47 days') purchases outstanding in trade creditors.

Share capital and structure
As at 31 December 2012 the Company had 32,150,231 fully paid ordinary shares of 1.89 pence each in issue which are listed on the London Stock Exchange. The Company has a single class of shares. No shares have been issued that carry any special rights with regard to the control of the Company. Full details of the Company's share capital are given in note 35 to the accounts. During the year the Company issued 350,000 ordinary shares to satisfy existing awards pursuant to the Company's Performance Share Plan and Annual Performance Bonus Plan.

The rights and obligations attached to the Company's shares are contained in the Company's Articles, a copy of which can be obtained from the Registered Office. The Articles may only be amended by a special resolution of the Company at a general meeting. No one person has any special rights of control over the Company's share capital and all shares are fully paid. Each ordinary share carries the right to one vote at general meetings of the Company. There are no specific restrictions on the transfer of the Company's shares, although the Articles contain provisions whereby Directors may refuse to register a transfer of a certificated share which is not fully paid. Subject to statutory provisions, the rights attached to a class of shares may be varied whether or not the Company is being wound up in accordance with the Articles.

Directors
The Directors are responsible for the management of the business of the Company and may exercise all powers of the Company subject to applicable legislation and regulation and the Articles and any special resolution of the Company passed at a general meeting. The Directors have the power to issue and buy back shares in the Company, as well as to grant options over or otherwise dispose of unissued shares in the Company, to such persons, at such times and on such terms as they think proper.

The Directors are not aware of there being any significant agreements that contain any material change of control provisions to which the Company is a party. The rules of the Performance Share Plan provide that, in the event of a change of control through a general offer or scheme of arrangement, shares subject to awards under the Performance Share Plan could be released within one month of the date of notification of the likely change of control. The Company has established the Dialight Employees' Share Ownership Plan Trust ("ESOT") in which all employees of the Group, including Executive Directors, are potential beneficiaries. The ESOT currently holds 47,596 (2011: 39,216) ordinary shares in the capital of the Company. The Trustees of the ESOT retain the voting rights over the shares held in the ESOT and may exercise these rights independent of the interests of the Company.

Going concern
The Directors have reasonable expectations, after making appropriate enquiries, that the Group has adequate resources to continue in operation for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the annual report and accounts.

Disclosure of information to the auditors
The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors
Resolutions to re-appoint KPMG Audit Plc as auditors to the Company and to authorise the Board to determine the Auditors' remuneration will be proposed at the 2013 AGM.

By order of the Board.

Nick Giles
Company Secretary
7 March 2013

Registered office
Dialight plc
Exning Road
Newmarket
Suffolk CB8 0AX
Company number 2486024

Governance

Directors' and Corporate Governance report continued

Other statutory information continued

Directors' responsibility statement

The Directors are responsible for preparing the annual report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' report, Directors' remuneration report and Corporate governance statement that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the Directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Directors' and Corporate Governance report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

For and on behalf of the Board of Dialight plc

Roy Burton
Group Chief Executive

Mark Fryer
Group Finance Director
7 March 2013

Governance

Sustainability report

Sticking to our values

As Dialight continues to grow and remains focused on its delivery against market expectations, its approach and recognition of the importance of its environmental responsibilities, treatment of employees and the way it does business increases in parallel.

The next three years will see Dialight continue to move forward with its cohesive and holistic approach to corporate responsibilities through centralised oversight, improving data gathering, continued effective communication and further introduction of initiatives and targets to stimulate activities throughout the Group.

Environmental responsibilities

ISO14001

During the year Dialight reviewed all environmental management procedures and defined and implemented a new Environmental management system for the European business. This resulted in the Group gaining extended certification for ISO14001 to cover sites in Germany and Denmark as well as the existing certification in the UK.

Products

The Group's biggest environmental impact by far is a positive one. Dialight's lighting products last much longer and use less energy when compared to their counterparts that utilise different technology.

The Group's engineers play an important role in progressing the programme to reduce the amount of material used in its products and, where practical, to substitute hazardous material. This action covers Dialight's own purchases and material used by suppliers. The Group's products are WEEE compliant and compliance with the regulation has not had a material impact on the Group. Following a customer request Dialight is now registered for recycling of electrical and electronic waste in Germany under their interpretation of the WEEE regulations known as Elekto-G.

Utility usage

No manufacturing sites or the Group's business in general terms have a significantly negative environmental impact although increases in the level of production and the addition of a new facility in Malaysia will continue to challenge the level of our carbon footprint. The Group's environmental policy specifies that manufacturing sites should operate within systems which monitor, control and, where practical, minimise any environmental effect. Emissions of gases, chemicals and water are well below government thresholds and, in most cases, undetectable. Principal areas of focus are the reduction of waste, and the minimisation of water and energy consumption.

During the year a concerted effort has been made to obtain and record utility usage data from all company sites worldwide in order to build accurate information that will enable Dialight to monitor increases in these levels going forward. To comply with new mandatory greenhouse gas reporting regulations further work is ongoing to ensure that the company will be able to present a breakdown of its carbon usage in its next annual report.

All Group sites worldwide will be using Dialight lights by the end of 2013 unless such site is a shared facility. This will drastically reduce current energy and maintenance costs.

Recycling

All sites operate to increase, reuse and recycle materials including packaging. During the year the Group has been collating details of the types of recycling conducted at all locations with the aim of working towards full utilisation of recycling facilities where these exist and seeking to promote the benefits of recycling to all employees. The UK location generates a high volume of scrap wood, including cable reels and non-euro standard pallets that had previously been incinerated. To stop this activity arrangements have been put in place with a charitable community business which recycles wood waste into products for sale or wood pellets for domestic wood burning heating systems.

In addition, one of the UK's environmental objectives of 2012 was to move to "zero to landfill" from March 2013 through a change in waste carrier. With this in place all waste will be recycled, or if this is not possible incinerated at the Lakeside Energy waste plant at Colnebrook, Berkshire. This change is envisaged to be cost neutral to the business.

Governance

Sustainability report continued

Valero Refinery, New Jersey, US

Ethical business

The Code of Business Conduct ("CBC")
Dialight's CBC was introduced during 2011 and formalized the expected standards of behaviour and conduct that were applicable to employees and third parties engaged on the Group's business. The CBC contains guidance on general standards of conduct, corporate hospitality and gifts, bribery and corruption, conflicts of interest, confidentiality, fraud, political and charitable donations, employment, health and safety, relationships with third parties, the community and the environment. All parts of the CBC are underpinned by a number of supporting policies.

Anti-Bribery and Corruption

Dialight conducts all its business in an honest and ethical manner. The Group takes a zero-tolerance approach to bribery and corruption and is committed to acting professionally, fairly and with integrity in all our business dealings and relationships wherever it operates as well as implementing and enforcing effective systems to counter bribery.

The workplace

Health and safety
Dialight is committed to achieving and maintaining the highest reasonable standards of health and

61,726 tonnes

Total CO_2 saved by Dialight customers

£5,900,177

Total $ saved by Dialight customers in energy usage

safety across all Group companies and operating locations so as to provide a safe environment for employees, customers and visitors. Although ultimate responsibility for health and safety and the operation of the Group's Health and Safety policy lies with the Group Chief Executive and the Board, this responsibility is delegated to plant managers, at each of the Group's facilities, or nominated Senior Management, at all other locations.

Existing Health and safety procedures and systems are designed to:

- **run training programmes for employees on health and safety matters whilst reinforcing the importance of a culture which is focused on safe working procedures;**
- **monitor and assess work procedures and implement changes where required;**
- **communicate with all employees to develop a work culture which recognises the importance of health and safety procedures.**

The Group Health and Safety Committee oversees the operation of Group health and safety arrangements as well as considering and agreeing objectives and standards for implementation and action worldwide. This includes representatives from each of the Group's locations as well as the Group Health and Safety Officer and is chaired by the Company Secretary with the minutes of meetings being sent to the Board. A report on health and safety matters is included in the monthly reports submitted to the Group Chief Executive by the regional management and health and safety performance is also a standing agenda item at Dialight Board meetings.

During 2012 work began on the creation of a global health and safety management system with appropriate process documents and template forms. This was part of a wider objective to achieve OHSAS 18001 accreditation at all Group manufacturing and R&D locations. Basic requirements of this standard will be rolled out in the UK and then shared with Denmark and Germany as a first step before being introduced in the rest of the Group. Communication of safety initiatives now takes place in a monthly publication called "Safety Matters". Whilst this currently only represents work done in the UK, the intention is to roll it out to all locations so that all employees can benefit from sharing and discussing those actions taken in the various regions of the Group.

Employees

Dialight's culture is one of openness, honesty and accountability and recognition that all employees play a part in delivering the Group's business performance in a safe and efficient environment.

All decisions relating to selection for employment and promotion are based on ability and merit.

Dialight values the contribution of its employees highly and it is a recognised facet of the Dialight culture that employees are encouraged to take responsibility and exercise their own initiative for the overall good of the Group. The Dialight Excellence Award is designed to recognise these events and to give the individuals involved a boost to their morale by acknowledging their extraordinary service. Individuals who take the time and trouble to write articles promoting Dialight's activities are also recognised through the Dialight Author Award.

Governance

Directors' remuneration report

Introduction

The increase in breadth of skills available to the Board is particularly important as Dialight continues to grow.

We are pleased to present the Directors' remuneration report for the year ended 31 December 2012, following a number of changes to the Committee that took place during the year in light of Bill Ronald standing down as Committee Chair and being appointed as Group Chairman in September 2012. The Committee Chair role has been filled on an acting basis by Robert Lambourne until 21 February 2013 when Tracey Graham was formally appointed. For continuity it was agreed that it would be appropriate for us both to be associated with the 2012 Remuneration report.

Following the appointment of two further Non-Executive Directors the Committee now comprises Tracey Graham (Chair), Robert Lambourne, Richard Stuckes, Stephen Bird and Bill Ronald, all of whom, excluding Bill Ronald, are Independent Non-Executive Directors. The increase in breadth of skills available to the Board is particularly important as Dialight continues to grow.

The principal responsibility of the Committee is to determine the remuneration of Executive Directors including pension rights and compensation payments. The Committee also monitors the level and structure of the remuneration for the Groups Senior Management as defined by the Board.

The Committee has considered a number of issues during the year. Towards the end of 2012 the Committee considered the existing remuneration structure in light of the Company's entry into the FTSE 250 index and its impact on base salary, bonuses, long-term incentives and pensions as well as ensuring that remuneration policy and implementation is clear and understandable for all stakeholders.

Naturally a number of items considered by the Committee towards the end of 2012 will carry over into 2013 and the Committee will continue to review these arrangements. Other key actions and decisions that have been taken during the year include changes made to the rules of the Annual Performance Bonus Plan ("APBP"), in particular to provide for a clawback mechanism on the deferred share awards that form part of annual bonus awards.

The Group has delivered Total Shareholder Return ("TSR") over the three years to 31 December 2012 of 467.8%, outperforming the comparator index by 68.4% which resulted in the vesting of 100% of shares subject to awards under the Performance Share Plan ("PSP"). During the same period Dialight's share price has increased from 204.8 pence to 1109.1 pence. The Committee is aware of planned changes for remuneration disclosure in the future and awaits final guidance from the government and the FRC, although has incorporated some of those already confirmed changes into this year's report.

The structure of the report has also been subject to re-evaluation and it is hoped that these will benefit disclosure and also start to develop a reporting framework that will satisfy all new requirements when these become effective.

Robert Lambourne
Acting Chair to 21 February 2013

Tracey Graham
Committee Chair from 21 February 2013

Remuneration Committee calendar for 2013

Review levels of achievement (Feb)

- Review and confirm 2012 results and finalise APBP awards
- Confirm outcome for 2010 PSP awards
- Consider and approve Directors' Remuneration Report
- Confirm annual remuneration timetable
- Determine 2013 PSP grant levels

Market review (May)

- Consider market data in advance of salary review
- Formally note PSP awards for 2013
- Review Group remuneration policy
- Review committee terms of reference

Year end review (Dec)

- Review market position
- Propose and set annual salary levels
- Set 2014 APBP objectives
- Consider Executive performance against 2013 objectives
- Review performance for existing PSP awards

Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec

Part 1: Unaudited information

Governance and the role of the Remuneration Committee

Whilst the Board remains responsible for the Group's remuneration policy, the Committee has been delegated the authority by the Board to determine and review the remuneration packages for the Executive Directors and certain other Senior Executives (including contract terms, remuneration and other benefits such as performance related bonus schemes, long-term incentives, pension rights and compensation payments) as well as the responsibility to recommend and monitor the structure of the remuneration of the Group's Senior Management, as defined by the Board.

During the year the committee comprised the following members:

- **Bob Lambourne (Acting Committee Chairman – 12 September 2012 – 21 February 2013);**
- **Bill Ronald (Committee Chairman – 1 January 2012 – 12 September 2012); and**
- **Richard Stuckes.**

All members served throughout the year and are considered independent in accordance with the Code. Bill Ronald was the Committee Chairman up until 12 September 2012 when he was appointed as Chairman of Dialight plc.

As Bill was considered independent on his appointment as Chairman he remains a member of the Committee. Details of the number of meetings held during the year as well as details of attendance at these meetings can be found in the Directors' and Corporate Governance report on page 29.

A copy of the terms of reference for the Committee can be found on the Company's website or on request from the Registered Office. The Committee has access to the advice of the Group Chief Executive, the Chairman, the Group HR Director and the Company Secretary (none of whom participate in any discussion concerning their own remuneration) and external advisers as required.

Directors' remuneration report continued
Part 1: Unaudited information

Governance and the role of the Remuneration Committee continued

During the year ended 31 December 2012 the Committee consulted with Kepler Associates, who provided advice regarding executive remuneration benchmarking, annual bonus plans and long-term incentive design, and Clifford Chance LLP, who advised on the operation of the Group's PSP and APBP. Pett Franklin & Co LLP ("Pett Franklin") provided advice and assistance in regard to the APBP and Deloitte LLP ("Deloitte") provided advice in regard to Executive pension arrangements. Kepler Associates, Pett Franklin and Deloitte provided no other services to the Company. Clifford Chance LLP also provided general corporate legal advice to the Company.

At the AGM in 2012 the Remuneration report received 19,150,638 votes in favour of its approval representing 95% of the total votes cast.

Remuneration policy

The objective of Dialight's remuneration policy is to provide packages that are designed to attract, retain and motivate people of high quality and experience. The Committee believes that the base salary and benefits for the Executive Directors should represent a fair return for employment but that the maximum total potential remuneration may only be achieved in circumstances where challenging objectives have been met that contribute to Dialight's overall profitability and performance.

Performance related elements, including the APBP and the PSP, form a significant proportion of the total remuneration of the Executive Directors aligning their interests with those of the shareholders and providing incentives for performance. A significant part of the Executive Directors' total package is therefore considered to be at risk.

Element	Description	How set
Base salary	Set with reference to relevant market data and reflect the individual's experience, responsibilities and performance	- Salaries are reviewed annually with changes effective from 1 January - Benchmarked against a bespoke comparator group of companies that are adjusted for size and market capitalisation both in the US and the UK - Salaries are positioned around lower quartile for key performers
APBP	Reward short-term performance against pre-agreed financial and/ or personal objectives	- Financial targets are set by the Remuneration Committee against the Group budget - From 2013 maximum bonus achievable is 175% and 100% for the Group Chief Executive and the Group Finance Director respectively
PSP	From 2013 the PSP provides a three-year incentive based on the achievement of growth in TSR and EPS	- Performance conditions are agreed by the Remuneration Committee annually - Awards are generally made post the full year results - Threshold vesting is at 25% with a straight line through to 100% - Maximum value of award is up to 100% of salary
Pension	Provision of competitive retirement benefits	- Company contributions into defined contribution schemes - Cash payment for Group Chief Executive into separate US SERP arrangement
Benefits	Provision of market competitive benefits	- Life insurance, car allowances and medical insurance

The Committee has reviewed the structure of remuneration for the Executive Directors and certain Senior Executives in the Group and confirms the policy, as outlined above, has been applied in a consistent way.

Service contracts of Directors

Name	Contract date	Notice period	Contractual early termination payment
Roy Burton	1 October 2005	12 months (Company) 12 months (Executive)	No provisions exceeding 12 months' emoluments
Mark Fryer	5 August 2010	12 months (Company) 6 months (Executive)	No provisions exceeding 12 months' emoluments

Elements of remuneration

(i) Basic salary

Salaries are reviewed on an annual basis and any changes take effect from 1 January each year. Base salary is determined by reference to relevant market data and the individual's experience, responsibilities and performance. As the Group Chief Executive is based in the US his salary is paid in US Dollars. Salaries (as well as total remuneration) are benchmarked against a mixture of US and UK companies of a similar size and operating in similar sectors. Where this is not the case, data is adjusted to smooth out differences in market capitalisation and annual revenues to provide an appropriate benchmark. The Committee is keen to ensure that remuneration continues to attract, motivate and retain top talent. Accordingly, the Committee has developed proposals to introduce above inflation but moderate base salary increases for 2013 to reflect the company's significant growth and increase in scale that will see the Group Chief Executive receive a 5% salary increase, taking his base salary to $560,000 p.a. effective 1 January 2013, to be reviewed again in December 2013.

Governance

The Group Finance Director will receive a 7.5% increase, taking his base salary to £240,000 p.a. effective 1 January 2013, to be reviewed again in December 2013.

(ii) APBP

The APBP was approved by shareholders of the Company at the AGM held on 20 April 2011 and currently links bonus payments to the growth in Group EBIT. Bonuses are paid though a mixture of cash and deferred shares, subject to the achievement of the agreed objectives. No awards under the APBP are pensionable. Where Executives' receive a deferred share award as well as a cash award, half of the deferred share element vests after two years with the balance vesting after three years, subject to continued employment with the Group.

2012 Awards

For the 2012 financial year maximum bonus opportunities for the Group Chief Executive and the Group Finance Director were set at 150% and 100% of base salary respectively. The Group achieved EBIT of £19.7m, growth of 26.7%.

Having considered the Group's EBIT performance against the APBP objectives, the Committee approved cash bonuses of 100% and 75% for the Group Chief Executive and the Group Finance Director respectively, details of which can be found on page 47. No deferred share awards were made in respect of the 2012 financial year.

2013 Awards

The decision has been made to increase the maximum annual bonus opportunity for the Group Chief Executive from 150% to 175% of salary in order to provide appropriate market positioning. The Group Finance Director's maximum opportunity will remain at 100% of salary. This decision followed consideration by the Committee alongside its advisors prior to consultation with the Group's major shareholders.

Bonuses under the APBP for 2013 will continue to be paid using a mixture of cash and deferred shares with Group EBIT the primary performance measure for 2013. The Group Chief Executive's additional 25% of salary bonus opportunity will be based on two further equally weighted measures which are clearly aligned to the strategy of Dialight. The first measure relates to growth in lighting contribution significantly in excess of budget for 2013 and the second measure will focus on developing key talent within the Group. Both these additional objectives will only begin to pay out if the threshold level of Group EBIT growth of 10% is achieved.

(iii) PSP

The PSP was approved by the shareholders of the Company at an EGM held on 29 September 2005. Executive Directors and other members of senior management, as approved by the Committee, are eligible to receive awards, which are released after three years subject to the satisfaction of performance conditions determined by the Remuneration Committee at the time of grant.

Awards are normally made in the six-week period following the announcement by the Company of its results for any period. The number of shares which are the subject of the award will be calculated by dividing the value of the award by the average price of the Company's ordinary shares on the London Stock Exchange over the 30 trading days prior to the date of the award. The initial value of an award granted in any one financial year will be determined by the Committee. Awards will not normally exceed 100% of an individual's basic salary.

Up to and including those awards made in 2012, vesting has been based purely on the TSR performance of the Company relative to two indices (the FTSE All Share Electronics/Electrical Equipment Index and the FTSE SmallCap Index), each index having equal weighting. The Committee believed this to be the appropriate measure of long-term Group success, which provided strong alignment between the interests of shareholders and executives. TSR is measured over a three-year period with the measurement period beginning on the first day of the financial year in which the award is made. If the percentage increase in the Company's TSR is equal to the percentage increase in the TSR of the comparator index, 25% of the ordinary shares subject to an award will vest, 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 index plus 15% per annum. No ordinary shares will vest if the percentage increase in the Company's TSR is below the percentage increase in the TSR of the comparator index.

In the event of a change of control of the Group, the Committee may, at its discretion, release the value of the ordinary shares early. In determining the value of the benefit, the Committee may take into account the length of time between the start of the measurement period and the triggering event as well as the level of performance up to the date of this event.

Prior year Awards

Having considered the TSR performance condition for the three financial years ending on 31 December 2012 it is likely that awards made under the PSP on 26 May 2010 will vest in full on 26 May 2013. Subject to the approval of the Remuneration Committee the Group Chief Executive will receive 127,582 shares on this date.

Awards of 100% and 75% of salary were made to the Group Chief Executive and the Group Finance Director on 26 April 2012 equivalent to 30,163 and 15,384 shares respectively. Subject to the achievement of performance conditions these will vest on 26 April 2015.

Changes to the PSP from 2013

With effect from 1 January 2013 a number of changes have been made to the operation of the PSP. Whilst the PSP will continue to be structured as an annual award of conditional shares or nil cost options, the Committee has made the following amendments further to consideration and consultation with the Group's major shareholders.

Governance

Directors' remuneration report continued
Part 1: Unaudited information continued

Elements of remuneration continued

(iii) PSP continued

EPS has been introduced as a complementary measure of performance relating to 50% of 2013 and future awards. It is felt that this will strengthen line-of-sight and help to focus participants on maintaining the Company's strong financial performance. The EPS vesting condition will be Dialight's compound annual 3-year EPS growth rate. For awards made in 2013, this element will vest in full if Dialight's 3-year EPS growth exceeds 25% p.a. with threshold vesting (25%) if Dialight's 3-year EPS growth is 10% p.a. over the period. None of this element will vest if Dialight's EPS growth over the 3-year period is less than 10% p.a. The Committee will review the performance targets prior to the grant of any future awards to ensure they are appropriately stretching but achievable.

TSR will be retained in respect of the remaining 50% of awards in order to maintain strong shareholder alignment but in order to reflect the company's new position in the FTSE250, the TSR vesting condition will be based upon Dialight's 3-year TSR % outperformance of the FTSE Mid250 Index (excluding investment trusts). This element will vest in full if Dialight's 3-year TSR exceeds Index TSR +10% p.a., with threshold vesting (25%) if Dialight's 3-year TSR is in line with Index TSR. The TSR outperformance requirement is broadly in line with practice at other FTSE-listed companies, taking into account Dialight's relative size.

From 2013, the annual PSP opportunity for the Group Finance Director will be increased from 75% of salary to 100% of salary, in line with the award level of the Group Chief Executive.

PSP Share retention guidelines

The Committee has also introduced new share retention guidelines for all members of the PSP, requiring participants to accumulate and maintain a holding of Dialight shares equivalent in value to their annual PSP award (i.e. 100% of salary for the Group Chief Executive and the Group Finance Director). Participants will have five years from their date of joining to build their shareholdings to the required level.

(iv) Pensions

The Group Finance Director receives contributions of 15% of base salary into a defined contribution pension scheme. The Group Chief Executive currently receives employer contributions under both a 401(k) plan plus an employer contribution under the Supplemental Executive Retirement Plan ("SERP"). In addition he receives a cash contribution under the SERP of $100,000 that is made on 30 June of each year. This contribution is subject to clawback such that any or all of it may be forfeited in the event of embezzlement, theft, gross negligence or other misconduct, until the benefit is transferred to him. Investment options under this scheme are the same as those available under the 401(k) plan, with the same transfer of any associated investment charges to the executive. The first contribution under this additional arrangement was made on 30 June 2012.

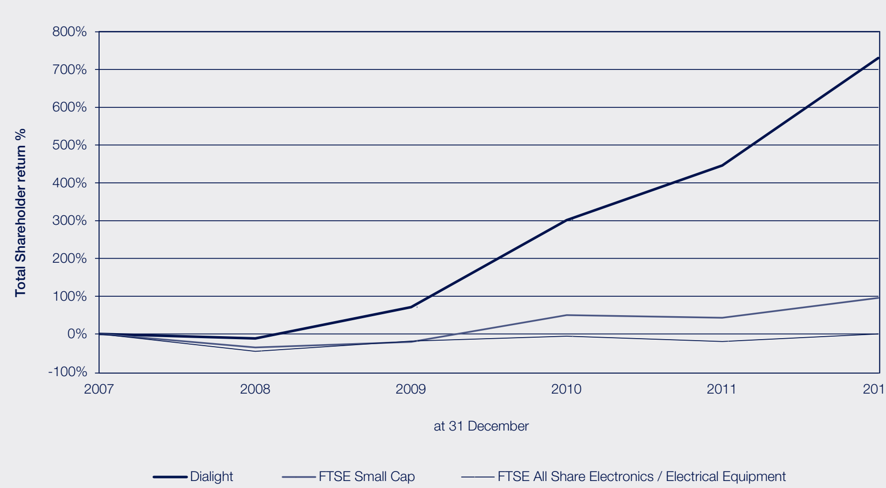
(v) Additional benefits

The Group Chief Executive received taxable life assurance and medical benefits during the year. The Group Finance Director received taxable benefits including a car allowance and medical insurance for him and his immediate family as well as life assurance.

(vi) Performance review

The graph below shows the five-year TSR performance of the Group, compared with the performance over the same period for the FTSE Small Cap and the FTSE All Share Electronics/Electrical Equipment. These were selected as they were considered to be a broad representation of Dialight's peer group in terms of its size and industry sector.

Total Shareholder Return



Governance

Linking remuneration with **performance**

Chairman and Non-Executive Directors' remuneration

The Remuneration Committee, excluding Bill Ronald, carried out an assessment of the Chairman's fees at the end of 2012 having last done so in 2010. Having considered appropriate benchmarking data provided by Kepler Associates, the Committee decided to increase these by 25% to £125,000 from 1 January 2013. The Remuneration Committee intends to carry out the next review of the Chairman's fees in December 2014.

Fees for the Non-Executive Directors are determined by the Chairman, the Group Chief Executive and the Group Finance Director. The Non-Executive Directors do not take part in these discussions. The Non-Executive Directors' fees were considered at a meeting of the Committee on 12 December 2012 following a report from Kepler Associates. It was agreed that from 1 January 2013 the Non-Executive Directors' fees be increased to £40,000 per annum, that the fee for chairing the Audit or Remuneration Committees remain at £5,000 per annum, and that a fee of £5,000 per annum be introduced for the appointed Senior Independent Director. It was further agreed that Robert Lambourne be paid a one-off payment of £6,000, in recognition of his additional duties as both acting Chair of the Remuneration Committee and acting Senior Independent Director prior to the appointment of Stephen Bird and Tracey Graham. This will be paid in March 2013. Details of current Non-Executive Directors' fees can be found in the emoluments table below.

The Non-Executive Directors do not participate in the APBP or the PSP and they are not eligible for pension scheme membership.

The Non-Executive Directors have standard letters of appointment. Non-Executive Directors' letters of appointment are available for inspection at the Company's Registered Office and will be made available at the AGM.

External appointments

No Executive Directors currently hold any external directorships of listed companies.

Statutory and audit requirements

2012 has seen the publication of a large amount of information, official or otherwise, as well as increasing focus on the debate around remuneration issues. The foregoing remuneration report contains the information that is required by the Companies Act 2006, Schedule 8 of the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008 and the Listing Rules of the UK Listing Authority and describes how the Company has applied the principles of the Code with regard to remuneration ("Regulations").

These Regulations require the Group's Auditors to report on the audited information within the report and to state if this section of the report has been properly prepared in accordance with the Regulations. To assist with this process this report has been divided into separate sections for that information that is unaudited and audited.

As in prior years, this report will be put to shareholders at the forthcoming AGM for an advisory vote. This is in respect of remuneration policy and overall remuneration packages and will not be specific to individual levels of remuneration.

Part 2: Audited information

Table 1 – Directors' emoluments

The remuneration of the Directors is set out below:

	Salary/fees '000	Bonus paid in cash '000	Bonus paid in shares '000	Pensions[1] '000	Benefits '000	**2012 '000**	2011 '000
Executive Directors							
Roy Burton	US$530	US$530	—	US$155	US$47	**US$1,262**	US$1,390
Mark Fryer	£223	£167	—	£34	£14	**£438**	£484
Non-Executive Directors							
Bill Ronald[2]	£56	—	—	—	—	**£56**	£35
Robert Lambourne[3]	£35	—	—	—	—	**£35**	£35
Richard Stuckes	£30	—	—	—	—	**£30**	£30
Past Chairman							
Harry Tee CBE[4]	£70	—	—	—	—	**£70**	£100

1 Figures represent contributions to defined contribution arrangements.

2 Bill Ronald was appointed Group Chairman on 12 September 2012, prior to that date Bill received £30,000 per annum as Senior Independent Director and an additional £5,000 per annum as Chairman of the Remuneration Committee. As Group Chairman Bill received £100,000 per annum on a pro-rata basis (from 12 September 2012 to 31 December 2012).

3 Robert Lambourne receives an additional £5,000 per annum as Chairman of the Audit Committee. The additional one-off payment of £6,000 referred to above for his additional duties will be paid in March 2013.

4 Harry Tee CBE retired from his position as Group Chairman on 12 September 2012. He received £100,000 per annum pro-rata (from 1 January 2012 to 12 September 2012).

Governance

Governance

Directors' remuneration report continued
Part 2: Audited information continued

Table 2 – Awards under Dialight plc incentive plans (PSP and APBP)

CSA denotes a Conditional Share Award whilst NCO denotes a Nil-Cost Option.

	Type of Award	Award date	Number at 1 January 2012	Awarded in year	Vested in year	Exercised in year	Lapsed in year	**Number at 31 December 2012**	Exercise price	Earliest vesting/ exercise date	Expiry date	Value at 31 December 2012[1]
Roy Burton												
PSP	CSA	30.04.09	160,926	—	160,926[2]	—	—	**—**	—	—	—	—
PSP	CSA	26.05.10[3]	127,582	—	—	—	—	**127,582**	—	26.05.13	—	1,356
PSP	CSA	17.02.11	58,137	—	—	—	—	**58,137**	—	17.02.14	—	618
PSP	CSA	26.04.12[4]	—	30,163	—	—	—	**30,163**	—	26.04.15	—	321
APBP	CSA	26.04.12[4]	—	14,785	—	—	—	**14,785**	—	26.02.13[5]	—	157
Total			346,645	44,948	160,926	—	—	**230,667**	—	—	—	2,452

	Type of Award	Award date	Number at 1 January 2012	Awarded in year	Vested in year	Exercised in year	Lapsed in year	**Number at 31 December 2012**	Exercise price	Earliest vesting/ exercise date	Expiry date	Value at 31 December 2012[1]
Mark Fryer												
PSP	CSA	02.09.10[3]	37,822	—	—	—	—	**37,822**	—	02.09.13	—	402
PSP	NCO	17.02.11	29,549	—	—	—	—	**29,549**	—	17.02.14	—	314
PSP	NCO	26.04.12[4]	—	15,384	—	—	—	**15,384**	—	26.04.15	—	164
APBP	NCO	26.04.12[4]		5,027	—	—	—	**5,027**	—	26.02.13[5]	26.04.17	53
Total			67,371	20,411	—	—	—	**87,782**	—	—	—	933

1 The value of the awards under the PSP and APBP shows the number of awards held multiplied by the market price of the Company's shares at 31 December 2012. It has been assumed that the maximum number of awards vested in accordance with the performance conditions as discussed on page 45. On 31 December 2012 the share price was 1063 pence per share.

2 On 30 April 2012 this award vested in full following satisfaction of the performance conditions. 63,371 shares were sold on 3 May 2012 to meet tax and social security liabilities at a price of 983 pence per share. The remaining 97,555 shares were retained by the Group Chief Executive.

3 PSP performance conditions in respect of awards granted on 26 May 2010 indicate that 100% of the total award will vest. Vesting and release of these awards is subject to decision of the Committee.

4 In respect of the PSP the number of shares awarded on 26 April 2012 were the share equivalents of 100% of the base salary of the Group Chief Executive and 75% of the base salary of the Group Finance Director, based on the average of the mid market closing values of the Company's shares for the 5 dealing days ending on 25 April 2012 of 1089 pence per share. Shares subject to the APBP were based on the same average.

5 Awards subject to the APBP vest in two separate tranches. 50% of those awards made on 26 April 2012 vested on 26 February 2013 with the balance to be released the following year. The award made to the Group Finance Director was a nil-cost option which to date has not been exercised. The Group Chief Executive received those shares subject to 50% of this award on 26 February 2013 and subsequently sold 3,188 of these shares to meet tax and social security liabilities. These shares were sold at a price of 1200 pence per share. The balance of 4,205 shares were retained by the Group Chief Executive.

6 The price of an ordinary share on 26 April 2012 was 1061 pence per share. During the year, the range of share prices was 1244 pence to 680 pence per share, with the price on 31 December 2012 being 1063 pence per share, the market price of an ordinary share in the company.

Table 3 – Directors' interests in shares

The interests of the Directors and their connected persons in the shares of the Company as at 31 December 2012 are set out below:

	31 December 2012	31 December 2011
Executive Directors		
Roy Burton[1]	**279,701**	182,146
Mark Fryer	**—**	—
Non-Executive Directors		
Bill Ronald[2]	**15,850**	13,500
Robert Lambourne[3]	**4,000**	1,000
Richard Stuckes[4]	**26,263**	24,178
Total	**325,814**	1,674,181[5]

1 Some of these shares are held through nominees. Roy Burton received 97,555 ordinary shares on 30 April 2012 following the vesting of the awards granted under the PSP in April 2009.

2 Bill Ronald purchased 2,350 ordinary shares on 14 November 2012 at a price of 1055 pence per share. Some of these shares are held through a nominee.

3 Robert Lambourne sold 1,000 shares on 19 November 2012 at a price of 1043 pence per share. These shares were held through nominees. On the same day he purchased 4,000 shares at a price of 1045 pence per share which are held by his self-invested personal pension ("SIPP").

4 Richard Stuckes purchased 2,805 ordinary shares on 4 December 2012 at a price of 1062 pence per share. Some of these shares are held through nominees.

5 The total for 2012 differs from that previously reported following the removal of Harry Tee CBE from the table. Harry Tee CBE retired on 12 September 2012.

The Group Chief Executive received a further 4,205 shares following the release of the first tranche of 50% his 2011 award under the APBP. This means he now has a beneficial interest in a total of 283,906 shares of the Group. In addition Stephen Bird and Tracey Graham purchased 2,000 and 1,000 ordinary shares at prices of 1245 pence and 1234 pence respectively on 1 March 2013. Stephen Bird's shares were purchased with his SIPP whilst Tracey Graham purchased the shares in her own name. There have been no further changes in Directors' holdings since 31 December 2012.

By order of the Board

Tracey Graham and Robert Lambourne

On behalf of the Remuneration Committee

7 March 2013

Independent auditor's report
To the members of Dialight plc

We have audited the financial statements of Dialight plc for the year ended 31 December 2012 set out on pages 51 to 96. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' responsibilities statement set out on page 38, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's ("APB's") Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/auditscopeukprivate

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2012 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate governance statement set out on pages 28 to 38 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a corporate governance statement has not been prepared by the Company.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 37, in relation to going concern;
- the part of the Corporate governance statement on pages 28 to 38 relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to Shareholders by the Board on Directors' remuneration.

Greg Watts

Senior Statutory Auditor
for and on behalf of KPMG Audit Plc
Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham B4 6GH
7 March 2013

Consolidated income statement
For the year ended 31 December 2012

	Note	12 months ended 31 December 2012 Underlying £'000	Non-underlying £'000	Total £'000	12 months ended 31 December 2011 Underlying* £'000	Non-underlying* £'000	Total* £'000
Continuing operations							
Revenue	4	115,130	—	115,130	102,498	—	102,498
Cost of sales		(73,951)	—	(73,951)	(69,078)	—	(69,078)
Gross profit		41,179	—	41,179	33,420	—	33,420
Distribution costs		(12,488)	—	(12,488)	(9,084)	—	(9,084)
Administrative expenses		(9,114)	—	(9,114)	(8,824)	(2,808)	(11,632)
Other operating income		—	24	24	—	2,741	2,741
Profit/(Loss) from operating activities	4	19,577	24	19,601	15,512	(67)	15,445
Financial income	8	1,078	—	1,078	1,265	—	1,265
Financial expense	8	(968)	48	(920)	(1,234)	(704)	(1,938)
Net financing income/(expense)	8	110	48	158	31	(704)	(673)
Profit/(Loss) before income tax	4	19,687	72	19,759	15,543	(771)	14,772
Income tax expense	9	(6,442)	(22)	(6,464)	(5,177)	332	(4,845)
Profit/(Loss) from continuing operations after tax		13,245	50	13,295	10,366	(439)	9,927
Discontinued operations							
Gain/(Loss) from discontinued operations (net of taxes)	5		149	149	—	(336)	(336)
Profit/(Loss) for the year		13,245	199	13,444	10,366	(775)	9,591
Profit for the period attributable to:							
Equity owners of the Company				13,573			9,670
Non-controlling Interests				(129)			(79)
Profit for the year				13,444			9,591
Earnings per share							
Basic	18			42.0p			30.3p
Diluted	18			41.3p			29.5p
Earnings per share – continuing operations							
Basic	18			41.4p			31.3p
Diluted	18			40.7p			30.6p

The accompanying notes form part of the financial statements.

* Reclassification – See note 5.

Financials

Consolidated statement of comprehensive income
For the year ended 31 December 2012

	2012 £'000	2011 £'000
Other comprehensive income		
Exchange difference on translation of foreign operations	(1,697)	74
Income tax on exchange difference on translation of foreign operations	264	(26)
Actuarial losses on defined benefit pension schemes	(2,413)	(188)
Income tax on actuarial losses on defined benefit pension schemes	555	60
Other comprehensive income for the year, net of tax	(3,291)	(80)
Profit for the year	13,444	9,591
Total comprehensive income for the year	10,153	9,511
Attributable to:		
Owners of the parent	10,279	9,586
Non-controlling interest	(126)	(75)
Total comprehensive income for the year	10,153	9,511

Consolidated statement of changes in equity
For the year ended 31 December 2012

	Note	Share capital £'000	Merger reserve £'000	Translation reserve £'000	Capital redemption reserve £'000	Retained earnings £'000	**Total £'000**	Non-controlling interests £'000	**Total equity £'000**
Balance at 1 January 2012		601	1,449	3,451	2,232	46,967	**54,700**	64	**54,764**
Profit		—	—	—	—	13,573	**13,573**	(129)	**13,444**
Other comprehensive income:									
Foreign exchange translation differences, net of taxes		—	—	(1,436)	—	—	**(1,436)**	3	**(1,433)**
Actuarial losses on defined benefit pension plans, net of taxes		—	—	—	—	(1,858)	**(1,858)**	—	**(1,858)**
Total other comprehensive income		—	—	(1,436)	—	(1,858)	**(3,294)**	3	**(3,291)**
Total comprehensive income for the year		—	—	(1,436)	—	11,715	**10,279**	(126)	**10,153**
Transactions with owners, recorded directly in equity:									
Own shares issued		7	—	—	—	(7)	**—**	—	**—**
Share-based payments, net of tax		—	—	—	—	1,412	**1,412**	—	**1,412**
Deferred bonus share scheme		—	—	—	—	199	**199**	—	**199**
Dividends		—	—	—	—	(3,412)	**(3,412)**	—	**(3,412)**
Dividends on shares awarded under the PSP		—	—	—	—	(150)	**(150)**	—	**(150)**
Unpaid dividends returned from shareholders		—	—	—	—	3	**3**	—	**3**
Total contributions by and distributions to owners		**7**	**—**	**—**	**—**	**(1,955)**	**(1,948)**	**—**	**(1,948)**
Change in ownership interests in subsidiaries:									
Acquisition of subsidiaries with non-controlling interest		—	—	—	—	—	**—**	29	**29**
Balance at 31 December 2012		**608**	**1,449**	**2,015**	**2,232**	**56,727**	**63,031**	**(33)**	**62,998**
Balance at 1 January 2011		597	1,449	3,407	2,232	38,484	**46,169**	—	**46,169**
Profit		—	—	—	—	9,670	**9,670**	(79)	**9,591**
Other comprehensive income:									
Foreign exchange translation differences, net of taxes		—	—	44	—	—	**44**	4	**48**
Actuarial losses on defined benefit pension plans, net of taxes	19	—	—	—	—	(128)	**(128)**	—	**(128)**
Total other comprehensive income		—	—	44	—	(128)	**(84)**	4	**(80)**
Total comprehensive income for the year		**—**	**—**	**44**	**—**	**9,542**	**9,586**	**(75)**	**9,511**
Transactions with owners, recorded directly in equity:									
Own shares issued		4	—	—	—	(4)	**—**	—	**—**
Share-based payments, net of tax		—	—	—	—	1,511	**1,511**	—	**1,511**
Deferred bonus share scheme	7	—	—	—	—	230	**230**	—	**230**
Dividends	17	—	—	—	—	(2,683)	**(2,683)**	—	**(2,683)**
Dividends on shares awarded under the PSP	17	—	—	—	—	(115)	**(115)**	—	**(115)**
Unpaid dividends returned from shareholders		—	—	—	—	2	**2**	—	**2**
Total contributions by and distributions to owners		**4**	**—**	**—**	**—**	**(1,059)**	**(1,055)**	**—**	**(1,055)**
Change in ownership interests in subsidiaries:									
Acquisition of subsidiaries with non-controlling interest	13	—	—	—	—	—	**—**	139	**139**
Balance at 31 December 2011		**601**	**1,449**	**3,451**	**2,232**	**46,967**	**54,700**	**64**	**54,764**

At 31 December 2012 the number of shares held by the Group through the Dialight Employees' Share Ownership Plan Trust ("ESOT") trust was 47,596 (2011: 39,216). The market value of these shares at 31 December 2012 was £505,945 (2011: £274,120).

Consolidated statement of total financial position
For the year ended 31 December 2012

	Notes	2012 £'000	2011 £'000
Assets			
Property, plant and equipment	11	**10,849**	8,929
Intangible assets	12	**18,236**	12,158
Deferred tax assets	14	**1,631**	1,950
Employee benefits	19	**—**	803
Total non-current assets		**30,716**	23,840
Inventories	15	**19,610**	15,842
Trade and other receivables	16	**26,987**	22,846
Cash and cash equivalents		**14,962**	13,700
Total current assets		**61,559**	52,388
Total assets		**92,275**	76,228
Liabilities			
Trade and other payables	21	**(22,417)**	(19,136)
Provisions	22	**(455)**	(434)
Contingent consideration	13	**(615)**	—
Tax liabilities		**(1,450)**	(1,409)
Total current liabilities		**(24,937)**	(20,979)
Employee benefits	19	**(1,238)**	—
Contingent consideration	13	**(2,668)**	—
Provisions	22	**(434)**	(485)
Total non-current liabilities		**(4,340)**	(485)
Total liabilities		**(29,277)**	(21,464)
Net assets		**62,998**	54,764
Equity			
Issued share capital	17	**608**	601
Merger reserve	17	**1,449**	1,449
Other reserves		**4,247**	5,683
Retained earnings		**56,727**	46,967
		63,031	54,700
Non-controlling interests		**(33)**	64
Total equity		**62,998**	54,764

The accompanying notes form part of the financial statements.

These financial statements were approved by the Board of Directors on 7 March 2013 and were signed on its behalf by:

Roy Burton
Group Chief Executive
Company Number: 2486024

Mark Fryer
Group Finance Director

Consolidated statement of cash flows
For the year ended 31 December 2012

	Note	**2012 £'000**	2011 £'000
Operating activities			
Profit for the year		**13,444**	9,591
Adjustments for:			
Financial income	8	**(1,078)**	(1,265)
Financial expense	8	**920**	1,234
Income tax expense	9	**6,335**	4,724
Share-based payments		**457**	391
Deferred bonus share scheme		**199**	230
Depreciation of property, plant and equipment	11	**1,974**	1,833
Amortisation of intangible assets	12	**914**	936
Gain on sale of discontinued operation, net of tax	5	**(547)**	—
Operating cash flow before movements in working capital		**22,618**	17,674
Increase in inventories		**(7,474)**	(6,396)
Increase in trade and other receivables		**(4,905)**	(3,662)
Increase in trade and other payables		**3,927**	7,807
Increase/(decrease) in provisions	22	**7**	(235)
Pension contributions in excess of the income statement	19	**(385)**	(489)
Buy-out of US pension scheme	19	**—**	(2,331)
Cash generated from operations		**13,788**	12,368
Income taxes paid		**(4,287)**	(1,744)
Interest paid	8	**(35)**	(30)
Net cash generated from operating activities		**9,466**	10,594
Investing activities			
Acquisition of subsidiary, net of cash acquired	13	**(1,641)**	(427)
Non-controlling interest		**33**	—
Interest received	8	**13**	25
Disposal of discontinued operation, net of cash disposed of	5	**4,290**	—
Capital expenditure	11	**(4,233)**	(2,512)
Capitalised expenditure on development	12	**(2,772)**	(1,637)
Sale of tangible fixed assets	11	**43**	32
Net cash used in investing activities		**(4,267)**	(4,519)
Financing activities			
Dividends returned		**3**	2
Dividends paid	17	**(3,430)**	(2,698)
Net cash used in financing activities		**(3,427)**	(2,696)
Net increase in cash and cash equivalents		**1,772**	3,379
Cash and cash equivalents at beginning of the year		**13,700**	10,359
Effect of exchange rates on cash held		**(510)**	(38)
Cash and cash equivalents at end of year		**14,962**	13,700

Notes to the consolidated financial statements
For the year ended 31 December 2012

1. Reporting entity

Dialight plc is a company domiciled in England. The address of the Company's registered office is Exning Road, Newmarket, Suffolk CB8 0AX. The consolidated financial statements of the Company for the year ended 31 December 2012 comprise the Company and its subsidiaries (together referred to as the "Group").

2. Basis of preparation

(a) Statement of compliance

The consolidated financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ("IFRSs"). The Company has elected to present its parent company financial statements in accordance with UK GAAP. During the year the Board deemed it was more appropriate to reclassify the 2011 consolidated income statement for the results of discontinued operations.

(b) Consolidated basis of preparation

The financial statements have been prepared on the historical cost basis except for certain financial instruments which are carried at fair value. The Group's business activities, together with the factors that are likely to affect its future development, performance and position are set out in the Overview and Performance review on pages 1 to 25. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are described in the Financial review on pages 20 to 23. The financial statements include the statements covering the Group's objectives, policies and processes for managing its capital; management of its financial risk objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk.

The Group has considerable financial resources and, as a consequence, the Directors believe that the Group is well placed to manage its business risks successfully.

The Directors therefore have a reasonable expectation that the Company has sufficient resources to continue in existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

(c) Use of estimates, judgements and assumptions

In the process of applying the Group's accounting policies, management has made a number of judgements. The process of preparing the Group's financial statements inevitably requires the Group to make estimates and assumptions concerning the future and the resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and judgements that have the most significant effect on the amounts included in these consolidated financial statements are as follows:

Goodwill (see note 12)

Each year the Group reviews the carrying values of its goodwill balances by carrying out impairment tests. These tests require estimates and judgements to be made of the value in use of its cash generating units ("CGUs") which are dependent on key assumptions such as future cash flows and future growth rates of the CGUs, and discount rates.

Uncertainties associated with the current economic environment could impact key assumptions made as part of this review, although sensitivity analysis has been performed on the carrying of goodwill.

Fair value of intangible assets acquired in a business combination (see note 13)

On the acquisition of a business it is necessary to attribute fair values to any intangible asset acquired (provided it meets the criteria to be recognised). The fair values of any intangible assets are dependent on estimates and judgements of attributable future revenues, profitability and cash flows.

Development costs and deferred costs (see note 12)

The Group capitalises development costs and deferred costs provided they meet certain criteria as set out in the respective accounting policy. Costs are only capitalised where management are satisfied as to the ultimate commercial viability of the projects concerned based on available information.

Impairment of goodwill and intangible assets (see note 12)

The impairment analysis of goodwill and intangible assets is based upon the estimate of future discounted cash flows. Factors such as lower than anticipated sales and resulting decreases of net cash flows and changes in discount rates could lead to impairments.

Defined benefit pension plans (see note 19)

The valuation of the defined benefit pension plans are based upon actuarial assumptions related to the measurement of pension liabilities and assets. If the relevant factors developed materially differ from the assumptions used this could have a significant impact on our defined benefit obligation. The main assumptions made in accounting for the Group's pension plans relate to the expected rate of return on investments within the plans, the rate of increase in pensionable salaries, the rate of increase in the retail price index and consumer price index, the mortality rate of plan members and the discount rate applied in discounting liabilities. For each of these assumptions there is a range of possible values. Small changes in these assumptions can have a significant impact on the size of the deficit calculated under IAS 19.

2. Basis of preparation continued

(c) Use of estimates, judgements and assumptions continued

Warranty (see note 20)

The warranty provision is estimated requiring management to make estimates and assumptions with respect to values and conditions which cannot be known with certainty at the time the financial statements are prepared. Estimates are evaluated based on historical results and experience together with any known factors at the time of estimate. If the relevant rate of product returns differed materially from the estimates this may have a material impact on the level of provision required.

Tax (see note 8)

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by Group entities.

(a) Basis of consolidation

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable.

Acquisitions on or after 1 January 2010

For acquisitions on or after 1 January 2010, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquire; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Acquisitions between 1 January 2004 and 1 January 2010

For acquisitions between 1 January 2004 and 1 January 2010, goodwill represents the excess of the cost of the acquisition over the Group's interest in the recognised amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalised as part of the acquisition.

Acquisitions prior to 1 January 2004 (date of transition to IFRSs)

As part of its transition to IFRSs, the Group elected to restate only those business combinations that occurred on or after 1 January 2003. In respect of acquisitions prior to 1 January 2003, goodwill represents the amount recognised under the Group's previous accounting framework, UK GAAP.

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Notes to the consolidated financial statements continued
For the year ended 31 December 2012

3. Significant accounting policies continued

(b) Foreign currency translation
For the purpose of presenting consolidated financial statements the assets and liabilities of the Group's overseas operations including goodwill and fair value adjustments arising on consolidation are translated using exchange rates prevailing on the balance sheet date.

Income and expense items of overseas operations are translated at average exchange rates for the period.

Since the transition date, resulting exchange differences are recognised as a separate component of equity within the Group's translation reserve. Such translation differences are recognised in the income statement in the period in which the foreign operation is disposed of. Foreign currency transactions are accounted for at the exchange rate prevailing at the date of the transaction.

Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(c) Derivative financial instruments
Derivative financial instruments are recorded initially at cost and are re-measured to fair value at subsequent reporting dates.

The gain or loss on re-measurement to fair value is recognised immediately in the income statement. The fair value of derivatives at 31 December 2012 is £nil (2011: £nil).

(d) Property, plant and equipment
Items of property, plant and equipment are stated at cost less accumulated depreciation.

(e) Other intangible assets
Other intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses.

(f) Depreciation and amortisation
Depreciation
Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated.

The estimated useful lives are as follows:

Buildings	16–50 years
Plant, equipment and vehicles	3–10 years

Amortisation
Amortisation is recognised in profit and loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use.

The estimated useful lives are as follows:

Patents and trademarks	1–4 years
Development costs	3–5 years
Order book	1–2 years
Customer relationships	1–7 years
Technology	7 years

(g) Goodwill
Goodwill that arises upon acquisition of subsidiaries is included in intangible assets. For the measurement of goodwill at initial recognition, see note 3(a).

Subsequent measurement
After initial recognition, goodwill is measured at cost less any accumulated impairment losses until disposal or termination of the previously acquired business when the profit or loss on disposal or termination will be calculated after charging the gross amount at current exchange rates of any such goodwill through the income statement. Goodwill is allocated to the CGUs and is tested at least annually for impairment. An impairment loss recognised for goodwill is not reversed in a subsequent period.

3. Significant accounting policies continued

(h) Research and development costs
Expenditure on research activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding is recognised in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete the development. The expenditure capitalised includes direct cost of material, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

(i) Impairment
The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its recoverable amount. A CGU is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit and loss. Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro-rata basis.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Any impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

A financial asset, in particular the carrying value of trade receivables, is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. Any impairment losses are recognised through the income statement.

(j) Inventories
Inventories are measured at the lower of cost and net realisable value. The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their location and condition at the balance sheet date. Items are valued using the first in, first out method. When inventories are used, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. Provision for write-down to net realisable value and losses of inventories are recognised as an expense in the period in which the write-down or loss occurs.

(k) Cash and cash equivalents
Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(l) Share capital
(i) Dividends are recognised as a liability in the period in which they are approved by members.

(ii) When share capital recognised as equity is repurchased by the ESOT, the amount of the consideration paid is recognised as a deduction from equity.

(iii) Under the terms of the PSP and deferred bonus scheme, dividends accrue on shares not yet vested, however if in the event that the shares lapse or are forfeited then the dividends will not be paid and the accrual is reversed.

(m) Employee benefits
(i) Defined contribution pension plans
Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement when they are due.

Notes to the consolidated financial statements continued
For the year ended 31 December 2012

3. Significant accounting policies continued

(m) Employee benefits continued

(ii) Defined benefit pension plans

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned for their service in the current and prior periods; that benefit is discounted to determine its present value and any unrecognised past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the balance sheet date on AA credit rated bonds that have maturity dates approximating to the Group's obligations. The calculation is performed by an independent qualified actuary using the projected unit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the net total of any unrecognised past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the income statement on a straight-line basis over the period until benefits become vested. To the extent that the benefits vest immediately, the expenses are recognised immediately in the income statement.

All actuarial gains and losses are recognised in the period they occur directly into equity through the statement of comprehensive income.

(iii) Share-based payment and deferred bonus transactions

The PSP allows Group employees to acquire shares of the Company. The fair value of the award granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at the grant date and spread over the performance period during which the employees become unconditionally entitled to the award.

The fair value of the grants is measured using the Monte Carlo model, taking into account the terms and conditions upon which the grants were made. The amount recognised as an expense is only adjusted to reflect forfeitures resulting from failures to meet non-market conditions. The share-based payments are equity settled.

Key Group employees are awarded shares in the Company under the Annual Performance Bonus Plan. The fair value of the award granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at the grant date and spread over the performance period during which the employees become unconditionally entitled to the award.

(n) Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

Warranties

A provision for warranties is recognised when the underlying products are sold. The provision is based on historical warranty data, a weighting of possible outcomes against their associated probabilities, and the expected costs of honouring warranty claims.

(o) Trade and other receivables

Trade and other receivables are initially recorded at fair value and then subsequently stated at their amortised cost less any impairment losses. The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists the assets' recoverable amounts are estimated being the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of the money and risks specific to the asset. Receivables with a short duration are not discounted.

An impairment loss in respect of trade and other receivables is reversed if there has been a change in the estimates used to determine the recoverable amount.

(p) Trade and other payables

Trade and other payables are initially recorded at fair value and then subsequently stated at amortised cost.

(q) Revenue recognition

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts, volume rebates and product returns. Revenue represents the invoiced value of goods supplied and is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the external customers in line with contractual arrangements and the amount of revenue can be measured reliably and it is probable that the economic benefit associated with the transaction will flow to the Group.

(r) Expenses

(i) Operating lease payments

Payments under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

(ii) Net financing costs

Net financing costs comprise interest receivable, interest payable, borrowings, interest on pension assets and liabilities, foreign exchange gains and losses, gains and losses on hedging instruments that are recognised in the income statement and unwinding on discount.

3. Significant accounting policies continued

(s) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity.

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

Deferred tax is calculated using tax rates that are enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited to profit and loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

(t) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's Chief Executive to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available.

Segment results that are reported to the Group's Chief Executive include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Company's headquarters), head office expenses and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment and intangible assets excluding goodwill, order book and customer relationships.

(u) New endorsed standards and interpretations not adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013 and have not been applied in preparing these consolidated financial statements. Except as stated below, none of these are expected to have significant effect on the consolidated financial statements of the Group.

IAS 19 (2011) changes the definition of short-term and other long-term employee benefits to clarify the distinction between the two. For defined benefit plans, removal of the accounting policy choice for recognition of actuarial gains and losses is not expected to have any impact on the Group, since it already recognises them immediately in other comprehensive income. The principal impact is expected to be that the return on plan assets recognised in the income statement will in future be calculated by applying the rate used to discount the plans' liabilities, rather than their long-term expected rate of return. This is expected to decrease the profit from operating activities for 2012 and decrease the defined benefit plan remeasurement loss recognised in other comprehensive income. The Group does not expect the impact of the revised measurement principles to be material. IAS 19 (2011) is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted.

(v) Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Plant and equipment

The fair value of plant and equipment recognised as a result of a business combination is based on market values. The market value of items of plant, equipment, fixtures and fittings is based on the quoted market prices for similar items.

Intangible assets

The fair value of patents, customer relationships and trademarks acquired in business combinations is based on the discounted cash flows expected to be derived from the use or eventual sale of the assets. The fair value of technology is based on estimated replacement cost.

Notes to the consolidated financial statements continued
For the year ended 31 December 2012

3. Significant accounting policies continued

(v) Determination of fair values continued

Inventory

The fair value of inventory acquired in a business combination is based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale and a reasonable profit margin based on the effort required to complete and sell the inventory.

Trade and other receivables and payables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. For receivables and payables with a life of less than one year, the notional amount is deemed to reflect the fair value.

Share-based payments transactions

The fair value of employee stock options is measured using the Monte Carlo model. The fair value is measured at the grant date and spread over the performance period during which the employees become unconditionally entitled to the award. The Monte Carlo model takes into account the terms and conditions upon which the grants were made.

Derivatives

Forward exchange contracts are either marked to market using listed market prices or by discounting the contractual forward price and deducting the current spot rate. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument at the balance sheet date. Where other pricing models are used, inputs are based on market related data at the balance sheet date.

Cash and cash equivalents

The carrying amount reported in the balance sheet approximates to fair value.

4. Operating segments

Following the disposal of the major part of the Electromagnetic Component segment, the Group now has three reportable segments, as described below, which are the Group's strategic business units. The strategic units offer different products. They require different technology and marketing strategies. For each of the units the CEO reviews internal monthly reports. The following summary describes the operations in each of the Group's reportable segments.

The Group comprises the following business segments:

- Signals, which addresses the increasing demands for Energy Efficient signalling solutions through the use of high brightness LEDs and utilisation of a number of associated technologies. Areas of business include Traffic Signals, Obstruction Signals;
- Lighting, which addresses the increasing demands for Energy Efficient Lighting solutions through the use of high-brightness LEDs and utilisation of a number of associated technologies. Areas of business is Solid State Lighting products for Hazardous and Non-Hazardous Industrial application; and
- Components, whose sales are primarily to Electronics OEMs for status indication and residual disconnect components for automotive and niche industrial applications.

There is no inter-segment revenue.

2011 has been reclassified to take into account the new reportable segments.

All revenue relates to the sale of goods. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated expenses comprise corporate costs including share-based payments. Unallocated assets and liabilities comprise an element of cash, borrowings, taxation and pension fund liabilities where it has not been possible to allocate to a specific segment.

There are no individual customers representing more than 10% of revenue.

4. Operating segments continued

Reportable segments

2012	Lighting £'000	Signals £'000	Components £'000	Continuing Operations £'000	Electro-Magnetic Components (discontinued) £'000	Total £'000
Revenue	45,538	48,136	21,456	115,130	14,555	129,685
Contribution	20,183	22,621	10,276	53,080	1,933	55,013
Overhead costs	(11,594)	(11,278)	(7,190)	(30,062)	(2,460)	(32,522)
Segment results	8,589	11,343	3,086	23,018	(527)	22,491
Unallocated expenses				(3,441)	—	(3,441)
Non-underlying operating profit				24	—	24
Operating profit				19,601	(527)	19,074
Net financing income				158	—	158
Profit on sale				—	725	725
Profit before tax				19,759	198	19,957
Income tax expense				(6,464)	(49)	(6,513)
Profit after tax				13,295	149	13,444

2011	Lighting £'000	Signals £'000	Components £'000	Continuing Operations £'000	Electro-Magnetic Components (discontinued) £'000	Total £'000
Revenue	26,375	52,456	23,667	102,498	11,026	113,524
Contribution	9,421	25,122	12,414	46,957	1,539	48,496
Overhead costs	(7,391)	(13,327)	(7,533)	(28,251)	(1,996)	(30,247)
Segment results	2,030	11,795	4,881	18,706	(457)	18,249
Unallocated expenses				(3,194)	—	(3,194)
Non-underlying expenses				(67)	—	(67)
Operating profit				15,445	(457)	14,988
Net financing expense				(673)	—	(673)
Profit before tax				14,772	(457)	14,315
Income tax expense				(4,845)	121	(4,724)
Profit after tax				9,927	(336)	9,591

Other information	Lighting £'000	Signals £'000	Components £'000	Continuing Operations £'000	Electromagnetic Components (discontinued) £'000	2012 Total £'000
Capital additions*	3,317	2,675	899	6,891	100	6,991
Depreciation and amortisation	(1,063)	(822)	(486)	(2,371)	(129)	(2,500)

* Capital additions include property, plant and equipment, development costs, concessions, patents, licences and trademarks and exclude customer relationships and technology.

Financials

Notes to the consolidated financial statements continued
For the year ended 31 December 2012

4. Operating segments continued

Reportable segments continued

Other information	Lighting £'000	Signals £'000	Components £'000	Continuing Operations £'000	Electromagnetic Components (discontinued) £'000	2011 Total £'000
Capital additions*	1,910	1,310	653	3,873	217	4,090
Depreciation and amortisation	(565)	(1,056)	(349)	(1,970)	(494)	(2,464)

* Capital additions include property, plant and equipment, development costs, concessions, patents, licences and trademarks and exclude customer relationships and technology.

Not included above are central asset additions of £14,000 (2011: £59,000) and depreciation and amortisation of £35,000 (2011: £33,000) not allocated to a segment.

Total financial position – assets	**Lighting £'000**	**Signals £'000**	**Components £'000**	**Electromagnetic Components (discontinued) £'000**	**2012 Total £'000**
Segment assets	**35,256**	**26,166**	**11,719**	**1,496**	**74,637**
Unallocated assets*					**17,638**
Consolidated total assets					**92,275**

Total financial position – liabilities	**Lighting £'000**	**Signals £'000**	**Components £'000**	**Electromagnetic Components (discontinued) £'000**	**2012 Total £'000**
Segment liabilities	**(12,499)**	**(4,100)**	**(4,805)**	**(2,879)**	**(24,283)**
Unallocated liabilities*					**(4,994)**
Consolidated total liabilities					**(29,277)**

Total financial position – assets	Lighting £'000	Signals £'000	Components £'000	Electromagnetic Components (discontinued) £'000	2011 Total £'000
Segment assets	18,851	28,081	7,509	6,713	61,154
Unallocated assets*					15,074
Consolidated total assets					76,228

Total financial position – liabilities	Lighting £'000	Signals £'000	Components £'000	Electromagnetic Components (discontinued) £'000	2011 Total £'000
Segment liabilities	(3,716)	(6,880)	(2,656)	(5,164)	(18,416)
Unallocated liabilities*					(3,048)
Consolidated total liabilities					(21,464)

* Unallocated assets and liabilities comprise cash, borrowings, taxation and pension fund liabilities where it has not been possible to allocate to a specific segment.

4. Operating segments continued

Geographical segments

The Electromagnetic Components, Components, Signals and Lighting segments are managed on a worldwide basis but operate in three principal geographic areas: UK, Europe and North America. The following tables provide 1) an analysis of the Group's sales by geographical market, irrespective of the origin of the goods, and 2) an analysis of total assets and non-current assets by location.

All revenue relates to the sale of goods.

Sales revenue by geographical market	**2012 £'000**	2011 £'000
North America	**90,141**	77,454
UK	**11,694**	11,702
Rest of Europe	**12,872**	13,160
Rest of World	**14,978**	11,208
Electro-magnetic components (discontinued)	**(14,555)**	(11,026)
	115,130	102,498

	Total assets		Non-current assets	
	2012 £'000	2011 £'000	**2012 £'000**	2011 £'000
North America	**53,911**	38,692	**13,797**	6,462
UK	**22,376**	22,930	**6,373**	6,035
Rest of Europe	**10,624**	13,090	**7,800**	7,911
Rest of the World	**5,364**	1,516	**1,115**	679
	92,275	76,228	**29,085**	21,087

Reconciliations of reportable segment profit or loss

	2012 £'000	2011 £'000
Total profit or loss for reportable segments	**22,491**	18,249
Elimination of discontinued operations	**527**	457
Unallocated amounts:		
Other corporate expenses	**(3,441)**	(3,194)
Non-underlying expenses	**—**	(67)
Non-underlying operating income	**24**	—
Net financing income/(expenses)	**158**	(673)
Consolidated profit from continuing activities before tax	**19,759**	14,772

Notes to the consolidated financial statements continued
For the year ended 31 December 2012

5. Discontinued operations

From late 2011 a strategic review of the Electromagnetic Components Segment was conducted. As a result, the sale of patents and trademarks was concluded in late 2012. This segment has been presented as a Discontinued Operation in the Income Statement.

Results of discontinued operation

	2012 £'000	2011 £'000
Revenue	14,555	11,026
Expenses	(15,082)	(11,483)
Results from operating activities	(527)	(457)
Tax	129	121
Results from operating activities, net of tax	(398)	(336)
Gain on sale of discontinued operation	725	—
Tax on gain on sale of discontinued operation	(178)	—
Profit/(Loss) for the year	149	(336)
Basic earnings/(loss) per share	0.5p	(1.0)p
Diluted earnings/(loss) per share	0.5p	(1.1)p

The 2011 Income statement has been reclassified to reanalyse the result of the discontinued operating segment.

The loss from discontinued operation of £527,000 (2011: loss of £457,000) is attributable entirely to the owners of the Company.

Cash flows from (used in) discontinued operation

	2012 £'000	2011 £'000
Net cash used in operating activities	1,166	1,702
Net cash from investing activities	4,290	—
Net cash from financing activities	—	—
Net cash flows for the year	5,456	1,702

Effect of disposal on the financial position of the Group

	2012 £'000
Property, plant and equipment	(38)
Intangibles	(463)
Inventories	(3,064)
Net assets and liabilities	(3,565)
Consideration received, satisfied in cash	5,741
Cash paid for redundancy and staff costs	(952)
Cash paid for professional and other fees	(499)
Net cash inflow	4,290

6. Non-underlying income/expense

In the second half of 2012, the group undertook a one-off contract to supply through a third party lighting for a commercial venture. The board deemed this not part of the Group's core business and have shown the profit made of £24,000 as Non-underlying operating Income.

In the second half of 2012, £189,000 which had previously been provided in respect of the US Pension scheme was released. This has been shown as Non-underlying Income in the financing expense line where the provision was previously expensed.

Following the acquisition of Airinet Inc. in June 2012 the cost of unwinding the discount calculated on the contingent consideration between the date of acquisition and 31 December 2012 of £141,000 has been expensed as a non-underlying financial expense.

Prior year non-underlying Income/Expense

In the first half of 2011, the Group granted a lifetime licence to a third party for the use of a number of our patents. The income from this licence of £2.741,000 is included within non-underlying other operating income.

In the second half of 2011, the Group reached agreement to settle a longstanding dispute with a rail signalling customer for which an LED signal had been in development since 2007. This dispute was provided in full for £2.8m in the first half of 2011 and this amount was paid in full in January 2012. The provision is included within non-underlying administrative expenses and non-trade payables at 31 December 2011.

In the first half of 2011, the Group successfully bought out the US defined benefit pension scheme. The cash cost of securing these liabilities was £2.3m and as a result there is a one-off non-underlying financial expense of £0.7m which comprises £0.5m net settlement loss and £0.2m of fees and other incidental expenses.

7. Personnel expenses

	2012 £'000	2011 £'000
Wages and salaries	**20,145**	17,598
Social security contributions	**2,461**	1,992
Equity-settled share-based payment transactions	**457**	391
Deferred bonus share scheme	**199**	230
Contributions to defined contribution plans	**621**	530
Total charge for defined benefit plans	**—**	32
	23,883	20,773

The average number of employees by geographical location was:

	2012 Number	2011 Number
UK	**160**	146
US and Mexico	**1,395**	958
Rest of World	**71**	35
	1,626	1,139

In 2012 the Group employed an average of 952 direct staff (2011: 823) and 305 indirect staff (2011: 316).

Notes to the consolidated financial statements continued
For the year ended 31 December 2012

8. Net financing income/(expense)

Recognised in profit and loss

	12 months 31 December 2012			12 months 31 December 2011		
	underlying £'000	**Non-underlying £'000**	**Total £'000**	underlying £'000	Non-underlying £'000	Total £'000
Interest income on bank deposits	**13**	**—**	**13**	25	—	25
Net change in fair value of financial assets at fair value through profit or loss held for trading	**145**	**—**	**145**	—	—	—
Expected return on assets in the defined benefit pension schemes	**920**	**—**	**920**	1,240	—	1,240
	1,078	**—**	**1,078**	1,265	—	1,265
Interest expense on financial liabilities	**(35)**	**—**	**(35)**	(30)	—	(30)
Interest charge on pension scheme liabilities	**(933)**	**—**	**(933)**	(1,204)	—	(1,204)
Unwind of discount on contingent consideration	**—**	**(141)**	**(141)**	—	—	—
Non-underlying settlement loss on buy-out of US pension scheme	**—**	**189**	**189**	—	(704)	(704)
	(968)	**48**	**(920)**	(1,234)	(704)	(1,938)
Net financing income/(expense) recognised in condensed consolidated income statement	**110**	**48**	**158**	31	(704)	(673)

9. Income tax expense

Current tax expense

Recognised in the income statement

	2012 £'000	2011 £'000
Current tax expense		
Tax expense from continuing operations	**6,464**	4,845
Tax from discontinued operations (excluding gain on sale)	**(129)**	(121)
	6,335	4,724
Tax on gain on sale of discontinued operation	**178**	—
Income tax expense	**6,513**	4,724

9. Income tax expense continued

Current tax expense continued

Recognised in the income statement

	2012 £'000	2011 £'000
Current tax expense		
Current year	5,443	3,540
Adjustment for prior years	(91)	(100)
	5,352	3,440
Deferred tax expense		
Origination and reversal of temporary differences	1,068	1,492
Adjustment for prior years	93	(208)
Income tax expense	6,513	4,724

Reconciliation of effective tax rate

	2012 %	2012 £'000	2011 %	2011 £'000
Profit from continuing operations		13,444		9,591
Total income tax expense		6,513		4,724
Profit excluding income tax		19,957		14,315
Income tax using the UK corporation tax rate	24.5	4,889	26.5	3,793
Effect of tax rates in foreign jurisdictions	10.2	2,035	8.2	1,178
Change in deferred tax rate	0.4	71	0.6	90
Non-deductible expenses	(0.7)	(148)	0.1	19
Unrecognised losses carried forward	—	—	0.5	68
Losses now recognised	(1.0)	(197)	—	—
Over provision in prior years	—	—	(2.1)	(308)
Research and development credits	(0.7)	(133)	(0.5)	(75)
Other	(0.1)	(4)	(0.3)	(41)
	32.6	6,513	33.0	4,724

The 2012 Budget on 21 March 2012 announced that the UK corporation tax rate will reduce to 22% by 2014, and the December 2012 Autumn Statement announced a planned further reduction to 21% by 2014. A reduction in the rate from 26% to 25% (effective from 1 April 2012) was substantively enacted on 5 July 2011, and further reductions to 24% (effective from 1 April 2012) and 23% (effective from 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively.

This will reduce the company's future current tax charge accordingly. The deferred tax asset at balance sheet date has been calculated based on the rate of 23% substantively enacted at the balance sheet date.

It has not yet been possible to quantify the full anticipated effect of the announced further 2% rate reduction, although this will further reduce the company's future current tax charge and reduce the company's deferred tax asset accordingly.

Deferred tax recognised directly in equity

	2012 £'000	2011 £'000
Share-based payments	955	1,120

Notes to the consolidated financial statements continued
For the year ended 31 December 2012

10. Profit for the year

Profit for the year has been arrived at after charging:

	2012 £'000	2011 £'000
Research and development costs		
Expensed as incurred	2,499	3,703
Amortisation charge	526	663
	3,060	4,366
Depreciation of fixed assets	1,974	1,833
Amortisation of customer relationships	312	272
Amortisation of concessions, patents, licences and trademarks	35	—
Amortisation of technology	50	—
Operating leases – property	892	760
Operating leases – other	141	138

Auditor's remuneration:

	2012 £'000	2011 £'000
Audit of these financial statements	42	41
Amounts receivable by auditors in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	122	109
Other amounts pursuant to legislation	10	9
Other services relating to taxation	68	108
	200	226
Advisory work in respect of acquisition	16	—
Pension and actuarial services:		
Pension advisory services in respect of Group pension	37	30
Audit related assurance services	31	—
	284	256

11. Property, plant and equipment

	Land and buildings £'000	Plant, equipment and vehicles £'000	Total £'000
Cost			
At 1 January 2011	5,467	31,004	36,471
Exchange adjustments	(37)	24	(13)
Businesses acquired	—	64	64
Additions	52	2,460	2,512
Disposals	(110)	(1,650)	(1,760)
At 31 December 2011	5,372	31,902	37,274
At 1 January 2012	5,372	31,902	37,274
Exchange adjustments	(140)	(1,165)	(1,305)
Additions	73	4,160	4,233
Disposals	(43)	(421)	(464)
At 31 December 2012	**5,262**	**34,476**	**39,738**
Accumulated depreciation			
At 1 January 2011	(3,011)	(25,242)	(28,253)
Exchange adjustments	6	6	12
Charge for year	(144)	(1,689)	(1,833)
Disposals	111	1,618	1,729
At 31 December 2011	(3,038)	(25,307)	(28,345)
At 1 January 2012	(3,038)	(25,307)	(28,345)
Exchange adjustments	96	913	1,009
Charge for year	(115)	(1,859)	(1,974)
Disposals	43	378	421
At 31 December 2012	**(3,014)**	**(25,875)**	**(28,889)**
Carrying amount at 31 December 2012	**2,248**	**8,601**	**10,849**
At 31 December 2011	2,334	6,595	8,929
At 1 January 2011	2,456	5,762	8,218

Notes to the consolidated financial statements continued
For the year ended 31 December 2012

12. Intangible assets

	Concessions, patents, licences and trademarks £'000	Goodwill £'000	Order book and customer relationships £'000	Technology £'000	Development costs £'000	Total £'000
Costs						
Balance at 1 January 2011	1,237	7,246	1,821	—	6,685	16,989
Additions arising from internal developments	210	—	—	—	1,427	1,637
Additions acquired through business combinations	—	769	285	—	—	1,054
Effects of foreign exchange movement	7	(115)	—	—	75	(33)
Balance at 31 December 2011	1,454	7,900	2,106	—	8,187	19,647
Balance at 1 January 2012	1,454	7,900	2,106	—	8,187	19,647
Additions arising from internal developments	275	—	—	—	2,497	2,772
Additions acquired through business combinations (note 13)	—	4,218	—	702	—	4,920
Disposals	—	—	—	—	(2,572)	(2,572)
Effects of foreign exchange movement	(16)	(113)	—	—	(244)	(373)
Balance at 31 December 2012	**1,713**	**12,005**	**2,106**	**702**	**7,868**	**24,394**
Amortisation and impairment losses						
Balance at 1 January 2011	(1,237)	—	(189)	—	(5,075)	(6,501)
Amortisation for the period	—	—	(272)	—	(664)	(936)
Effects of foreign exchange movement	—	—	—	—	(52)	(52)
Balance at 31 December 2011	(1,237)	—	(461)	—	(5,791)	(7,489)
Balance at 1 January 2012	(1,237)	—	(461)	—	(5,791)	(7,489)
Amortisation for the period	(35)	—	(312)	(50)	(526)	(923)
Disposals	—	—	—	—	2,107	2,107
Effects of foreign exchange movement	1	—	—	—	146	147
Balance at 31 December 2012	**(1,271)**	**—**	**(773)**	**(50)**	**(4,064)**	**(6,158)**
Carrying amounts at 31 December 2012	**442**	**12,005**	**1,333**	**652**	**3,804**	**18,236**
At 31 December 2011	217	7,900	1,645	—	2,396	12,158
At 1 January 2011	—	7,246	1,632	—	1,610	10,488

The amortisation charge for the development costs is reflected in research and development costs shown within cost of sales on the face of the income statement. The amortisation charge for concessions, patents, licences and trademarks is shown within administrative expenses in the income statement. The amortisation charge for order book and customer relationships is shown within administrative expenses in the income statement.

Goodwill acquired in a business combination is allocated at acquisition to the CGUs that are expected to benefit from the business combination. CGUs are identified geographically and at a product segment level. The carrying amount of the goodwill has been allocated as follows:

Signals and Lighting segments	**2012 £'000**	2011 £'000
UK Lighting	**2,328**	2,328
European Traffic	**3,886**	3,999
European Obstruction	**1,255**	1,255
Australian Lighting	**113**	113
Japanese Lighting	**205**	205
US Lighting	**4,218**	—
	12,005	7,900

The change in value in the European Traffic goodwill figure is due to foreign currency translation.

12. Intangible assets continued

The Group tests goodwill (at the CGU level) annually for impairment or more frequently if there are indications that goodwill might be impaired. The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates and growth rates.

Management estimates discount rates using pre-tax rates that reflect current market assessments of a number of factors that impact on the time value of money and any risk specific to the CGU. The rate includes management's assessment of a normal level of debt to equity ratio within similar companies in its sector.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management covering a five-year period. Management has arrived at the five-year plan based upon certain assumptions derived from research carried out by external consultants who specialise in areas of the Group's business and their knowledge of the business. The key assumptions within the five-year forecasts are revenue growth (which varies depending on the CGU's product groups and the markets addressed) and contribution margin, which is based on management's best estimate of material, labour and production cost trends and manufacturing efficiencies. Cash flows beyond the five-year period are extrapolated using estimated growth rates of between 0% and 1%.

Sensitivity to changes in key assumptions

Impairment testing is dependent on management's estimates and judgements, particularly as they relate to the forecasting of future cash flows, the discount rates selected, and expected long-term growth rates.

Any adverse change in these assumptions could reduce the recoverable amount below carrying amount.

The rate used to discount the forecast cash flow for the CGUs is 8.2% (2011: range of 8.0% to 10.4%).

The growth rates management has applied in the value in use calculations for each of the CGUs over the five-year period vary due to the nature of the products, industries and countries in which the CGU operates. The Group has conducted a sensitivity analysis significantly reducing the growth rates. Even at this level no impairment would be required to be recorded. The Directors do not believe that a significant change to the assumptions is probable.

13. Acquisition of trade and assets and subsidiaries

On the 7 June 2012, Dialight plc's US subsidiary, Dialight Corporation acquired the trade and assets of Airinet Inc, a lighting controls company, for upfront consideration of $2.6m with additional sums payable based on future revenue through to 2020 of up to $7.4m. Dialight assumed no liabilities on the acquisition and all employees transferred to Dialight Corporation on completion. All patent applications have transferred to Dialight ownership. The intangible assets including goodwill on acquisition are expected to be $7.7m.

Recognised amounts of identifiable assets acquired and liabilities assumed at fair value

	31 December 2012 (Provisional) £'000
Intangible assets	702
Net assets acquired	702
Goodwill	4,218
Total consideration	4,920
Satisfied by:	
Cash and cash equivalents	1,641
Contingent consideration	3,279
	4,920
Net cash outflow arising on acquisition	
Cash consideration	1,641
	1,641

The goodwill of £4,218,000 arising from the acquisition represents the potential future benefit to the group of the development by the Airinet team of controls to the Group's Industrial LED lighting portfolio.

If new information obtained within one year from the acquisition date about facts and circumstances that existed at the acquisition date identifies adjustments to the above amounts, the acquisition accounting will be revised.

The acquisition will further enhance the payback to customer by adding controls capability to our hazardous LED lighting customers.

Airinet did not contribute to revenue between the date of acquisition and the balance sheet date. The costs incurred of £16,000, in making the acquisition have been expensed in the Income Statement as required under the revised standard.

Notes to the consolidated financial statements continued
For the year ended 31 December 2012

13. Acquisition of trade and assets and subsidiaries continued

Recognised amounts of identifiable assets acquired and liabilities assumed at fair value continued

Contingent consideration

The group is expecting to pay the selling shareholders additional consideration of $7,400,000 based on future revenues derived from the sales of the controls units. The payments are scheduled through to 2020 so have been discounted to $5,114,000 using a discount rate of 9.5%. At 31 December 2012 the contingent consideration has increased to $5,337,000 due to the unwind of the discount ($223,000).

Prior year acquisitions

On 4 January 2011, the Group acquired 75% of the issued share capital of Lightday Investment Pty Ltd trading as Industrial Lighting Solutions ("Lightday"), an Australian company and distributor of ultra efficient lighting products. Lightday was acquired from its management for a consideration of AUD$300,000 (£192,000) which was payable in cash.

The acquisition will serve the large industrial/hazardous/mining sector in Australia and further supports the Group's thrust into the industrial and hazardous lighting market with its ultra efficient lighting products.

Lightday contributed £1,509,000 to revenue and a loss of £179,000 to profit before tax for the period between the date of acquisition and 31 December 2011. The costs incurred of £8,000, in making the acquisition have been expensed as required under the revised standard.

On July 2011, the Group's newly established wholly owned subsidiary Dialight Japan, acquired the assets and contracts of I-Spec Limited, its Japanese distributor. The cash consideration paid at the date of acquisition was USD $350,000 (£222,000) which was $280,000 (£178,000) payable in cash and $70,000 (£44,000) payable as deferred consideration. Dialight Japan was set up in June 2011. Part of the consideration paid for the assets and contacts of I-Spec Limited was 25% of the share capital in Dialight Japan, that was transferred to the sellers of I-Spec Limited on 1 July 2011. The 25% was valued at cost and deemed part of the acquisition of I-Spec and it has been treated as Goodwill.

Dialight Japan contributed £256,000 to revenue and a loss of £274,000 to profit before tax for the period between the date of acquisition and 31 December 2011. The costs incurred of £38,000, in making the acquisition have been expensed as required under the revised standard.

The acquisition will serve the large industrial and hazardous lighting sector in Japan and further supports the Group's thrust into the industrial and hazardous lighting market with its ultra efficient lighting products.

If the acquisition of I-Spec Limited through Dialight Japan KK had occurred on 1 January 2011, management estimates that consolidated revenue would have been £13.9m and the Group profit before tax for the year would have been £14.1m.

Recognised amounts of identifiable assets acquired and liabilities assumed at fair value

	Note	31 December 2011 £'000
Property, plant and equipment	11	64
Intangible assets – customer relationships	12	285
Current assets		229
Current liabilities		(257)
Deferred tax	14	(86)
Net assets acquired		235
Goodwill	12	318
Non-controlling interest, based on their proportionate interest in the recognised amounts of the assets and liabilities of the acquired companies		(139)
Total consideration		414
Satisfied by:		
Cash and cash equivalents		370
Deferred consideration		44
		414
Net cash outflow arising on acquisition		
Cash consideration		370
Cash and cash equivalents acquired		57
		427

No remeasurement has been made to the preliminary fair values.

In addition to the £318,000 of Goodwill acquired through business combinations above the fair value of goodwill in BTI acquired in 2010 was amended by £451,000.

14. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2012 £'000	2011 £'000	**2012 £'000**	2011 £'000	**2012 £'000**	2011 £'000
Property, plant and equipment	**—**	—	**(860)**	(818)	**(860)**	(818)
Intangible assets	**—**	—	**(1,748)**	(1,314)	**(1,748)**	(1,314)
Employee benefits	**1,410**	1,095	**—**	—	**1,410**	1,095
Provisions	**1,358**	1,714	**—**	—	**1,358**	1,714
Other items	**1,471**	1,273	**—**	—	**1,471**	1,273
Tax assets/(liabilities)	**4,239**	4,082	**(2,608)**	(2,132)	**1,631**	1,950
Set off of tax	**(2,608)**	(2,132)	**2,608**	2,132	**—**	—
Net tax assets	**1,631**	1,950	**—**	—	**1,631**	1,950

Deferred tax assets have been recognised in respect of all tax losses anticipated to be available.

The aggregate amount of temporary differences associated with investments in subsidiaries for which deferred taxation liabilities have not been recognised is £nil (2011: £nil).

Movement in temporary differences during the year

	Property, plant and equipment £'000	Intangible assets £'000	Employee benefits £'000	Provisions £'000	Other short-term timing differences £'000	Total £'000
Balance at 1 January 2011	(379)	(548)	1,364	1,638	1,087	3,162
Recognised in income	(437)	(219)	(883)	42	213	(1,284)
Exchange	(2)	(10)	(55)	34	—	(33)
In respect of prior year acquisitions*	—	(451)	—	—	—	(451)
On acquisition	—	(86)	—	—	—	(86)
Recognised in equity	—	—	669	—	(27)	642
Balance at 31 December 2011	(818)	(1,314)	1,095	1,714	1,273	1,950
Balance at 1 January 2012	(818)	(1,314)	1,095	1,714	1,273	1,950
Recognised in income	(42)	(476)	(58)	(331)	(254)	(1,161)
Exchange	—	42	—	(19)	—	23
Recognised in equity	—	—	373	—	446	819
Balance at 31 December 2012	**(860)**	**(1,748)**	**1,410**	**1,364**	**1,465**	**1,631**

* During 2011 the fair value relating to 'BTI' was amended, see note 13.

15. Inventories

	2012 £'000	2011 £'000
Raw materials and consumables	**11,175**	9,712
Work in progress	**773**	580
Finished goods	**7,662**	5,550
	19,610	15,842

Inventories to the value of £63,079,000 (2011: £55,525,000) were recognised as expenses in the year. Included within this figure was the reversal of inventory provisions to net realisable value of £710,000 (2011: £499,000).

Financials

Notes to the consolidated financial statements continued
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16. Trade and other receivables

	2012 £'000	2011 £'000
Trade receivables	**24,595**	21,507
Other non-trade receivables	**894**	265
Prepayments and accrued income	**1,498**	1,074
	26,987	22,846

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 22.

17. Capital and reserves

Share capital

	2012 Number	**2012 £'000**	2011 Number	2011 £'000
Allotted and fully paid				
Ordinary shares of 1.89 pence each	**32,150,231**	**608**	31,800,231	601

During the year, 350,000 shares were issued (1.10% of the total ordinary share capital issued) at par. The ordinary shares issued have the same rights as the other shares in issue.

	Ordinary shares	
Issued share capital	**2012 Number**	2011 Number
In issue at 1 January	**31,800,231**	31,600,231
Shares issued	**350,000**	200,000
Issued and fully paid at 31 December	**32,150,231**	31,800,231

Merger reserve

On acquiring Lumidrives Limited in 2006 the Company issued ordinary shares as part of the consideration. Merger relief was taken in accordance with Section 131 of the Companies Act 1985 and hence £546,000 was credited to the merger reserve.

On acquiring BTI in 2010 the Company issued ordinary shares as part of the consideration. Merger relief was taken in accordance with Section 612 of the Companies Act 2006 and hence £903,000 was credited to the merger reserve.

Translation reserve

The translation reserve comprises all foreign exchange differences from 1 January 2004 arising from the translation of the financial statements of foreign operations for the Company.

Capital redemption reserve

The capital redemption reserve comprises the nominal value of "B" preference shares redeemed since the capital reorganisation in 2005.

Dividends

After the balance sheet date the following dividends were proposed by the Directors. The dividends have not been provided for and there are no income tax consequences for the Company.

Final proposed dividend	**2012 £'000**	2011 £'000
9.5 pence per ordinary share (2011: 6.7 pence)	**3,054**	2,131

17. Capital and reserves continued

Dividends continued

During the year the following dividends were paid:

	2012 £'000	2011 £'000
Final – 6.7 pence (2011: 5.2 pence) per ordinary share	**2,131**	1,643
Interim – 4.0 pence (2011: 3.3 pence) per ordinary share	**1,286**	1,050
Less: dividends on shares held in trust	**(5)**	(10)
	3,412	2,683
Final dividend – 6.7 pence on shares awarded under the PSP and deferred bonus share scheme not yet vested	**55**	38
Interim dividend – 4.0 pence on shares awarded under the PSP and deferred share scheme not yet vested	**19**	24
Dividends accrued on shares awarded under the PSP and deferred share scheme but not yet vested	**63**	38
Dividends paid on shares awarded under the PSP vested during the period	**13**	15
Total (amount shown in the statement of changes in equity)	**3,562**	2,798

18. Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 31 December 2012 was based on the profit for the year of £13,444,000 (2011: £9,591,000) and a weighted average number of ordinary shares outstanding during the year ended 31 December 2012 of 31,988,109 (2011: 31,672,355).

Diluted earnings per share

The calculation of diluted earnings per share at 31 December 2012 was based on profit for the year of £13,444,000 (2011: £9,591,000) and a weighted average number of ordinary shares outstanding during the year ended 31 December 2012 of 32,534,704 (2011: 32,484,865) calculated as follows:

Weighted average number of ordinary shares (diluted)

	2012 '000	2011 '000
Weighted average number of ordinary shares	**31,988**	31,672
Effect of share options on issue	**547**	813
Weighted average number of ordinary shares (diluted)	**32,535**	32,485

Underlying earnings per share are highlighted below as the Directors consider that this measurement of earnings gives valuable information on the performance of the Group.

	2012 £'000 Total	2011 £'000 Total
Profit attributable to ordinary shareholders (basic and diluted)	**13,444**	9,591
Earnings per share		
Basic earnings	**42.0p**	30.3p
Non-underlying items	**0.6p**	(1.4)p
Underlying earnings	**41.4p**	31.7p
Diluted earnings	**41.3p**	29.5p
Non-underlying earnings	**0.6p**	(1.4)p
Underlying diluted earnings	**40.7p**	30.9p

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19. Employee benefits

Defined benefit pension obligations

The Group makes contributions to two defined benefit plans to provide benefits for employees upon retirement. All plans are closed to new members and future accrual.

In the first half of 2011 the Group bought out the US defined benefit pension scheme. The cost of securing these liabilities was £2,331,000 and as a result there was a one-off non-underlying financial expense of £704,000 which consists of £459,000 net settlement loss (per note 19) and £245,000 of fees and other incidental expenditure.

In the second half of 2012 £189,000 which had previously been provided in respect of the US Pension scheme was released. This has been shown as Non-underlying Income in the financing expense line where the provision was previously expensed.

Recognised liability for defined benefit obligations

	2012 £'000	**2012 £'000**	2011 £'000	2011 £'000	2011 £'000
	UK schemes	**Total**	UK schemes	US scheme	Total
Present value of liabilities	**22,736**	**22,736**	20,273	—	20,273
Fair value of plan assets	**(21,498)**	**(21,498)**	(21,076)	—	(21,076)
Recognised liability/(assets) for defined benefit obligations	**1,238**	**1,238**	(803)	—	(803)

Plan assets consist of the following:

	2012 £'000	2011 £'000
	UK schemes Total	UK schemes Total
Equities	**7,985**	7,638
Bonds and gilts	**10,583**	9,057
Cash	**2,930**	4,381
	21,498	21,076

Movements in the present value of defined benefit obligations

	2012 £'000	**2012 £'000**	**2012 £'000**	2011 £'000	2011 £'000	2011 £'000
	UK schemes	**US scheme**	**Total**	UK schemes	US scheme	Total
Defined benefit obligations at 1 January	**20,273**	**—**	**20,273**	19,997	14,525	34,522
Current service cost	**—**	**—**	**—**	32	—	32
Employee element of service cost	**—**	**—**	**—**	10	—	10
Interest cost	**933**	**—**	**933**	1,075	129	1,204
Benefits paid	**(936)**	**—**	**(936)**	(972)	—	(972)
Liabilities extinguished	**—**	**—**	**—**	—	(14,697)	(14,697)
Actuarial losses	**2,466**	**—**	**2,466**	131	1	132
Settlement cost	**—**	**—**	**—**	—	459	459
Currency (gains)/losses	**—**	**—**	**—**	—	(417)	(417)
Defined benefit obligations at 31 December	**22,736**	**—**	**22,736**	20,273	—	20,273

19. Employee benefits continued

Defined benefit pension obligations continued

Movements in fair value of plan assets

	2012 £'000 UK schemes	2012 £'000 US scheme	2012 £'000 Total	2011 £'000 UK schemes	2011 £'000 US scheme	2011 £'000 Total
Fair value of plan assets at 1 January	21,076	—	21,076	20,417	12,664	33,081
Expected return on scheme assets	920	—	920	1,054	186	1,240
Employer contributions	385	—	385	489	2,331	2,820
Member contributions	—	—	—	10	—	10
Benefits paid	(936)	—	(936)	(972)	—	(972)
Assets distributed	—	—	—	—	(14,697)	(14,697)
Actuarial gains/(losses)	53	—	53	78	(134)	(56)
Currency losses	—	—	—	—	(350)	(350)
Fair value of plan assets at 31 December	21,498	—	21,498	21,076	—	21,076
Deficit/(surplus)	1,238	—	1,238	(803)	—	(803)

Expense recognised in the income statement

	2012 £'000 UK schemes	2012 £'000 US scheme	2012 £'000 Total	2011 £'000 UK schemes	2011 £'000 US scheme	2011 £'000 Total
Current service costs	—	—	—	32	—	32
Settlement cost	—	—	—	—	459	459
Interest on obligation	933	—	933	1,075	129	1,204
Expected return on plan assets	(920)	—	(920)	(1,054)	(186)	(1,240)
	13	—	13	53	402	455

The expense is recognised in the following line items in the income statement:

	2012 £'000 UK schemes	2012 £'000 US scheme	2012 £'000 Total	2011 £'000 UK schemes	2011 £'000 US scheme	2011 £'000 Total
Administrative expenses	—	—	—	32	—	32
Net financing (income)/expense	13	—	13	21	402	423
	13	—	13	53	402	455

Notes to the consolidated financial statements
For the year ended 31 December 2012

19. Employee benefits continued

Expense recognised in other comprehensive income

	2012 £'000 UK schemes	2012 £'000 US scheme	2012 £'000 Total	2011 £'000 UK schemes	2011 £'000 US scheme	2011 £'000 Total
Actuarial gains/(losses) on plan assets	53	–	53	78	(134)	(56)
Change in assumptions in respect of liabilities	(989)	–	(989)	(739)	–	(739)
Experience gains/(losses) on liabilities	(1,477)	–	(1,477)	608	(1)	607
Net actuarial (loss)/gain recognised in consolidated statement of comprehensive income	(2,413)	–	(2,413)	(53)	(135)	(188)
Cumulative actuarial loss recognised in consolidated statement of comprehensive income	–	–	(8,552)	–	–	(6,139)

Historical information

	2012 £'000	2011 £'000	2010 £'000	2009 £'000	2008 £'000
Defined benefit obligation	(22,736)	(20,273)	(34,522)	(31,663)	(32,473)
Scheme assets	21,498	21,076	33,081	30,715	28,004
(Deficit)/surplus	1,238	803	(1,441)	(948)	(4,469)
Actuarial (losses)/gains on liabilities	(2,466)	(132)	(2,348)	(782)	3,788
Experience (loss)/gain on assets	53	(56)	538	2,626	(7,195)
Experience gain/(loss) on currency	–	54	(69)	371	(1,066)

Liability for defined benefit obligations

The principal assumptions at the balance sheet date (expressed as weighted averages) are:

	UK schemes (% per annum)			US scheme (% per annum)		
	2012	2011	2010	2012	2011	2010
Discount rate at 31 December	4.40	4.70	5.50	n/a	n/a	5.00
Future salary increases	n/a	n/a	3.00	n/a	n/a	n/a
Future pension increases	2.90	3.00	3.65	n/a	n/a	n/a
Inflation – RPI	2.90	3.00	3.70	n/a	n/a	n/a
Inflation – CPI	2.40	2.20	3.00	n/a	n/a	n/a
Deferred revaluation	2.40	2.20	3.00	n/a	n/a	n/a

The expected long-term rates of return were:

	UK schemes (% per annum)			US scheme (% per annum)		
	2012	2011	2010	2012	2011	2010
Equities	6.50	6.50	6.50	n/a	n/a	n/a
Bonds	4.40	3.00	4.20	n/a	n/a	n/a
Gilts	3.00	3.00	4.20	n/a	n/a	n/a
Cash	3.00	3.00	4.20	n/a	n/a	1.00

19. Employee benefits continued

Expense recognised in the income statement

For its UK pension arrangements the Group has, for the purpose of calculating its liabilities as at 31 December 2012, used SAPS mortality tables based on year of birth (as is published by the Institute of Actuaries). The UK mortality tables are based on the latest mortality investigations and reflect an industry-wide recognition that life expectations have improved. The average life expectancy of an individual currently aged 45 years and retiring at age 65 years is 24.10 years for males and 26.7 years for females. For individuals currently aged 65 years the average life expectancy is 22.3 years for males and 24.7 years for females.

The expected long-term rate of return for investments is based on the portfolio as a whole and not on individual asset categories. The return is based exclusively on historical returns, without adjustments which are crossed checked against market expectations from external sources.

The Group expects that contributions to the UK defined benefit plans in 2013 will be at a similar level to contributions paid in 2012.

Share-based payments

PSP

In September 2005 the shareholders approved the PSP.

During the year an award under the PSP was made to the Executive Directors and senior managers, details of which are set out below:

Date of award	Number of awards at the beginning of year	Number of awards granted during the year	Number of awards vested during the year	Number of awards forfeited during the year	**Number of awards at the year end**	Fair value pence per share	Vesting period	Maturity date
April 2009	342,491	—	(341,620)	(871)	**—**	56	3 years	April 2012
April 2010	208,993	—	—	(3,091)	**205,902**	186	3 years	May 2013
September 2010	37,822	—	—	—	**37,822**	322	3 years	Sept 2013
February 2011	140,078	—	—	(14,500)	**125,578**	411	3 years	Feb 2014
April 2012	—	79,927	—	(14,402)	**65,525**	684	3 years	April 2015
	729,384	79,927	(341,620)	(32,864)	**434,827**			

Further details of the PSP are included in the Directors' remuneration report on pages 42 to 49.

The fair value of the awards made is measured using the Monte Carlo model with the following inputs:

	April 2012 award	**February 2011 award**	September 2010 award	May 2010 award
Share price	**£6.84**	**£6.24**	£4.01	£2.79
Exercise price	**£nil**	**£nil**	£nil	£nil
Expected volatility	**38%**	**40%**	42%	41%
Award life	**3 years**	**3 years**	3 years	3 years
Correlation				
Dialight and the FTSE SmallCap Index	**26%**	**29%**	30%	33%
FTSE SmallCap Index and the FTSE All Share Electronic/Electrical Equipment Index	**86%**	**86%**	87%	86%

The employee expense in 2012 is £457,000 (2011: £319,000) (see note 7).

Notes to the consolidated financial statements
For the year ended 31 December 2012

20. Provisions

	Warranty £'000
Balance at 1 January 2012	919
Effects of foreign exchange movement	(38)
Provisions made during the year	588
Provisions used during the year	(580)
Balance at 31 December 2012	**889**

	Warranty 2012 £'000	Warranty 2011 £'000
Due within one year	**455**	434
Due between one and five years	**434**	485
	889	919

The provision is based on estimates made from historical warranty data associated with similar products.

21. Trade and other payables

	2012 £'000	2011 £'000
Trade payables	**16,920**	11,424
Other taxes and social security	**236**	339
Non-trade payables and accrued expenses	**5,261**	7,373
	22,417	19,136

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 22.

22. Financial risk management

The Group has exposure to credit risk, market risk and liquidity risk from its use of financial instruments.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

The Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

Credit risk

Trade and other receivables

Credit risk is the risk of financial loss if a customer fails to meet its contractual obligations by not paying the receivables due.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

Operationally the Group has no significant concentration of credit risk.

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered.

The Group's review includes external ratings when available and in some cases bank references. Purchase limits are set for customers. Customers that do not meet the benchmark creditworthiness may transact with the Group only on a pre-payment basis.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. Impairment losses are determined having taken into account special customer circumstances and financial position, together with Group information about general payment trends.

22. Financial risk management continued

Credit risk continued

Exposure to credit risk

The ageing of trade receivables at the reporting date was:

	Gross 2012 £'000	**Impairment 2012 £'000**	Gross 2011 £'000	Impairment 2011 £'000
Not past due	**19,299**	**—**	17,365	—
Past due 0–30 days	**3,338**	**219**	3,145	145
Past due 31–120 days	**1,439**	**85**	942	39
Past due 121–365 days	**833**	**59**	185	12
More than one year	**59**	**10**	105	39
Total	**24,968**	**373**	21,742	235

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	£'000
Balance at 1 January 2012	235
Effects of foreign exchange	(12)
Utilisation of provision	(29)
Provision created	180
Balance at 31 December 2012	**374**

The allowance accounts in respect of trade receivables are used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amount considered irrecoverable is written off against the financial asset directly.

Other non-trade receivables of £773,000 (2011: £265,000) are not past due and have no impairment.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates which affect the Group's income. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Interest rate risk

The Group's policy is to manage exposure to interest rate risk setting a proportion of any borrowings to a fixed rate basis. Historically interest rate swaps have been considered and entered into. Currently the Group has no borrowings.

Foreign currency risk

Exposure to currency risk arises in the normal course of the Group's business.

The Group is exposed to foreign currency risk on sales and purchases that are denominated in a currency other than each subsidiaries functional currency. The currencies giving rise to risk are primarily Euro and US Dollars.

Where possible the Group uses natural hedging within the Group to hedge the majority of its foreign currency risk. Natural hedging is the mechanism whereby the cash inflows in a particular currency are matched to the cash outflows in that currency at the same business or different group company. Foreign exchange contracts may be taken out to manage exposures that are not mitigated through natural hedging.

In respect of other monetary assets and liabilities held in currencies other than UK Sterling, the Group ensures that the net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

Notes to the consolidated financial statements
For the year ended 31 December 2012

22. Financial risk management continued

Market risk continued

Foreign currency risk continued

The Group's exposure to foreign currency risk was as follows based on notional amounts:

	2012 $'000	**2012 €'000**	2011 $'000	2011 €'000
Trade receivables	**3,762**	**1,520**	4,945	425
Currency cash	**1,152**	**353**	2,337	1,205
Trade payables	**(5,856)**	**(183)**	(5,688)	(604)
Gross balance sheet exposure	**(942)**	**1,690**	1,594	1,026
Estimated forecast sales	**4,800**	**16,231**	16,554	4,620
Estimated forecast purchases	**(20,856)**	**(3,330)**	(21,957)	(4,094)
Gross exposure	**(16,998)**	**14,591**	(3,809)	1,552
Forward exchange contracts	**—**	**—**	—	—
Net exposure	**(16,998)**	**14,591**	(3,809)	1,552

The following significant exchange rates applied during the year:

	2012 Average rate	**2012 At balance sheet date**	2011 Average rate	2011 At balance sheet date
US Dollar	**1.58**	**1.63**	1.61	1.55
Euro	**1.23**	**1.23**	1.15	1.20

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking damage to the Group's reputation.

Exposure to liquidity risk

For non-derivative financial liabilities the Group's exposure relates principally to trade and other payables.

Trade and other payables arise in the normal course of business and there are no unusual or onerous terms and conditions.

The following are contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

31 December 2012 £'000	Carrying amount	Contractual cash flow	2 months or less	2–12 months	1–2 years
Non-derivative financial liabilities					
Trade and other payables	**22,417**	**(22,417)**	**(22,417)**	**—**	**—**
	22,417	**(22,417)**	**(22,417)**	**—**	**—**

31 December 2011 £'000	Carrying amount	Contractual cash flows	2 months or less	2–12 months	1–2 years
Non-derivative financial liabilities					
Trade and other payables	19,136	(19,136)	(17,876)	(1,260)	—
	19,136	(19,136)	(17,876)	(1,260)	—

22. Financial risk management continued

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board considers consolidated total equity as capital. As at 31 December 2012 this totalled £62,998,000 (2011: £54,764,000).

Our target is to generate a return on capital in excess of 25% excluding cash holdings. In 2012 the return was 40.8% (2011: 36.5%). In addition, the target in respect of EPS is 15% growth per annum. In 2012 underlying EPS growth was 30.6% (2011: 33.2%).

In respect of dividend, the Board was progressive dividend policy and aims for three times cover. The result for 2012 was 3.18x (2011: 3.03x).

The Board monitors TSR compared to FTSE SmallCap Index and FTSE Electronics/Electrical Index to ensure that Dialight's performance is in line with peer companies.

There were no changes in the Group's approach to capital management during the year.

Sensitivity analysis

In managing interest rate and currency risks the Group aims to reduce the impact of short-term fluctuations on the Group's earnings. Over the longer term, however, permanent changes, in particular in foreign exchange rates, would have an impact on equity value and consolidation earnings.

At 31 December 2012 it is estimated that a general increase of 1% in the value of the Euro and US Dollar against UK Sterling would have reduced the Group's profit before tax by approximately £197,000 for the year ended 31 December 2012 (2011: £169,000), and would have reduced the Group's equity by approximately £145,000 for the year ended 31 December 2012 (2011: £76,000).

Fair values versus carrying amounts

The fair values of financial assets and liabilities together with the carrying amounts shown in the balance sheet are as follows:

	Carrying amount 2012 £'000	**Fair value 2012 £'000**	Carrying amount 2011 £'000	Fair value 2011 £'000
Financial assets				
Cash and cash equivalents	**14,962**	**14,962**	13,700	13,700
Loans and receivables				
Trade and other receivables	**26,987**	**26,987**	22,846	22,846
Total financial assets	**41,949**	**41,949**	36,546	36,546
Financial liabilities at amortised cost:				
Trade and other payables	**(22,417)**	**(22,417)**	(19,136)	(19,136)
Provisions	**(889)**	**(889)**	(919)	(919)
Total financial liabilities	**(23,306)**	**(23,306)**	(20,055)	(20,055)
Net financial assets	**18,643**	**18,643**	16,491	16,491

Details of the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table are set out in note 3(v).

23. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2012 £'000	2011 £'000
Less than one year	**964**	819
Between one and five years	**2,694**	1,644
More than five years	**1,165**	1,537
	4,823	4,000

Of the £4,823,000 (2011: £4,000,000), £4,667,000 (2011: £3,841,000) relates to property and the balance to plant and equipment.

The Group has no off balance sheet arrangements that need to be disclosed as within the context of Section 410A of the Companies Act 2006.

Notes to the consolidated financial statements
For the year ended 31 December 2012

24. Capital commitments

Capital commitments at 31 December for which no provision has been made in the accounts were:

	2012 £'000	2011 £'000
Contracted	**752**	379

25. Contingencies

During 2011 the Roxboro UK Pension Fund ("Scheme") was closed to future accrual. As part of the negotiations regarding closure, the Company agreed to grant a parent company guarantee in respect of all present and future obligations and liabilities (whether actual or contingent and whether owed jointly or severally and in any capacity whatsoever) of Dialight Europe Limited, the principal employer, to make payments in the Scheme up to a maximum amount equal to the entire aggregate liability, on the date on which any liability under the Guarantee arises, of every employer (within the meaning set out in Section 318 of the Pensions Act 2004 and regulations made thereunder) in relation to the Scheme, were a debt under Section 75(2) of the Pensions Act 1995 to have become due on that date.

26. Related parties

The ultimate controlling party of the Group is Dialight plc. Transactions between the Company and its subsidiaries have been eliminated on consolidation. Intra-group transactions are priced on arm's length basis.

Transactions with key management personnel

Directors of the Company and their immediate relatives control 1% of the Company.

Details of the remuneration for the Company Directors are set out in the Directors' remuneration report on pages 42 to 49.

The main Board Directors are considered to be the Group's key management personnel. The IFRS 2 charge in respect of Key employees was £292,000 (2011: £241,000).

27. Significant subsidiaries

	Country of incorporation	Percentage owned	Principal activity
Dialight Corporation*	USA	100%	Manufacture and sale of Components, Signals and Lighting products
Dialight Garufo GmbH*	Germany	100%	Manufacture and sale of Signals products
Dialight Europe Limited	England and Wales	100%	Manufacture and sale of Components, Signals and Lighting products
Dialight Lumidrives Limited	England and Wales	100%	Dormant company
Belling Lee Limited	England and Wales	100%	Non-Trading
Dialight BTI A/S	Denmark	100%	Manufacture and sale of Signal products
Dialight ILS Australia Pty Limited*	Australia	75%	Sale of Signals and Lighting products
Dialight Japan KK*	Japan	75%	Sale of Signals and Lighting products
Dialight Asia Pte. Ltd*	Singapore	75%	Sale of Signals and Lighting products
Dialight Penang Sdn. Bhd.*	Malaysia	100%	Manufacture and sale of Component products

All of these are included within the consolidation. Those marked with an * are indirectly held.

Company balance sheet (prepared under UK GAAP)
At 31 December 2012

	Note	2012 £'000	2011 £'000
Fixed assets			
Tangible assets	30	**113**	134
Investments	31	**16,845**	16,508
Debtors	32	**21,532**	24,625
		38,490	41,267
Current assets			
Debtors	32	**18,214**	14,947
		18,214	14,947
Creditors			
Amounts falling due within one year			
Other creditors	33	**(5,289)**	(4,694)
Cash at bank and in hand		**(349)**	(193)
Current liabilities		**(5,638)**	(4,887)
Net current assets		**12,576**	10,060
Total assets less current liabilities		**51,066**	51,327
Net assets excluding pension fund liability		**51,066**	51,327
Pension fund asset	37	**115**	13
Net assets including pension fund liability		**51,181**	51,340
Capital and reserves			
Called up share capital	35, 36	**608**	601
Capital redemption reserve	36	**2,232**	2,232
Other reserve	36	**1,386**	1,049
Profit and loss account	36	**46,955**	47,458
Equity shareholder funds		**51,181**	51,340

The accompanying notes form part of the financial statements.

These financial statements were approved by the Board of Directors on 7 March 2013 and were signed on its behalf by:

Roy Burton
Group Chief Executive

Mark Fryer
Group Finance Director

Notes to the Company financial statements
For the year ended 31 December 2012

28. Accounting policies

The financial statements have been prepared under historic cost accounting rules and in accordance with UK GAAP.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

Under Section 408 of the Companies Act 2006, the Company is exempt from the requirement to present its own profit and loss account.

No Statement of Total Recognised Gains and Losses is required under UK GAAP as it is treated as related to the profit and loss account. Actuarial movements and related deferred tax will therefore only appear in the reserves note.

The Company is exempt from the requirement of FRS1 "Cash Flow Statements" to prepare a cash flow statement on the grounds that the Company is consolidated in the Group consolidated financial statements.

Depreciation

Depreciation is calculated so as to write off the cost, less estimated net realisable value, of tangible fixed assets on a straight-line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

Office equipment	between 10% and 20%
Computer equipment	between 20% and 33.3%
Plant, machinery, fixtures and fittings	between 10% and 20%
Motor vehicles	between 25% and 33.3%

Leased assets

The costs of operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward exchange contract. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date or if appropriate at the forward contract rate.

Taxation

Deferred taxation is recognised without discounting in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date.

Investments in subsidiary undertakings

Investments in subsidiary undertakings are stated at cost, less provisions for impairment in value. Where the consideration for the acquisition of a subsidiary undertaking includes shares in the Company to which the provisions of Section 612 of the Companies Act 2006 apply, the cost represents the nominal value of shares issued together with the fair value of any additional consideration given and costs.

Pension contributions

The Company operates both defined benefit and defined contribution plans. The assets of all the arrangements are held separately from the assets of the Company in independently administered funds. The amount charged against profits in respect of defined contribution arrangements are the contributions payable to those arrangements in the accounting period.

For the defined benefit arrangements the assets are measured at market values. The liabilities are measured using the projected unit method, discounting at the current rate of return of a high quality corporate bond of the appropriate term and currency to the liability, as required under FRS 17.

The defined benefit scheme surplus or deficit is recognised in full and presented on the face of the balance sheet.

The movement in the deficit is split between operating charges, financing items and actuarial gains and losses in the statement of recognised gains and losses.

Dividends on shares presented within shareholders' funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately recognised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

Cash and cash equivalents

The carrying amount reported in the balance sheet approximates to fair value.

28. Accounting policies continued

Share-based payments

The PSP allows employees to acquire shares of the Company. The fair value of awards granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to receive the awards. The fair value of the awards granted is measured using a pricing model, taking into account the terms and conditions upon which the awards were granted. The amount recognised as an expense is adjusted to reflect the actual number of share awards that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

Where the Company grants awards over its own shares to the employees of its subsidiaries, it recognised an increase in the cost of investment in its subsidiaries equivalent to the equity-settled share-based payment charge recognised in its subsidiary's financial statements with the corresponding credit being recognised directly in equity.

29. Staff costs

Staff costs during the year were:

	2012 £'000	2011 £'000
Wages and salaries	1,014	926
Social security costs	131	124
Equity-settled share-based payment transactions	120	83
Deferred bonus share scheme	199	230
Pension costs	59	55
	1,523	1,418

The average number of employees (including Executive Directors) employed during the year was:

	2012 Number	2011 Number
UK	6	4

Details for each Director of remuneration, pension entitlements and interests in share options are set out in the Directors' remuneration report on pages 42 to 49.

30. Fixed assets

	Plant equipment and vehicles £'000
Cost	
At 1 January 2012	189
Additions	14
At 31 December 2012	**203**
Depreciation	
At 1 January 2012	(55)
Charge for the year	(35)
At 31 December 2012	**(90)**
Net book value at 31 December 2012	**113**
Net book value at 31 December 2011	134

Notes to the Company financial statements
For the year ended 31 December 2012

31. Investments
Investments in subsidiary undertakings:

	£'000
Cost	
At 1 January 2012	21,296
Share-based payment	337
At 31 December 2012	**21,633**
Provisions	
At 1 January 2012	(4,788)
Profit and loss account	—
At 31 December 2012	**(4,788)**
Net book value at 31 December 2012	**16,845**
Net book value at 31 December 2011	16,508

In accordance with UITF 41 "Scope of FRS 20 (IFRS 2)" the cost of investment is increased to reflect the cost of share options awarded to employees of the Company's subsidiaries.

Name	Percentage owned	Country of incorporation and operation
Dialight Corporation*	100%	United States of America
Dialight Europe Limited	100%	England and Wales
Dialight Garufo GmbH*	100%	Germany
Dialight Lumidrives Limited	100%	England and Wales
Belling Lee Limited (formerly Dialight BLP Limited)	100%	England and Wales
Dialight BTI A/S	100%	Denmark
Dialight ILS Australia Pty Limited*	75%	Australia
Dialight Japan KK*	75%	Japan
Dialight Asia Pte. Ltd*	75%	Singapore
Dialight Penang Sdn. Bhd.*	100%	Malaysia

The investment is held directly by the Company except for those companies where indicated by *.

32. Debtors

	2012 £'000	2011 £'000
Amounts owed by subsidiary undertakings	**38,872**	39,140
Other debtors	**287**	216
Deferred tax asset (note 34)	**587**	216
	39,746	39,572
Less non-current portion: amounts owed by subsidiary undertakings	**(21,532)**	(24,625)
Current portion	**18,214**	14,947

33. Creditors

	2012 £'000	2011 £'000
Amounts falling due within one year:		
Other taxes and social security costs	60	35
Amounts owed to subsidiary undertakings	3,757	3,757
Corporation tax payable	166	158
Accruals and deferred income	1,306	744
	5,289	4,694

34. Deferred tax asset

	2012 £'000	2011 £'000
At 1 January	212	783
Prior year adjustment	(22)	(91)
Profit and loss account	332	(624)
Recognised in equity	30	144
At 31 December	552	212
An analysis of deferred tax is as follows:		
Capital allowances	18	31
Short-term timing differences	569	185
Debtors (see note 32)	587	216
Pension liability (see note 37)	(35)	(4)
	552	212

35. Called up share capital

	2012 Number	2012 £'000	2011 Number	2011 £'000
Allotted and fully paid				
Ordinary shares of 1.89 pence each	32,150,231	608	31,800,231	601
Shares classified as liabilities		—		—
Shares classified in shareholder funds		608		601
		608		601

During the year,350,000 shares were issued (1.10% of the total ordinary share capital issued) at par. The ordinary shares issued have the same rights as the other shares in issue.

Notes to the Company financial statements
For the year ended 31 December 2012

35. Called up share capital continued

Share-based payments

PSP

In September 2005 the shareholders approved the PSP.

During the year an award under the PSP was made to the Executive Directors and senior managers, details of which are set out below:

Date of award	Number of awards at the beginning of year	Number of awards granted during the year	Number of awards released during the year	Number of awards forfeited during the year	**Number of awards at the year end**	Fair value pence per share	Vesting period	Maturity date
April 2009	342,491	—	(341,620)	(871)	**—**	56	3 years	April 2012
April 2010	208,993	—	—	(3,091)	**205,902**	186	3 years	May 2013
September 2010	37,822	—	—	—	**37,822**	322	3 years	Sept 2013
February 2011	140,078	—	—	(14,500)	**125,578**	411	3 years	Feb 2014
April 2012	—	79,927	—	(14,402)	**65,525**	684	3 years	April 2015
	729,834	79,927	(341,620)	(32,864)	**434,827**			

Further details of the PSP are included in the Directors' remuneration report on pages 42 to 49.

The fair value of the awards made is measured using the Monte Carlo model with the following inputs:

	April 2012 award	February 2011 award	September 2010 award	May 2010 award
Share price	£6.84	£6.24	£4.01	£2.79
Exercise price	£nil	£nil	£nil	£nil
Expected volatility	38%	40%	42%	41%
Award life	3 years	3 years	3 years	3 years
Correlation				
Dialight and the FTSE Smallcap Index	26%	29%	30%	33%
FTSE Smallcap Index and the FTSE All Share Electronic/Electrical Equipment Index	86%	86%	87%	86%

36. Capital and reserves

	Share capital £'000	Capital redemption reserve £'000	Other reserve capital contribution £'000	Profit and loss account £'000	Total £'000
At 1 January 2012	601	2,232	1,049	47,458	51,340
Own shares issued	7	—	—	(7)	—
Net expense recognised in equity	—	—	—	36	36
Profit for the year	—	—	—	2,631	2,631
Dividends to shareholders	—	—	—	(3,412)	(3,412)
Dividends on shares awarded under the PSP	—	—	—	(150)	(150)
Dividends returned from shareholders	—	—	—	3	3
Share-based payments	—	—	337	197	534
Deferred bonus share scheme	—	—	—	199	199
At 31 December 2012	**608**	**2,232**	**1,386**	**46,955**	**51,181**

At 31 December 2012 the number of shares held by the Group through the ESOT was 47,596 (2011: 39,216). The market value of these shares at 31 December 2012 was £505,945 (2011: £274,120).

36. Capital and reserves continued

The capital contribution reserve is non-distributable and arises from the accounting for share-based payments (see note 35).

The profit for the year was £2,631,000 (2011: £5,768,000). Net expenses recognised directly in equity relate to the net actuarial gain (net of deferred tax) arising in respect of the pension scheme.

	2012 £'000	2011 £'000
Profit and loss reserve excluding pension liability	46,840	47,445
Pension reserve	115	13
Profit and loss reserve	46,955	47,458

Reconciliation of movement in shareholders' funds

	2012 £'000	2011 £'000
Profit for the year	2,631	5,768
Other gains and losses	36	(66)
Dividends paid	(3,412)	(2,683)
Dividends on shares awarded under the PSP	(150)	(115)
Dividends returned	3	2
Share-based payments (net of tax)	534	524
Deferred bonus share scheme	199	230
Net addition to shareholder funds	(159)	3,660
Opening shareholder funds	51,340	47,680
Closing shareholder funds	51,181	51,340

Dividends

After the balance sheet date the following dividends were proposed by the Directors. The dividends have not been provided for and there are no income tax consequences for the Company.

Final proposed dividend	2012 £'000	2011 £'000
9.0 pence per ordinary share (2011: 6.7 pence)	2,894	2,131

During the year the following dividends were paid:

	2012 £'000	2011 £'000
Final – 6.7 pence (2011: 5.2 pence) per ordinary share	2,131	1,643
Interim – 4.0 pence (2011: 3.3 pence) per ordinary share	1,286	1,050
Less: dividends on shares held in trust	(5)	(10)
	3,412	2,683
Final Dividend – 6.7 pence on shares award under the PSP and deferred bonus scheme not yet vested	55	38
Interim Dividend – 4.0 pence on shares award under the PSP and deferred bonus scheme not yet vested	19	24
Dividends accrued on shares awarded under the PSP and deferred bonus scheme but not yet vested	63	38
Dividends paid on shares awarded under the PSP vested during the period	13	15
Total (amount shown in the statement of changes in equity)	3,562	2,798

Notes to the Company financial statements
For the year ended 31 December 2012

37. Pensions

The Company operates both a defined benefit executive scheme and defined contribution plan. The assets of the schemes are held separately from those of the Company. The defined benefit plan is closed to new members.

Recognised asset for defined benefit obligations

	2012 £'000	2011 £'000
Present value of liabilities	(1,693)	(1,578)
Fair value of plan assets	1,843	1,595
Recognised asset for defined benefit obligations	150	17
Deferred tax (see note 34)	(35)	(4)
Pension asset net of deferred tax	115	13

Plan assets consist of the following:

	2012 £'000	2011 £'000
Bonds	1,707	1,503
Cash	136	92
	1,843	1,595

Movements in the present value of defined benefit obligations

	2012 £'000	2011 £'000
Liabilities at 1 January	1,578	1,483
Interest cost	75	82
Benefits paid	(51)	(49)
Actuarial loss/(gain)	91	62
Liabilities at 31 December	1,693	1,578

Movements in fair value of plan assets

	2012 £'000	2011 £'000
Assets at 1 January	1,595	1,475
Expected return on scheme assets	76	82
Employer contributions	85	85
Benefit paid	(51)	(49)
Actuarial gain	138	2
Assets at 31 December	1,843	1,595

Expense recognised in the profit and loss account

	2012 £'000	2011 £'000
Interest on obligation	75	82
Expected return on plan assets	(76)	(82)
	(1)	—

The expense is recognised in the following line items in the profit and loss account:

	2012 £'000	2011 £'000
Net financing income	1	—
	1	—

37. Pensions continued

Expense recognised in statement of recognised gains and losses

	2012 £'000	2011 £'000
Actuarial gain on plan assets	**138**	2
Experience (losses)/gain on liabilities	**(36)**	(1)
Change in assumptions in respect of liabilities	**(55)**	(61)
Net actuarial (loss)/gain recognised in Statement of recognised gains and losses	**47**	(60)
Cumulative actuarial loss recognised in Statement of recognised gains and losses	**(433)**	(480)

Historical information

	2012 £'000	2011 £'000	2010 £'000	2009 £'000	2008 £'000
Defined benefit obligation	**(1,693)**	(1,578)	(1,483)	(1,471)	(1,338)
Scheme assets	**1,843**	1,595	1,475	1,339	1,273
Surplus/(deficit)	**150**	17	(8)	(132)	(65)
Actuarial (losses)/gain on liabilities	**(91)**	(62)	24	(162)	228
Experience gain/(losses) on assets	**138**	2	37	79	(290)

Liability for defined benefit obligations

The principal assumptions at the balance sheet date (expressed as weighted averages) are:

	UK Scheme (% per annum)		
	2012	2011	2010
Discount rate at 31 December	**4.40**	4.70	5.50
Future salary increases	**n/a**	n/a	n/a
Future pension increases	**2.90**	3.00	3.65
Inflation – RPI	**2.90**	3.00	3.70
Inflation – CPI	**2.40**	2.20	3.00
Deferred revaluation	**2.40**	2.20	3.00

The expected long-term rates of return were:

	UK Scheme (% per annum)		
	2012	2011	2010
Equities	**n/a**	n/a	n/a
Bonds	**4.40**	3.00	5.50
Cash	**3.00**	3.00	4.20

For its UK pension arrangements the Group has, for the purpose of calculating its liabilities as at 31 December 2012, used SAPS mortality tables based on year of birth (as is published by the Institute of Actuaries). The UK mortality tables are based on the latest mortality investigations and reflect an industry-wide recognition that life expectations have improved. The average life expectancy of an individual currently aged 45 years and retiring at age 65 years is 24.10 years for males and 26.5 years for females. For individuals currently aged 65 years the average life expectancy is 22.2 years for males and 24.6 years for females.

The expected long-term rate of return for investments is based on the portfolio as a whole and not on individual asset categories. The return is based exclusively on historical returns, without adjustments which are crossed checked against market expectations from external sources.

The Company expects that contributions to the defined benefit plan in 2013 will be at a similar level to contributions paid in 2012.

38. Related party transactions

The Company has taken advantage of the exemptions conferred by FRS 8 and has not disclosed transactions with wholly owned subsidiaries that are part of the Group or the investees of the Group.

The Company has also taken advantage of the exemptions available under FRS 29 whereby parent companies are not required to apply the disclosure requirements of the standard in their own single entity financial statements, on the basis that the disclosures are included in the consolidated financial statements of the Group.

Five-year summary

	Prepared under IFRSs				
	2012* £m	2011* £m	2010 £m	2009 £m	2008 £m
Revenue*	**115.1**	102.5	99.2	77.3	77.9
Research and development cash expenditure	**5.0**	5.1	3.7	3.7	3.2
Underlying operating profit*	**19.6**	15.5	11.2	5.5	5.3
Non-underlying operating loss	**—**	(0.1)	—	—	—
Finance income/(charges)	**0.2**	(0.6)	0.1	(0.2)	0.3
Profit before gain on disposal of discontinued operations and taxation*	**19.8**	14.8	11.3	5.3	5.6
Cash generated from operating activities	**13.8**	12.4	14.0	11.0	6.0
Net cash	**15.0**	13.7	10.4	9.1	4.1
Shareholders' funds	**63.0**	54.8	46.2	40.1	37.5

Statistical information	**Pence**	Pence	Pence	Pence	Pence
Basic earnings per ordinary share from continuing operations*	**41.4**	31.3	23.8	10.6	11.2
Dividends per share	**13.5**	10.0	8.0	6.6	6.0
Dividend cover (times)	**3.2**	3.0	3.0	2.7	1.9
Operating margin*	**17.0%**	15.1%	11.3%	7.1%	6.8%

* Results for 2011 and 2012 are presented for continuing operations and exclude the results of operations classified as discontinued.

Directory and shareholder information

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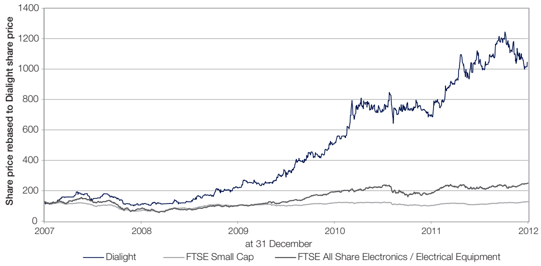
You can also access details of your shareholding and a range of other shareholder services by registering at www.shareview.co.uk.

* Calls to this number are charged at 8 pence per minute plus network extras.

Share price
Information concerning the day-to-day movement of the share price of the Company can be found on our website www.dialight.com or the London Stock Exchange's website www.londonstockexchange.com.



Forward looking statements
Certain sections of this Annual Report contain forward-looking statements that are subject to risk factors associated with, amongst other things, the economic and business circumstances occurring from time to time in the countries and sectors in which the Company and its subsidiaries and associates operate. It is believed that the expectations reflected in the Annual Report are reasonable but they may be affected by a wide range of variables which could cause actual results to differ materially from those currently anticipated.

Dealing service
Equiniti offers Shareview Dealing, a service which allows you to sell your Dialight plc shares or add to your holding if you are a UK resident. You can deal in your shares on the internet or by telephone. For more information about this service and for details of their rates, log on to www.shareview.co.uk/dealing or telephone on 0845 603 7037 between 8.30am and 4.30pm, Monday to Friday. If you wish to deal, you will need your account/shareholder reference number which appears on your share certificate.

Alternatively, if you hold a share certificate, you can also use any bank, building society or stockbroker offering share dealing facilities to buy or sell shares. If you are in any doubt about buying or selling shares, you should seek professional financial advice.

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Financial calendar 2013/2014
Annual General Meeting/Interim Management Statement	25 April 2013
Half Yearly Financial Report	22 July 2013
Interim Management Statement	7 November 2013 (provisional)

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