Dialight

Dialight plc Annual report and accounts

2013

Dialight designs, manufactures and sells LED lighting fixtures for use in hazardous and industrial locations. Our lights are for specific use on top of telephone towers, wind turbines and other tall structures, as well as traffic signals and large industrial or hazardous sites.

Building for a strong future

Market leading products will ensure that we continue to stay ahead of the competition and lead the way as the only pure play LED industrial lighting company.

Overview

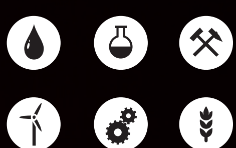
Strategic report

Governance

Financial statements

Shareholder information

Our target key markets



Read in full: page 10

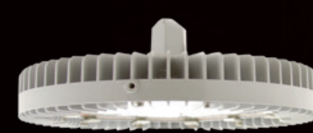
Continued growth in Lighting

Lighting revenue

£68.5m

Read in full: page 13

Newly developed products



Read more: pages 22 to 23

Visit us online: www.dialight.com
View this report online: ar13.dialight.com

State-of-the-art

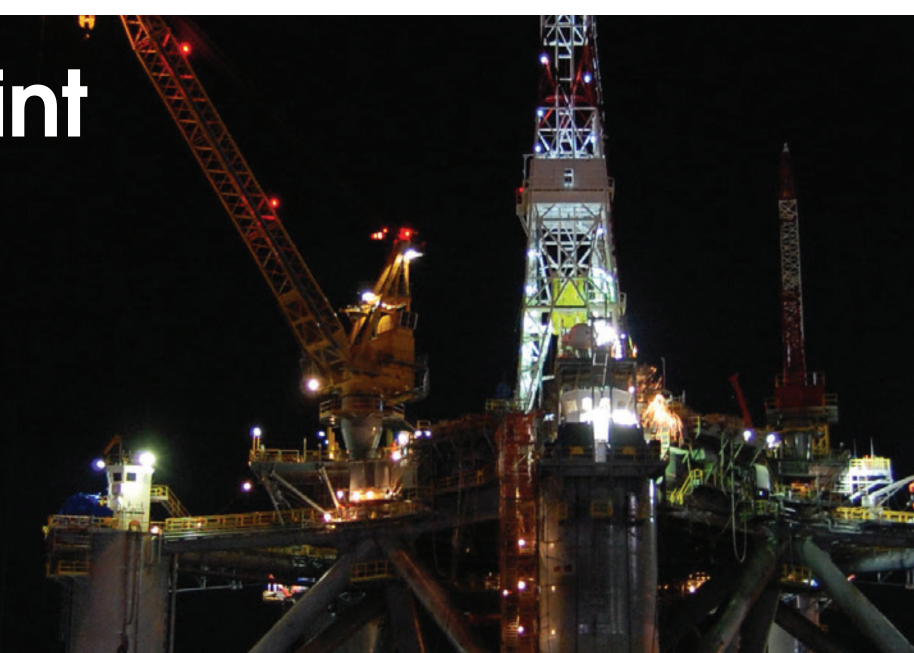
Dialight is a fast moving, disciplined, outwardly focused company with an appetite for controlled risk. Continuous improvement and re-design of our products is fundamental to our growth and market leadership.

Niche expertise

Our products are ideally suited to meet the demanding lighting requirements in the hazardous and industrial sector of the lighting market. Such markets are often regulated using strict certification processes.

Global footprint

Dialight has a global presence through a network of sales companies and partners worldwide.



Key products

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

Vigilant 125 lumens per watt High Bay

At 125 lumens per watt, the Vigilant LED High Bay is among Dialight's most groundbreaking innovations, providing up to 26,500 delivered fixture lumens and backed by Dialight's industry-leading ten-year full performance warranty for more than a decade of reliable, worry-free performance in the world's harshest industrial environments.

Wireless controls

Dialight's industry-leading LED High Bay is now available with an advanced control system for improved efficiency and faster return on investment for any large industrial environment.

Discover our full range of products
www.dialight.com

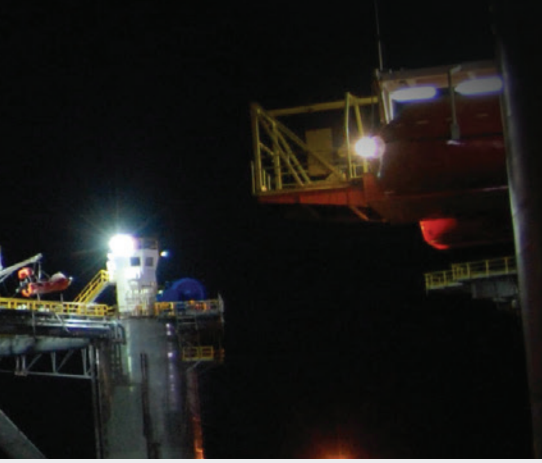
46	37	131
Certification applications made in 2013	**New certifications acquired in 2013**	**Total global certifications to date**

Read more about our performance
page 19

We have direct sales teams across the globe.

Direct sales personnel

51	27	19
The Americas	**Europe/Middle East**	**Asia/Australia**



Read more about our global footprint
page 24

Overview:
Chairman's statement

Belief in the opportunity and the strategy remains undiminished

Whilst 2013 has been a challenging year for Dialight, the belief in the opportunity and the determination to achieve our strategic goals is undiminished. There is real enthusiasm at the way we have addressed key issues within the obstruction business, whilst still managing to achieve growth in our industrial lighting business.

Financial results

Revenue from continuing operations grew by 14% to £131.2 million (2012: £115.1 million) with lighting segment revenue growth of 51% to £68.5 million (2012: £45.5 million). Group contribution margin from continuing operations reduced from 46.1% to 44.7% due to the effects of the downturn in the Obstruction business. However, contribution margins in the Lighting segment grew from 44.3% in 2012 to 45.5% in 2013.

Underlying profit from operating activities from continuing operations was £14.5 million (2012: £19.6 million). Non-underlying costs of £2.9 million (2012: £nil) were incurred during the year including an intellectual property past use access fee of £1.4 million, relating to a one-off payment for access to certain patents and intellectual property over the last five years, goodwill and asset write downs of £0.8 million and employee severance, restructuring and other costs of £0.7 million. Profit from operating activities was £11.6 million (2012: £19.6 million).

During the year under review the Group delivered profit at a level that was lower than expectations. As a matter of good governance, the Audit Committee, following discussion with the full Board, has undertaken an assessment of the Group's forecasting and performance process. The Audit Committee was supported in this by KPMG Audit plc ("KPMG" or "Auditors"), who were engaged to provide critical challenge of the 2013 reforecasting and 2014 forecasting process. This assessment has highlighted a number of process improvements, the implementation of which has begun. The review has been fully embraced by the Interim Chief Financial Officer and it is envisaged that following completion of these improvements, the Group will have a much more robust and focused system of internal control that will support Dialight's growth in the coming years.

Profit before tax was £11.2 million (2012: £19.8 million). There was a profit after tax on the disposal of discontinued activities of £0.7 million (2012: £0.1 million).

Basic underlying earnings per share ("EPS") was 30.8 pence (2012: 41.7 pence) with basic EPS of 26.2 pence (2012: 42.0 pence). At 31 December, net cash was £7.1 million (2012: £15.0 million).

Dividend

The Board is recommending, subject to approval by shareholders, a final dividend of 9.5p giving a total dividend for the year of 14.4p (2012: 13.5p). This will be paid on 3 June 2014 to shareholders on the register at the 2 May 2014.

Developments

During the year we established Dialight Brasil Participacoes Ltda ("Dialight Brasil"), opening sales opportunities to the Mercosul region. It is our intention to start some light assembly of Dialight products in this region in 2014. Additional operational capacity was also added at our manufacturing facilities in Malaysia and Mexico. This will provide all of the operational support required to meet the Company's growth in the immediate future.

Staff

Our employees continued to work hard throughout the year and their efforts are gratefully received. I thank everyone for their continued commitment, support and hard work both in 2013 and going forwards in 2014.

Board changes

Two new Non-Executive Directors, Stephen Bird and Tracey Graham, joined the Board on 10 January 2013 and have made an excellent contribution during that time.

Mark Fryer left the Company on 15 January 2014. We wish him well for the future. An executive search firm has been engaged to find his successor. In the meantime, Kevin Higginson has joined the Company as Interim Chief Financial Officer, but has not been appointed a statutory Director.

Full details on the Board can be found on pages 38 to 39.

Outlook

With market-leading innovative products, expansion of our sales channels and continued buoyancy in the industrial lighting market, the Board expects to drive strong Lighting growth for 2014 and the years to come. This, combined with a stabilisation of the Signals business, leads the Board to expect a return to earnings growth in 2014.

Bill Ronald
Chairman

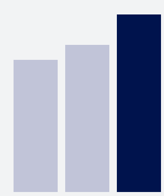
“We expect to drive strong Lighting growth for 2014 and the years to come.”

Key financials

Group revenues excluding discontinued operations

£131.2m +14.0%

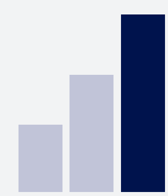
2012	**£115.1m**
2011	**£102.5m**



Lighting segment revenues

£68.5m +50.5%

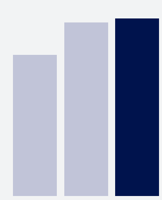
2012	**£45.5m**
2011	**£26.4m**



Gross profit

£41.6m +0.1%

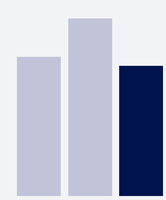
2012	**£41.2m**
2011	**£33.4m**



Underlying profit from operating activities

£14.5m -26.0%

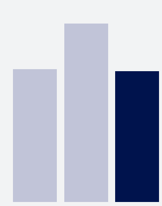
2012	**£19.6m**
2011	**£15.5m**



Underlying EPS

30.8p -26.1%

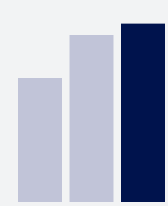
2012	**41.7p**
2011	**31.3p**



Total dividend

14.4p +6.0%

2012	**13.5p**
2011	**10.0p**



Read more in the 2013 review
page 13

Strategic report

Chief Executive's introduction

Industrial lighting, the growth engine of the Group, grew at more than 50% year-on-year

The focus of 2013 was the continued growth in Industrial Lighting and the repositioning of Obstruction Signals as a systems business offering monitoring and control to the major tower operators. Once again, Industrial Lighting posted significant growth of £23.0m, with strong contributions from all geographies driven by our ever-increasing sales force and industry-leading product performance.

We have continued to address the key constraint on our growth, namely the need to recruit more sales people as well as refocusing our sales efforts in those areas more likely to deliver higher returns.

Dialight remains a great business that is well placed to enjoy real growth in its chosen markets. The fundamentals of the business and the story remain sound.

The following pages contain the Strategic report which provides an explanation of our business and how we operate (Our business model), information on our business objectives and how we plan to achieve them (Our objectives and strategy), details of how we measure our success towards achieving those objectives (Key performance indicators), a full review of our performance in the last year (2013 review) and finally details of the risks and uncertainties facing our business (Risk management).

Signed on behalf of the Board

Roy Burton
Chief Executive

Strategic report:

Our business segments

Dialight's business is split into three separate reportable business segments. The segments are:

Lighting

Includes solid state lighting products for hazardous and non-hazardous industrial application. We address the increasing demands for energy efficient lighting solutions through the use of high-brightness LEDs and utilisation of a number of associated technologies.

Read about our performance in this segment **page 19**

Signals

Includes Traffic Signals, Transportation and Obstruction Signals. Our products address the increasing demands for energy efficient signalling solutions through the use of high-brightness LEDs and utilisation of a number of associated technologies.

Read about our performance in this segment **page 20**

Components

Includes sales primarily to electronics OEMs for status indication and residual disconnect components for automotive and niche industrial application.

Read about our performance in this segment **page 21**

Strategic report:

Our business model

Dialight manufactures and sells state-of-the-art LED lighting technology. Our lighting fixtures are specifically designed for industrial, commercial, hazardous location and transportation applications. We have manufacturing facilities worldwide and sell to end customers internationally, either direct through our sales office and/or authorised sales representatives, or indirectly via distributors.

The Group is headquartered in the UK. There are manufacturing facilities in Brazil, Denmark, Malaysia, Mexico, the UK and the US. Further offices can be found in Australia, Germany, Japan, Singapore and the United Arab Emirates.

For details of the markets in which we operate, please refer to Our strategy and objectives on pages 10 to 11.

“We create long-term value for our customers.”

The following four elements demonstrate how we do business and generate value for our stakeholders:

1 Focusing on large niche markets

each with significant barriers to entry. We offer compelling operational, environmental and cost-efficiency benefits to customers worldwide using advances enabled by LED technology, thereby expanding our presence and breaking into new markets. Many of our competitors operate in a very wide range of markets – our targeted approach means we differ from the crowd and are able to better focus our efforts.

2 Continually developing our existing products

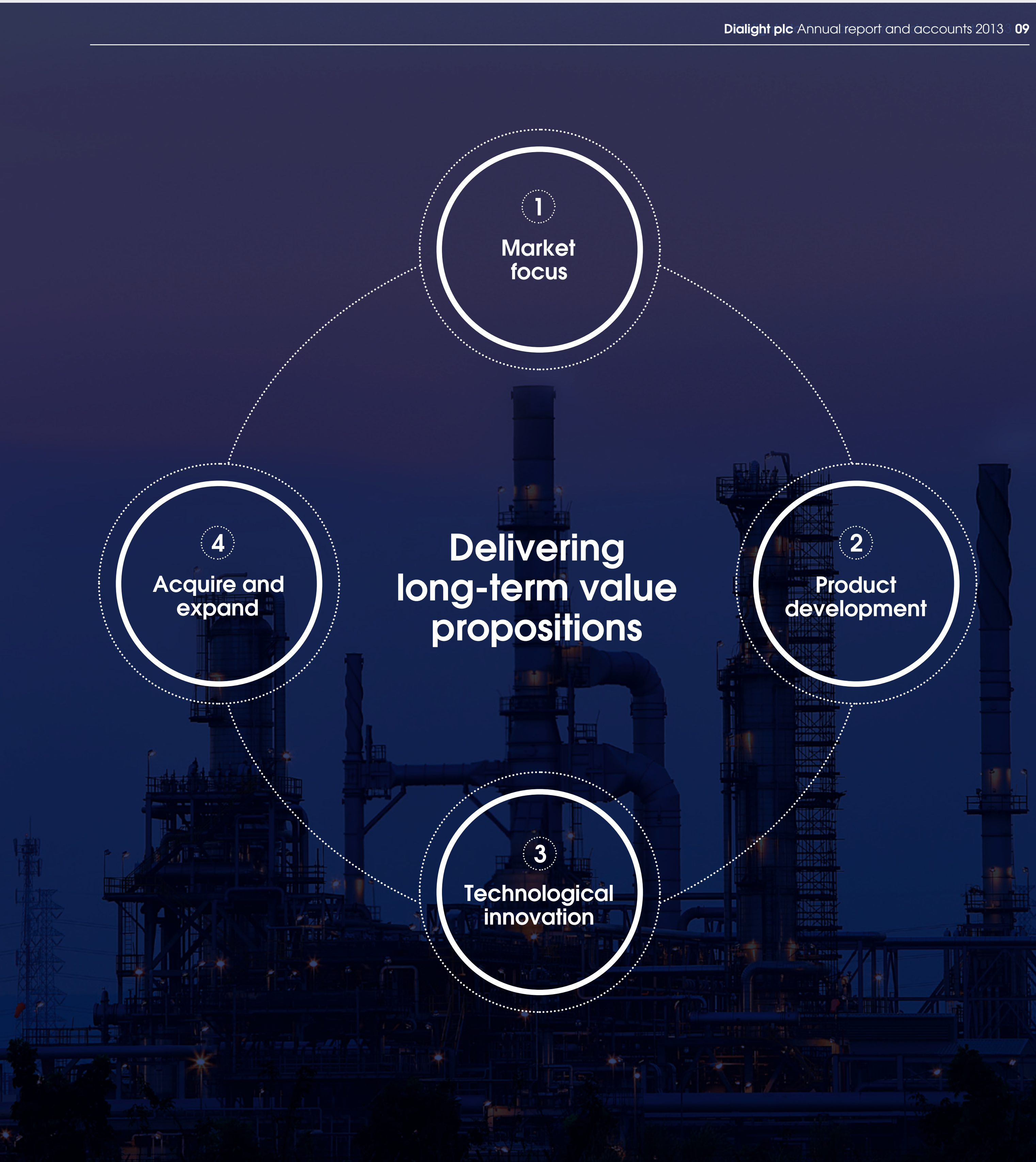
to vastly reduce maintenance, improve safety, ease disposal and be even more environmentally friendly. We use our technological expertise in thermal management, optics and electronic circuitry, lenses and leading-edge LEDs to improve our existing products, bringing further efficiencies through cost improvements and product design.

3 Driving technological innovation

to ensure we maintain our leading role. We also apply for intellectual property protection for all newly developed products and designs whenever possible. Our continued innovation ensures that we stay ahead of the competition. We do not simply rely on our existing range of products, we continue to strive for better.

4 Acquiring and expanding

our global reach by monitoring markets and our existing marketplaces and, where appropriate, either establish a new presence or enter into business with targeted partners.



The cornerstones 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.

Strategic report:

Our strategy and objectives

Our objectives are simple. We aim to:

- be the number one Industrial LED Lighting supplier worldwide;
- develop world-class new technology in the field of power supplies, controls and monitoring systems; and
- maintain our competitive advantage leading the field in terms of product efficacy, reliability and return on investment for our customers.

The key features of our products meet the strict and highly regulated requirements of many customers whose businesses operate within the markets opposite. Identifying these markets and understanding their requirements means we are able to develop better solutions and deliver key products to our customers.

Some of our competitors are already well established in these markets. We remain competitive by building long-lasting relationships and staying at the forefront of technological advances.

1

Identify and target key markets

We have identified the following markets where we believe our products are best placed to succeed:

Oil, gas & petrochemical

Safety is a number one priority for both upstream and downstream operators. Our products meet the market's heavily regulated requirements and specifications. Customers benefit from improved safety, quality of light and reliability.

Mining

Our products are built to withstand extensive shock and vibration and their reliability is of paramount importance to customers in this market.

Chemical & pharmaceutical

Process heavy chemical and pharmaceutical applications take advantage of our maintenance-free fixtures eliminating the need to change bulbs in dangerous environments.

Heavy industrial

Steel foundries, pulp and paper mills, automotive manufacturers and other heavy industrial producers often operate around the clock. Our energy and maintenance savings quickly pay dividends for our customers.

Power generation

The heavily regulated nuclear, fossil and renewables power industry requires rugged products with demanding certifications. Our products' reliability eliminates constant maintenance burdens while drastically reducing energy consumption.

Food & beverage

Food processing, agricultural, cold storage and food grain industry operators all profit from our consistent, high performance products which can be illuminated 24 hours a day.

2

Targeted expansion

We carefully consider the need to be present in those regions occupied by our target markets.

Focused, targeted expansion of the appropriate channels to market will support Dialight's growth through 2014.

Dialight currently operates in The Americas, Asia/Australia and Europe/Middle East. We are always investigating potential opportunities that will provide better access to key customers. We consider many options including the engagement of direct and indirect sales representatives and distributors as well as the establishment of branches or representative offices. We also consider acquisitions with strong geographical coverage and proven technology which we believe will benefit our business.

> "Focused, targeted expansion of the appropriate channels to market will support Dialight's growth through 2014."

Read more in the Regional review
pages 24 to 29

3

Focus, develop and protect products

Our focus on key products allows us to remain at the forefront of technological developments and break down barriers to penetrate regulated markets.

Our products are known for meeting our customers' strict requirements regulated by their operating market.

We continually strive to improve our existing products and innovate new products which we protect by registering intellectual property rights where possible and vigorously defend any infringements. We invest in highly educated and skilled engineering teams and reinvest our profit into research and development, thereby investing in the future of the Company. We also use our low-cost manufacturing base and continually review and monitor cost-saving opportunities to reduce material cost without compromising quality of our products.

Ongoing development, re-design and re-engineering of our products reduces costs and improves performance. These savings are all passed onto our customers.

Further detail on the number of patents we registered in 2013 can be found on page 12.

Read more on Our key and new products
pages 22 to 23

Strategic report:

Key performance indicators

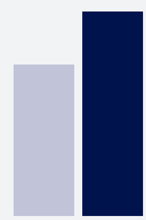
How we measure our success

The following key performance indicators measure how successfully we are achieving our objectives. These have been chosen as they best provide the metrics by which we can measure our progress in the delivery of our strategy. The Sustainability report on pages 30 to 33 provides information regarding our greenhouse gas emissions.

Lighting segment profits

+33.7%

2013	**£11.5m**
2012	**£8.6m**



Lighting segment contribution

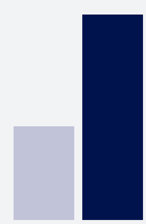
+55.0%

2013	**£31.3m**
2012	**£20.2m**

Lighting units sold

+54%

2013	**205,000**
2012	**133,000**



Sales heads lighting

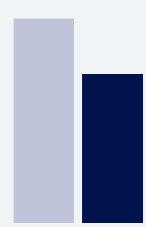
+76.4%

2013	**97**
2012	**55**

Group underlying EPS (p/share)

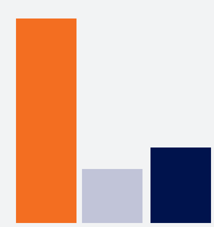
-26.1%

2013	**30.8p**
2012	**41.7p**



Patents pending, granted and filed

Pending	**87**
Granted	**23**
Filed	**32**



Read more in the Financial review
page 14

Strategic report:

2013 review

The year has been impacted by the transition of the obstruction business (to a systems business offering monitoring and control to the major tower operators), and the continued delay in the award of large contracts by cell phone tower operators in the US. The performance of the traffic business in the US and in Europe was also impacted with revenues being down £3 million on 2012.

We suffered from the late receipt of orders in the Lighting segment as well as investment decisions by certain end customers, primarily in the US, being deferred until 2014. When all this is taken together the Group managed to achieve underlying profit for the full year of £14.5 million (2012: £19.6 million). This reflects, in part, the full impact of the Group's increased sales costs without the benefits of increased sales.

“Continued growth in Lighting.”

Strategic report:
2013 review:

Financial review

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 sufficient 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 (excluding discontinued operations) grew by 14.0% to £131.2 million compared with £115.1 million in 2012. The overall growth of £16.1 million was due to significant growth in Lighting revenue of £23 million (50.5%) offset by reductions in revenue of £6.3 million in Signals and £0.6 million in Components. A combination of higher sales volume and improved margin on Lighting resulted in an increased contribution of £11.1 million. The positive impact of this was offset by lower contribution from Signals and increased operating costs.

The proportional geographical split of revenue is as follows:

	2013 % of total	2012 % of total
North America	**63.0%**	69.5%
UK	**9.2%**	9.0%
Rest of Europe	**13.0%**	9.9%
Rest of World	**14.8%**	11.6%

This demonstrates the Group's sensitivity to its North American business and the potential impact of changes in 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 balance sheet of the Group and Company:

	2013 Average rate	**2013 At reporting date**	2012 Average rate	2012 At reporting date
US Dollar	**1.57**	**1.66**	1.58	1.63
Euro	**1.18**	**1.20**	1.23	1.23

The overall impact of the currency movements has been to increase turnover by £0.8 million and operating profit by £0.2 million.

The predominant and fastest growing business segment is Lighting and the Group's long-term growth is dependent on continued high growth in Lighting. The table below demonstrates the relative revenue performance from the three segments:

	Percentage of Group revenue	2013 £'m	2012 £'m	Movement £'m
Lighting	52.2%	**68.5**	45.5	23.0
Signals	31.9%	**41.8**	48.1	(6.3)
Components	15.9%	**20.9**	21.5	(0.6)
Group revenue		**131.2**	115.1	16.1

The performance of each business segment is set out in the Performance review on pages 19 to 21. Key financial elements of the performance have been highlighted below.

Lighting	2013 £'m	2012 £'m	Movement £'m
Revenue	**68.5**	45.5	23.0
Contribution	**31.3**	20.2	11.1
Segment result	**11.5**	8.6	2.9
Return on revenue	**16.8%**	18.9%	(2.1%)

The Lighting business revenue for the year of £68.5 million now represents 52.2% of Group revenues. The investment in additional sales resources in the year contributed to the revenue growth. The performance of Lighting was further enhanced with the contribution margin increasing from 44.3% in 2012 to 45.5% in 2013.

Recruitment of additional sales staff is the key constraint to our future Lighting revenue growth. During 2013 the salesforce grew by 76% to 97 people (2012: 55) based in almost 30 countries.

Signals	2013 £'m	2012 £'m	Movement £'m
Revenue	**41.8**	48.1	(6.3)
Contribution	**17.5**	22.6	(5.1)
Segment result	**5.2**	11.3	(6.1)
Return on revenue	**12.4%**	23.5%	(11.1%)

Strategic report: 2013 review:

Financial review continued

Income statement continued

Signals revenue fell by 13.1% to £41.8 million. Contribution margin was lower by 5.1% and operating costs were up by £1.0 million resulting in the overall reduction in the segmental result. Sales were poor in the first half of the year but recovered in the second half to be 10% ahead of prior year.

Components	**2013 £'m**	2012 £'m	Movement £'m
Revenue	**20.9**	21.5	(0.6)
Contribution	**9.9**	10.3	(0.4)
Segment result	**1.3**	3.1	(1.8)
Return on revenue	**6.2%**	14.4%	(8.2%)

The Components business had marginally (£0.6 million) lower sales in 2013. Contribution margin was broadly similar to last year with an increase in overheads of £1.4 million resulting in a reduction in the segment result to £1.8 million. The profitability is adversely impacted by the fixed overhead cost previously borne by the Component product line which was divested in 2012.

The combination of the above three segments resulted in operating profit before central costs as follows:

	Percentage of Group operating profit	**2013 £'m**	2012 £'m	Movement £'m
Lighting	63.9%	**11.5**	8.6	2.9
Signals	28.9%	**5.2**	11.3	(6.1)
Components	7.2%	**1.3**	3.1	(1.8)
Operating profit before unallocated expenses		**18.0**	23.0	(5.0)

Central overhead costs which are not allocated to the three business segments remained fairly static with an increase of only £0.1 million to £3.5 million in 2013. This resulted in a profit from operating activities (underlying) of £14.5 million (2012: £19.6 million).

In 2013 there were non-underlying costs of £2.9 million (2012: £nil) which comprised three major elements. First there was a charge of £1.4 million for the historic use of third party intellectual property rights over the past five years. Second, as part of the impairment and goodwill review, it was decided that the carrying value of the goodwill, intangibles and certain other assets should be written off in relation to the Group's Japanese business, resulting in a charge of £0.8 million. Third there were severance, restructuring and other costs of £0.7 million mainly related to the closure of the Group's UK research and development site.

The profit from operating activities was £11.6 million (2012: £19.6 million) after taking account of the non-underlying costs.

"

Cash generated was further enhanced by £1.3 million from disposals."

Underlying net finance expense was £0.1 million (2012: £0.1 million income) and there was a non-underlying finance expense of £0.3 million (2012: £0.1 million income) for changes in the fair value of contingent consideration.

The underlying tax charge for 2013 is £4.5 million (2012: £6.5 million) which represents an underlying tax rate of 31.3% (2012 33.0%). This is a reduction from the effective rate in 2012 as the mix of profit generated in the UK has increased together with the lower effective rates in the UK. The impact of lower future rates of UK corporation tax and the UK tax advantage for companies with UK patents on the products it sells should enable the Group to continue to marginally lower the effective rate going forward. The non-underlying expenses of £2.9 million gave rise to a reduction in the tax charge of £1.0 million (2012: £nil), resulting in a total tax charge of £3.5 million (2012: £6.5 million).

The Electromagnetic Components business which was mostly disbanded in 2012 was classified as a discontinued operation. The residual trading results related to this business are presented as a gain from discontinued operations of £0.7 million (2012: 0.1 million). For more detail of the gain and the tax impact please refer to note 5 of the financial statements on pages 82 and 83.

Underlying profit for the year was £9.9 million (2012: £13.2 million) and there was a net loss from non-underlying trading of £1.5 million (2012: £0.2m profit) resulting in a profit for the year of £8.4 million (2012: £13.4 million). The profit attributable to equity holders of the Company was £8.5 million (2012: £13.5 million) with £0.1 million due to non-controlling interests in both years.

The basic EPS from the underlying business were 30.8 pence (2012: 41.7 pence) and the total EPS were 26.2 pence (2012: 42.0 pence).

Balance sheet

Group net assets have increased by £3.7 million to £66.7 million (2012: £63.0 million). The main reason for this increase has been the increase in property, plant and equipment plus intangible assets of £5.4 million. The increase in working capital of £6.9 million has been largely offset by a corresponding reduction in cash of £7.9 million (net of the bank overdraft of £1.7 million shown in other payables). The working capital to sales percentage has increased from 21% in 2012 to 23.6% in 2013.

The split and movement in working capital is outlined below:

	2013 £'m	2012 £'m
Inventories	**24.2**	19.6
Trade and other receivables	**27.9**	27.0
Trade and other payables (excluding bank overdraft of £1.6 million)	**(21.1)**	(22.4)
	31.0	24.2

The Group has no long-term debt other than to its UK pension schemes which currently have a small deficit of £0.4 million (2012: £1.2 million). The deficit reduced mainly due to improved performance of the plan assets (£0.9 million).

Strategic report:
2013 review:

Financial review continued

Cash flow

There was an overall reduction in the Group's net cash position of £7.9 million in the year.

Cash generated from operations was £6.9 million (2012: £13.8 million). The reduction of £6.9 million was due mainly to two factors: underlying operating profit reduced by £5.0 million and working capital movements.

Cash generated was further enhanced by £1.3 million from disposals (2012: £4.3 million). This was then utilised to fund capital expenditure of £9.3 million (2012: £7.0 million); of this, £4.4 million (2012: £2.8 million) was spent on new product development. In addition there were tax payments of £2.2 million (2012: £4.3 million) and dividend payments of £4.6 million (2012: £3.4 million).

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 2013 this totalled £66.7 million (2012: £63.0 million).

The Board's target is to generate a return on capital in excess of 25% excluding cash holdings. In 2013 the return was 20.0% compared to 40.8% in 2012.

In respect of dividend, the Board has a dividend policy and aims for three times cover. The result for 2013 was 1.7 times (2012: 3.2 times).

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

Banking

The Company has banking relationships with Barclays Bank PLC and its US subsidiary has a banking relationship with Wells Fargo. The Group has a £3.0 million overdraft facility as well as a revolving secured credit facility of $10.0 million. The Group had utilised £1.7 million of the £3.0 million overdraft facility at 31 December 2013. The remaining facilities were unutilised.

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.

Strategic report:
2013 review:

Performance review

Lighting

Industrial Lighting continued to grow with revenues of £68.5 million, £23.0 million ahead of 2012 and with strong contributions from all geographies.

Revenue
£68.5m 2012: £45.5m

Segment profit
£11.5m 2012: £8.6m

Contribution margin
45.5% 2012: 44.4%

Since our entry into the lighting market, our strategy has been to address sizeable niche markets with defensible barriers to entry and where reliable, efficient LED based lighting can produce a strong return on investment. This is important as we are constantly in the process of persuading customers of the benefit in the replacement of their existing conventional lighting fixtures with Dialight lights. These customers are concentrated in the industrial market, particularly those industries involving hazardous environments alongside heavy manufacturing, food and beverage processing, and peripherally, warehousing and cold storage. We support users in the oil and gas market, power generation, waste water treatment and many other segments where operations run around the clock and where shutdowns are both difficult and expensive. These markets have an existing installed base of conventional lighting valued at the tens of billions of pounds globally. Our sales of £68.5 million demonstrate not only the minimal penetration of LED lighting to date, but most importantly the long-term growth prospects for companies like Dialight who are able to offer a compelling proposition to customers in these markets and to offer savings lasting well in excess of ten years.

It is in these applications that Dialight's ability to save more than 50% of the energy bill and guarantee uninterrupted lighting for up to ten years drives rapid paybacks and significant returns on investment.

Dialight serves its chosen markets on a global basis and has manufacturing operations in Brazil, Denmark, Malaysia, Mexico, the UK and the US to support our sales offices throughout the world. During 2013 our salesforce has increased to over 100 people (2012: 55) in almost 30 countries and we expect it will continue to grow in 2014.

This year has seen rapid progress in new product development. We entered the year with products that had just achieved an output efficiency of 100 lumens per watt and start 2014 with an industry-leading 25% improvement on that, allied with a ten-year full performance warranty, again a first in the industry. These improvements come in the main from Dialight's own technology and the comprehensive vertical integration of both design and manufacturing of the end product. In addition to superior performance and lifetime, Dialight has delivered its first products equipped with integral controls and monitoring, allowing our users to apply control to fine tune the savings they can obtain from their lighting. The introduction of these new and superior products has enabled Dialight to secure some significant customer wins. After extensive trials and validation, Ford Motor Company has chosen Dialight's new Vigilant range of high performance lights to be its preferred light for factory installation. First shipments have commenced and, while no quantities are guaranteed, we believe there is scope for significant future sales.

Read more on Our key and new products **pages 22 to 23**

Strategic report: 2013 review:

Performance review continued

Signals

Although down overall, Obstruction posted higher revenues in the second half of 2013 than in the previous two halves and received significant customer qualifications which positions products well for any major contracts that may be awarded in 2014.

Revenue

£41.8m 2012: £48.1m

Segment profit

£5.2m 2012: £11.3m

Contribution margin

41.8% 2012: 47.0%

The balance of the Signals segment was down due to softness in the US traffic signals market. Neither Traffic nor Transportation sales are expected to show growth in the coming years.

Dialight has been the pioneer of LED technology for use in Obstruction for a number of years. This market did not really take off until 2010 with the advent of an LED based white strobe light which addressed a market to place lighting on top of thousands of cellphone towers around the US. The potential market is around 80,000 towers and sales grew to almost £18 million in 2011 with prospects of continued growth.

Up until the second half of 2012 Dialight's channel to market had been primarily through a value added reseller. At this time this reseller became a competitor, the result of this was to stall the market at the time when a major tower operator was about to place contracts for a retrofit project of up to 7,000 towers.

In the ensuing months, our Obstruction business saw a significant downturn in revenues affecting both the second half of 2012 and the first half of 2013. It was only in the second half of 2013 that we saw any sort of recovery which resulted in revenues in the second half of 2013 being 10% ahead of the same period in the prior year but down 20% on the full year of 2013.

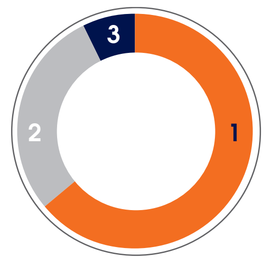
Much progress has been made since the separation from our former reseller and the business is no longer merely a light fixture business but one supplying sophisticated monitoring and control for Obstruction. Dialight is now approved as a supplier to a number of the major tower operators in the US and we believe there is significant potential in the Latin American market for these new products.

Within Obstruction there is a European business which addresses the market place for lights for wind turbines. This business showed good progress in 2013.

> "Dialight is now approved as a supplier to a number of the major tower operations in the US."

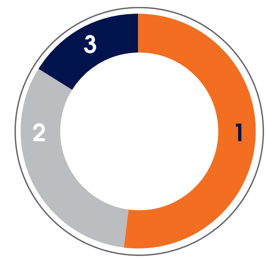
Segmental analysis

Profit breakdown



1 Lighting	**£11.5m**
2 Signals	**£5.2m**
3 Components	**£1.3m**

Revenue breakdown



1 Lighting	**£68.5m**
2 Signals	**£41.8m**
3 Components	**£20.9m**

Components

This segment of our business is the supply of small LED indicators into the professional electronics market.

Revenue

£20.9m 2012: £21.5m

Segment profit

£1.3m 2012: £3.1m

Contribution margin

47.5% 2012: 47.9%

As expected, this business is flat and while over time it may suffer the market fluctuations associated with the electronics Original Equipment Manufacturers ("OEM") market, it is not expected to suffer the same degree of revenue fluctuation or price pressure as other components. Product contribution margins have been stable over a number of years and there are no significant customer concentration issues. Much of the business is transacted through distributors with over 15,000 end customers.

Operations and Engineering

Once again our Engineering and Operations teams had a busy year, from the introduction of groundbreaking new products to establishing manufacturing presence in a new region, South America, where we are setting up an assembly plant in São Paulo for Industrial Lighting products in the Brazilian market.

Our latest product offering is the new 125 lumens per watt Vigilant series using our latest Resonant Power Supply technology with a ten-year full performance warranty. This new power supply is the key to both the improved efficiency and the longer life of our light fixture. Developed in our own laboratories, this technology is the beginning of further significant developments in the ways that we improve the value of our products to our customer base. We expect to see further improvements and new features throughout the coming months.

Not only have our Industrial Lighting products seen the benefit of skills of our engineering and scientific teams, but Obstruction has been completely reinvented and now offers the most comprehensive monitoring and control systems on the market, offering tower operators significant benefits in communications and diagnostics with the ability to upgrade the system remotely.

During the year we have almost doubled our manufacturing space in Mexico and made major investments in equipment for both power supply and completed light fixture manufacturing.

Intellectual property is important to us and in the year we had 23 new patents granted. We filed 32 new applications and we had 87 patent applications pending at the year end.

At the end of 2013, Dialight joined the Philips Luminaire Licensing Programme, which gives access to a broad range of Philips' intellectual property relating to luminaries.

Strategic report:
2013 review:

Our key and new **products**

Constant development

We are constantly developing new products for markets and applications that were unable to benefit from LED technology until now. Our products are also evolving with the integration of lighting controls and advanced power supplies.

Read more on **page 24**

Vigilant LED High Bay 125 lumens/watt

In January 2014 we introduced a 125+ lumens per watt fixture – our most economical High Bay yet. The 26,000+ lumen fixture can be used in very high ceiling applications, and can often eliminate the number of light fixtures required to illuminate an area. The product is backed by our industry-leading ten-year full performance warranty.

Advanced integrated controls

Our system allows our customers to control on and off and dimming levels of individual and group LED light fixtures. The system can also be used in conjunction with daylight sensing or motion detection technologies and can also be scheduled to operate for various times of the day or week. The system provides our customers greater control, together with further efficiency, reliability and longevity.

SafeSite LED Flood Light

In September 2013 we once again expanded our product portfolio with the addition of a new flood light for hazardous and industrial applications. Its superior efficacy combined with its 100,000+ hour life drastically reduce our customers' total cost of ownership, even in the most demanding environments.

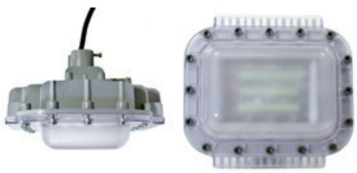
Next generation SafeSite LED Linear

Our commitment to being at the cutting edge of technology is evident with the release of our next generation SafeSite LED Linear. In 2013 we improved fixture efficacy to 106 lumens per watt and reduced its weight by over 35%. By reducing overall fixture weight our customers save both time and money on installation.

SafeSite Stainless SteelLED Linear

Released in March 2013, the Stainless Steel Linear was designed to excel in hazardous areas and particularly offshore drilling operations. Both the two and four foot versions replicate traditional fluorescent light distributions and its reduced glare lens eliminates health and safety concerns. Now with Brazil's INMETRO certification and emergency battery backup versions available, it is well positioned to capitalise on Brazil's quickly growing oil and gas market.

SafeSite LED Area Light



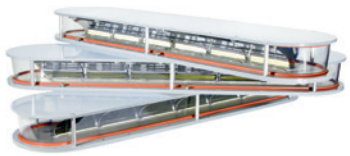
Providing efficiencies of up to 108 lumens per watt, the SafeSite LED Area Light is a powerful and effective lighting solution for any industrial and hazardous applications.

Available with a simple retrofit kit, the LED Area Light offers ease of installation in a compact form and can replace up to 250w traditional fixtures while consuming no more than 70w.

SafeSite LED High Bay

With the integration of our new solid state power supply – the latest innovation in our rapid technology development programme – we became the first to unveil both Class I, Div 2 and ATEX/IECEx Zone 1 hazardous location certified high output LED fixtures available with a ten-year full performance warranty. In 2013 we also continued to expand our SafeSite High Bay's global reach with the receipt of Japan's TIIS certification and Brazil's INMETRO certification.

Vigilant LED High Intensity Strobe



The world's first and only available LED High Intensity Strobe is used in obstruction lighting applications above 500 feet, eliminating costly tower climbs to replace light bulbs. During 2013 the strobe was further developed and as a result the product is smaller, lighter and more efficient.

Vigilant LED Medium Intensity Strobe and Beacon

The next generation of L-864/L-865 medium intensity red/white strobe and L-864 medium intensity red beacon was released in September 2013 and featured numerous improvements in weight, size and efficiency. Impressively, the use of diamond-cut tooling and patented reflector-based optics enables us to surpass FAA light cutoff requirements by about six times and nearly eliminate light pollution.

Control and Monitoring System
for SafeSite LED Based Obstruction System

The SafeSite LED based obstruction lighting system for towers takes our LED L-864/L-865 and RTO L-810 side markers and adds a sophisticated controller capable of remote monitoring in order to offer a complete solution. Now site managers and technicians are able to perform detailed diagnostics and health checks from the ground.

Strategic report:
2013 review:

Regional review: The Americas

Dialight's products are well known in the market. Moving into 2014 we will drive forward sales to new and existing customers and release market-leading innovative products.

Rizwan Ahmad
Vice President, Lighting Power and Control Systems

"The next generation of lights will provide customers with even more reliability, longevity, flexibility, control and increased energy savings."

Our key and new products **pages 22 and 23**

2013 summary:

» Establishment of Dialight Brasil
» Development of complete range of control systems
» Expansion of manufacturing facilities in Mexico

The region includes manufacturing facilities in São Paulo (Brazil), Roxboro (US) and Ensenada (Mexico), a research and development office in Colorado Springs (US), sales offices in São Paulo (Brazil), and in Houston, Texas (US) and regional headquarters in Farmingdale, New Jersey (US).

2013 saw Dialight push the boundaries of lighting technology with the development and release of brighter and more efficient lights, but more importantly with the introduction of more durable power supplies and the integration of controls and networking capabilities.

Power supplies can often be the cause of failure for lighting systems. We have significantly invested in research and development so we can offer our customers ultra-efficient, reliable and longer lasting power supplies. As a result we have developed and launched a new power supply, which makes our products up to 94% more efficient, even more reliable when used in extreme hazardous and industrial conditions, and able to last up to 200% longer than before.

LED technology is known for its energy saving qualities over traditional lighting and Dialight has been working hard to provide customers with more control over their lights and additional savings where possible. In April 2013 we launched our lighting controls system which gives customers the ability to control their lighting through various access points, including wall mountable manual controllers, wi-fi enabled devices (such as smartphones, tablets, laptops and computers), cloud-based controls, and integrated into an existing building management system. Areas of lights can also be connected as separate networks and can be independently controlled.

The controls and networking capabilities are smart grid ready and offer other features including, but not limited to, dimming/trimming, flexible scheduling, daylight harvesting, and fault management and diagnostics. These capabilities can also be used in conjunction with occupancy and daylight sensors to further reduce usage and energy costs, and have been applied to both our Lighting and Signals products.

We have also pushed forward with the certification of our products. Without the required certifications Dialight would be unable to sell into certain markets. We are continually looking at global certifications and have developed a system to gain accreditation quickly and efficiently. In 2013 alone we gained nine certifications for the hazardous markets in Brazil, Canada, China, Russia and Kazakhstan and are looking to obtain at least the same number in the coming year.

The Americas generates the highest proportion of revenue in the Group. The brand and products are longer established in the region. As highlighted in the Performance review, the Signals segment was down due to delays in contract awards and our repositioning of the Obstruction business. However, this should not take away from the continual growth in Lighting, the profit made in Signals and the next generation technological developments made during the year.

Case study: Horizontal Well Drillers, USA

Cutting edge lighting for state-of-the-art horizontal well drill

Market:

Oil, gas and petrochemical

Product:

» SafeSite® Series LED Lighting

Highlights:

» Zero maintenance
» Zero interruption to operations
» 60% energy savings
» Reduced health and safety risk

Horizontal Well Drillers' (HWD) flagship HWD1000 rig is a 92 foot, 250 ton top drive state-of-the-art technology capable of 17,000 foot drilling depth in a fully automated round-the-clock operation system. The drill delivers 26,000lbs of torque powered by a pair of 14 litre engines delivering 1,300hp. When operating the drill creates a high-vibration environment as it bores through layers of old compressed rock and is frequently transported from site to site.

HWD were using T8 fluorescent lighting on its sites which were not optimal as the lights would prematurely fail due to the unavoidable conditions and environment the rigs operate in. Aside from the initial expense of replacing the lighting fixtures, the procedure to replace failing lights was less than ideal from a safety perspective, requiring a rig hand to climb the erected structure, power to be cut temporarily, and production to be interrupted. As a result the process was always performed under strict time constraints, in order to restore normal operating conditions as quickly as possible.

When looking to replace its lighting system HWD found their requirements for safety, reliability and longevity specific to their market could be satisfied by Dialight's SafeSite High Bay and Linear products which are Class I Div 1 and Class I Div 2 certified. Dialight lights were initially installed at one site where HWD quickly enjoyed the benefits of substantial energy and maintenance savings. As a result HWD has now replaced the entire lighting system on four of its rigs with Dialight LED hazardous location rated fixtures and is looking to replace its lighting system for its whole fleet, both existing and new build.

For more information about Dialight's SafeSite hazardous location classified lighting solutions for drilling, refinery and other hydrocarbon and petrochemical applications, visit **www.dialight.com.**

Strategic report:
2013 review:

Regional review continued:

Asia/Australia

Since our expansion into Asia in the latter half of 2012, we have seen significant sales growth with many further business opportunities to come. We continue to focus and invest further in this region to build for a strong and beneficial future.

2013 summary:

» Sales increased by 100% in Australia since 2012
» Significantly increased manufacturing capabilities in Malaysia
» Expansion of sales channel into India, Indonesia and Thailand

Yong Lim
Finance Director
Asia/Australia

“We are laying concrete foundations to ensure our future growth in the area.”

The region includes manufacturing facilities in Malaysia and sales offices in Australia and Singapore.

Our Asian operations are relatively new to Dialight. 2013 saw time and effort spent further building our brand and laying essential foundations towards sustainable and continued growth. We increased knowledge and understanding of our products by delivering training to both our trading partners and end-users. We also worked to acquire regional certifications, which we believe will open doors to markets.

We increased our direct sales force to drive forward the business. Asia is an extensive geographical area and we continually monitor our business opportunities in the area. With expansion come challenges and our teams have been working hard to overcome difficulties associated with non-English speaking areas.

During the year we also worked with key mining companies to obtain preferred supplier status, thereby allowing us to develop our supply to this industry in the area with more ease in the future. We also continued to build our relationships with key operators in the oil and gas markets which has resulted in a combined 100% sales increase in Australia since 2012.

We continue to engage with stockists and have tripled our outlets in Australia in 2013 alone, thereby expanding our reach.

Our manufacturing facility in Penang, Malaysia, was established in July 2012 and production began shortly thereafter. In 2013 we increased our manufacturing capabilities with the addition of a further seven production lines and six moulding machines. As a result we have dramatically increased our production efficiency and capabilities. The facility has to date been manufacturing products for the Components segment of our business, but from early 2014 it is anticipated that the facility will be manufacturing Lighting products, including High Bays and Bulk Heads for delivery in this region. This development will allow Dialight to take advantage of free trade agreements in place between countries and allowing us to better support the area's increasing sales.

Strategic report

Case study: Mining operator, Northern Australia

Well-illuminated and safe environments for workers

Market:
Mining

Products:
» 17,000 lumen and 25,000 LED High Bays
» SafeSite and DuroSite bulkheads
» DuroSite LED Emergency Shower Safe Luminaires
» LED StreetSense street lights

Highlights:
» 61% energy savings
» One-for-one replacement
» 24 hrs a day, seven days a week operations in 20–34°C temperatures
» Ten-year full performance warranty for high bays
» Minimal maintenance

A remote island coastal location means exposure to high temperatures, humidity and rainfall which, combined with the tough 24-hour mining process, requires specialist lighting that can withstand such an environment. The natural resource mining company quickly understood the features and benefits attached to Dialight fixtures which addressed all the requirements for lighting. As a result they engaged with the extensive range of our certified and specific use fixtures to almost completely retrofit its existing facility.

Dialight's DuroSite 17,000 lumen and 25,000 lumen High Bays were installed in their large vehicle maintenance buildings. The lights were mounted at approximately 18 metres and are run 24 hours a day, seven days a week. The inspection pit within the building is classified as a hazardous area. Dialight was able to satisfy this requirement with the installation of its SafeSite 24w bulkhead fixtures. The hazardous location rated fixtures were installed in the entire length of the pit to provide under carriage lighting for the maintenance of heavy vehicles.

Having experienced the benefits of Dialight's fixtures and their ease of installation, they are now swapping out their existing lighting one-for-one with DuroSite 17,000 lumen High Bays as and when their existing lamps fail in its expansive workshops. They have also replaced all emergency eyewash stations lighting in their workshops with DuroSite LED Emergency Shower Safe Luminaires as these luminaires are designed to better deal with voltage spikes and are virtually maintenance free. In its warehouse, domed 17,000 lumen High Bays were installed to reduce glare for forklift drivers. A combination of DuroSite bulkheads and 17,000 lumen High Bays have also been used to illuminate walkways and platforms on the site.

LED StreetSense street lights were installed to illuminate parking areas and surrounding workshops and pathways as well as roadways leading to the processing plant. Finally, they used a combination of DuroSite and certified SafeSite products to illuminate regulated fuelling areas in the ship-loading areas of the site.

For more information about Dialight's LED lighting solutions for industrial and hazardous area applications, visit **www.dialight.com.**

Strategic report:
2013 review:

Regional review continued:

Europe/ Middle East

Europe has great potential for growth. With increased sales resource we are on track to deliver in 2014.

Jesper Engesgaard
Vice President, Obstruction

"2013 has seen real growth in the European Obstruction business. Our new generation of products means that we are very excited about the coming year."

2013 summary:

- 60% plus growth year-on-year in Lighting revenue
- 45% growth in Denmark alone since 2012
- Ongoing recruitment of direct sales force throughout the area

The region includes manufacturing facilities in Denmark and the UK and offices in Germany and the United Arab Emirates.

In 2013 focus has been on the growth of the European Obstruction business, specifically in the wind market and the cellular, broadcast and industrial market. As a result business has grown and we have successfully delivered aviation obstruction solutions for four wind farms in Germany and are working directly with a wind turbine manufacturer to deliver on this project.

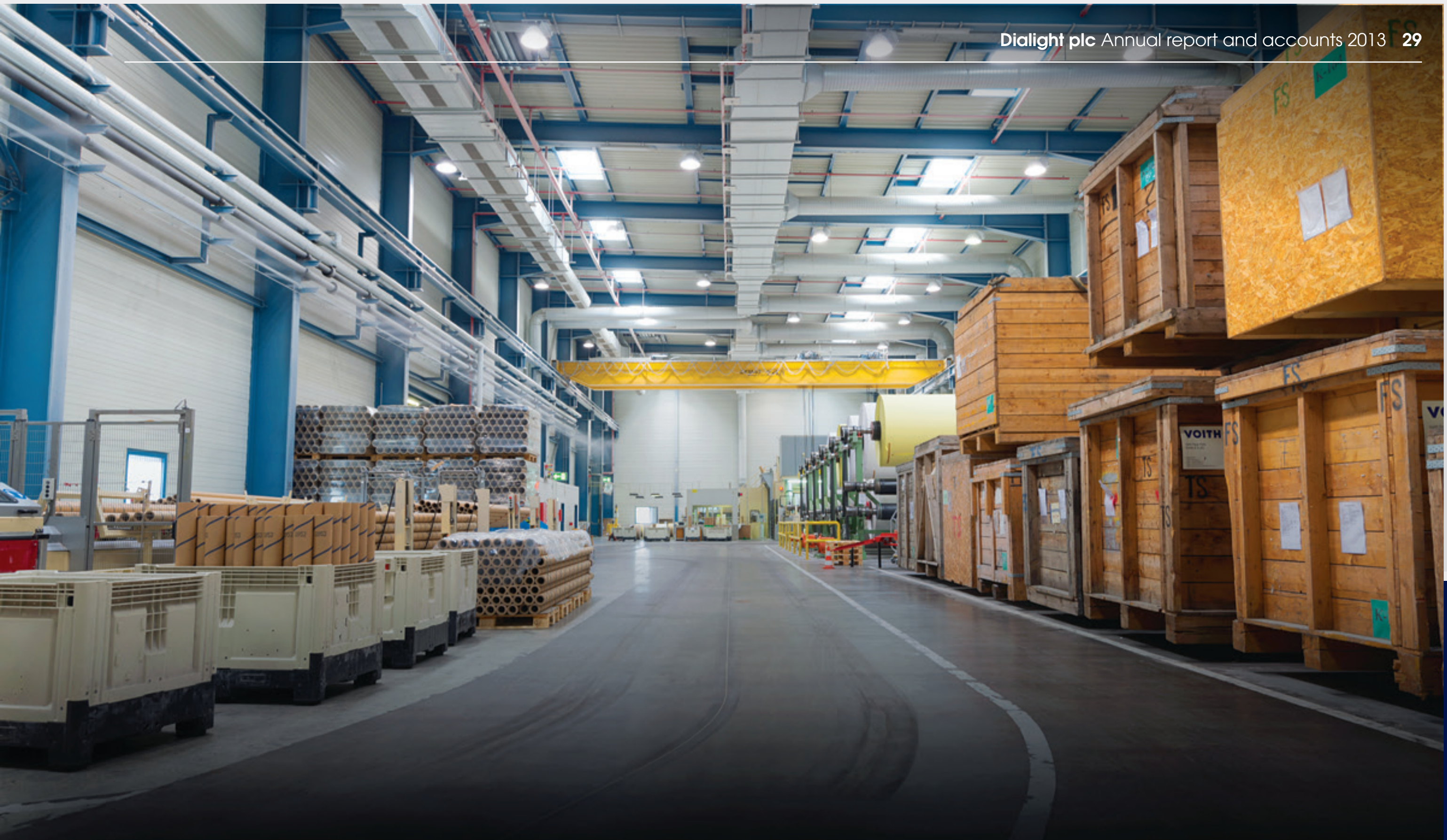
With increasing interest in wind farms in southern Africa, Dialight also worked with a local distributor to be the first supplier of Obstruction lighting solutions to this relatively new market which is experiencing rapid growth. Through agreements with a distributor we are able to meet all local requirements in project specification in this new and expanding geography.

2013 also saw some significant wins for our European Lighting business in the heavy industrial and oil and gas markets, noticeably in the United Arab Emirates. The focus on targeted key accounts resulted in some significant orders from large customers where Dialight lights were installed and continue to be installed across many sites.

We continue to drive our channel expansion strategy of delivering ever-increasing reach and competence into our target markets. We also continue to invest through ongoing expansionary recruitment of sales professionals across the whole region.

Our products have also received further acknowledgement for their performance and low energy usage. In 2013 we became a Carbon Trust accredited supplier in the UK. The Carbon Trust is an independent expert on carbon reduction and sustainability and helps organisations to reduce their carbon emissions and become more resource efficient.

We have gained and continue to apply for further certifications in the area, opening more doors in our targeted markets.



Case study:
Koehler Paper Group, Kehl, Germany

Delivering ecological and economical goals

Market:
Heavy industrial

Product:
» DuroSite® High Bay

Highlights:
» One-for-one replacement
» 64% energy savings
» CO_2 emissions reduced by 308 tonnes annually
» W/sqm down from 8.66 to 3.12

Energy savings are at the forefront of Koehler Paper Group's ("Koehler") objectives, so much so that Koehler has dedicated teams looking to continually improve their savings. In keeping with its group environmental strategy Koehler was looking to reduce its lighting energy needs as well as its maintenance costs. Its energy-hungry 440w metal halide lights were in operation 24/7 and were drawing 475w. With a lot of cellulose fibre in the atmosphere the high temperature lamps attracted dust which caused lens discolouration and impaired performance. At 17 metres mounting height it was a problem to access them for maintenance or replacement, as many were positioned over production machinery and processes were liable to be subject to disruption to allow maintenance to take place safely.

All existing 164 metal halide lamps were replaced one-for-one with Dialight's DuroSite® Series LED High Bays each drawing only 171w to deliver an immediate cut in energy use and CO_2 emissions. The benefits of the LED High Bays are evident as provided opposite. Additionally for Koehler, the LEDs' low operating temperature avoids the problem of dust accumulation on the lens and consequent variation in colour. As sealed fittings with no end-of-life failures, there is no risk that parts can fall into the production line to contaminate product or cause a fire hazard and with no UV output they will not cause discolouration of product.

Dialight LED High Bay benefits:
» L70 rated for >100,000 hours at 25°C ambient
» Five-year full performance warranty as standard
» Ten-year full performance warranty available (17,500 lumen models only)
» Up to 102 lm/W
» Instant on/off
» Maintenance free
» Mercury free
» No UV or IR
» Produces minimal heat compared to traditional fittings
» Reflector-based optics for precise light control
» Resistant to shock and vibration
» Temperature compensation technology for long life
» Copper free aluminium
» Typical payback < two years in Europe

For more information, visit **www.dialight.com.**

Strategic report:
2013 review:

Sustainability report

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. Dialight continues to adopt a more cohesive and holistic approach to its corporate responsibilities through more centralised oversight, improved data gathering, more effective communication and the introduction of initiatives and targets to stimulate activity in this area.

Environmental responsibilities

Environmental management system

Dialight's environmental management system ("EMS") continues to be certified to ISO 14001 across its European business. The EMS has been subject to two external audits by British Standards Institute ("BSI") to ensure continued compliance with the standard.

Certified sites are located in Denmark, Germany and the UK. The scope of the registration is environmental management in the design and manufacture of electrical and electronic components and sub-assemblies. The EMS includes procedures for the management of waste, trade effluent, hazardous substances, environmental processes and procedures, enforcement actions, and compliance with regulatory frameworks and legislation. An internal safety and sustainability portal has also been created to make EMS documents also readily available.

Greenhouse gas emissions

Dialight is now required to report its annual greenhouse gas emissions pursuant to the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 ("Regulations"). Dialight has responded to this new obligation by collating data throughout 2013 and will report against its emissions for the full year to 31 December 2013, in parallel with the Company's financial reporting year end.

The table below sets out Dialight's emissions for the year under review:

Type of emissions	Tonnes of CO_2
Emissions from combustion of fuel and operation of facilities emissions	652 tonnes CO_2e
Emissions from purchased electricity	5,207 tonnes CO_2e

Methodology

The data collected in 2013 has formed the information set for the base year of reporting using the financial control boundary as its reference point. In line with the requirements of the Regulations this will enable reporting on the degree of change with reference to the 2013 data. The collection of data this year will enable the business to identify trends, set appropriate key performance indicators and seek out opportunities for emission reductions in future years. Data has been collated utilising a uniform methodology to ensure accurate reporting. Data sources included utility bills and meter readings, business travel in company owned and leased vehicles, and outcomes of maintenance activities involving refrigerant gases. Calculations of emissions for the period have been based where possible against the Department for Environment, Food and Rural Affairs ("Defra") published emission factors. Where this has not been possible assumptions have been made based on available UK data to provide consistency in the reporting methodology. Similarly, where data has not been available, a standard methodology of proportionality of emissions has been utilised based on facility footprint.

We are committed to being a responsible business

Products

Our lighting products last much longer and use less energy when compared to their counterparts that utilise different technology.

Recycling

All sites operate to increase, reuse and recycle materials including packaging.

Utility usage

To comply with new mandatory greenhouse gas reporting regulations, the Company has disclosed its carbon usage for the 2013 year.

Greenhouse gas emissions continued

Intensity ratio

To enable year-on-year comparison of its greenhouse gas emissions an intensity ratio has been determined. This is based on the tonnes of greenhouse gas used during the year expressed as tonnes CO_2e per £1 million of turnover; for 2013 this has been calculated as 44.66 tonnes CO_2e emitted per £1 million, of turnover.

Assurance

Data was collected and collated in accordance with the Defra recommendations and the methodology was independently assessed by Ricardo-AEA and found to be fit for purpose.

Energy and water use

The Company is required to report on energy and water use as part of its environmental management reporting. The data for this is produced for the Group as a whole and by each location.

Operations across the Group consumed the following resources:

Resource	Total consumption	Unit	Consumption per £ turnover
Electricity	10,045,070	KWh	0.077 KWh
Gas	2,264,727	KWh	0.017 KWh
Oil	8,302	Litre	0.063 mL
Water	1,756,144,000	Litre	13.38 litres

Waste management

At the start of the year a study was undertaken to establish which waste materials were currently being recycled across the Group, and where opportunities for recycling were available but not currently being implemented. This encouraged management to make informed decisions on the most appropriate available waste stream for the range of materials being disposed of.

As a result of this activity Dialight now has three zero waste to landfill sites in Australia, Denmark and the UK. Additionally, the variety of waste recycled across the business as a whole has increased with locations being supported in identifying where additional recycling potential exists and what facilities are available to minimise waste to landfill.

Across the business as a whole 1,228 tonnes of solid waste has been recycled, this significantly reduces the overall environmental impact of Dialight's business activities as well as resulting in savings for the business.

Environmental registrations

Dialight is registered and discharges its duties in relation to packaging waste, Waste Electrical and Electronic Equipment Regulations ("WEEE") waste, batteries and trade effluent. Dialight holds the following registrations with regards to environmental management required as a result of its activities and undertakings: WEEE (Germany and the UK) Packaging Waste Obligation (Germany and the UK), Battery Recycling (Germany), Trade effluent (UK), ISO 14001 Environmental Management System (Denmark, Germany and the UK), Non-Hazardous Waste Producer (Mexico) and Hazardous Waste Producer (UK).

Environmental enforcement actions and governance

There were no environmental enforcement actions or statutory nuisance control orders issued against Dialight in 2013. Dialight works with all relevant regulatory organisations to ensure risks to the environment as a result of its undertakings are minimised, and that all legal obligations are met.

There were no environmental incidents (unintentional emissions to air, land or water) as a result of Dialight's undertakings in 2013.

Strategic report:
2013 review:

Sustainability report continued

Ethical business

The Code of Business Conduct

Dialight's Code of Business Conduct ("CBC") was introduced during 2011 and formalised 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 is committed to conducting all its business in an honest and ethical manner. We take a zero-tolerance approach to bribery and corruption and are committed to acting professionally, fairly and with integrity in all our business dealings and relationships wherever we operate, as well as implementing and enforcing effective systems to counter bribery.

The workplace

Health and safety

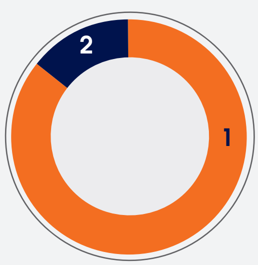
Dialight is committed to providing a safe working environment for all employees across all locations and activities, from production teams to lone working sales force team members.

The Group Chief Executive and Board acknowledge their responsibility for health and safety and continually act to identify opportunities for improvement, maintain regulatory compliance, and ensure safe environments for employees, and visitors to our buildings alike through delegated actions by senior management at each location, coordinated by the Group Health and Safety Committee.

Health and safety is a standing item on the Board meeting agenda and includes information collated from senior management reports to provide the Board with full visibility of any major safety concerns within the business.

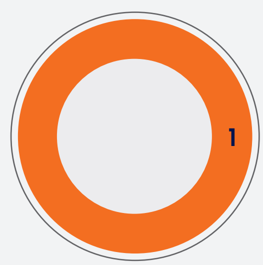
During 2013 Dialight rolled out a Group wide Safety Management System designed to give all senior managers the tools to ensure safety within their areas of control. This is freely available on the Company intranet and offers guidance on good behaviours and best practice for all activities being undertaken. Work continues to fully embed this new system into the organisation.

Board diversity



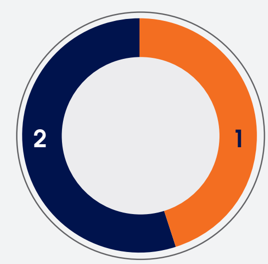
1. Male	6
2. Female	1

Senior management diversity



1. Male	13
2. Female	0

Total workforce diversity



1. Male	928
2. Female	1,125

Dialight consults with its employees on a regular basis through local Health and Safety Committees across the Group. Feedback from these meetings is passed to the Group Health and Safety Officer and the Group Health and Safety Committee for discussion and action.

Dialight actively encourages employees to play their part in ensuring the safety of themselves and others. This is achieved by an in depth induction for all new employees, encouragement to report all incidents, accidents and near miss events, no matter how minor, and to take part in health and safety related training as required by particular roles.

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 will be based on ability and merit. The Board of Dialight has considered the recommendations of the Davies report published in 2011 and confirms its commitment to the recruitment and promotion of all individuals throughout the Group, including those at Board and Executive level, on the grounds of ability and merit only. No discrimination of any kind is tolerated.

Dialight is a global company with a global workforce whose diversity contributes to Dialight's success. Regular review of the composition of the Group's employees will provide the necessary information required for the Board and the Executive to address any issues that could negatively impact this approach and commitment.

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.

Strategic report:

Risk management

The principal risks and uncertainties which could affect the Group are identified below. 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 the Company's influence or control. Should any risk actually materialise then Dialight's business, financial condition, prospects and share price could be materially adversely affected.

Area of risk	Description	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 on 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.	» 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 re-design and regulatory re-certification. Therefore, changes in product specifications should favour Dialight in giving it an advantage over competition.	» 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.

Area of risk	Description	Mitigating activity
Competitive environment	» We operate in competitive markets and there exists a threat that existing competitors or potential new entrants will be successful in taking market share. » The threat may, for example, come from an extremely aggressive pricing policy for larger traffic contract bids in America and Europe.	» 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.	» Group policies and procedures are documented and communicated throughout the Group. Group companies have employee handbooks 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.
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. » 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.

Strategic report: Risk management continued

Area of risk	Description	Mitigating activity
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. » 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 and breadth of newly released products.
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.	» The Group carries appropriate product liability insurance. » We have a well developed quality control system to help identify any defects before they are dispatched 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.	» There are ongoing reviews of supplier bases to ensure wherever possible that there is not over-reliance on one specific supplier. » The Group has banking relationships with a number of banks both in the US and Europe. Currently the Group has £1.7 million drawn on the overdraft facility with Barclays and £nil drawn on the US facility with Wells Fargo. 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.

Area of risk	Description	Mitigating activity
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.	» 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.	» 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 and Board of Directors

Bill Ronald (58)
Group Chairman

Term of office: Group Chairman since September 2012. Joined the Board in May 2009 as a Non-Executive Director.

Board Committees: Nominations (Chair) and Remuneration.

Experience: Past appointments to a number of different Boards. Within Dialight, Bill previously held the positions of Senior Independent Director, Chairman of the Remuneration Committee and was member of the Audit Committee.

Current external appointments: Chairman of the Compleat Food Group and Fevertree Limited, Senior Non-Executive Director for Halfords Group and Chair of Trustees of the Muscular Dystrophy Campaign.

> "Robust and focused system of internal control to support growth."

I am pleased to introduce this year's governance section on behalf of all my Board colleagues. Between us we have the responsibility for both the stewardship and the governance of the Group.

This section starts by introducing my fellow Directors, sets out details of our compliance with the UK Corporate Governance Code as updated and published by the Financial Reporting Council ("FRC") in September 2012 ("Code") whilst explaining any areas of non-compliance and includes the information currently required by statute. The balance of this section includes reports from the respective chairs of the Audit, Nominations and Remuneration Committees.

Dialight is a company incorporated in the UK and listed on the London Stock Exchange. The principal corporate governance rules applying to Dialight are contained in the Code, the UK Financial Conduct Authority ("FCA") Listing Rules ("Listing Rules"), the FCA's Disclosure and Transparency Rules ("DTR") as well as the Companies Act 2006 ("CA 2006") together with other regulations. As a result of the continued reference to the Code published in 2010 in the Listing Rules, all references to Code can be read to include the earlier version of the Code along with that published in September 2012.

My statement on page 4 refers to the assessment, undertaken along with some independent support, of the Group's forecasting and central process.

The Board is fully supportive of the improvements and is working along side the Executive team to fully implement these as much as possible.

These changes will leave Dialight with a much more robust and focused system of internal control to support growth in the coming years.

Mark Fryer, Group Finance Director, left the Company on 15 January 2014 and we are currently seeking a permanent replacement. Since Mark's departure we have been joined by Kevin Higginson as Interim Chief Financial Officer. Kevin comes to Dialight with real quality experience and has already become a valuable member of the team.

In relation to the Annual Report specifically, we are required to provide detail of our compliance with the Code and explain any derogations from it. This section, together with the Remuneration report on pages 52 to 66, provides this information which allows our shareholders to make an informed judgement of our Company and to understand how the Company is governed in relation to the Code as a criterion of good practice. The Code is available online from the FRC at www.frc.org.uk.

Bill Ronald
Chairman

Tracey Graham (48)
Non-Executive Director

Term of office: Chair of the Remuneration Committee since February 2013. Joined the Board as a Non-Executive Director in January 2013.

Board Committees: Audit, Nominations and Remuneration (Chair).

Experience: Chief Executive of Talaris Limited until 2010 where she led the company's management buy-out. Senior positions in banking and insurance with HSBC and AXA insurance.

Current external appointments: Non-Executive Director and Remuneration Committee Chair of RPS Group plc and Non-Executive Director of Royal London Group.

Roy Burton (66)
Group Chief Executive

Term of office: Group Chief Executive since September 2005. Joined the Group in July 2002 as President of Dialight Corporation.

Board Committees: Nominations.

Experience: Many years' experience in the electronics industry in the UK working with Philips Electronics, ITT and Amphenol Corporation, Group President Electronics for Thomas and Betts Corporation, Chief Executive Officer of Coraza Systems Inc.

External appointments: None.

Stephen Bird (53)
Senior Independent Director

Term of office: Senior Independent Director since February 2013. Joined the Board as a Non-Executive Director in January 2013.

Board Committees: Audit, Nominations and Remuneration.

Experience: Non-Executive Director of Umeco plc, Divisional Managing Director of Weir Oil & Gas, part of Weir Group plc. Senior roles at Danaher Corporation, Black & Decker, Unipart Group, Hepworth PLC and Technicolor Group.

Current external appointments: Group Chief Executive of The Vitec Group plc.

Robert Lambourne (62)
Non-Executive Director

Term of office: Chair of the Audit Committee since 2010. Joined the Board as a Non-Executive Director in May 2010.

Board Committees: Audit (Chair), Nominations and Remuneration.

Experience: Chartered Accountant, Various public company executive directorships, most recently as Finance Director of RMC Group Plc. Non-Executive Director of Huttig Inc in the USA and Chairman of Penox SA in France. Non-Executive Director of Pace Micro Technology plc, Abacus Group Plc and Analyst Investment Management plc as well as a number of private companies in the UK.

Current external appointments: Non-Executive Director of The Tintometer Limited.

Richard Stuckes (46)
Non-Executive Director

Term of office: Non-Executive Director since May 2009.

Board Committees: Audit, Nominations and Remuneration.

Experience: 13 years with Philips Lighting, including a role as Managing Director for the UK activity and for both the Spanish and Portuguese businesses. Managing Director of the paints business in EMEA for AkzoNobel, Chief Executive Officer for Imperial Chemical Industries Paints UK and Ireland.

Current external appointments: Chief Executive Officer of DS Smith Packaging Limited.

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





Governance

Governance:

Corporate governance and Directors' report

Dialight is incorporated as a public limited company and is registered in England with the registered number 2486024. The Company's registered office is Exning Road, Newmarket, Suffolk CB8 0AX ("Registered Office").

The Board of Dialight presents its Corporate governance and Directors' report ("Report") and the audited financial statements for the year ended 31 December 2013. The Strategic report can be found on pages 6 to 37 which, together with the Report of the Remuneration Committee, are incorporated by reference into this Report and, accordingly, should be read as part of this Report.

Code

In accordance with the Code, Dialight is required to describe 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 2013 with the following exceptions:

I. disclosure of policy and objectives regarding diversity (B.2.4); and

II. conducting an external Board evaluation (B.6.2).

The Board formally adopted a statement in relation to its approach to diversity in December 2013 and this can be found in the Nominations Committee report on page 44. Dialight was therefore non-compliant in that this action had not been taken at the beginning of the year but it is felt that this now meets the requirements of the Code going forwards. Similarly, the Board took the view that the appointment of two additional Non-Executive Directors at the beginning of 2013 made it necessary to delay the conduct and completion of an external Board evaluation. However, it is expected that the Board will seek to conduct an external Board evaluation during 2014 that will consider the work of the Board and its Committees during both 2013 and 2014 and will provide a full report on the outcomes following this review in the 2014 Annual Report.

Leadership

Our governance structure

The Board is accountable to the Group's stakeholders, including its shareholders, for the standards of governance operated throughout the Group and at all operating locations. Specific responsibilities are delegated to the Audit, Nominations and Remuneration Committees and these are documented through the relevant committee terms of reference.

The Dialight Board further delegates authority, within clearly defined limits, for the day-to-day management of the Group to the Executive Directors ("Executive"). 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, senior management and Directors of Group subsidiaries are reviewed from time to time.

The matters reserved for Board decision and the committee 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 the Company's Registered Office.

The Board

The Board has adopted a formal schedule of matters that are specifically reserved for its decision including the approval of annual and interim results; the recommendation of dividends; approval of annual budgets; review of Group strategic plans; the 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.

Board/Committee attendance – 2013

	Board	Audit Committee	Remuneration Committee	Nominations Committee
Bill Ronald	8/8	N/A	7/7	1/1
Roy Burton	8/8	N/A	N/A	1/1
Mark Fryer	8/8	N/A	N/A	N/A
Stephen Bird	8/8	4/4	5/7	1/1
Tracey Graham	8/8	4/4	7/7	1/1
Robert Lambourne	8/8	4/4	7/7	1/1
Richard Stuckes	8/8	4/4	7/7	1/1

Leadership continued

The Board continued

The Board confirms that it has conducted a review of the effectiveness of the system of internal controls in respect of the year ended 31 December 2013 covering all material controls, including financial, operational and compliance controls and risk management systems.

The Board held eight scheduled meetings during 2013 including a three-day annual strategy and planning meeting in the US as well as meeting 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 above. There are eight Board meetings scheduled to take place in 2014.

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 information on the financial and trading performance of businesses within the Group, and of the Group as a whole, together with reports on operations, health and safety, 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.

Board composition

The Board currently comprises the Chairman, the Group Chief Executive and four Non-Executive Directors. Following Bill Ronald's appointment as Group Chairman following the retirement of Harry Tee CBE on 12 September 2012, Robert Lambourne assumed 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. Mark Fryer was Group Finance Director during the year but left the Board on 15 January 2014. A successor is currently in the process of being recruited for this position.

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 Board reconsidered this position during 2013 as part of its normal year-end compliance review. It was noted that although there was a commercial relationship between Dialight Europe Limited, a Group subsidiary company, and DS Smith Packaging Limited, where Richard Stuckes is an Executive Director, the Board agreed that this relationship was of such a level and materiality that there was no impact on Richard Stuckes' independence.

The Board have reconfirmed that 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.

All Directors' biographies appear on pages 38 and 39. The Dialight Board 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.

All Non-Executive Directors constructively challenge 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:

Corporate governance and Directors' report continued

Group structure and Committee membership

The Board

Nominations Committee

Chairman: Bill Ronald
Members: Roy Burton
Stephen Bird
Tracey Graham
Robert Lambourne
Richard Stuckes

Remuneration Committee

Chair: Tracey Graham
Members: Bill Ronald
Stephen Bird
Robert Lambourne
Richard Stuckes

Audit Committee

Chairman: Robert Lambourne
Members: Stephen Bird
Tracey Graham
Richard Stuckes

Leadership continued

Our governance structure continued

Audit Committee

The Audit Committee is responsible for aiding the Board in managing its financial reporting responsibilities and oversees Dialight's reporting, risk management and internal control systems and process. The report of the Audit Committee can be found on pages 45 to 48.

Remuneration Committee

The Remuneration Committee determines the remuneration of the Chairman, Executive Directors and the Company Secretary whilst monitoring the levels of remuneration of those individuals defined as senior management by the Dialight Board. The report of the Remuneration Committee can be found on pages 52 to 66.

Nominations Committee

The Nominations Committee is responsible for the structure, size and composition of the Board. This ensures that the correct balance of skills and experience are present to assist the Company as it continues to grow and provides for appropriate discussion around succession. The report of the Nominations Committee can be found on page 44.

Responsibilities

The Board has established and approved clearly established roles for the Chairman, Group Chief Executive and the Senior Independent Director. Individual, documented role statements are available on the Company's website or from the Company Secretary at the Company's Registered Office.

Group Chief Executive

The Group Chief Executive has delegated responsibility for the management of the Group's day-to-day operations. 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. The Group Chief Executive 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.

Responsibilities continued

The Chairman continued

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.

Senior Independent Director

The Senior Independent Director takes responsibility for meeting with the Non-Executive Directors as part of the Chairman's annual performance appraisal as well as on such other occasions as required and addressing shareholder concerns where the normal channels of Group Chairman or Group Chief Executive fail to resolve an issue or where such contact is inappropriate.

Commitment

Service contracts of the Executive 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 Report of the Remuneration Committee on page 58.

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 CA 2006 and the 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 has recently been by way of responses to a questionnaire issued to all members of the Board. Feedback from these questionnaires has then been 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 any other members of the Executive and Senior management. No such review was undertaken during 2013. Instead, the decision was made that an external evaluation would be undertaken during 2014 to enable the new members of the Board to have sufficient time in order to gain experience of the Company so that maximum benefit from all Board members could be gained from the exercise. Conducting an external evaluation too early was considered to be wrong approach and one that would not provide the best use of an externally facilitated review.

Re-election

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.

How we engage with shareholders

Communications with shareholders are given high priority. Although overall responsibility for ensuring that there is effective communication with investors lies with the Chairman, on a day-to-day basis the Board's primary contact with major shareholders is via the Executive.

The Non-Executive Directors are kept appraised of shareholder views through the provision of a report at each Board meeting on shareholder activity, and where possible analyst briefings and feedback from results road shows. In addition, all Directors are offered invitations to attend all presentations and meetings with shareholders.

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, and shareholders' options for voting, at the forthcoming AGM can be found in the separate circular to shareholders. The Notice of the AGM ("Notice") and related documents are sent to shareholders at least 20 working days before the date of the meeting.

The Company's forthcoming AGM will take place at 11.30am on 16 April 2014 at Glaziers Hall, 9 Montague Close, London Bridge, London SE1 9DD.

Governance:

Report of the Nominations Committee

Bill Ronald

Chairman of the Nomination Committee

Members:

- Roy Burton
- Stephen Bird
- Tracey Graham
- Robert Lambourne
- Richard Stuckes

Objectives

The Nominations Committee leads the process for all Board appointments, making recommendations to the Board where required. It is responsible for reviewing the size, structure and composition of the Board, giving consideration to the provision of adequate succession planning for the Executive and Senior management, 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.

Membership

All members of the Board excluding the Group Finance Director were members of the Committee during the year under review and, with the exception of Roy Burton, are considered independent pursuant to the Code. Appointments to the Committee are made by the Board.

Only members of the Committee have a right to attend meetings. Other individuals may be invited to attend for all or any part of a meeting, where appropriate.

Meetings

The number of meetings attended by members of the Committee can be found in the table on page 41.

Activities during the year

During the year the Committee undertook the following actions:

- Completed the search, selection and appointment of two new Non-Executive Directors in January 2013. This process had been undertaken with the support and assistance of Egon Zehnder International AG.
- Considered the re-appointment of Robert Lambourne as a Non-Executive Director of the Company following his completion of three years' service on the Board.

The Committee will lead the search for the recruitment of a permanent replacement for Mark Fryer as Group Finance Director in conjunction with Independent Search Partnership. Neither Egon Zehnder International AG or the Independent Search Partnership has any other connection with the Company.

Diversity

The Board of Dialight has considered the recommendations of the Davies Report published in 2011 and confirms its commitment to the recruitment and promotion of all individuals throughout the Group, including those at Board and Executive level, on the grounds of ability and merit only. No discrimination of any kind is tolerated.

Dialight is a global company with a global workforce whose diversity contributes to Dialight's success. Regular review of the composition of the Group's employees will provide the necessary information required for the Board and Senior management to address any issues that could negatively impact this approach and commitment.

Further details on Dialight's workforce diversity can be found on page 33.

Governance:

Report of the Audit Committee

Robert Lambourne

Chairman of the Audit Committee

Members:

- Stephen Bird
- Tracey Graham
- Richard Stuckes

Objectives

The Audit Committee is responsible for reviewing a wide range of matters which are detailed in the Committee's terms of reference available on the Company's website and from its Registered Office. The responsibilities can be found below. The Committee reports to the Board on how it has discharged its responsibilities.

Membership

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.

Meetings

Committee meetings are attended by the auditors at the invitation of the Committee Chairman to ensure full communication of matters relating to the audit.

Key responsibilities

The Committee's key responsibilities include:

- monitoring the Group's financial reporting;
- internal controls and risk management systems;
- operation of confidential disclosure policy;
- monitor and review the effectiveness of the Internal audit function; and
- oversee the relationship with the external auditors and the effectiveness of the external audit.

Activities during the year

During the year under review the Group delivered profit at a level that was lower than expectations. As a matter of good governance, the Audit Committee, following discussion with the full Board, has undertaken an assessment of the Group's forecasting and performance process. The Audit Committee was supported in this by KPMG, which was engaged to provide critical challenge of the 2013 reforecasting and 2014 forecasting process. This assessment has highlighted a number of process improvements, the implementation of which has begun. The review has been fully embraced by the Interim Chief Financial Officer. It is envisaged that, following completion of these improvements, the Group will have a much more robust and focused system of internal control that will support Dialight's growth in the coming years.

The following were identified as key areas of judgement following a discussion with KPMG at the Committee's planning meeting in respect of the 2013 external audit.

Goodwill

Goodwill acquired in a business combination is allocated at acquisition to the cash generating units ("CGUs") that are expected to benefit from the combination. The recoverable amounts of the CGUs are determined from value in use calculations.

The Committee considered a paper presented by the Senior management that set out how all CGUs had been re-tested in December 2013, based on sales projections used in Dialight's three-year strategy model along with details of the assumptions and outcome of these tests. The Committee concluded on this evidence that there was no need for any adjustments to be made to the longer-term expectations for the CGUs.

It was agreed that goodwill in Dialight Japan KK would be written down to £nil owing to the lack of any significant progress on sales, the termination of the management team during the year and its likely closure in the near future.

Governance:

Report of the Audit Committee continued

Activities during the year continued

Inventory valuation

Dialight operates in an industry whereby developments in product technology may result in inventory becoming slow moving or obsolete, which in turn may mean that inventory cannot be sold or sales prices are discounted to less than the inventory carrying value. This could result in a material impairment of the inventory balance.

The Committee considered a paper from Senior management and noted that the increase in the amount of inventory held at year end was the result of lower sales during Q4 2013. It reviewed the provision for excess and obsolete inventory and noted that the level of provision and the methodology applied were appropriate to the circumstances.

Revenue recognition

Dialight's business encounters a high volume of transactions close to the year end due to customer requirements. The Group also has a number of customers who have different contractual terms, meaning that the risks and rewards transfer at different timings (such as on dispatch, on receipt at port of destination and on receipt by customer).

The combination of these factors results in an increased risk that revenue may not be recognised in the correct period. Following discussions with management, the Committee was satisfied that the Group's revenue recognition policies had been applied in all material respects. The Committee considered the comments of the auditors around revenue recognition and noted the suggested improvement opportunities around revenue recognition timing and the documentation of sales timings.

Development costs

Capitalised development costs increased in the year, particularly in the second half of 2013, mainly due to the obstruction controls project. Total development costs of £4.5m were incurred in the period (2012: £5.2m), of which £3.0m or 64% has been capitalised (2012: £2.7m or 47%). The book value of capitalised development at 31 December 2013 was £5.9m an increase of £2.1m from last year.

The Committee considered the process by which development expenditure was capitalised and noted that this was set out in the Group Controls Manual ("GCM"). The Committee noted that process has operated adequately during the year, although improvement opportunities were identified in the standardisation of documentation across the Group.

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. This responsibility has been delegated to the Audit Committee.

Set out opposite are those elements of the Group's existing system of internal controls that have operated during 2013. Where potential weaknesses have been identified or further work is required this has been noted.

Risk management and internal control continued

Management structure	There is a formal schedule of matters specifically reserved for decision by the Board and specific responsibility is given to the Executive for specific aspects of the Group's affairs. The Executive meets regularly with Senior management of the operating businesses on a range of issues.
Risk management	The agreed process for the management and mitigation of risks within the business has involved the production of risk registers by certain parts of the business that are then reviewed centrally on a quarterly basis. Outcomes are then considered by the Executive and formalised as the Group's principal risks at the end of each financial year. Changes in personnel and reporting lines have impacted the operation of this process during the year and so a full review will be undertaken in the first half of the year to establish a more effective and formal process of risk reporting and management.
Group's compliance framework	**CBC:** The CBC sets out the standards for what Dialight believes 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. A review of compliance with the CBC takes place at the end of each year. **GCM:** The GCM provides detail concerning delegation of authority and authorisation levels, segregation of duties and other control procedures together with accounting policies and procedures. This was introduced during the year.
Quality and integrity of personnel	**Recruitment and training:** High quality personnel are seen as an essential part of the control environment. High recruitment standards and ongoing development and training will ensure Dialight manages to attract and retain the most suitable people. Appointments of senior HR professionals within the business have provided the foundations for consistent and effective HR practices throughout the Group that will support this goal.
Financial information	In order to control the business the Board has a planning, budgeting and forecasting system. Each year the Board approves the updated documents. Key risk areas are identified, reported to the Board and debated with management. Performance is monitored against budget or latest forecast as appropriate and the prior year. Relevant actions are identified and management is charged with implementing. The Board receives and reviews monthly management accounts and considers the likely outturn for the year in light of the information received. Formal reforecasts are undertaken at the appropriate time of year to ensure that the Board is monitoring the development of the business towards its targets. Performance against budget or forecast is closely monitored. In the light of the failure to reach expectations during 2013, the Board has undertaken a review of Dialight's forecasting function and is implementing additional measures to make this process more robust and to provide forecasts with the best possible view of the forward trading of the businesses, which include: » recognising that spend on our products tends to be one off, capital in nature and subject to the fluctuation of corporate budget constraints; and » a more holistic approach to forecasting involving a wider span of management and a greater degree of hard challenge from the Executive. The Executive submits papers to the Board on a monthly basis that focus on key developments, performance and issues in the business. The report from the Group Finance Director is to be expanded to cover a wider variety of issues this year.
Investment appraisal	Capital expenditure and research and development projects are regulated by budgetary process and authorisation levels set out in the GCM. 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	Peer group financial control reviews are carried out by the Head of Internal Audit, overseen by the Group Finance Director. The Group also undertakes external assessment of aspects of its systems where necessary. The Audit Committee agrees the annual scope of these reviews and assessments in advance which may be revised from time to time according to changing business requirements and circumstances. Reporting of both these findings is initially to Executive management to seek response and corrective actions which are then reported to the Audit Committee.
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.

Governance:

Report of the Audit Committee continued

Internal audit

The Committee has oversight of the internal audit process. The table on page 47 sets out the Group's current approach to internal audit. The Committee considers whether these remain appropriate and suitable for the needs of the Group on a regular basis.

External auditor – appointment and independence

The Committee considers the cost effectiveness, independence and objectivity of KPMG, the external auditors, on a regular basis, agrees their levels of remuneration and reviews the extent of non-audit services provided by KPMG during the year.

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.

The auditors bi-annually confirm their policies to ensure independence and provide the Committee with a report on their own internal quality control procedures.

Resolutions to appoint auditors to the Company and to authorise the Board to determine the auditors' remuneration will be proposed at the forthcoming AGM.

The performance of KPMG is reviewed on an annual basis by the Committee following completion of the audit, taking account of Senior management and Executive feedback together with a review of the level of service provided by the auditors to the Group. The Committee is satisfied with the current auditors' effectiveness.

KPMG have been in place as the auditors of Dialight since 2005, a total of nine years. The Committee will consider conducting a full tender exercise during 2015.

Non-audit services

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.

Details of all fees paid to the external auditors can be found on page 86 of the financial statements. During the year under review KPMG have been engaged for certain non-audit related assignments primarily in respect of pensions and tax advisory work. As previously stated, the Committee has also engaged KPMG to assist with its assessment of the Group's forecasting and performance process by providing critical challenge. The decision to appoint KPMG to undertake this work was made following consideration of the scope and potential outcomes of this assessment. The Audit Committee weighed up the value added by using a provider with detailed knowledge of the business against any threats to the auditors' independence and the extent to which these could be mitigated. The work was scoped to ensure that KPMG would not perform any management functions or take on any of the responsibilities of Executive management. Whilst some parts of the assignment were conducted by the audit team, key aspects were led by members of KPMG's advisory team who have not had any previous involvement with Dialight or any subsequent involvement with the audit. The Audit Committee was thus satisfied that the independence and objectivity of the auditors would be safeguarded.

Governance:

Other statutory disclosures

Conflicts of interest

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. Conflicted Directors are not able to attend meetings where the conflicted contract is discussed and decisions made.

Richard Stuckes declared an interest in a proposed contract between Dialight Europe Limited and DS Smith Packaging Limited in accordance with Section 177 of the CA 2006. None of the other Directors had or has an interest in any material contract relating to the business of the Company or any of its subsidiary undertakings.

Directors' indemnity and insurance

The Company maintains liability insurance and third party qualifying indemnity provisions pursuant to the CA 2006 for its Directors and officers.

Global presence, investments and acquisitions

The Group's head office is based in Newmarket, UK, which is also its European headquarters. However, the Group operates in various geographical areas including Australia, Denmark, Germany, Japan, Malaysia, Mexico, North America, Singapore and the UAE.

On 25 April 2013 Dialight announced the establishment of Dialight Brasil Participacoes Ltda ("Dialight Brasil"). Dialight Brasil will be responsible for the promotion and sale of lighting products in Brazil.

Research and development

The Group continues to invest resources in technology and product development in Denmark, Germany, the UK and the US with the aim of consistently updating and expanding its product range. The Company strongly believes that investment in this area is essential for the Group to retain and increase its market share in competitive markets.

Employees

Regular, ongoing communication with employees is key to ensuring that there is clarity which allows our employees to understand their role in improving the Group's business performance and awareness of factors affecting the Company's performance. Regular meetings are held by management teams to discuss the Company's performance and strategy. All attendees are encouraged to contribute to discussions.

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, career development and promotion where appropriate.

Further details of Dialight's employment policies and its approach to diversity can be found in the Sustainability section of the Strategic report on page 33 and in the Report of the Nominations Committee on page 44.

Substantial shareholdings

As at 10 March 2014 the Company had received the following notifications pursuant to DTR 5 of the Disclosure and Transparency Rules of the Financial Services Authority.

Shareholder	Holding	% voting rights
Generation Investment Management LLP	3,209,284	10.09
Montanaro Asset Management Ltd	1,976,022	6.11
Schroders plc	1,630,259	5.04
Standard Life Investments Ltd	1,583,255	4.87
Impax Asset Management Ltd	1,538,820	4.87
Aberforth Partners LLP	1,514,403	4.79
Mirabaud Asset Management Ltd	1,434,438	4.44
Invicta Capital Management, LLC	1,400,000	4.33

Political donations

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 (2012: £nil).

Greenhouse gas emissions

The Company's greenhouse emissions for the year ended 31 December 2013 can be found in the Sustainability section of the Strategic report on page 30. This is the Company's first mandatory reporting year and therefore only the figures for the year 2013 are provided.

Governance:

Other statutory disclosures continued

Financial risk management

Risk management objectives and policies, including hedging policies and exposure (including price, credit, liquidity or cash flow risk) of the Company in relation to the use of financial instruments, are contained in note 23 of the Group's consolidated financial statements on page 97.

Dividend

The Board recommends a final dividend of 9.5 pence per share, making a total dividend for the year of 14.4 pence per share (2012: 13.5 pence per share). Subject to the approval of shareholders at the 2014 AGM, the final dividend will be paid on 3 June 2014 to shareholders on the register at the close of business on 2 May 2014.

Auditors

The Directors confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware. The Directors further confirm that they have taken all reasonable steps to ascertain any relevant audit information and have ensured that the auditors are aware of such information. In light of organisational changes within KPMG, the Board has agreed that KPMG Audit Plc, a wholly owned subsidiary of KPMG LLP, will step down as auditors at the forthcoming AGM and that a resolution to appoint KPMG LLP as auditors and to authorise the Directors to set their remuneration will be proposed.

Share capital and structure

As at 31 December 2013 the Company had 32,359,892 fully paid ordinary shares of 1.89 pence each in issue which are listed on the Main Market of the London Stock Exchange. The Company has a single class of shares. There are no specific restrictions on the transfer of the Company's shares, although the Articles of Association ("Articles") contain provisions whereby Directors may refuse to register a transfer of a certificated share which is not fully paid.

No shares have been issued that carry any special rights with regard to the control of the Company. Each ordinary share carries the right to one vote at general meetings of the Company. During the year the Company issued 209,661 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. 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.

At the 2013 AGM shareholders granted the Directors the authority to purchase up to 3,215,023 ordinary shares in the Company which will expire on 30 June 2014. A resolution to renew this authority will be put to shareholders at the forthcoming AGM.

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.

Full details of the Company's share capital are given in note 35 to the accounts.

Directors' interests and Company share plans

The interests of the Directors and their families in the shares of the Company can be found in the Report of the Remuneration Committee on pages 52 to 66, together with details of the Directors' service contracts.

Significant agreements/change of control

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 Company currently operates two share plans: a Performance Share Plan ("PSP") and the Annual Performance Bonus Plan ("APBP"). Further details of these are provided in the Report of the Remuneration Committee on pages 52 to 66.

The rules of the PSP provide that, in the event of a change of control through a general offer or scheme of arrangement, shares subject to awards under the PSP 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 held 2,514 shares at 31 December 2013 (2012: 47,596). Since the year end a further 143,368 shares have been issued to the ESOT in order to satisfy existing awards under the Group's share plans. Its current shareholding is 17,551 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.

By order of the Board

Nick Giles
Company Secretary
10 March 2014

Company number 2486024

Registered Office
Dialight plc
Exning Road
Newmarket
Suffolk CB8 0AX

Governance:

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 the International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards.

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 IFRS 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 Strategic report, 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 reports include 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

Bill Ronald
Chairman

Roy Burton
Group Chief Executive
10 March 2014

Governance:

Remuneration Committee report

Tracey Graham

Chair of the Remuneration Committee

Members:

- Bill Ronald
- Stephen Bird
- Robert Lambourne
- Richard Stuckes

Annual statement by Chair of the Remuneration Committee

On behalf of the Board, I am pleased to present the Remuneration Committee's ("Committee") report on remuneration for 2013.

This report has been prepared in accordance with the provisions of the CA 2006 and Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. It also meets the requirements of the Listing Rules and the DTR. As such this report is divided into two sections: the Directors' remuneration policy details the Group's remuneration policies and links to strategy, while the second section is the Annual report on remuneration, which focuses on the implementation of the remuneration policy in 2013 and how we intend to implement our remuneration policy in 2014.

We will be putting the Directors' remuneration policy to a binding shareholder vote and the Annual report on remuneration to an advisory vote at the AGM, asking our shareholders to approve these reports. Subject to obtaining shareholder approval at the AGM, we propose that the Directors' remuneration policy will apply from the 2014 AGM on 16 April 2014.

The sections of the report that are subject to audit can be found on page 60 (Single figure of total remuneration table) through to page 64 (Outstanding awards under PSP and APBP).

The Committee has worked hard to ensure that Dialight's remuneration arrangements are clear and easy to understand as well as transparent. At present the Group only operates one long-term incentive, the PSP, and one bonus plan, the APBP.

Resolutions regarding the Company's share plan arrangements will be put to shareholders at the AGM. Firstly, the Board is seeking approval in respect of a new set of rules for the PSP. The PSP is coming to the end of its ten-year life and new rules are required in order for the Company to continue to make long-term incentive awards to the Executive and to Senior managers in the future. The rules of this new PSP will be fundamentally the same as those in existence for the current PSP with some small changes. First the individual limit will be increased from 100% to 150% of salary. This is intended to provide flexibility over the ten-year life of the plan, although there is currently no intention to make awards in excess of 100% of salary in normal circumstances. The exercise window for nil-cost options will be reduced from ten years to two years post-vesting, and we are adding flexibility to add a holding period to vested awards. Provisions are also being introduced to allow the clawback to reflect emerging best practice. Finally we are introducing discretion for the Committee to allow vesting of awards for good leavers to vest (on a time and performance pro-rated basis) at the date of cessation, rather than the normal vesting date. This is intended to provide flexibility in certain circumstances such as death, rather than being the default treatment. These changes are reflected in the policy table on pages 56 and 57.

The Board will also be seeking approval from shareholders for the introduction of a Sharesave Plan that will initially be operated in the UK, USA and Mexico. This will be the first all employee arrangement operated by Dialight and will fully engage employees in the performance and success of the business as we look to expand. Further details of this can be found in the policy table on pages 56 and 57.

Following consultation with shareholders the Committee implemented a number of changes to remuneration for 2013 which were discussed in detail in last year's report.

Details of the Company strategy and Key performance indicators ("KPIs") can be found on pages 10 to 12. One of our main KPIs relates to the growth in both Lighting segment and Group profit. As a result, performance related elements of remuneration, notably the APBP have been linked to the growth in earnings before interest and taxes ("EBIT") for the last three years. Other metrics have been considered but the Committee remains in agreement that the use of EBIT as a primary measure remains the most effective for incentivising the Executive.

Mark Fryer, the Group Finance Director, left the Board of Directors on 15 January 2014. Whilst he remains an employee until 31 March 2014 the disclosure in this report reflects this change. Therefore, the Policy report provides detail on Dialight's policy around remuneration for the Group Finance Director role and not Mark Fryer specifically. The Company is now actively recruiting a new Group Finance Director and the remuneration available to a successful candidate will be in line with the policy set out in this report. The Annual report on remuneration which reports on implementation of remuneration policy during the year under review includes details relating specifically to Mark Fryer as he remained a Director at the end of the 2013 financial year.

Details of the subjects covered by the Committee at its meetings can be found in the table opposite. Key Committee decisions made during the year include a decision to pay cash bonuses in respect of the 2012 financial year in February, the approval of the vesting of the 2010 PSP awards, changes to the Company's US subsidiary's pension plan and APBP objectives for 2013.

No bonus will be paid in respect of the 2013 financial year as a result of the Company's profit falling below threshold. The Total Shareholder Return ("TSR") performance of Dialight over the three-year performance period 2011–2013 has been strong and as a result the 2011 PSP awards all vested at the maximum (100%) level on 25 February 2014.

Tracey Graham
Chair of the Remuneration Committee
10 March 2014

Committee agenda and matters considered

The following table sets out the agenda items considered at each of the Committee's meetings during the year:

January 2013	» Bonus objectives for Group Chief Executive » Establishing an EPS range for the PSP » Approval of investor consultation communication
February 2013	» Consideration of the results of investor consultation » Formal approval of EPS performance measure targets » Amendments to US SERP contributions » Approval of release of first tranche of deferred share awards under the APBP (relating to the 2011 bonus year) » Approval of 2012 bonus payments » Approval of 2013 APBP objectives » Grant of 2013 PSP awards » Committee performance evaluation and approval of Directors' remuneration report
May 2013	» Consideration and review of latest developments in the Department of Business, Innovation and Skills ("BIS") remuneration reporting regulations » Approval of vesting of 2010 PSP awards
November 2013	» Reviewed first draft of 2013 Remuneration Committee report » Considered introduction of Sharesave Plan and adoption of new PSP rules
December 2013	» 2014 salary reviews

Governance: Remuneration Committee report continued

Directors' remuneration policy

Background and overview of the policy

Dialight's policy on remuneration is clear. The Committee believes that the base salary and benefits for its Executive Directors should represent a fair return for employment but that the majority of remuneration should be variable and dependent on the continued success of the Company. It was agreed by the Committee in December 2010 that the practical application of this policy meant that the Group should aim to position base pay between the lower quartile and median with key roles and key performers positioned at the 50th percentile or market median. Total remuneration should also be targeted to be around the same levels.

It was with this in mind that the Committee conducted a review of the Company's remuneration towards the end of 2012 that resulted in a number of changes that took effect in the year under review. This was primarily because it was felt that, whilst the existing policy and general structure of remuneration remained appropriate, a number of changes were required to ensure that the Company remained competitive and attractive to potential new executive talent as the Company looked to build on its strong historical performance.

A breakdown of all elements of Executive remuneration and its place in the Company's remuneration policy can be found opposite.

Explanatory detail for future remuneration policy table

Executive Directors are eligible to receive payment from any award made prior to the approval and implementation of the remuneration policy detailed in this report. Such awards include awards made under the PSP prior to the approval of the new rules at the 2014 AGM.

Performance measures and targets

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

For the PSP, the Committee considers that TSR provides clear alignment between Executive Directors' interests and those of shareholders and provides an objective measure of the Company's success over time, while EPS provides good line of sight and helps focus participants on the Company's financial performance. The TSR outperformance requirement is broadly in line with practice at other FTSE-listed companies, taking into account Dialight's relative size. The Committee retains discretion to adjust this target for future awards should circumstances change. EPS targets will be reviewed and confirmed prior to each grant, taking account of the Company's strategic plan, analyst estimates, historical performance and EPS performance ranges used at other FTSE companies.

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

Difference between Director remuneration policy and that for other employees

The remuneration policy for Senior management is consistent with that for the Executive, including participation in the Company's APBP and PSP. Below this level employees participate in incentive schemes tailored to their role, as appropriate, and receive salaries and benefits which are consistent with local market practice.

Future remuneration policy

A breakdown of all elements of an Executive Directors' remuneration package and its place in the Company's remuneration policy can be found below:

Element/purpose and link to strategy

Base salary

To ensure that fixed pay represents a fair return for employment.

Non-Executive Director fees

The Company sets fee levels necessary to attract and retain experienced and skilled Non-Executive Directors with the necessary experience and expertise to advise and assist with establishing and monitoring the strategic objectives of the Company.

APBP

The APBP provides a direct link between the level of profit generated by Dialight and the amount of incentive received by the Executive.

The APBP is self-financing. If the threshold profit level is not achieved there will be no Company contribution.

The APBP directly supports the achievement of EBIT, one of the key financial KPIs of the Company.

There is an alignment of participants' interests with shareholders as shareholders receive a minimum level of profit prior to any incentive payments to participants being made.

Operation	Opportunity	Performance metrics
The Committee sets base salary with reference to relevant market data and an individual's experience, responsibilities and performance. Base salary is considered by the Committee on an individuals' appointment and then reviewed once a year or when an individual changes position or responsibilities. When making a determination as to the appropriate remuneration, the Committee considers firstly pay and conditions for employees across the Group, the general performance of the Company, wider economic environment and, where considered relevant, benchmarks the remuneration against a bespoke group of comparator companies incorporated in both the US and the UK (size adjusted on the basis of market cap and revenue). Benchmarking is not the only driver in salary reviews.	The Remuneration Committee's normal policy in relation to salary of an Executive on appointment is to pay lower quartile against the market with an expectation of paying around median for the Company's key roles and performers. Detail of current salaries for the Executive can be found on page 60. In normal circumstances, increases to Executive Directors' base salaries will be broadly in line with price inflation subject to those situations that for reasons including an expansion of duties or a change in role these are no longer appropriate and a larger increase is required in order for the Company to remain competitive. It is not envisaged that this will be a frequent occurrence.	n/a
Non-Executive Director remuneration is determined by the Board within the limits set by the Articles. Fee levels take into account those paid for equivalent roles at companies of similar size and complexity. The Board considers fee levels every other year. Non-Executive Directors do not receive any bonus, do not participate in awards under the Company's share plans and are not eligible to join the Company's pension scheme.	The Company's policy in relation to fees is to reflect the time commitment and responsibilities of the roles, normally by paying up to median level fees, compared to market, depending on the experience and background of the Non-Executive Directors. Details of current Non-Executive Director fees can be found on page 60. In normal circumstances, increases to fees will be broadly in line with price inflation, subject to cases of material misalignment with the market or a change in the complexity, responsibility or time commitment required to fulfil a Non-Executive Director role. It remains important for the Board to have the necessary flexibility to step outside this general policy should the requirement be clear that a certain type of individual is required to conform with new governance requirements or legislation.	n/a
The policy of the Committee is to reward the Executive for profit growth using a combination of cash and shares, subject to the rules of the APBP. Bonuses are paid though a mixture of cash and deferred shares, subject to the achievement of the agreed objectives. Where the Executive 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. The rules of the APBP allow for the clawback of deferred share awards prior to their vesting should the Committee take the decision that to allow such awards to vest would be contrary to the best interests of the Company's shareholders. Dividends are accrued until the vesting and release of shares subject to the award at which point they are paid to the participant.	The maximum bonus opportunity is 175% of salary. Threshold performance will deliver payouts of up to 20% of maximum, while payouts for target performance will be up to 75% of maximum. Payouts above target will be delivered in shares.	APBP objectives are set by the Committee at the beginning of each financial year following the finalisation of the budget for that year. The primary measure is Company EBIT, although other financial measures may be rewarded, as may additional specific objectives that can be triggered following satisfactory achievement of the primary EBIT targets. The APBP allows a close tailoring by the Committee of the performance targets to the budget and performance of the Company for each year.

Governance: Remuneration Committee report continued

Explanatory detail for future remuneration policy table continued

Shareholding guidelines

Executive Directors (and other PSP participants) are required to accumulate and maintain a holding of Dialight shares equivalent in value to their annual PSP award (i.e. currently 100% of salary for the Group Chief Executive). Executives will have five years from their date of joining to build their shareholdings to the required level. Please refer to the table on page 63. The Group Chief Executive held 365,888 ordinary shares as at 31 December 2013 and therefore satisfies these guidelines.

Recruitment policy

Executive Directors will receive base salary in line with the normal policy, eligibility to participate in the APBP (maximum payout of 175% of salary), eligibility to participate in the PSP (with a maximum award of 150% salary under the proposed new rules in the policy table), pension contributions and other benefits in line with the normal policy. The policy provides for an entry point on salary between lower quartile and median and the Committee retains discretion to benchmark prospective salary against the relevant index to ensure that correct consideration of all variables has been completed.

Should a situation present itself the Committee would review the impact of any decision to "buy out" a candidate from existing option/ awards in his or her current employing company, in order to encourage recruitment, this would be done on a case-by-case basis. If the Committee determines that is appropriate to do so if will apply the following approach:

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

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

The Committee may then grant up to the same fair value as the lapsed fair value where possible under the Company's incentive plans (subject to the annual limits under these plans). The Committee, however, retains the discretion to provide the lapsed fair value under specific arrangements in relation to the recruitment of the particular individual.

The maximum level of variable pay (excluding any buy-outs) offered to any new Executive Director would be 325% (comprising 175% in the APBP and 150% in the PSP).

Listing Rule 9.4.2 may be utilised in order to provide the flexibility to the Committee to act outside of the Group's existing plans to recruit preferred candidates. It is likely that this discretion would be restricted to assist only in the facilitation of buy outs of previous emoluments. The approach to the recruitment of internal candidates would be similar but the Committee would continue to honour existing contractual commitments prior to any promotion.

For Non-Executive Directors, the Committee and the Company would seek to pay fees in line with the Company's existing remuneration policy.

Future remuneration policy continued

Element/purpose and link to strategy

PSP

The PSP provides direct alignment between the interests of shareholders and those of the Executive and the senior management of the business through its measurement of the Company's share price and earnings performance over a three-year period.

Sharesave Plan

To provide a mechanism by which employees can save up to purchase shares at a discount to the prevailing market price on an annual basis, encouraging employee retention and engagement with the Company.

Pension

The Company provides this benefits package in order to be competitive in the relevant market and to ensure its ability to recruit and retain Executives.

Benefits

The approach of the Committee is that other benefits payable remain in line with market practice to ensure Dialight retains its ability to be competitive and remain attractive to prospective candidates.

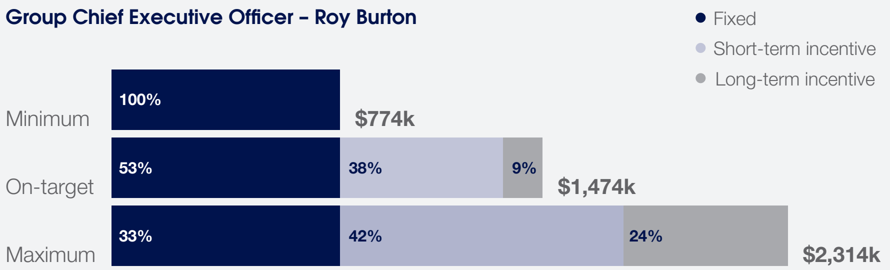
Operation	Opportunity	Performance metrics
The PSP provides a three-year incentive based on the achievement of performance conditions. A new set of PSP rules is being put to shareholders for approval at the AGM. Full details and a summary of these can be found in the Notice of AGM. Awards are normally made in the six-week period following the announcement by the Company of its results for any period. The initial value of an award granted in any one financial year will be determined by the Committee. Awards made prior to and during 2014 may be structured as conditional shares or nil cost options with a seven-year exercise window from the date of vesting. For those awards made from 2015 onwards the exercise window will reduce to two years. On the adoption of new PSP rules at the AGM, the vesting of awards made pursuant to these rules may, at the discretion of the Committee, be deferred in whole or in part following the end of a three-year vesting period. The Company's current policy is for awards to vest after three years. The Committee has the power to authorise the payment of dividends or dividend equivalents under the rules of the PSP. The new PSP rules contain provisions that allow for clawback and malus in respect of both vested and unvested awards.	Maximum value of award, under the new rules, is up to 150% of salary. Participants in the PSP have historically been made awards of between 25% and 100% of salary. The Executive Directors have generally received awards of 100% of salary. It is not envisaged that this will change. Threshold vesting is at 25% of maximum.	Vesting of PSP awards is subject to continued employment and performance measures which are currently as follows: » 50% on EPS growth measured on a point to point basis over the three-year performance period; and » 50% on TSR relative to a relevant peer group over the three-year performance period. The Committee will review the performance measures, weightings and targets prior to each grant to ensure that they continue to be well aligned with the delivery of Company strategy.
The Sharesave Plan will operate initially in the UK, the US and Mexico but may be introduced to other parts of the world in due course. It will be open to all employees of Dialight with one invitation to participate on an annual basis.	Employees will be able to save up to the maximum of the limits approved by HMRC from time to time (or local currency equivalent) for a total period of three years. At the beginning of each savings period employees will be granted options over shares in Dialight plc up to a maximum discount of 20% to the prevailing market price. The employees' savings are then used to purchase and exercise these options at the end of three years.	There are no performance conditions attached to the Sharesave Plan.
The Company operates the Roxboro UK Pension Scheme alongside a 401(K) and Supplemental Executive Retirement Plan ("SERP") in the US. There are no defined benefit schemes that are still open to new entrants or of which the Executive Directors are members. Both employee and employer contributions are made to the relevant scheme. In addition, the Group Chief Executive receives cash in lieu of pension contributions subject to an agreement made in July 2012. The Group Chief Executive's payment in lieu of contributions is subject to clawback. New Executive Directors are entitled to join the existing defined contribution scheme offering employer contributions of up to 15%.	Executive Directors receive contributions into defined contribution arrangements. The Group Chief Executive receives a cash payment in lieu of pension contribution. Further details of what has been paid during 2013 can be found on page 60. It is not anticipated that pension contributions (as a percentage of salary) will exceed the levels currently provided.	There are no performance conditions attached to Group pension arrangements.
Executives receive benefits which consist primarily of the provision of a car allowance, life assurance and medical insurance, although may include any such benefits that the Committee deems appropriate.	Benefits vary by role and individual circumstances; eligibility and cost are reviewed periodically. The Committee retains the discretion to approve a higher cost in exceptional circumstances (e.g. relocation) or in circumstances where factors outside the company's control have changed materially (e.g. increases in insurance premiums). The value of all other benefits awarded to the Executive Directors can be found in the table on page 60.	There are no performance conditions attached to benefits.

Governance:

Remuneration Committee report continued

Remuneration scenarios

Group Chief Executive Officer – Roy Burton



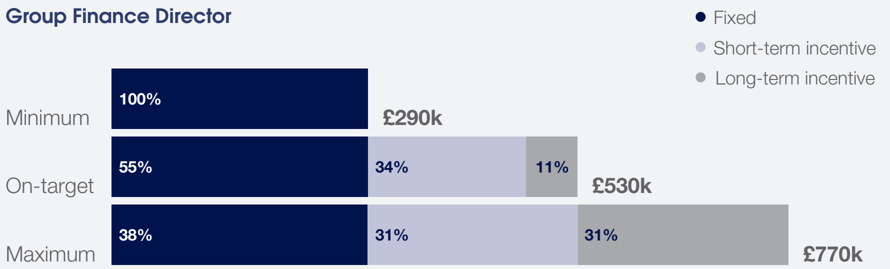
Minimum performance
Fixed elements of remuneration only.

"On-target" performance
Fixed elements of remuneration plus:

» 100% of salary paid in bonus (67% of maximum opportunity); and
» 25% of PSP award (25% of salary).

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

Group Finance Director



Minimum performance
Fixed elements of remuneration only.

"On-target" performance
Fixed elements of remuneration plus:

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

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

Remuneration scenarios

The composition and value of the Executive Directors' remuneration packages at "minimum", "on-target" and "maximum" scenarios are set out above. The policy of the Committee is to align Executive Directors' interests with those of shareholders and to give the Executive Directors an incentive to perform at the highest levels. To achieve this it seeks to ensure that a significant proportion of the remuneration package varies with the financial performance of the Group and that targets are aligned with the Group's stated business objectives.

Service contracts

Executive service contracts contain provisions that require twelve months' notice of termination on either side. Existing service contracts reflect the fact that the Group Chief Executive is US based but contain similar provisions. As a result, the Group Chief Executive's contract is a US contract which has been reviewed and amended with the assistance of UK legal advisers to ensure compliance with UK legislation and appropriate best practice. Executive service contracts do not contain any provisions for payments outside the scope of those contained in the contract. Roy Burton's contract has an effective date of 1 October 2005.

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

Payment for loss of office

Notice periods

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

Payment for loss of office continued

Notice periods continued

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

The Group Finance Director's contract provides for pay in lieu of notice but does not contain any additional compensation provisions. Both contracts do not contain liquidated damages clauses.

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

APBP

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

PSP

The PSP would operate in a similar way to the APBP. Assuming the Executive Director is classed as a "good leaver" the PSP allows for shares subject to awards to be released as soon as practicable after the later of the end of the performance period and the date of cessation, and the number of shares being reduced by such proportion as the proportion that the period from the date they ceased employment to the end of the relevant performance period bears to the relevant performance period, rounding down in each case to the nearest whole number of shares. Should either of the Executive Directors leave the Company in any other circumstances the Committee retains discretion to apply the same criteria and award a pro-rated amount of shares.

The new rules of the PSP that will be put forward for adoption at the AGM will contain the flexibility for the Committee to allow awards to vest earlier than above when an individual leaves. Awards will always be pro-rated subject to the exercise of discretion by the Committee subject to the adoption of the new rules. The default position will be for awards to vest in line with the normal date of vesting rather than being released early.

The Committee retains discretion in the event of a change of control to release awards under the PSP. It is usual in this situation that awards would be pro-rated for time and performance subject to the discretion of the Committee.

Employment conditions elsewhere in the Company

The Committee takes into account what the general rise in employee salaries was across the Company at the review date when considering changes to the remuneration of the Executive Directors. The Company has not expressly sought the views of employees when drawing up the Directors' remuneration policy but has conducted a review of current job roles and salaries across the Group.

Shareholder views

The Remuneration Committee consulted extensively with its top ten shareholders and the main shareholder representative bodies, the ABI and ISS, on the changes that were introduced in 2013.

The shareholder consultation process consisted of briefing letters, discussions and meetings in a number of cases with the Chair of the Remuneration Committee. Shareholders confirmed their support for the Company's approach at the end of the consultation process.

Governance:

Remuneration Committee report continued

Annual report on remuneration

Single figure of total remuneration

The following tables set out the single figure remuneration received by the Executive and Non-Executive Directors during the years ended 31 December 2013 and 2012.

2013 (all figures in 000s)	**Salary 2013**	**Benefits 2013**	**Pension 2013**	**Sub-total Fixed 2013**	**Bonus 2013**	**PSP 2013**	**Sub-total Variable 2013**	**Total remuneration 2013**
Executive Directors								
Roy Burton	$560	$56	$158	$774	—	$790	$790	$1,564
Mark Fryer	£240	£14	£36	£290	—	£240	£240	£530
Non-Executive Directors								
Bill Ronald	£125	—	—	£125	—	—	—	£125
Stephen Bird	£43	—	—	£43	—	—	—	£43
Robert Lambourne	£51	—	—	£51	—	—	—	£51
Tracey Graham	£43	—	—	£43	—	—	—	£43
Richard Stuckes	£40	—	—	£40	—	—	—	£40

2012 (all figures in 000s)	Salary 2012	Benefits 2012	Pension 2012	Sub-total Fixed 2012	Bonus 2012	PSP 2012	Sub-total Variable 2012	Total remuneration 2012
Executive Directors								
Roy Burton	$530	$47	$155	$732	$530	$2,581	$3,111	$3,843
Mark Fryer	£223	£14	£34	£271	£167	£534	£701	£972
Non-Executive Directors								
Bill Ronald	£56	—	—	£56	—	—	—	£56
Stephen Bird	—	—	—	—	—	—	—	—
Robert Lambourne	£35	—	—	£35	—	—	—	£35
Tracey Graham	—	—	—	—	—	—	—	—
Richard Stuckes	£30	—	—	£30	—	—	—	£30

Additional disclosures

Executive Directors' benefits

Executive Directors receive benefits comprising life insurance, healthcare and car allowances.

Pensions

The figure includes the amount of company contributions to Roy Burton and Mark Fryer's pensions during the year. Mark Fryer received Company contributions of 15% of base salary. Roy Burton currently receives employer contributions under both a US 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 for three years of which the second payment was made in 2013. This contribution is subject to clawback arrangements 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 be 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 to the SERP on 30 June 2012.

APBP

The APBP operates on the basis that is set out on pages 54 and 55 of the Policy report. Maximum bonus potential is 175% of salary paid in a mixture of cash and deferred shares.

2013 APBP

Objectives for the 2013 APBP are set out below. All percentages shown are in relation to base salary.

Group Chief Executive's objectives

	Measures		Delivered in		
	EBIT growth 2012–2013	Bonus payable (% of salary)	Cash (% of salary)	Deferred shares (% of salary)	Max. bonus opportunity (% of salary)
Threshold	10%	10%	10%	0%	
Target	25%	100%	100%	0%	
Maximum	30%	150%	100%	50%	
EBIT growth maximum opportunity					150%
– Lighting contribution growth		12.5%	12.5%	0%	
– Succession plan		12.5%	12.5%	0%	
Additional objectives maximum opportunity					25%
Maximum bonus opportunity	`				175%

Group Finance Director objectives

	Measures		Delivered in		
	EBIT growth 2012–2013	Bonus payable (% of salary)	Cash (% of salary)	Deferred shares (% of salary)	Max. bonus opportunity (% of salary)
Threshold	10%	7.5%	7.5%	0%	
Target	25%	75%	75%	0%	
Maximum	30%	100%	75%	25%	
Maximum bonus opportunity					100%

For the year under review there was no growth in EBIT for 2013 and therefore no bonus was payable. As a result the 25% of bonus opportunity available to the Group Chief Executive in respect of Lighting contribution growth and succession planning was also not payable as this could only be triggered on the satisfaction of threshold growth in EBIT.

Governance

Governance: Remuneration Committee report continued

Additional disclosures continued

PSP

Awards made in 2011

Awards granted on 2011 were based on the TSR achieved by Dialight compared to the FTSE Electrical/Electronics Index and the FTSE Small Cap Index (each having equal weighting). If Dialight's TSR was equal to the TSR of the comparator index, 25% of the shares subject to an Award would vest, rising on a straight-line basis to 100% vesting if Dialight's TSR is equal to the TSR of the index plus 15% per annum. No shares would vest if Dialight's TSR was below the percentage increase in the TSR of the comparator index.

Executive	Performance measure	% of award	Performance achieved 2011–2013	% of award vesting	Value[1] at vesting
Roy Burton	TSR performance	100%	Dialight TSR outperformed the index by 16.9% p.a.	100%	$790,000[2]
Mark Fryer	TSR performance	100%	Dialight TSR outperformed the index by 16.9% p.a.	100%	£240,000[3]

1 Based on a share price at vesting on 25 February 2014 of 780 pence per share and converted into US Dollars using an exchange rate of 1.67 (25 February 2014).

2 Includes dividend equivalent payment of $33,000 (converted using the exchange rate of note 1).

3 Includes dividend equivalent payment of £10,000 (converted using the exchange rate of note 1).

Awards made in 2013

Awards granted in 2013 measured performance on the following basis:

EPS

EPS was introduced as a complementary measure of performance relating to 50% of 2013 and future awards. The EPS vesting condition is Dialight's compound annual three-year EPS growth rate. For awards made in 2013, this element will vest in full if Dialight's three-year EPS growth exceeds 25% p.a. with threshold vesting (25%) if Dialight's three-year EPS growth is 10% p.a. over the period. None of this element will vest if Dialight's EPS growth over the three-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

TSR was retained in respect of the remaining 50% of awards in order to maintain strong shareholder alignment. For awards made in 2013, the TSR vesting condition will be based upon Dialight's three-year TSR % outperformance of the FTSE Mid 250 Index (excluding investment trusts). This element will vest in full if Dialight's three-year TSR exceeds Index TSR by 10% p.a., with threshold vesting (25%) if Dialight's three-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.

Director	Plan	% of salary awarded	Nature of interest	Exercise price per share	Number of shares subject to an award	Face value of an award '000	Performance conditions	Date of grant of award	Date of end of performance period
Roy Burton	PSP	100%	Conditional share award	N/A	28,210	$560	TSR/EPS	09.04.13	31.12.15
Mark Fryer*	PSP	100%	Nil-cost option	Nil	18,445	£240	TSR/EPS	09.04.13	31.12.15

* The award under the PSP made to Mark Fryer lapsed on 15 January 2014 following the decision that he would step down from the Board.

Total shareholding of Directors

	Beneficially held shares[1]	
	Ordinary shares at 31 December 2013	Ordinary shares at 31 December 2012
Roy Burton[2]	**365,888**	279,701
Mark Fryer[3]	**16,538**	—
Bill Ronald[4]	**18,350**	15,850
Stephen Bird[5]	**12,000**	—
Robert Lambourne	**4,000**	4,000
Tracey Graham[6]	**1,000**	—
Richard Stuckes[7]	**37,853**	26,983
Total	**455,629**	326,534

1 Some of these shares are held through nominees.

2 Roy Burton received 4,205 shares following the release of the first tranche of shares under the APBP granted in 2012 and 79,982 ordinary shares on 26 May 2013 following the vesting of the awards granted under the PSP in May 2010. He bought a further 2,000 shares on 15 November 2013 at a price of 916 pence per share. Since the end of the year Roy Burton received 4,306 ordinary shares following the release of the second tranche of shares under the APBP granted in 2012 and 34,233 ordinary shares following the vesting of those awards granted under the PSP in 2011. Both events took place on 25 February 2014.

3 Mark Fryer received 16,538 ordinary shares following the vesting of the awards granted under the PSP in September 2010.

4 Bill Ronald purchased 2,500 ordinary shares on 15 November 2013 at a price of 913 pence per share. Some of these shares are held through a nominee.

5 Stephen Bird purchased 2,000 shares on 1 March 2013 at a price of 1,245 pence per share and 10,000 shares on 13 November 2013 at a price of 900 pence per share. These shares were purchased and placed in an SIPP.

6 Tracey Graham purchased 1,000 ordinary shares on 1 March 2013 at a price of 1,234 pence per shares.

7 Richard Stuckes purchased 10,870 ordinary shares on 13 November 2013 at a price of 915 pence per share. Some of these shares are held through nominees.

8 There has been no further change in Directors' holdings since 31 December 2013.

Outstanding awards under the PSP and APBP

	Type of award	Award date	Number at 1 January 2013	Awarded in year	Vested in year	Exercised in year	Lapsed in year	**Number at 31 December 2013**	Exercise price	Earliest vesting/ exercise date	Expiry date
Roy Burton											
PSP	CSA	26.05.10	127,582	—	127,582	—	—	**—**	—	—	—
PSP	CSA	17.02.11	58,137	—	—	—	—	**58,137**	—	17.02.14	—
PSP	CSA	26.04.12	30,163	—	—	—	—	**30,163**	—	26.04.15	—
PSP	CSA	09.04.13	—	28,210	—	—	—	**28,210**	—	28.02.16	—
APBP	CSA	26.04.12	14,785	—	7,393	—	—	**7,392**	—	25.02.14	—
Total			230,667	28,210	134,975	—	—	**123,902**	—	—	—

Governance

Governance:

Remuneration Committee report continued

Outstanding awards under the PSP and APBP continued

	Type of award	Award date	Number at 1 January 2013	Awarded in year	Vested in year	Exercised in year	Lapsed in year	**Number at 31 December 2013**	Exercise price	Earliest vesting/ exercise date	Expiry date
Mark Fryer											
PSP	CSA	02.09.10	37,822	—	37,822	—	—	**—**	—	02.09.13	—
PSP	NCO	17.02.11	29,549	—	—	—	—	**29,549**	—	17.02.14	17.02.21
PSP	NCO	26.04.12	15,384	—	—	—	—	**15,384**	—	26.04.15	26.04.22
PSP	NCO	09.04.13	—	18,445	—	—	—	**18,445**	—	09.04.16	09.04.23
APBP	NCO	26.04.12	5,027	—	2,514	—	—	**2,513**	—	26.02.13	26.04.17
Total			87,782	18,445	40,336	—	—	**65,891**	—	—	—

» CSA denotes conditional share awards. These are subject to performance conditions set out on page 62.
» NCO denotes nil-cost options. These are subject to performance conditions set out on page 62.
» The market price of a share on 9 April 2013, the date of the awards made during the year, was 1,301 pence.
» Options under the APBP are exercisable for five years from the date of grant.
» Options under the PSP are exercisable for ten years from the date of grant.
» Awards under the PSP made in 2012 and 2013 are currently performing below the level required to achieve threshold vesting.
» During the year, the range of share prices was 1,399 pence to 813 pence, with the price on 31 December 2013 being 856 pence.
» Awards to Mark Fryer that were made in 2012 and 2013 lapsed on 15 January 2014 following his decision to stand down from the Board of Dialight plc.
» Mark Fryer exercised 2,514 options pursuant to the APBP on 25 February 2014. The balance of the award made on 2012 lapsed on 15 January 2014.

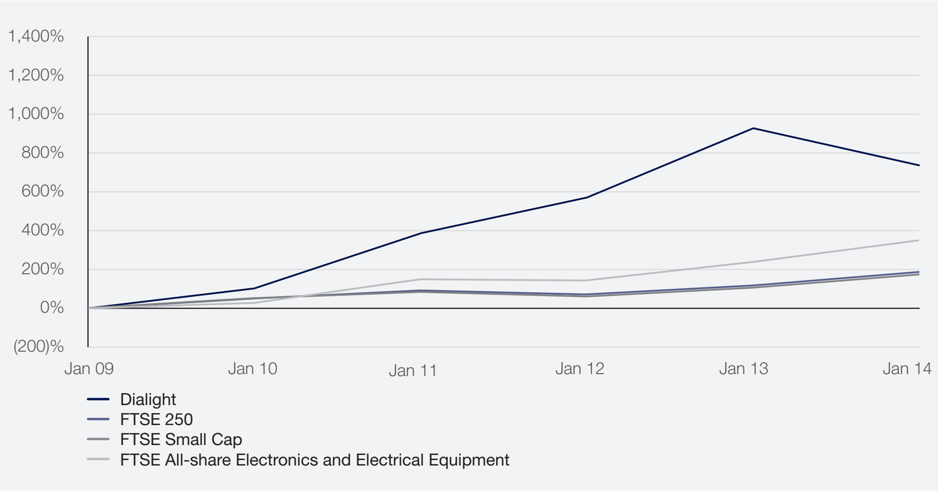
Payments to past Directors and loss-of-office payments

Mark Fryer stepped down as a Director of Dialight plc on 15 January 2014 but remains an employee until 31 March 2014. The Committee agreed to make a payment, equivalent to seven months' salary, on termination. This payment is made pursuant to the relevant provisions in Mark Fryer's service contract.

He also received his award under the 2011 PSP. Although no payments were made during the year, all amounts have been agreed prior to the approval of this report.

Performance graph and table

The below graph demonstrates the Company's TSR performance over the past five years relative to the FTSE Mid 250 Index (excluding investment trusts), the FTSE Small Cap Index and the FTSE All-share Electronics and Electrical Equipment Index. All outstanding awards under the PSP, with the exception of those made in 2013, use the latter two indices for the TSR measurement.



Performance graph and table continued

The table below shows the Group Chief Executive's "single figure" remuneration over the same five-year period.

Year ended 31 December	2009	2010	2011	2012	**2013**
Total remuneration ($'000)	745	2,854	4,170	3,843	**1,564**
Bonus outcome (% of max)	70	100	100	66.6	**0**
PSP vesting outcome (% of max)	58	100	100	100	**100**

Percentage change in the remuneration of the Group Chief Executive

The following table sets out the change in remuneration paid to the Group Chief Executive from 2012 to 2013 compared with the average percentage change for employees as a whole.

The main benefits provided include medical coverage and life insurance. There has been no change in the level of benefits provided to Group employees.

	% change 2012–2013	
	Group CEO	Group employees
Salary	5%	2%
Bonus	(100%)	(100%)
Benefits	(36%)	See above

Relative importance of spend on pay

The chart below shows the total amount paid by the Company to its employees for 2013 and 2012. Details of the total amount of distributions for the same two years can also be seen.

Spend on pay

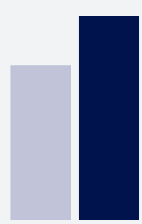
+32%

2013	**£31.5m**
2012	**£23.9m**

Distributions

+31%

2013	**£4.6m**
2012	**£3.5m**



Implementation of policy in the 2014 financial year

Executive salaries and Non-Executive Director fees

The Committee has decided that no increase in salary or fees would be awarded to the Group Chief Executive and the Non-Executive Directors with effect from 1 January 2014. The Group Chief Executive's salary will remain at $560,000. On 15 January 2014, it was agreed that Mark Fryer would leave the Company. Details of the termination arrangements will be disclosed in the report for the year ended 31 December 2014.

Base fees for Non-Executive Directors are currently £40,000 per annum with enhancements for chairing a Board Committee and acting as Senior Independent Director of £5,000 per annum.

Governance:

Remuneration Committee report continued

Implementation of policy in the 2014 financial year continued

Pensions

The Group Chief Executive will receive employer contributions into defined contribution arrangements operated by Dialight Corporation in the US as well as a cash payment in lieu of pension contributions of $100k on 1 July 2014.

APBP

The 2014 APBP will be based on targets linked to EBIT performance and cash conversion. The maximum opportunity for the Group Chief Executive will remain unchanged at 175% of base salary. This will be split 130/45 in favour of EBIT/cash.

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

PSP

Awards for 2014 will be made in April 2014 under the existing rules, subject to EPS and TSR performance targets. At the time of production of the report these measures had not formally been approved by the Committee.

The Committee and advisers

The Committee

Whilst the Board remains responsible for the Group's remuneration policy, the Committee has delegated authority in respect of the determination and review of 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 a responsibility to recommend and monitor the structure of the remuneration of the Group's senior management, as defined by the Board.

Committee members

Those individuals that served on the Committee during the year can be found on page 52. All members served throughout the year are considered independent in accordance with the Code. 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 41.

A copy of the terms of reference for the Committee can be found on the Company's website or on request from the Company Secretary at the Registered Office.

The Committee has access to the advice of the Group Chief Executive and the Company Secretary (none of whom participate in any discussion concerning their own remuneration) and external advisers as required.

External advice

During the year ended 31 December 2013 the Committee consulted Kepler Associates ("Kepler"), who provided advice regarding executive remuneration benchmarking, annual bonus plans and long-term incentive design, and Clifford Chance LLP ("Clifford Chance"), who advised on the operation of the Group's PSP and APBP. Kepler and Clifford Chance provided no other services to the Company. Kepler is a founding member and signatory of the Code of Conduct for Remuneration Consultants, details of which can be found at www.remunerationconsultantsgroup.com. The Committee undertakes due diligence periodically to ensure that its advisers remain independent and that the advice provided is impartial and objective.

The total fees charged for the provision of these services during the year were £43,000 and £3,000 in respect of Kepler and Clifford Chance respectively.

The Committee retains the responsibility for the appointment of remuneration advisers and their associated fees. Kepler acts for the Committee and the Company and takes instruction through the Company Secretary.

Statement of shareholder voting

The table below shows the voting outcome at the 2013 AGM for the approval of the 2012 Remuneration report.

Votes	% of votes for	% of votes against	% of votes withheld
Remuneration report*	99%	1.4%	0.007%

* 21,217,532 ordinary shares were voted, representing 65.99% of the issued share capital.

Financial statements

Independent auditors' report to the members of Dialight plc only

Opinions and conclusions arising from our audit

1. Our opinion on the financial statements is unmodified

We have audited the financial statements of Dialight Plc for the year ended 31 December 2013 set out on pages 70 to 112. 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 2013 and of the profit of the Group for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with UK Accounting Standards; and
- 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.

2. Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements the risks of material misstatement that had the greatest effect on our audit were as follows:

Goodwill (£11.9 million)

Refer to page 45 (Audit Committee Report), note 3(i) (accounting policy) and note 12 (financial disclosures).

The risk – Goodwill acquired in a business combination is allocated at acquisition to the cash generating units (CGUs) that are expected to benefit from the combination. The recoverable amounts of the CGUs are determined from value in use calculations. This is a key judgement area as adverse changes in assumptions, particularly relating to the forecasting of cash flows and discount rates could reduce the recoverable amount below the carrying amount. In particular there is increased risk around the carrying value of the European Traffic goodwill given the maturity of the market in which this CGU operates. Furthermore, the series of trading updates issued throughout 2013, which culminated in profit before tax being below initial expectations, raised concerns over the adequacy of the cash flow forecasts used in the impairment review.

Our response – Our audit procedures in this area included, among others:

- ensuring the cash generating units are consistent with the information used by management;
- agreeing the cash flows in the model to the three year strategy model;
- ensuring the long-term growth rates in the model don't exceed industry published data;
- testing each component of the discount rate to external sources;
- comparing the discounted cash flows to the market capitalisation of the Group;
- applying a number of sensitivities to the inputs including sales growth beyond the 2014 detailed forecast and discount rates in the model to assess the appropriateness of the carrying value of the goodwill; and
- considered the impact of the updated forecasts (prepared for 2014 following the actual outturn for 2013) on the headroom in the goodwill impairment model.

We also considered whether the Group's disclosures in respect of the impairment review and the sensitivity of the outcome of the impairment review to changes in key assumptions are appropriate.

Inventory valuation (£24.2 million)

Refer to page 46 (Audit Committee Report), note 3(j) (accounting policy) and note 15 (financial disclosures).

The risk – The Group operates in an industry whereby developments in product technology may result in inventory becoming slow moving or obsolete, which in turn may mean that inventory cannot be sold or sales prices are discounted to less than the inventory carrying value. This could result in a material impairment of the inventory balance.

Our response – The Group produces a report of all slow moving inventory (based on historical usage and most recent purchase date) and this is reviewed by the planning and production team in conjunction with the engineering and sales team and an appropriate provision percentage is then applied to each inventory line. In addition, any changes to the bill of materials for finished goods in response to changes in technology are authorised and the timing of the change agreed so that the planning and production team can appropriately manage the inventory levels. Our audit procedures in this area included, among others:

- checking the accuracy and completeness of the historical usage and most recent purchase date reports;
- assessing the adequacy of the Group's provision against inventory through;
  - discussions with management and the planning and production team;
  - determining the inventory lines sold at a loss during the year and ensuring they are appropriately included in the provision;
  - comparing post year-end sales values to the inventory valuation; and
  - testing the authorization control in respect of the bill of material changes.

We also assessed the adequacy of the Group's disclosures in respect of the judgements used in determining the carrying value of inventory.

Independent auditors' report continued
to the members of Dialight plc only

Opinions and conclusions arising from our audit continued

2. Our assessment of risks of material misstatement continued

Revenue recognition (£131.2 million)

Refer to page 46 (Audit Committee Report), note 3(q) (accounting policy) and note 4 (financial disclosures).

The risk – There is a high volume of transactions close to the year-end due to customer requirements and the Group's year-end reporting deadline incentive. The Group also has a number of customers who have different contractual terms meaning that the risks and rewards transfer at different timings (such as on dispatch, on receipt at port of destination and on receipt by customer) with the result that there is an increased risk that revenue may not be recognised in the correct period. Furthermore, the series of trading updates issued throughout 2013, which culminated in profit before tax being below initial expectations, raised further risk that revenue may have been overstated in 2013.

Our response – Our audit procedures in this area included, among others:

» testing revenue recognised either side of the year end through agreement to dispatch documentation and the analysis of customer agreements to ensure that revenue was recognised in the correct year. The sample tested in the US and UK was increased given the significance of these locations to the overall Group result to respond to the increased risk perceived due to the trading updates.

We also assessed the adequacy of the Group's disclosures in respect of revenue recognition.

Development costs (£5.9 million)

Refer to page 46 (Audit Committee Report), note 3(h) (accounting policy) and note 12 (financial disclosures).

The risk – The Group operates in an industry whereby a high level of research and development into product technology is required to ensure the Company keeps at the forefront of technological advances in lighting. Costs can only be capitalised if the product or process is commercially and technically feasible and the Group has sufficient resources to complete the development therefore judgement is required in the initial categorisation of expenditure between research (which is expensed) and development (which is capitalised). Subsequently, judgements are involved in the application of a suitable amortisation period, and assessment as to whether the assets are impaired.

Our response – Our audit procedures in this area included, among others:

» obtaining a detailed list of costs capitalised, and reconciling a sample to source documentation including timesheets for relevant employees and invoices;

» making inquiries of management to understand the projects and the rationale for capitalising the costs;

» corroborating through discussion with the engineering department and inspecting feasibility documentation, where available, to confirm the viability of the product and that the return on the product is expected to exceed the capitalised cost;

» making inquiries of management whether the intangible asset was completed in the period and assessing whether amortisation commenced at an appropriate time;

» recalculating the amortisation expense for the period;

» examining expensed research and development costs in the general ledger to assess whether there are any other significant items recorded during the period that should have been capitalised to intangible assets; and

» for completed projects, an impairment review was performed by obtaining information on sales in the current period and assessing projected sales/profits for the remainder of the product life.

We also considered whether the Group's disclosures in respect of development costs and amortisation are appropriate.

3. Our application of materiality and an overview of the scope of our audit

The materiality for the Group financial statements as a whole was set at £1.0 million. This has been determined with reference to a benchmark of Group profit before taxation (of which it represents 8%), which we consider to be one of the principal considerations for members of the Company in assessing the financial performance of the Group.

We agreed with the audit committee to report to it all corrected and uncorrected misstatements we identified through our audit with a value in excess of £50,000, in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

Audits for Group reporting purposes were performed by the Group audit team at the key reporting components in the USA and the UK. In addition, specified audit procedures were performed by component auditors in Australia, Malaysia and Mexico. These Group procedures covered 82% of total Group revenue; 73% of Group profit before taxation; and 89% of total Group assets. The segment disclosures in note 4 sets out the individual significance of operations in specific countries.

The audits undertaken for Group reporting purposes at the key reporting components of the Group were all performed to materiality levels set by the Group audit team. These materiality levels were set individually for each component and ranged from £0.475m to £0.75m.

Detailed instructions were issued to all the auditors in the other locations. These instructions covered the significant audit areas that should be covered by their work (which included the relevant risks of material misstatements detailed above) and set out the information required to be reported back to the Group audit team.

Opinions and conclusions arising from our audit continued

4. Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

» the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and

» the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

5. We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

» we have identified material inconsistencies between the knowledge we acquired during our audit and the Directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy; or

» the Report of the Audit Committee does not appropriately address matters communicated by us to the audit committee.

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.

Under the Listing Rules we are required to review:

» the Directors' statement, set out on page 51, in relation to going concern; and

» the part of the Corporate governance statement on page 40 relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope of report and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 51, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2013a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

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
10 March 2014

Consolidated income statement
For the year ended 31 December 2013

	Note	12 months ended 31 December 2013 Underlying £'m	12 months ended 31 December 2013 Non-underlying £'m	12 months ended 31 December 2013 Total £'m	12 months ended 31 December 2012 (restated#) Underlying £'m	12 months ended 31 December 2012 (restated#) Non-underlying* £'m	12 months ended 31 December 2012 (restated#) Total £'m
Continuing operations							
Revenue	4	131.2	—	131.2	115.1	—	115.1
Cost of sales		(89.6)	—	(89.6)	(73.9)	—	(73.9)
Gross profit		41.6	—	41.6	41.2	—	41.2
Distribution costs		(18.1)	—	(18.1)	(12.5)	—	(12.5)
Administrative expenses		(9.0)	(2.9)	(11.9)	(9.1)	—	(9.1)
Profit/(loss) from operating activities	4	14.5	(2.9)	11.6	19.6	—	19.6
Financial income	8	—	—	—	0.2	—	0.2
Financial expense	8	(0.1)	(0.3)	(0.4)	(0.1)	0.1	—
Net financing (expense)/income	8	(0.1)	(0.3)	(0.4)	0.1	0.1	0.2
Profit/(loss) before income tax	4	14.4	(3.2)	11.2	19.7	0.1	19.8
Income tax expense	9	(4.5)	1.0	(3.5)	(6.5)	—	(6.5)
Profit/(loss) from continuing operations after tax	4	9.9	(2.2)	7.7	13.2	0.1	13.3
Discontinued operations							
Gain from discontinued operations (net of taxes)	5	—	0.7	0.7	—	0.1	0.1
Profit/(loss) for the year	4	9.9	(1.5)	8.4	13.2	0.2	13.4
Profit for the period attributable to:							
Equity owners of the Company				8.5			13.5
Non-controlling Interests				(0.1)			(0.1)
Profit for the year				8.4			13.4
Earnings per share – underlying							
Basic	18			30.8p			41.7p
Diluted	18			30.5p			41.0p
Earnings per share							
Basic	18			26.2p			42.0p
Diluted	18			25.9p			41.3p
Earnings per share – continuing operations							
Basic	18			23.9p			41.4p
Diluted	18			23.7p			40.7p

The accompanying notes form an integral part of these financial statements.

See note 3t.

* See note 6.

Consolidated statement of comprehensive income
For the year ended 31 December 2013

	2013 £'m	2012 (restated#) £'m
Other comprehensive income		
Items that may be reclassified subsequently to profit and loss		
Exchange difference on translation of foreign operations	**(1.3)**	(1.7)
Income tax on exchange difference on translation of foreign operations	**—**	0.3
	(1.3)	(1.4)
Items that will not be reclassified subsequently to profit and loss		
Remeasurement of defined benefit pension liability	**0.7**	(2.5)
Income tax on remeasurement of defined benefit pension liability	**(0.2)**	0.6
	0.5	(1.9)
Other comprehensive income for the year, net of tax	**(0.8)**	(3.3)
Profit for the year	**8.4**	13.4
Total comprehensive income for the year	**7.6**	10.1
Attributable to:		
Owners of the parent	**7.7**	10.2
Non-controlling interest	**(0.1)**	(0.1)
Total comprehensive income for the year	**7.6**	10.1

See note 3t.

Consolidated statement of changes in equity
For the year ended 31 December 2013

	Note	Share capital £'m	Merger reserve £'m	Translation reserve £'m	Capital redemption reserve £'m	Retained earnings £'m	**Total £'m**	Non-controlling interests £'m	**Total equity £'m**
Balance at 1 January 2013		0.6	1.4	2.1	2.2	56.7	**63.0**	—	**63.0**
Profit		—	—	—	—	8.5	**8.5**	(0.1)	**8.4**
Other comprehensive income:									
Foreign exchange translation differences, net of taxes		—	—	(1.3)	—	—	**(1.3)**	—	**(1.3)**
Remeasurement of defined benefit pension liability, net of taxes	19	—	—	—	—	0.5	**0.5**	—	**0.5**
Total other comprehensive income		—	—	(1.3)	—	0.5	**(0.8)**	—	**(0.8)**
Total comprehensive income for the year		—	—	(1.3)	—	9.0	**7.7**	(0.1)	**7.6**
Transactions with owners, recorded directly in equity:									
Share-based payments, net of tax	7,9	—	—	—	—	0.7	**0.7**	—	**0.7**
Dividends	17	—	—	—	—	(4.6)	**(4.6)**	—	**(4.6)**
Total contributions by and distributions to owners		—	—	—	—	(3.9)	**(3.9)**	—	**(3.9)**
Balance at 31 December 2013		**0.6**	**1.4**	**0.8**	**2.2**	**61.8**	**66.8**	**(0.1)**	**66.7**
Balance at 1 January 2012		0.6	1.4	3.5	2.2	47.0	**54.7**	0.1	**54.8**
Profit		—	—	—	—	13.5	**13.5**	(0.1)	**13.4**
Other comprehensive income:									
Foreign exchange translation differences, net of taxes		—	—	(1.4)	—	—	**(1.4)**	—	**(1.4)**
Remeasurement of defined benefit pension liability, net of taxes	19	—	—	—	—	(1.9)	**(1.9)**	—	**(1.9)**
Total other comprehensive income		—	—	(1.4)	—	(1.9)	**(3.3)**	—	**(3.3)**
Total comprehensive income for the year		—	—	(1.4)	—	11.6	**10.2**	(0.1)	**10.1**
Transactions with owners, recorded directly in equity:									
Share-based payments, net of tax	7,9	—	—	—	—	1.4	**1.4**	—	**1.4**
Deferred bonus share scheme	7	—	—	—	—	0.2	**0.2**	—	**0.2**
Dividends	17	—	—	—	—	(3.4)	**(3.4)**	—	**(3.4)**
Dividends on shares awarded under the PSP	17	—	—	—	—	(0.1)	**(0.1)**	—	**(0.1)**
Total contributions by and distributions to owners		**—**	**—**	**—**	**—**	**(1.9)**	**(1.9)**	**—**	**(1.9)**
Balance at 31 December 2012		**0.6**	**1.4**	**2.1**	**2.2**	**56.7**	**63.0**	**—**	**63.0**

At 31 December 2013 the number of shares held by the Group through the Dialight Employees' Share Ownership Plan Trust ("ESOT") trust was nil (2012: 47,596). The market value of these shares at 31 December 2013 was £nil (2012: £505,945).

Consolidated statement of total financial position
For the year ended 31 December 2013

	Notes	**2013 £'m**	2012 £'m
Assets			
Property, plant and equipment	11	**13.4**	10.9
Intangible assets	12	**21.1**	18.2
Deferred tax assets	14	**0.4**	1.6
Total non-current assets		**34.9**	30.7
Inventories	15	**24.2**	19.6
Trade and other receivables	16	**27.9**	27.0
Cash and cash equivalents	22	**8.8**	15.0
Total current assets		**60.9**	61.6
Total assets		**95.8**	92.3
Liabilities			
Trade and other payables	21	**(22.7)**	(22.4)
Provisions	20	**(0.3)**	(0.5)
Contingent consideration	13	**(0.6)**	(0.6)
Tax liabilities		**(1.7)**	(1.5)
Total current liabilities		**(25.3)**	(25.0)
Employee benefits	19	**(0.4)**	(1.2)
Contingent consideration	13	**(2.7)**	(2.7)
Provisions	20	**(0.7)**	(0.4)
Total non-current liabilities		**(3.8)**	(4.3)
Total liabilities		**(29.1)**	(29.3)
Net assets		**66.7**	63.0
Equity			
Issued share capital	17	**0.6**	0.6
Merger reserve	17	**1.4**	1.4
Other reserves		**3.0**	4.3
Retained earnings		**61.8**	56.7
		66.8	63.0
Non-controlling interests		**(0.1)**	—
Total equity		**66.7**	63.0

The accompanying notes form part of the financial statements.

These financial statements were approved by the Board of Directors on 10 March 2014 and were signed on its behalf by:

Roy Burton
Group Chief Executive
Company Number: 2486024

Bill Ronald
Chairman

Consolidated statement of cash flows
For the year ended 31 December 2013

	Note	2013 £'m	2012 (restated#) £'m
Operating activities			
Profit for the year		**8.4**	13.4
Adjustments for:			
Financial income	8	**—**	(0.3)
Financial expense	8	**0.4**	0.1
Income tax expense	9	**3.4**	6.3
Share-based payments		**0.4**	0.5
Deferred bonus share scheme		**—**	0.2
Depreciation of property, plant and equipment	11	**2.0**	2.0
Amortisation of intangible assets	12	**1.1**	0.9
Impairment losses on intangible assets and goodwill		**0.3**	—
Gain on sale of discontinued operation, net of tax	5	**(1.0)**	(0.5)
Operating cash flow before movements in working capital		**15.0**	22.6
Increase in inventories		**(5.2)**	(7.5)
Increase in trade and other receivables		**(1.5)**	(4.9)
(Decrease)/increase in trade and other payables		**(1.2)**	4.0
Increase in provisions	20	**0.1**	—
Pension contributions in excess of the income statement	19	**(0.3)**	(0.4)
Cash generated from operations		**6.9**	13.8
Income taxes paid		**(2.2)**	(4.3)
Interest paid	8	**(0.1)**	—
Net cash generated from operating activities		**4.6**	9.5
Investing activities			
Acquisition of subsidiary, net of cash acquired	13	**—**	(1.6)
Non-controlling interest		**0.1**	—
Disposal of discontinued operation, net of cash disposed of	5	**1.3**	4.3
Capital expenditure	11	**(4.9)**	(4.2)
Capitalised expenditure on development	12	**(4.4)**	(2.8)
Sale of tangible fixed assets	11	**0.1**	—
Net cash used in investing activities		**(7.8)**	(4.3)
Financing activities			
Dividends paid	17	**(4.6)**	(3.4)
Net cash used in financing activities		**(4.6)**	(3.4)
Net increase in cash and cash equivalents		**(7.8)**	1.8
Cash and cash equivalents at beginning of the year		**15.0**	13.7
Effect of exchange rates on cash held		**(0.1)**	(0.5)
Cash and cash equivalents at end of year	22	**7.1**	15.0

See note 3t

Notes to the consolidated financial statements
For the year ended 31 December 2013

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 2013 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.

(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 Directors 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:

Significant

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 or the Group's ability to carry out its strategic plans could impact key assumptions made as part of this review. Where these uncertainties present a material risk to the carrying value of goodwill, sensitivity analysis carried out on the relevant CGUs.

Development costs (see note 12)

The Group capitalises development costs provided they meet certain criteria set out in the respective accounting policy. Costs are only capitalised where management is satisfied as to the ultimate commercial viability of the projects concerned based on available information. The capitalised costs are amortised over the useful economic life, which is determined based on the reasonable commercial prospects for the resultant product.

Inventory provision (see note 15)

The Group operates in an environment of technological change, presenting the risk of obsolete inventory. Inventory is reviewed by operational and financial management on a regular basis, product-by-product, and the level of provision required is assessed against historic and forecast use for that product. The actual level of provision required may be materially higher or lower than expected.

Other

Warranty (see note 20)

The Group offers performance warranties on many of its products. A provision is made for the expected costs of future warranty claims relating to past product sales. This provision is estimated based on historic trends for returns, internal knowledge of product performance characteristics and the expected costs of remedying warranty-returned product. This information is reviewed by management regularly. Actual returns may be materially higher or lower than these estimates, which may have a material impact on the adequacy of the provision for warranty claims.

Contingent consideration (see note 13)

In assessing the fair value of contingent consideration in respect of business combinations, the directors take account of the terms of the underlying purchase agreement. They also consider, based on available evidence, the likelihood of contingent consideration becoming payable, the range of possible values, and any other factors that may impact the final amount payable. Actual consideration paid may be materially different to the amount provided in the financial statements.

Tax (see note 9)

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.

Notes to the consolidated financial statements continued
For the year ended 31 December 2013

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.

(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 remeasured to fair value at subsequent reporting dates.

The gain or loss on remeasurement to fair value is recognised immediately in the income statement.

(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

3. Significant accounting policies continued

(f) Depreciation and amortisation continued

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	4 years
Development costs	3–5 years
Order book	1–2 years
Customer relationships	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.

(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.

Notes to the consolidated financial statements continued
For the year ended 31 December 2013

3. Significant accounting policies continued

(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.

(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; discounting that amount and deducting the fair value of any plan assets.

The calculation is performed by an independent qualified actuary using the projected unit credit method. When the calculation results in a potential asset to the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in OCI. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss.

(ii) Defined benefit pension plans continued

When the benefits of a plan are changed, or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(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 Monte Carlo or Black-Scholes models, 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.

(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 agreed shipping terms 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.

3. Significant accounting policies continued

(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.

(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) Changes in accounting polices

Except for the changes below, the Group has consistently applied the accounting policies set out in this note to all periods presented in these consolidated financial statements.

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2013. Whilst there are further new or amended standards to those detailed below, these have not had a material impact on the Group and are therefore not disclosed.

» Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)

» IAS 19 Employee Benefits (2011)

The nature and effect of these changes are explained below.

Presentation of items of OCI
As a result of the amendments to IAS 1, the Group has modified the presentation of items of OCI in its statement of profit or loss and OCI, to present separately items that would be reclassified to profit or loss from those that would never be. Comparative information has been re-presented accordingly.

Post-employment defined benefit plans
As a result of IAS 19 (2011), the Group has changed its accounting policy with respect to the basis for determining the income or expense related to its post-employment defined benefit plans.

Under IAS 19 (2011), the Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Consequently, the net interest on the net defined benefit liability (asset) now comprises: interest cost on the defined benefit obligation, interest income on plan assets, and interest on the effect on the asset ceiling. Previously, the Group determined interest income on plan assets based on their long-term rate of expected return.

Post-employment defined benefit plans continued
The quantitative impact of the change is an increase in profit after tax for the year ended 31 December 2012 of £58,000 and a decrease in other comprehensive income of the same amount. In addition, the expected return on assets and interest charge on scheme liabilities have been presented net in the income statement.

No other changes to new or revised accounting standards have had a material impact on the consolidated financial statements of the Group.

Notes to the consolidated financial statements continued
For the year ended 31 December 2013

3. Significant accounting policies continued

(t) Changes in accounting polices continued

Adoption of new and revised standards

A number of new, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014 and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Group.

(u) Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Group has an established control framework, appropriate for the size and complexity of the Group, with respect to the measurement of fair values. When measuring the fair value of an asset or liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

4. Operating segments

The Group comprises three reportable operating segments. These segments have been identified based on the internal information that is supplied regularly to the Group's chief operating decision maker for the purposes of assessing performance and allocating resources. The chief operating decision maker is considered to be the Group's Chief Executive.

The three reportable operating segments are:

» Lighting, which develops, manufactures and supplies highly efficient LED lighting solutions for hazardous and industrial applications in which lighting performance is critical.

» Signals, which develops, manufactures and supplies highly efficient LED signalling solutions for markets including anti-collision obstruction lighting and traffic signals.

» Components, which develops, manufactures and supplies status indication components for electronics OEMs, together with niche industrial and automotive electronic components.

There is no inter-segment revenue.

All revenue relates to the sale of goods. Segment results 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.

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

4. Operating segments continued

Reportable segments

2013	**Lighting £'m**	**Signals £'m**	**Components £'m**	**Continuing operations £'m**	**Electro-magnetic Components (discontinued) £'m**	**Total £'m**
Revenue	68.5	41.8	20.9	131.2	0.5	131.7
Contribution	31.3	17.5	9.9	58.7	0.1	58.8
Overhead costs	(19.8)	(12.3)	(8.6)	(40.7)	(0.5)	(41.2)
Segment results	11.5	5.2	1.3	18.0	(0.4)	17.6
Unallocated expenses				(3.5)	—	(3.5)
Underlying operating profit				14.5	(0.4)	14.1
Non-underlying expenses				(2.9)	—	(2.9)
Operating profit				11.6	(0.4)	11.2
Net financing expense				(0.4)	—	(0.4)
Profit on sale				—	1.3	1.3
Profit before tax				11.2	0.9	12.1
Income tax expense				(3.5)	(0.2)	(3.7)
Profit after tax				7.7	0.7	8.4

2012	Lighting £'m	Signals £'m	Components £'m	Continuing operations £'m	Electro-magnetic Components (discontinued) £'m	Total £'m
Revenue	45.5	48.1	21.5	115.1	14.6	129.7
Contribution	20.2	22.6	10.3	53.1	1.9	55.0
Overhead costs	(11.6)	(11.3)	(7.2)	(30.1)	(2.4)	(32.5)
Segment results	8.6	11.3	3.1	23.0	(0.5)	22.5
Unallocated expenses				(3.4)	—	(3.4)
Operating profit				19.6	(0.5)	19.1
Net financing income				0.2	—	0.2
Profit on sale				—	0.7	0.7
Profit before tax				19.8	0.2	20.0
Income tax expense				(6.5)	(0.1)	(6.6)
Profit after tax				13.3	0.1	13.4

Notes to the consolidated financial statements continued
For the year ended 31 December 2013

4. Operating segments continued

Geographical segments

The Lighting, Signals and Components segments are managed on a worldwide basis but operate in four principal geographic areas: North America, UK, Europe and Rest of World. The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods.

All revenue relates to the sale of goods.

Sales revenue by geographical market

	2013 £'m	2012 £'m
North America	82.8	90.1
UK	12.0	11.7
Rest of Europe	17.5	12.9
Rest of World	19.4	15.0
Electromagnetic components (discontinued)	(0.5)	(14.6)
	131.2	115.1

Reconciliations of reportable segment profit or loss

	2013 £'m	2012 £'m
Total profit or loss for reportable segments	17.6	22.5
Elimination of discontinued operations	0.4	0.5
Unallocated amounts:		
Other corporate expenses	(3.5)	(3.4)
Non-underlying expenses	(2.9)	—
Net financing income/(expenses)	(0.4)	0.2
Consolidated profit from continuing activities before tax	11.2	19.8

5. Discontinued operations

The Group disposed of the assets of its electromagnetic components business in late 2012. During the year, the Group received contingent consideration of £1.3m (before tax) and sold some residual inventory. The results of these activities have been presented as discontinued operations.

Results of discontinued operation

	2013 £'m	2012 £'m
Revenue	0.5	14.6
Expenses	(0.9)	(15.1)
Results from operating activities	(0.4)	(0.5)
Tax	0.1	0.1
Results from operating activities, net of tax	(0.3)	(0.4)
Gain on sale of discontinued operation	1.3	0.7
Tax on gain on sale of discontinued operation	(0.3)	(0.2)
Profit for the year	0.7	0.1
Basic earnings per share	2.2p	0.5p
Diluted earnings per share	2.5p	0.5p

The operating loss from discontinued operation of £0.4m (2012: loss of £0.5m) is attributable entirely to the owners of the Company.

5. Discontinued operations continued

Cash flows from/(used in) discontinued operations

	2013 £'m	2012 £'m
Consideration received, satisfied in cash	**1.3**	5.7
Cash paid for redundancy and staff costs	**–**	(0.9)
Cash paid for professional and other fees	**–**	(0.5)
Net cash inflow from investing activities	**1.3**	4.3

The net cash used in operating activities for the year ended 31 December 2013 is £0.1m (2013: £0.2m).

6. Non-underlying income/expense

From time to time, the Group incurs costs and earns income that is non-recurring in nature or that is otherwise considered to be not reflective of the underlying performance of the business. In the assessment of performance of the components of the Group, management examines underlying performance, which removes the impact of non-underlying costs and income. The results of discontinued operations are also considered to form part of non-underlying operations.

The table below presents the components of non-underlying profit or loss recorded within administrative expenses:

	2013 £'m	2012 £'m
Intellectual property past-use access fee	**(1.4)**	–
Goodwill and asset write-down	**(0.8)**	–
Employee severance and restructuring costs	**(0.4)**	–
Other	**(0.3)**	–
Non-underlying costs recorded in administrative expenses	**(2.9)**	–

The intellectual property past-use access fee relates to a one-off payment for access to certain patents and intellectual property over the last five years.

During the year, the goodwill, intangible assets and certain operating assets related to the Group's Japanese subsidiary, Dialight Japan KK, were written down in full due to deterioration in the Group's projections for that territory.

During the year, the Group closed its UK research and development site and engaged in certain other limited restructuring exercises which led to staff redundancies and other termination costs.

The table below presents the components of non-underlying profit or loss recorded within finance income/(expenses):

	2013 £'m	2012 £'m
Change in fair value of contingent consideration	**(0.3)**	(0.1)
Release of provision related to closure of US pension scheme	**–**	0.2
Non-underlying (costs)/income recorded in finance expenses/(income)	**(0.3)**	0.1

Notes to the consolidated financial statements continued
For the year ended 31 December 2013

7. Personnel expenses

	2013 £'m	2012 £'m
Wages and salaries	**27.4**	20.1
Social security contributions	**2.8**	2.5
Equity-settled share-based payment transactions	**0.4**	0.5
Deferred bonus share scheme	**—**	0.2
Contributions to defined contribution plans	**0.8**	0.6
Total charge for defined benefit plans	**0.1**	—
	31.5	23.9

The average number of employees by geographical location was:

	2013 Number	2012 Number
UK	**137**	160
US and Mexico	**1,142**	1,395
Rest of World	**275**	71
	1,554	1,626

In 2013 the Group employed an average of 1,133 direct staff (2012: 952) and 421 indirect staff (2012: 305).

8. Net financing (expense)/income
Recognised in profit and loss

	Year ending 31 December 2013			Year ending 31 December 2012 (restated#)		
	Underlying £'m	**Non-underlying £'m**	**Total £'m**	Underlying £'m	Non-underlying* £'m	Total £'m
Interest income on bank deposits	**—**	**—**	**—**	0.1	—	0.1
Net change in fair value of financial assets at fair value through profit or loss held for trading	**—**	**—**	**—**	0.1	—	0.1
Net interest on defined benefit liability	**—**	**—**	**—**	—	—	—
	—	**—**	**—**	0.2	—	0.2
Interest expense on financial liabilities	**(0.1)**	**—**	**(0.1)**	(0.1)	—	(0.1)
Change in fair value of contingent consideration	**—**	**(0.3)**	**(0.3)**	—	(0.1)	(0.1)
Non-underlying settlement loss on buy-out of US pension scheme	**—**	**—**	**—**	—	0.2	0.2
	(0.1)	**(0.3)**	**(0.4)**	(0.1)	0.1	—
Net financing (expense)/income recognised consolidated income statement	**(0.1)**	**(0.3)**	**(0.4)**	0.1	0.1	0.2

See note 3t.
* See note 6.

9. Income tax expense

Current tax expense

Recognised in the income statement

	2013 £'m	2012 £'m
Current tax expense		
Tax expense from continuing operations	3.5	6.5
Tax from discontinued operations (excluding gain on sale)	(0.1)	(0.1)
	3.4	6.4
Tax on gain on sale of discontinued operation	0.3	0.1
Income tax expense	3.7	6.5

	2013 £'m	2012 £'m
Current tax expense		
Current year	3.5	5.4
Adjustment for prior years	(0.1)	(0.1)
Utilisation of previously unrecognised losses	(0.2)	–
	3.2	5.3
Deferred tax expense		
Origination and reversal of temporary differences	0.7	1.1
Adjustment for prior years	0.1	0.1
Reduction in tax rate	0.2	–
Recognition of previously unrecognised losses	(0.7)	–
Change in recognised deductible timing differences	0.2	–
Income tax expense	3.7	6.5

Reconciliation of effective tax rate

	2013 %	2013 £'m	2012 %	2012 £'m
Profit for the year		8.4		13.4
Total income tax expense		3.7		6.5
Profit excluding income tax		12.1		19.9
Income tax using the UK corporation tax rate	23.3	2.8	24.5	4.9
Effect of tax rates in foreign jurisdictions	8.3	1.0	10.2	2.0
Reduction in tax rate	1.7	0.2	0.4	—
Non-deductible expenses	1.7	0.2	(0.7)	(0.1)
Current year losses for which no deferred tax is recognised	4.1	0.5	—	—
Recognition of tax effect of previously unrecognised losses	(7.2)	(0.9)	(1.0)	(0.2)
Changes in recognised deductible timing differences	1.7	0.2	—	—
Research and development credits	(0.8)	(0.1)	(0.7)	(0.1)
Other	(1.7)	(0.2)	(0.1)	—
	30.9	3.7	32.6	6.5

Notes to the consolidated financial statements continued
For the year ended 31 December 2013

9. Income tax expense continued
Current tax expense

Deferred tax recognised directly in equity

	2013 £'m	2012 £'m
Share-based payments	0.3	0.9

Reductions in the UK corporation tax rate from 26% to 24% (effective from 1 April 2012) and to 23% (effective 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. Further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. This will reduce the company's future current tax charge accordingly. The deferred tax assets (liabilities) at 31 December 2013 has been calculated based on a rate of 20% substantively enacted at the balance sheet date. Deferred tax assets have not been recognised in respect of tax losses amounting to £2.1m because it is not probable that future taxable profits will be available against which the Group can use the benefits therefrom.

10. Profit for the year
Profit for the year has been arrived at after charging:

	2013 £'m	2012 £'m
Research and development costs		
Expensed as incurred	1.6	2.5
Amortisation charge	0.7	0.5
	2.3	3.0
Depreciation of fixed assets	2.0	2.0
Amortisation of customer relationships	0.3	0.3
Amortisation of technology	0.1	–
Impairment of goodwill and intangible assets	0.3	–
Operating leases – property	1.1	0.9
Operating leases – other	0.2	0.1

Auditors' remuneration:

	2013 £'m	2012 £'m
Audit of these financial statements	0.1	0.1
Amounts receivable by auditors in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	0.1	0.1
Other services relating to taxation	–	0.1
Pension advisory services in respect of Group pension	0.1	0.1
	0.3	0.4

11. Property, plant and equipment

	Land and buildings £'m	Plant, equipment and vehicles £'m	Total £'m
Cost			
At 1 January 2012	5.4	31.9	37.3
Exchange adjustments	(0.1)	(1.2)	(1.3)
Additions	0.1	4.2	4.3
Disposals	(0.1)	(0.4)	(0.5)
At 31 December 2012	5.3	34.5	39.8
At 1 January 2013	5.3	34.5	39.8
Exchange adjustments	—	(0.8)	(0.8)
Additions	0.2	4.7	4.9
Disposals	(0.1)	(3.4)	(3.5)
At 31 December 2013	**5.4**	**35.0**	**40.4**
Accumulated depreciation			
At 1 January 2012	(3.0)	(25.3)	(28.3)
Exchange adjustments	0.1	0.9	1.0
Charge for year	(0.1)	(1.9)	(2.0)
Disposals	—	0.4	0.4
At 31 December 2012	(3.0)	(25.9)	(28.9)
At 1 January 2013	(3.0)	(25.9)	(28.9)
Exchange adjustments	—	0.5	0.5
Charge for year	(0.1)	(1.9)	(2.0)
Disposals	0.1	3.3	3.4
At 31 December 2013	**(3.0)**	**(24.0)**	**(27.0)**
Carrying amount at 31 December 2013	**2.4**	**11.0**	**13.4**
At 31 December 2012	2.3	8.6	10.9
At 1 January 2012	2.4	6.6	9.0

Notes to the consolidated financial statements continued
For the year ended 31 December 2013

12. Intangible assets

	Concessions, patents, licences and trademarks £'m	Goodwill £'m	Order book and customer relationships £'m	Technology £'m	Development costs £'m	Total £'m
Costs						
Balance at 1 January 2012	1.4	7.9	2.1	—	8.2	19.6
Additions arising from internal developments	0.3	—	—	—	2.5	2.8
Additions acquired through business combinations (note 13)	—	4.2	—	0.7	—	4.9
Disposals	—	—	—	—	(2.6)	(2.6)
Effects of foreign exchange movement	—	(0.1)	—	—	(0.2)	(0.3)
Balance at 31 December 2012	1.7	12.0	2.1	0.7	7.9	24.4
Balance at 1 January 2013	1.7	12.0	2.1	0.7	7.9	24.4
Additions arising from internal developments	1.5	—	—	—	2.9	4.4
Effects of foreign exchange movement	—	0.1	—	(0.1)	(0.2)	(0.2)
Balance at 31 December 2013	**3.2**	**12.1**	**2.1**	**0.6**	**10.6**	**28.6**
Amortisation and impairment losses						
Balance at 1 January 2012	(1.3)	—	(0.5)	—	(5.8)	(7.6)
Amortisation for the period	—	—	(0.3)	—	(0.5)	(0.8)
Disposals	—	—	—	—	2.1	2.1
Effects of foreign exchange movement	—	—	—	—	0.1	0.1
Balance at 31 December 2012	(1.3)	—	(0.8)	—	(4.1)	(6.2)
Balance at 1 January 2013	(1.3)	—	(0.8)	—	(4.1)	(6.2)
Amortisation for the period	—	—	(0.3)	(0.1)	(0.7)	(1.1)
Impairment	—	(0.2)	(0.1)	—	—	(0.3)
Effects of foreign exchange movement	—	—	—	—	0.1	0.1
Balance at 31 December 2013	**(1.3)**	**(0.2)**	**(1.2)**	**(0.1)**	**(4.7)**	**(7.5)**
Carrying amounts at 31 December 2013	**1.9**	**11.9**	**0.9**	**0.5**	**5.9**	**21.1**
At 31 December 2012	0.4	12.0	1.3	0.7	3.8	18.2
At 1 January 2012	0.1	7.9	1.6	—	2.4	12.0

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.

12. Intangible assets continued

Signals and Lighting segments

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 change in value in the Japanese Lighting goodwill is due to the write-down of the carrying value during the year. This is due to a deterioration in management's forecasts for the CGU. The change in value in the European Traffic goodwill figure is due to foreign currency translation. The carrying amount of the goodwill has been allocated as follows.

	2013 £'m	2012 £'m
UK Lighting	**2.3**	2.3
European Traffic	**4.0**	3.9
European Obstruction	**1.3**	1.3
Australian Lighting	**0.1**	0.1
Japanese Lighting	**—**	0.2
US Lighting	**4.2**	4.2
	11.9	12.0

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 fair value measurement was categorised as a level 3 fair value based on the inputs in the valuation technique used. 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 strategic forecasts approved by management covering a three-year period. Management has arrived at the three-year plan based upon certain assumptions derived from a combination of internal assessment and 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 three-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 in years four and five are extrapolated using similar growth rates to the first three years. 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.

The rates used to discount the forecast cash flow for the CGUs ranged from 9.8%–10.3% (2012: 8.6–9.3%).

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.

Adverse changes in these assumptions could reduce the recoverable amount below carrying amount.

No such risks were identified in the current year, therefore no sensitivity was performed.

Notes to the consolidated financial statements continued
For the year ended 31 December 2013

13. Acquisition of trade and assets and subsidiaries

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

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

	31 December 2012 £'m
Intangible assets	0.7
Net assets acquired	0.7
Goodwill	4.2
Total consideration	4.9
Satisfied by:	
Cash and cash equivalents	1.6
Contingent consideration	3.3
	4.9
Net cash outflow arising on acquisition	
Cash consideration	1.6
	1.6

The goodwill of £4.2 million 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.

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	
	2013 £'m	2012 £'m	2013 £'m	2012 £'m	2013 £'m	2012 £'m
Property, plant and equipment	—	—	(1.0)	(0.9)	(1.0)	(0.9)
Intangible assets	—	—	(2.3)	(1.7)	(2.3)	(1.7)
Employee benefits	0.7	1.4	—	—	0.7	1.4
Provisions	1.5	1.4	—	—	1.5	1.4
Other items	1.5	1.4	—	—	1.5	1.4
Tax assets/(liabilities)	3.7	4.2	(3.3)	(2.6)	0.4	1.6
Set off of tax	(3.3)	(2.6)	3.3	2.6	—	—
Net tax assets	0.4	1.6	—	—	0.4	1.6

Deferred tax assets have been recognised in respect of all tax losses anticipated to be available. Deferred tax assets have been recognised in respect of tax losses amounting to £2.1m because it is not probable that future taxable profits will be available against which the Group can use the benefits therefrom.

The aggregate amount of temporary differences associated with investments in subsidiaries for which deferred taxation liabilities have not been recognised is £nil (2012: £nil).

14. Deferred tax assets and liabilities continued

Movement in temporary differences during the year

	Property, plant and equipment £'m	Intangible assets £'m	Employee benefits £'m	Provisions £'m	Other short-term timing differences £'m	Total £'m
Balance at 1 January 2012	(0.8)	(1.3)	1.1	1.7	1.2	2.0
Recognised in income	(0.1)	(0.4)	(0.1)	(0.3)	(0.3)	(1.2)
Recognised in equity	—	—	0.4	—	0.5	0.9
Balance at 31 December 2012	(0.9)	(1.7)	1.4	1.4	1.4	1.6
Balance at 1 January 2013	(0.9)	(1.7)	1.4	1.4	1.4	1.6
Recognised in income	(0.1)	(0.6)	(0.1)	0.1	0.1	(0.6)
Recognised in equity	—	—	(0.6)	—	(0.5)	(0.6)
Balance at 31 December 2013	**(1.0)**	**(2.3)**	**0.7**	**1.5**	**1.5**	**0.4**

15. Inventories

	2013 £'m	2012 £'m
Raw materials and consumables	**13.7**	11.2
Work in progress	**1.6**	0.8
Finished goods	**8.9**	7.6
	24.2	19.6

Inventories to the value of £57.8m (2012: £50.6m) were recognised as expenses in the year within continuing operations.

16. Trade and other receivables

	2013 £'m	2012 £'m
Trade receivables	**26.0**	24.6
Other non-trade receivables	**0.8**	0.9
Prepayments and accrued income	**1.1**	1.5
	27.9	27.0

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

	2013 Number	**2013 £'m**	2012 Number	2012 £'m
Allotted and fully paid				
Ordinary shares of 1.89 pence each	**32,359,892**	**0.6**	32,150,231	0.6

During the year, 209,661 shares were issued (0.6% of the total ordinary share capital issued) at par. The ordinary shares issued have the same rights as the other shares in issue.

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17. Capital and reserves continued
Share capital continued

Issued share capital	Ordinary shares 2013 Number	Ordinary shares 2012 Number
In issue at 1 January	**32,150,231**	31,800,231
Shares issued	**209,661**	350,000
Issued and fully paid at 31 December	**32,359,892**	32,150,231

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	2013 £'m	2012 £'m
9.5 pence per ordinary share (2012: 9.5 pence)	**3.1**	3.1

During the year the following dividends were paid:

	2013 £'m	2012 £'m
Final – 9.5 pence (2012: 6.7 pence) per ordinary share	**3.1**	2.1
Interim – 4.9 pence (2012: 4.0 pence) per ordinary share	**1.5**	1.3
	4.6	3.4
Dividends accrued on shares awarded under the PSP and deferred share scheme but not yet vested	**–**	0.1
Total (amount shown in the statement of changes in equity)	**4.6**	3.5

18. Earnings per share
Basic earnings per share
The calculation of basic earnings per share at 31 December 2013 was based on the profit for the year of £8.5m (2012: £13.4m) and a weighted average number of ordinary shares outstanding during the year ended 31 December 2013 of 32,248,312 (2012: 31,988,109).

Diluted earnings per share
The calculation of diluted earnings per share at 31 December 2013 was based on profit for the year of £8.5m (2012: £13.4m) and a weighted average number of ordinary shares outstanding during the year ended 31 December 2013 of 32,602,867 (2012: 32,534,704) calculated as follows:

18. Earnings per share continued

Weighted average number of ordinary shares (diluted)

	2013 '000	2012 '000
Weighted average number of ordinary shares	32,248	31,988
Effect of share options on issue	355	547
Weighted average number of ordinary shares (diluted)	32,603	32,535

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

	2013 Per share	2012 Per share
Basic earnings	26.2p	42.0p
Underlying basic earnings*	30.8p	41.7p
Continuing operations basic earnings	23.9p	41.4p
Diluted earnings	25.9p	41.3p
Underlying diluted earnings*	30.5p	41.0p
Continuing operations diluted earnings	23.7p	40.7p

* Underlying earnings excludes non-underlying items as explained in note 6 and discontinued operations as explained in note 5 and allocates tax at the appropriate rate (see note 9).

19. Employee benefits

Defined benefit pension obligations

The Group makes contributions to two defined benefit plans (referred to below as Plan A and Plan B) to provide benefits for employees upon retirement. Both plans are closed to new members and future accrual. The plans expose the Group to actuarial risks, such as longevity risk, interest rate risk and investment risk. Both plans are final salary defined benefit schemes and are administered by separate funds that are legally separate from the Group. Trustees include independent and company-appointed individuals. The trustees of the plans are required by law to act in the best interests of the plan participants and are responsible for setting certain policies (e.g. investment) of the funds.

The Company is required to agree a Schedule of Contributions with the Trustees of the Funds following a valuation which must be carried out at least once every three years. The next valuation of the Fund is currently ongoing. In the event that the valuation reveals a larger deficit than expected the Company may be required to increase contributions above those set out in the existing Schedule of Contributions. Conversely, if the position is better than expected contributions may be reduced. The Company expects to pay contributions of £300,000 in respect of the Fund in the year to 31 December 2014. The weighted average duration of the defined benefit obligation is 16 years.

	2013 £'m Total	2012 £'m (restated*) Total
Net defined benefit asset (Plan A)	(0.1)	(0.2)
Total employee benefit asset	(0.1)	(0.2)
Net defined benefit liability (Plan B)	0.5	1.4
Total employee benefit liability	0.5	1.4

* See note 3t

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19. Employee benefits continued

Defined benefit pension obligations continued

The following table shows a reconciliation from the opening balances to the closing balances for net defined benefit liability (asset) and its components.

	Defined benefit obligation		Fair value of plan assets		Net defined benefit liability (asset)	
	2013 £'m	2012 £'m	**2013 £'m**	2012 £'m Restated*	**2013 £'m**	2012 £'m Restated*
Balance at 1 January	**22.7**	20.3	**(21.5)**	(21.2)	**1.2**	(0.9)
Included in profit or loss						
Administration costs	**—**	—	**0.2**	—	**0.2**	—
Interest cost (income)	**1.0**	0.9	**(1.0)**	(0.9)	**—**	—
	1.0	0.9	**(0.8)**	(0.9)	**0.2**	—
Included in other comprehensive income						
Remeasurements loss (gain):						
Actuarial loss (gain) arising from:						
– demographic assumptions	**(0.3)**	—	**—**	—	**(0.3)**	—
– financial assumptions	**1.3**	1.0	**—**	—	**1.3**	1.0
– experience adjustment	**(0.9)**	1.5	**—**	—	**(0.9)**	1.5
– Return on plan assets excluding interest income	**—**	—	**(0.8)**	—	**(0.8)**	—
	0.1	2.5	**(0.8)**	—	**(0.7)**	2.5
Other						
Contributions paid by the employer	**—**	—	**(0.3)**	(0.4)	**(0.3)**	(0.4)
Benefits paid	**(1.0)**	(1.0)	**1.0**	1.0	**—**	—
	(1.0)	(1.0)	**0.7**	0.6	**(0.3)**	(0.4)
Balance at 31 December	**22.8**	22.7	**(22.4)**	(21.5)	**0.4**	1.2

Represented by:	**2013 £'m**	2012 £'m
Net defined benefit asset (Plan A)	**(0.1)**	(0.2)
Net defined benefit liability (Plan B)	**0.5**	1.4
	0.4	1.2

* See note 3t

Plan assets consist of the following:

	2013 £'m Total	2012 £'m Total
Equities	**11.1**	8.0
Bonds and gilts	**11.1**	10.6
Cash	**0.2**	2.9
	22.4	21.5

All equity securities and government bonds have quoted prices in active markets.

19. Employee benefits continued

Actuarial assumptions

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

	(% per annum)	
	2013	2012
Discount rate at 31 December	**4.40**	4.40
Future salary increases	**n/a**	n/a
Future pension increases	**3.50**	2.90
Inflation – RPI	**3.60**	2.90
Inflation – CPI	**2.80**	2.40

Assumptions regarding future mortality have been based on published statistics and mortality tables. The current longevities underlying the values of the defined benefit obligation at the reporting date were as follows:

	2013		2012	
	Plan A	**Plan B**	Plan A	Plan B
Longevity at age 65 for current pensioners				
Males	**22.2**	**22.2**	22.3	22.3
Females	**24.7**	**24.7**	24.7	24.7
Longevity at age 65 for current members aged 45				
Males	**24.0**	**24.0**	24.1	24.1
Females	**26.6**	**26.2**	26.7	26.7

Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below.

	Defined benefit obligation	
	Increase £'m	Decrease £'m
Discount rate (0.5% movement)	(1.6)	1.8
Inflation (0.5% movement)	1.6	(1.5)
Life expectancy (+ / – 1 year)	0.7	(0.7)

Although the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumptions shown.

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19. Employee benefits 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. The award was split into two components, one of which was based on the EPS performance of the Group, and the other based on the Group's Total Shareholder Return ("TSR") performance.

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 2010	205,902	—	(205,902)	—	**—**	n/a	3 years	May 2013
September 2010	37,822	—	(37,822)	—	**—**	n/a	3 years	Sept 2013
February 2011	125,578	—	—	(1,619)	**123,959**	411	3 years	Feb 2014
April 2012	65,525	—	—	(826)	**64,699**	684	3 years	April 2015
April 2013 (EPS)	—	38,289	—	—	**38,289**	1,291	3 years	April 2016
April 2013 (TSR)	—	38,289	—	—	**38,289**	707	3 years	April 2016
	434,827	76,578	(243,724)	(2,445)	**265,236**			

Further details of the PSP are included in the Directors' remuneration report on pages 52 to 66.

The 2013 awards linked to EPS have been valued using a Black-Scholes model and those linked to TSR have been valued using the Monte Carlo model.

The following ley assumptions and inputs have been used in the calculation of the fair values:

	2013 EPS award	**2013 TSR award**
Share price	**£12.91**	**£12.91**
Exercise price	**£nil**	**£nil**
Expected volatility	**35%**	**35%**
Award life	**3 years**	**3 years**
Correlation		
Dialight and the FTSE 250 Index (excluding investment trusts)	**n/a**	**33%**

The employee expense in 2013 is £0.4 million (2012: £0.5 million) (see note 7).

20. Provisions

	Warranty £'m
Balance at 1 January 2013	0.9
Effects of foreign exchange movement	—
Provisions made during the year	0.8
Provisions used during the year	(0.7)
Balance at 31 December 2013	**1.0**

	Warranty 2013 £'m	Warranty 2012 £'m
Due within one year	**0.3**	0.5
Due between one and five years	**0.7**	0.4
	1.0	0.9

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

21. Trade and other payables

	2013 £'m	2012 £'m
Trade payables	**14.1**	16.9
Bank overdraft payable	**1.7**	—
Other taxes and social security	**0.4**	0.2
Non-trade payables and accrued expenses	**6.5**	5.3
	22.7	22.4

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 23.

22. Cash and cash equivalents

	2013 £'m	2012 £'m
Cash and cash equivalents in the statement of total financial position	**8.8**	15.0
Bank overdraft used for cash management purposes	**(1.7)**	—
Cash and cash equivalents in the statement of cash flows	**7.1**	15.0

23. 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.

Notes to the consolidated financial statements continued
For the year ended 31 December 2013

23. Financial risk management continued
Credit risk continued
Exposure to credit risk
The ageing of trade receivables at the reporting date was:

	Gross 2013 £'m	Impairment 2013 £'m	Gross 2012 £'m	Impairment 2012 £'m
Not past due	19.3	—	19.3	—
Past due 0–30 days	3.5	—	3.3	0.1
Past due 31–120 days	2.2	—	1.4	0.1
Past due 121–365 days	0.8	0.1	0.8	0.1
More than one year	0.4	0.1	0.1	—
Total	26.2	0.2	24.9	0.3

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

	£'m
Balance at 1 January 2013	0.4
Effects of foreign exchange	—
Utilisation of provision	(0.3)
Provision created	0.1
Balance at 31 December 2013	**0.2**

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 £0.8m (2012: £0.9m) 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, will 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. At 31 December 2013, the Group has no borrowings other than a bank overdraft of £1.7m.

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.

23. 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:

	2013 $'m	2013 €'m	2012 $'m	2012 €'m
Trade receivables	1.4	2.1	3.8	1.5
Currency cash	2.2	0.7	1.2	0.4
Trade payables	(1.2)	(0.2)	(5.9)	(0.2)
Gross balance sheet exposure	2.4	2.6	(0.9)	1.7

The following significant exchange rates applied during the year:

	2013 Average rate	2013 At balance sheet date	2012 Average rate	2012 At balance sheet date
US Dollar	1.57	1.66	1.58	1.63
Euro	1.18	1.20	1.23	1.23

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 2013 £'m	Carrying amount	Contractual cash flow	2 months or less	2–12 months	1–2 years
Non-derivative financial liabilities					
Trade and other payables	22.7	(22.7)	(22.7)	—	—
	22.7	(22.7)	(22.7)	—	—

31 December 2012 £'m	Carrying amount	Contractual cash flows	2 months or less	2–12 months	1–2 years
Non-derivative financial liabilities					
Trade and other payables	22.4	(22.4)	(22.4)	—	—
	22.4	(22.4)	(22.4)	—	—

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Notes to the consolidated financial statements continued
For the year ended 31 December 2013

23. 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 2013 this totalled £66.7m (2012: £63.0m). The Board's target is to generate a return on capital in excess of 25% excluding cash holdings. In 2013, the return was 20.0% compared to 40.8% in 2012. In respect of a dividend, the Board has a dividend policy and aims for three times cover. The result for 2013 was 1.7 times (2012: 3.2 times).

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 2013 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 £0.1m for the year ended 31 December 2013 (2012: £0.2m), and would have reduced the Group's equity by approximately £0.2m for the year ended 31 December 2013 (2012: £0.1m).

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 2013 £'m	**Fair value 2013 £'m**	Carrying amount 2012 £'m	Fair value 2012 £'m
Financial assets				
Cash and cash equivalents	**8.8**	**8.8**	15.0	15.0
Loans and receivables				
Trade and other receivables	**27.9**	**27.9**	27.0	27.0
Total financial assets	**36.7**	**36.7**	42.0	42.0
Financial liabilities:				
Trade and other payables	**(22.7)**	**(22.7)**	(22.4)	(22.4)
Contingent consideration	**(3.3)**	**(3.3)**	(3.3)	(3.3)
Total financial liabilities	**(26.0)**	**(26.0)**	(25.7)	(25.7)
Net financial assets	**10.7**	**10.7**	16.3	16.3

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(u).

24. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2013 £'m	2012 £'m
Less than one year	**1.2**	1.0
Between one and five years	**3.6**	2.7
More than five years	**0.9**	1.1
	5.7	4.8

Of the £5.7m (2012: £4.8m), £5.3m (2012: £4.7m) 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.

25. Capital commitments

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

	2013 £'m	2012 £'m
Contracted	**0.7**	0.8

26. Contingencies

During 2011 the Roxboro UK Pension Fund ("Scheme") was closed to future accrual. This scheme is included within the pension liability detailed in note 19. 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. No provision has been made in relation to this contingency.

27. 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.

The main Board Directors are considered to be the Group's key management personnel.

Key management personnel compensation comprised the following:

	2013 £'m	2012 £'m
Short-term employee benefits	**0.9**	1.2
Post-retirement benefits	**0.1**	0.1
Share-based payments	**0.3**	0.2
	1.3	1.5

Further details of the remuneration for the Company Directors are set out in the Director's remuneration report on pages 50 to 63.

28. 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 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
Dialight Brazil Participacoes Ltda *	Brazil	75%	Sale of Signals and Lighting 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 2013

	Note	2013 £'m	2012 £'m
Fixed assets			
Tangible assets	30	**0.1**	0.1
Investments	31	**17.1**	16.8
Debtors	32	**21.6**	21.6
		38.8	38.5
Current assets			
Debtors	32	**18.5**	18.2
		18.5	18.2
Creditors			
Amounts falling due within one year			
Other creditors	33	**(5.6)**	(5.3)
Cash at bank and in hand		**(1.7)**	(0.3)
Current liabilities		**(7.3)**	(5.6)
Net current assets		**11.2**	12.6
Total assets less current liabilities		**50.0**	51.1
Net assets excluding pension fund liability		**50.0**	51.1
Pension fund asset	37	**0.1**	0.1
Net assets including pension fund liability		**50.1**	51.2
Capital and reserves			
Called up share capital	35, 36	**0.6**	0.6
Capital redemption reserve	36	**2.2**	2.2
Other reserve	36	**1.7**	1.4
Profit and loss account	36	**45.6**	47.0
Equity shareholder funds		**50.1**	51.2

The accompanying notes form part of the financial statements.

These financial statements were approved by the Board of Directors on 10 March 2014 and were signed on its behalf by:

Roy Burton
Group Chief Executive

Bill Ronald
Chairman

Notes to the Company financial statements
For the year ended 31 December 2013

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 FRS 1 “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.

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.

Notes to the Company financial statements continued
For the year ended 31 December 2013

29. Staff costs

Staff costs during the year were:

	2013 £'m	2012 £'m
Wages and salaries	1.2	1.0
Social security costs	0.2	0.1
Equity-settled share-based payment transactions	0.1	0.1
Deferred bonus share scheme	—	0.2
Pension costs	0.1	0.1
	1.6	1.5

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

	2013 Number	2012 Number
UK	7.0	6.0

Details for each Director of remuneration, pension entitlements and interests in share options are set out in the Directors' remuneration report on pages 50 to 63.

30. Fixed assets

	Plant equipment and vehicles £'m
Cost	
At 1 January 2013	0.2
Additions	—
At 31 December 2013	**0.2**
Depreciation	
At 1 January 2013	(0.1)
Charge for the year	—
At 31 December 2013	**(0.1)**
Net book value at 31 December 2013	**0.1**
Net book value at 31 December 2012	0.1

31. Investments

Investments in subsidiary undertakings

	£'m
Cost	
At 1 January 2013	21.6
Share-based payment	0.3
At 31 December 2013	**21.9**
Provisions	
At 1 January 2013	(4.8)
Profit and loss account	—
At 31 December 2013	**4.8**
Net book value at 31 December 2013	**17.1**
Net book value at 31 December 2012	16.8

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

	2013 £'m	2012 £'m
Amounts owed by subsidiary undertakings	**39.6**	38.8
Other debtors	**0.4**	0.4
Deferred tax asset (note 34)	**0.1**	0.6
	40.1	39.8
Less non-current portion: amounts owed by subsidiary undertakings	**(21.6)**	(21.6)
Current portion	**18.5**	18.2

Notes to the Company financial statements continued
For the year ended 31 December 2013

33. Creditors

	2013 £'m	2012 £'m
Amounts falling due within one year:		
Other taxes and social security costs	**—**	0.1
Amounts owed to subsidiary undertakings	**3.8**	3.7
Corporation tax payable	**—**	0.2
Accruals and deferred income	**1.8**	1.3
	5.6	5.3

34. Deferred tax asset

	2013 £'m	2012 £'m
At 1 January	**0.5**	0.2
Prior year adjustment	**(0.4)**	—
Profit and loss account	**—**	0.3
Recognised in equity	**—**	—
At 31 December	**0.1**	0.5
An analysis of deferred tax is as follows:		
Capital allowances	**—**	—
Short-term timing differences	**0.1**	0.5
Debtors (see note 32)	**0.1**	0.5
Pension liability (see note 37)	**—**	—
	0.1	0.5

35. Called up share capital

	2013 Number	**2013 £'m**	2012 Number	2012 £'m
Allotted and fully paid				
Ordinary shares of 1.89 pence each	**32,359,892**	**0.6**	32,150,231	0.6
Shares classified as liabilities		**—**		—
Shares classified in shareholder funds		**0.6**		0.6
		0.6		0.6

During the year, 209,661 shares were issued (0.6% of the total ordinary share capital issued) at par. The ordinary shares issued have the same rights as the other shares in issue.

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. The award was split into two components, one of which was based on the EPS performance of the Group, and the other based on the Group's Total Shareholder Return ("TSR") performance.

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 2010	205,902	—	(205,902)	—	**—**	n/a	3 years	May 2013
September 2010	37,822	—	(37,822)	—	**—**	n/a	3 years	Sept 2013
February 2011	125,578	—	—	(1,619)	**123,959**	411	3 years	Feb 2014
April 2012	65,525	—	—	(826)	**64,699**	684	3 years	April 2015
April 2013 (EPS)	—	38,289	—	—	**38,289**	1,291	3 years	April 2016
April 2013 (TSR)	—	38,289	—	—	**38,289**	707	3 years	April 2016
	434,827	76,578	(243,724)	(2,445)	**265,236**			

Further details of the PSP are included in the Directors' remuneration report on pages 52 to 66.

The following ley assumptions and inputs have been used in the calculation of the fair values:

	2013 EPS award	**2013 TSR award**
Share price	**£12.91**	**£12.91**
Exercise price	**£nil**	**£nil**
Expected volatility	**35%**	**35%**
Award life	**3 years**	**3 years**
Correlation		
Dialight and the FTSE 250 index (excluding investment trusts)	**n/a**	**n/a**

36. Capital and reserves

	Share capital £'m	Capital redemption reserve £'m	Other reserve capital contribution £'m	Profit and loss account £'m	Total £'m
At 1 January 2013	0.6	2.2	1.4	47.0	51.2
Profit for the year	—	—	—	3.1	3.1
Dividends to shareholders	—	—	—	(4.6)	(4.6)
Share-based payments	—	—	0.3	0.1	0.4
At 31 December 2013	**0.6**	**2.2**	**1.7**	**45.5**	**50.1**

At 31 December 2013 the number of shares held by the Group through the ESOT was 2,514 ordinary shares (2012: 47,596). The market value of these shares at 31 December 2013 was £21,520 (2012: £0.5m).

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 £3.1m (2012: £2.6m). Net expenses recognised directly in equity relate to the net actuarial gain (net of deferred tax) arising in respect of the pension scheme.

Notes to the Company financial statements continued
For the year ended 31 December 2013

36. Capital and reserves continued

	2013 £'m	2012 £'m
Profit and loss reserve excluding pension liability	45.5	46.9
Pension reserve	0.1	0.1
Profit and loss reserve	45.6	47.0

Reconciliation of movement in shareholders' funds

	2013 £'m	2012 £'m
Profit for the year	3.1	2.7
Dividends paid	(4.6)	(3.5)
Dividends on shares awarded under the PSP	—	(0.2)
Share-based payments (net of tax)	0.4	0.5
Deferred bonus share scheme	—	0.2
Net reduction to shareholder funds	(1.1)	(0.1)
Opening shareholder funds	51.2	51.3
Closing shareholder funds	50.1	51.2

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	2013 £'m	2012 £'m
9.5 pence per ordinary share (2012: 9.5 pence)	3.1	3.1

During the year the following dividends were paid:

	2013 £'m	2012 £'m
Final – 9.5 pence (2012: 6.7 pence) per ordinary share	3.1	2.1
Interim – 4.9 pence (2012: 4.0 pence) per ordinary share	1.5	1.3
	4.6	3.4
Dividends accrued on shares awarded under the PSP and deferred bonus scheme but not yet vested	—	0.1
Total (amount shown in the statement of changes in equity)	4.6	3.5

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

	2013 £'m	2012 £'m
Present value of liabilities	(1.8)	(1.7)
Fair value of plan assets	1.9	1.8
Recognised asset for defined benefit obligations	0.1	0.1
Deferred tax (see note 34)	—	—
Pension asset net of deferred tax	0.1	0.1

Plan assets consist of the following:

	2013 £'m	2012 £'m
Bonds	1.7	1.7
Cash	0.2	0.1
	1.9	1.8

Movements in the present value of defined benefit obligations

	2013 £'m	2012 £'m
Liabilities at 1 January	1.7	1.6
Interest cost	0.1	0.1
Benefits paid	(0.1)	(0.1)
Actuarial loss/(gain)	0.1	0.1
Liabilities at 31 December	1.8	1.7

Movements in fair value of plan assets

	2013 £'m	2012 £'m
Assets at 1 January	1.8	1.6
Expected return on scheme assets	0.1	0.1
Employer contributions	0.1	0.1
Benefit paid	(0.1)	(0.1)
Actuarial gain	—	0.1
Assets at 31 December	1.9	1.8

Notes to the Company financial statements continued
For the year ended 31 December 2013

37. Pensions continued

Expense recognised in the profit and loss account

	2013 £'m	2012 £'m
Interest on obligation	0.1	0.1
Expected return on plan assets	(0.1)	(0.1)
	—	—

Expense recognised in statement of recognised gains and losses

	2013 £'m	2012 £'m
Actuarial gain on plan assets	—	0.1
Change in assumptions in respect of liabilities	(0.1)	(0.1)
Net actuarial loss recognised in statement of recognised gains and losses	(0.1)	—
Cumulative actuarial loss recognised in statement of recognised gains and losses	(0.5)	(0.4)

Historical information

	2013 £'m	2012 £'m	2011 £'m	2010 £'m	2009 £'m
Defined benefit obligation	(1.8)	(1.7)	(1.6)	(1.5)	(1.5)
Scheme assets	1.9	1.8	1.6	1.5	1.4
Surplus/(deficit)	0.1	0.1	—	—	(0.1)
Actuarial (losses) on liabilities	(0.1)	(0.1)	(0.1)	—	(0.2)
Experience gain on assets	—	0.1	—	—	0.1

37. Pensions continued

Liability for defined benefit obligations

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

	UK Scheme (% per annum)		
	2013	2012	2011
Discount rate at 31 December	**4.40**	4.40	4.70
Future salary increases	**n/a**	n/a	n/a
Future pension increases	**3.50**	2.90	3.00
Inflation – RPI	**3.60**	2.90	3.00
Inflation – CPI	**2.80**	2.40	2.20
Deferred revaluation	**2.80**	2.40	2.20

The expected long-term rates of return were:

	UK Scheme (% per annum)		
	2013	2012	2011
Equities	**n/a**	n/a	n/a
Bonds	**4.40**	4.40	3.00
Cash	**4.40**	3.00	3.00

For its UK pension arrangements the Group has, for the purpose of calculating its liabilities as at 31 December 2013, 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 2014 will be at a similar level to contributions paid in 2013.

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				
	2013 £'m	2012* £'m	2011* £'m	2010 £'m	2009 £'m
Revenue*	**131.2**	115.1	102.5	99.2	77.3
Research and development cash expenditure	**5.9**	5.0	5.1	3.7	3.7
Underlying operating profit*	**14.5**	19.6	15.5	11.2	5.5
Non-underlying operating loss	**(2.9)**	—	(0.1)	—	—
Finance income/(charges)	**(0.4)**	0.2	(0.6)	0.1	(0.2)
Profit before gain on disposal of discontinued operations and taxation*	**11.2**	19.8	14.8	11.3	5.3
Cash generated from operating activities	**6.9**	13.8	12.4	14.0	11.0
Net cash	**7.1**	15.0	13.7	10.4	9.1
Shareholders' funds	**66.7**	63.0	54.8	46.2	40.1

Statistical information	**Pence**	Pence	Pence	Pence	Pence
Basic earnings per ordinary share from continuing operations*	**23.9**	41.4	31.3	23.8	10.6
Dividends per share	**14.4**	13.5	10.0	8.0	6.6
Dividend cover (times)	**1.7**	3.2	3.0	3.0	2.7
Underlying operating margin*	**11.1%**	17.0%	15.1%	11.3%	7.1%

* 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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Equiniti's Shareholder Contact Centre can be contacted by telephone on 0871 384 2495* (international callers: +44 121 415 7047) between 8.30am and 5.30pm each business day, excluding Bank Holidays.

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 2014/2015

Annual General Meeting/ Interim Management Statement
16 April 2014

Half Yearly Financial Report
21 July 2014

Interim Management Statement
6 November 2014 (provisional)

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