Dialight plc Annual report and accounts 2014

Innovating for a bright future

Dialight

Leading the way in LED lighting

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.

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.

Dialight at a glance
page 2

Our global reach
page 4

Our markets
page 10

VISIT US ONLINE
www.dialight.com

SIGN UP FOR OUR NEWS ALERTS
www.dialight.com/siteservices/alertservices

STRATEGIC REPORT

CORPORATE GOVERNANCE

FINANCIAL STATEMENTS

SHAREHOLDER INFORMATION

Dialight at a glance

Lighting is the growth driver for our business

We are committed to advancing LED products for the benefit of our customers, their employees and the overall environment.

OUR SEGMENTS

Lighting

Includes 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 a number of associated technologies.

Performance review
page 20

Signals

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

Performance review
page 22

Components

Includes sales primarily to electronics Original Equipment Manufacturers ("OEMs") for status indication and residual disconnect components for automotive and niche industrial application.

Performance review
page 23

LED Lighting specialists

LED lighting vastly reduces maintenance, improves safety, eases disposal and is more environmentally friendly than conventional alternatives. It helps to reduce CO_2 emissions, the dominant Greenhouse Gas ("GHG") contributor to global warming. As a recognised innovator in this sector, our Lighting segment continues to be the key growth engine of the business.

State-of-the-art

Dialight is a fast moving, disciplined, outwardly focused company with an appetite for controlled risk. Continuous improvement and redesign 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 sectors of the lighting market. Such markets are often regulated using strict certification processes.

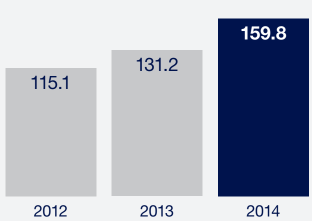
Our key and new products
page 21

Financial review
page 24

OUR HIGHLIGHTS

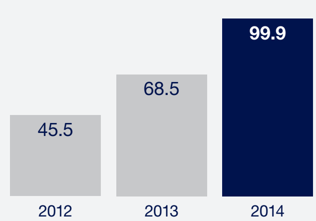
Group revenues excluding discontinued operations

£159.8m **+21.8%**



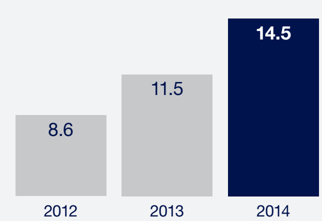
Lighting segment revenues

£99.9m **+45.8%**



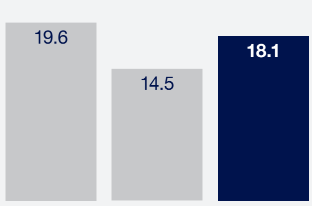
Lighting operating profit

£14.5m **+26%**



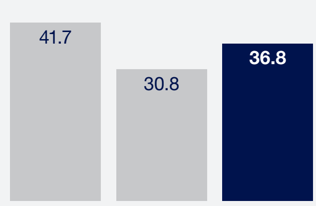
Underlying profit from operating activities

£18.1m **+24.6%**



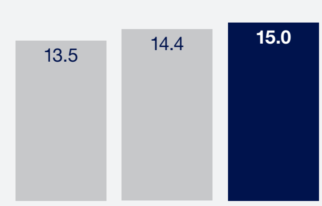
Underlying EPS

36.8p **+19.5%**



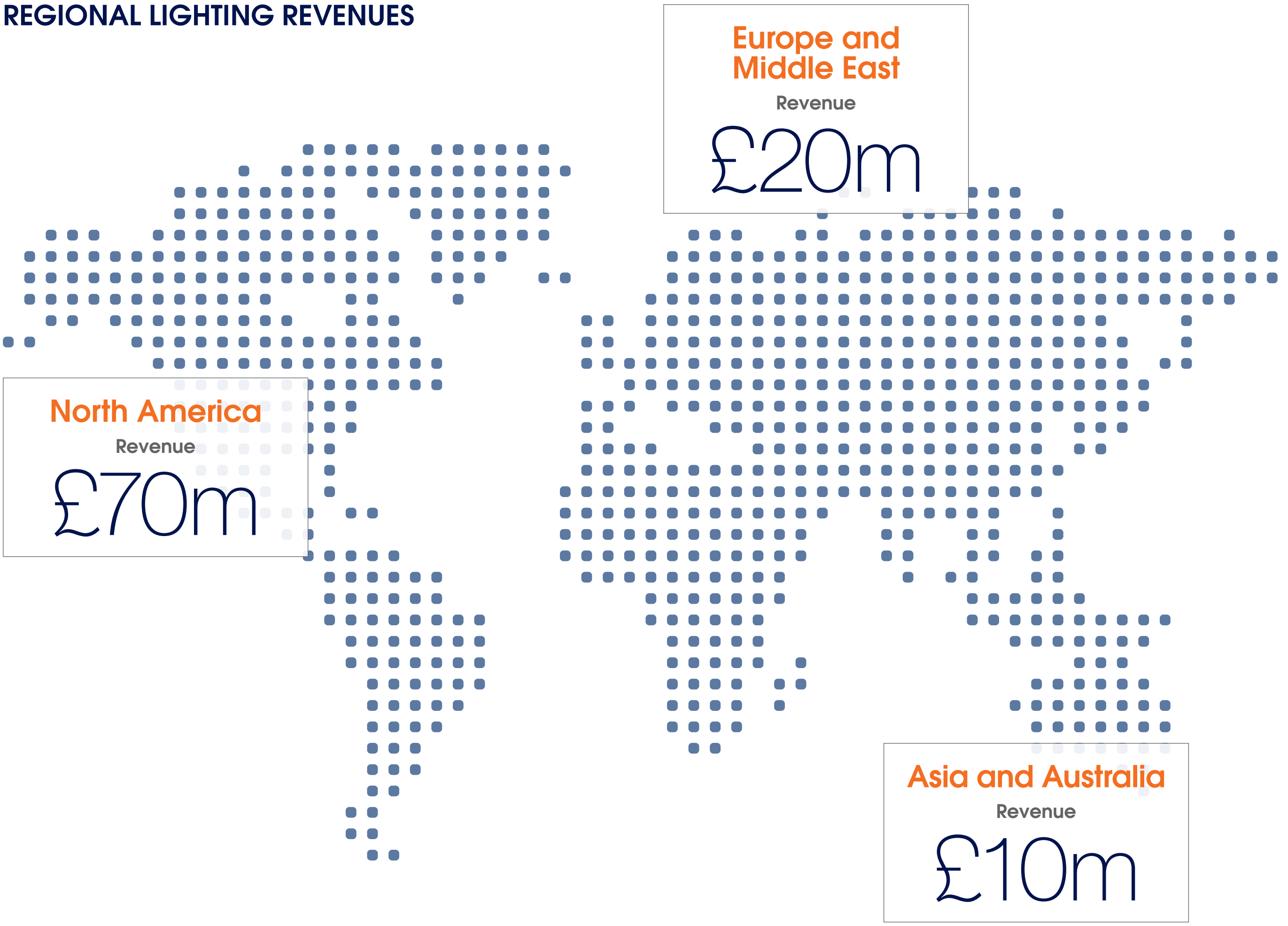
Total dividend

15.0p **+4%**



Our global reach

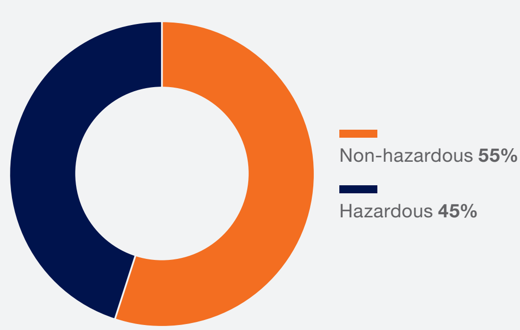
REGIONAL LIGHTING REVENUES



Spotlight on our global footprint

Dialight is becoming known worldwide as the leader in technology advancements, reliability and longevity in lighting.

LIGHTING REVENUES



CASE STUDY

Nuclear power plant, France

French nuclear power plant eliminates maintenance with Dialight.

MARKET

- Power generation

PRODUCTS

- DuroSite High Bay
- DuroSite Linear Fixture
- LPK Linear
- Vigilant High Bay

BENEFITS

- Ten-year warranty
- Superior reliability
- Cost savings
- Increased security

MORE INFORMATION

For more information, visit www.dialight.com.

Nuclear power generation is a lengthy and complex process. Plant operators must maintain precisely controlled environments in order to safely create, heat and cool the uranium rods and bundles to provide power to millions of homes. High vibration in the reactor core, pool rooms, machine rooms, pumping stations and even overhead cranes can cause lighting throughout the facility to fail. The short (two to three years) lifespan of lighting fixtures can soon result in the plant's lighting maintenance costs spiralling out of control.

At the EDF nuclear power plant in Dampierre-en-Burly, France, the metal halide fixtures inside the plant failed regularly, on average every eight months. Prompted by maintenance and safety concerns with this traditional lighting setup, EDF retrofitted this facility with Dialight's superior LED DuroSite fixtures.

With a ten-year full-performance warranty, the DuroSite High Bay eradicated EDF's maintenance costs. In the pool room, the addition of Dialight's brighter LEDs dramatically increased visibility.

In rooms traditionally kept dark except in cases of emergency, existing lighting could take up to 20 minutes to deliver full output. However, the instant-on functionality of Dialight's products allowed EDF to light the rooms immediately, increasing employee response times and eliminating safety hazards.

Outside of the facility, Dialight's DuroSite High Bay and LPK Linear LEDs were added to all areas for an immediate, dramatic improvement to traditional streetlights, improving accessibility and security around the plant.

Chairman and Chief Executive's statement

Bill Ronald
Chairman

Richard Stuckes
Interim Group
Chief Executive

Overview

The adoption of LED technology continued through 2014 into many market segments, particularly, streetlights and commercial lighting. Dialight has continued to focus on its niche markets where LED technology builds defensible positions and delivers efficient payback to customers. Lighting and the Obstruction business (part of the Signals segment) performed strongly and with the exception of our traffic signals business, the balance of the Group also performed well.

Group revenue in the year grew by 22% to £159.8m from £131.2m in 2013. Underlying operating profit increased by 24.6% to £18.1m in the year mainly as a result of the increased profit from Lighting and Obstruction.

Non-underlying net costs of £2.3m (2013: £2.9m) were incurred during the year. Profit before tax was £15.5m (2013: £11.2m).

Underlying earnings per share ("EPS") was 36.8 pence (2013: 30.8 pence) with basic EPS of 29.4 pence (2013: 26.2 pence).

Net cash at 31 December 2014 was £0.6m (2013: £7.1m). The four year unsecured £25m HSBC Revolving Credit Facility, arranged in the year, financed the working capital to support the significant growth in lighting.

Dividend

The Board is recommending, subject to approval by shareholders, a final dividend of 9.8p (2013: 9.5p) giving a total dividend for the year of 15.0p (2013: 14.4p). This will be paid on 2 June 2015 to shareholders on the register at 1 May 2015.

People

Our colleagues are instrumental to the ongoing success of the business. We now employ over 2,300 people across the Group and our growth ambitions provide our colleagues with rewarding careers. We would like to thank everyone for their continued dedication and hard work throughout the year and into 2015.

"The results benefitted from continued development of our sales channels and new product innovation."

Board changes

As noted last year, Mark Fryer stepped down as Group Finance Director at the beginning of 2014. In June 2014, we announced the appointment of Fariyal Khanbabi as our new Group Finance Director, who started on 8 September 2014. During the period until July 2014, Kevin Higginson joined us as Interim Chief Financial Officer but was not appointed to the Board.

As part of our trading update released on 16 January 2015, we advised that Roy Burton, Group Chief Executive, had informed the Board that he was undergoing treatment for a medical condition which impacted on his ability to travel at that time. Since that announcement, Roy has further advised the Board, as a consequence of that medical condition, of his intention to step down as Group Chief Executive from 2 March 2015, which we announced on 2 February 2015. As part of that announcement we advised that Richard Stuckes, a Non-Executive Director of the Company since 2009, had been appointed as Interim Group Chief Executive and assumed all executive responsibilities from 2 February.

Richard has extensive and relevant experience which will fully equip him to lead the Company in the interim period. Our Nominations Committee is undertaking, with the assistance of an external recruitment agency, the process for appointing a new Group Chief Executive. Our Board is grateful for Richard being available to step into the role at this stage.

We would like to take this opportunity on behalf of the Board to place on record our thanks to Roy for the outstanding contribution he has made to the development of Dialight during the past 13 years. All who know Roy will recognise the extent to which the business has benefitted from his vision and relentless energy in building the platform for growth that he leaves as his legacy. More importantly we take this opportunity to offer our best wishes to Roy for his recovery.

Roy will remain available to provide counsel and assistance.

Outlook

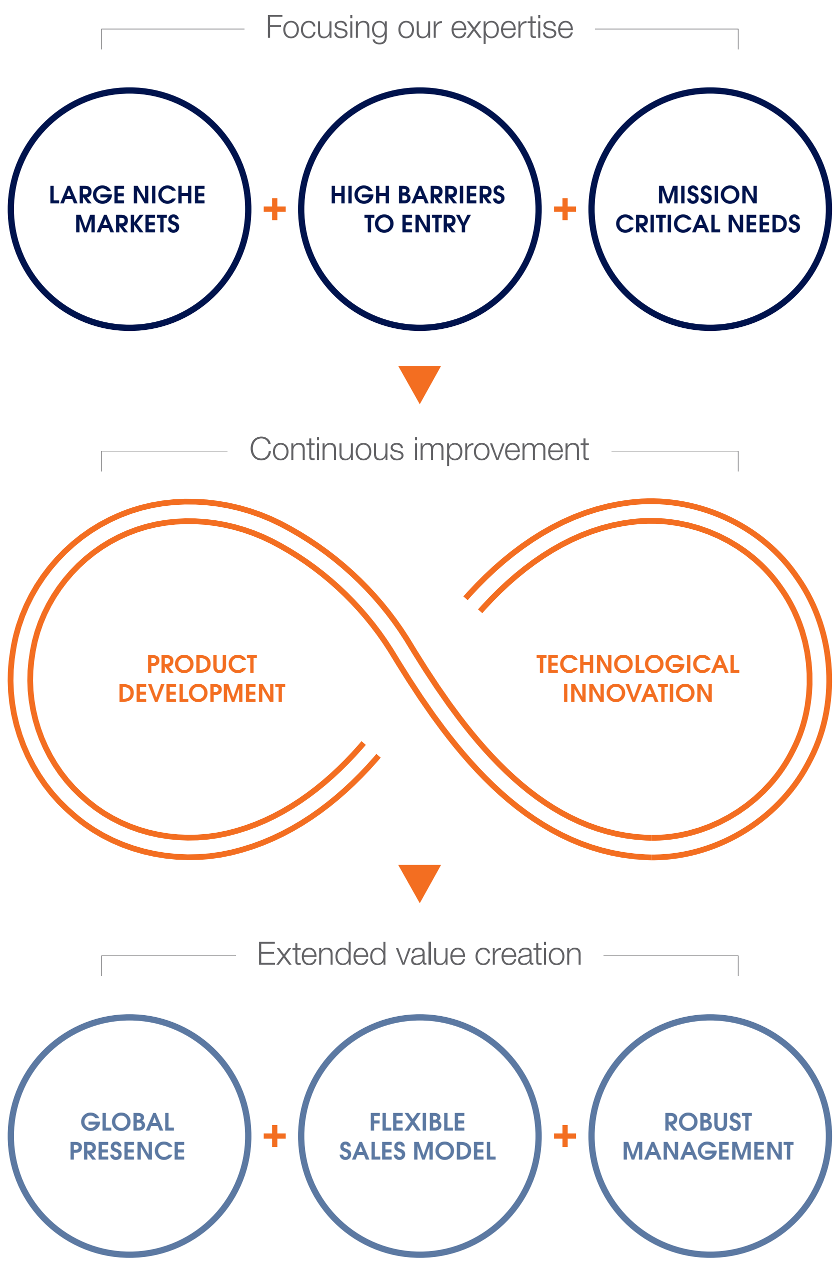
The adoption of LED lighting in the industrial and hazardous markets is still at an early stage and the opportunity for growth remains significant. We continue to see strong demand for our LED lighting and the Board remains confident in the future prospects of the Group.

Bill Ronald
Chairman

Richard Stuckes
Interim Group Chief Executive

Our business model

Delivering on our long-term value propositions



Our business model is underpinned by our philosophy that, through our continued innovation and product development, we will keep delivering on our long-term value propositions to our shareholders.

Focusing our expertise

LARGE NICHE MARKETS
We address the needs of customers in heavy industry and hazardous locations where lighting is seen as being mission critical.

HIGH BARRIERS TO ENTRY
These are markets with significant barriers to entry where lighting is depended upon 24/7 and the environment is challenging. Our deep understanding of customer needs and regulations in these environments differentiates us from our competitors.

MISSION CRITICAL NEEDS
Environments that demand round the clock, all year long, reliable and efficient lighting solutions.

Continuous improvement

PRODUCT DEVELOPMENT
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.

TECHNOLOGICAL INNOVATION
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.

Extended value creation

GLOBAL PRESENCE
By monitoring potential markets and our existing marketplaces we are able to engage in a focused plan of geographic growth either organically, with acquisitions, or through relationships with partners. Exposure to established as well as developing markets ensures long-term business sustainability.

FLEXIBLE SALES MODEL
We have manufacturing facilities worldwide and sell to end customers internationally, either directly through sales offices and/or authorised sales representatives, or indirectly via distributors depending on the development of the geographic market.

ROBUST MANAGEMENT
We prioritise financial management and strive for healthy cash generation in order to reinvest in the business. This ensures we are always one step ahead of the competition, maintaining our position as recognised leaders in the field.

Our markets

Exciting opportunities for the group

MINING

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

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.

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.

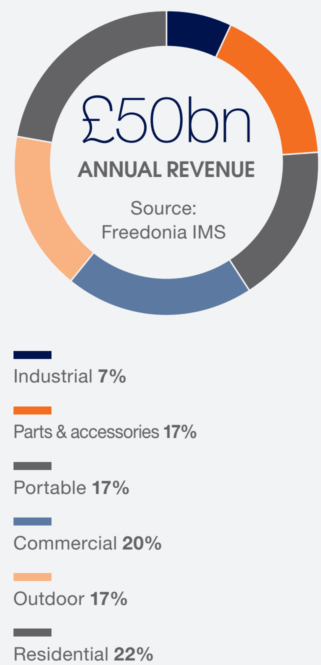
POWER GENERATION

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.

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.

THE LIGHTING MARKET



The lighting market is estimated to be worth £50bn annually (source: Freedonia IMS). The industrial sector, Dialight's main sector of focus, equates to 7% of this total market or £3.5bn annually. Assuring a 20 year retro-fit cycle, Dialight estimates that this gives a total addressable market of at least £70bn.

CASE STUDY

Ford Motor Company

Ford saves approximately $7m in annual energy costs with Dialight.

MARKET

- Automotive manufacturing

PRODUCTS

- Vigilant High Bay
- Vigilant 60K High Bay

HIGHLIGHTS

- Approximately $7m annual energy savings
- Improved visibility and safety
- 15-year life expectancy
- Zero maintenance

MORE INFORMATION

For more information, visit www.dialight.com.

An American institution, Ford Motor Company is the second largest auto manufacturer in the US and the fifth largest in the world. In 2010, the company took a bold pledge to reduce the amount of energy used to produce each vehicle by 25%, starting with its flagship facility in Dearborn, MI, US.

In addition to its environmental goals, safety and cost savings were also strong motivators. The company's existing High Intensity Discharge ("HID") and fluorescent lighting produced sub-optimal visibility, while unpredictable failure or even catastrophic combustion of the fixtures created an inefficient and costly maintenance challenge with lights that often needed replacement after just two years.

Ford turned to Dialight for a solution. In 2014, the company installed over 25,000 Dialight fixtures at its facilities. In just a few months, the company has already achieved 20% greater efficiency and expects to save 56m kilowatt-hours annually – enough electricity to power more than 6,000 average-sized homes per year. That equates to a nearly 70% reduction in lighting energy consumption compared to traditional technologies and the company expects to reduce its annual energy costs by approximately $7m. In addition, Ford has virtually eliminated lighting maintenance with the 15-year life expectancy of the new Dialight products.

Continuing its drive toward operational efficiency, environmental stewardship and fiscal responsibility, Ford plans to install Dialight lighting at 17 other manufacturing facilities across the globe.

Our strategy

Building on our strengths

1

HIGHLY REGULATED NICHE MARKETS

- Industrial/hazardous only
- High barriers to entry
- Value in highly reliable solutions

2

INNOVATION AND TECHNOLOGY

- Pure-play LED
- Large Intellectual Property (“IP”) portfolio

3

STRATEGIC EXPANSION

- Growing sales team and channel
- Targeted acquisitions
- Expanding production capacity

OUR AIM

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.

OUR VALUES

Innovation

Continue to be the first to market in the industry.

Expertise

We have over 40 years of LED industry experience.

Sustainability

Our LED products reduce energy consumption, lower GHG emissions and eliminate the need for mercury in lighting technology.

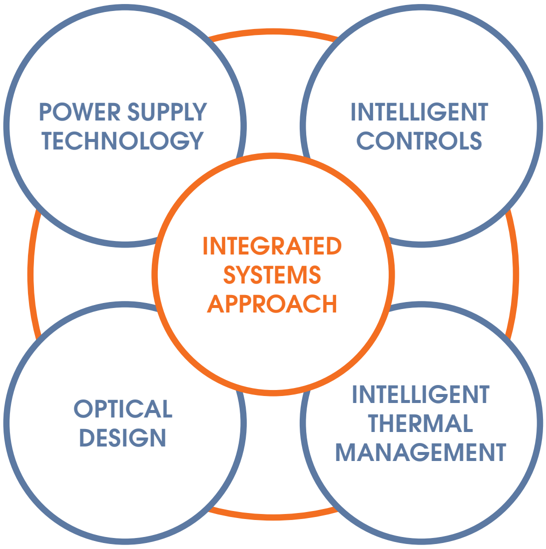
OUR VISION

To bring the value of LED Lighting to customers in a broad range of industries and markets.

Principal risks and uncertainties
page 16

Key performance indicators
page 14

How does Dialight technology differ?



INTEGRATED SYSTEMS APPROACH

POWER SUPPLY TECHNOLOGY

- In-house designed, patent-protected technology.
- Most efficient power supplies available today.
- Key to fixture longevity (ten-year warranty).

INTELLIGENT CONTROLS

- Integrating with existing building/process management system infrastructure.
- Hazardous certified control systems.

INTELLIGENT THERMAL MANAGEMENT

- Temperature compensation technology managing heat from LEDs to maximise life.

OPTICAL DESIGN

- Custom reflectors to direct light to where it is needed at the work place.

Key performance indicators

Achieving our objectives

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 27 to 29 provides information regarding our greenhouse gas emissions.

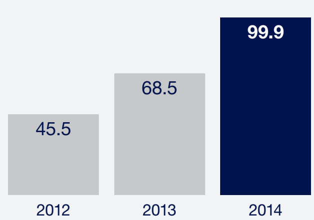
Our strategy
page 12

Principal risks and uncertainties
page 16

Sustainability
page 27

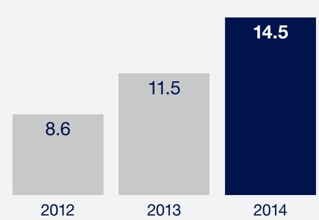
Lighting segment revenues

£99.9m **+46%**



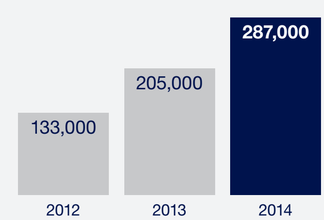
Lighting operating profit

£14.5m **+26%**



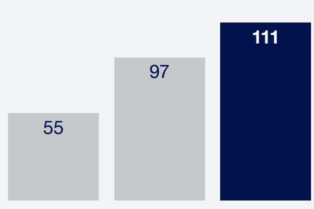
Lighting units sold

287,000 **+40%**



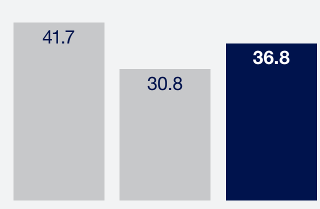
Lighting sale heads (excluding sales support)

111 **+14%**



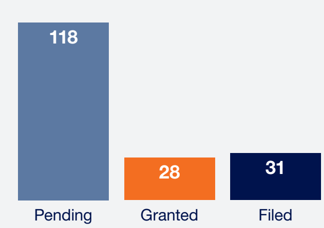
Underlying EPS
p/share

36.8p **+20%**



Patents pending, granted and filed

177 total **+25%**



CASE STUDY

Mining operator, Western Australia

Australian mine cuts energy use by 50% with Dialight DuroSite fixtures.

MARKET

- Mining

PRODUCTS

- DuroSite High Bay
- DuroSite Bulkhead Emergency Lighting
- DuroSite Bulkhead Luminaire
- DuroSite Emergency Shower Safe Luminaire
- DuroSite Conveyor Lights
- DuroSite Area Light Gen II

HIGHLIGHTS

- >50% increase in efficiency
- Increased safety
- Emergency lighting integration
- Five-year warranty
- Minimal maintenance

MORE INFORMATION

For more information, visit www.dialight.com.

Located in a remote part of Western Australia where weather conditions are hot and dusty, a new iron ore mine has just been commissioned producing high quality ore that is shipped to steel makers around the world. As with any mine, appropriate lighting is a key component to safe operations, for both processing and non-processing infrastructure.

Initially, the electrical engineering company tasked with electrical design and product selection opted to run with traditional HID light fittings as part of the Lighting solution. The tender was then released and won by Crushing Services International ("CSI"), based on cheaper, less efficient traditional HID luminaires. The challenge for Dialight was to provide a more efficient solution whilst keeping within the budget restraints.

Swayed by the Dialight advantage, CSI chose our DuroSite products for their durability, energy efficiency, five-year full-performance warranty, long-term reduction in operational and maintenance cost, and proven performance in rugged conditions. For example, the advanced optics and light efficacy of the DuroSite Conveyor Lights offered increased spacing between luminaires on conveyors, resulting in fewer fixtures being used overall, further reducing energy and maintenance related costs. In addition, Dialight's DuroSite Emergency Shower Safe Luminaire and DuroSite Bulkhead Emergency Lighting closed the loop on their fully integrated emergency lighting system.

With over 1,500 DuroSite units installed to outfit the entire site with Dialight luminaires, the company saw a 50% reduction in energy consumption compared to the HID lighting they initially planned to install.

Risk management

The principal risks and uncertainties which could affect the Group comprise four distinct categories – strategic, operational, financial and compliance.

RISK MANAGEMENT

The Group maintains a risk management framework which seeks to ensure that all risks are identified, evaluated and mitigated. These have been subject to a detailed review in 2014, resulting in the establishment of a corporate risk register which incorporates the principal risks described on the following pages. There may be other risks and uncertainties as yet unknown, or which are currently considered immaterial, which may result in a material impact. Some of the areas of risk 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.

Corporate governance
page 30

Report of the Audit Committee
page 37

AREA OF RISK	DESCRIPTION	MITIGATING ACTIVITY
Macro-economic conditions (Strategic)	• The Group's sales and profits may be impacted by spending slowdowns and/or increasing inflationary pressures in key territories. • A spending slowdown, for example in North America, could adversely impact profitability in the Components segment. Also, the current adverse conditions for public organisations to reduce or defer capital spend may impact sales volumes. • Cost inflationary pressures, e.g. on raw materials, may have an adverse impact on operating margins across the business. This could also result in customers defaulting on payment terms, supply chain risks and a higher risk of inventory obsolescence.	• 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 also provides valuable information on market demand. • This information is used to update strategic plans and financial forecasts, which are subject to formal review by the Board. • The Group has a broad base of customers, with no single customer exposing the Group to a disproportionate level of risk. Group policies ensure customers are given an appropriate level of credit based on their trading history and financial status. Our ability to mitigate risks arising from supply chain issues, e.g. single source supply, has in 2014 been enhanced by the appointment of a dedicated supply chain manager.
Changes in government legislation or policy (Compliance)	• National and local policies with regard to energy savings in a number of areas, such as transport and communication, are constantly evolving. This should favour Dialight's efforts in growing sales in some key niche current and potential opportunities identified by the Signals segment. • Additionally, legislation may introduce new higher and more exacting specifications for existing products which will require product redesign and regulatory recertification. Therefore, changes in product specifications should favour Dialight in giving it an advantage over competition.	• Dialight's policy is to operate in highly regulated markets which require suppliers to achieve compliance with demanding product standards. • Our design and engineering functions have a proven track record in introducing new products and maintaining a portfolio of registered intellectual property through strong working relationships with customers and regulatory bodies.
Competitive Environment (Strategic)	• We operate in competitive markets. In our niche industrial lighting segment, new entrants may attack our market share by offering cheaper products as the market becomes more commoditised.	• We have a successful track record of quickly introducing new products offering better performance and functionality to customers. • Maintaining strong customer relationships, remaining competitive through engineering "cost down" initiatives and cost efficient manufacturing plants are key Dialight strengths in protecting market share.

Principal risks and uncertainties continued

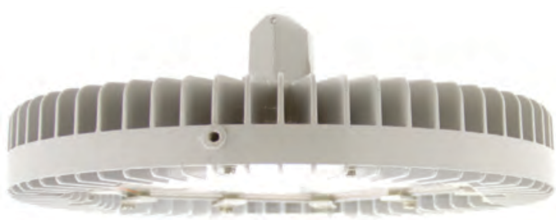
Risk management continued

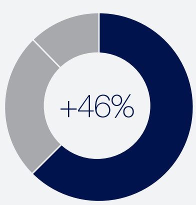
AREA OF RISK	DESCRIPTION	MITIGATING ACTIVITY
Laws and Regulations (Compliance)	• The Group's operations are subject to a wide range of laws and regulations including employment, environment and health and safety legislation.	• Internal policies and procedures are routinely reviewed and updated to incorporate current legislation. Governance policies have been integrated into a single framework document in 2014. Business control unit management are required to certify compliance with governance policies on a quarterly basis. • Employees are issued with handbooks detailing employment practices and staff receive appropriate training and support to perform their roles. • The Group's Risk Committee provides an advisory and oversight service on compliance to the Board and Executive Committee.
Business Continuity (Operational)	• Continuation of our success is partly dependent upon the continued operation of our manufacturing facilities across the world, supported by bespoke computer systems. The occurrence of major operational problems could have a material adverse effect on the Group. These may include risk of fire, flood or major IT outage.	• Manufacturing sites have developed business continuity/disaster recovery plans to minimise the impact of any disruption to its operations. Process controls and proactive maintenance programmes are designed to prevent problems arising. The plans will be fully reviewed in 2015 as part of the Group's risk oversight framework to ensure they remain effective and "fit for purpose". • Insurance cover provides financial protection where appropriate.
Growth strategy (Strategic)	• Achievement of our growth strategy is dependent on growing sales in our chosen markets for industrial white lighting. The adoption by the market of LEDs for new applications continues to depend on increased efficiency and reduced cost compared with existing technologies such as fluorescent and high-intensity discharge. The achievability of the Group's longer term growth would be at significant risk if the rate and timeliness of development of LED functionality by third parties did not meet the progress required to deliver new applications to the market. • Failure to protect, maintain and enforce our current IP may result in the loss for the Group of the exclusive right to use technologies and processes which are used in our business. Development and ownership of IP is critical to the growth strategy of the Group. • Additionally with fast changing technology, there is a possibility of a replacement technology being developed.	• Group engineers are actively contributing with their presence on industry related boards and attendance and presentations at industry seminars, which ensure we keep abreast of developments on a regular basis, and remain proactively involved. • Good progress has been made during 2014 in enhancing our new product introduction ("NPI") programme, including continued expansion of our patent portfolio.

AREA OF RISK	DESCRIPTION	MITIGATING ACTIVITY
Product Liability (Operational)	• Products should conform to approved specifications. • If a Group product does not conform to approved 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 product liability insurance proportionate with the expected level of failure and terms of warranty. On certain lighting products the term of warranty has been extended up to ten years. • The Group has a well developed quality control system to help identify any defects before they are sold to customers.
Funding (Financial)	• The Group, like many other companies, is dependent on its ability to both service its existing debts and to provide sufficient capital to finance its growth strategy. • The Group needs to operate within the covenant conditions of its borrowing facility.	• The Group manages its capital to safeguard its ability to continue as a going concern, to optimise its capital structure and to provide sufficient liquidity to support its operations and the Board's strategic plans. • The Group has a £25m borrowing facility and had drawn £7.6m at the balance sheet date. Covenant compliance is monitored regularly to ensure there is no breach of borrowing conditions.
Currency Exchange (Financial)	• The Group is exposed to both translation and transaction risks. • A significant proportion of the Group's net assets are denominated in foreign currency, which, when translated into Sterling, is subject to exchange risk. • In addition, transactions are carried out in currencies other than Sterling, leading to transactional foreign exchange risk.	• Group policy is to net such exposures wherever possible. • The Group utilises currency borrowing facilities in order to hedge currency risk. • There is a strict Group policy which forbids any form of forward speculation using Group funds or facilities.
Cyber Risk (Strategic)	• Disruption to or penetration of our information technology platforms could have a material adverse impact on the Group.	• The Group has business continuity measures in place, such as penetration testing procedures, to minimise the impact of any disruption to its operations. Technology resources are continuously monitored by appropriately trained staff, who provide and maintain process controls aimed at securing our networks and data.

Performance review

Lighting

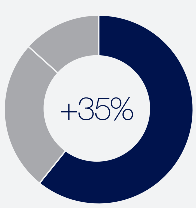




Revenue

£99.9m

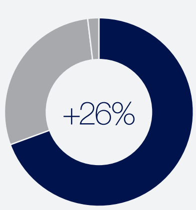
2013: £68.5m



Contribution

£42.3m

2013: £31.3m



Operating profit

£14.5m

2013: £11.5m

The Lighting segment addresses the increasing demands for energy efficient lighting solutions for industrial/hazardous locations.

Lighting grew by over £30m with a contribution margin of over 40%. While this is down on 2014 this was primarily due to product mix and a number of one off items in the second half. However, margins on a product by product basis have continued to be robust and at least in line with our expectations.

Our growth in 2014 was not only in the Americas. Europe is starting to pay back our investment and we ended 2014 with an expanded sales team, with notable additions in mainland Europe. Growth in Asia was a little more modest but we start 2015 with a team that complements that in Australia.

Overall the Group is well positioned in its chosen geographies, however, sales teams are only one element Dialight needs for commercial success. Development of sales channels and the leveraging of major accounts are also important and 2014 has seen a strong increase in our channel strength through agreements with major distributor networks in North America, who in many cases, hold the keys to certain markets and customers. Dialight is now considered to be an "anchor" franchise for many of those important networks. At the end of 2014 Dialight had 111 direct sales personnel (2013: 97).

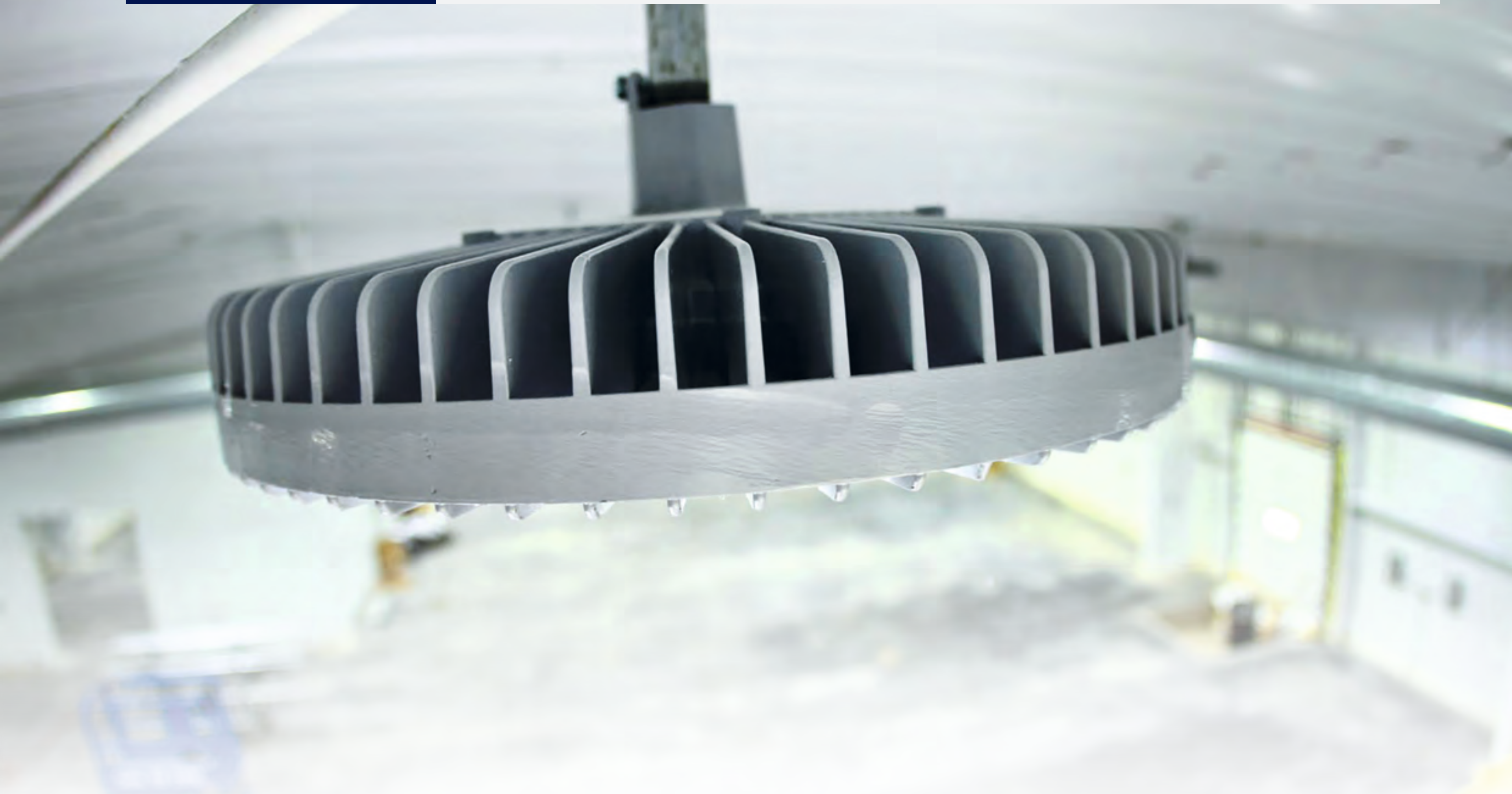
In addition to using our distributor partners, our approach is to generate demand through the key users. Once again 2014 has shown great progress in this area – the previously announced business with Ford Motor Company was our first major relationship, but during the year we have made significant progress with other major multinational OEMs.

No sales strategy would be successful without the best products and once again we have raised the bar for industrial LED lighting. Our newly announced 140 lumen per watt Vigilant High Bay is significantly better than the competition and our new 60,000 lumen, 1,000 watt metal halide replacement fixture has been well received by both existing and, perhaps more importantly, new customers where we did not previously have an offering that would address their lighting problems.

During the year our Operations and Engineering teams played a significant role in bringing to market groundbreaking new products as well as continuing to cost engineer our existing product portfolio.

Dialight estimates that its products address an installed base of conventional lighting that is somewhere between £70bn and £100bn. Penetration of LED lighting is in the low single digits thus enabling strong potential for growth for some years to come.

With strong demand in Lighting expected to continue in the future, expansion of the manufacturing facilities, is constantly under review to ensure that production capacity does not become a constraint on the Group's growth.



Our key and new products

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 reduce the number of light fixtures required to illuminate an area. The product is backed by our industry-leading ten-year full performance warranty. Throughout the year, we have received global certifications for hazardous environments including mines, chemical plants and oil refineries. The fixture can also be sold with our cloud-based controls to more efficiently manage an entire industrial lighting system.

High-output Vigilant LED High Bay

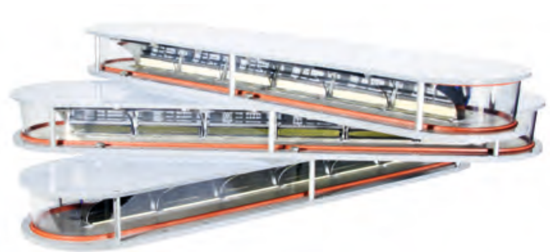
The Vigilant High Bay is a great addition to the Vigilant family with 60,000 lumen output. Offering a replacement to 1,000W traditional high output arc lighting, the product was designed for high ceiling applications in ambient temperatures found in industries such as steel, automotive, aircraft and other industrial and manufacturing facilities. The High-Output Vigilant High Bay also holds global certifications and is backed by our ten-year full performance warranty.

Low Profile LED Linear Luminaires 106 lumens/watt

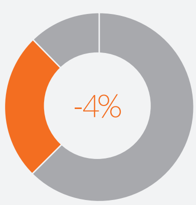
In July 2014, we introduced the 7,000 lumen Low Profile LED Linear for sites in need of higher clearance. This new linear is nearly 60% slimmer than previous versions and certified for hazardous environments – making it far superior to fluorescent and other linear competitors. The Low Profile LED Linear is available in multiple wattage options for efficiency and ideal for companies looking to fit the lighting into existing luminaires.

Performance review continued

Signals



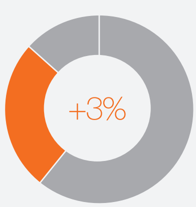
Revenue



£40.2m

2013: £41.8m

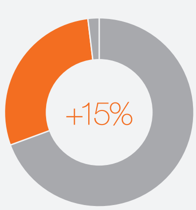
Contribution



£18.0m

2013: £17.5m

Operating profit



£6.0m

2013: £5.2m

Signals comprises the Obstruction, Traffic and Transportation businesses. The Obstruction business experienced strong sales growth whilst demand for traffic signals fell.

Overall Signals sales were down 4% although Transportation grew 6% and Traffic revenues were down 20% as expected. Most importantly however, Obstruction showed significant growth and stronger positioning in its chosen markets.

Obstruction

Obstruction revenues grew by 16% to £17.0m, representing an increase of 22% at constant currency. This was driven by increased demand in the US where our new products attracted strong customer interest and reflected gains made in the telecom and broadcast tower retrofit business, including orders from major tower operators.

There were no system wide retrofits in 2014 by the major tower operators. There still remain over 70,000 towers to be retrofitted in the US and Dialight's positioning to take a major piece of that business is stronger today than it was a year ago.

European sales, which are principally through products sold for use in the wind turbine market, were at the same levels as the previous year. Long-term demand for obstruction signals in the European market remains favourable and we expect to benefit from new onshore installations and retrofits that are required under local and national legislation and regulation.

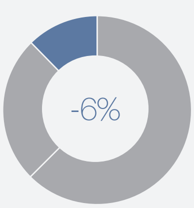
Traffic and Transport

Traffic Signals sales which remains a small part of the overall Group saw no material recovery in the second half of 2014, and overall sales for the year were down 20%. Market conditions in the short term are expected to remain challenging with anticipated sales largely coming from smaller retrofit projects.

European sales are highly dependent on local authority spend. Although there is a clear case for the return on investment of switching to efficient LEDs, it can take time for large-scale capital projects to be initiated. The European business may see some decline but remains cash generative and requires little investment. Meanwhile, the US traffic market, which is more highly penetrated by LED signals, is becoming more cost competitive. The key factors for future success are to leverage our knowledge of the market and product, to engineer cost reductions and offer innovative value propositions to customers through superior performance.

The transport business continued to provide a steady profit and cash contribution.

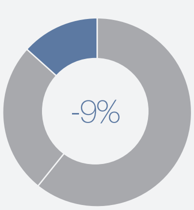
Components



Revenue

£19.7m

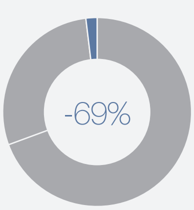
2013: £20.9m



Contribution

£9.3m

2013: £9.9m



Operating profit

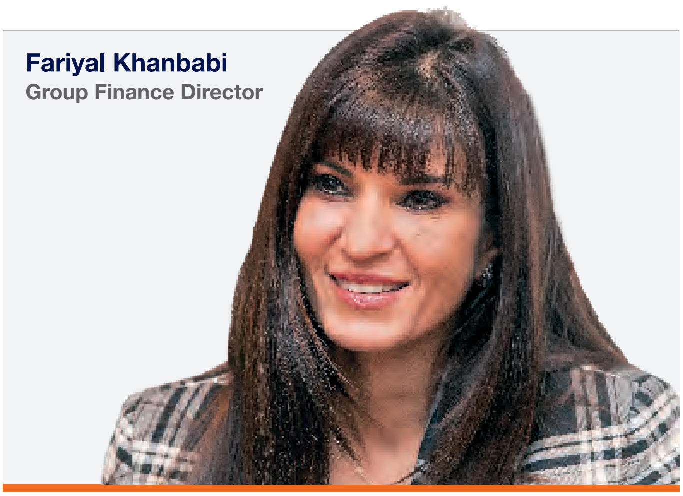
£0.4m

2013: £1.3m

This segment supplies small LED indicators into the professional electronics market through a network of distributors with more than 15,000 end users. Several hundred new customers were introduced in 2014, and it is this diversity and breadth of customers and markets that are a real strength in this mature market. The segment continues to make a solid contribution to the Group's profitability and cash generation.

2014 review

Financial review



Fariyal Khanbabi
Group Finance Director

Our key and new products
page 21

Income statement

Revenue in the year grew by 21.8% to £159.8m from £131.2m in 2013. The revenue growth was driven by significant growth in Lighting revenues of £31.4m (50% at constant currency) and Obstruction revenue growth of £3.0m (22% at constant currency).

Profit from operating activities (underlying) grew by 24.6% to £18.1m. The growth in revenue and profits for the current year has been achieved despite adverse currency movements, particularly against the US Dollar.

The Group's long-term growth continues to be underpinned by high growth in Lighting.

The major currencies the Group is exposed to are the US Dollar, the Mexican Peso and the Euro. The Group's major market is North America, which generated 60% of revenue in 2014 (2013: 63%). The Group's results are sensitive to the impact of changes in the US Dollar exchange rate. The average US Dollar exchange rate was 1.63 in 2014 compared to 1.57 in 2013. The impact of currency translation on 2014 was to decrease revenue by £4.6m and operating profit by £0.6m.

The revenue by segment for the year is as follows:

The Group operates in an area of fast paced technological change and continues to be an industry leader in its field. The Group continues to innovate and has further refined its integrated controls and monitoring products, allowing customers to gain additional efficiencies in the operation of their LED lighting. The Group invests in continuous development in order to maintain its competitive advantage, and spent £5.3m in 2014.

The performance of each business segment is reviewed individually below. Allocation of overhead in each segment is based on directly attributed costs plus allocation based on segmental revenue.

Lighting	2014 £'m	2013 £'m	Movement £'m
Revenue	**99.9**	68.5	31.4
Contribution	**42.3**	31.3	11.0
Segment result	**14.5**	11.5	3.0

The Lighting segment continues to perform strongly with an increase in revenue of £31.4m (50% at constant currency). This represents 62.5% of total Group revenues. The expansion of sales channels coupled with continuous investment in sales heads were the primary drivers of growth.

The contribution margin decreased by 3.4% due to increased air freight charges as a result of industrial action at a number of west coast ports in the US and the mix of products sold. The segment result (operating profit) increased by 26% to £14.5m (2013: £11.5m) driven by the revenue growth and partly offset by lower contribution margin.

Signals	2014 £'m	2013 £'m	Movement £'m
Revenue	40.2	41.8	(1.6)
Contribution	18.0	17.5	0.5
Segment result	6.0	5.2	0.8

Signals revenue fell by 3.8% to £40.2m. The two major elements of the Signals division are the Traffic and Obstruction businesses. The Obstruction business sells anti-collision warning products that are mainly used on wind turbines in Europe and on telecom and broadcast towers in the US. Revenue grew by 22% (at constant currency) in the higher margin Obstruction business due to a recovery of market share in the US. This more than offset the lower contribution from the Traffic and Transportation business and gave a segment result of £6.0m, 15% ahead of prior year.

Components	2014 £'m	2013 £'m	Movement £'m
Revenue	19.7	20.9	(1.2)
Contribution	9.3	9.9	(0.6)
Segment result	0.4	1.3	(0.9)

The Components business is a high volume producer of status indication lights for OEMs. It is a stable business with established competitors and is not seen as a growth market. Components revenue fell by 5.7% year on year to £19.7m. This represents 12.3% of Group revenue (2013: 15.9%). The contribution margin was broadly flat but the lower revenue resulted in a reduction in contribution of £0.6m. There was a slight increase (£0.3m) in overheads and these combined to give a segment result of £0.4m (2013: £1.3m).

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

	Percentage of Group operating profit	2014 £'m	2013 £'m	Movement £'m
Lighting	69.4%	14.5	11.5	3.0
Signals	28.7%	6.0	5.2	0.8
Components	1.9%	0.4	1.3	(0.9)
Operating profit before unallocated expenses		20.9	18.0	2.9

Central overheads are not allocated to the three business segments. In 2014 they amount to £2.8m, a reduction of £0.7m from 2013. This resulted in a profit from operating activities (underlying) of £18.1m, an increase of 24.6% over 2013 (£14.5m).

Non-underlying costs

In 2014 there were net non-underlying costs (excluding finance expense) of £2.3m (2013: £2.9m) which comprised the following:

	2014 £'m	2013 £'m
Contingent consideration	3.1	—
Inventory provision	(2.8)	—
Goodwill and asset write-down	(1.3)	(0.8)
Employee severance and restructuring costs	(1.1)	(0.4)
Intellectual property past-use access fee	—	(1.4)
Other	(0.2)	(0.3)
Non-underlying costs recorded in administrative expenses and cost of sales	(2.3)	(2.9)

In December 2014 an agreement was reached with the former owners of Airinet, a business acquired by Dialight in 2012, to settle the amount of contingent consideration that was due to them. This has resulted in a non-underlying credit of £3.1m. Airinet was acquired to boost the development effort aimed at using wireless control technology in the Lighting sector. In addition, at the time of acquisition there was considered to be a prospect of using the Airinet technology to achieve specific sales of street lighting to large municipalities in the US. These sales were not achieved and this is the major reason for the agreement of a reduced amount of contingent consideration.

The knowhow that existed in Airinet at the time of acquisition assisted in developing the wireless control systems now being deployed in the Lighting segment and hence the goodwill arising on the Airinet acquisition has been carried forward unimpaired at cost. The capitalised technology cost arising on acquisition and subsequent costs of developing that technology, which related to the street lighting sales, totalling £0.8m have been written off as non-underlying cost. Other intangibles of £0.5m whose carrying value was judged to be impaired were also written off.

The Group operates in an environment where the pace of technological change is ever increasing, presenting a greater risk of obsolete inventory. An inventory provision is calculated to estimate the value of inventory that has become unusable or unsaleable due to obsolescence. Management agreed with the Board to commence a detailed review of the risk of obsolescence during the year. This review was completed by the incoming Group Finance Director and identified that the pace of product change has increased in the Lighting and Obstruction business with the introduction of control based Lighting and the new Vigilant range. The Board concluded that a strict ageing over-ride should be added in addition to the existing usage formula. As a result the Group incurred a one-off charge of £2.8m. As the nature of this charge is non-recurring it has been treated as a non-underlying expense.

The Group also incurred redundancy and termination costs mainly relating to US and European operations and the closure of its Japanese operation.

For details on the prior year items, please refer to note 6.

Financial review continued

The profit from operating activities was £15.8m (2013: £11.6m) after taking account of the non-underlying costs.

Underlying finance expense was £0.2m (2013: £0.1m) and there was a non-underlying finance expense of £0.1m (2013: £0.3m) for changes in the discount rate applied to the contingent consideration.

The underlying tax charge for 2014 was £6.0m (2013: £4.5m), representing an underlying tax rate of 33.5% (2013: 31.3%). The increase is due mainly to the weighting of US profits. The non-underlying expense of £2.3m had no tax impact (2013: £1.0m) as the nature of the adjustments gave rise to offsetting tax impacts. The overall tax charge was £6.0m (2013: £3.5m) and the total tax rate was 38.7%.

Underlying profit for the year was £11.9m (2013: £9.9m) and there was a net loss from non-underlying trading of £2.4m (2013: £1.5m) resulting in a profit for the year of £9.5m (2013: £8.4m). The profit attributable to the equity holders of the Company was £9.5m (2013: £8.5m) with £0.1m attributable to non-controlling interests in the prior year.

The basic earnings per share from the underlying business was 36.8 pence (2013: 30.8 pence) and the total earnings per share was 29.4 pence (2013: 26.2 pence).

Balance sheet

Group net assets have increased by £6.1m to £72.8m (2013: £66.7m). The major changes have been the increase in working capital of £12.0m offset by an increase in borrowings of £5.6m.

The split and movement in working capital is outlined below:

	2014 £'m	2013 £'m
Inventories	32.4	24.2
Trade and other receivables	36.9	27.9
Trade and other payables	(26.2)	(21.0)
	43.1	31.1

The increase in working capital of £12.0m was driven mainly by an increase in inventory of £8.2m to support the significant growth in Lighting. The working capital to sales percentage has increased from 23.7% in 2013 to 27.0% in 2014 as the Group strengthens its supply chain to continue its growth.

The Group's defined benefit schemes (which are closed to new entrants) had a deficit of £1.2m at the balance sheet date compared to a deficit of £0.4m at 31 December 2013. The increased deficit of £0.8m in the year is mainly due to a change in the discount rate used to value assets.

In the year, the Group signed a four-year unsecured £25m multi-currency revolving credit facility with HSBC Bank plc. Under the terms of the facility, the Group also has a £25m "accordion" facility, by which further facilities may be made available under the current terms. At the balance sheet date, £7.6m was drawn on the facility.

The Group is operating comfortably within its covenant requirements.

Cash flow

There was an overall reduction in the Group's net cash position of £6.5m in the year. Cash generated from operations increased by £1.7m to £8.6m (2013: £6.9m). This was utilised to fund capital expenditure of £7.2m (2013: £9.3m), of which £3.5m was spent on new product development. In addition there were tax payments of £3.1m (2013: £2.2m) and dividend payments of £4.8m (2013: £4.6m).

Banking

The Group has its banking relationships with HSBC Bank plc, Barclays Bank plc and Wells Fargo. The Group had utilised £7.6m of its facility at 31 December 2014.

The Group has an arrangement with Wells Fargo in the US to offer finance facilities to its customers. These facilities are not underwritten by the Group.

Capital management and dividend

The Board's policy is to maintain a strong capital base in order 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 2014 this totalled £72.8m (2013: £66.7m).

In line with the Group's dividend policy it is proposed to pay a final dividend of 9.8 pence giving a total dividend for the year of 15.0 pence (2013: 14.4 pence). A total dividend of 15.0 pence would be covered two times. The final dividend, if approved, would be paid on 2 June 2015 to shareholders on the register at the 1 May 2015.

Going concern

The Group's business activities together with the factors likely to affect its future development, performance and position are described within this review. The financial position of the Group and 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.

Sustainability report

ENVIRONMENTAL RESPONSIBILITIES

Environmental management system

Dialight's environmental management system ("EMS") continues to be certified to ISO 14001 across its European business.

Certified sites are located in Denmark, Germany and the UK. We intend to add Mexico and the US as certified sites during 2015. 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.

Greenhouse gas emissions

Dialight is required to report its annual greenhouse gas emissions pursuant to the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 (the "Regulations"). Dialight has systems in place for the collation of data for reporting purposes and for reporting against its emissions for the full year to 31 December, in parallel with the Company's financial reporting year end.

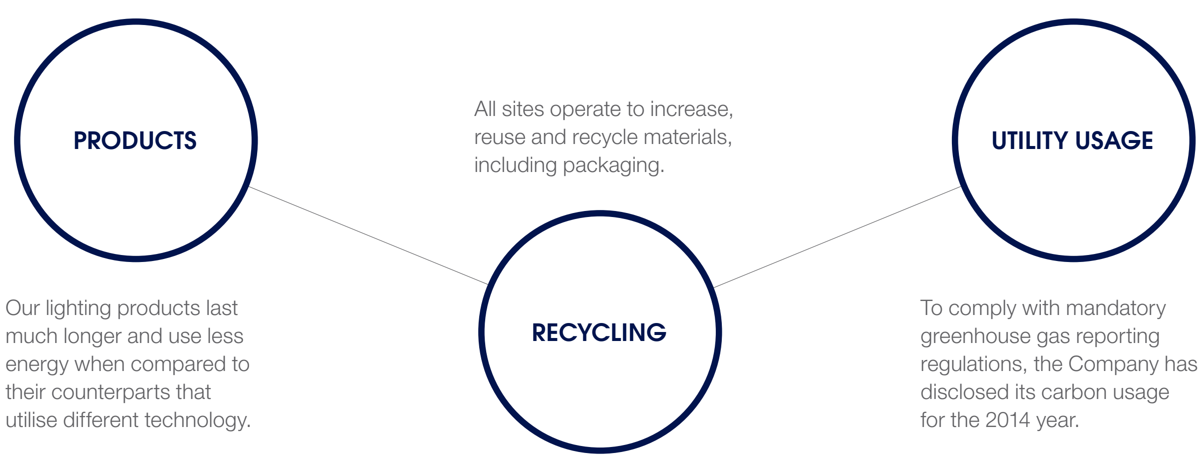
The table below sets out Dialight's emissions for 2014 and 2013:

Type of emissions	**Tonnes of CO_2e 2014**	Tonnes of CO_2 2013
Emissions from combustion of fuel and operation of facilities emissions	**645 tonnes CO_2e**	652 tonnes CO_2e
Emissions from purchased electricity	**11,887 tonnes CO_2e**	5,207 tonnes CO_2e

Methodology

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



Sustainability report continued

ENVIRONMENTAL RESPONSIBILITIES CONTINUED

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 £1m of turnover; for 2014 this has been calculated as 78.42 tonnes CO_2e emitted per £1m of turnover (2013: 44.66 tonnes CO_2e).

Assurance

Data was collected and collated in accordance with the Defra recommendations. The methodology was not subject to independent assurance.

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 in 2014 and 2013:

2014

Resource	Total consumption	Unit	Consumption per £ turnover
Electricity	**11,777,349**	**KWh**	**0.073 KWh**
Gas	**1,660,267**	**KWh**	**0.010 KWh**
Oil	**6,348**	**Litre**	**0.039 mL**
Water	**7,777,729**	**Litre**	**0.048 litres**

2013

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

Dialight has three zero-waste-to-landfill sites which are located 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.

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 2014 (2013: nil). 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 2014 (2013: nil).

ETHICAL BUSINESS

The Code of Business Conduct

Dialight's Code of Business Conduct ("CBC") was first 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, and the environment. All parts of the CBC are underpinned by a number of additional policies, which were the subject of a review during 2014 and were reissued in 2015 as part of the new governance framework, which became effective from 1 January 2015.

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.

BOARD DIVERSITY

Male **5**
Female **2**

SENIOR MANAGEMENT DIVERSITY

Male **7**
Female **0**

TOTAL WORKFORCE DIVERSITY

Male **1,204**
Female **1,109**

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.

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 and incidents within the business.

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 and encouraging them 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.

This Strategic report was signed on behalf of the Board by the Chairman and Interim Group Chief Executive.

Bill Ronald
Chairman

Richard Stuckes
Interim Group Chief Executive

Chairman's overview and Board of Directors

Bill Ronald (59)
Chairman

Term of office: 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 and Chairman of the Remuneration Committee and was a member of the Audit Committee.

Current external appointments: Chairman of the Compleat Food Group and Fevertree Drinks plc and Chair of Trustees of the Muscular Dystrophy Campaign.

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 (the "Code") 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. Although our report on corporate governance compliance applies for the year ended 31 December 2014, we have included in that report and the Remuneration Committee report, where relevant, and reflected in the biographies and Committee membership structure, the recently announced Board changes in relation to Roy Burton and Richard Stuckes.

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") and 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 the Code can be read to include the earlier version of the Code along with that published in September 2012.

As noted in my introduction last year, Mark Fryer, Group Finance Director, left the Company on 15 January 2014. Fariyal Khanbabi was appointed Group Finance Director in September 2014. During the interim period, Kevin Higginson joined us as Interim Chief Financial Officer but was not appointed to the Board. Details of Mark Fryer's termination payment arrangements and Fariyal Khanbabi's remuneration arrangements are set out in the Remuneration Committee report.

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 Committee report on pages 44 to 54, 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. We have also replicated our remuneration policy, which was approved by shareholders at our 2014 Annual General Meeting ("AGM"), by way of an appendix to the Remuneration report. The Code is available online from the FRC at www.frc.org.uk and in making our compliance disclosures we have had regard to the updated 2014 UK Corporate Governance Code that was issued by the FRC in September 2014.

Bill Ronald
Chairman

Roy Burton (67)
Group Chief Executive

Term of office: Group Chief Executive between September 2005 and March 2015. Joined the Group in July 2002 as President of Dialight Corporation.

Board Committees: Nominations (until March 2015).

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, and as Chief Executive Officer of Coraza Systems Inc.

Current external appointments: None.

Richard Stuckes (47)
Interim Group Chief Executive

Term of office: Non-Executive Director between May 2009 and February 2015. Appointed Interim Group Chief Executive in February 2015.

Board Committees: Audit, Nominations and Remuneration (each until February 2015).

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

Current external appointments: None.

Fariyal Khanbabi (47)
Group Finance Director

Term of office: Joined Dialight plc on 8 September 2014 as Group Finance Director.

Board Committees: None.

Experience: From 2009 until joining Dialight in September 2014 Fariyal was Chief Financial Officer at Blue Ocean Group, an independent, privately owned, £4 billion revenue fuel trading and distribution business. She has over ten years' experience in senior financial positions, including roles at NYSE and Nasdaq-listed companies.

Current external appointments: None.

Stephen Bird (54)
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.

Tracey Graham (49)
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 of RPS Group plc and of Royal London Group where she chairs their respective Remuneration Committees.

Robert Lambourne (63)
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 US and Chairman of Penox SA in France and Analyst Investment Management plc. Non-Executive Director of Pace Micro Technology plc and Abacus Group Plc as well as a number of private companies in the UK.

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

Corporate governance and Directors' report

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

The Board of Dialight presents its Corporate governance and Directors' report (the "Report") and the audited financial statements for the year ended 31 December 2014. The Strategic report can be found on pages 2 to 29 which, together with the Report of the Remuneration Committee, is incorporated by reference into this Report and, accordingly, should be read as part of this Report.

Code

Dialight is required to state how it has applied the main principles and how it has complied with the provisions set out in the Code, a copy of which is available at www.frc.org.uk. It is the view of the Board that Dialight has been compliant with the provisions of the Code throughout the year ended 31 December 2014.

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 (the "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; recommendation of dividends; convening of shareholder meetings; review and approval of Board appointments; approval of annual budgets; review of Group strategic plans; approval of larger capital expenditure and investment proposals; review of the overall system of internal control and risk management; and review of corporate governance arrangements.

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 2014 covering all material controls, including financial, operational and compliance controls and risk management systems.

The Board held seven scheduled meetings during 2014 including a three-day annual strategy and planning meeting in the US. Further details of Directors' attendance at all scheduled meetings of the Board and its Committees can be found in the table opposite. There are nine Board meetings scheduled to take place in 2015.

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. If Directors are unable to attend a Board meeting they have the opportunity beforehand to discuss any agenda items with the Chairman.

Board composition

During 2014, the Board comprised the Chairman, the Group Chief Executive, the Group Finance Director and four Non-Executive Directors. One of the Non-Executive Directors, Stephen Bird, is also the Senior Independent Director. Mark Fryer was Group Finance Director during 2014 until he stepped down from the Board on 15 January 2014. The Nominations Committee engaged the services of an executive search agency, Independent Search Partnership, to assist in the recruitment of a new Group Finance Director, resulting in the appointment of Fariyal Khanbabi as the Group Finance Director on 8 September 2014. She will be seeking election as a Director of the Company at the forthcoming AGM. Further details are set out in the Nominations Committee report on page 36. Since the year end, we have announced that Roy Burton has advised the Board of his intention to step down as Group Chief Executive due to ill health on 2 March 2015, and that Richard Stuckes, previously a Non-Executive Director, has replaced him as Interim Group Chief Executive with effect from 2 February 2015. As a consequence of his resignation notice, Roy Burton will not be offering himself for re-election at the 2015 AGM but will remain as an employee of Dialight during his notice period and available to provide counsel and assistance as required to ensure an orderly handover of his responsibilities. 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 as part of its normal year-end compliance review. It was noted that there was a commercial relationship between Dialight Europe Limited, a Group subsidiary company, and DS Smith Packaging Limited, where Richard Stuckes was an Executive Director. However, the Board agreed that this relationship was of such a level and materiality that there was no impact on Richard Stuckes' independence during his time as a Non-Executive Director of the Company.

The Board has 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 they therefore meet the criteria set out in the Code.

Board/Committee attendance – 2014

	Board	Audit Committee	Remuneration Committee	Nominations Committee
Bill Ronald	7/7	n/a	4/4	5/5
Roy Burton	7/7	n/a	n/a	4/5
Mark Fryer*	—	—	—	—
Fariyal Khanbabi**	3/3	n/a	n/a	n/a
Stephen Bird	7/7	4/5	4/4	5/5
Tracey Graham	6/7	5/5	4/4	5/5
Robert Lambourne	7/7	5/5	4/4	5/5
Richard Stuckes	7/7	5/5	4/4	5/5

* Mark Fryer stepped down as Group Finance Director from the Board on 15 January 2014.
** Fariyal Khanbabi was appointed Group Finance Director on 8 September 2014. Her attendance is expressed as the number of meetings she attended out of the number she was eligible to attend.

All Directors' biographies appear on pages 30 and 31. The Dialight Board demonstrates a range of experience that brings independent judgement to issues of strategy, performance, resources and standards of conduct which are vital to the future success of the Group. The Board has considered and confirmed that each Non-Executive Director continues to demonstrate that he or she 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 being 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.

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 processes. The report of the Audit Committee can be found on pages 37 to 40.

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 Company's current remuneration policy, which was approved by shareholders at the AGM held on 16 April 2014, can be found in the appendix to the report of the Remuneration Committee on pages 55 to 62. The Report of the Remuneration Committee for 2014 is set out on pages 44 to 54.

Nominations Committee

The Nominations Committee is responsible for the structure, size and composition of the Board. This ensures that the correct balance of skills, experience and knowledge is 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 36.

Responsibilities

The Board has established and approved clearly established roles for the Chairman, Group Chief Executive and 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.

Corporate governance and Directors' report continued

Group structure and Committee membership

THE BOARD

NOMINATIONS COMMITTEE	REMUNERATION COMMITTEE	AUDIT COMMITTEE
Chairman: Bill Ronald	**Chair:** Tracey Graham	**Chairman:** Robert Lambourne
Members: Roy Burton (until 2 March 2015) Stephen Bird Tracey Graham Robert Lambourne Richard Stuckes (until 2 February 2015)	**Members:** Bill Ronald Stephen Bird Robert Lambourne Richard Stuckes (until 2 February 2015)	**Members:** Stephen Bird Tracey Graham Richard Stuckes (until 2 February 2015)

Responsibilities continued

The Chairman

In addition to other matters, the Chairman has responsibility for the leadership of the Board, ensuring the effectiveness of the Board, organising and planning Board meetings and the effective and timely communication of information to shareholders.

The Chairman provides advice, counsel and support to the Group Chief Executive as and when required and maintains open and continual contact with the Non-Executive Directors to allow any issues to be addressed outside of the formal scope of the regular Board meetings.

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.

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 letters 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 AGM. Further details of these can be found in the Report of the Remuneration Committee on page 53.

Development

All new Directors receive a full and formal tailored induction programme on joining the Board. This includes the provision of information on the Group and 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, Nick Giles, 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 and updates on legal, regulatory and corporate governance matters through his Board reports. Both the appointment and removal of the Company Secretary is a matter for the Board as a whole. 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

Previous evaluations of the Board and its Committees have been by way of responses to a questionnaire issued to all members of the Board, with the feedback from these questionnaires being 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. As noted in last year's Annual Report and Accounts, given the appointments of new Board members made in 2013, and in order to obtain the maximum benefit for all Board members from such an exercise, no such review was undertaken during 2013. In line with the commitment given in last year's Annual Report, we engaged an independent governance specialist, Edis-Bates Associates, in 2014 to carry out an external evaluation. Edis-Bates Associates does not have any other connection with the Company. The Board will be discussing the findings of the evaluation at its Board meeting scheduled for March 2015. Further details will be included in the 2015 Annual Report.

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. Fariyal Khanbabi, who was appointed to the Board as Group Finance Director on 8 September 2014, will seek election at the forthcoming AGM.

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, through 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 Chairs 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 AGM (the "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 15 April 2015 at 200 Aldersgate, Aldersgate Street, London EC1A 4HD.

Governance framework

The Board has approved an enhanced governance structure with effect from 1 January 2015 through the adoption of a Governance of Dialight document. That document describes Dialight's governance framework, provides specific detail on the terms of delegation from the Board of Dialight to the Group's management and governance committees and the Group's approach to internal audit and risk management, and includes the Group's Code of Business Conduct and supporting polices. As part of the revised structure, a new Group Chief Executive's Committee, chaired by the Group Chief Executive, has been established and is responsible for assisting the Group Chief Executive with the day-to-day executive management of the Dialight Group. This new Executive Committee has formal terms of reference governing its operation, which have been approved by the Board. Further details of this new governance framework will be set out in out 2015 Annual Report.

Report of the Nominations Committee

Bill Ronald
Chairman of the Nominations Committee

Members:
Roy Burton (until 2 March 2015)
Stephen Bird
Tracey Graham
Robert Lambourne
Richard Stuckes (until 2 February 2015)

Objectives

The Nominations Committee is responsible for and leads the process for all Board appointments, making recommendations to the Board where required. It is also 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 team, and making recommendations regarding re-election and re-appointment of Directors. Where applicable, external search consultants are engaged to assist with any recruitment process. In carrying out its Board reviews, and when drawing up selection criteria for ongoing succession planning and appointment procedures, the Committee has regard to the balance of skills, experience, independence and knowledge of the Board.

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 the Group Chief Executive, Roy Burton, are considered independent pursuant to the Code. Richard Stuckes and Roy Burton stepped down as members of the Committee on 2 February 2015 and 2 March 2015, respectively. 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 Board/Committee attendance – 2014 table on page 33.

Activities during the year

During the year the Committee undertook the following actions:

- leading the search and recruitment of a new Group Finance Director in conjunction with Independent Search Partnership, resulting in the appointment of Fariyal Khanbabi in September 2014, and overseeing the appointment during the period between January and July 2014 of an interim Chief Financial Officer; and
- reviewing its terms of reference to ensure they remained in line with relevant guidelines and best practice.

Independent Search Partnership does not have any other connection with the Company.

Following the recent Board changes which the Committee considered and recommended to the Board, and as part of its activities during 2015, the Committee will be focusing on the appointment of a permanent Group Chief Executive, succession planning and Committee membership generally.

Diversity

The Board of Dialight has considered the recommendations of the Davies Report published in 2011, and subsequent updates, 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 29.

Report of the Audit Committee

Robert Lambourne
Chairman of the Audit Committee

Members:

Stephen Bird

Tracey Graham

Richard Stuckes (until 2 February 2015)

Objectives

The role and responsibilities of the Audit Committee are set out in written terms of reference which are reviewed annually by the Committee taking into account relevant legislation and recommended best practice. The terms of reference are available on the Company's website and from its Registered Office. The key responsibilities are set out below. The Committee reports to the Board on how it discharges its responsibilities.

Membership

All members of the Committee served throughout the year and are considered independent pursuant to the Code. Richard Stuckes stepped down as a member of the Committee on 2 February 2015. 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. The number of meetings attended by members of the Committee can be found in the Board/Committee attendance – 2014 table on page 33.

Key responsibilities

The Committee's key responsibilities include:

- oversight of the integrity of the Group's financial reporting statements;
- review of Dialight's annual and half yearly financial statements and release of any interim management statements in Q1 and Q3;
- oversight of internal control and risk management systems and arrangements;
- operation and monitoring of confidential disclosure policy;
- monitoring and review of the effectiveness of the internal audit function; and
- oversight of the relationship with the external auditors and the effectiveness of the external audit, including monitoring of the non-audit services policy and processes.

Activities during the year

A key activity of the Committee during the year was overseeing and considering the formal review and critical challenge undertaken by KPMG of the Group's forecasting systems and processes following the profit warning that the Company issued in January 2014 in relation to its 2013 results. This assessment highlighted a number of process improvements, which were implemented during 2014 and provided a much more robust and focused system of internal control to support Dialight's growth in the coming years. In engaging KPMG to undertake the review, the Committee was mindful of the need to ensure independence from a good governance perspective and considered after a careful review that KPMG was best placed to carry out the review. 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 Committee was thus satisfied that the independence and objectivity of the auditors was safeguarded. The fees incurred for the review of £0.2 million are included in the Auditors' remuneration section in note 10 of the financial statements on page 83.

Report of the Audit Committee continued

Activities during the year continued

The following were identified as key areas of judgement following a discussion with KPMG at the Committee's planning meeting in respect of the 2014 external audit.

Non-underlying

During the year the Group incurred exceptional items that are disclosed separately in order to provide a true and fair view of the underlying business performance. The Committee considered a paper presented by senior management that set out the items to be treated as non-underlying in the year and the rationale for the accounting treatment. The Committee concluded that it was satisfied with the accounting treatment adopted.

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 2014, 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.

Separate consideration was given to the goodwill that arose on the Airinet acquisition in 2012 following the agreement to reduce the outstanding contingent consideration. Airinet knowhow has assisted in developing the wireless control systems now being deployed in the Lighting segment and hence the goodwill arising on the Airinet acquisition has been carried forward at cost as it is considered to be unimpaired.

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 on inventory ageing methodology. Management agreed with the Board to commence a detailed review of the risk of obsolescence during the year. This review was completed by the incoming Group Finance Director and identified that the pace of product change has increased in the Lighting and Obstruction business with the introduction of control based Lighting and the new Vigilant range. It concluded that a strict ageing over-ride should be added in addition to the existing usage formula. As a result the Group incurred a one-off charge of £2.8m. As the nature of this charge is non-recurring it has been treated as a non-underlying expense.

At the balance sheet date 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 in the prior year and noted the suggested improvements had been made.

Development costs

Total development costs of £5.3m were incurred in the period (2013: £4.5m), of which £2.6m or 49% has been capitalised (2013: £2.9m or 64%). The book value of capitalised development at 31 December 2014 was £6.8m an increase of £0.9m 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 and that the standardisation of documentation had improved.

Financial statements

At the request of the Board the Committee considered whether the 2014 Annual Report and Accounts was fair, balanced and understandable and whether it provided the necessary information for shareholders to assess the Group's performance, business model and strategy. The Committee was satisfied that, taken as a whole, the 2014 Annual Report and Accounts is fair, balanced and understandable.

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 control that have operated during 2014. Where any control issues and weaknesses are identified, timely remedial actions are put in place.

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 certain aspects of the Group's affairs. The Executive meets regularly with senior management of the operating businesses on a range of issues.
Risk management	Following review of the Group's risk management framework, an updated Group risk register has been established. This helps provide a prioritised agenda for the management of the Group's principal risks. In 2015 we plan to establish a more integrated framework by cascading the Group register to the appropriate business level. An advisory Risk Committee, comprising the Group Finance Director, Group Company Secretary and Head of Internal Audit has been established, with one of its objectives being to monitor completion of this process.
Group's compliance framework	A new governance framework was considered and approved at the end of the year enshrined in a Governance of Dialight document that describes Dialight's governance arrangements and provides details on the terms of delegation from the Board to the Group's management and governance committees, internal audit and risk management. This now includes the establishment of a new Group Chief Executive's Committee. This latter committee is responsible for assisting the Group Chief Executive with the day-to-day executive management of the Group. As part of that framework the CBC and GCM are integral elements and are described below. **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. The CBC is underpinned by a number of additional policies. Both the CBC and the additional 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.
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. The Executive submits papers to the Board on a monthly basis that focus on key developments, performance and issues in the business.
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 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	Internal audit activity has been strengthened during the year by the establishment of a separate function and appointment of a Head of Internal Audit. An Internal Audit Charter is now in place which establishes the framework and standards for a systematic and disciplined approach to evaluate and improve the effectiveness of the Group's risk management, control and governance processes. Broader and risk based business process reviews are now planned and undertaken, guided by input from the Executive and approved by the Audit Committee. Findings are circulated by report to all levels of management, Board members and external auditors, and timely completion of action is followed up on a regular basis.
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.

Report of the Audit Committee continued

Internal audit

The Committee has oversight of the internal audit process. The table on page 39 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

During the year, the Committee considered the cost effectiveness, independence and objectivity of KPMG, the external auditors, on a regular basis, agreed their level of remuneration and reviewed the extent of non-audit services provided by KPMG.

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.

It has been decided to defer the external audit tender exercise pending the appointment of a permanent Group Chief Executive.

Non-audit services

Prior to any non-audit services work being undertaken, the Group Finance Director reviews such work and has authority to approve assignments up to £20,000 per annum, in the aggregate. Anything above this level requires 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. During the year the Committee reviewed and adopted a new policy on the provision of non-audit services to the Group which maintained the Group Finance Director's £20,000 approval cap limit.

Details of all fees paid to the external auditors can be found on page 83 of the financial statements. During the year under review KPMG has been engaged for certain non-audit related assignments primarily in respect of pensions and tax advisory work. As stated above, the Committee 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 did 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 was safeguarded.

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 an ongoing contract negotiation 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.

Substantial shareholdings

As at 2 March 2015 the Company had received the following notifications pursuant to DTR 5 of the Disclosure and Transparency Rules of the FCA.

Shareholder	Holding	% voting rights
Generation Investment Management LLP	5,378,248	16.55
GO Investment Partners LLP	2,285,030	7.03
Montanaro Asset Partners Ltd	1,978,113	6.09
Schroders plc	1,630,259	5.04
Impax Asset Management Ltd	1,538,820	4.87
Mirabaud Asset Management Ltd	1,434,438	4.44
Invicta Capital Management, LLC	1,070,852	3.29

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, Brazil, Denmark, Germany, Malaysia, Mexico, North America, Singapore and the UAE.

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 29 and in the Report of the Nominations Committee on page 36.

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 (2013: £nil).

Disclosures required under Listing Rule 9.8.4R

The following table is included to meet the requirements of Listing Rule 9.8.4R. The information required to be disclosed by that section, where applicable to the Company, can be located in the 2014 Annual Report and Accounts at the references set out below:

Information required	Location in the Annual Report: Note	Pages
Long-term incentive schemes:		
Significant agreements/change of control	—	42
Remuneration Committee report and policy	—	44 to 62
Employee benefits — Share-based payments (Consolidated)	19	91 and 92
Called up share capital — Share-based payments (Company)	36	103

Other statutory disclosures continued

Greenhouse gas emissions

The Company's greenhouse emissions for the year ended 31 December 2014 can be found in the Sustainability section of the Strategic report on pages 27 and 28 together with comparative emission data for 2013, which set the base year for disclosure purposes.

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 pages 93 to 96.

Dividend

The Board recommends a final dividend of 9.8 pence per share, making a total dividend for the year of 15.0 pence per share (2013: 14.4 pence per share). Subject to the approval of shareholders at the 2015 AGM, the final dividend will be paid on 2 June 2015 to shareholders on the register at the close of business on 1 May 2015.

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. At the forthcoming AGM a resolution to appoint KPMG LLP as auditors and to authorise the Directors to set their remuneration will be proposed. Further details are set out in the Report of the Audit Committee.

Share capital and structure

As at 31 December 2014 the Company had 32,503,258 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 (the "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 143,366 ordinary shares to satisfy existing awards pursuant to the Company's Performance Share Plan ('PSP') and Annual Performance Bonus Plan ('APBP'), which vested during 2014.

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 2014 AGM shareholders granted the Directors the authority to purchase up to 3,250,326 ordinary shares in the Company which will expire on 30 June 2015. A similar authority will be sought from 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 17 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 44 to 54, 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, other than in respect of the four-year unsecured £25m multi-currency Revolving Credit Facility with HSBC Bank plc. Under the terms of that facility, and in the event of a change of control of the Company, the bank can withdraw funding and all outstanding loans, accrued interests and other amounts due and owing can become payable within 30 days of the change.

The Company currently operates three share plans: a PSP, the APBP and, following approval at the 2014 AGM of the Dialight plc 2014 Sharesave Plan, an all-employee sharesave plan ("Sharesave Plan"). A new ten-year PSP was also adopted by shareholders at the 2014 AGM, replacing the existing one, which expires in 2015. Further details of these share plans are provided in the Report of the Remuneration Committee and Appendix on pages 44 to 62.

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 rules of the Sharesave Plan have special provisions which also allow for early exercise in the event of a change of control, reconstruction or winding up of the Company. Internal reorganisations do not automatically trigger the early exercise of options.

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 9,606 shares at 31 December 2014 (2013: 2,514). 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
2 March 2015

Company number: 2486024

Registered Office
Dialight plc
Exning Road
Newmarket
Suffolk CB8 0AX

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 regulation, 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 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 the behalf of the Board of Dialight plc

Bill Ronald
Chairman
2 March 2015

Fariyal Khanbabi
Group Finance Director

Remuneration Committee report

Tracey Graham
Chair of the Remuneration Committee

Members:

Bill Ronald
Stephen Bird
Robert Lambourne
Richard Stuckes (until 2 February 2015)

Annual statement by Tracey Graham, Chair of the Remuneration Committee

Dear Shareholder

On behalf of the Board, I am pleased to present the Remuneration Committee's (the "Committee") report on remuneration for 2014.

Details of the business covered by the Committee at its meetings can be found in the table on page 45; this included the following key activities:

- proposing the Directors' remuneration policy to shareholders;
- carrying out the annual review of the remuneration framework;
- determining the annual remuneration package for the Group Chief Executive;
- considering the termination payment of Mark Fryer, following his stepping down as Group Finance Director in January 2014;
- recommending adoption of a new PSP and introduction of the all-employee Sharesave Plan for shareholder approval; and
- recommending and agreeing the remuneration arrangements for our new Group Finance Director, Fariyal Khanbabi, who joined Dialight in September 2014, in line with the approved Directors' remuneration policy.

Details of Mark Fryer's termination payments can be found in the Payments to past Directors and loss-of-office payments section on page 51. These were also placed on our website in April 2014. Details of the new share plans were included in our Remuneration report and AGM Notice last year.

Details of Fariyal Khanbabi's remuneration is set out in the Remuneration report. In our remuneration policy last year, we included a generic Group Finance Director remuneration scenario table. We have replaced that with a new table in the remuneration policy section on page 60 to reflect the actual position of Fariyal Khanbabi's remuneration scenarios based on her joining package, which was made in line with and pursuant to the remuneration policy approved at our 2014 AGM.

Committee meeting attendance by members is included in the Board/Committee attendance – 2014 table in our Corporate governance and Directors' report on page 33. Richard Stuckes stepped down as a member of the Committee on 2 February 2015.

Our Directors' remuneration policy was put to a binding vote to, and approved by, shareholders at the AGM held on 16 April 2014. The policy became effective immediately following that shareholder approval and will set the basis for the remuneration framework for Board members for at least the next three years from the adoption date and until such time as any change or its renewal is proposed to shareholders. We also issued a clarification statement on our website, following the release of our 2013 Annual Report and Accounts, regarding the exercise of any discretion in relation to Listing Rule 9.4.2, which we have repeated in our Remuneration report for this year. Our annual report on remuneration was also put to an advisory vote at our 2014 AGM. The voting outcomes for the two related remuneration resolutions together with the resolution for approving the new Dialight Performance Share Plan are set out at the end of this report on page 54.

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 2014	• Consideration of Mark Fryer's termination arrangements for approval by the Board
February 2014	• Approval of release of second tranche of deferred share awards under the APBP (relating to the 2011 bonus year) • Review of 2013 APBP payments • Approval of 2014 APBP objectives • Recommendation to grant April 2014 PSP awards • Recommendation to shareholders for adopting a new set of PSP rules • Recommendation to shareholders for adopting new Sharesave Plan rules • Review of draft Remuneration report
September 2014	• Grant of PSP awards • Review of Terms of Reference
December 2014	• Executive, senior management and Non-Executive Director benchmarking • Remuneration governance developments update

In line with our practice of making Dialight's remuneration arrangement clear, easy to understand and transparent, and so as to enable the remuneration policy to become an easy reference document to shareholders, we have replicated the policy as an appendix to this report. It is set out on pages 55 to 62. The only changes from last year's printed report are purely administrative and deal with the updating of last year's pagination references to the relevant cross references in this year's Remuneration report, the updated remuneration scenarios for the Group Finance Director and the deletion of the 2013 Executive Directors' holding in shares under the shareholding guidelines, which now appear in a separate section of the Remuneration report on page 50.

This report continues to be 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.

The report is divided into two sections: the first is the Annual report on remuneration (which focuses on the implementation of the remuneration policy in 2014 and how we intend to implement our remuneration policy in 2015). The second part is set out in the appendix to this report and is the Directors' remuneration policy, which details the Group's remuneration policies and links to strategy. In accordance with the regulatory requirements, the Annual report on remuneration is being put to an advisory vote at our 2015 AGM.

The sections of the report that are subject to audit can be found on pages 46 to 53.

Details of the Company strategy and key performance indicators ("KPIs") can be found on pages 12 to 14. 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 in 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; however the Committee remains in agreement that the use of EBIT as a primary measure remains the most effective for incentivising the Executive.

Key Committee decisions made during the year included a decision not to pay any cash bonuses in respect of the 2013 financial year in February, the approval of the vesting of the 2011 PSP awards and setting APBP objectives for 2014, considering the termination payment for Mark Fryer, following his stepping down, and recommending and agreeing the remuneration arrangements for Fariyal Khanbabi upon her appointment as Group Finance Director.

The Total Shareholder Return ("TSR") performance of Dialight over the three-year performance period 2012–2014 has been below the performance objectives set by the Committee at the date of grant. As a result no portion of the 2012 PSP awards will vest in April 2015.

The Committee remains committed to linking remuneration to the achievement of Dialight's strategic objectives and its remuneration design to promote the long-term success of the Company.

Since the year end, the Committee agreed and recommended to the Board the remuneration arrangements for Richard Stuckes on his appointment as Interim Group Chief Executive from 2 February 2015, increases in salaries and fees for 2015 and determination of the 2014 bonus payments. Further details are included under the Implementation of policy in the 2015 financial year, Executive salaries and Non-Executive Director fees section on page 53 and will be included in the remuneration report for 2015.

Tracey Graham
Chair of the Remuneration Committee
2 March 2015

Remuneration Committee report continued

Annual report on remuneration

The following sets out how Dialight's remuneration policy was implemented in 2014 and how it will be implemented in 2015.

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 2014 and 2013.

2014 (all figures in 000s)	Salary 2014	Benefits 2014	Pension 2014	Sub-total fixed 2014	Bonus 2014	APBP 2014	Sub-total variable 2014	Total remuneration 2014
Executive Directors								
Roy Burton	$560	$46	$168	$774	$280	$99	$379	$1,153
Fariyal Khanbabi*	£78	£4	£12	£94	£100†	—	£100	£194
Non-Executive Directors								
Bill Ronald	£125	—	—	£125	—	—	—	£125
Stephen Bird	£45	—	—	£45	—	—	—	£45
Robert Lambourne	£45	—	—	£45	—	—	—	£45
Tracey Graham	£45	—	—	£45	—	—	—	£45
Richard Stuckes	£40	—	—	£40	—	—	—	£40
Past Directors								
Mark Fryer**	£10	£0.5	£1.5	£12	—	£20	£20	£32

* Fariyal Khanbabi was appointed Group Finance Director on 8 September 2014. Her annual salary is £247,000 and pursuant to her terms of appointment her salary is subject to a first review at the end of 2015, with any revision taking effect from 1 January 2016.

** Mark Fryer stepped down as Group Finance Director on 15 January 2014 but remained with the Company as an employee until 31 March 2014. The figures disclosed in the table above relate only to his remuneration for the period from 1 January 2014 to 15 January 2014 as a Director of the Company. Details of the payments made to him on termination and loss of office are set out in the Payments to past Directors and loss-of-office payments disclosure on page 51.

† The bonus awarded to Fariyal Khanbabi for 2014 of £100,000 was allocated as a cash bonus of £25,000 and an award of shares under the APBP rules of £75,000.

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
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
Past Directors								
Mark Fryer	£240	£14	£36	£290	—	£240	£240	£530

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, Mark Fryer and Fariyal Khanbabi's pensions during the year. Mark Fryer and Fariyal Khanbabi 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 received a cash contribution under the SERP of $100,000 that is made on 30 June of each year for three years of which the third and final payment was made in 2014. 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 the same as those available under the US 401(k) plan, with the transfer of any associated investment charges to the Executive. The first and second contributions under this additional arrangement were made to the SERP on 30 June 2012 and 1 July 2013, respectively.

APBP

The APBP operates on the basis that is set out in the Policy report in the appendix on page 57. Maximum bonus potential is 175% of salary paid in a mixture of cash and deferred shares.

2011 APBP

The remaining outstanding balance of deferred share awards under the 2011 APBP, granted in 2012, became eligible for vesting in February 2014. Accordingly Roy Burton vested his second tranche balance of 7,392 ordinary shares and received 4,306 ordinary shares following the release of that second tranche and sale of sufficient shares to satisfy his related tax liabilities. The value of the shares at vesting on 25 February 2014, based on the share price of £7.80 per share and prevailing exchange rate on that date of US Dollars 1.67, and inclusion of a dividend equivalent payment of $3,098.50 (based on the same exchange rate), was $99,386.69.

In accordance with the rules of the APBP, Mark Fryer exercised on 25 February 2014 (while an employee of the Group) his first tranche of 2,514 ordinary shares under the 2011 APBP, which had vested in 2013. The value of the shares on exercise, based on the share price of £7.80 per share, and inclusion of a dividend equivalent payment of £631.01, was £20,240.01. His outstanding balance of 2,513 ordinary shares representing the second tranche of deferred shares under the 2011 APBP lapsed on 15 January 2014.

The values of the vesting proceeds detailed above for Roy Burton and Mark Fryer are contained in the single figure of total remuneration table for 2014, under the sub-heading 2014 APBP, on page 46.

2012 and 2013 APBP

No deferred share awards were made in respect of the 2012 and 2013 financial year ends.

2014 APBP

Objectives for the 2014 APBP were based on two corporate targets linked to EBIT performance and cash conversion/working capital days.

The maximum opportunity for the Group Chief Executive and the Group Finance Director, on her appointment, were 175% and 100% of base salary respectively.

Having considered the EBIT position at the end of year, the Committee approved bonuses for the Group Chief Executive and Group Finance Director of 50% ($280,000) and 40% (£100,000) of base salary respectively. This was the result of its achievement of an agreed level of performance.

Remuneration Committee report continued

Additional disclosures continued

PSP

Awards made in 2011

Awards granted in 2011 were based on the TSR achieved by Dialight compared to the FTSE Electrical and 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. The awards vested in full at 100% in February 2014 and details of the vesting are set out in the table below:

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.

The values of the vesting proceeds, set out in the table above, for Roy Burton and Mark Fryer were contained in the single figure of total remuneration table for 2013, under the sub-heading PSP 2013, and which is replicated on page 46.

Awards made in 2014

Awards granted in 2014 measured performance on the following basis:

EPS

From, and including awards made in, 2013, EPS was introduced as a complementary measure of performance relating to 50% of awards. The EPS vesting condition is Dialight's compound annual three-year EPS growth rate. For awards made in 2014, 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 2014, 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	38,491	$560	TSR/EPS	08.04.14	31.12.16
Fariyal Khanbabi	PSP	100%	Nil-cost option	N/A	27,674	£247	TSR/EPS	16.09.14	31.12.16

Awards granted in 2014 had the same EPS and TSR measurements as those for 2013 and were considered by the Committee to be appropriately stretching but achievable.

Total shareholding of Directors

	Beneficially held shares[1]	
	Ordinary shares at 31 December 2014	Ordinary shares at 1 January 2014
Roy Burton[2]	**404,427**	365,888
Mark Fryer[3]	**—**	16,538
Fariyal Khanbabi[4]	**—**	—
Bill Ronald	**18,350**	18,350
Stephen Bird	**12,000**	12,000
Robert Lambourne	**4,000**	4,000
Tracey Graham	**1,000**	1,000
Richard Stuckes	**37,853**	37,853
Total	**477,630**	455,629

1. Some of these shares are held through nominees.
2. 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 February 2011. Both events took place on 25 February 2014.
3. Mark Fryer stepped down as Group Finance Director on 15 January 2014.
4. Fariyal Khanbabi was appointed Group Finance Director on 8 September 2014.
5. There has been no change in Directors' holdings since 31 December 2014, other than Bill Ronald and Stephen Bird who purchased 7,500 and 8,000 ordinary shares respectively on 2 March 2015 at 726 pence and 725 pence per share respectively.

Outstanding awards under the PSP and APBP

	Type of award	Award date	Number at 1 January 2014	Awarded in year	Vested in year	Exercised in year	Lapsed in year	**Number at 31 December 2014**	Exercise price	Earliest vesting/ exercise date	Expiry date
Roy Burton											
PSP	CSA	17.02.11	58,137	—	58,137	—	—	**—**	—	—	—
PSP	CSA	26.04.12	30,163	—	—	—	—	**30,163**	—	26.04.15	—
PSP	CSA	09.04.13	28,210	—	—	—	—	**28,210**	—	09.04.16	—
PSP	CSA	08.04.14	—	38,491	—	—	—	**38,491**	—	08.04.17	—
APBP	CSA	26.04.12	7,392	—	7,392	—	—	**—**	—	—	—
Total			123,902	38,491	65,529	—	—	**96,864**			

	Type of award	Award date	Number at 1 January 2014	Awarded in year	Vested in year	Exercised in year	Lapsed in year	**Number at 31 December 2014**	Exercise price	Earliest vesting/ exercise date	Expiry date
Mark Fryer											
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	2,513	—	—	—	2,513	**—**	—	26.02.13	26.04.17
Total			65,891	—	—	29,549	36,342	**—**			

Remuneration Committee report continued

Outstanding awards under the PSP and APBP continued

	Type of award	Award date	Number at 1 January 2014	Awarded in year	Vested in year	Exercised in year	Lapsed in year	Number at 31 December 2014	Exercise price	Earliest vesting/ exercise date	Expiry date
Fariyal Khanbabi											
PSP	NCO	16.09.14	—	27,674	—	—	—	**27,674**	—	16.09.17	16.09.24

- CSA denotes conditional share awards. These are subject to performance conditions set out on page 48.
- NCO denotes nil-cost options. These are subject to performance conditions set out on page 48.
- The market price of a share on 8 April 2014 and 16 September 2014, the dates of the awards made during the year, were 876.06 pence and 892.53 pence, respectively.
- Options under the PSP are exercisable for ten years from the date of grant.
- Awards under the PSP made in 2012 will lapse in full on 26 April 2015 as a consequence of the related performance target not being achieved during the three-year financial period ended 31 December 2014.
- Awards under the PSP made in 2013 and 2014 are currently performing below the level required to achieve threshold vesting.
- During the year, the range of share prices was 700 pence to 970 pence, with the price on 31 December 2014 being 810 pence.
- Awards to Mark Fryer that were made in 2012 and 2013 lapsed on 15 January 2014 as noted below 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 as noted below. The balance of the award made on 2012 lapsed on 15 January 2014.
- The award under the PSP made to Fariyal Khanbabi on 16 September 2014 was made pursuant to her terms of appointment following her appointment as Group Finance Director on 8 September 2014.

Awards under the Sharesave Plan

Following approval at the 2014 AGM for the adoption of an all-employee UK Sharesave Plan and establishment of equivalent arrangements in other countries, the first grant was made on 18 September 2014 to eligible employees in the UK, the US and Mexico. Under the terms of the plans employees can save up to a limit of £250 per month or local currency equivalent with an option to buy Dialight plc shares at the end of a three-year vesting period (subject to continued employment) at a 20% discount of the price of a Dialight plc share at the time of invitation. There are no performance measures associated with the grant. Details of the option over ordinary shares of Dialight plc granted to Roy Burton under the International Part of the Sharesave Plan are set out in the table below:

	Balance of options at 1 January 2014	Granted in 2014*	Balance of options at 31 December 2014	First exercisable date	Final expiry date
Roy Burton	—	1,297**	**1,297****	01.11.17	15.03.18

* Option price at grant was 717.6 pence and comprised 80% of the market value of a Dialight plc share on 26 August 2014 being the day immediately preceding the date on which invitations were sent to eligible employees.

** The actual number of shares that will be exercised will be subject to the prevailing USD/GBP exchange rate at the time of exercise used to convert the savings proceeds but will not exceed the number of options in the box above.

Executive Directors' shareholding guidelines

Executive Directors are currently 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 and Group Finance Director). In accordance with the guidelines, Executive Directors have five years from joining Dialight to acquire the requisite holding. All Dialight shares, whether purchased on the open market or received through vestings and/or exercises under the various Dialight share plans, shall be included to satisfy the requirements. The Dialight share price used to value a holding for the purposes of the guidelines will be the higher of (i) the prevailing price on the date that the holding is valued; and (ii) the acquisition price (i.e. the price on the date on which the awards were acquired). The table below shows the holdings of ordinary shares in the Company as at 31 December 2014 held by Executive Directors and their compliance with the guidelines:

Executive Director	Shares held at 1 January 2014	Shares held at 31 December 2014
Roy Burton	365,888	**404,427**
Fariyal Khanbabi	—	**—**

Roy Burton has met his required holding. Fariyal Khanbabi, who was appointed an Executive Director on 8 September 2014, has until 8 September 2019 to build her shareholding up to the required level.

Payments to past Directors and loss-of-office payments

Mark Fryer stepped down as a Director of Dialight plc on 15 January 2014 but remained an employee until 31 March 2014 ("Termination Date") in order to ensure an orderly handover of his duties. The remuneration arrangements in respect of the termination of his Directorship and employment agreed by the Committee were as follows:

Salary and benefits

During the period from 15 January 2014 to the Termination Date he continued to receive his full salary and contractual benefits. His remuneration for the period from 1 January 2014 to 15 January 2014 as a Director of the Company is included in the remuneration table on page 46.

Payments on termination and loss of office

Under the terms of Mark Fryer's service agreement he was entitled to receive twelve months' written notice of termination. This was served on 14 January 2014 and resulted in there being 9.5 months of his contractual notice period outstanding at the Termination Date. The Company agreed to make a smaller non-contractual compensation payment to Mark Fryer of £135,000 which represented less than seven months' salary in respect of the termination. In addition, Mark Fryer received a sum of £5,000 in consideration for the continuing in force of covenants contained in his previous service agreement with the Company.

PSP

As at the date the notice of termination was served (14 January 2014) Mark Fryer held the following outstanding awards which had been granted pursuant to the Company's PSP: 2011 – 29,549 nil-cost options, 2012 – 15,384 nil-cost options and 2013 – 18,445 nil cost options. As Mark Fryer remained an employee at the time of the 2011 award vesting, he was allowed to retain that award of 29,549 shares. These were sold on 25 February 2014 at a price of £7.80 per share (£230,482.20). He also received, on vesting of the award, a dividend equivalent payment of £9,928.46. The total figure is included in the single figure of total remuneration table for 2013 on page 46. All other outstanding awards under the PSP lapsed at that time.

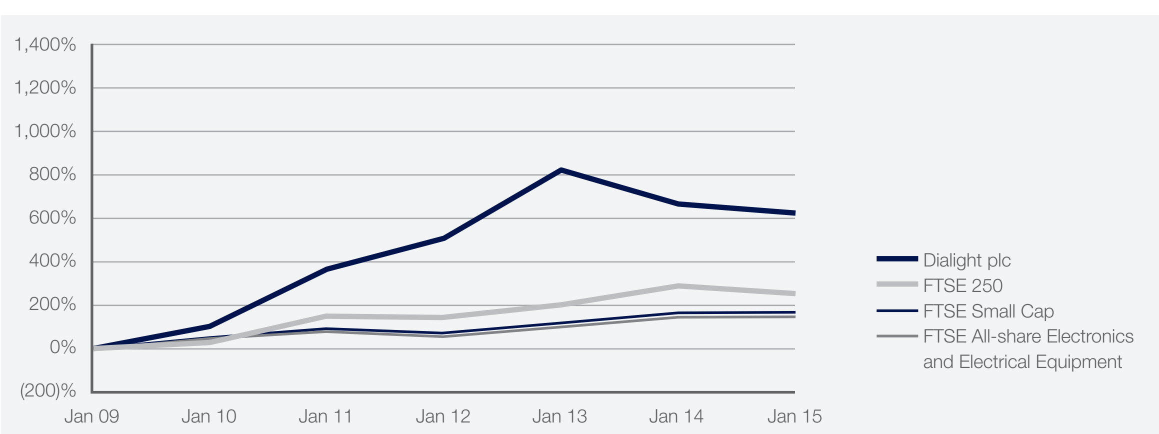
APBP

Mark Fryer was granted a nil-cost option in respect of 5,027 shares on 26 April 2012. Vesting of this award was divided over two years with the first tranche of 2,514 shares vesting in 2013. He exercised those shares relating to the first tranche on 25 February 2014 at a price of £7.80 per share resulting in a total value of £19,609.20. He also received, on vesting of the award, a dividend equivalent payment of £631.01. The total figure is included in the single figure of total remuneration table for 2014 on page 46. The second tranche of that award, representing 2,513 shares, lapsed on 15 January 2014.

All sums payable to Mark Fryer were subject to tax and social security deductions as the Company is required by law to make. Details of his payments on termination were posted on the Company's website in April 2014.

Performance graph and table

The below graph demonstrates the Company's TSR performance over the past six years relative to the FTSE Mid 250 Index (excluding investment trusts), the FTSE Small Cap Index and the FTSE All-share Electronics and Electrical and Equipment Index. All outstanding awards under the PSP, with the exception of those made in 2012, use the first index for the TSR measurement.



Remuneration Committee report continued

Performance graph and table continued

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

Year ended 31 December	2009	2010	2011	2012	2013	**2014**
Total remuneration ($'000)	745	2,854	4,170	3,843	1,564	**1,153**
Bonus outcome (% of max)	70	100	100	66.6	0	**29**
PSP vesting outcome (% of max)	58	100	100	100	100	**0**

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 2013 to 2014 compared with the average percentage change for employees as a whole.

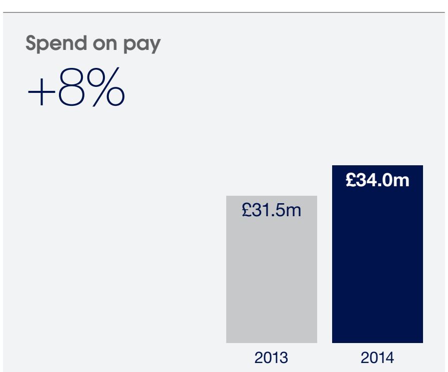
The main benefits provided include medical coverage and life insurance. There has been no change in the level of benefits provided to Group employees.

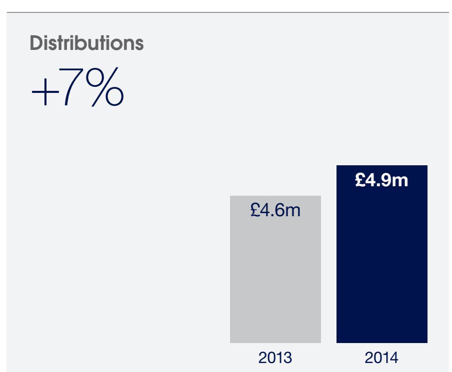
	% change 2013–2014	
	Group CEO	Group employees
Salary	2.0%	2.0%
Bonus	50%*	0%
Benefits	(17.8%)	See above

* Figure shown is a % of base salary.

Relative importance of spend on pay

The chart below shows the total amount paid by the Company to its employees for 2014 and 2013. Details of the total amount of distributions for the same two years can also be seen.





Directors' service agreements and letters of appointment

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

	Commencement date	Expiry date of current employment/service agreement or letter of appointment
Chairman and Executive Directors		
Bill Ronald	14 May 2009	Letter of appointment was for an initial term of three years. By letter dated 12 September 2012, Bill Ronald was appointed Chairman of the Company for an initial term concluding at the 2016 AGM.
Roy Burton*	1 October 2005	The agreement is terminable by twelve months' notice by either party.
Fariyal Khanbabi**	8 September 2014	The agreement is terminable by the Company or by the Director on six months' notice.
Non-Executive Directors		
Stephen Bird	10 January 2013	Letter of appointment was for an initial term of three years.
Tracey Graham	10 January 2013	Letter of appointment was for an initial term of three years.
Robert Lambourne	26 May 2010	Letter of appointment was for an initial term of three years. The appointment was extended for a further three years in July 2013.
Richard Stuckes***	14 May 2009	Letter of appointment was for an initial term of three years. The appointment was extended for a further three years in June 2012.

* Roy Burton's employment and appointment agreement is made between (i) Dialight Corporation, (ii) Dialight plc and (iii) Roy Burton under which he is employed as President and Chief Executive Officer of Dialight Corporation and Group Chief Executive of Dialight plc. Upon termination of his employment with Dialight Corporation (with or without cause), he shall at the request of Dialight plc immediately resign from office as a Director of Dialight plc (but without prejudice to any claim for severance benefits under his employment agreement). Further details are set out under Service contracts under the Directors' remuneration policy.

** Fariyal Khanbabi's service agreement dated 25 June 2014 was amended by side letter dated 8 September 2014 to reflect her new commencement date of 8 September 2014.

*** Richard Stuckes' letter of appointment was amended by the Company by a further and supplemental letter dated 31 January 2015, setting out the terms of his engagement as Interim Group Chief Executive with effect from 2 February 2015.

Implementation of policy in the 2015 financial year

Executive salaries and Non-Executive Director fees

The Committee has agreed to a 2.0% pay increase in salary and fees to be awarded to the Group Chief Executive and Non-Executive Directors, respectively, with effect from 1 January 2015. This is line with the 2.0% pay award for employees generally across the Dialight Group. The Group Chief Executive's salary will increase from $560,000 to $571,200. As disclosed above the Group Finance Director's salary is the subject of a first review at the end of 2015, with any revision being effective from 1 January 2016.

Under the further and supplemental letter dated 31 January 2015 setting out the terms of Richard Stuckes' engagement as Interim Group Chief Executive, as proposed and recommended by the Committee, he will be paid a salary at the rate of £410,000 per annum and a car allowance of £17,500 per annum. He will also participate in the 2015 APBP and be eligible to receive a maximum bonus of 110% of annual salary subject to such conditions as to performance and requirements as the Board acting through the Committee deems appropriate. He is also eligible to join the Company's pension scheme, subject to the rules of that scheme.

Following the fee increase, the base fees for Non-Executive Directors increase from £40,000 to £40,800 per annum. The enhancements for chairing a Board Committee and acting as Senior Independent Director remain at £5,000 per annum. The Chairman's fee has also increased from £125,000 to £127,500 per annum.

Pensions

The Group Chief Executive will receive employer contributions into defined contribution arrangements operated by Dialight Corporation in the US. The Group Finance Director will receive a contribution of 15% of base salary into a defined contribution pension scheme.

APBP

The 2015 APBP will be based on targets linked primarily to EBIT performance, although Richard Stuckes will be subject to additional specific objectives that are considered appropriate for his current position as Interim Group Chief Executive.

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

PSP

Awards for 2015 will be made in April 2015 under the new rules approved at the 2014 AGM, 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.

Remuneration Committee report continued

Implementation of policy in the 2015 financial year continued

General

In addressing the new provisions of the 2014 UK Corporate Governance Code, and having regard to recent new investor remuneration initiatives, during the implementation of the policy during 2015, the Committee notes that while the 2014 PSP, approved at the 2014 AGM, contains both malus and clawback provisions, the APBP only currently provides for clawback of deferred share awards. The Committee takes the view that while malus provisions are not included in the APBP rules, it has the appropriate authority for dealing with any circumstances that might arise during the bonus period. The Committee will keep this under consideration during the current policy period and consider including it in future policy reviews. In addition, under the 2014 PSP rules the Committee has discretion to specify a holding period for shares received on the vesting of a conditional award or exercise of an option during which period the participant shall not sell, charge or otherwise dispose of such shares as the Committee may decide except to the extent necessary to satisfy a tax liability. The Committee will keep this under review in the light of developments in this area.

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 who served on the Committee during the year can be found on page 44. All members served throughout the year are considered independent in accordance with the Code.

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 (Roy Burton) and the Company Secretary (Nick Giles) (none of whom participate in any discussion concerning their own remuneration) and external advisers as required.

External advice

During the year ended 31 December 2014 the Committee consulted Addleshaw Goddard, which provided advice on the termination arrangements for Mark Fryer; Kepler Associates ("Kepler"), which provided advice regarding executive remuneration benchmarking, annual bonus plans and long-term incentive design; Clifford Chance LLP ("Clifford Chance"), which advised on the operation of the Group's PSP and APBP and introduction of the Company's Sharesave Plan; and Slaughter and May, which provided advice on the service agreement entered into with Fariyal Khanbabi on her appointment as Group Finance Director. Addleshaw Goddard, Kepler and Clifford Chance provided no other services to the Company. Slaughter and May provided periodic corporate and treasury advice to Dialight. 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 £11,000, £26,000, £34,000 and £2,000 in respect of Addleshaw Goddard, Kepler, Clifford Chance and Slaughter and May, 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 2014 AGM for the approval of the remuneration policy and 2013 Remuneration report and adoption of the new 2014 PSP, which are all remuneration-related matters dealt with at that AGM.

Votes*	% of votes for	% of votes against	Votes withheld
Remuneration policy	79.5	20.5	3,351,655
Remuneration report	89.4	10.6	49,729
2014 PSP	83.3	16.7	1,554

* 17,234,842 ordinary shares were voted, representing 53.03% of the issued share capital.

Voting abstentions/votes withheld and oppositions were received on the resolutions set out in the table from shareholders. Dialight received expert advice from Kepler to develop a remuneration policy that was considered appropriate, motivating and sufficiently stretching and consulted with its major shareholders and the major governance bodies on this policy prior to publication in the Annual Report. The votes cast against the policy related to specific issues on certain aspects of the structure of the remuneration and there was no reaction to the quantum of the remuneration. Discussions were held with the investment managers regarding their concerns following the AGM.

The Remuneration Committee report has been approved by the Board and signed on its behalf by Tracey Graham.

Appendix

Policy approval

Dialight's remuneration policy was first published in the Dialight Annual Report and Accounts for the year ended 31 December 2013 and approved by shareholders at the AGM held on 16 April 2014, which was the date the policy became effective. Following the release of our 2013 Annual Report and Accounts, we issued a clarification statement from the Chair of the Committee in respect of the utilisation of Listing Rule 9.4.2 discretion under the policy clarifying that any use of that discretion would be restricted to assist only in the facilitation of buy-outs of previous employments when recruiting preferred candidates. The discretion was not exercised during the recruitment process for Fariyal Khanbabi, when she was appointed Group Finance Director in September 2014. The only changes from last year's printed report are purely administrative and deal with the updating of last year's pagination references to the relevant cross references in this year's Remuneration report, the updated remuneration scenarios for the Group Finance Director and the deletion of the 2013 Executive Directors' holding in shares under the shareholding guidelines which now appear in a separate section of the Remuneration report on page 50.

The text of the policy is set out below.

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 their place in the Company's remuneration policy can be found overleaf.

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.

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 50.

Remuneration Committee report continued

Appendix continued

Future remuneration policy

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

Element/purpose and link to strategy	Operation	Opportunity	Performance metrics
Base salary			
To ensure that fixed pay represents a fair return for employment.	The Committee sets base salary with reference to relevant market data and an individual's experience, responsibilities and performance. Base salary is considered by the Committee on an individual's appointment and then reviewed once a year or when an individual changes position or responsibilities. When making a determination as to the appropriate 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 53. 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 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.	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 46. 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

Appendix continued

Future remuneration policy continued

Element/purpose and link to strategy	Operation	Opportunity	Performance metrics
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.	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.

Remuneration Committee report continued

Appendix continued

Future remuneration policy continued

Element/purpose and link to strategy	Operation	Opportunity	Performance metrics
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.	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.
Sharesave Plan			
To provide a mechanism by which employees can save up to purchase shares at a discount to the prevailing market price on an annual basis, encouraging employee retention and engagement with the Company.	The Sharesave Plan 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.

Appendix continued

Future remuneration policy continued

Element/purpose and link to strategy	Operation	Opportunity	Performance metrics
Pension			
The Company provides this benefits package in order to be competitive in the relevant market and to ensure its ability to recruit and retain Executives.	The Company operates the Roxboro UK Pension Scheme 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 2014 can be found on page 46. 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.
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.	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 46.	There are no performance conditions attached to benefits.

Remuneration Committee report continued

Appendix continued

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").

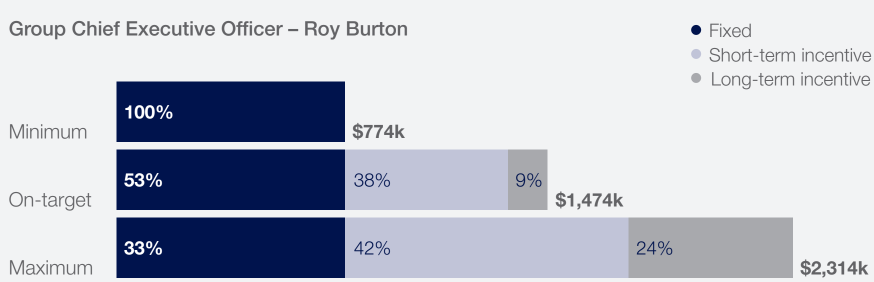
The Committee may then grant up to the same fair value as the lapsed fair value where possible under the Company's incentive plans (subject to the annual limits under these plans). The Committee, however, retains the discretion to provide the lapsed fair value under specific arrangements in relation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

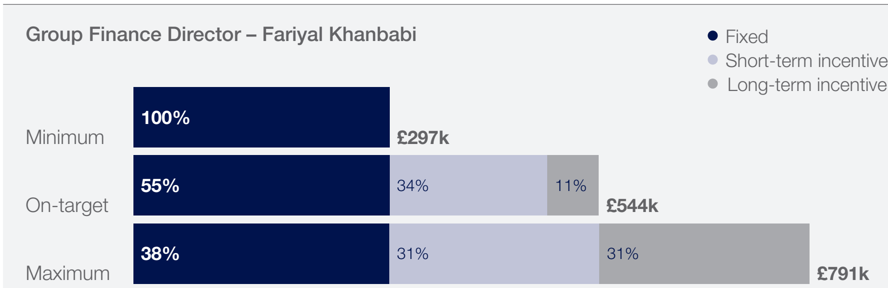
Remuneration scenarios



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.



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.

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.

Appendix continued

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.

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 and 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.

Remuneration Committee report continued

Appendix continued

Payment for loss of office continued

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.

Note: References in this replicated remuneration policy to the AGM at which the new set of PSP rules were put to shareholders for approval was the AGM held on 16 April 2014.

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 2014 set out on pages 66 to 107. 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 2014 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 (£11.7 million)

Refer to page 38 (Audit Committee Report), note 3(g) (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. Specific risk factors identified include challenging trading conditions, potential loss of a major customer and the maturity of certain markets in which the group operates.

Our response – Our audit procedures in this area included:

- agreeing the cash flows in the model to the 2015 budget and three year projection, and assessing the historical accuracy of these budgets and forecasts by comparing the results achieved in 2014 to the budget set at the end of 2013;
- checking the long-term growth rates in the model don't exceed industry published data;
- assessment of the discount rate with assistance from our own valuation specialists;
- comparing the discounted cash flows to the market capitalisation of the Group; and
- applying a number of sensitivities to the inputs including sales growth beyond the 2015 detailed forecast and discount rates in the model to assess the appropriateness of the carrying value of the goodwill.

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 (£32.4 million)

Refer to page 38 (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 sales history of finished goods, usage and most recent purchase date of raw materials) 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. Our audit procedures in this area included:

- checking the accuracy and completeness of sales history of finished goods, usage and most recent purchase date of raw materials reports;
- recalculating the provision based on data from system reports;
- we assessed the appropriateness of the group's methodology for determining its inventory provision in the light of our understanding of the business and the ageing and nature of its inventory; and
- we challenged the basis for the change in the group's inventory provision for Lighting and Obstruction inventory based on our understanding of changes to underlying technology.

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

2. Our assessment of risks of material misstatement continued

Revenue recognition (£159.8 million)

Refer to page 38 (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. The Group also has a number of customers who have non-standard 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.

Our response – Our audit procedures in this area included:

- selecting samples of sale transactions from either side of the financial year end, using both statistical tools and specific item selection;
- testing these samples through analysis of the relevant customer agreements to assess the specific sales terms for each transaction and the trigger event for revenue, and then tracing back to third party confirmation of the identified trigger event thereby checking revenue has been recognised in the correct period;
- trend analysis for the full financial year and discussion with Finance Directors of significant divisions of any identified anomalies; and
- we assessed the adequacy of the Group's provision for returns in the light of credits given to customers and returns relating to the sales issued after the financial year end that related to sales in 2014.

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

Development costs (£6.8 million)

Refer to page 38 (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. As a result judgement is required in the initial categorisation of expenditure between research (which is expensed) and development (which is capitalised) and the subsequent assessment for impairment of capitalised development costs.

Our response – Our audit procedures in this area included:

- obtaining a detailed list of costs capitalised, and reconciling a sample to source documentation including timesheets for relevant employees and invoices;
- making inquiries of Finance Directors and engineering employees 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;
- 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 and 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 £0.9 million (2013: £1.0 million), determined with reference to a benchmark of Group profit before taxation (of which it represents 6% (2013: 8%), a reduction from the prior year for consistency with the industry peer group). We report to the audit committee any corrected or uncorrected identified misstatements exceeding £45,000, in addition to other audit misstatements that warranted reporting on qualitative grounds.

Of the Group's ten reporting components, we subject four to audits for Group reporting purposes and two to specified risk-focused audit procedures. The latter, were not individually financially significant enough to require an audit for group reporting purposes, but did present specific individual risks, principally around inventory valuation, that needed to be addressed. These Group procedures covered 94% of total Group revenue; 96% of Group profit before taxation; and 96% of total Group assets.

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

The remaining 6% of total Group revenue, 4% of Group profit before taxation and 4% of total Group assets is represented by four reporting components, none of which individually represented more than 4% of any of total Group revenue, Group profit before tax, or total Group assets. For these remaining components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these. The Group audit team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group audit team approved the component materialities, which ranged from £0.6 million to £0.7 million, having regard to the mix of size and risk profile of the Group across the components. The work on all of the remaining components was performed by components auditors and the rest by the Group audit team. The Group audit team visited three component locations in UK and USA to perform the audit work.

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 26, in relation to going concern; and
- the part of the Corporate governance statement on page 32 relating to the Company's compliance with the ten provisions of the 2012 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 43, 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/auditscopeukco2014a, 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.

Graham Neale
Senior Statutory Auditor
for and on behalf of KPMG LLP
Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham B4 6GH
2 March 2015

Consolidated income statement

For the year ended 31 December 2014

	Note	12 months ended 31 December 2014			12 months ended 31 December 2013		
		Underlying £'m	Non-underlying £'m	Total £'m	Underlying £'m	Non-underlying £'m	Total £'m
Continuing operations							
Revenue	4	159.8	—	159.8	131.2	—	131.2
Cost of sales		(112.6)	(2.8)	(115.4)	(89.6)	—	(89.6)
Gross profit		47.2	(2.8)	44.4	41.6	—	41.6
Distribution costs		(19.8)	—	(19.8)	(18.1)	—	(18.1)
Administrative expenses		(9.3)	0.5	(8.8)	(9.0)	(2.9)	(11.9)
Profit/(loss) from operating activities	4	18.1	(2.3)	15.8	14.5	(2.9)	11.6
Financial income	8	—	—	—	—	—	—
Financial expense	8	(0.2)	(0.1)	(0.3)	(0.1)	(0.3)	(0.4)
Net financing expense	8	(0.2)	(0.1)	(0.3)	(0.1)	(0.3)	(0.4)
Profit/(loss) before income tax	4	17.9	(2.4)	15.5	14.4	(3.2)	11.2
Income tax expense	9	(6.0)	—	(6.0)	(4.5)	1.0	(3.5)
Profit/(loss) from continuing operations after tax	4	11.9	(2.4)	9.5	9.9	(2.2)	7.7
Discontinued operations							
Gain from discontinued operations, net of tax	5	—	—	—	—	0.7	0.7
Profit/(loss) for the year	4	11.9	(2.4)	9.5	9.9	(1.5)	8.4
Profit for the period attributable to:							
Equity owners of the Company				9.5			8.5
Non-controlling interests				—			(0.1)
Profit for the year				9.5			8.4
Earnings per share							
Basic	18			29.4p			26.2p
Diluted	18			29.2p			25.9p
Earnings per share – continuing operations							
Basic	18			29.4p			23.9p
Diluted	18			29.2p			23.7p

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

Consolidated statement of comprehensive income

For the year ended 31 December 2014

	2014 £'m	2013 £'m
Other comprehensive income		
Items that may be reclassified subsequently to profit and loss		
Exchange difference on translation of foreign operations	2.7	(1.3)
Income tax on exchange difference on translation of foreign operations	(0.3)	—
	2.4	(1.3)
Items that will not be reclassified subsequently to profit and loss		
Remeasurement of defined benefit pension liability	(1.0)	0.7
Income tax on remeasurement of defined benefit pension liability	0.2	(0.2)
	(0.8)	0.5
Other comprehensive income for the year, net of tax	1.6	(0.8)
Profit for the year	9.5	8.4
Total comprehensive income for the year	11.1	7.6
Attributable to:		
Owners of the parent	11.1	7.7
Non-controlling interests	—	(0.1)
Total comprehensive income for the year	11.1	7.6

Consolidated statement of changes in equity

For the year ended 31 December 2014

	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 2014		0.6	1.4	0.8	2.2	61.8	**66.8**	(0.1)	**66.7**
Profit		—	—	—	—	9.5	**9.5**	—	**9.5**
Other comprehensive income									
Foreign exchange translation differences, net of tax		—	—	2.4	—	—	**2.4**	—	**2.4**
Remeasurement of defined benefit pension liability, net of tax	19	—	—	—	—	(0.8)	**(0.8)**	—	**(0.8)**
Total other comprehensive income		—	—	2.4	—	(0.8)	**1.6**	—	**1.6**
Total comprehensive income for the year		—	—	2.4	—	8.7	**11.1**	—	**11.1**
Transactions with owners, recorded directly in equity									
Share-based payments, net of tax	7,9	—	—	—	—	(0.1)	**(0.1)**	—	**(0.1)**
Dividends	17	—	—	—	—	(4.9)	**(4.9)**	—	**(4.9)**
Total contributions by and distributions to owners		—	—	—	—	(5.0)	**(5.0)**	—	**(5.0)**
Balance at 31 December 2014		**0.6**	**1.4**	**3.2**	**2.2**	**65.5**	**72.9**	**(0.1)**	**72.8**
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 tax		—	—	(1.3)	—	—	**(1.3)**	—	**(1.3)**
Remeasurement of defined benefit pension liability, net of tax	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**

At 31 December 2014 the number of shares held by the Group through the Dialight Employees' Share Ownership Plan Trust ("ESOT") trust was 9,606 (2013: 2,514). The market value of these shares at 31 December 2014 was £77,809 (2013: £21,520).

Consolidated statement of total financial position

As at 31 December

	Note	2014 £'m	2013 £'m
Assets			
Property, plant and equipment	11	**15.2**	13.4
Intangible assets	12	**21.0**	21.1
Deferred tax assets	14	**0.2**	0.4
Total non-current assets		**36.4**	34.9
Inventories	15	**32.4**	24.2
Trade and other receivables	16	**36.9**	27.9
Cash and cash equivalents	22	**7.9**	8.8
Total current assets		**77.2**	60.9
Total assets		**113.6**	95.8
Liabilities			
Trade and other payables	21	**(26.2)**	(21.0)
Provisions	20	**(0.7)**	(0.3)
Contingent consideration	29	**(0.3)**	(0.6)
Tax liabilities		**(4.6)**	(1.7)
Borrowings	13	**(7.3)**	(1.7)
Total current liabilities		**(39.1)**	(25.3)
Employee benefits	19	**(1.2)**	(0.4)
Contingent consideration	29	**—**	(2.7)
Provisions	20	**(0.5)**	(0.7)
Total non-current liabilities		**(1.7)**	(3.8)
Total liabilities		**(40.8)**	(29.1)
Net assets		**72.8**	66.7
Equity			
Issued share capital	17	**0.6**	0.6
Merger reserve	17	**1.4**	1.4
Other reserves		**5.4**	3.0
Retained earnings		**65.5**	61.8
		72.9	66.8
Non-controlling interests		**(0.1)**	(0.1)
Total equity		**72.8**	66.7

The accompanying notes form part of the financial statements.

These financial statements were approved by the Board of Directors on 2 March 2015 and were signed on its behalf by:

Bill Ronald
Chairman
Company number: 2486024

Fariyal Khanbabi
Group Finance Director

Consolidated statement of cash flows

For the year ended 31 December 2014

	Note	2014 £'m	2013 £'m
Operating activities			
Profit for the year		**9.5**	8.4
Adjustments for:			
Financial income	8	**—**	—
Financial expense	8	**0.3**	0.4
Income tax expense	9	**6.0**	3.4
Share-based payments		**0.2**	0.4
Depreciation of property, plant and equipment	11	**2.5**	2.0
Amortisation of intangible assets	12	**2.3**	1.1
Impairment losses on intangible assets and goodwill		**1.3**	0.3
Contingent consideration		**(3.1)**	—
Gain on sale of discontinued operation, net of tax	5	**—**	(1.0)
Operating cash flow before movements in working capital		**19.0**	15.0
Increase in inventories		**(6.9)**	(5.2)
Increase in trade and other receivables		**(7.4)**	(1.5)
Increase/(decrease) in trade and other payables		**4.0**	(1.2)
Increase in provisions	20	**0.2**	0.1
Pension contributions in excess of the income statement	19	**(0.3)**	(0.3)
Cash generated from operations		**8.6**	6.9
Income taxes paid		**(3.1)**	(2.2)
Interest paid	8	**(0.2)**	(0.1)
Net cash generated from operating activities		**5.3**	4.6
Investing activities			
Non-controlling interests		**—**	0.1
Disposal of discontinued operation, net of cash disposed of	5	**—**	1.3
Capital expenditure	11	**(3.7)**	(4.9)
Capitalised expenditure on development	12	**(3.5)**	(4.4)
Sale of tangible fixed assets	11	**—**	0.1
Net cash used in investing activities		**(7.2)**	(7.8)
Financing activities			
Dividends paid	17	**(4.8)**	(4.6)
Drawdown of bank facility		**7.6**	—
Payment of upfront loan facility costs		**(0.3)**	—
Net cash used in financing activities		**2.5**	(4.6)
Net increase in cash and cash equivalents		**0.6**	(7.8)
Cash and cash equivalents at beginning of year		**7.1**	15.0
Effect of exchange rates on cash held		**0.2**	(0.1)
Cash and cash equivalents at end of year	22	**7.9**	7.1

Notes to the consolidated financial statements

For the year ended 31 December 2014

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 2014 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 is carried out on the relevant CGUs.

Development and patent costs (see note 12)

The Group capitalises development costs and patents provided they meet all 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 products. 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 6)

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.

Notes to the consolidated financial statements continued

For the year ended 31 December 2014

2. Basis of preparation continued

(c) Use of estimates, judgements and assumptions continued

Other continued

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.

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. 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 acquiree; 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.

3. Significant accounting policies continued

(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

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.

Development expenditure is capitalised only if the expenditure can be measured reliably, the product and process is technically and commercially viable, future economic benefits are probable and the Group intends and has sufficient resources to complete the development and to use or sell the asset. 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.

Notes to the consolidated financial statements continued

For the year ended 31 December 2014

3. Significant accounting policies continued

(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 are largely 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 is 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 borrowings.

(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 other comprehensive income. 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.

3. Significant accounting policies continued

(m) Employee benefits continued

(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 payments 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.

(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 of 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.

Notes to the consolidated financial statements continued

For the year ended 31 December 2014

3. Significant accounting policies continued

(s) Income tax expense continued

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 policies

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 2014. There was no material impact on the financial performance or position of the Group.

- Amendments to IFRS 10: Consolidated Financial Statements
- Amendments to IFRS 12: Disclosure of Interests in Other Entities

The nature and effect of these changes are explained below.

Adoption of new and revised standards

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2015 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; and
- 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 contribution includes items directly attributable to a segment. Overheads comprise general production and selling costs plus corporate costs including share-based payments.

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

Reportable segments

2014	Lighting £'m	Signals £'m	Components £'m	Continuing operations £'m	Electro-magnetic Components (discontinued) £'m	Total £'m
Revenue	99.9	40.2	19.7	159.8	—	159.8
Contribution	42.3	18.0	9.3	69.6	—	69.6
Overheads	(27.8)	(12.0)	(8.9)	(48.7)	—	(48.7)
Segment results	14.5	6.0	0.4	20.9	—	20.9
Unallocated expenses				(2.8)	—	(2.8)
Underlying operating profit				18.1	—	18.1
Non-underlying expense				(2.3)	—	(2.3)
Operating profit				15.8	—	15.8
Net financing expense				(0.3)	—	(0.3)
Profit before tax				15.5	—	15.5
Income tax expense				(6.0)	—	(6.0)
Profit after tax				9.5	—	9.5

Notes to the consolidated financial statements continued

For the year ended 31 December 2014

4. Operating segments continued

Reportable segments continued

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
Overheads	(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 overheads				(3.5)	—	(3.5)
Underlying operating profit				14.5	(0.4)	14.1
Non-underlying expense				(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

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

	2014 £'m	2013 £'m
North America	**96.3**	82.8
UK	**16.5**	12.0
Rest of Europe	**23.9**	17.5
Rest of World	**23.1**	19.4
Electromagnetic Components (discontinued)	**—**	(0.5)
	159.8	131.2

Reconciliations of reportable segment profit or loss

	2014 £'m	2013 £'m
Total profit for reportable segments	**20.9**	17.6
Elimination of discontinued operations	**—**	0.4
Unallocated amounts:		
Overheads	**(2.8)**	(3.5)
Non-underlying expense	**(2.3)**	(2.9)
Net financing expense	**(0.3)**	(0.4)
Consolidated profit from continuing activities before tax	**15.5**	11.2

5. Discontinued operations

The Group disposed of the assets of its Electromagnetic Components business in late 2012. During the prior 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 operations

	2014 £'m	2013 £'m
Revenue	–	0.5
Expenses	–	(0.9)
Results from operating activities	–	(0.4)
Tax	–	0.1
Results from operating activities, net of tax	–	(0.3)
Gain on sale of discontinued operation	–	1.3
Tax on gain on sale of discontinued operation	–	(0.3)
Profit for the year	–	0.7
Basic earnings per share	–	2.2p
Diluted earnings per share	–	2.5p

The operating loss from discontinued operations of £nil (2013: £0.4m) is attributable entirely to the owners of the Company.

Cash flows from/(used in) discontinued operations

	2014 £'m	2013 £'m
Consideration received, satisfied in cash	–	1.3
Cash paid for redundancy and staff costs	–	–
Cash paid for professional and other fees	–	–
Net cash inflow from investing activities	–	1.3

The net cash used in operating activities for the year ended 31 December 2014 is £nil (2013: £0.1m).

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 not be 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 cost of sales:

	2014 £'m	2013 £'m
Inventory provision	(2.8)	–
Non-underlying costs in recorded cost of sales	(2.8)	–

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

	2014 £'m	2013 £'m
Contingent consideration	3.1	–
Goodwill and asset write-down	(1.3)	(0.8)
Employee severance and restructuring costs	(1.1)	(0.4)
Intellectual property past-use access fee	–	(1.4)
Other	(0.2)	(0.3)
Non-underlying costs recorded in administrative expenses	0.5	(2.9)

Notes to the consolidated financial statements continued

For the year ended 31 December 2014

6. Non-underlying income/(expense) continued

The contingent consideration relates to a reduction in the amount payable on the acquisition of Airinet Inc by the Group's US subsidiary, Dialight Corporation, in June 2012. Following agreement with the former owners, the remaining consideration payable for the Airinet acquisition has been reduced to £0.3m.

The Group operates in an environment where the pace of technological change is ever increasing, presenting a greater risk of obsolete inventory. An inventory provision is calculated to estimate the value of inventory that has become unusable or unsaleable due to obsolescence. At the request of the Board a detailed review of the risk of obsolescence was initiated by the incoming CFO. The review identified that the pace of product change has increased in the Lighting and Obstruction business with the introduction of control based Lighting and the new Vigilant range. The Board concluded that a strict ageing over-ride should be added in addition to the existing usage formula. As a result the Group incurred a one-off charge of £2.8m. As the nature of this charge is non-recurring it has been treated as a non-underlying expense.

In the current year, intangible assets of £0.8m relating to the Airinet business were written down in full as they were considered to have no future economic benefits. Other intangible assets of £0.5m were also written off as their carrying value was judged to be impaired. During the prior 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.

In the current year, the Group incurred redundancy and termination costs mainly relating to US and European operations and the closure of its Japanese operation. During the prior 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 intellectual property past-use access fee related to a one-off payment for access to certain patents and intellectual property over the previous five years.

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

	2014 £'m	2013 £'m
Change in fair value of contingent consideration	**(0.1)**	(0.3)
Non-underlying costs recorded in finance expense	**(0.1)**	(0.3)

7. Personnel expenses

	2014 £'m	2013 £'m
Wages and salaries	**33.2**	27.4
Social security contributions	**3.0**	2.8
Equity-settled share-based payment transactions	**0.2**	0.4
Contributions to defined contribution plans	**1.0**	0.8
Total charge for defined benefit plans	**0.1**	0.1
	37.5	31.5

The average number of employees by geographical location was:

	2014 Number	2013 Number
UK	**148**	137
US and Mexico	**1,463**	1,142
Rest of World	**329**	275
	1,940	1,554

In 2014 the Group employed an average of 1,389 direct staff (2013: 1,133) and 551 indirect staff (2013: 421).

8. Net financing (expense)/income

Recognised in profit and loss

	Year ending 31 December 2014			Year ending 31 December 2013		
	Underlying £'m	Non-underlying £'m	Total £'m	Underlying £'m	Non-underlying £'m	Total £'m
Interest income on bank deposits	—	—	—	—	—	—
Net interest on defined benefit liability	—	—	—	—	—	—
	—	—	—	—	—	—
Interest expense on financial liabilities	(0.2)	—	(0.2)	(0.1)	—	(0.1)
Change in fair value of contingent consideration	—	(0.1)	(0.1)	—	(0.3)	(0.3)
	(0.2)	(0.1)	(0.3)	(0.1)	(0.3)	(0.4)
Net financing expense recognised in the consolidated income statement	(0.2)	(0.1)	(0.3)	(0.1)	(0.3)	(0.4)

9. Income tax expense

Current tax expense

Recognised in the income statement

	2014 £'m	2013 £'m
Current tax expense		
Tax expense from continuing operations	6.0	3.5
Tax from discontinued operations (excluding gain on sale)	—	(0.1)
	6.0	3.4
Tax on gain on sale of discontinued operation	—	0.3
Income tax expense	6.0	3.7

	2014 £'m	2013 £'m
Current tax expense		
Current year	6.1	3.5
Adjustment for prior years	(0.3)	(0.1)
Utilisation of previously unrecognised losses	—	(0.2)
	5.8	3.2
Deferred tax expense		
Origination and reversal of temporary differences	0.3	0.7
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	6.0	3.7

Notes to the consolidated financial statements continued

For the year ended 31 December 2014

9. Income tax expense continued

Current tax expense continued

Reconciliation of effective tax rate

	2014 %	2014 £'m	2013 %	2013 £'m
Profit for the year		9.5		8.4
Total income tax expense		6.0		3.7
Profit excluding income tax		15.5		12.1
Income tax using the UK corporation tax rate	21.5	3.3	23.3	2.8
Effect of tax rates in foreign jurisdictions	10.3	1.6	8.3	1.0
Reduction in tax rate	1.3	0.2	1.7	0.2
Non-deductible expenses	4.5	0.7	1.7	0.2
Current year losses for which no deferred tax is recognised	1.3	0.2	4.1	0.5
Recognition of tax effect of previously unrecognised losses	—	—	(7.7)	(0.9)
Adjustment for prior years	(2.6)	(0.4)	—	—
Changes in recognised deductible timing differences	—	—	1.7	0.2
Research and development credits	(0.6)	(0.1)	(0.8)	(0.1)
Other	3.0	0.5	(1.7)	(0.2)
	38.7	6.0	30.6	3.7

Tax recognised directly in equity

	2014 £'m	2013 £'m
Employee benefits	—	0.3
Other	0.2	—

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 Group effective rate will continue to be impacted by the tax rates enacted in the various jurisdictions in which it trades. The deferred tax assets/(liabilities) at 31 December 2014 have been calculated based on a rate of 20% substantively enacted at the balance sheet date. Deferred tax assets/(liabilities) have not been recognised in respect of tax losses amounting to £0.3m 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:

	2014 £'m	2013 £'m
Research and development costs		
Expensed as incurred	2.7	1.6
Amortisation charge	1.5	0.7
	4.2	2.3
Depreciation of fixed assets	2.5	2.0
Amortisation of customer relationships	0.3	0.3
Amortisation of technology	0.1	0.1
Impairment of goodwill and intangible assets	1.3	0.3
Operating leases – property	1.1	1.1
Operating leases – other	0.1	0.2

10. Profit for the year continued

Auditors' remuneration:

	2014 £'m	2013 £'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	**0.2**	—
Pension advisory services in respect of Group pension	**—**	0.1
	0.4	0.3

11. Property, plant and equipment

	Land and buildings £'m	Plant, equipment and vehicles £'m	Total £'m
Cost			
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
At 1 January 2014	5.4	35.0	40.4
Exchange adjustments	0.1	1.9	2.0
Additions	0.3	3.4	3.7
Disposals	—	—	—
At 31 December 2014	**5.8**	**40.3**	**46.1**
Accumulated depreciation			
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)
At 1 January 2014	(3.0)	(24.0)	(27.0)
Exchange adjustments	(0.1)	(1.3)	(1.4)
Charge for year	(0.2)	(2.3)	(2.5)
Disposals	—	—	—
At 31 December 2014	**(3.3)**	**(27.6)**	**(30.9)**
Carrying amount at 31 December 2014	**2.5**	**12.7**	**15.2**
At 31 December 2013	2.4	11.0	13.4
At 1 January 2013	2.3	8.6	10.9

Notes to the consolidated financial statements continued

For the year ended 31 December 2014

12. Intangible assets

	Concessions, patents, licences and trademarks £'m	Goodwill £'m	Order book and customer relationships £'m	Technology £'m	Development costs £'m	Total £'m
Cost						
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
Balance at 1 January 2014	3.2	12.1	2.1	0.6	10.6	28.6
Additions arising from internal developments	0.9	—	—	—	2.6	3.5
Effects of foreign exchange movement	—	(0.2)	—	—	0.4	0.2
Balance at 31 December 2014	**4.1**	**11.9**	**2.1**	**0.6**	**13.6**	**32.3**
Amortisation and impairment losses						
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)
Balance at 1 January 2014	(1.3)	(0.2)	(1.2)	(0.1)	(4.7)	(7.5)
Amortisation for the period	(0.4)	—	(0.3)	(0.1)	(1.5)	(2.3)
Impairment	(0.5)	—	—	(0.4)	(0.4)	(1.3)
Effects of foreign exchange movement	—	—	—	—	(0.2)	(0.2)
Balance at 31 December 2014	**(2.2)**	**(0.2)**	**(1.5)**	**(0.6)**	**(6.8)**	**(11.3)**
Carrying amount at 31 December 2014	**1.9**	**11.7**	**0.6**	**—**	**6.8**	**21.0**
At 31 December 2013	1.9	11.9	0.9	0.5	5.9	21.1
At 1 January 2013	0.4	12.0	1.3	0.7	3.8	18.2

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.

In December 2014 an agreement was reached with the former owners of Airinet Inc on the contingent consideration related to the acquisition by the Group's US subsidiary Dialight Corporation in June 2012. An impairment review was carried out on the goodwill and intangible assets which arose on the acquisition. The knowhow that existed in Airinet at the time of acquisition assisted in developing the wireless control systems now being deployed in the Lighting segment and hence the goodwill arising on the Airinet acquisition has been carried forward unimpaired at cost.

The recoverable amount of the intangibles, was estimated using value in use, and had a value of £nil (2013: £0.4m each). The discount rate used in the review of 10.95% (2013: 9.8% to 10.3%). Consequently, the capitalised technology cost arising on acquisition and subsequent costs of developing that technology, which related to the street lighting sales, totalling £0.8m have been written off as non-underlying cost.

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. 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.

	2014 £'m	2013 £'m
UK Lighting	**2.3**	2.3
European Traffic	**3.8**	4.0
European Obstruction	**1.3**	1.3
Australian Lighting	**0.1**	0.1
US Lighting	**4.2**	4.2
	11.7	11.9

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

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

The Group prepares cash flow forecasts derived from the most recent 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 rate used to discount the forecast cash flow for the CGUs was 10.95% (2013: 9.8% to 10.3%).

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.

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

No such risks were identified in the current year. We carried out sensitivity analyses on our European Traffic CGU using discount rates ranging from 10.95% to 20% and growth rates ranging from 0% to -10% while still maintaining headroom.

Notes to the consolidated financial statements continued

For the year ended 31 December 2014

13. Interest-bearing loans and borrowings

	2014 £'m	2013 £'m
Unsecured borrowings falling due within one year	7.6	1.7
Upfront loan facility costs	(0.3)	—
	7.3	1.7

On 30 April 2014, the Company signed a four-year unsecured £25m multi-currency revolving credit facility with HSBC Bank plc. Under the terms of the facility, the Group also has a £25m "accordion" facility, by which further facilities may be made available by HSBC under the current terms to support significant investment opportunities that may arise. At 31 December 2014, £7.6m was drawn on the facility.

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	
	2014 £'m	2013 £'m	2014 £'m	2013 £'m	2014 £'m	2013 £'m
Property, plant and equipment	—	—	(0.6)	(1.0)	(0.6)	(1.0)
Intangible assets	—	—	(2.8)	(2.3)	(2.8)	(2.3)
Employee benefits	0.6	0.7	—	—	0.6	0.7
Provisions	3.0	1.5	—	—	3.0	1.5
Other items	—	1.5	—	—	—	1.5
Tax assets/(liabilities)	3.6	3.7	(3.4)	(3.3)	0.2	0.4
Set off of tax	(3.4)	(3.3)	3.4	3.3	—	—
Net tax assets	0.2	0.4	—	—	0.2	0.4

Deferred tax assets have been recognised in respect of all tax losses anticipated to be available. Deferred tax assets have not been recognised in respect of tax losses amounting to £0.3m 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 (2013: £nil).

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 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)	—	—	(0.6)
Balance at 31 December 2013	(1.0)	(2.3)	0.7	1.5	1.5	0.4
Balance at 1 January 2014	(1.0)	(2.3)	0.7	1.5	1.5	0.4
Recognised in income	0.4	(0.5)	(0.1)	1.5	(1.3)	—
Recognised in equity	—	—	—	—	(0.2)	(0.2)
Balance at 31 December 2014	**(0.6)**	**(2.8)**	**0.6**	**3.0**	**—**	**0.2**

15. Inventories

	2014 £'m	2013 £'m
Raw materials and consumables	19.6	13.7
Work in progress	4.1	1.6
Finished goods	8.7	8.9
	32.4	24.2

Inventories to the value of £69m (2013: £57.8m) were recognised as expenses in the year within continuing operations. During the year, the inventory write-downs totalled £3.8m. The write-downs are included in the income statement.

16. Trade and other receivables

	2014 £'m	2013 £'m
Trade receivables	34.0	26.0
Other non-trade receivables	1.6	0.8
Prepayments and accrued income	1.3	1.1
	36.9	27.9

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 23.

17. Capital and reserves

Share capital

	2014 Number	2014 £'m	2013 Number	2013 £'m
Allotted and fully paid				
Ordinary shares of 1.89 pence each	32,503,258	0.6	32,359,892	0.6

During the year, 143,366 shares were issued (0.4% of the total ordinary share capital issued) at par. The ordinary shares issued have the same rights as the other shares in issue.

	Ordinary shares	
Issued share capital	2014 Number	2013 Number
In issue at 1 January	32,359,892	32,150,231
Shares issued	143,366	209,661
Issued and fully paid at 31 December	32,503,258	32,359,892

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.

Notes to the consolidated financial statements continued

For the year ended 31 December 2014

17. Capital and reserves continued

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	2014 £'m	2013 £'m
9.8 pence per ordinary share (2013: 9.5 pence)	3.2	3.1

During the year the following dividends were paid:

	2014 £'m	2013 £'m
Final – 9.5 pence (2013: 9.5 pence) per ordinary share	3.1	3.1
Interim – 5.2 pence (2013: 4.9 pence) per ordinary share	1.7	1.5
	4.8	4.6
Dividends accrued on shares awarded under the PSP and deferred share scheme but not yet vested	0.1	—
Total (amount shown in the consolidated statement of changes in equity)	4.9	4.6

18. Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 31 December 2014 was based on the profit for the year of £9.5m (2013: £8.5m) and the weighted average number of ordinary shares outstanding during the year ended 31 December 2014 of 32,479,364 (2013: 32,248,312).

Diluted earnings per share

The calculation of diluted earnings per share at 31 December 2014 was based on profit for the year of £9.5m (2013: £8.5m) and the weighted average number of ordinary shares outstanding during the year ended 31 December 2014 of 32,675,772 (2013: 32,602,867) calculated as follows:

Weighted average number of ordinary shares (diluted)

	2014 '000	2013 '000
Weighted average number of ordinary shares	32,479	32,248
Effect of share options in issue	197	355
Weighted average number of ordinary shares (diluted)	32,676	32,603

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

	2014 Per share	2013 Per share
Basic earnings	29.4p	26.2p
Underlying basic earnings*	36.8p	30.8p
Continuing operations basic earnings	29.4p	23.9p
Diluted earnings	29.2p	25.9p
Underlying diluted earnings*	36.6p	30.5p
Continuing operations diluted earnings	29.2p	23.7p

* 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 last valuation was completed in 2014. The Company expects to pay contributions of £450,000 in respect of the Fund in the year to 31 December 2015. The weighted average duration of the defined benefit obligation is 16 years.

	2014 £'m Total	2013 £'m Total
Net defined benefit asset (Plan A)	—	(0.1)
Total employee benefit asset	—	(0.1)
Net defined benefit liability (Plan B)	1.2	0.5
Total employee benefit liability	1.2	0.5

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)	
	2014 £'m	2013 £'m	2014 £'m	2013 £'m	2014 £'m	2013 £'m
Balance at 1 January	22.8	22.7	(22.4)	(21.5)	0.4	1.2
Included in profit or loss						
Administration costs	—	—	0.1	0.2	0.1	0.2
Interest cost/(income)	1.0	1.0	(1.0)	(1.0)	—	—
	1.0	1.0	(0.9)	(0.8)	0.1	0.2
Included in other comprehensive income						
Remeasurements (gain)/loss:						
Actuarial (gain)/loss arising from:						
– demographic assumptions	(0.1)	(0.3)	—	—	(0.1)	(0.3)
– financial assumptions	2.5	1.3	—	—	2.5	1.3
– experience adjustment	0.1	(0.9)	—	—	0.1	(0.9)
– return on plan assets excluding interest income	—	—	(1.5)	(0.8)	(1.5)	(0.8)
	2.5	0.1	(1.5)	(0.8)	1.0	(0.7)
Other						
Contributions paid by the employer	—	—	(0.3)	(0.3)	(0.3)	(0.3)
Benefits paid	(1.1)	(1.0)	1.1	1.0	—	—
	(1.1)	(1.0)	0.8	0.7	(0.3)	(0.3)
Balance at 31 December	25.2	22.8	(24.0)	(22.4)	1.2	0.4

Notes to the consolidated financial statements continued

For the year ended 31 December 2014

19. Employee benefits continued

Defined benefit pension obligations continued

Represented by:	2014 £'m	2013 £'m
Net defined benefit asset (Plan A)	—	(0.1)
Net defined benefit liability (Plan B)	1.2	0.5
	1.2	0.4

Plan assets consist of the following:

	2014 £'m Total	2013 £'m Total
Equities	10.8	11.1
Bonds and gilts	12.9	11.1
Cash	0.3	0.2
	24.0	22.4

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

Actuarial assumptions

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

	(% per annum) 2014	2013
Discount rate at 31 December	3.40	4.40
Future salary increases	n/a	n/a
Future pension increases	3.20	3.50
Inflation – RPI	3.20	3.60
Inflation – CPI	2.30	2.80

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:

	2014		2013	
	Plan A	Plan B	Plan A	Plan B
Longevity at age 65 for current pensioners				
Males	22.3	22.3	22.2	22.2
Females	24.7	24.7	24.7	24.7
Longevity at age 65 for current members aged 45				
Males	24.0	24.0	24.0	24.0
Females	26.7	26.7	26.6	26.2

19. Employee benefits continued

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)	(1.8)	2.0
Inflation (0.5% movement)	1.8	(1.7)
Life expectancy (+/–1 year)	0.9	(0.9)

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.

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 the 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
February 2011	123,959	—	(123,959)	—	**—**	411	3 years	Feb 2014
April 2012	64,699	—	—	(19,899)	**44,800**	684	3 years	Apr 2015
April 2013 (EPS)	38,289	—	—	(15,420)	**22,869**	1,291	3 years	Apr 2016
April 2013 (TSR)	38,289	—	—	(15,420)	**22,869**	707	3 years	Apr 2016
April 2014 (EPS)	—	39,094	—	—	**39,094**	886	3 years	Apr 2017
April 2014 (TSR)	—	39,094	—	—	**39,094**	377	3 years	Apr 2017
Sept 2014 (EPS)	—	19,999	—	—	**19,999**	904	3 years	Sep 2017
Sept 2014 (TSR)	—	19,999	—	—	**19,999**	395	3 years	Sep 2017
	265,236	118,186	(123,959)	(50,739)	**208,724**			

Further details of the PSP are included in the Directors' remuneration report on pages 44 to 62.

The 2014 awards linked to EPS have been valued using the Black-Scholes model and those linked to TSR have been valued using the Monte Carlo model.

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

	April 2014 EPS and TSR award	**Sept 2014 EPS and TSR award**
Share price	**£8.86**	**£9.04**
Exercise price	**£nil**	**£nil**
Expected volatility	**37%**	**36%**
Award life	**3 years**	**3 years**
Correlation		
Dialight and the FTSE 250 Index (excluding investment trusts)	**33%**	**20%**

The employee expense in 2014 was £0.2m (2013: £0.4m) (see note 7).

Notes to the consolidated financial statements continued

For the year ended 31 December 2014

19. Employee benefits continued

Share-based payments continued

Save As You Earn ("SAYE")

In the current year, the Group initiated an all-employee UK Sharesave Plan and established equivalent arrangements in other countries, with the first grant made in 18 September 2014 to eligible employees in the UK, the US and Mexico. Under the terms of the SAYE scheme employees can save up to a limit of £250 per month or local currency equivalent. Awards under the scheme were made at a 20% discount to the closing mid-market price on the date of invitation, vesting over a three-year period. There are no performance conditions attached to the SAYE scheme.

	2014 scheme
Outstanding at 1 January 2014	—
Granted during the year	58,377
Forfeited during the year	—
Outstanding at 31 December 2014	**58,377**

The options outstanding at the period end have a weighted average remaining contractual life of three years.

Options were valued using the Black-Scholes option pricing model. The fair value per option granted and the assumptions used in the calculation were as follows:

Grant date	**18 Sept 2014**
Share price at grant date	**8.97**
Exercise price	**7.18**
Expected volatility	**37%**
Number of employees	**109**
Shares under option	**58,377**
Vesting period (years)	**3 years**
Option life (years)	**3 years**
Expected life (years)	**3 years**
Expected dividends expressed as a dividend yield	**2%**
Fair value per option	**3.16**

20. Provisions

	Warranty £'m
Balance at 1 January 2014	1.0
Effects of foreign exchange movement	—
Provisions made during the year	0.9
Provisions used during the year	(0.7)
Balance at 31 December 2014	**1.2**

The warranty provision relates to sales made over the past five years. The provision has been estimated based on historical warranty data with similar products. The Group expects to settle the majority of the liability over the next two to three years.

20. Provisions continued

	Warranty 2014 £'m	Warranty 2013 £'m
Due within one year	**0.7**	0.3
Due between one and five years	**0.5**	0.7
	1.2	1.0

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

21. Trade and other payables

	2014 £'m	2013 £'m
Trade payables	**18.3**	14.1
Other taxes and social security	**0.6**	0.4
Non-trade payables and accrued expenses	**7.3**	6.5
	26.2	21.0

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

	2014 £'m	2013 £'m
Cash and cash equivalents in the statement of total financial position	**7.9**	8.8
Bank overdraft used for cash management purposes	**—**	(1.7)
Cash and cash equivalents in the statement of cash flows	**7.9**	7.1

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 and 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.

Notes to the consolidated financial statements continued

For the year ended 31 December 2014

23. Financial risk management continued

Credit risk continued

Trade and other receivables continued

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 prepayment 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.

Exposure to credit risk

The ageing of trade receivables at the reporting date was:

	Gross 2014 £'m	Impairment 2014 £'m	Gross 2013 £'m	Impairment 2013 £'m
Not past due	26.2	—	19.3	—
Past due 0–30 days	6.7	—	3.5	—
Past due 31–120 days	0.7	—	2.2	—
Past due 121–365 days	0.4	—	0.8	0.1
More than one year	0.1	0.1	0.4	0.1
Total	34.1	0.1	26.2	0.2

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

	£'m
Balance at 1 January 2014	0.2
Effects of foreign exchange	—
Utilisation of provision	(0.2)
Provision created	0.1
Balance at 31 December 2014	**0.1**

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 £1.6m (2013: £0.8m) 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 2014, the Group has drawn £7.6m against its revolving credit facility.

23. Financial risk management continued

Market risk continued

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 subsidiary's functional currency. The currencies giving rise to risk are primarily Euro and US Dollar.

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.

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

	2014 $'m	2014 €'m	2013 $'m	2013 €'m
Trade receivables	0.6	4.2	1.4	2.1
Currency cash	0.2	0.8	2.2	0.7
Trade payables	(1.2)	(0.8)	(1.2)	(0.2)
Gross balance sheet exposure	(0.4)	4.2	2.4	2.6

The following significant exchange rates applied during the year:

	2014 Average rate	2014 At balance sheet date	2013 Average rate	2013 At balance sheet date
US Dollar	1.63	1.56	1.57	1.66
Euro	1.24	1.29	1.18	1.20
Mexican Peso	21.89	22.92	19.97	21.70

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 and borrowings.

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

Notes to the consolidated financial statements continued

For the year ended 31 December 2014

23. Financial risk management continued

Liquidity risk continued

Exposure to liquidity risk continued

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

31 December 2014	Carrying amount £'m	Contractual cash flow £'m	2 months or less £'m	2–12 months £'m	1–2 years £'m
Non-derivative financial liabilities					
Trade and other payables	26.2	(26.2)	(26.2)	—	—
Contingent consideration	0.3	(0.3)	(0.3)	—	—
Borrowings	7.3	(7.3)	(7.3)	—	—
	33.8	(33.8)	(33.8)	—	—

31 December 2013	Carrying amount £'m	Contractual cash flows £'m	2 months or less £'m	2–12 months £'m	1–2 years £'m
Non-derivative financial liabilities					
Trade and other payables	21.0	(21.0)	(21.0)	—	—
Contingent consideration	3.3	(3.3)	—	(0.1)	(3.2)
Borrowings	1.7	(1.7)	(1.7)	—	—
	26.0	(26.0)	(22.7)	(0.1)	(3.2)

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 2014 this totalled £72.8m (2013: £66.7m). In line with the Group's dividend policy it is proposed to pay a final dividend of 9.8 pence giving a total dividend for the year of 15.0 pence. A dividend of 15.0 pence would be covered 2 times (2013: 1.7).

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 2014 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 £0.2m for the year ended 31 December 2014 (2013: £0.1m), and would have reduced the Group's equity by approximately £0.3m for the year ended 31 December 2014 (2013: £0.2m).

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 2014 £'m	Fair value 2014 £'m	Carrying amount 2013 £'m	Fair value 2013 £'m
Financial assets				
Cash and cash equivalents	7.9	7.9	8.8	8.8
Loans and receivables				
Trade and other receivables	36.9	36.9	27.9	27.9
Total financial assets	44.8	44.8	36.7	36.7
Financial liabilities				
Trade and other payables	(26.2)	(26.2)	(21.0)	(21.0)
Contingent consideration	(0.3)	(0.3)	(3.3)	(3.3)
Borrowings	(7.3)	(7.3)	(1.7)	(1.7)
Total financial liabilities	(33.8)	(33.8)	(26.0)	(26.0)
Net financial assets	11.0	11.0	10.7	10.7

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:

	2014 £'m	2013 £'m
Less than one year	**1.4**	1.2
Between one and five years	**3.2**	3.6
More than five years	**0.6**	0.9
	5.2	5.7

Of the £5.2m (2013: £5.7m), £5.0m (2013: £5.3m) 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:

	2014 £'m	2013 £'m
Contracted	**0.3**	0.7

26. Contingencies

During 2011 the Roxboro UK Pension Fund (the "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:

	2014 £'m	2013 £'m
Short-term employee benefits	**0.8**	0.9
Post-retirement benefits	**0.1**	0.1
Share-based payments	**0.1**	0.3
	1.0	1.3

The aggregate of remuneration and amounts receivable under long-term incentive schemes of the highest paid Director was £0.6m (2013: £0.9m), and pension contributions of £0.1m (2013: £0.1m) were made to a money purchase scheme on his behalf. During the year, the highest paid Director received 38,491 shares under a long-term incentive scheme.

Notes to the consolidated financial statements continued

For the year ended 31 December 2014

27. Related parties continued

Transactions with key management personnel continued

	2014	2013
Number of Directors accruing benefits under:		
– Money purchase schemes	**3**	3
– Defined benefit schemes	**0**	0
Number of Directors who exercised share options	**1**	2
Number of Directors in respect of whose qualifying services shares were received or receivable under long-term incentive schemes	**3**	3

28. Significant subsidiaries

The companies listed in the table below are those which, in the opinion of the Directors, principally affect the revenue, profit or assets of the Dialight Group.

	Country of incorporation	Percentage owned	Principal activity
Dialight Corporation*	US	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	100%	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 Components products
Dialight Do Brasil Tecnologia Led Ltda*	Brazil	75%	Sale of Signals and Lighting products

All of these are included within the consolidation. Those marked with an * are indirectly held. A full list of Dialight Group companies will be appended to the next annual return of Dialight plc filed with the Registrar of Companies.

Dialight ILS Australia Pty Limited, Dialight Asia Pte. Ltd and Dialight Do Brasil Tecnologia Led Ltda are all owned 75% by the Group and there are non-controlling interests of 25%. The total profit for the period attributable to non-controlling interests is less than £0.1m (2013: £0.1m) and their share of equity is £0.1m (2013: £0.1m).

29. Contingent consideration

	2014	2013
Balance at 1 January	**3.3**	3.3
Change in fair value (note 8)	**0.1**	0.3
Effects of foreign exchange movement	**—**	(0.3)
Reduction due to settlement (note 6)	**(3.1)**	—
Balance at 31 December	**0.3**	3.3

The contingent consideration relates to the purchase of Airinet Inc in 2012. Following agreement with the former owners, the remaining consideration payable for the Airinet acquisition has been reduced to £0.3m.

Company balance sheet (prepared under UK GAAP)

At 31 December 2014

	Note	2014 £'m	2013 £'m
Fixed assets			
Tangible assets	31	—	0.1
Investments	32	17.3	17.1
Debtors	33	25.0	21.6
		42.3	38.8
Current assets			
Debtors	33	16.6	18.5
Cash		0.6	—
		17.2	18.5
Creditors			
Amounts falling due within one year			
Other creditors	34	(6.3)	(5.6)
Borrowings		(7.3)	(1.7)
Current liabilities		(13.6)	(7.3)
Net current assets		3.6	11.2
Total assets less current liabilities		45.9	50.0
Net assets excluding pension fund liability		45.9	50.0
Pension fund asset	38	—	0.1
Net assets including pension fund liability		45.9	50.1
Capital and reserves			
Called up share capital	36, 37	0.6	0.6
Capital redemption reserve	37	2.2	2.2
Other reserve	37	1.9	1.7
Profit and loss account	37	41.2	45.6
Equity shareholder funds		45.9	50.1

The accompanying notes form part of the financial statements.

These financial statements were approved by the Board of Directors on 2 March 2015 and were signed on its behalf by:

Bill Ronald
Chairman

Fariyal Khanbabi
Group Finance Director

Notes to the Company financial statements

For the year ended 31 December 2014

30. 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 is 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.

30. Accounting policies continued

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 recognises an increase in the cost of investment in its subsidiaries equivalent to the equity-settled share-based payment charge recognised in its subsidiaries' financial statements with the corresponding credit being recognised directly in equity.

31. Fixed assets

	Plant, equipment and vehicles £'m
Cost	
At 1 January 2014	0.2
Additions	—
At 31 December 2014	**0.2**
Depreciation	
At 1 January 2014	(0.1)
Charge for the year	(0.1)
At 31 December 2014	**(0.2)**
Net book value at 31 December 2014	**—**
Net book value at 31 December 2013	0.1

Notes to the Company financial statements continued

For the year ended 31 December 2014

32. Investments

Investments in subsidiary undertakings

	£'m
Cost	
At 1 January 2014	21.9
Share-based payment	0.2
At 31 December 2014	**22.1**
Provisions	
At 1 January 2014	(4.8)
Profit and loss account	—
At 31 December 2014	**(4.8)**
Net book value at 31 December 2014	**17.3**
Net book value at 31 December 2013	17.1

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.

The companies listed in the table below are those which, in the opinion of the Directors, principally affect the revenue, profit or assets of the Dialight Group.

Name	Percentage owned	Country of incorporation and operation
Dialight Corporation*	100%	US
Dialight Europe Limited	100%	England and Wales
Dialight Garufo GmbH*	100%	Germany
Dialight BTI A/S	100%	Denmark
Dialight ILS Australia Pty Limited*	75%	Australia
Dialight Japan KK*	100%	Japan
Dialight Asia Pte. Ltd*	75%	Singapore
Dialight Penang Sdn. Bhd.*	100%	Malaysia
Dialight Do Brasil Tecnologia Led Ltda*	75%	Brazil

The investment is held directly by the Company except for those companies where indicated by *. A full list of Dialight Group companies will be appended to the next annual return of Dialight plc filed with the Registrar of Companies.

33. Debtors

	2014 £'m	2013 £'m
Amounts owed by subsidiary undertakings	**41.1**	39.6
Other debtors	**0.4**	0.4
Deferred tax asset (note 35)	**0.1**	0.1
	41.6	40.1
Less non-current portion: amounts owed by subsidiary undertakings	**(25.0)**	(21.6)
Current portion	**16.6**	18.5

34. Creditors

	2014 £'m	2013 £'m
Amounts falling due within one year:		
Amounts owed to subsidiary undertakings	5.3	3.8
Accruals and deferred income	1.0	1.8
	6.3	5.6

35. Deferred tax assets

	2014 £'m	2013 £'m
At 1 January	0.1	0.5
Prior year adjustment	—	(0.4)
Profit and loss account	—	—
Recognised in equity	—	—
At 31 December	0.1	0.1
An analysis of deferred tax is as follows:		
Capital allowances	—	—
Short-term timing differences	0.1	0.1
Debtors (see note 33)	0.1	0.1
Pension liability (see note 38)	—	—
	0.1	0.1

36. Called up share capital

	2014 Number	2014 £'m	2013 Number	2013 £'m
Allotted and fully paid				
Ordinary shares of 1.89 pence each	32,503,258	0.6	32,359,892	0.6
Shares classified as liabilities		—		—
Shares classified in shareholder funds		0.6		0.6
		0.6		0.6

During the year, 143,366 shares were issued (0.4% of the total ordinary share capital issued) at par. The ordinary shares issued have the same rights as the other shares in issue.

Share-based payments

Please refer to note 19.

Notes to the Company financial statements continued

For the year ended 31 December 2014

37. 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 2014	0.6	2.2	1.7	45.6	50.1
Profit for the year	—	—	—	0.6	0.6
Dividends to shareholders	—	—	—	(4.9)	(4.9)
Share-based payments	—	—	0.2	—	0.2
Actuarial loss on pension plan	—	—	—	(0.1)	(0.1)
At 31 December 2014	**0.6**	**2.2**	**1.9**	**41.2**	**45.9**

At 31 December 2014 the number of shares held by the Group through the ESOT was 9,606 ordinary shares (2013: 2,514). The market value of these shares at 31 December 2014 was £77,809 (2013: £21,520).

The profit for the year was £0.6m (2013: £3.1m). Net expenses recognised directly in equity relate to the net actuarial gain (net of deferred tax) arising in respect of the pension scheme.

	2014 £'m	2013 £'m
Profit and loss reserve excluding pension liability	**41.3**	45.5
Pension reserve	**(0.1)**	0.1
Profit and loss reserve	**41.2**	45.6

Reconciliation of movement in shareholders' funds

	2014 £'m	2013 £'m
Profit for the year	**0.6**	3.1
Dividends paid	**(4.8)**	(4.6)
Dividends on shares awarded under the PSP	**(0.1)**	—
Actuarial loss on pension plan	**(0.1)**	—
Share-based payments, net of tax	**0.2**	0.4
Net reduction to shareholder funds	**(4.2)**	(1.1)
Opening shareholder funds	**50.1**	51.2
Closing shareholder funds	**45.9**	50.1

37. Capital and reserves continued

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	2014 £'m	2013 £'m
9.8 pence per ordinary share (2013: 9.5 pence)	3.2	3.1

During the year the following dividends were paid:

	2014 £'m	2013 £'m
Final – 9.5 pence (2013: 9.5 pence) per ordinary share	3.1	3.1
Interim – 5.2 pence (2013: 4.9 pence) per ordinary share	1.7	1.5
	4.8	4.6
Dividends accrued on shares awarded under the PSP but not yet vested	0.1	—
Total (amount shown in the statement of changes in equity)	4.9	4.6

38. Pensions

The Company operates both a defined benefit executive scheme and a 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 assets for defined benefit obligations

	2014 £'m	2013 £'m
Present value of liabilities	(2.1)	(1.8)
Fair value of plan assets	2.1	1.9
Recognised asset for defined benefit obligations	—	0.1
Deferred tax (see note 35)	—	—
Pension assets, net of deferred tax	—	0.1

Plan assets consist of the following:

	2014 £'m	2013 £'m
Bonds	1.9	1.7
Cash	0.2	0.2
	2.1	1.9

Notes to the Company financial statements continued

For the year ended 31 December 2014

38. Pensions continued

Movements in the present value of defined benefit obligations

	2014 £'m	2013 £'m
Liabilities at 1 January	**1.8**	1.7
Interest cost	**0.1**	0.1
Benefits paid	**(0.1)**	(0.1)
Actuarial loss	**0.3**	0.1
Liabilities at 31 December	**2.1**	1.8

Movements in fair value of plan assets

	2014 £'m	2013 £'m
Assets at 1 January	**1.9**	1.8
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	**2.1**	1.9

Expense recognised in the profit and loss account

	2014 £'m	2013 £'m
Interest on obligation	**0.1**	0.1
Expected return on plan assets	**(0.1)**	(0.1)
	—	—

Expense recognised in the statement of recognised gains and losses

	2014 £'m	2013 £'m
Actuarial gain on plan assets	**0.1**	—
Change in assumptions in respect of liabilities	**(0.3)**	(0.1)
Net actuarial loss recognised in the statement of recognised gains and losses	**(0.2)**	(0.1)
Cumulative actuarial loss recognised in the statement of recognised gains and losses	**(0.7)**	(0.5)

38. Pensions continued

Historical information

	2014 £'m	2013 £'m	2012 £'m	2011 £'m	2010 £'m
Defined benefit obligation	**(2.1)**	(1.8)	(1.7)	(1.6)	(1.5)
Scheme assets	**2.1**	1.9	1.8	1.6	1.5
Surplus	**—**	0.1	0.1	—	—
Actuarial (losses) on liabilities	**(0.3)**	(0.1)	(0.1)	(0.1)	—
Experience gain on assets	**0.1**	—	0.1	—	—

Liability for defined benefit obligations

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

	UK scheme (% per annum)		
	2014	2013	2012
Discount rate at 31 December	**3.40**	4.40	4.40
Future salary increases	**n/a**	n/a	n/a
Future pension increases	**3.20**	3.50	2.90
Inflation – RPI	**3.20**	3.60	2.90
Inflation – CPI	**2.30**	2.80	2.40
Deferred revaluation	**2.30**	2.80	2.40

The expected long-term rates of return were:

	UK scheme (% per annum)		
	2014	2013	2012
Equities	**n/a**	n/a	n/a
Bonds	**3.40**	4.40	4.40
Cash	**3.40**	4.40	3.00

For its UK pension arrangements the Group has, for the purpose of calculating its liabilities as at 31 December 2014, 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 24.0 years for males and 26.7 years for females. For individuals currently aged 65 years the average life expectancy is 22.3 years for males and 24.7 years for females.

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

The Company expects that contributions to the defined benefit plan in 2015 will be at a similar level to contributions paid in 2014.

39. 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				
	2014 £'m	2013 £'m	2012* £'m	2011* £'m	2010 £'m
Revenue*	**159.8**	131.2	115.1	102.5	99.2
Research and development cash expenditure	**6.2**	5.9	5.0	5.1	3.7
Underlying operating profit*	**18.1**	14.5	19.6	15.5	11.2
Non-underlying operating loss	**(2.3)**	(2.9)	—	(0.1)	—
Finance (charges)/income	**(0.3)**	(0.4)	0.2	(0.6)	0.1
Profit before gain on disposal of discontinued operations and taxation*	**15.5**	11.2	19.8	14.8	11.3
Cash generated from operating activities	**8.6**	6.9	13.8	12.4	14.0
Net cash	**0.6**	7.1	15.0	13.7	10.4
Shareholders' funds	**72.8**	66.7	63.0	54.8	46.2

Statistical information	**Pence**	Pence	Pence	Pence	Pence
Basic earnings per ordinary share from continuing operations*	**29.4**	23.9	41.4	31.3	23.8
Dividends per share	**15.0**	14.4	13.5	10.0	8.0
Dividend cover (times)	**2.0**	1.7	3.2	3.0	3.0
Underlying operating margin*	**11.2%**	11.1%	17.0%	15.1%	11.3%

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

Directory and shareholder information

Company Secretary and Registered Office

Nick Giles FCIS
Exning Road
Newmarket
Suffolk CB8 0AX
Telephone: +44 (0)1638 778640
Registered in England and Wales
Company Number: 2486024
Email: info@dialight.com
www.dialight.com

Website

Shareholders are encouraged to visit our website, www.dialight.com, which contains information about Dialight. Any information on or linked from the website is not incorporated by reference into the Annual Report and Accounts.

There is a section designed specifically for investors at www.dialight.com/PLCHome/Index, which includes detailed coverage of Dialight's share price and our financial results. You can also review this year's Annual Report and Accounts. Our share price is also available on the London Stock Exchange's website, www.londonstockexchange.com.

Dialight plc shareholders can elect to receive their shareholder communications such as the Annual Report and Accounts and other shareholder documents electronically by registering at www.dialight.com/SiteServices/AlertServices.

Financial advisers and stockbrokers

Canaccord Genuity Ltd

88 Wood Street
London EC2V 7QR

Registrars

Equiniti

Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA

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.

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.

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.

Trade Marks

The following trade marks appear in this document: Dialight, DuroSite, SafeSite and Vigilant, and are the registered trade marks of the Dialight Group.

Auditors

KPMG LLP

One Snowhill
Snow Hill Queensway
Birmingham B4 6GH

Legal advisers

Slaughter and May

One Bunhill Row
London EC1Y 8YY

Butzel Long

Suite 100
150 West Jefferson Ave
Detroit, MI 48226
USA

Principal bankers

HSBC Bank PLC

Level 6 Metropolitan House
CBX3
321 Avebury Boulevard
Milton Keynes MK9 2GA

Financial calendar 2015/2016

Annual General Meeting/ Interim Management Statement

15 April 2015

Half Yearly Financial Report

27 July 2015

Interim Management Statement

5 November 2015 (provisional)

Regional headquarters

Dialight Corporation

1501 Route 34 South
Farmingdale, NJ 07727
USA
Telephone: +1 732 919 3119
Facsimile: +1 732 751 5778

Dialight Europe Limited

Exning Road
Newmarket
Suffolk CB8 0AX
United Kingdom
Telephone: +44 (0) 1638 665161
Facsimile: +44 (0) 1638 660718

Dialight plc
Exning Road
Newmarket
Suffolk CB8 0AX

www.dialight.com