On when it counts

Dialight plc Annual report and accounts

2015

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For more information visit us online at
www.dialight.com

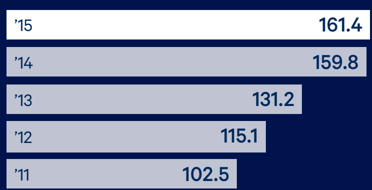
On when it counts

Dialight delivers the most energy efficient, reliable LED lighting solutions available.

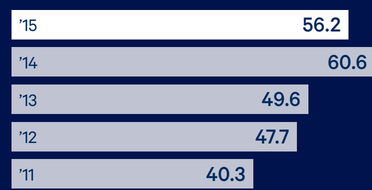
Leading the way in the energy efficient LED lighting revolution for industrial and hazardous applications. Continuing development of LED lighting solutions that enable our customers to lower their energy usage and carbon dioxide emissions, reduce maintenance requirements and improve safety while integrating as a key information node within their operations.

Financial highlights

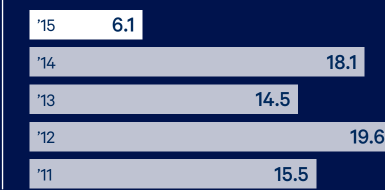
Revenue* £'m
£161.4m



Underlying gross profit* £'m
£56.2m



Underlying operating profit* £'m
£6.1m



Financial headlines

- Lighting revenue up 3%; Signals and Components revenue 5% lower.
- Underlying operating profit fell to £6.1m.
- Non-underlying costs of £9.5m.
- Revised operating segments with a focus on growth opportunities within Lighting and Obstruction.
- The Group remains cash generative and improved its working capital position in the year.
- The Board is not proposing a final dividend for 2015.

Strategic and operational headlines

- A new strategy set out to deliver sustainable, profitable growth with a three-year plan to:
  - Build scalable and efficient operations.
  - Develop common production platforms.
  - Lead the market in products and technology.
  - Advance our sales approach through strategic global accounts.
  - Grow into new sectors and geographies.
- Further plans in place to reduce costs including operational restructuring and a move to platform product design.

For more information see the Finance review on page 18

* Results for 2011 and 2012 exclude the results of operations classified as discontinued. Underlying gross profit and underlying operating profit are defined on page 16 and can be found on the Income statement on page 68.

Leadership in LED lighting technology

Dialight's strategy

Rebuild

1

Rebuild scalable and efficient operations

Focus on growth business, improving operational efficiency to provide a solid foundation for future growth.

2

Develop common production platforms

Clearly defined product roadmap to maintain technology lead and support new sectors and geographic expansion.

Lead

3

Lead the market in products and technology

Market-leading LED lighting for industrial applications in demanding operating environments where robust lighting systems are mission critical.

4

Advance our sales approach through strategic global accounts and automation partnerships

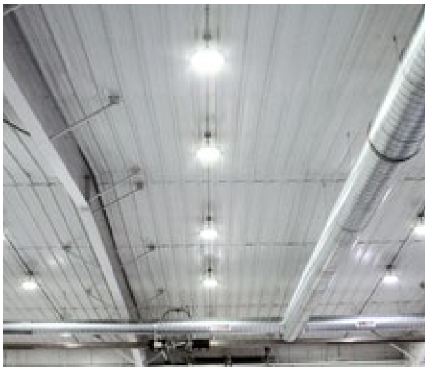
Enhance the sophistication of our sales approach, moving beyond the factory sell into the corporate sell, leveraging ten years of proven value and expertise.

Grow

5

Grow into new sectors and geographies

Grow market share in current sectors and expand into sectors where Dialight can deliver differentiated solutions. Maintain a strong focus on North America while diversifying into regions where our sector advantage is strong.



For more information on our strategy see page 12

Dialight remains highly differentiated

Differentiated technology

Energy efficient

Highest lumen/watt

- Saves electrical cost
- Increased light output to improve safety

Most reliable

Ten-year warranty

- Proven in the toughest conditions
- Virtually eliminates maintenance cost

Connected sensors

Controls and sensors

- Maximise lifetime and savings
- Integrated with independent building management systems

LED by design

Pure LED focus

- Design and sales channels wholly focused on industrial markets that rely on robust and cost efficient lighting

Proven model

Ten years' market experience

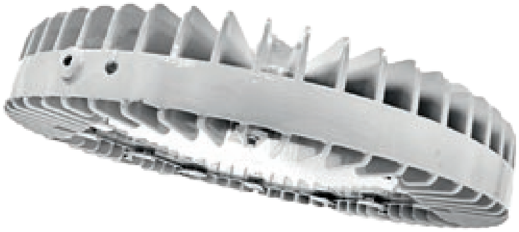
- Our products and their benefits are proven
- More resilient and more efficient

For more information on our business model see page 8

Key new products

Vigilant® LED High Bay (60,000 lumens)

Vigilant® H2 LED High Bay (25,250 lumens)



Dialight at a glance

Lighting is the growth driver for our business

Our segments

Lighting

The Lighting segment, which is comprised of Dialight's Lighting and Obstruction businesses, is focused on providing energy efficient lighting solutions through the use of high-brightness LEDs and connected technologies. It represented 75% of the Group's revenue in 2015 and 71% of the Group's segmental operating profit.

The Lighting business provides lighting products to customers operating in industrial sectors, which include steel foundries, pulp and paper mills, automotive manufacturers, utility and waste water plants and food and beverage processing plants. The business also provides specialist lighting products for hazardous industrial sites, including those in the oil and gas and mining sectors.

A high proportion of Lighting sales, particularly in the US, are through major distribution networks. The business also sells directly to major international customers and has strategic links with key automation partners.

The Obstruction business provides LED lighting used for aircraft collision avoidance in the onshore telecom and broadcast tower market and offshore wind turbine markets. Revenue is project based and the timing of orders in this business can be uneven and difficult to predict.

Overall 71% of the Lighting division's revenue was generated in North America in 2015, with 19% in Europe and the Middle East, and 10% in Asia and Australia.

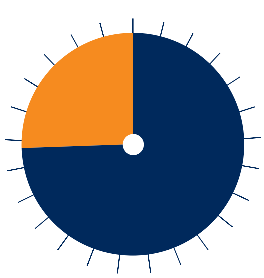
Signals and Components

The Signals and Components division consists of Dialight's Traffic, Transportation and Components businesses. In Traffic and Transportation, Dialight provides LED lighting for signals, while the Components businesses include sales primarily to electronics original equipment manufacturers ("OEMs") for status indication and components for automotive and niche industrial application.

In 2015, the division represented 25% of the Group's revenue in 2015 and 29% of the Group's segmental operating profit. These businesses all operate in high volume and competitive markets where products are less differentiated. As a result, revenues across these businesses are declining and the Group manages these businesses for value.

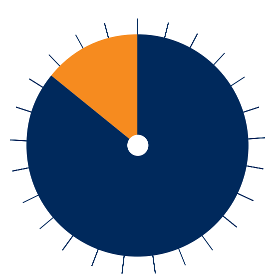
For more information see the Finance review on page 18

Revenue £'m



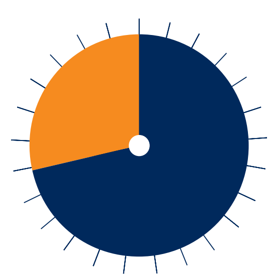
- Lighting £120.6m
- Signals and Components £40.8m

Gross profit £'m



- Lighting £48.3m
- Signals and Components £7.9m

Segmental operating profit £'m



- Lighting £6.8m
- Signals and Components £2.7m

Chairman's statement
Wayne Edmunds

"We continue to pursue our overall growth strategy of focusing on the design of market-leading products."

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Focused on the long term

Dialight has developed market-leading products with a brand that benefits from a strong reputation for innovation, advanced technology and long-term customer relationships.

2015 has been a challenging year for Dialight with difficult market conditions and over-reliance on the upstream oil and gas sector which led to a significant slowdown in revenue growth.

There have been a number of operational issues identified and good progress has been made to resolve them. We have a strong new management team in place to lead Dialight through its next stage of development, led by Michael Sutsko, who was appointed Group Chief Executive in June 2015, and Fariyal Khanbabi, our Group Finance Director. Together they have put in place a new strategy focused on rebuilding the Group's operations, product development, sales strategy and delivering sustainable profitable growth.

Board composition

In order to support our Executive team in running the day-to-day business operations of the Group, we have brought together an international Board of Directors with extensive experience of running public companies in a global environment. We believe that by using our wealth of experience to help monitor and guide the path of the management, Dialight will grow profitably for the foreseeable future.

Governance

We believe that good corporate governance is the key to long-term business success.

The Board is mindful of the need to protect and promote the interests of the Company's shareholders. We believe that the Board and its Committees provide the appropriate corporate governance balance.

For more information on corporate governance see page 28

Outlook

We continue to pursue our overall growth strategy of designing market-leading products. The Group remains focused on executing our strategy without compromising our brand, despite the more challenging macroeconomic environment and will deliver long-term value to our shareholders.

Wayne Edmunds, Chairman

8 March 2016

Diversification expands our growth potential

Market review

Total addressable lighting market

The total global lighting market is estimated to be worth £50 billion revenue per annum (source: Freedonia global estimate). Within this, heavy industrial lighting, where Dialight is focused, accounts for 7% or £3.5 billion revenue per annum. Assuming a 20-year retro-fit cycle, the Group estimates that the total available market for industrial and hazardous LED lighting products is around £70 billion – £100 billion. (This excludes markets that Dialight does not currently sell into such as China, Russia, India and Africa.)

- Dialight estimates that its share of the industrial LED market is 34%, significantly ahead of its nearest competitor, which has a 13% share.
- Dialight has delivered compound annual Lighting revenue growth of 29% over five years.

Market growth

The global lighting market is undergoing rapid transformation driven by growing adoption of LED technology and the increasing popularity of connected lighting systems. Historically growth in the total lighting market has tracked global GDP growth, running at about 3% CAGR from 2010 to 2014 (source: BCG). In the developed world, this growth can be attributed to economic expansion and the number of households. Rapidly developing economies such as China and Latin America accounted for 70% lighting industry growth over the last five years.

Penetration of LED lighting is in the low single digits thus enabling strong potential for growth for some years to come, far above the growth of the total lighting market.

LED technology

The clear advantages of LED technology are driving its market share gains, especially with an increasing focus on total cost of ownership:

- Low energy consumption: LED lighting is four to five times more energy efficient than conventional technologies. In July 2015, the US Department of Energy published a report that stated that if all US lighting installations in 2014 were replaced overnight with the best LED technologies available, the US would save 4,896 trillion Btu of energy.
- Long lifetime: LED lighting lasts up to 15 years, which is four times the lifespan of CFL lighting and ten times the lifespan of incandescent lighting.
- Enhanced versatility: LED lighting is smaller and more durable and comes in more colours than traditional lighting. Connected lighting systems are also growing in popularity.

- Dialight's products have the most energy efficient power supply technology on the market and come with a market-leading ten-year warranty.

Regulation

The push for energy efficiency has led to regulations aimed at phasing out older, less efficient lighting technologies. Incandescent lights have been banned in most countries, with China and Brazil to come, and the EU has recently passed regulations to phase out halogen by 2018 with the US and China expected to follow suit.

US regulation stipulates that lighting in most buildings must be controlled automatically to adjust light usage according to the time of day and occupancy.

- Dialight is investing in developing its system controls and connectivity, working alongside strategic partners in automation.

2015 Lighting revenue by market sector

Obstruction
Dialight has been the pioneer and worldwide leader in designing and manufacturing reliable and efficient LED obstruction lights. Our maintenance-free systems drastically reduce cost of ownership on towers, stacks, turbines, cranes and buildings.

12%

Mining
Dialight's products are built to withstand extensive shock and vibration and their reliability is of paramount importance to customers focused on safety in this market.

6%

Heavy industrial
Dialight's fixtures are completely sealed against moisture, resist damage from extreme vibration, contain all stainless steel hardware, and come with some of the highest ambient temperature ratings in the industry. They are therefore well suited for use across heavy industrial producers including steel foundries, pulp and paper mills and automotive manufacturers operating around the clock.

41%

Power generation
The heavily regulated nuclear, fossil and renewables power industry requires strong and low maintenance products with demanding certifications. Dialight's durable lighting eliminates constant maintenance burdens while drastically reducing energy consumption.

11%

Oil and gas
Dialight makes ultra-rugged, corrosion-resistant lighting designed to stand up to high vibration and high temperatures in the heavily regulated oil and gas industry.

22%

Food and beverage
Dialight makes high performance and energy efficient lighting solutions for use in the food processing, agricultural, cold storage and food grain industry, where lighting is required 24 hours a day. Dialight's products are built to withstand daily washdowns to keep bacteria and contaminants at bay, as well as the extreme temperatures required for sub-zero food processing.

8%

Our business model

Unique DNA for delivering long-term value

Dialight has maintained a leading share of its markets through differentiated technology and using the most efficient power supplies available, which underpin the ten-year warranty of its products. All Dialight products also benefit from temperature compensation technology, maximising their lifespan, and an optical design with custom reflectors to direct light where it is needed.

Bespoke technology

Sustainable, reliable and efficient products

Dialight continually develops its products to reduce maintenance, improve safety, ease disposal and be more environmentally friendly. The Group uses its technological expertise in thermal management, optics and electronic circuitry to improve its existing products, bringing further efficiencies, cost improvements and improved product design.

Read more about sustainability on page 42

Large niche markets

The Group addresses the needs of customers in heavy industry and hazardous locations where lighting is seen as mission critical. Dialight is focused on niche markets where the Group is differentiated through its bespoke products that are designed to meet the certifications and specific requirements of each individual customer. These are markets with significant barriers to entry as their environments demand round the clock, all year long, reliable and efficient lighting solutions. Dialight is engaging in a focused plan of geographical growth in established and developing markets to ensure its long-term business sustainability.

Expert people

Dedicated and experienced management

The Group is run by a passionate and experienced senior management team with a focus on execution which we believe can only be achieved by a pure play LED lighting company. The highly dedicated management team comprises established Dialight incumbents together with new management who have a long and successful history of working in the industrial sector. The management team is led by Michael Sutsko, who joined in June 2015 with more than 25 years of experience and a deep understanding of global markets.

Leading technology team

Dialight's technology team has a proven track record of developing conceptual visions into market-leading products. The technology team is at the forefront of the industry in terms of its ability to interpret market trends. This provides customers with a broad range that addresses key market verticals. Customers increasingly demand more intelligent controls and connected lighting systems that are integrated into their broader operations. Dialight delivers the most reliable LED lighting solutions in our markets. Our products are the most energy efficient available and are supported by our ten-year warranty, reducing the total cost of ownership for our customers.

Efficient operations

Flexible supply chain

Dialight is exploring manufacturing partnerships to outsource the assembly part of the supply chain to gain flexibility and speed when bringing products to market. Dialight's internal strengths lie in the products' technology and design and not in their assembly. Those elements which protect the brand are owned and managed by Dialight, including quality, vendor liaison and product development. Materials research and sourcing, product development, engineering, production planning and control, quality assurance and customer service and after sales are all controlled in house.

Multichannel distribution model

The Group has multiple routes to market through established distribution networks and sells directly to the end customers. Sales are focused on the employees and plant managers who will be using and installing Dialight's products and benefiting from the enhanced quality of light, ease of installation and improved safety. In addition, Dialight has extended its sales approach to target the corporate decision makers at a more senior level by highlighting the sustainability of our products through increased energy efficiency and lower total cost of ownership.

Group Chief Executive's statement

Michael Sutsko

Focus on growth opportunities

This has been a difficult year for the Group from a financial, strategic and operational perspective. In a challenging time for the industry, Dialight has been able to maintain its market share.

I joined Dialight in June 2015 believing the Company to have differentiated technology and a strong commercial capability to deliver value in a market with sizeable potential. These beliefs were confirmed as I engaged with the talented people of Dialight around the globe.

Revenue grew by 1% to £161.4m (2014: £159.8m), with 3% growth in Lighting offset by a 5% decline in the Signals and Components segment. On a constant currency basis Lighting revenue was flat year on year. The pace of Lighting revenue growth in the year slowed compared to the prior year. This was partly as a result of weakness in the upstream oil and gas sector. The automotive sector also declined from 20% of revenue in 2014 to 6% in 2015, as a result of delays in placing orders from some of our strategic accounts. This highlighted the need for Dialight to diversify its sector exposure. The sales force was refocused in the second half of the year to other market sectors and achieved strong growth in downstream oil and gas, power generation and pulp and paper.

Underlying EBIT decreased 66% to £6.1m (2014: £18.1m). This was primarily the result of the business decision to employ additional headcount in advance of expected growth that did not materialise. There were also manufacturing inefficiencies relating to material sourcing, shop floor planning and tooling which were compounded by too many product variations. These issues were addressed in the second half of 2015 with a 12% headcount reduction (excluding direct labour) undertaken in August and a number of initiatives on the factory floor to address the inefficiencies.

There were significant non-underlying items of £9.5m, mainly in relation to projects triggered by the strategic review, which are detailed in the Financial Review on page 18.

In October we outlined a new strategy to secure sustainable profitable growth and maintain our leadership in LED technology. With this strategy in mind we have taken a number of steps to address the key issues within the business:

Strategic priority 1: build scalable and efficient operations

Over the last few months we have taken action to begin to rebuild the business and address the operational inefficiencies that led to the poor financial performance in 2015.

As a first step, we simplified the Group's segments to focus on LED lighting, which includes general industrial illumination and obstruction products (lights attached to tall structures and used as collision avoidance measures) as these provide the growth opportunities to meet our profitability targets. For the reasons noted above, our other products in Signals and Components do not represent the best investment for growth and will now be managed for value.

As a next step, we are focusing on improving our cost base. In August 2015 we announced a 12% reduction in the Group's headcount (excluding direct labour), which will deliver £3m of cost savings per year. We also improved the operating efficiency of our plants in Mexico by changing the machine layout and flexing the workforce.

Looking ahead, Dialight needs operations that will be more responsive to changes in demand while also being capable of supporting an expanding product, geographic and customer base. We are exploring manufacturing partnerships to outsource the manufacture of our products. Dialight's internal strengths lie in our products' technology and design.

Strategic priority 2: develop common production platforms

To improve our supply chain processes, we are also redesigning our products. Previously, every part of the product being assembled was unique to that product. Instead, maximising our ten years' experience in LED lighting design, we have developed common production platforms. This means that some parts of the product, such as the light engine, power supply and casting, are now standardised and can be used as the foundation for all finished products. This will enable a more simplified and cost-effective supply chain by reducing the number of sub-assembly parts held in inventory.

Strategic priority 3: lead the market in products and technology

Dialight has a strong track record of innovation, underpinned by our engineers' experience and technical expertise, and we lead the market by delivering the most durable and energy efficient LED products available. To ensure we continue to stay ahead of the competition, we have developed a product roadmap that sets out a timeframe for the introduction and development of new products and technologies. Successful adherence to the roadmap will ensure we continue to create innovative products that support our growth into new sectors and geographies, and we will track our progress against this roadmap over a three-year period.

We're also looking to develop more advanced technology for our products as customers increasingly demand automated and more intelligent lighting controls, as well as lighting that is connected to their broader operating systems. We have already secured strategic partnerships in this area, for example, our products are now compatible with Rockwell building management systems, and we are looking to develop further partnerships to strengthen our software and technical capability in this area.

For more information see our strategy on page 12

Strategic priority 4: advance our sales approach through strategic global accounts

As we develop and improve our products, we are also focusing on developing our sales channels and increasing our routes to market. In North America, which accounted for 71% of our Lighting revenue in 2015, we have established distribution networks. However, in the majority of the other regions where we operate, we sell directly to the end customer and we feel there is more value to be captured by improving our sales approach.

Currently our sales are focused on the employees and plant managers who will be using and installing Dialight's products and benefiting from the enhanced quality of light, ease of installation and improved safety. However, we are extending our sales approach to target the corporate decision makers at a more senior level. By highlighting the sustainability of our products, through increased energy efficiency and lower total cost of ownership, we hope to expand our reach and increase the rate of uptake of LED lighting in our markets.

Strategic priority 5: grow into new sectors and geographies

We are actively working to diversify our revenue streams to make the business less susceptible to individual market swings, such as the downturn in the oil and gas sector we saw this year. We remain focused on niche markets where we can differentiate ourselves through bespoke products that are designed to meet the certifications and specific requirements of each individual customer. However, within the existing sectors we serve, almost 50% of our revenue comes from heavy industrial and oil and gas customers. We are looking to reduce this exposure by growing revenue across our existing market sectors.

We are also looking to diversify our revenues geographically and expand into new territories. We have a development programme in place for sustainable expansion in our existing markets across Europe, the Middle East, Asia and Australia. Supporting this expansion, we are looking to establish technology centres internationally which will manage product development and certifications in each local market.

As a result of our strategic initiative we expect restructuring costs to be in the region of £12m in 2016 with cumulative savings of approximately £12m over the next three years.

Confident in delivering sustainable, profitable growth

We set out a new strategy to return the business to sustainable profitable growth. We are making progress in 2016, having refocused our sales strategy, established our first manufacturing partnership as well as securing our first automation partnership. Although the economic outlook remains uncertain, there are a number of initiatives underway and we are targeting revenue and EBIT growth in 2016. We are confident in the Group's outlook over the medium to long-term.

I would like to take this opportunity to thank all of our stakeholders and I would especially like to thank our employees across the business for their hard work in this transitional period.

Michael Sutsko, Group Chief Executive

8 March 2016

Strategic framework

Rebuild | Lead | Grow

Dialight is a specialist LED company focused on pursuing growth while protecting the Group's unique brand identity and market-leading positioning. Lighting is at the heart of Dialight and will remain the core offering, representing 75% of revenue.

Our established technology will enable us to deliver products that lead the market, with revenue growth driven by successful new product launches, new sales channels and expansion into selected new markets.

These growth initiatives, together with increased control over manufacturing and new production platforms, are designed to drive margin improvement and increasing cash flow in the business. Direct costs are expected to grow broadly in line with revenue and indirect costs will grow slower than overall revenue, while we will continue to invest in systems and logistics so that the business is scaled for growth.

2018 objectives

We aim to improve earnings growth and returns by focusing on delivering growth ahead of the market and margin expansion, together with good cash flow conversion.

For more information see our key performance indicators on page 16

Growing
+25%
annual revenue growth

Profitable
+15%
EBIT margins

Differentiated
+40%
gross margins

Cash generating
+80%
cash conversion

Rebuild

1 Rebuild scalable and efficient operations

Focus on growth businesses

- Dialight will be focused on its growth businesses in LED lighting which includes general industrial illumination and obstruction products. These will be reported as the "Lighting" segment going forward.
- The Group's other businesses, which include Traffic and Transport and Components, operate in markets where it is hard to differentiate ourselves from a growing competitor base. These businesses will be managed for value going forward.

More efficient operations to support growth

- During the year a task force was sent to the Mexican manufacturing plants to resolve operational issues. As a result of controlled changes to the production process, there has been a reduction in the complexity of the manufacturing operations.
- As part of the new strategy there is an increased focus on supply chain planning, especially around the quality of supplies, material cost and elimination of waste.

Exploring manufacturing partnerships

- In 2016 the Group will trial a manufacturing partnership that can be rolled out across all product lines in due course. This will enable Dialight to respond more efficiently to changes in demand.
- As part of this move, Dialight has announced the closure and sale of its plant in the UK.

2 Develop common production platforms

Scalable products

- Dialight is standardising the design of its products ("platform engineering"), which can now be used as a foundation for all its finished products. This will also enable effective mass customisation.
- Two product lines have been platform engineered to date, with a further ten lines remaining.
- By the end of 2016 we expect all product lines to have been platform engineered.

Lead

3

Lead the market in products and technology

Maintain leading market share through differentiated technology

- Dialight utilises the most efficient power supplies in the industry within its lighting products and this underpins the ten-year warranty provided. In 2015, Dialight launched its 480V Passive Power Supply offering higher energy efficiency to outperform conventional switch mode power supply ("SMPS") technology in high-voltage applications.
- All Dialight products benefit from temperature compensation technology, maximising their lifespan, and an optical design with custom reflectors to direct light where it is needed.
- Reflecting its market-leading products, Dialight has maintained its 34% share of the heavy industrial LED market, ahead of its nearest competitor with a 13% share.

Enhance system controls and connectivity

- In the year, Dialight launched a new battery-powered wireless occupancy sensor that can be placed virtually anywhere within a facility, without the need to install or move cabling. The sensor can be programmed to control multiple lights and groups of lights, eliminating the need to install a sensor on every light.
- Dialight has also introduced remote over-the-air ("OTA") upgrades for all of its obstruction lighting enabling software to be upgraded remotely.
- As connected lighting systems grow in popularity, Dialight is exploring strategic partnerships with producers of automation systems. In 2016 the Group announced a partnership with Rockwell Automation, with further partnerships being explored to strengthen Dialight's software and technical capability in this area.

Develop a three-year product roadmap

- The roadmap sets out a timeframe for the introduction and development of new products and technologies to ensure Dialight continues to create innovative products that will support future growth.

4

Advance our sales approach through strategic global accounts and automation partnerships

Strengthen Dialight's sales and distribution

- Dialight has a strong track record in delivering complex and critical projects to its customers. To further strengthen our sales capability, the Dialight Difference sales programme was launched in 2015 to focus on strategic accounts and global partnerships.

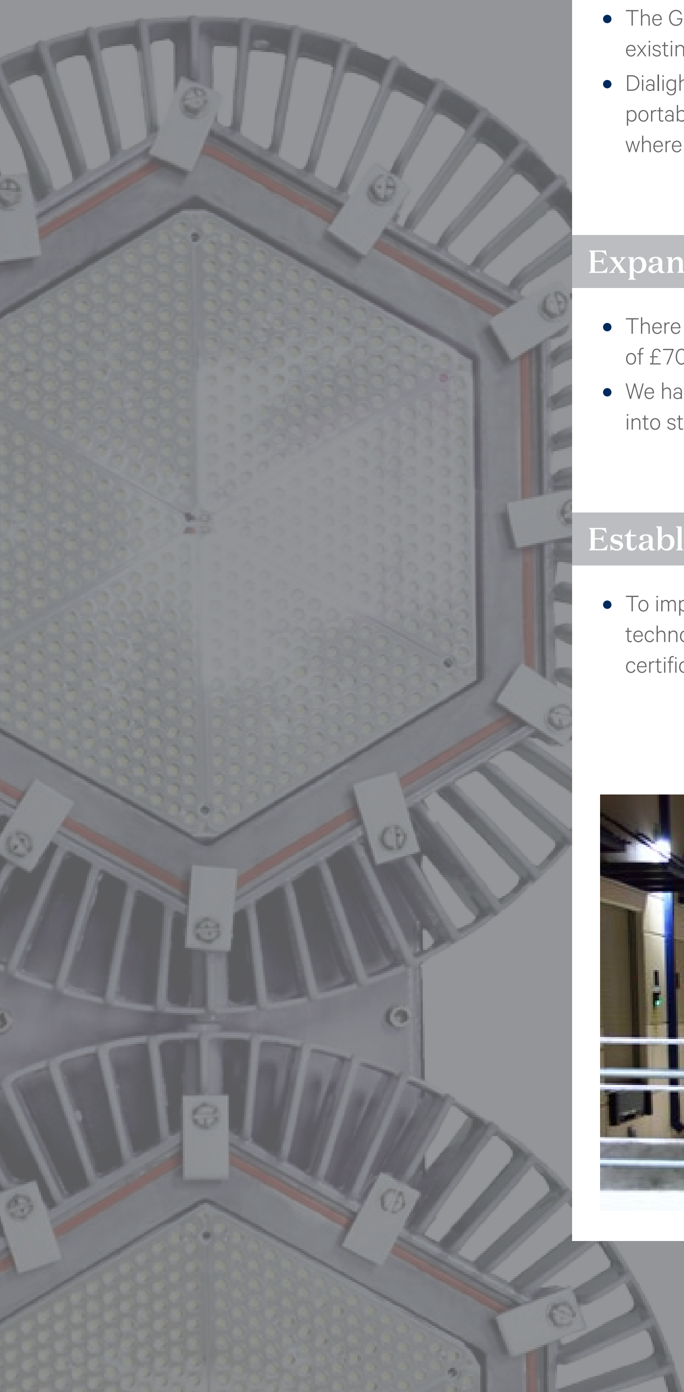
Target senior corporate decision makers

- As well as selling to employees and plant managers who will be using and installing Dialight's products, Dialight is targeting more senior decision makers, highlighting the benefits as part of broader company sustainability considerations, through increased energy efficiency and lower total cost of ownership.

Grow

5

Grow into new sectors and geographies



Strong Lighting revenue growth in Australia

- North America continues to be the main driver of revenue growth, representing 71% of 2015 Lighting revenue, with Western Europe and the Middle East accounting for 19%, and Asia and Australia accounting for 10% of Lighting revenue.
- Dialight delivered strong growth in Lighting revenue in Australia, up 34% during 2015.

Reducing the Group's exposure to major industrial sectors

- In 2015, 22% of Dialight's Lighting revenue was from the oil and gas sector, which was impacted by the sharp decline in the oil price.
- The Group intends to reduce this exposure by diversifying its revenue share across its existing market sectors, which are outlined on page 7.
- Dialight is also exploring selling to new market sectors including institutional customers, portable industrials and transport (rail, tunnels and ports). These are all niche markets where Dialight can continue to differentiate itself.

Expanding into new territories

- There is a significant addressable market for industrial and hazardous LED lighting of £70 billion – £100 billion, which is still less than 2% penetrated.
- We have a development programme in place, as outlined below, for sustainable expansion into strategic territories.

Establish international technology centres

- To improve Dialight's market positioning in new territories, the Group plans to establish technology centres across the globe that will manage product development and certifications for each new market.

Key performance indicators

Measuring our progress

The Company assessed its performance against a wide range of measures. These key performance indicators ("KPIs") help management measure progress against the Company's core strategies. The Board believes it is important to ensure alignment between Executive management's strategic focus and the long-term interests of the shareholders.

Financial

Revenue* £'m

£161.4m

'15	120.6	40.8
'14	116.9	42.9
'13	83.0	48.2
'12	63.8	51.3
'11	44.2	58.3

Description

This measures the success of the Dialight brand.

1 2 3 4 5

Underlying gross profit* £'m

£56.2m

'15	48.3	7.9
'14	50.8	9.8
'13	40.0	9.6
'12	38.0	9.7
'11	30.0	10.3

Description

This is the measure of the ability to generate profitable sales. Gross profit is revenue less the costs of materials, labour, production and freight that are directly attributable to a segment.

Underlying gross profit is the gross profit relating to the performance of the underlying business.

1 2 3 4 5

Underlying EBIT* £'m

£6.1m

'15	6.1
'14	18.1
'13	14.5
'12	19.6
'11	15.5

Description

This is a key measure used by investors to assess the underlying performance of the Company.

Underlying EBIT is the EBIT relating to the performance of the underlying business.

1 2 3 4 5

Operational

New product introduction

32 (2014: 13)

Description

The number of new products introduced to the market.

2 3 5

Platform conversion

17% (2014: 0%)

Description

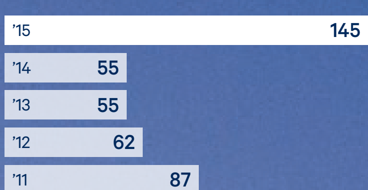
The proportion of products re-engineered through platform re-design.

1 4

* Results for 2011 and 2012 exclude the results of operations classified as discontinued

Cash conversion %

145%



Description

This measures the ability to turn profits into cash flow. It is adjusted operating cash flow divided by adjusted EBITDA.

Adjusted EBITDA is defined as underlying operating profit ("EBIT") excluding depreciation and amortisation. Adjusted operating cash flow is defined as adjusted EBITDA plus working capital movements.

1 2 3 4 5

Key

- Lighting
- Signals and Components

Link to strategy

1. Rebuild scalable and efficient operations
2. Develop common production platforms
3. Lead the market in products and technology
4. Advance our sales approach through strategic global accounts and automation partnerships
5. Grow into new sectors and geographies

Non-financial

Non-financial measures have a useful role alongside financial measures to inform decision making and to evaluate Group performance. Dialight's reporting in these areas will continue to be developed in the future.

The Company believes that the KPIs set out above more effectively measure progress against the evolved core strategies.

For more information on the Group's performance during the year see the Financial review on page 18

Financial review

"We have taken swift and decisive action to rebuild a cost efficient, scalable operating platform to deliver long-term shareholder value."

A transitional year focusing on rebuilding for the future

The business experienced a downturn in profitability due to operational inefficiencies and excess costs in the first half of 2015.

Income statement

	2015 £'m	2014 £'m
Revenue	**161.4**	159.8
Gross profit	**56.2**	60.6
Gross profit %	**35%**	38%
Overheads	**(50.1)**	(42.5)
Underlying EBIT	**6.1**	18.1
Non-underlying items	**(9.5)**	(2.3)
Finance expense	**(0.5)**	(0.3)
(Loss)/profit before tax	**(3.9)**	15.5
Statutory basic EPS	**(6.4p)**	29.4p

The Group's cost base has grown disproportionately to revenue with the main driver being the manufacturing plant in Mexico and 16 additional sales heads hired in the first half of 2015. This was compounded by a reduction in Lighting revenue growth primarily in the oil and gas sector and delayed orders from strategic accounts. A 12% headcount reduction was undertaken in August 2015 to address the excess costs. This will deliver savings of £3m in 2016. In addition, a number of projects to streamline the production processes have commenced and results will be seen over the next 18-month period.

As part of the Group's Strategic Review in the year, the operating segments have been revised (see note 4 to the financial statements). The Group's focus is on the growth opportunities within its Lighting and Obstruction businesses; these will be reported as one segment, named Lighting. The Group's Traffic, Vehicle and Components divisions will be reported under one segment named Signals and Components and will be managed for value.

The strategic review also included a product roadmap which will result in a restructuring of the Group's manufacturing footprint. The restructuring is expected to reduce excess capacity and overheads in order to improve the cost structure going forward.

The primary components of the restructuring include the planned outsourcing of certain manufacturing processes and facility consolidation. The Group has incurred £9.5m of costs in 2015 and expects to incur further non-underlying costs in 2016 due to the restructuring programme, which includes the closure of the UK plant.

Group revenues grew 1% compared to the previous year but declined by 2% on a constant currency basis. The underlying operating profit was 66% below last year with the Group achieving an underlying operating profit of £6.1m for 2015 (72% below on a constant currency basis).

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

Lighting

	2015 £'m	2014 £'m
Revenue	**120.6**	116.9
Gross profit	**48.3**	50.8
Gross profit %	**40%**	43%
Overheads	**41.5**	35.4
Underlying operating profit	**6.8**	15.4

The Lighting segment represents 75% of the Group's revenue and 71% of the Group's segmental result.

Lighting growth slowed in the second and third quarters of 2015 as a result of retrenchment in the upstream oil and gas sector. This vertical sector represents 22% of Lighting revenue. The sales teams were deployed in the second half to target the downstream oil and gas sector plus other vertical sectors and the Group has achieved strong growth in power generation and pulp and paper. The other factor affecting growth was the automotive sector (included within the heavy industrial market sector), which reduced from 20% of revenue in 2014 to 6% in 2015 as a result of delays in placing orders from some of our strategic accounts.

Due to the industrial slowdown and the effects of the low oil price, US revenue only grew by 3%. The European business saw a reduction of 13%. There was strong growth in Asia of 23% and Australia had growth of 34% compared to the previous year, albeit from a low base.

Gross margin decreased to 40% as a result of inefficient commodity management. Key raw materials were expedited due to lead times, incurring additional unit costs and air freight charges. A Global Commodity Director was hired in the fourth quarter of 2015 to address these issues and streamline the sales, operations and planning processes.

The Obstruction business is characterised by large contracts and is therefore subject to greater fluctuation. The revenue in the Obstruction business reduced in the year by 10% compared to 2014. There will be renewed focus on this business in 2016 as the existing Lighting sales force will also sell Obstruction products.

Overheads have increased by £6.1m compared to 2015 partly due to headcount additions in the first half of 2015. This was addressed as part of the headcount reduction announced in August 2015 and the full benefit of these savings will be seen in 2016. The other major contributor relates to a more stringent approach to the capitalisation of development costs. In 2014 there was a net benefit of £1.1m to the income statement, compared to a charge of £0.6m in 2015.

Overall profit in the Lighting segment was significantly behind 2014 due to decreased gross margins and additional overheads on lower revenue growth.

Signals and Components

	2015 £'m	2014 £'m
Revenue	**40.8**	42.9
Gross profit	**7.9**	9.8
Gross profit %	**19%**	23%
Overheads	**5.2**	4.3
Underlying operating profit	**2.7**	5.5

These are high volume businesses that operate within highly competitive markets. There is significant competition from low cost producers and margins continue to be squeezed. Revenue reduced by 5% compared to 2014 with a gross margin reduction to 19%. This was partly due to production inefficiencies but also price erosion from increased competition.

Central overheads are not allocated to these segments. In 2015 they amounted to £3.4m, an increase of £0.6m from 2014.

Non-underlying costs

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

	2015 £'m	2014 £'m
Inventory costs	**(6.0)**	(2.8)
Intangible asset write-down	**(1.0)**	(1.3)
Employee severance and restructuring costs	**(1.8)**	(0.7)
Executive Director replacement costs	**(0.8)**	(0.4)
Settlement of legal case	**0.5**	—
Other	**(0.4)**	(0.2)
Contingent consideration	**—**	3.1
Non-underlying costs recorded in cost of sales and administrative expenses	**(9.5)**	(2.3)

Financial review continued

Non-underlying costs continued

In the prior year, a detailed review of the risk of inventory obsolescence was initiated. The review identified that the pace of product change has increased in the Lighting and Obstruction businesses with the introduction of control based Lighting and the new Vigilant range. The Board concluded that a strict ageing override should be added in addition to the existing usage formula. As a result the Group incurred a one-off charge of £2.8m.

Following on from the change of provisioning policy in the prior year, there has been a strong focus on tightening the internal controls and improving the procedures around inventory. A full inventory count was carried out at the key manufacturing facilities in Mexico and Roxboro, detailed inventory usability analysis was prepared and obsolete stock was disposed of. Inventory procurement was enhanced with the appointment of a Global Commodity Director and inventory control was improved with the appointment of a new Finance Director for North America. The impact of this was that certain non-recurring costs including stock losses and procurement errors were identified. In the Strategic Review on 27 October 2015, it was announced that the Group is embarking on a programme of product platform re-engineering and a trial of outsourced manufacturing. This will transform the production process and will reduce the requirement to hold multiple variations of components and accelerate obsolescence on some existing materials. The existing review was broadened to encompass the impact on inventory of these new factors. The outcome of the review is that total costs of £6.0m were identified and the Directors are of the opinion that in order to reflect the true performance of the business that these costs be treated as non-underlying costs.

The Strategic Review also triggered a review of the useful lives of existing capitalised development and patent costs. This resulted in an acceleration in the amortisation of capitalised cost and the write-off of certain projects totalling £1.0m. In the prior 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 in the prior year as their carrying value was judged to be impaired.

In order to manage the cost base, the Group announced a formal headcount reduction programme on 7 August 2015. This was in addition to £0.8m of severance costs incurred in the first half. The total impact was a charge of £1.8m for the year. In the prior year, the Group incurred redundancy and termination costs mainly relating to US and European operations and the closure of its Japanese operation.

The Group incurred significant costs in the recruitment of a new CEO and the incremental costs of an interim CEO. In order to present a more accurate reflection of the underlying business costs, the excess costs over and above those relating to one CEO have been classified as non-underlying.

The Group received a net settlement of £0.5m in relation to a claim against a former employee. The costs are not in the normal course of business and have been classified as non-underlying.

The contingent consideration credit relates to an agreement in the prior year to reduce the amount payable in relation to the acquisition of Airinet Inc in June 2012.

Restructuring costs in 2016

The Group is restructuring its manufacturing footprint in order to reduce excess capacity and overhead. As a result, the Group has announced on 8 March 2016 that it will close its UK manufacturing plant and that it also has signed a manufacturing partnership with Sanmina. The non-underlying costs in 2016 relating to these and other strategic initiatives are expected to be around £12m, with cumulative cost savings of approximately £12m over the next three years.

Tax

The underlying business had a tax charge of £1.3m (2014: £6.0m) and a tax rate of 23% (2014: 34%). The reduction in the rate is due to re-claiming items where tax relief was not obtained in previous periods. There is a deferred tax asset generated on the losses in the non-underlying business as these will be recoverable against future profits. The rate of the tax credit on the non-underlying business was 33.9% resulting in overall effective tax relief of 47.5%.

Earnings per share ("EPS")

The basic EPS for the underlying business was 13.3 pence (2014: 36.8 pence). The reduction was due to the excess costs (discussed above). The statutory EPS was a negative 6.4 pence (2014: 29.4 pence) due to the large non-underlying costs recognised in the year.

Balance sheet

	2015 £'m	2014 £'m
Fixed assets	**16.1**	15.2
Intangible assets	**20.0**	21.0
Net working capital	**39.5**	43.1
Net (debt)/cash	**(3.8)**	0.6
Pension provision	**(0.1)**	(1.2)
Tax (current and deferred)	**(0.2)**	(4.4)
Other provisions	**(1.4)**	(1.5)
Net assets	**70.1**	72.8

Group net assets have decreased by £2.7m to £70.1m (2014: £72.8m). The major change was the decrease in working capital of £3.6m.

	2015 £'m	2014 £'m
Inventories	**26.9**	32.4
Trade and other receivables	**35.5**	36.9
Trade and other payables	**(22.9)**	(26.2)
Net working capital	**39.5**	43.1

The decrease in working capital was driven mainly by a reduction in inventory partly due to the write-offs but also as a result of more focused commodity management. There has also been a very strong focus on account receivables collection which has significantly improved the Group's cash position.

The Group's defined benefit schemes (which are closed to new entrants) had a deficit of £0.1m at the balance sheet date compared to a deficit of £1.2m at 31 December 2014. The decrease in the deficit of £1.1m in the year is mainly due to a change in the discount rate used to value the assets.

The Group has a four-year unsecured £25m multi-currency revolving credit facility with HSBC Bank plc. Under the terms of the facility, the Group has a £25m "accordion" facility, by which further facilities may be available under the current terms. At the balance sheet date, £9.5m was drawn on the facility. The Group is operating with significant headroom against its covenant requirements.

Cash flow

	2015 £'m	2014 £'m
Adjusted EBITDA	**12.0**	22.9
Adjusted operating cash flow[1]	**17.4**	12.6
Cash conversion[2]	**145%**	55%
Non-underlying costs	**(3.8)**	(1.9)
Tax paid	**(3.9)**	(3.1)
Net financing payments	**(0.4)**	(0.2)
Capital expenditure	**(5.8)**	(7.2)
Free operating cash flow	**3.5**	0.2

1 Adjusted operating cash flow is defined as adjusted EBITDA plus/minus movements in working capital.

2 Cash conversion is defined as adjusted operating cash flow divided by adjusted EBITDA.

The Group's net cash position decreased by £4.4m in the year. Cash generated from operations increased by £0.1m to £8.7m (2014: £8.6m). This was utilised to fund capital expenditure of £5.8m (2014: £7.2m), of which £2.5m was spent on new product development. In addition there were tax payments of £3.9m (2014: £3.1m) and dividend payments of £3.2m (2014: £4.8m).

Banking

The Group has its banking relationships with HSBC Bank plc, Barclays Bank plc and Wells Fargo. The Group had utilised £9.5m of its facility at 31 December 2015, (see note 13).

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 2015 this totalled £70.1m (2014: £72.8m).

The Board is not proposing any final dividend payment for 2015 (2014: £3.2m). This was the only change in the Group's approach to capital management during the year.

Viability statement

In accordance with provision C.2.2 of the 2014 revision of the Code, the Directors have assessed the prospects of the Group over a longer period than the twelve months required by the "going concern" provision. The Board conducted this review for a period of three years as it is co-terminus with the period of the Group's recently completed strategic review.

The Strategic report section on pages 2 to 17 sets out details of the Group's financial performance, capital management, business environment and outlook. In addition, further discussion of the principal risks and material uncertainties affecting the Group can be found on pages 22 to 24. The principal risks the Group is exposed to include, macroeconomic conditions, compliance, liquidity, operational and strategic and the Group has policies for monitoring, managing and mitigating its exposure to these risks.

The three-year Strategic Review considers the Group's cash flows, dividend cover, covenant compliance and other key financial ratios over the period. These metrics are subject to sensitivity analysis which involves flexing a number of the main assumptions underlying the forecast both individually and in unison.

The Directors believe that the Group is well placed to manage its business risks successfully, having taken into account the current economic outlook. Accordingly, the Board believes that, taking into account the Group's current position, and subject to the principal risks faced by the business, the Group will be able to continue in operation and to meet its liabilities as they fall due for the period up to 31 December 2018, being the period considered under the Group's current three-year Strategic Review.

Going concern

As disclosed in the viability statement on the opposite page, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. The Directors believe that it continues to be appropriate to apply the going concern concept in preparing the Annual Report and Accounts.

Outlook

In 2016 we expect to return to growth in Lighting which should offset any decline in Signals and Components revenue. However, the Group continues to have limited visibility over revenue growth and is still subject to challenging macroeconomic conditions. There will be further non-underlying costs of approximately £12m reflecting the impact of the restructuring programme in 2016. We expect restructuring and cost savings initiatives to deliver cumulative savings of approximately £12m over the next three years. The Group remains cash generative which will support further investment for growth in the business to 2018 and beyond.

Fariyal Khanbabi, Group Finance Director

8 March 2016

Managing our risks effectively

The Board is responsible for identifying the nature and extent of the risks the Group has to manage in order to successfully pursue its growth strategy and generate shareholder value over the long term.

The Board uses a risk framework which is designed to support the process for identifying, evaluating and managing both financial and non-financial risk. The Group has an Executive Risk Committee chaired by the Group Finance Director. The Committee meets four times per year and provides updates to the Audit Committee twice a year.

The Group has identified the following key risks. This is not an exhaustive list but rather a list of the most material risks facing the Group. The impact of these risks, individually or collectively, could potentially affect the ability of the Group to operate profitably and generate positive cash flows in the medium to long term. As a result these risks are actively monitored and managed, as detailed below.

For more information see our corporate governance on page 28

For more information see our report of the Audit Committee on page 40

Risks	Description	Mitigating actions
Strategic risk		
Growth strategy	Dialight's long-term growth is dependent on making strategic moves into new territories, channels and products. The wrong strategy or poor implementation could put future growth at risk.	The Board has approved well-structured growth plans and ensured they are adequately resourced. The Board regularly challenges the strategic plans to ensure downside risks are mitigated. The Board closely monitors the progress against the strategic plan, redirecting strategy or implementation efforts where necessary.
Competitive environment	The LED lighting market is in the early stages of adoption and is characterised by constant and fast paced technological change, rapid product obsolescence and price erosion, evolving standards, short product life-cycles and fluctuations in product supply and demand.	Senior management monitors competitor movements and ensures Dialight hires and retains top staff to stay ahead of the competition in each area, including: • engineering - ensuring that we stay ahead of future design and customer trends; • supply chain - negotiating and building strong relationships with current and future suppliers; and • sales team - nurturing strong relationships with key customers.

Risks	Description	Mitigating actions
Changes in customer preferences and trends	Future success depends on Dialight's ability to shape, predict and respond to market trends on both products and channels. Failure to do so risks surplus inventories, missed sales opportunities and reducing brand credibility with customers.	The Engineering, Marketing and Sales teams have a structured approach to monitoring trends internally and externally and use the feedback to develop each new product introduction and develop a cohesive product roadmap. Sales teams monitor customer and channel preferences. Marketing team ensures the brand is aligned to the relevant market place.

Operational risks

Key personnel	Dialight needs to attract and retain the best people in each area.	HR policies and management culture are reviewed to ensure they are effective in keeping Dialight an attractive place to work. Bonuses and incentive plans are reviewed regularly to ensure they remain competitive with the industry.
Production capacity	As customer demand changes we must be able to adjust production capacity to meet demand.	Dialight has a dedicated supply chain and quality assurance team that helps build strong relationships with suppliers and manages those suppliers tightly to meet production deadlines. There is an ongoing review of key suppliers of critical components to ensure they are not sole sourced.
IT systems	Critical data losses or delays in operations could occur if Dialight's IT systems are not robust against power outages, computer viruses, security breaches and user errors.	Senior management reviews the IT strategy and operations plan regularly to ensure IT systems continue to be appropriate for the size and complexity of the business. In addition, Dialight maintains a disaster recovery plan.
Programme risk	Interruption or reduced performance during implementation of the operational transformation programme would impact current operations. If the scope of transformation reduced, future development plans of the business would be put at risk.	Senior management have put in place a strong programme management team linking project delivery teams to key staff in the Dialight business. A clear programme structure, planning processes, reporting framework and a communication plan have been put in place and are regularly monitored. Senior management is prepared to enact decisions and actions quickly as required to ensure the programme is implemented successfully.

Principal risks and uncertainties continued

Risks	Description	Mitigating actions
Compliance risks		
Compliance with laws and regulations	Changes in law and regulations could result in Dialight being non-compliant or incurring costs to be compliant.	Senior Executives in each area monitor regulatory requirements in their area.
Financial risks		
Exchange rate fluctuations	The majority of raw materials are purchased in US Dollars and sold in local currencies. Adverse movements in foreign exchange rates would impact revenue growth reported in Sterling, as well as gross margins.	The Board has approved a hedging strategy to minimise the impact of exchange rate fluctuations.
Funding	Dialight is dependent on its ability to service its debts and to provide sufficient capital to finance its growth strategy.	Dialight manages its capital to safeguard its ability to continue as a going concern, optimise its capital structure and provide sufficient liquidity to support its operations and its strategic plans.
Economic downturn and international market risk	Economic downturns in countries where Dialight sells products may reduce sales and increase inventory. Changes in international trade laws, transportation costs or local government instability could all impact financial results.	Economic environment and international market risks are regularly reviewed by senior management, with appropriate action taken as required.
Reputational risks		
Reputation of brand	If Dialight's products and corporate profile fail to retain the differentiating character, quality and values, brand equity could be reduced and sales impacted.	Brand quality is placed at the core of everything the business does. This ensures close management by all areas of the business to retain the reputation of the quality of the products.

Case study: City of Tulsa water plant

Providing a clear solution

Products: Dialight's LED StreetSense streetlights and Vigilant High Bays, Low Bays, Flood Lights and Area Lights

The challenge

Employees at the A.B. Jewell Water Treatment Plant in Tulsa, Oklahoma, were struggling to maintain its 350 lighting fixtures, which included metal halides, high pressure sodium and T12 fluorescent lamps. Some of the lights were not easily accessible and the plant's engineers were losing valuable time replacing bulbs. Additionally, the brightness and colour of the metal halide and high pressure sodium lights were a problem for visibility inside the plant, making visual inspections of the water difficult and unreliable.

The solution

A.B. Jewell staff selected Dialight's LED StreetSense streetlights and Vigilant High Bays, Low Bays, Flood Lights and Area Lights to replace all lighting in the plant. Due to the difference in brightness, they replaced 350 existing lights with 259 Dialight lights, reducing lighting maintenance costs by $10,000 per year. The change also lowered their annual energy consumption by 447,000 kWh, equating to $22,300 in annual energy savings, while substantially improving the brightness and quality of light in and around the facility.

Our people

Our values are at the core of our business

Creating a diverse community

We believe that businesses thrive from the sharing of knowledge and experiences. In order to make the most of the cross fertilisation of ideas, we employ people from a diverse range of professional and cultural backgrounds not only because it is the right thing to do, but also because it enhances our work environment and strengthens our ability to nurture and grow the business.

Our culture is one of openness, honesty and accountability. The Group is committed to treating all of its employees and job applicants equally. No employee or potential employee will receive less favourable treatment or consideration on the grounds of race, colour, nationality, ethnic origin, religion or belief, sex, gender reassignment, sexual orientation, age, marital status, civil partnership status or disability, nor will they be disadvantaged by any conditions of employment or requirements of the Company that cannot be justified as necessary on operational grounds.

We have a comprehensive diversity policy, which ensures that everyone who works at one of our workplaces is protected from direct and indirect discrimination, harassment or victimisation, whether deliberate or accidental. The Board and Executive Committee regularly review this policy, including consideration of the 2011 Davies Report recommendations regarding diversity. In addition, we commit to ensuring that the work environment is suitable for our employees to carry out their duties, with adjustments to equipment, location and working practices where necessary.

Our values

Shared by all of our colleagues across the Group, these pillars underpin our strategy and vision for Dialight.

Innovation
We lead the market through our groundbreaking technology

Culture
We thrive on talent and passion. We are a great place for smart people with a passion to build the brand

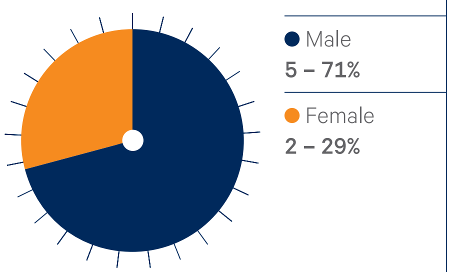
Collaboration
No one person or team can do it alone. The Company is larger than any one individual

Accountability
We empower and are held accountable to deliver results

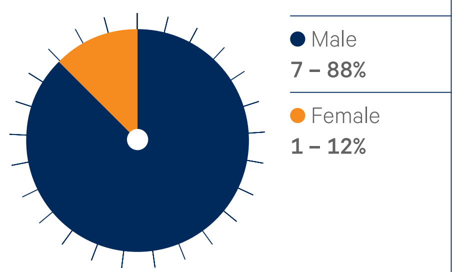
Customer focus
There is one version of the truth – the customer is our judge

Respect
We are proud of what we do and how we treat each other. We have high ethical standards

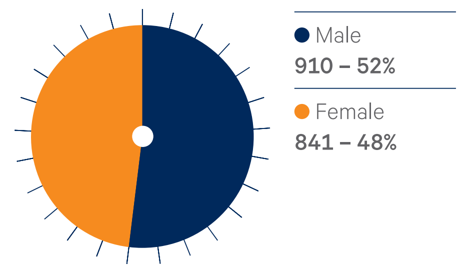
Board diversity



Senior management diversity



Total workforce diversity



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 all disabled persons are provided with training, career development and promotion where appropriate and taking into account the needs of those employees.

Involving our people in the business

We want all of our employees to be part of Dialight's success. This means not only excelling in their particular role, but also taking an interest in and influencing outcomes across the business. We do this through active two-way communication, training, individual recognition and variable rewards linked to corporate results.

Communication

Our internal communication strategy is designed to ensure that the strategic framework and value creation architecture of the Board is well understood by all employees. We keep employees up to date on the medium-term plans for how we aim to achieve those goals.

The Executive Directors present the strategic plan for the year annually to all corporate employees and managers within the business. This is supported by regular communication in relation to organisational changes in the business. Dialight is a dynamic environment and it is important to ensure that the views of our employees are taken into account as we change and grow. This process is supported by a clear open door policy with our HR team and a transparent approach, where appropriate, in the business. All employees are encouraged to come forward with ideas and concerns.

An ethical business

Dialight is committed to conducting all its business in an honest and ethical manner.

All employees are expected to adhere to the Group's values. We have set out the expected standards of behaviour and conduct that apply to both employees and those we carry out business with in the Group's Code of Business Conduct ("CBC"). This sets out guidance on general standards of conduct and covers 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.

We also take a zero-tolerance approach to bribery and corruption through communication of our values, which encourage all of our employees to act professionally, fairly and with integrity in business.

Information on environmental matters, including our greenhouse gas emissions, is contained on page 42.

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

Michael Sutsko, Group Chief Executive

Fariyal Khanbabi, Group Finance Director

Chairman's overview and Board of Directors

Wayne Edmunds
Chairman

Appointed January 2016.

Board Committees Nominations (Chair).

Experience Wayne was Chief Executive Officer of Invensys plc from 2011 until 2014, having worked at the business since 2008 in various roles including Chief Financial Officer from 2009 to 2011. He joined Invensys from Reuters America Inc., where he was Chief Financial Officer, and has held several other senior finance roles in the technology sector including 17 years at Lucent Technologies.

Current external appointments Non-Executive Director and Chairman of the Audit Committee – Ashtead Group plc; Non-Executive Director – BBA Aviation plc; Non-Executive Director – MSCI Inc.

I am pleased to present our Corporate governance report, which describes how the main principles of the 2014 UK Corporate Governance Code (the "Code") have been applied during the year, provides information about the composition and operation of the Board and its Committees and provides an overview of Dialight's system of internal controls.

The Board is committed to maintaining the highest standards of corporate governance and regularly meets for its scheduled Board and Committee meetings. We also periodically review our internal policies and processes against the relevant regulatory framework. As a company incorporated in the UK and listed on the London Stock Exchange, the principal corporate governance rules that apply to the Company are contained in the Code as published by the Financial Reporting Council ("FRC"), the UK Financial Conduct Authority's ("FCA") Listing Rules ("Listing Rules"), the FCA's Disclosure and Transparency Rules ("DTR") and the Companies Act 2006 ("CA 2006") together with other regulations.

The balance of this section includes reports from the respective chairs of the Audit, Nominations and Remuneration Committees. As the Company is below the FTSE 350 some of the provisions do not apply to us but to maintain good governance, and in line with best practice, we endeavour to comply with all aspects of the Code wherever possible.

We made significant changes to the Board during 2015, with the appointment of Michael Sutsko as Group Chief Executive in June 2015 as well as David Blood as a Non-Executive Director in July 2015. Post the year end, I was appointed as Chairman of the Board in January 2016 to succeeding Bill Ronald, who announced his intention to step down as Chairman in July 2015. Details of the remuneration and fee arrangements for each of the new Board appointments are included in the Remuneration Committee report.

As a listed company, we are required to provide detail of our compliance with the Code and explain any area of non-compliance to allow our shareholders to make an informed judgement of the way in which the Company is governed. This detail is provided in the Corporate governance and Directors' report as well as in the Remuneration Committee report on pages 45 to 64. Our remuneration policy, which was approved by shareholders at our 2014 Annual General Meeting ("AGM"), remains unchanged and is presented in the appendix to the Remuneration Committee report.

Wayne Edmunds, Chairman

8 March 2016

Michael Sutsko
Group Chief Executive

Appointed June 2015.

Board Committees None.

Experience Michael joined Dialight plc from Laird plc, where he was President of the Performance Materials division. Prior to Laird, Michael held positions at General Electric Advanced Materials, Halma plc, Porex Corporation and W.L. Gore & Associates. He holds an MBA and a master's in Chemical Engineering from Widener University and a BSc in Chemical Engineering from the University of Pennsylvania.

Current external appointments None.

Fariyal Khanbabi
Group Finance Director

Appointed September 2014.

Board Committees None.

Experience From 2009 until joining Dialight in 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
Senior Independent Director

Appointed January 2013. Senior Independent Director since February 2013.

Board Committees Audit, Nominations and Remuneration.

Experience Stephen is currently Group Chief Executive of The Vitec Group plc and has previous Board experience as a Non-Executive Director of Umeco plc. Prior to joining Vitec, Stephen was Divisional Managing Director of Weir Oil & Gas, part of Weir Group plc, and he has held senior roles at Danaher Corporation, Black & Decker, Unipart Group, Hepworth plc and Technicolor Group.

Current external appointments Group Chief Executive – The Vitec Group plc.

David Blood
Non-Executive Director

Appointed July 2015.

Board Committees Audit and Nominations.

Experience David is co-founder and Senior Partner of Generation Investment Management. Previously, he spent 18 years at Goldman Sachs including serving as co-CEO and CEO of Goldman Sachs Asset Management from 1999–2003. David received a BA from Hamilton College and an MBA from the Harvard Graduate School of Business.

Current external appointments On the Board of New Forests, SHINE, The Nature Conservancy, Ashden and Social Finance UK, as well as a Life Trustee of Hamilton College.

Tracey Graham
Non-Executive Director

Appointed January 2013. Chair of the Remuneration Committee since February 2013.

Board Committees Audit, Nominations and Remuneration (Chair).

Experience Tracey was Chief Executive of Talaris Limited until 2010, when she led the company's management buy-out. Prior to joining Talaris, Tracey held senior roles at HSBC and AXA Insurance.

Current external appointments Non-Executive Director – Acal plc; Non-Executive Director and Chair of the Remuneration Committee – RPS Group plc; Non-Executive Director and Chair of the Remuneration Committee – Royal London Group; Non-Executive Director – Ibstock plc.

Robert Lambourne
Non-Executive Director

Appointed May 2010. Chair of the Audit Committee since 2010.

Board Committees Audit (Chair), Nominations and Remuneration.

Experience Robert has held Executive Director roles at various public companies, most recently as Finance Director of RMC Group plc. Robert was formerly a Non-Executive Director of Huttig Inc, Pace Micro Technology plc and Abacus Group plc as well as Chairman of both Penox SA and Analyst Investment Management plc.

Current external appointments Non-Executive Director – The Tintometer Limited.

Corporate governance and Directors' report

Dialight is incorporated as a public 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 2015. The Strategic Report can be found on pages 6 to 26, which, together with the Remuneration Committee Report, is incorporated by reference into this Report and, accordingly, should be read as part of the Report.

The Dialight Board

Leadership Setting values and standards Risk management Strategy and oversight Financial reporting Strategic investment

Audit Committee	Remuneration Committee	Nominations Committee
Chairman: Robert Lambourne	Chairman: Tracey Graham	Chairman: Wayne Edmunds
Members:	Members:	Members:
Stephen Bird	Stephen Bird	Stephen Bird
David Blood	Robert Lambourne	David Blood
Tracey Graham		Tracey Graham
		Robert Lambourne
Key responsibilities:	Key responsibilities:	Key responsibilities:
Monitoring the integrity of the financial statements, ensuring that an effective system of internal controls is maintained and monitoring accounting policies. The report of the Audit Committee can be found on pages 37 to 40.	Determining the remuneration of the Chairman, the Executive Directors and the Company Secretary and also monitoring the remuneration levels 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 on 16 April 2014, can be found in the appendix to the Remuneration Committee report on pages 57 to 64. The Remuneration Committee report for 2015 is set out on pages 45 to 64.	Determining 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. The Report of the Nominations Committee can be found on pages 35 to 36.

Dialight leadership and governance structure

The Board structure

The Board is focused on providing entrepreneurial leadership to the Group, determining the best strategy for Dialight, monitoring performance and ensuring that the necessary financial and human resources are in place to enable the Company to meet its objectives. In addition, the Board ensures that the appropriate financial and business systems and controls are in place to safeguard shareholders' interests and to maintain effective corporate governance.

The Board operates in accordance with the Company's Articles of Association and its own written terms of reference (Schedule of Matters Reserved for the Board). The Board has established a number of Committees as indicated in the chart above. Each Committee has its own terms of reference that are reviewed at least annually. A summary of the matters reserved for decision by the Board is set out on page 31:

Leadership, strategy, budgets and management

- providing leadership and establishing the Company's values and standards;
- approving, developing and monitoring the Group's strategy and objectives; and
- overseeing operations.

Structure and capital

- changes to the Group's capital or corporate structure; and
- changes to the Group's management and control structure.

Financial reporting

- approval of financial statements;
- approval of dividend policy;
- approval of material changes in accounting policies; and
- approval of major capital expenditure.

Risk management and internal controls

- ensuring the maintenance of effective systems of internal control and risk management; and
- reviewing these systems of internal control and risk management.

Board membership

- changes to the structure, size and composition of the Board;
- adequate succession planning; and
- appointment or removal of the Chairman, the Group Chief Executive, the Senior Independent Director and the Company Secretary.

Corporate governance

- establishing the Group's overall governance framework;
- determining the independence of Directors;
- considering the views of shareholders; and
- reviewing any conflicts of interest.

Remuneration

- determining the remuneration policy for the Chairman, the Executive Directors, the Company Secretary and other senior Executives;
- determining the remuneration of the Non-Executive Directors; and
- introducing of new share incentive plans or major changes to existing plans.

Other

- approval and monitoring of the share dealing code;
- approval and monitoring of corporate and social responsibility
- approval of policies for political and charitable donations; and
- approval of the overall levels of insurance for the Group.

The Code

Dialight is required to state how it has applied and complied with the main principles of the Code, a copy of which is available at www.frc.org.uk. In the view of the Board, Dialight has complied with the provisions of the Code throughout the year ended 31 December 2015 with the following exceptions:

i. regarding the undertaking of a formal, rigorous and transparent procedure for the appointment and evaluation of a new Director to the Board (B.2.1 and B.2.2), we did not use an external search consultancy (B.2.4) in the case of David Blood's appointment to the Board; and

ii. our Annual performance Bonus Plan ("APBP") does not contain a "malus" provision (D.1.1).

We explain why we did not comply with the above provisions in the Nominations and Remuneration Committee reports, which form part of this section.

Leadership

Our governance structure

Following a review of the Group's governance framework at the end of 2014, the Board approved an enhanced governance structure with effect from 1 January 2015. This was detailed in the Governance of Dialight document which sets out:

- Dialight's governance framework;
- the terms of delegation from the Board to the Group's management and governance Committees;
- the Group's approach to internal audit and risk management; and
- the Group's Code of Business Conduct and supporting policies.

As a result of the unscheduled changes to the position of Group Chief Executive during the first half of 2015, the Group Chief Executive's Committee did not become fully operational until June 2015 when Michael Sutsko was appointed. As part of the Executive management changes, the Committee was reviewed and it is now called the Executive Committee ("ExCo"). ExCo comprises key senior managers of the Group who have global accountability and responsibility for operational and functional roles. To manage the business more efficiently and effectively, certain ExCo responsibilities have been sub-delegated to relevant individuals of that Committee.

The Board

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 in the relevant Committee terms of reference.

The matters reserved for the Board 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 has adopted a formal schedule of matters specifically reserved for its decision. These include: 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 control and risk management in respect of the year ended 31 December 2015 covering all material controls, including financial, operational and compliance controls and risk management systems.

The Board held nine scheduled meetings during 2015 including an annual strategy and planning meeting in the UK over a day and a half. Further details of Directors' attendance at all scheduled meetings of the Board and its Committees can be found in the table on page 32. There are five face-to-face Board meetings scheduled to take place in 2016. Other Board and Committee meetings including telephone conferences, to discuss Group strategic issues and any other matters arising, are held as required.

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 the Group and its businesses, 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 to discuss any agenda items with the Chairman beforehand.

Corporate governance and Directors' report continued

Board/Committee attendance – 2015

	Board	Audit Committee	Remuneration Committee	Nominations Committee
Bill Ronald	9/9	n/a	4/4	2/2
Roy Burton[1]	0/1	n/a	n/a	n/a
Michael Sutsko[2]	5/5	n/a	n/a	n/a
Fariyal Khanbabi	9/9	n/a	n/a	n/a
Stephen Bird	9/9	3/3	4/4	2/2
David Blood[2]	4/4	1/1	n/a	1/1
Tracey Graham	9/9	3/3	4/4	2/2
Robert Lambourne[3]	8/9	3/3	3/4	2/2
Richard Stuckes[4]	4/5	n/a	n/a	n/a

1 Roy Burton stepped down as Group Chief Executive on grounds of ill health on 2 March 2015 and as a consequence was unable to attend a Board meeting in early 2015.

2 Michael Sutsko was appointed Group Chief Executive on 1 June 2015 and David Blood was appointed a Non-Executive Director on 1 July 2015. Their attendance is expressed as the number of meetings out of the number each individual was eligible to attend.

3 Owing to a personal matter on the day of a Board meeting, Robert Lambourne was unable to attend the Board and Committee meetings scheduled for that day.

4 Richard Stuckes was a Non-Executive Director until 2 February 2015, when he assumed the role of Interim Group Chief Executive until his resignation from the Board on 30 June 2015.

Board composition

As at 31 December 2015, 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.

A number of Board changes occurred during the year. Roy Burton advised the Board in early 2015 of his intention to step down as Group Chief Executive due to ill health, and Richard Stuckes, previously a Non-Executive Director, replaced him as Interim Group Chief Executive with effect from 2 February 2015. Following his decision to withdraw from the process to appoint a permanent Group Chief Executive, Richard Stuckes resigned from the Board at the end of June 2015. Michael Sutsko was appointed Group Chief Executive on 1 June 2015 and David Blood was appointed a Non-Executive Director on 1 July 2015.

Bill Ronald announced his decision to step down as Chairman in July 2015 and he formally resigned on 25 January 2016, when Wayne Edmunds was appointed Chairman. Stephen Bird led the process for Wayne's appointment in his capacity as Senior Independent Director. It was considered at the time of his appointment that Wayne met the independence criteria set out in B.1.1 of the Code.

The Nominations Committee engaged the services of the executive search agencies, Odgers Berndtson ("Odgers") and JCA Group ("JCA"), to assist with the recruitment of both Michael Sutsko as the new Group Chief Executive and Wayne Edmunds as Chairman. Both will be seeking election as Directors of the Company at the forthcoming AGM, as will David Blood. Further details of these appointments are set out in the Nominations Committee report on pages 35 to 36.

Aside from David Blood, all of the Non-Executive Directors are considered to be independent in accordance with the Code. David Blood is not considered to be independent as a consequence of his connection with Generation Investment Management LLP, which is currently the Company's largest shareholder. His appointment letter contains additional clauses covering confidentiality, insider dealing and conflicts of interest to reflect this. The Board considers David to be independent in character and judgement when involved in Board debates and discussion in which he is not conflicted. In our view, the Board has the appropriate balance to ensure that no individual or group dominates the Board's decision making. The Board reconsidered this position as part of its normal year-end compliance review.

In early 2015 there was a commercial relationship between Dialight Europe Limited, a Group subsidiary company, and DS Smith Packaging Limited ("DS Smith"), during the time when Richard Stuckes was an Executive Director. However, the Board agreed that this relationship was of such a level of materiality that it would not impact 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 that could affect the exercise of their independent judgement, thus meeting the criteria set out in the Code, with the exception of David Blood as discussed above.

All Directors' biographies appear on pages 28 to 29. The Dialight Board demonstrates a range of experience that brings independent judgement when evaluating the Group's strategy, performance, resources and standards of conduct, which are vital to the future success of the business. 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.

Responsibilities

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

Chairman	In addition to other matters, the Chairman is responsible for leading the Board, organising and planning Board meetings and communicating information to shareholders in an effective and timely manner. 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 the Group's strategy to deliver growth in shareholder value, including developing the operating plans and budgets required to deliver it. The Group Chief Executive is also responsible for ensuring that the Group maintains appropriate risk management and control mechanisms. He is assisted in his role by the ExCo, which he chairs.
Senior Independent Director	The Senior Independent Director ("SID") takes responsibility for meeting with the Non-Executive Directors as part of the Chairman's annual performance appraisal as well as on other occasions as required. The SID will address any shareholder concerns where the normal channels of Group Chairman or Group Chief Executive fail to resolve an issue or where such contact is inappropriate.
Senior management	The Executive Directors and ExCo members consider matters which arise in the ordinary course of business. Senior management has specific delegated powers to deal with matters that require consideration prior to the next scheduled Board meeting. These powers operate within prescribed limits set by the Board.

All Non-Executive Directors constructively challenge the Group's objectives and strategy and scrutinise the performance of management against it. The Chairman holds meetings on a range of matters with the Non-Executive Directors without the Executive Directors being present, 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 other occasions as required.

Commitment

Service contracts of the Executive Directors 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) or at the AGM. Further details of these can be found in the Remuneration Committee report on page 55.

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 is provided as required following discussion between individual Directors and the Chairman. The Company provides any resources required for this.

Information and support

The Company Secretary, in accordance with guidance from the Chairman, takes the lead on ensuring that the Board and its Committees receive the necessary information that they require to operate efficiently. All Directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with.

The Company Secretary is also responsible for advising the Board, through the Chairman, on all matters of governance and best practice. In addition, the Company Secretary ensures that the Directors receive appropriate training as necessary and updates on legal, regulatory and corporate governance matters through the 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.

Corporate governance and Directors' report continued

Evaluation

The evaluation process of the Board and its Committees consists of an internal exercise performed annually and an independent third party evaluation carried out at least every three years. When done internally, evaluations of the Board and its Committees are performed by members of the Board via a questionnaire issued to all members of the Board. The feedback from these questionnaires is 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. The Group Chief Executive conducts evaluations of any other members of the Executive Directors and senior management.

In 2014 we engaged an independent governance specialist, Edis-Bates Associates, to carry out an external evaluation. Edis-Bates Associates did not have any other connection with the Company. A number of areas were identified around management structure, business strategy and succession planning that required action to be taken. These were either addressed during the year or will be reviewed by our new Chairman in 2016.

The 2015 Board evaluation was implemented via a questionnaire. A number of issues were identified and appropriate actions were agreed for the future.

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. Michael Sutsko and David Blood, who were each appointed to the Board during 2015, and Wayne Edmunds, who was appointed in January 2016, will seek election at the forthcoming AGM.

How we engage with shareholders

Communication with shareholders is 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 Directors.

The Non-Executive Directors are kept apprised 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 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 at the forthcoming AGM, and shareholders' options for voting, 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 26 April 2016 at the offices of Investec Bank plc, 2 Gresham Street, London EC2V 7QP.

Report of the Nominations Committee

Members

Wayne Edmunds, Chairman (from 25 January 2016)
Bill Ronald, Chairman (until 25 January 2016)
Stephen Bird
David Blood (from 23 July 2015)
Roy Burton (until 2 March 2015)
Tracey Graham
Robert Lambourne
Richard Stuckes (until 2 February 2015)

Objectives

The Nominations Committee (the "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 Directors and the senior management team, and making recommendations regarding the 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 considers the balance of skills, experience, independence and knowledge of the Board.

Membership

Bill Ronald, Stephen Bird, Tracey Graham and Robert Lambourne were members of the Committee throughout 2015. Richard Stuckes remained a member until 2 February 2015 and Roy Burton ceased to be a member on 2 March 2015. David Blood was appointed a member of the Committee on 23 July 2015. Wayne Edmunds succeeded Bill Ronald when he stepped down from the roles of Chairman and Director of the Company and Chairman of the Committee on 25 January 2016. 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 scheduled meetings attended by members of the Committee can be found in the Board/Committee attendance table on page 32. A number of unscheduled meetings/discussions were held during 2015 reflecting the changes to the composition of the Board that occurred during, and following, the end of the year.

Activities during the year

At the beginning of 2015 the Committee focused on addressing the need to replace Roy Burton as Group Chief Executive, who stepped down from the Board due to ill health. The Committee then considered a letter received from the Company's largest shareholder, Generation Investment Management LLP ("Generation"), that proposed appointing David Blood as a Non-Executive Director. Following Bill Ronald's announcement at the Group's half year results to step down as Chairman, the Committee undertook a search for a suitable replacement. The Committee also considered succession planning during the year. Further details regarding each of these activities and Committee actions are set out below.

Group Chief Executive search

The Committee met in early February 2015 to consider its approach in the search and recruitment of a new Group Chief Executive. A shortlist of executive search firms was agreed and invited to tender. As part of the process, Committee members provided a schedule of the key attributes required for the role to be used by the chosen search firm. Further meetings were held in February, March, April and May 2015, to appoint Odgers as the chosen executive search firm; review potential candidate profiles; finalise and agree the job specification; and meet potential candidates for the role. Richard Stuckes, who had been appointed Interim Group Chief Executive in February 2015, was a candidate for the permanent role until he withdrew from the appointment process in May 2015. Following meetings with all prospective candidates during the early part of 2015, the Committee recommended the appointment of Michael Sutsko as Group Chief Executive to the Board, with effect from 1 June 2015. Odgers does not have any other connection with the Company.

Report of the Nominations Committee continued

Activities during the year continued

Appointment of David Blood as Non-Executive Director

Following investor meetings with Generation, currently the Company's largest shareholder, a letter was received in early 2015, which proposed the appointment of David Blood, senior partner at Generation, as a Non-Executive Director. Following a series of discussions at both Board and Committee level, it was agreed that the Company's Chairman at the time, Bill Ronald, would liaise with David Blood and agree formal terms of appointment, keeping the Board and the Committee updated. It was noted that the appointment request was not a formal shareholder nomination.

A series of discussions and meetings were held to consider what additional attributes David Blood could bring to the Board. Based on his experience, expertise and skills, the Committee agreed that David Blood would be appointed as an additional Non-Executive Director of the Company with effect from 1 July 2015. His appointment letter is primarily based on a standard Non-Executive appointment letter with additional clauses covering confidentiality, insider dealing and conflicts of interest provisions. Following his appointment, David Blood was also appointed to the Audit and Nominations Committees.

While no external search firm was engaged in the process and no formal role description was prepared, a formal process as described above was still undertaken by the Committee on behalf of the Board in relation to this appointment. However, applying a strict interpretation of the Code, the Company would be classed as non-compliant with provision B.2 of the Code.

Board succession planning

At its meeting in May 2015, the Committee considered a paper proposing a procedure for succession planning within the Group. This had been identified as an area of weakness during the Board's evaluation exercise in 2014. During the meeting the Committee agreed that it would:

- consider the succession planning of existing Non-Executive Directors on an annual basis. This would include consideration of the size, structure and composition of the Board, in light of the need to refresh Board members periodically (including those approaching six years' service) and having regard to the balance of skills, experience, independence, diversity and knowledge of the Board;
- consider the composition and membership of other governance Committees of Dialight, namely the Audit and Remuneration Committees. In particular, it would consider the financial experience of members of the Audit Committee as required by the Code;
- review the succession plans for the roles of the Group Chief Executive and Group Finance Director;
- review the succession plans for other roles within the ExCo and senior management team; and
- review succession planning as a standing item at its May meeting each year. This will be revisited in December to coincide with the Committee's review of the re-election and/or election of Directors at the next year's AGM.

A schedule of senior management and key operational roles within Dialight is maintained and reviewed by the Committee to assist with general succession planning.

Succession planning will continue to be an area of focus for the Committee in 2016 under the leadership of the new Chairman. The Committee will consider the FRC paper issued in October 2015 on UK board succession planning as part of this process.

Chairman appointment

As reported in the Company's half year results, Bill Ronald informed the Board of his intention to step down as Chairman and Director of the Company in July 2015. The recruitment of his successor was undertaken by Stephen Bird as Senior Independent Director, who chaired meetings of the Committee during the process. Michael Sutsko, while not a member of the Committee, was also engaged in the process.

Following consideration by relevant Committee members, JCA was engaged to assist with the search process. After consideration during a number of formal meetings and discussions, the Committee recommended to the Board that Wayne Edmunds should succeed Bill Ronald as Chairman of Dialight plc with effect from 25 January 2016. JCA does not have any other connection with the Company.

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 pages 26 to 27.

Report of the Audit Committee

Members
Robert Lambourne, Chairman
Stephen Bird
David Blood (from 23 July 2015)
Tracey Graham
Richard Stuckes (until 2 February 2015)

The Audit Committee (the "Committee") is responsible for ensuring that the financial integrity of the Group is effective, through regular review of its financial performance, risk management processes, internal controls and audit processes.

Membership and meetings

The Audit Committee is chaired by Robert Lambourne and currently comprises three other Non-Executive Directors: Stephen Bird, Tracey Graham and David Blood. Robert Lambourne, Stephen Bird and Tracey Graham are considered to be independent; however, David Blood, who joined the Committee on 23 July 2015, is not considered to be independent. All members of the Committee have recent and relevant financial experience.

The Audit Committee will meet as often as it deems necessary but in any case at least three times a year, with meetings scheduled at appropriate intervals in the financial reporting cycle. The Audit Committee met three times during 2015 and a further meeting has been held since the year end. All members of the Committee were present at all meetings.

Only members of the Committee have the right to attend meetings. However, standing invitations are extended to the Group Finance Director and Internal Audit Manager. Other non-members may be invited to attend part or all of any meeting as and when appropriate. The external auditors attend selected meetings and also meet in private with the Committee. In addition the Chairman of the Audit Committee will have regular contact with the external and internal auditors throughout the year.

Role of the Audit Committee

The Board has delegated to the Committee responsibility for overseeing the internal financial controls and financial reporting of the Company and its subsidiaries, reviewing the Group's internal control and risk management systems and for maintaining a proper relationship with the external auditors. The Committee's specific responsibilities are set out in its terms of reference, available on the Company's website and summarised in the table on page 38.

External auditors

The Committee is responsible for overseeing the Group's relationship with its external auditors, KPMG LLP ("KPMG"). This includes the ongoing assessment of the auditors' independence and the effectiveness of the external audit process, the results of which inform the Committee's recommendation to the Board as to the auditors' appointment, which is subject to shareholder approval.

Appointment and tenure

KPMG were first appointed as external auditors in 2001. KPMG are required to rotate the audit partner responsible for the Group every five years and the current audit partner's term will end after the 2018 audit. The Audit Committee recommends that KPMG be re-appointed as the Company's auditors at the next AGM.

The Committee acknowledges that it does not comply strictly with Code provision C.3.7 under which FTSE 350 companies should put the external audit contract to tender at least every ten years. However, this provision is currently under review by the FRC following developments on mandatory audit tendering and, in light of the Company's FTSE index position, the Group does not have to comply with this provision of the Code. Similarly, the reporting provisions of the Competition and Markets Authority Order, which came into effect for financial periods beginning on or after 1 January 2015, are not applicable to the Company. The EU Directive on mandatory audit tendering and rotation does, however, apply to the Company.

In its 2014 report, it was noted that the Committee had deferred the tender of its external auditors pending the appointment of a permanent Group Chief Executive. During 2015 the Committee continued to monitor legislative and best practice changes in this area. Under EU Directive provisions the Company is required to retender its external auditors by 31 December 2023. At that point KPMG would not be able to be re-appointed.

Report of the Audit Committee continued

The Audit Committee key responsibilities

External audit

- recommend the appointment, re-appointment or removal of the external auditors;
- oversee the relationship, approve terms of engagement and review independence and objectivity of the external auditors; and
- meet regularly with the external auditors without management.

Internal audit

- approve appointment or removal of the internal audit manager;
- monitor and review effectiveness of internal audit;
- review and assess the internal audit plan and approve its remit;
- ensure access of internal audit to the Board and Committee Chairman;
- review management's responsiveness to internal audit findings; and
- meet with internal audit without management present at least once a year.

Financial and narrative reporting

- monitor the effectiveness of the Group's financial reporting process and the integrity of the financial statements;
- review and report to the Board on significant financial issues and judgements;
- review and challenge accounting policies and their disclosure as well as methods used to account for significant or unusual transactions; and
- advise the Board whether the Annual Report is fair, balanced and understandable.

Internal controls and risk management systems

- keep under review the adequacy and effectiveness of the Group's internal financial controls and internal control and risk management systems;
- keep under review the policies and overall process for identifying and assessing business risks and managing their impact;
- consider and review areas of specific risk, advising the Board on the current and future risk strategy; and
- review and approve the statements in the Annual Report concerning internal controls and risk management systems.

Whistleblowing, fraud and bribery

- review the adequacy and security of whistleblowing arrangements;
- review policies and procedures for detecting fraud and preventing bribery; and
- establish a code of corporate conduct and business ethics.

Non-audit services

The engagement of the external audit firm to provide non-audit services to the Group can impact on the Audit Committee's independence assessment. The Committee considers the level and nature of services provided by the external auditors and will obtain confirmation from the external auditors that they have remained independent under the ABP Ethical Standards for Auditors.

The Group has established a policy and framework governing the provision of non-audit services, specifying which services, such as those that would involve the external auditors taking on management responsibility, are not permitted. All requests to utilise the external auditors for non-audit services must be reviewed by the Group Finance Director.

During 2015, KPMG were engaged to provide non-audit services to the Group for a total fee of £0.1m. These were largely one off in nature, relating to social security and tax compliance work for our operating company in Mexico. The Committee took the view that KPMG's knowledge of the Company and its operations meant that it was best placed to provide these services, and was comfortable that the nature and extent of the non-audit fees did not compromise KPMG's independence.

Significant issues

Significant issues and accounting judgements are identified by the finance team and through the external audit process and are reviewed by the Audit Committee. The significant issues considered by the Committee in respect of the year ended 31 December 2015 are set out in the following table:

Risk area	Significant issues and judgements	How the issues were addressed
Revenue recognition	Revenue is a key performance indicator for the Group. Whilst the Group's revenue recognition policies are not complex, the Group's customers have different contractual terms for transfer of ownership. The maintenance of an effective control environment within the manufacturing sites is fundamental to ensuring appropriate revenue recognition.	Controls relevant to the manufacturing sites are formally documented within the manufacturing sites. The accounting policies for revenue recognition are set out in note 3 to the financial statements and are unchanged from previous periods. The Audit Committee considered reports prepared by internal audit during the year and noted no significant issues with respect to the operation of the controls around revenue recognition. The Audit Committee also considered a report from the external auditors, which commented, inter alia, on revenue recognition.
Identification and disclosure of non-underlying items	The Group is undergoing a significant transformation programme in connection with which the Group has incurred a significant degree of costs that are considered to be exceptional in nature as they are not representative of the underlying performance of the Group. Further details of these costs are provided in note 6 to the financial statements.	The Audit Committee has discussed the nature of these costs with management and the external auditors. The Audit Committee is of the view that these costs warrant separate disclosure on the face of the consolidated income statement by virtue of the fact they are not representative of the underlying performance of the Group. The Audit Committee considers that separate disclosure of exceptional costs will aid investors in evaluating the performance of the business in the year.
Use of judgements • **Development costs** • **Goodwill** • **Inventory**	The use of judgement and estimates is required in a number of areas, primarily with assessing the amount of development costs capitalised, goodwill valuation and the value of inventory.	The Audit Committee has reviewed and challenged key assumptions used in these areas. The Audit Committee requested management prepare an in-depth analysis of capitalised development costs, goodwill impairment and inventory. Following review, the Audit Committee concluded that the judgements applied were appropriate in preparing the financial statements for the year.

When considering the financial statements, the Committee also considered the issues included in the Group's critical accounting policies, which are set out in note 2 to the financial statements. Having discussed these matters with management and the external auditors the Committee has satisfied itself that such risks are being appropriately managed, that the judgements made are reasonable and that they are being accounted for in accordance with the relevant accounting standards and principles.

Report of the Audit Committee continued

Internal audit

The role of the internal audit function is to determine whether the Group's risk management, control and governance processes are adequate and functioning appropriately.

The Committee approved the 2016 internal audit plan at its meeting in February 2016. Internal audit findings will be regularly reported to the Audit Committee and Group management, with responsibility for any improvement or remedial action allocated appropriately. Follow-up reviews will be carried out by internal audit to ensure that any control weaknesses are addressed. The Committee will use these reports and reviews as the basis for its assessment of the effectiveness of the internal audit function in 2016.

Fair, balanced and understandable

Under the Matters Reserved for the Board, the Board has responsibility for the approval of all externally published information including, but not limited to, annual and half yearly financial statements.

At the request of the Board, the Committee has conducted a review of the Annual Report and financial statements to assess whether it presents a fair, balanced and understandable view of the Company's position and prospects. The Committee's review took account of the process by which the Annual Report and financial statements are prepared which includes:

- detailed project planning;
- analysis of changes to applicable reporting requirements and standards; and
- review and verification internally and by external advisers.

The Committee has advised the Board that it is satisfied that the Annual Report and financial statements are fair, balanced and understandable, and that they provide the information necessary for shareholders to assess the Company's position and performance.

Internal controls and risk management systems

The Group has in place a comprehensive financial review cycle, which includes a detailed annual budgeting and forecasting process. The budget is prepared annually for approval by the Board and is regularly reviewed and updated during the year. Performance is monitored against the budget through weekly and monthly reporting cycles. In 2015 regular reports on performance, including income statements, balance sheets, cash flow statements and key ratios, were provided to the Board.

The Group finance team is responsible for preparing the external Group financial statements and there are well established controls over this reporting process.

The Group has defined and formally documented the core elements of the system of internal control. Management has identified the key operational and financial processes that exist within the business and implemented internal controls over these processes with clearly defined levels of delegated authority that have been communicated across the Group.

The Group has also continued to develop its governance arrangements, which has included the enhancement of various policies and procedures to support the systems of internal control and risk management.

These policies are the subject of periodic review.

The Board retains ultimate responsibility for setting the Group's risk appetite, identifying key risks and ensuring that there is an effective risk management framework in place. The Board has, however, delegated responsibility for oversight of the Group's risk appetite, risk monitoring and mitigation to the Audit Committee.

Further details of the Group's risk management approach, structure and principal risks are set out in the Strategic report on pages 22 to 24.

Review of effectiveness of internal financial controls

The Board receives regular reports from the Audit Committee on its activities, including the Audit Committee's review of reports prepared by internal audit on the operation and efficacy of internal controls systems.

During 2015, the Group performed a review of its existing internal controls following which minor improvements were implemented to ensure the Group's compliance with the Code. These related to inventory management, further details are contained in the Financial review on page 20. As such the Directors confirm that they have reviewed the effectiveness of the system of internal control for the period under review and to the date of approval of the Annual Report and financial statements.

However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

Whistleblowing

The Company has implemented a whistleblowing policy. The Committee is responsible for monitoring the Group's whistleblowing arrangements and the policy will be reviewed periodically by the Board. The Group is confident that these arrangements are effective enough to facilitate the proportionate and independent investigation of reported matters, and allow appropriate follow-up action to be taken.

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 are 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, during the time he was a director of the latter company. Due to the potential conflict of interest existing as a consequence of David Blood's relationship with Generation Investment Partners LLP, terms regarding dealing with conflicts of interest were incorporated into his letter of appointment.

None of the other Directors had or have 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 8 March 2016 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	6,532,248	20.10
Schroders plc	4,477,246	13.78
FIL Ltd	2,339,141	7.19
Impax Asset Management Ltd	1,979,721	6.09
Montanaro Asset Management Ltd	1,882,113	5.79
Sterling Strategic Value Ltd	1,680,000	5.17
Mirabaud Asset Management Ltd	1,434,438	4.44
Kinderhook Partners LLC	1,010,198	3.10

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, 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.

Further details of Dialight's employment policies and its approach to diversity and disability can be found in the Strategic report on pages 26 to 27 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 (2014: £nil).

Human rights

Even though the Company does not have a formal human rights policy, it is committed to conducting business with integrity and fairness, which is reinforced through our Code of Business Conduct.

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 2015 Annual Report and Accounts at the references set out below:

	Location in the Annual Report	
Information required	Note	Pages
Long-term incentive schemes:		
Significant agreements/change of control	—	43
Remuneration Committee report and policy	—	45 to 64
Employee benefits – share-based payments (consolidated)	19	94
Called up share capital (Company)	43	108
Share-based payments (Company)	37	106

Other statutory disclosures continued

Environmental management system

Dialight's environmental management system ("EMS") continues to be certified to ISO 14001 across its European, Asian and North American businesses.

Certified sites are located in Denmark, the UK, the US, Mexico and Malaysia. 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 2015 and 2014:

Type of emissions	Tonnes of CO_2 2015	Tonnes of CO_2 2014
Emissions from combustion of fuel and operation of facilities emissions	**851 tonnes CO_2e**	645 tonnes CO_2e
Emissions from purchased electricity	**3,100 tonnes CO_2e**	11,887 tonnes CO_2e

To enable year-on-year comparison of Dialight's 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 emitted per £1m of turnover. For 2015 this was 24.48 tonnes CO_2e emitted per £1m turnover (2014: 78.42 tonnes CO_2e). This 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 also 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 2015 and 2014:

2015

Resource	Total consumption	Unit	Consumption per £ turnover
Electricity	**6,007,617**	**kWh**	**0.037**
Gas	**1,948,781**	**kWh**	**0.012**
Oil	**4,248**	**litre**	**0.026**
Water	**9,008,072**	**litre**	**0.056**

2014

Resource	Total consumption	Unit	Consumption per £ turnover
Electricity	11,777,349	kWh	0.073
Gas	1,660,267	kWh	0.010
Oil	6,348	litre	0.039
Water	7,777,729	litre	0.048

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 and local management is supported in identifying additional recycling opportunities to minimise waste-to-landfill.

Environment registrations

Dialight is registered and discharges its duties in relation to packaging waste, Waste Electrical and Electronic Equipment ("WEEE") Regulations and disposing of batteries and trade effluent. Dialight is required to hold the following registrations with regards to environmental management 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, the UK, the US, Mexico and Malaysia), Non-hazardous Waste Producer (Mexico) and Hazardous Waste Producer (UK).

Environment enforcement actions and governance

There were no environmental enforcement actions or statutory nuisance control orders issued against Dialight in 2015 (2014: 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 2015 (2014: nil).

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 95 to 98.

Dividend

Shareholders at the 2015 AGM approved the payment of a 2014 final dividend of 9.8 pence per share which was paid on 2 June 2015 to shareholders on the register at the close of business on 1 May 2015. No dividend was declared or paid in respect of the half year ended 30 June 2015. As announced at the time of our Strategic Review in October 2015, the Group's strategic focus is on the delivery of profitable growth and therefore the Board has not declared a dividend for the year ended 31 December 2015. The Board will re-evaluate its dividend policy at the end of the 2016 financial year.

Auditors

The Directors confirm that, so far as they are each aware, the auditors have been made aware of all relevant audit information. The Directors further confirm that they have taken all reasonable steps to ascertain any relevant audit information and ensure that the auditors are aware of such information. At the forthcoming AGM a resolution to re-appoint KPMG 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 2015 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.

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 2015 AGM shareholders granted the Directors the authority to purchase up to 3,250,325 ordinary shares in the Company which will expire on 30 June 2016. 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 financial statements.

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 Remuneration Committee report on pages 45 to 64, 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 which was entered into in 2014. 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 Performance Share Plan ("PSP"), the Annual Performance Bonus Plan ("APBP") and an all-employee Sharesave Plan. Further details of these share plans are provided in the Remuneration Committee report on pages 45 to 64.

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 2015 (2014: 9,606). 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

Fariyal Khanbabi, Group Finance Director

8 March 2016

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 (including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland).

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

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

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

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

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

Responsibility statement of the Directors in respect of the Annual 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;
- the Corporate governance and Directors' report 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; and
- the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders' to assess the Group's financial position and performance, business model and strategy.

For and on the behalf of the Board of Dialight plc

Michael Sutsko, Group Chief Executive

Fariyal Khanbabi, Group Finance Director

8 March 2016

Remuneration Committee report

Members
Tracey Graham, Chair
Stephen Bird
Robert Lambourne
Bill Ronald (until 25 January 2016)
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 2015.

Details of the business covered by the Committee at its meetings can be found in the table on page 46. Having reviewed performance for 2015 the Committee has agreed that no bonuses are payable to the Executive Directors. Matters relating to the consideration and approval of bonuses for the financial year ended 2014 have been considered and disclosed in the prior year's Remuneration Committee report.

Other key activities carried out by the Committee in the year included:

- carrying out the annual review of the remuneration framework;
- considering the settlement agreement for Roy Burton after he stepped down as Group Chief Executive in March 2015;
- granting of the Annual Performance Bonus Plan ("APBP") and Performance Share Plan ("PSP") awards;
- recommending and agreeing the remuneration arrangements for our new Group Chief Executive, Michael Sutsko, who joined Dialight in June 2015, as well as for our Interim Group Chief Executive, Richard Stuckes, in line with the approved Directors' remuneration policy; and
- considering the fee arrangement for the new Chairman, Wayne Edmunds, who joined Dialight on 25 January 2016.

Details of Roy Burton's contractual payments agreed at the time of his stepping down as Group Chief Executive and details of the remuneration arrangements agreed with Richard Stuckes at the time of his appointment as Interim Group Chief Executive can be found in a separate Payments to past Directors disclosure on page 52.

Details of Michael Sutsko's remuneration are set out in the Remuneration report. The Group Chief Executive remuneration scenario table has been updated in our remuneration policy (adopted in 2014) to reflect his actual position and joining package, which was made in line with, and pursuant to, the remuneration policy approved at our 2014 AGM. This is set out on page 63.

Committee meeting attendance by members is included in a table in our Corporate governance and Directors' report on page 32. Richard Stuckes stepped down as a member of the Committee on 2 February 2015 upon his appointment as Interim Group Chief Executive. Bill Ronald stepped down as a member of the Committee on 25 January 2016, when he resigned as Chairman of the Board.

We aim to make Dialight's remuneration arrangement clear, easy to understand and transparent so that this report is an easy reference document for shareholders. As part of this, we have continued to replicate the policy as an appendix to this report. It is set out on pages 57 to 64. The only changes from last year's printed report are purely administrative and deal with updated page references and the remuneration for the new Group Chief Executive.

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 Disclosure and Transparency Rules.

The remainder of the report is divided into two sections:

- the Annual report on remuneration – this focuses on the implementation of the remuneration policy in 2015 and how we intend to implement our remuneration policy in 2016. In accordance with regulatory requirements, this is being put to an advisory vote at our 2016 AGM.
- the Directors' remuneration policy (in the appendix) – this details the Group's remuneration policies, which are linked to the Group's strategy.

The sections of the report that are subject to audit can be found on pages 47 to 55.

Remuneration Committee report continued

Committee agenda and matters considered

The following table sets out the key agenda items and matters considered at each of the Committee's meetings and/or discussed outside of meetings during the year:

January 2015	• Discussions regarding the Group Chief Executive of the Board
February 2015	• Confirmation and ratification of the separation/engagement arrangements of Group Chief Executive/ Interim Group Chief Executive • Noting the outcome of the objective targets under the 2014 APBP • Consideration of 2015 APBP objectives for Interim Group Chief Executive • Determination of the criterion outcome of the 2012 PSP awards • Review of the draft Remuneration report
March 2015	• Consideration and approval of participants for 2015 APBP • Consideration and approval of 2015 PSP awards
May 2015	• Consideration and approval of new Group Chief Executive remuneration package
June 2015	• Review of the outcome of Interim Group Chief Executive 2015 APBP objectives
August 2015	• Grant of PSP award to new Group Chief Executive
September 2015	• Remuneration review update
December 2015	• Consideration of the fee arrangements for the new Chairman • Consideration of Executive remuneration in 2015 • Consideration of performance measures for the 2016 PSP award • Executive benchmarking • Remuneration governance developments update • Review of terms of reference

Details of the Company strategy and key performance indicators ("KPIs") can be found on pages 12 to 17. One of our main KPIs relates to the growth in Group earnings before interest and tax ("EBIT"). As a result, performance related elements of remuneration, notably in the APBP, have been linked to the growth in 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 Directors.

Key Committee decisions made during the year included:

- setting the 2015 salary increases for Executive Directors;
- considering the settlement agreement for Roy Burton, after he stepped down in March 2015;
- considering the remuneration arrangements for Richard Stuckes when he was appointed Interim Group Chief Executive;
- review of cash bonuses in respect of the 2014 financial year;
- review of the performance targets outcome in relation to the 2012 PSP award;
- setting APBP objectives for 2015;
- recommending and agreeing the remuneration arrangements for Michael Sutsko when he was appointed Group Chief Executive in June 2015; and
- reviewing the fee arrangements for the new Chairman.

In light of the Committee's activities in 2015, some of the discussions and subsequent decisions were implemented via conference calls, circular resolutions or email approvals.

The total shareholder return ("TSR") performance of Dialight over the three-year performance period from 2013 to 2015 has been below the objectives set by the Committee at the date of grant. As a result, no portion of the 2013 PSP awards will vest in April 2016.

Since the year end, the Committee agreed and recommended to the Board salary increases of 3% and 5% for the Group Chief Executive and Group Finance Director respectively with effect from 1 January 2016. The increase for the Group Finance Director reflected a review of market benchmark data, where the role is positioned in the lower quartile. As noted above, it was decided that no bonuses would be payable in respect of the 2015 financial year. Further details are included in the Executive salaries and Non-Executive Director fees section on page 55 and will be included in the remuneration report for 2016.

The Committee remains committed to aligning our remuneration framework with the strategy of the business to promote the long-term success of the Company for its shareholders.

Tracey Graham, Chair of the Remuneration Committee

8 March 2016

Annual report on remuneration

The following sets out how Dialight's remuneration policy was implemented in 2015 and how it will be implemented in 2016.

Single figure of total remuneration

The following tables set out the single figure of total remuneration received by the Executive and Non-Executive Directors during the years ended 31 December 2015 and 2014.

2015 (all figures in '000s)	Salary/fee	Benefits	Pension	Sub-total fixed	Bonus	PSP	Sub-total variable	Total remuneration
Executive Directors								
Michael Sutsko[1]	$334	$131	$58	$523	—	—	—	$523
Fariyal Khanbabi	£247	£13	£37	£297	—	—	—	£297
Non-Executive Directors								
Bill Ronald	£128	—	—	£128	—	—	—	£128
Stephen Bird	£46	—	—	£46	—	—	—	£46
David Blood[2]	£20	—	—	£20	—	—	—	£20
Tracey Graham	£46	—	—	£46	—	—	—	£46
Robert Lambourne	£46	—	—	£46	—	—	—	£46
Past Directors								
Roy Burton[3]	$108	$3	$1	$112	—	—	—	$112
Richard Stuckes[4]	£192	£7	—	£199	—	—	—	£199

1 Michael Sutsko was appointed Group Chief Executive on 1 June 2015. His annual salary is $560,000 and, pursuant to his terms of appointment, his salary was subject to a first review at the end of 2015, with any revision taking effect from 1 January 2016. Included within his benefits figure is an amount reimbursed to Michael Sutsko for relocation expenses to move to New Jersey to take up his role. Such expenses were capped at $100,000.

2 David Blood was appointed a Non-Executive Director on 1 July 2015.

3 Roy Burton stepped down as Group Chief Executive on 2 March 2015 on the grounds of ill health. His twelve-month notice period as a remaining employee of Dialight Corporation expired in March 2016. The figures disclosed in the table above relate only to his remuneration for the period from 1 January 2015 to 2 March 2015 as a Director of the Company. Details of the settlement payment made to him, and outstanding contractual payments continuing to be paid following his death in July 2015, are set out in the Payments to past Directors disclosure on page 52.

4 Richard Stuckes' salary/fee figure consists of: fees of £13,533, reflecting his tenure as a Non-Executive Director from 1 January to 1 February 2015; three months' payment in lieu of his notice as a Non-Executive Director from 30 June 2015; and £178,125, reflecting his salary payment during his appointment as Interim Group Chief Executive from 2 February to 30 June 2015. The figures recorded for benefits in the table for 2015 relate to the time he was Interim Group Chief Executive.

Remuneration Committee report continued

Single figure of total remuneration continued

2014 (all figures in '000s)	Salary/fee	Benefits	Pension	Sub-total fixed	Bonus	PSP	Sub-total variable	Total remuneration
Executive Directors								
Roy Burton[4]	\$560	\$46	\$168	\$774	\$379[4]	—	\$379	\$1,153
Fariyal Khanbabi[1]	£78	£4	£12	£94	£100[2]	—	£100	£194
Non-Executive Directors								
Bill Ronald	£125	—	—	£125	—	—	—	£125
Stephen Bird	£45	—	—	£45	—	—	—	£45
Tracey Graham	£45	—	—	£45	—	—	—	£45
Robert Lambourne	£45	—	—	£45	—	—	—	£45
Richard Stuckes	£40	—	—	£40	—	—	—	£40
Past Directors								
Mark Fryer[3]	£10	£0.5	£1.5	£12	£20	—	£20	£32

1 Fariyal Khanbabi was appointed Group Finance Director on 8 September 2014. Her annual salary on appointment was £247,000.

2 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.

3 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 were set out in the 2014 Annual Report and Accounts.

4 Roy Burton received a bonus of \$280,000 and \$99,000 under the APBP – both are shown in the figure of \$379,000 shown as bonus.

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, Fariyal Khanbabi and Michael Sutsko's pensions during the year. Fariyal Khanbabi and Michael Sutsko received Company contributions equal to 15% of their base salaries. Roy Burton received employer contributions under both a US 401(k) plan plus an employer contribution under the Supplemental Executive Retirement Plan ("SERP").

APBP

The APBP operates on the basis set out in the Policy report in the appendix on page 60. The maximum bonus potential is capped at 175% of salary paid as a mixture of cash and deferred shares.

2012 and 2013 APBP

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

2014 APBP

As was previously disclosed in the 2014 Remuneration Committee report on 13 March 2015, the Group Finance Director, Fariyal Khanbabi, was awarded nil-cost options over 10,445 shares representing 75% of her bonus award of £100,000 for 2014. Subject to her continued employment with the Group, these awards will vest in equal tranches on 31 January 2016 and 31 January 2017.

2015 APBP

The 2015 APBP objective related primarily and solely to EBIT pursuant to the remuneration policy as considered appropriate by the Committee. Initially the 2015 objective applied only to the Group Finance Director, Fariyal Khanbabi, but it was subsequently extended to the new Group Chief Executive, Michael Sutsko, when he joined the Company in June 2015. Separate objectives were set for the Interim Group Chief Executive, during his appointment in 2015, which are detailed below in the "Payments to past Directors disclosure" on page 52. No APBP objectives were set for Roy Burton in 2015.

Additional disclosures continued

APBP continued

2015 APBP continued

Under the terms of the 2015 APBP:

- no cash bonuses would be payable where EBIT was below £22.1m, after the provision of management bonuses;
- at an EBIT level of £22.1m, after the provision of management bonuses, cash bonuses of 75% of salary for the Group Finance Director, and 100% in the case of the Group Chief Executive, would become payable (target performance);
- at an EBIT level of £26.3m, after the provision of management bonuses, maximum bonuses would become payable. In the case of the Group Finance Director, the maximum bonus opportunity was capped at 100%, and for the Group Chief Executive the maximum bonus was capped at 175% (maximum performance);
- at an EBIT level between the target and maximum points, there would be a straight-line interpolation payout;
- EBIT would be calculated based upon the total of the underlying EBIT shown the in the Annual Report and Accounts for 2015; and
- anything over 75% of salary for the Group Finance Director, and 100% in the case of the Group Chief Executive, would be payable in deferred shares.

As 2015 EBIT was below the objective target set, no bonuses became payable under the 2015 APBP.

PSP

Awards made in 2012

Awards made under the PSP in 2012 lapsed on 26 April 2015 as the related performance target was not achieved during the three-year performance period to 31 December 2014.

Awards made in 2015

Awards granted in 2015 are measured against EPS and TSR as below:

EPS

EPS is used 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 2015, this element will vest in full if Dialight's three-year EPS growth exceeds 25% p.a., with a 25% threshold vesting if Dialight's three-year EPS growth is 10% p.a. over the period. Awards will vest on a straight-line basis between these two points, with none vesting 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 is used in respect of the remaining 50% of awards in order to maintain strong shareholder alignment. For awards made in 2015, the TSR vesting condition is 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 a 25% threshold vesting if Dialight's three-year TSR is in line with Index TSR. Straight-line vesting applies for outperformance of the Index between these two points. 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
Fariyal Khanbabi	PSP	100%	Nil-cost option	n/a	32,325	£247	TSR/EPS	07.04.15	31.12.17
Michael Sutsko	PSP	100%	Conditional share award	n/a	71,644	$560	TSR/EPS	03.08.15	31.12.17

Awards granted in 2015 had the same EPS and TSR measurements as those for 2014 and were considered by the Committee to be appropriately stretching but achievable.

Remuneration Committee report continued

Total shareholding of Directors

	Beneficially held shares[1]	
	Ordinary shares at 31 December 2015	Ordinary shares at 1 January 2015
Current Directors		
Michael Sutsko[2]	**—**	—
Fariyal Khanbabi	**—**	—
Bill Ronald[3]	**31,000**	18,350
Stephen Bird[4]	**28,000**	12,000
David Blood[5]	**—**	—
Tracey Graham	**1,000**	1,000
Robert Lambourne[6]	**5,000**	4,000
Past Directors		
Roy Burton[7]	**—**	404,427
Richard Stuckes[8]	**—**	37,853
Total	**65,000**	477,630

1 Some of these shares are held through nominees.

2 Michael Sutsko was appointed Group Chief Executive on 1 June 2015.

3 Bill Ronald purchased 7,500 and 5,150 ordinary shares on 2 March 2015 and 27 July 2015 respectively at 726 pence and 455 pence per share respectively.

4 Stephen Bird purchased 8,000 ordinary shares on 2 March 2015 and 28 July 2015 at 725 pence and 410 pence per share respectively.

5 David Blood was appointed a Non-Executive Director on 1 July 2015.

6 Robert Lambourne purchased 1,000 ordinary shares on 29 July 2015, which were placed into his SIPP, at 492 pence per share.

7 Roy Burton stepped down as Group Chief Executive on 2 March 2015.

8 Richard Stuckes stepped down as Interim Group Chief Executive on 30 June 2015.

9 There has been no change in Directors' holdings since 31 December 2015.

Outstanding awards under the PSP and APBP

	Type of award	Award date	Number at 1 January 2015	Awarded in year	Vested in year	Exercised in year	Lapsed in year	**Number at 31 December 2015**	Exercise price	Earliest vesting/ exercise date	Expiry date
Roy Burton											
PSP	CSA	26.04.12	30,163	—	—	—	30,163	**—**	—	—	—
PSP	CSA	09.04.13	28,210	—	—	—	—	**28,210**	—	09.04.16	—
PSP	CSA	08.04.14	38,491	—	—	—	—	**38,491**	—	08.04.17	—
Total			96,864	—	—	—	30,163	**66,701**			

Outstanding awards under the PSP and APBP continued

	Type of award	Award date	Number at 1 January 2015	Awarded in year	Vested in year	Exercised in year	Lapsed in year	**Number at 31 December 2015**	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
PSP	NCO	07.04.15	—	32,325	—	—	—	**32,325**	—	07.04.18	07.04.20
APBP	NCO	13.03.15	—	10,445	—	—	—	**10,445**	—	31.01.16	13.03.20
Total			27,674	42,770	—	—	—	**70,444**			

	Type of award	Award date	Number at 1 January 2015	Awarded in year	Vested in year	Exercised in year	Lapsed in year	**Number at 31 December 2015**	Exercise price	Earliest vesting/ exercise date	Expiry date
Michael Sutsko											
PSP	CSA	03.08.15	—	71,644	—	—	—	**71,644**	—	03.08.18	—

CSA denotes conditional share awards. These are subject to performance conditions set out on page 49.

NCO denotes nil-cost options. These are subject to performance conditions set out on page 49.

The market price of shares on 13 March 2015, 7 April 2015 and 3 August 2015 (the dates of the awards recorded in the tables above made during the year) were 718.0 pence, 764.1 pence and 499.8 pence respectively.

Options under the PSP granted prior to and during 2014 are exercisable for seven years from the date of vesting. From 2015 the exercise period reduces to two years from the date of vesting.

Awards under the PSP made in 2013 will lapse in full on 9 April 2016 as a consequence of the related performance target not being achieved during the three-year financial period ended 31 December 2015.

Awards under the PSP made in 2014 and 2015 are currently performing below the level required to achieve threshold vesting.

Options under the APBP are exercisable for five years from the date of grant.

During the year, the range of share prices was 439.75 pence to 831.5 pence, with the price on 31 December 2015 being 450.0 pence.

The PSP award made to Roy Burton in 2012 lapsed on 26 April 2015. The PSP awards made to Roy Burton in 2013 and 2014 remained outstanding at the time of his death in July 2015 and are shown as outstanding as at 31 December 2015. As noted above, the 2013 award will lapse in full on 9 April 2016 as a consequence of the related performance target not being achieved during the financial year ended 31 December 2015. The 2014 PSP award remains outstanding and, in accordance with the rules of the PSP and subject to the determination of the related performance target at the end of 2016, his personal representatives will be entitled to a pro-rated vesting up to the time of his death. As noted above, the 2014 PSP is, however, currently performing below the level required to achieve threshold vesting.

The award under the PSP made to Michael Sutsko on 3 August 2015 was made pursuant to his terms of appointment following his appointment as Group Chief Executive on 1 June 2015.

Remuneration Committee report continued

Awards under the Sharesave Plan

The Company operates an all-employee UK Sharesave Plan with equivalent arrangements in other countries. The first grant of options was made on 18 September 2014 to eligible employees in the UK, the US and Mexico. A second invitation and grant in those countries was made in 2015. 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 options over ordinary shares of Dialight plc granted to Roy Burton under the International part of the Sharesave Plan in 2014, which remained outstanding at the time of his death in July 2015, are set out in the table below. His personal representatives may, under the rules of the International part of the Sharesave Plan, exercise that option to the extent of savings made at the time of his death at any time during the period ending 15 March 2016.

	Balance of options at 1 January 2015	Granted in 2015	**Balance of options at 31 December 2015**
Roy Burton	1,297	—	**1,297**

The option price at grant in 2014 was 717.6 pence. This represents 80% of the market value of a Dialight plc share on 26 August 2014, the day immediately preceding the date on which the 2014 invitations were sent to eligible employees.

The actual number of shares that may be exercised will be subject to the prevailing USD/GBP exchange rate at the time of exercise.

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 2015 held by Executive Directors and their compliance with the guidelines:

Executive Director	Shares held at 1 January 2015	**Shares held at 31 December 2015**
Fariyal Khanbabi	—	**—**
Michael Sutsko	—	**—**

Fariyal Khanbabi and Michael Sutsko, who were appointed Executive Directors on 8 September 2014 and 1 June 2015 respectively, have until 8 September 2019 and 1 June 2020 to build their respective shareholdings up to the required levels.

Payments to past Directors

In early 2015 the Committee considered remuneration arrangements relating to the Group Chief Executive role, after Roy Burton stepped down and Richard Stuckes was appointed, as detailed on page 45. For ease of reference, the remuneration arrangements agreed at that time are set out in this separate section of the report for Roy Burton and Richard Stuckes.

Roy Burton

Under the terms of a Settlement Agreement between Dialight Corporation, the Company and Roy Burton dated 5 March 2015, Roy Burton stepped down as President and Chief Executive Officer of Dialight Corporation and Group Chief Executive of the Company. Roy gave twelve months' notice of his termination as an employee with Dialight Corporation, which would take effect on 2 March 2016. Under the terms of the Settlement Agreement it was agreed his base salary, being $571,200, and medical benefit would be paid throughout this notice period, even in the event of his disability or death. From 2 March 2015 until his death in July 2015, Roy Burton acted as special adviser to the Interim Group Chief Executive Officer of the Company. After his death his salary and medical benefit was paid to his family until 2 March 2016, pursuant to the terms of the Settlement Agreement.

A bonus payment of $280,000 for the financial year ended 31 December 2014 was made to Roy Burton in March 2015. Details were included in the 2014 Remuneration report. No bonus was paid to Roy Burton in relation to 2015.

Payments to past Directors continued

Roy Burton continued

Under the terms of the Settlement Agreement, Roy Burton was deemed to be a good leaver which permitted awards or options granted to him to vest or become exercisable at the time of his termination of employment, or if earlier through death, subject to the rules of each plan. These share interests, shown in the tables on pages 50 to 52, remain outstanding as at 31 December 2015. No further awards were granted to Roy Burton in 2015 under the share incentive plans operated by the Company.

His outstanding 2013 PSP awards will lapse in April 2016, as the underlying performance criteria were not met. In 2016 it will be determined if his outstanding 2014 PSP awards will vest. His personal representatives have until 15 March 2016 to exercise his options granted under the International part of the Sharesave Plan to the extent of savings made.

Richard Stuckes

Under the terms of a supplemental letter dated 31 January 2015, Richard Stuckes was paid a salary of £410,000 per annum and a car allowance of £17,500 per annum for his engagement as Interim Group Chief Executive. This was recommended by the Committee. Richard was not eligible to join the Company's pension scheme and received no pension contributions or other allowances in lieu of this benefit.

When Richard Stuckes stepped down as Interim Group Chief Executive on 30 June 2015, he received £10,200 as payment in lieu of his three months' notice as a Non-Executive Director. Further details of his remuneration are provided in the table on page 47.

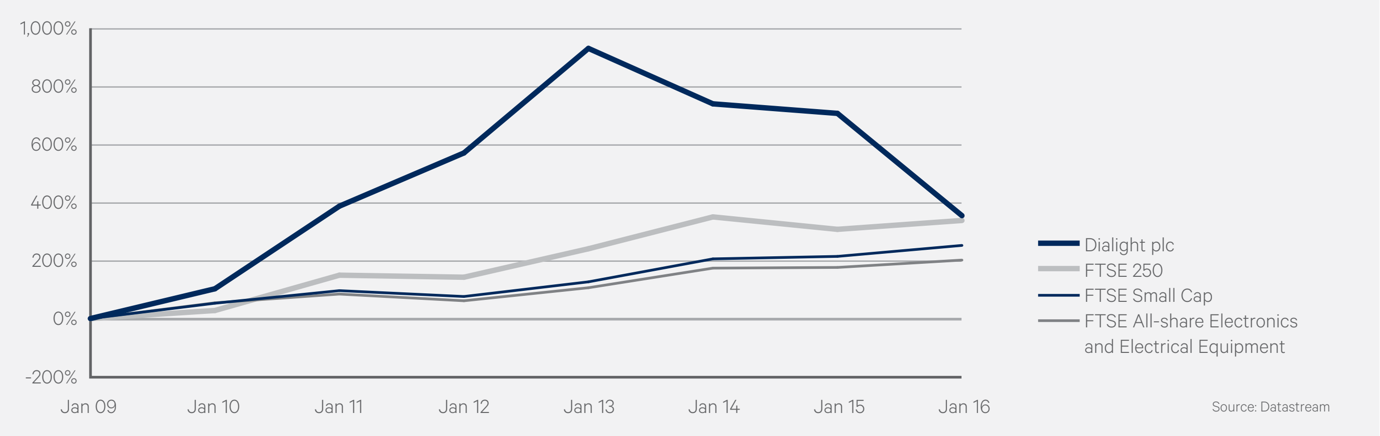
In addition, Richard Stuckes was eligible to participate in the 2015 APBP to receive a maximum bonus of 110% of annual salary (pro-rated) subject to achievement of the following weighted objectives:

- achieving a reported EBIT greater than £7.0m for the period from 1 January to 30 June 2015 (30% of target);
- agreeing a plan to achieve a long-term reduction in the Group's inventory, with a specific reduction target to 30 June 2015 (30% of target);
- determining and implementing the most appropriate Dialight organisational structure to ensure clarity of responsibilities and reporting lines in the business, and strong governance control (20% of target); and
- making a recommendation to the Board regarding Dialight's shorter-term manufacturing footprint (2015 requirements) and the Group's strategy for developing its longer-term manufacturing footprint (20% of target).

In light of the Company's performance during the first half of 2015 the Committee took the decision that no bonus was payable to Richard Stuckes.

Performance graph and table

The graph below demonstrates the Company's TSR performance over the past seven years relative to the FTSE Mid 250 Index (excluding investment trusts), the FTSE Small Cap Index and the FTSE All-share Electronics and Electrical Equipment Index.



Remuneration Committee report continued

Performance graph and table continued

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

Year ended 31 December	2009	2010	2011	2012	2013	2014	**2015**
Total remuneration ($'000)	745	2,854	4,170	3,843	1,564	1,153	**523**
Bonus outcome (% of max)	70	100	100	66.6	—	29	**—**
PSP vesting outcome (% of max)	58	100	100	100	100	—	**—**

Note: The 2015 information relates to Michael Sutsko, who was appointed Group Chief Executive on 1 July 2015.

Percentage change in the remuneration of the Group Chief Executive

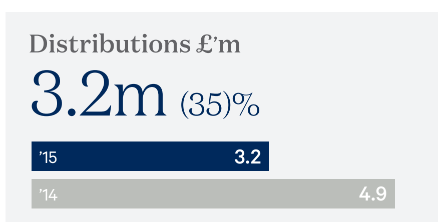
The following table sets out the change in remuneration paid to the Group Chief Executive from 2014 to 2015 compared with the average percentage change for employees as a whole.

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 2014–2015	
	Group CEO	Group employees
Salary	3%	3%
Bonus	0%	0%
Benefits	n/a	See above

Relative importance of spend on pay

The chart below shows the total amount paid by the Company to its employees and its total distributions for 2015 and 2014.



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.
Fariyal Khanbabi*	8 September 2014	The agreement is terminable by the Company or by the Director on six months' notice.
Michael Sutsko	1 June 2015	The agreement is terminable by the Company or by the Director on twelve months' notice.
Non-Executive Directors		
Stephen Bird	10 January 2013	Letter of appointment was for an initial term of three years.
David Blood	1 July 2015	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.

* 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.

Post year end, Bill Ronald stepped down as Chairman on 25 January 2016. Wayne Edmunds was appointed Chairman of the Company on that date by letter of appointment dated 25 January 2016.

Implementation of policy in the 2016 financial year

Executive salaries and Non-Executive Director fees

As previously noted, the Committee agreed a 3% and a 5% pay increase in salary for the Group Chief Executive and the Group Finance Director respectively with effect from 1 January 2016 bringing their salaries to $576,000 and £259,350 respectively.

The Committee decided that no increase in fees would be awarded to the Non-Executive Directors with effect from 1 January 2016. Following the 2% increase in the Non-Executive Director base fee awarded with effect from 1 January 2015, that fee remains at £40,800 per annum. The £5,000 enhancements for chairing a Board Committee and acting as Senior Independent Director also remain the same. Upon his appointment in January 2016, the new Chairman receives an annual fee of £130,000.

Pensions

The Group Chief Executive will receive employer contributions equivalent to 15% of base salary 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 2016 APBP will be based on targets linked primarily to EBIT performance.

In the Committee's view the detailed performance targets for the upcoming financial year are commercially and price sensitive. The targets are based on profit projections for the year ahead, which would provide the Company's competitors with a potential commercial advantage. The Committee will, however, provide full retrospective disclosure of the performance conditions and targets at the end of the 2016 financial year.

PSP

Awards for 2016 will be made subject to meeting the EPS and TSR performance targets. At the time of production of the report these measures had not been formally approved by the Committee. The Committee has agreed an award limit of 125% for the Group Chief Executive and 100% for the Group Finance Director.

Remuneration Committee report continued

Implementation of policy in the 2016 financial year continued

Code compliance

The Committee considered the new provisions of the 2014 UK Corporate Governance Code when it implemented the Company's remuneration policy for 2015 and 2016. 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, although 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 will consider including malus provisions in future policy reviews.

Further, 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 this holding period, the participant is not permitted to sell, charge or otherwise dispose of these shares except to the extent necessary to satisfy a tax liability. The Committee will continue to keep this under review in the light of regulatory 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. This includes the review of:

- contract terms;
- remuneration; and
- other benefits such as performance related bonus schemes, long-term incentives, pension rights and compensation payments.

The Committee also recommends and monitors the structure of the remuneration of the senior management group as defined by the Board.

Committee members

The individuals who served on the Committee during the year can be found on page 45. In addition, Richard Stuckes was a member during the year until 2 February 2015, when he was appointed Interim Group Chief Executive. All members who served throughout the year are considered independent in accordance with the Code. Since the year end, Bill Ronald stepped down from the Committee on 25 January 2016.

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 (Michael Sutsko) and the Company Secretary (who will not participate in any discussion concerning their own remuneration) as well as external advisers as required.

External advice

During the year ended 31 December 2015 the Committee consulted:

- Paul, Weiss, Rifkind, Wharton & Garrison LLP, for advice on the US settlement arrangements for Roy Burton for a fee of £10,000;
- Kepler Associates, a brand of Mercer, for advice regarding Executive remuneration benchmarking, annual bonus plans and long-term incentive design for a fee of £29,000. 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, acting for the Committee and the Company, taking instruction through the Company Secretary;
- Clifford Chance LLP, for advice on the operation of the Group's PSP, APBP and Sharesave Plan for a fee of £28,000; and
- Slaughter and May, for advice on the UK settlement arrangements for Roy Burton and the appointment of Richard Stuckes as Interim Group Chief Executive, as well as advice on the service agreements entered into with Michael Sutsko upon his appointment as Group Chief Executive and David Blood on his appointment as a Non-Executive Director. Slaughter and May also provides periodic corporate and treasury advice to Dialight. Their total fee for 2015 was £98,000.

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

Implementation of policy in the 2016 financial year continued

The Committee and advisers continued

Statement of shareholder voting

The table below shows the voting outcome at the 2015 AGM for the approval of the 2014 Remuneration report.

Votes*	% of votes for	% of votes against	Votes withheld
Remuneration report	72.4	27.6	571,231

* 16,573,749 ordinary shares were voted, representing 50.99% of the issued share capital.

Owing to a negative voting recommendation from one of the main investor advisory bodies at the time of the publication of the 2014 Annual Report and Accounts, the Committee Chair and Company Secretary consulted with the Group's top ten shareholders in order to address any questions and concerns around the Group's remuneration policy. The main area of concern was a lack of retrospective disclosure around the 2014 bonus criteria. For the 2015 Bonus Plan we have ensured full disclosure of the performance targets in this report.

Dialight's remuneration policy was last subject to a binding vote at the 2014 AGM, when 79.5% of shareholders voted in favour of the relevant resolution.

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. It is our practice to replicate the remuneration policy in our Annual Report and Accounts. 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 and the updated remuneration scenarios for the Group Chief Executive.

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.

Remuneration Committee report continued

Appendix continued

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 Directors, 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 52.

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 firstly considers pay and conditions for employees across the Group, the general performance of the Company and the wider economic environment and, where considered relevant, 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 Directors can be found on page 55. 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 55. 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

Remuneration Committee report continued

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 receives 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.

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; and 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.

Remuneration Committee report continued

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. 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 2015 can be found on page 47. 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 insurance 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 47.	There are no performance conditions attached to benefits.

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 options/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 it is appropriate to do so it will apply the following approach:

The fair value of these incentives will be calculated taking into account the 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).

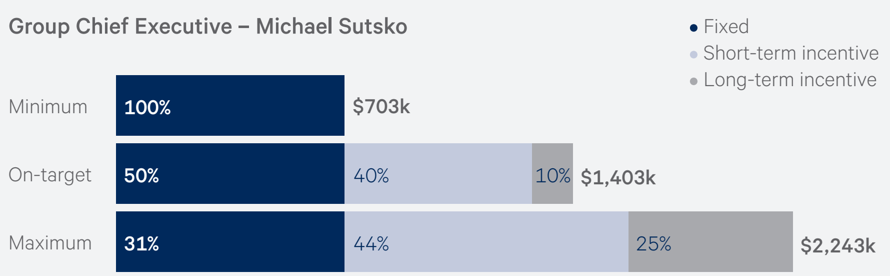
Appendix continued

Recruitment policy continued

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.

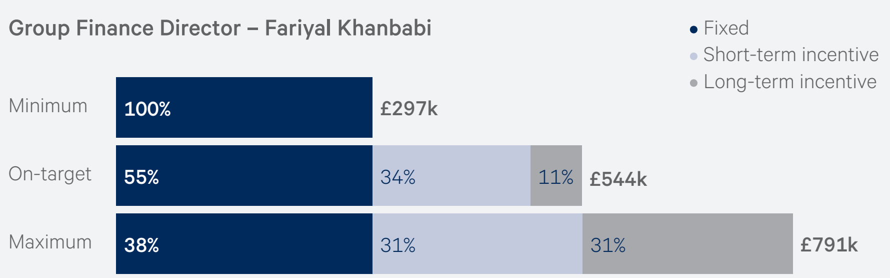
Remuneration scenarios



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.

Service contracts

Executive service contracts contain provisions that require up to 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. Executive service contracts do not contain any provisions for payments outside the scope of those contained in the contract.

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.

Remuneration Committee report continued

Appendix continued

Payment for loss of office

Notice periods

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

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 the 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. In addition, certain references to pension entitlements and contractual arrangements of the Group Chief Executive refer to, and relate only to, Roy Burton, who was the Group Chief Executive at the time of the adoption of the remuneration policy in 2014, and have been deleted in this summary.

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 2015 set out on pages 68 to 111. 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 2015 and of the Group's loss 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 including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; 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 39 (Audit Committee report), note 2 (accounting policy) and note 12 (financial disclosures).

The risk – 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 determining the projected cash flows relating to recent restructuring including a programme of product platform re-engineering, and a trial of outsourced manufacturing.

Our response – Our audit procedures in this area included:

- evaluating the adequacy of the budgets and forecasts used in the value in use calculation by critically assessing the budgeting process and agreeing supporting evidence that forecasts are approved by the Board. This includes assessment of the adequacy of costs included in relation to the platform re-engineering and outsourcing trial through discussion with Group Executive management;
- performing an assessment of the discount rate by comparing to a client and industry specific discount rate calculated independently by our own valuation specialists;
- comparing the discounted cash flows to the market capitalisation of the Group; and
- assessing the robustness of the forecasts to changes in assumptions, including sales growth beyond the 2016 detailed forecast, long-term growth rates 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 (£26.9 million)
Refer to page 39 (Audit Committee Report), note 2 (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. The Group is also undergoing a program of product platform re-engineering which will result in changes to stock lines. These factors, in turn, may mean that inventory cannot be sold or sales prices are discounted to less than the inventory carrying value.

Our response – Our audit procedures in this area included:

- challenging the appropriateness of the Group's methodology for determining its inventory provision in the light of our understanding of the business and industry knowledge, coupled with our understanding of the ageing and nature of its inventory, and the plans for platform re-engineering;
- testing the carrying value of inventory by comparing the carrying value to latest sales invoice for a sample of items to assess whether those items were held at the lower of cost or net realisable value; and
- challenging the quantum and classification of costs disclosed as non-underlying with Group Executive management and the Audit Committee.

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

Revenue recognition
Refer to page 39 (Audit Committee report), note 2 (accounting policy) and note 4 (financial disclosures).

The risk – There is a risk that transactions completed just before the year end could be incorrectly recorded due to the high volume of transactions close to the 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 for such sales occurring near to year end.

Independent auditors' report continued

To the members of Dialight plc only

Opinions and conclusions arising from our audit continued

2. Our assessment of risks of material misstatement continued

Revenue recognition continued

Our response – Our audit procedures in this area included:

- challenging the recognition of revenue for a sample of items from either side of the financial year end by reference to the identified trigger event for revenue, when contractually the customer takes on the risks and rewards of ownership, and tracing back to third party carrier documentation and customer agreements.

Development costs (£6.0 million)

Refer to page 39 (Audit Committee Report), note 2 (accounting policy) and note 12 (financial disclosures).

The risk – Judgement is required in the initial capitalisation of development projects and there is a risk of misstatement if the criteria for capitalisation are incorrectly applied. There is further judgement required around the ongoing viability of the capitalised projects and a resulting risk of impairment.

Our response – Our audit procedures in this area included:

- for a sample of projects capitalised during the year, and projects held as at year end, evaluating whether the project costs were capitalised in line with accounting standards, including challenge of the feasibility of the project through discussion with engineering staff, and agreement of the existence of a budget and forecast sales information;
- examining expensed research and development costs to assess whether there are any other significant items recorded during the period that should have been capitalised to intangible assets;
- performing an impairment review for a sample of projects by challenging forecast sales data with reference to actual sales achieved during the year versus budget for the current year, and challenging the assessment of the viability of projects through discussion with finance and engineering management;
- challenging the quantum and classification of costs disclosed as non-underlying items with the group executive management and Audit Committee; and
- 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 (2014: £0.9 million), determined with reference to a benchmark of Group revenue of which it represents 0.6% (2014: Group profit before taxation of which it represented 6%). We consider that revenue is appropriate to use as a benchmark for materiality as revenue is a more stable measure year on year than Group profit before tax. 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 98% of total Group revenue; 93% of total Group profits and losses that make up Group loss before taxation; and 100% of total Group assets.

The remaining 2% of total Group revenue and 7% of total Group profits and losses that make up Group profit before taxation are represented by four reporting components, none of which individually represented more than 2% of any of total Group revenue, or 6% of total Group profits and losses that make up Group profit before taxation. 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 £0.5 million to £0.6 million, having regard to the mix of size and risk profile of the Group across the components. The work on one full scope audit component was performed by a component auditor, the work on the two components subject to specified risk-focused procedures was performed by component auditors and the work on all remaining components was performed 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 on the disclosures of principal risks

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

- the Directors' viability statement on page 21, concerning the principal risks, their management, and, based on that, the Directors' assessment and expectations of the Group's continuing in operation over the three years to 31 December 2018; or
- the disclosures in note 2(b) of the financial statements concerning the use of the going concern basis of accounting.

Opinions and conclusions arising from our audit continued

6. 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 position and 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 21, in relation to going concern and longer-term viability; and
- the part of the Corporate governance statement on page 31 relating to the Company's compliance with the eleven provisions of the 2014 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 44, 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
8 March 2016

Consolidated income statement

For the year ended 31 December 2015

	Note	Twelve months ended 31 December 2015 Underlying £'m	Twelve months ended 31 December 2015 Non-underlying £'m	Twelve months ended 31 December 2015 Total £'m	Twelve months ended 31 December 2014 Underlying £'m	Twelve months ended 31 December 2014 Non-underlying £'m	Twelve months ended 31 December 2014 Total £'m
Revenue	4	**161.4**	**—**	**161.4**	159.8	—	159.8
Cost of sales	5	**(105.2)**	**(6.0)**	**(111.2)**	(99.2)	(2.8)	(102.0)
Gross profit	5	**56.2**	**(6.0)**	**50.2**	60.6	(2.8)	57.8
Distribution costs	5	**(30.7)**	**—**	**(30.7)**	(28.6)	—	(28.6)
Administrative expenses	5	**(19.4)**	**(3.5)**	**(22.9)**	(13.9)	0.5	(13.4)
Profit/(loss) from operating activities	4	**6.1**	**(9.5)**	**(3.4)**	18.1	(2.3)	15.8
Financial income	8	**—**	**—**	**—**	—	—	—
Financial expense	8	**(0.4)**	**(0.1)**	**(0.5)**	(0.2)	(0.1)	(0.3)
Net financing expense	8	**(0.4)**	**(0.1)**	**(0.5)**	(0.2)	(0.1)	(0.3)
Profit/(loss) before income tax	4	**5.7**	**(9.6)**	**(3.9)**	17.9	(2.4)	15.5
Income tax (expense)/credit	9	**(1.3)**	**3.2**	**1.9**	(6.0)	—	(6.0)
Profit/(loss) for the year	4	**4.4**	**(6.4)**	**(2.0)**	11.9	(2.4)	9.5
(Loss)/profit for the year attributable to:							
Equity owners of the Company				**(2.0)**			9.5
Non-controlling interests				**—**			—
(Loss)/profit for the year				**(2.0)**			9.5
Earnings per share							
Basic	18			**(6.4p)**			29.4p
Diluted	18			**(6.3p)**			29.2p

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

The definitions of cost of sales, gross profit, distribution costs and administrative expenses have been changed. Prior year numbers have been amended to be consistent with the current year (see note 5).

Consolidated statement of comprehensive income

For the year ended 31 December 2015

	2015 £'m	2014 £'m
Other comprehensive income		
Items that may be reclassified subsequently to profit and loss		
Exchange difference on translation of foreign operations	**2.2**	2.7
Income tax on exchange difference on translation of foreign operations	**(0.4)**	(0.3)
	1.8	2.4
Items that will not be reclassified subsequently to profit and loss		
Remeasurement of defined benefit pension liability	**0.7**	(1.0)
Income tax on remeasurement of defined benefit pension liability	**(0.1)**	0.2
	0.6	(0.8)
Other comprehensive income for the year, net of tax	**2.4**	1.6
(Loss)/profit for the year	**(2.0)**	9.5
Total comprehensive income for the year	**0.4**	11.1
Attributable to:		
Owners of the parent	**0.4**	11.1
Non-controlling interests	**—**	—
Total comprehensive income for the year	**0.4**	11.1

Consolidated statement of changes in equity

For the year ended 31 December 2015

	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 2015		0.6	1.4	3.2	2.2	65.5	**72.9**	(0.1)	**72.8**
Loss		—	—	—	—	(2.0)	**(2.0)**	—	**(2.0)**
Other comprehensive income									
Foreign exchange translation differences, net of tax		—	—	1.8	—	—	**1.8**	—	**1.8**
Remeasurement of defined benefit pension liability, net of tax	19	—	—	—	—	0.6	**0.6**	—	**0.6**
Total other comprehensive income		—	—	1.8	—	0.6	**2.4**	—	**2.4**
Total comprehensive income for the year		—	—	1.8	—	(1.4)	**0.4**	—	**0.4**
Transactions with owners, recorded directly in equity									
Share-based payments, net of tax	7,9	—	—	—	—	0.1	**0.1**	—	**0.1**
Dividends	17	—	—	—	—	(3.2)	**(3.2)**	—	**(3.2)**
Total contributions by and distributions to owners		—	—	—	—	(3.1)	**(3.1)**	—	**(3.1)**
Balance at 31 December 2015		**0.6**	**1.4**	**5.0**	**2.2**	**61.0**	**70.2**	**(0.1)**	**70.1**
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**

At 31 December 2015 the number of shares held by the Group through the Dialight Employees' Share Ownership Plan Trust ("ESOT") was 9,606 (2014: 9,606). The market value of these shares at 31 December 2015 was £43,227 (2014: £77,809).

Consolidated statement of total financial position

At 31 December 2015

	Note	2015 £'m	2014 £'m
Assets			
Property, plant and equipment	11	**16.1**	15.2
Intangible assets	12	**20.0**	21.0
Deferred tax assets	14	**0.1**	0.2
Total non-current assets		**36.2**	36.4
Inventories	15	**26.9**	32.4
Trade and other receivables	16	**35.5**	36.9
Cash and cash equivalents	22	**5.5**	7.9
Total current assets		**67.9**	77.2
Total assets		**104.1**	113.6
Liabilities			
Trade and other payables	21	**(22.9)**	(26.2)
Provisions	20	**(0.8)**	(0.7)
Contingent consideration	29	**—**	(0.3)
Tax liabilities		**(0.3)**	(4.6)
Borrowings	13	**(9.3)**	(7.3)
Total current liabilities		**(33.3)**	(39.1)
Employee benefits	19	**(0.1)**	(1.2)
Provisions	20	**(0.6)**	(0.5)
Total non-current liabilities		**(0.7)**	(1.7)
Total liabilities		**(34.0)**	(40.8)
Net assets		**70.1**	72.8
Equity			
Issued share capital	17	**0.6**	0.6
Merger reserve	17	**1.4**	1.4
Other reserves		**7.2**	5.4
Retained earnings		**61.0**	65.5
		70.2	72.9
Non-controlling interests		**(0.1)**	(0.1)
Total equity		**70.1**	72.8

The accompanying notes form part of the financial statements.

These financial statements were approved by the Board of Directors on 8 March 2016 and were signed on its behalf by:

Michael Sutsko, Group Chief Executive

Fariyal Khanbabi, Group Finance Director

8 March 2016

Company number: 2486024

Consolidated statement of cash flows

For the year ended 31 December 2015

	Note	2015 £'m	2014 £'m
Operating activities			
(Loss)/profit for the year		**(2.0)**	9.5
Adjustments for:			
Financial income	8	**—**	—
Financial expense	8	**0.5**	0.3
Income tax expense	9	**(1.9)**	6.0
Share-based payments		**0.1**	0.2
Depreciation of property, plant and equipment	11	**2.8**	2.5
Amortisation of intangible assets	12	**3.1**	2.3
Impairment losses on intangible assets and goodwill		**1.0**	1.3
Contingent consideration	29	**—**	(3.1)
Operating cash flow before movements in working capital		**3.6**	19.0
Decrease/(increase) in inventories		**6.4**	(6.9)
Decrease/(increase) in trade and other receivables		**3.1**	(7.4)
(Decrease)/increase in trade and other payables		**(4.1)**	4.0
Increase in provisions	20	**0.2**	0.2
Pension contributions in excess of the income statement	19	**(0.5)**	(0.3)
Cash generated from operations		**8.7**	8.6
Income taxes paid		**(3.9)**	(3.1)
Interest paid	8	**(0.4)**	(0.2)
Net cash generated from operating activities		**4.4**	5.3
Investing activities			
Contingent consideration	29	**(0.3)**	—
Capital expenditure	11	**(3.3)**	(3.7)
Capitalised expenditure on development	12	**(2.5)**	(3.5)
Net cash used in investing activities		**(6.1)**	(7.2)
Financing activities			
Dividends paid	17	**(3.2)**	(4.8)
Drawdown of bank facility		**2.4**	7.6
Payment of upfront loan facility costs		**—**	(0.3)
Net cash (used in)/generated from financing activities		**(0.8)**	2.5
Net (decrease)/increase in cash and cash equivalents		**(2.5)**	0.6
Cash and cash equivalents at beginning of year		**7.9**	7.1
Effect of exchange rates on cash held		**0.1**	0.2
Cash and cash equivalents at end of year	22	**5.5**	7.9

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 2015 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 FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

(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 a period no shorter than twelve months from the date of this report. 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 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.

Tax (see note 9)

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

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

Notes to the consolidated financial statements continued

For the year ended 31 December 2015

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.

(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.

3. Significant accounting policies continued

(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.

(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 CGUs 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.

Notes to the consolidated financial statements continued

For the year ended 31 December 2015

3. Significant accounting policies continued

(i) Impairment continued

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, 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.

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.

3. Significant accounting policies continued

(m) Employee benefits continued

(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.

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.

Notes to the consolidated financial statements continued

For the year ended 31 December 2015

3. Significant accounting policies continued

(s) Income tax expense continued

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 2015. There was no material impact on the financial performance or position of the Group.

- Defined Benefit Plans: Employee Contributions – Amendments to IAS 19.

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 2016 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

As part of the Strategic Review of the business announced on 27 October 2015, the reportable operating segments have been reduced to two. 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 Chief Executive.

The two 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 and includes anti-collision obstruction lighting; and
- Signals and Components, which develops, manufactures and supplies status indication components for electronics OEMs, together with niche industrial and automotive electronic components and highly efficient LED signalling solutions for the traffic and signals markets.

4. Operating segments continued

There is no inter-segment revenue.

All revenue relates to the sale of goods. Segment gross profit is revenue less the costs of materials, labour, production and freight that are directly attributable to a segment. Overheads comprise operations management, selling costs plus corporate costs which include share-based payments.

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

Reportable segments

2015	Lighting £'m	Signals and Components £'m	Total £'m
Revenue	120.6	40.8	161.4
Gross profit	48.3	7.9	56.2
Overheads	(41.5)	(5.2)	(46.7)
Segment results	6.8	2.7	9.5
Unallocated expenses			(3.4)
Underlying operating profit			6.1
Non-underlying expense			(9.5)
Operating loss			(3.4)
Net financing expense			(0.5)
Loss before tax			(3.9)
Income tax expense			1.9
Loss after tax			(2.0)

2014	Lighting £'m	Signals and Components £'m	Total £'m
Revenue	116.9	42.9	159.8
Gross profit	50.8	9.8	60.6
Overheads	(35.4)	(4.3)	(39.7)
Segment results	15.4	5.5	20.9
Unallocated expenses			(2.8)
Underlying operating profit			18.1
Non-underlying expense			(2.3)
Operating profit			15.8
Net financing expense			(0.3)
Profit before tax			15.5
Income tax expense			(6.0)
Profit after tax			9.5

Other segmental data

	2015			2014		
	Lighting £'m	Signals and Components £'m	Total £'m	Lighting £'m	Signals and Components £'m	Total £'m
Depreciation	2.2	0.6	2.8	2.0	0.5	2.5
Amortisation	2.5	0.6	3.1	1.9	0.4	2.3
Impairment losses on intangible asset write-down	0.7	0.3	1.0	1.1	0.2	1.3

Notes to the consolidated financial statements continued

For the year ended 31 December 2015

4. Operating segments continued

Geographical segments

The Lighting and 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

	2015 £'m	2014 £'m
North America	**107.6**	96.3
UK	**11.8**	16.5
Rest of Europe	**15.6**	23.9
Rest of World	**26.4**	23.1
	161.4	159.8

Reconciliations of reportable segment profit or loss

	2015 £'m	2014 £'m
Total profit for reportable segments	**9.5**	20.9
Unallocated amounts:		
Overheads	**(3.4)**	(2.8)
Non-underlying expense	**(9.5)**	(2.3)
Net financing expense	**(0.5)**	(0.3)
Consolidated (loss)/profit before tax	**(3.9)**	15.5

5. Change in definition of costs

	As reported 2014			Adjustments			Revised 2014		
	Underlying £'m	Non-underlying £'m	Total £'m	Underlying £'m	Non-underlying £'m	Total £'m	Underlying £'m	Non-underlying £'m	Total £'m
Revenue	159.8	—	159.8	—	—	—	159.8	—	159.8
Cost of sales	(112.6)	(2.8)	(115.4)	13.4	—	13.4	(99.2)	(2.8)	(102.0)
Gross profit	47.2	(2.8)	44.4	13.4	—	13.4	60.6	(2.8)	57.8
Distribution costs	(19.8)	—	(19.8)	(8.8)	—	(8.8)	(28.6)	—	(28.6)
Administrative expenses	(9.3)	0.5	(8.8)	(4.6)	—	(4.6)	(13.9)	0.5	(13.4)
Profit/(loss) from operating activities	18.1	(2.3)	15.8	—	—	—	18.1	(2.3)	15.8

The definitions of cost of sales, gross profit, distribution and administrative expenses have been changed in the current year. In order to be consistent, the prior year numbers have been adjusted to be on a comparable basis.

Cost of sales previously included costs related to third party sales costs, operations management and development and engineering. The third party sales costs are now included in distribution costs and the operations management and development costs are included in administrative expenses.

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 business units of the Group, management examines underlying performance, which removes the impact of non-underlying costs and income.

The table below presents the elements of non-underlying profit or loss recorded within cost of sales:

	2015 £'m	2014 £'m
Inventory costs	**(6.0)**	(2.8)
Non-underlying costs recorded cost of sales	**(6.0)**	(2.8)

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

	2015 £'m	2014 £'m
Intangible asset write-down	**(1.0)**	(1.3)
Employee severance and restructuring costs	**(1.8)**	(0.7)
Executive Director replacement costs	**(0.8)**	(0.4)
Settlement of legal case	**0.5**	—
Other	**(0.4)**	(0.2)
Contingent consideration	**—**	3.1
Non-underlying costs recorded in administrative expenses	**(3.5)**	0.5

In the prior year, a detailed review of the risk of inventory obsolescence was initiated. 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 was treated as a non-underlying expense.

Following on from the change of provisioning policy in the prior year, there has been a strong focus on tightening the internal controls and improving the procedures around inventory. A full inventory count was carried out at the key manufacturing facilities in Mexico and Roxboro, detailed inventory usability analysis was prepared and obsolete stock was disposed of. Inventory procurement was enhanced with the appointment of a Global Commodity Director and inventory control was improved with the appointment of a new Finance Director for North America. The impact of this was that certain non-recurring costs including stock losses and procurement errors were identified. In the Strategic Review on 27 October 2015, it was announced that the Group is embarking on a programme of product platform re-engineering and a trial of outsourced manufacturing. This will transform the production process and will reduce the requirement to hold multiple variations of components and accelerate obsolescence on some existing materials. The existing review was broadened to encompass the impact on inventory of these new factors. The outcome of the review was that total costs of £6.0m were identified and the Directors are of the opinion that in order to reflect the true performance of the business these costs be treated as non-underlying costs.

The Strategic Review also triggered a review of the useful lives of existing capitalised development and patent costs. This resulted in an acceleration in the amortisation of capitalised cost of £1.0m and is considered a non-recurring cost. In the prior 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 in the prior year as their carrying value was judged to be impaired.

In order to manage the cost base, the Group announced a formal headcount reduction programme on 7 August 2015. This was in addition to £0.8m of severance costs incurred in the first half. The total impact was a charge of £1.8m for the year. In the prior year, the Group incurred redundancy and termination costs mainly relating to US and European operations and the closure of its Japanese operation.

The Group incurred significant costs in the recruitment of a new CEO and the incremental costs of an interim CEO. In order to present a more accurate reflection of the underlying business costs, the excess costs over and above those relating to one CEO have been classified as non-underlying.

Notes to the consolidated financial statements continued
For the year ended 31 December 2015

6. Non-underlying income/(expense) continued

The Group received a net settlement of £0.5m in relation to a claim against a former employee. The settlement is not in the normal course of business and has been classified as non-underlying.

The contingent consideration credit relates to an agreement in the prior year to reduce the amount payable in relation to the acquisition of Airinet Inc in June 2012.

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

	2015 £'m	2014 £'m
Net interest on defined benefit liability	(0.1)	—
Change in fair value of contingent consideration	—	(0.1)
Non-underlying costs recorded in finance expense	(0.1)	(0.1)

7. Personnel expenses

	2015 £'m	2014 £'m
Wages and salaries	32.6	33.2
Social security contributions	3.6	3.0
Equity-settled share-based payment transactions	0.1	0.2
Contributions to defined contribution plans	1.2	1.0
Total charge for defined benefit plans	0.1	0.1
	37.6	37.5

The average number of employees by geographical location was:

	2015 Number	2014 Number
UK	208	148
US and Mexico	1,699	1,463
Rest of World	205	329
	2,112	1,940

In 2015 the Group employed an average of 1,311 direct staff (2014: 1,389) and 801 indirect staff (2014: 551).

8. Net financing (expense)/income

Recognised in profit and loss

	Year ending 31 December 2015			Year ending 31 December 2014		
	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	—	(0.1)	(0.1)	—	—	—
	—	(0.1)	(0.1)	—	—	—
Interest expense on financial liabilities	(0.4)	—	(0.4)	(0.2)	—	(0.2)
Change in fair value of contingent consideration	—	—	—	—	(0.1)	(0.1)
	(0.4)	—	(0.4)	(0.2)	(0.1)	(0.3)
Net financing expense recognised in the consolidated income statement	(0.4)	(0.1)	(0.5)	(0.2)	(0.1)	(0.3)

9. Income tax (income)/expense

Current tax expense

Recognised in the income statement

	2015 £'m	2014 £'m
Current tax (income)/expense		
Current year	(0.7)	6.1
Adjustment for prior years	(0.9)	(0.3)
	(1.6)	5.8
Deferred tax (income)/expense		
Origination and reversal of temporary differences	(0.4)	0.3
Adjustment for prior years	—	(0.1)
Reduction in tax rate	0.1	—
Recognition of previously unrecognised losses	—	—
Change in recognised deductible timing differences	—	—
Income tax (income)/expense	(1.9)	6.0

Reconciliation of effective tax rate

	2015 %	2015 £'m	2014 %	2014 £'m
(Loss)/profit for the year		(2.0)		9.5
Total income tax (income)/expense		(1.9)		6.0
(Loss)/profit excluding income tax		(3.9)		15.5
Income tax using the UK corporation tax rate	(19.6)	(0.8)	21.5	3.3
Effect of tax rates in foreign jurisdictions	12.8	0.5	10.3	1.6
Reduction in tax rate	(7.9)	(0.3)	1.3	0.2
Non-deductible expenses	17.1	0.7	4.5	0.7
Current year losses for which no deferred tax is recognised	(1.8)	(0.1)	1.3	0.2
Recognition of tax effect of previously unrecognised losses	(7.7)	(0.3)	—	—
Adjustment for prior years	(24.3)	(0.9)	(2.6)	(0.4)
Changes in recognised deductible timing differences	—	—	—	—
Research and development credits	(3.4)	(0.1)	(0.6)	(0.1)
Other	(12.7)	(0.5)	3.0	0.5
	(47.5)	(1.9)	38.7	6.0

The effective tax rate credit for the Group is 47.5% which is an improvement on the prior year tax charge of 38.7%. The tax rate has been positively impacted by losses allowed in the year that were previously considered uncertain and the recognition of previously unrecocognised deferred tax assets. The prior year adjustment arises mainly in relation to the ability to claim accelerated capital allowances in the US.

Notes to the consolidated financial statements continued

For the year ended 31 December 2015

9. Income tax expense continued

Current tax expense continued

Tax recognised directly in equity

	2015 £'m	2014 £'m
Employee benefits	(0.1)	—
Other	(0.4)	0.2

The UK corporation tax rate was reduced to 20% (effective from 1 April 2015). Further changes to the UK corporation tax rate were announced in the Chancellor's Budget on 8 July 2015. These include reductions to the main rate to 19% from 1 April 2017 and to 18% from 1 April 2020. These rate changes, which were enacted before the Company's year end, will reduce the Company's future current tax charge accordingly. The Group's 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 2015 have been calculated based on a rate of 18%. 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 in order to utilise them.

10. (Loss)/profit for the year

(Loss)/profit for the year has been arrived at after charging:

	2015 £'m	2014 £'m
Research and development costs		
Expensed as incurred	4.0	2.7
Amortisation charge	2.1	1.5
Total research and development costs	6.1	4.2
Depreciation of fixed assets	2.8	2.5
Amortisation of customer relationships	0.3	0.3
Amortisation of technology	—	0.1
Impairment of goodwill and intangible assets	1.0	1.3
Operating leases – property	1.4	1.1
Operating leases – other	0.1	0.1

Auditors' remuneration

	2015 £'m	2014 £'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	0.1	0.2
Pension advisory services in respect of Group pension	—	—
	0.3	0.4

11. Property, plant and equipment

	Land and buildings £'m	Plant, equipment and vehicles £'m	Total £'m
Cost			
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
At 1 January 2015	5.8	40.3	46.1
Exchange adjustments	0.1	1.6	1.7
Additions	0.1	3.2	3.3
Disposals	—	—	—
At 31 December 2015	**6.0**	**45.1**	**51.1**
Accumulated depreciation			
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)
At 1 January 2015	(3.3)	(27.6)	(30.9)
Exchange adjustments	(0.1)	(1.2)	(1.3)
Charge for year	(0.2)	(2.6)	(2.8)
Disposals	—	—	—
At 31 December 2015	**(3.6)**	**(31.4)**	**(35.0)**
Carrying amount at 31 December 2015	**2.4**	**13.7**	**16.1**
At 31 December 2014	2.5	12.7	15.2
At 1 January 2014	2.4	11.0	13.4

Notes to the consolidated financial statements continued

For the year ended 31 December 2015

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 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
Balance at 1 January 2015	4.1	11.9	2.1	0.6	13.6	32.3
Additions arising from internal developments	1.0	—	—	—	1.5	2.5
Effects of foreign exchange movement	0.1	—	—	—	0.4	0.5
Balance at 31 December 2015	**5.2**	**11.9**	**2.1**	**0.6**	**15.5**	**35.3**
Amortisation and impairment losses						
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)
Balance at 1 January 2015	(2.2)	(0.2)	(1.5)	(0.6)	(6.8)	(11.3)
Amortisation for the period	(0.7)	—	(0.3)	—	(2.1)	(3.1)
Impairment	(0.3)	—	—	—	(0.7)	(1.0)
Effects of foreign exchange movement	—	—	—	—	0.1	0.1
Balance at 31 December 2015	**(3.2)**	**(0.2)**	**(1.8)**	**(0.6)**	**(9.5)**	**(15.3)**
Carrying amount at 31 December 2015	**2.0**	**11.7**	**0.3**	**—**	**6.0**	**20.0**
At 31 December 2014	1.9	11.7	0.6	—	6.8	21.0
At 1 January 2014	1.9	11.9	0.9	0.5	5.9	21.1

The amortisation charge for the development costs, concessions, patents, licences and trademarks and order book and customer relationships is shown within administrative expenses in the income statement.

Lighting and Signals and Components segments

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

	2015 £'m	2014 £'m
UK Lighting	**2.3**	2.3
European Traffic	**3.5**	3.8
European Obstruction	**1.3**	1.3
Australian Lighting	**0.1**	0.1
US Lighting	**4.5**	4.2
	11.7	11.7

12. Intangible assets continued

Lighting and Signals and Components segments continued

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

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

The Group prepares cash flow forecasts derived from the most recent 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 gross profit, which is based on management's best estimate of material, labour and production cost trends and manufacturing efficiencies. Cash flows in years four and five are extrapolated using similar growth rates to the first three years. Cash flows beyond the five-year period are extrapolated using estimated growth rates of between 0% and 1%.

Sensitivity to changes in key assumptions

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

The rates used to discount the forecast cash flow for the CGUs were 11.0% (2014: 10.5%) for Lighting and 13.0% (2014: 12.5%) for Signals and Components.

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.

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 11.0% to 15.0% and growth rates ranging from 0.0% to -10.0% while still maintaining headroom.

13. Interest-bearing loans and borrowings

	2015 £'m	2014 £'m
Unsecured borrowings falling due within one year	**9.5**	7.6
Upfront loan facility costs	**(0.2)**	(0.3)
	9.3	7.3

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 2015, £9.5m was drawn on the facility.

Notes to the consolidated financial statements continued

For the year ended 31 December 2015

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	
	2015 £'m	2014 £'m	**2015 £'m**	2014 £'m	**2015 £'m**	2014 £'m
Property, plant and equipment	**0.3**	—	**—**	(0.6)	**0.3**	(0.6)
Intangible assets	**—**	—	**(2.8)**	(2.8)	**(2.8)**	(2.8)
Employee benefits	**0.6**	0.6	**—**	—	**0.6**	0.6
Provisions	**2.4**	3.0	**—**	—	**2.4**	3.0
Other items	**0.1**	—	**(0.5)**	—	**(0.4)**	—
Tax assets/(liabilities)	**3.4**	3.6	**(3.3)**	(3.4)	**0.1**	0.2
Set off of tax	**(3.3)**	(3.4)	**3.3**	3.4	**—**	—
Net tax assets	**0.1**	0.2	**—**	—	**0.1**	0.2

Deferred tax assets have been recognised in respect of all tax losses in entities expected to generate future taxable profits. Deferred tax assets have not been recognised in respect of tax losses of £0.3m because it is not probable that future taxable profits will be available in order to utilise them.

The aggregate amount of temporary differences associated with investments in subsidiaries for which deferred taxation liabilities have not been recognised is £nil (2014: £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 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
Balance at 1 January 2015	(0.6)	(2.8)	0.6	3.0	—	0.2
Recognised in income	0.9	—	—	(0.6)	0.1	0.4
Recognised in equity	—	—	—	—	(0.5)	(0.5)
Balance at 31 December 2015	**0.3**	**(2.8)**	**0.6**	**2.4**	**(0.4)**	**0.1**

15. Inventories

	2015 £'m	2014 £'m
Raw materials and consumables	**17.1**	19.6
Work in progress	**2.5**	4.1
Finished goods	**7.3**	8.7
	26.9	32.4

Inventories to the value of £70.0m (2014: £69.0m) were recognised as expenses in the year. During the year, the inventory write-downs totalled £7.3m. The write-downs are included in the income statement.

16. Trade and other receivables

	2015 £'m	2014 £'m
Trade receivables	**30.7**	34.0
Other non-trade receivables	**2.1**	1.6
Income tax recoverable	**1.4**	—
Prepayments and accrued income	**1.3**	1.3
	35.5	36.9

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

17. Capital and reserves

Share capital

	2015 Number	2015 £'m	2014 Number	2014 £'m
Allotted and fully paid				
Ordinary shares of 1.89 pence each	**32,503,258**	**0.6**	32,503,258	0.6

During the year, no shares were issued (2014: 143,366 ordinary shares at par). The ordinary shares issued in the prior year have the same rights as the other shares in issue.

	Ordinary shares	
Issued share capital	2015 Number	2014 Number
In issue at 1 January	**32,503,258**	32,359,892
Shares issued	**—**	143,366
Issued and fully paid at 31 December	**32,503,258**	32,503,258

Merger reserve

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

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

Translation reserve

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

Capital redemption reserve

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

Dividends

After the balance sheet date no dividends were proposed by the Directors and there are no income tax consequences for the Company.

Final proposed dividend	2015 £'m	2014 £'m
Nil pence per ordinary share (2014: 9.8 pence)	**—**	3.2

Notes to the consolidated financial statements continued

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17. Capital and reserves continued

Dividends continued

During the year the following dividends were paid:

	2015 £'m	2014 £'m
Final – 9.8 pence (2014: 9.5 pence) per ordinary share	**3.2**	3.1
Interim – nil pence (2014: 5.2 pence) per ordinary share	**—**	1.7
	3.2	4.8
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)	**3.2**	4.9

18. Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 31 December 2015 was based on a loss for the year of £2.0m (2014: profit of £9.5m) and the weighted average number of ordinary shares outstanding during the year ended 31 December 2015 of 32,503,258 (2014: 32,479,364).

Diluted earnings per share

The calculation of diluted earnings per share at 31 December 2015 was based on a loss for the year of £2.0m (2014: profit of £9.5m) and the weighted average number of ordinary shares outstanding during the year ended 31 December 2015 of 32,731,992 (2014: 32,675,772) calculated as follows:

Weighted average number of ordinary shares (diluted)

	2015 '000	2014 '000
Weighted average number of ordinary shares	**32,503**	32,479
Effect of share options in issue	**229**	197
Weighted average number of ordinary shares (diluted)	**32,732**	32,676

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.

	2015 Per share	2014 Per share
Basic earnings	**(6.4p)**	29.4p
Underlying basic earnings*	**13.3p**	36.8p
Diluted earnings	**(6.3p)**	29.2p
Underlying diluted earnings*	**13.2p**	36.6p

* Underlying earnings excludes non-underlying items as explained in note 6 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.

19. Employee benefits continued

Defined benefit pension obligations continued

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 £0.5m in respect of the Fund in the year to 31 December 2016. The weighted average duration of the defined benefit obligation is 16 years. There is no effect on recognition of the net defined benefit surplus as a result of the asset ceiling.

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)	
	2015 £'m	2014 £'m	**2015 £'m**	2014 £'m	**2015 £'m**	2014 £'m
Balance at 1 January	**25.2**	22.8	**(24.0)**	(22.4)	**1.2**	0.4
Included in profit or loss						
Administration costs	**—**	—	**0.1**	0.1	**0.1**	0.1
Interest cost/(income)	**0.8**	1.0	**(0.8)**	(1.0)	**—**	—
	0.8	1.0	**(0.7)**	(0.9)	**0.1**	0.1
Included in other comprehensive income						
Remeasurements (gain)/loss:						
Actuarial (gain)/loss arising from:						
– demographic assumptions	**(0.3)**	(0.1)	**—**	—	**(0.3)**	(0.1)
– financial assumptions	**(1.0)**	2.5	**—**	—	**(1.0)**	2.5
– experience adjustment	**—**	0.1	**—**	—	**—**	0.1
– return on plan assets excluding interest income	**—**	—	**0.6**	(1.5)	**0.6**	(1.5)
	(1.3)	2.5	**0.6**	(1.5)	**(0.7)**	1.0
Other						
Contributions paid by the employer	**—**	—	**(0.5)**	(0.3)	**(0.5)**	(0.3)
Benefits paid	**(1.0)**	(1.1)	**1.0**	1.1	**—**	—
	(1.0)	(1.1)	**0.5**	0.8	**(0.5)**	(0.3)
Balance at 31 December	**23.7**	25.2	**(23.6)**	(24.0)	**0.1**	1.2

Represented by:	**2015 £'m**	2014 £'m
Net defined benefit asset (Plan A)	**(0.1)**	—
Net defined benefit liability (Plan B)	**0.2**	1.2
	0.1	1.2

Notes to the consolidated financial statements continued

For the year ended 31 December 2015

19. Employee benefits continued

Defined benefit pension obligations continued

Plan assets consist of the following:

	2015 £'m Total	2014 £'m Total
Equities	**10.7**	10.8
Bonds and gilts	**12.4**	12.9
Cash	**0.5**	0.3
	23.6	24.0

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	
	2015	2014
Discount rate at 31 December	**3.70**	3.40
Future salary increases	**n/a**	n/a
Future pension increases	**3.20**	3.20
Inflation – RPI	**3.20**	3.20
Inflation – CPI	**2.30**	2.30

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:

	2015		2014	
	Plan A	Plan B	Plan A	Plan B
Longevity at age 65 for current pensioners				
Males	**22.1**	**22.1**	22.3	22.3
Females	**24.5**	**24.5**	24.7	24.7
Longevity at age 65 for current members aged 45				
Males	**23.8**	**23.8**	24.0	24.0
Females	**26.4**	**26.4**	26.7	26.7

Sensitivity analysis

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

	Defined benefit obligation	
	Increase £'m	Decrease £'m
Discount rate (0.5% movement)	(1.5)	1.6
Inflation (0.5% movement)	1.5	(1.4)
Life expectancy (+/–1 year)	0.7	(0.7)

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

19. Employee benefits continued

Share-based payments

PSP

In September 2005 the shareholders approved the PSP.

During the year an award under the PSP was made to the Executive Directors and senior managers, details of which are set out below. The award was split into two components, one of which was based on the EPS performance of the Group, and the other was 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
April 2012	44,800	—	—	(6,813)	**37,987**	684	3 years	Apr 2015
April 2013 (EPS)	22,869	—	—	(5,682)	**17,187**	1,291	3 years	Apr 2016
April 2013 (TSR)	22,869	—	—	(5,682)	**17,187**	707	3 years	Apr 2016
April 2014 (EPS)	39,094	—	—	(16,672)	**22,422**	886	3 years	Apr 2017
April 2014 (TSR)	39,094	—	—	(16,672)	**22,422**	377	3 years	Apr 2017
September 2014 (EPS)	19,999	—	—	(6,162)	**13,837**	904	3 years	Sep 2017
September 2014 (TSR)	19,999	—	—	(6,162)	**13,837**	395	3 years	Sep 2017
April 2015 (EPS)	—	42,365	—	(7,430)	**34,935**	802	3 years	Apr 2018
April 2015 (TSR)	—	42,365	—	(7,430)	**34,935**	349	3 years	Apr 2018
August 2015 (EPS)	—	35,822	—	—	**35,822**	545	3 years	Aug 2018
August 2015 (TSR)	—	35,822	—	—	**35,822**	147	3 years	Aug 2018
	208,724	156,374	—	(78,705)	**286,393**			

Further details of the PSP are included in the Directors' remuneration report on pages 47 to 54.

The 2015 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 2015 EPS and TSR award	**August 2015 EPS and TSR award**
Share price	**£8.02**	**£5.45**
Exercise price	**£nil**	**£nil**
Expected volatility	**35%**	**45%**
Award life	**3 years**	**3 years**
Correlation		
Dialight and the FTSE 250 Index (excluding investment trusts)	**24%**	**11%**

The employee expense in 2015 was £0.1m (2014: £0.2m) (see note 7).

Notes to the consolidated financial statements continued

For the year ended 31 December 2015

19. Employee benefits continued

Share-based payments continued

Save As You Earn ("SAYE")

In the prior year, the Group initiated an all-employee UK Sharesave Plan and established equivalent arrangements 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.

	2015 scheme	2014 scheme
Outstanding at 1 January 2015	—	58,377
Granted during the year	73,183	—
Forfeited during the year	—	(28,080)
Outstanding at 31 December 2015	**73,183**	30,297

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	22 September 2015	18 September 2014
Share price at grant date	6.02	8.97
Exercise price	4.82	7.18
Expected volatility	37%	37%
Number of employees	79	109
Shares under option	73,183	58,377
Vesting period	3 years	3 years
Option life	3 years	3 years
Expected life	3 years	3 years
Expected dividends expressed as a dividend yield	2%	2%
Fair value per option	2.12	3.16

20. Provisions

	Warranty £'m
Balance at 1 January 2015	1.2
Effects of foreign exchange movement	—
Provisions made during the year	1.0
Provisions used during the year	(0.8)
Balance at 31 December 2015	**1.4**

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.

	Warranty 2015 £'m	Warranty 2014 £'m
Due within one year	0.8	0.7
Due between one and five years	0.6	0.5
	1.4	1.2

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

21. Trade and other payables

	2015 £'m	2014 £'m
Trade payables	**12.9**	18.3
Other taxes and social security	**0.6**	0.6
Non-trade payables and accrued expenses	**9.4**	7.3
	22.9	26.2

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

	2015 £'m	2014 £'m
Cash and cash equivalents in the statement of total financial position	**5.5**	7.9
Cash and cash equivalents in the statement of cash flows	**5.5**	7.9

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.

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.

Notes to the consolidated financial statements continued

For the year ended 31 December 2015

23. Financial risk management continued

Credit risk continued

Exposure to credit risk

The ageing of trade receivables at the reporting date was:

	Gross 2015 £'m	Impairment 2015 £'m	Gross 2014 £'m	Impairment 2014 £'m
Not past due	**23.0**	**—**	26.2	—
Past due 0–30 days	**5.4**	**—**	6.7	—
Past due 31–120 days	**1.0**	**—**	0.7	—
Past due 121–365 days	**0.1**	**—**	0.4	—
More than one year	**1.3**	**0.1**	0.1	0.1
Total	**30.8**	**0.1**	34.1	0.1

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

	£'m
Balance at 1 January 2015	0.1
Effects of foreign exchange	—
Utilisation of provision	(0.2)
Provision created	0.2
Balance at 31 December 2015	**0.1**

The allowance in respect of trade receivables is 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. The Directors have reviewed the carrying value of receivables more than one year old and concluded that no further impairment is required.

Other non-trade receivables of £2.1m (2014: £1.6m) 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 by utilising short-term fixed rate borrowings. At 31 December 2015, the Group has drawn £9.5m against its revolving credit facility.

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 the 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. The Group has borrowing facilities in US Dollars in order to match the currency of the Group's major market. Foreign exchange contracts may be taken out to manage exposures that are not mitigated through natural hedging.

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

23. Financial risk management continued

Market risk continued

Foreign currency risk continued

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

	2015 $'m	2015 €'m	2014 $'m	2014 €'m
Trade receivables	0.7	3.7	0.6	4.2
Currency cash	0.6	0.3	0.2	0.8
Trade payables	(1.1)	(0.3)	(1.2)	(0.8)
Gross balance sheet exposure	0.2	3.7	(0.4)	4.2

The following significant exchange rates applied during the year:

	2015 Average rate	2015 At balance sheet date	2014 Average rate	2014 At balance sheet date
US Dollar	1.53	1.48	1.63	1.56
Euro	1.38	1.36	1.24	1.29
Mexican Peso	24.28	25.66	21.89	22.92

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.

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

31 December 2015	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	22.9	(22.9)	(22.9)	—	—
Borrowings	9.3	(9.3)	(9.3)	—	—
	32.2	(32.2)	(32.2)	—	—

31 December 2014	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	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)	—	—

Notes to the consolidated financial statements continued

For the year ended 31 December 2015

23. Financial risk management continued

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board considers consolidated total equity as capital. As at 31 December 2015 this totalled £70.1m (2014: £72.8m).

The Group's dividend policy was reviewed during the year. As disclosed at the Strategic Review on 27 October 2015, no dividend will be considered until the full year results of 2016 are available.

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 2015 it is estimated that a general increase of 1% in the value of the Euro and US Dollar against UK Sterling would have increased the Group's loss before tax by approximately £0.1m for the year ended 31 December 2015 (2014: reduced the profit before tax by £0.2m), and would have had no impact on the Group's equity for the year ended 31 December 2015 (2014: reduction of £0.3m).

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 2015 £'m	Fair value 2015 £'m	Carrying amount 2014 £'m	Fair value 2014 £'m
Financial assets				
Cash and cash equivalents	**5.5**	**5.5**	7.9	7.9
Loans and receivables				
Trade and other receivables	**35.5**	**35.5**	36.9	36.9
Total financial assets	**41.0**	**41.0**	44.8	44.8
Financial liabilities				
Trade and other payables	**(22.9)**	**(22.9)**	(26.2)	(26.2)
Contingent consideration	**—**	**—**	(0.3)	(0.3)
Borrowings	**(9.3)**	**(9.3)**	(7.3)	(7.3)
Total financial liabilities	**(32.2)**	**(32.2)**	(33.8)	(33.8)
Net financial assets	**8.8**	**8.8**	11.0	11.0

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:

	2015 £'m	2014 £'m
Less than one year	**1.3**	1.4
Between one and five years	**2.8**	3.2
More than five years	**0.3**	0.6
	4.4	5.2

Of the £4.4m (2014: £5.2m), £4.3m (2014: £5.0m) 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:

	2015 £'m	2014 £'m
Contracted	**0.1**	0.3

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 an arm's length basis.

Transactions with key management personnel

Directors of the Company and their immediate relatives control less than 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:

	2015 £'m	2014 £'m
Short-term employee benefits	**1.2**	0.8
Post-retirement benefits	**0.1**	0.1
Share-based payments	**—**	0.1
	1.3	1.0

The aggregate of remuneration and amounts receivable under long-term incentive schemes of the highest paid Director was £0.3m (2014: £0.6m), and pension contributions of £0.1m (2014: £0.1m) were made to a money purchase scheme on his behalf. During the year, the highest paid Director received 71,644 shares under a long-term incentive scheme.

	2015	2014
Number of Directors accruing benefits under:		
– Money purchase schemes	**2**	3
– Defined benefit schemes	**—**	—
Number of Directors who exercised share options	**—**	1
Number of Directors in respect of whose qualifying services shares were received or receivable under long-term incentive schemes	**2**	3

Notes to the consolidated financial statements continued

For the year ended 31 December 2015

28. Subsidiaries

The companies listed below are all subsidiaries of the Dialight Group as at 31 December 2015. Those companies stated in table a) below are those, in the opinion of Directors, which principally affect the revenue, profit or assets of the Dialight Group. The remaining companies that comprise the Dialight Group are set out in table b) below and are included in compliance with Statutory Instrument No. 980 The Companies, Partnerships and Groups (Account and Reports) Regulations 2015. The investment is held directly by the Company except for those companies indicated by an *.

(a) Trading companies

Name	Percentage owned	Country of incorporation	Principal activity
Dialight Corporation*	100%	US	Manufacture and sale of Lighting and Signals and Components products
Dialight Europe Limited	100%	England and Wales	Manufacture and sale of Lighting and Signals and Components products
Dialight Garufo GmbH*[1]	100%	Germany	Sale of Lighting and Signals and Components products
Dialight BTI A/S[2]	100%	Denmark	Manufacture and sale of Lighting products
Dialight ILS Australia Pty Limited*	75%	Australia	Sale of Lighting products
Dialight Asia Pte. Ltd*	75%	Singapore	Sale of Lighting products
Dialight Penang Sdn. Bhd.*	100%	Malaysia	Sale of Lighting products
Dialight Do Brasil Tecnologia Ltda*	75%	Brazil	Sale of Lighting products

1 Dialight Garufo GmbH changed its name to Dialight GmbH on 28 January 2016.

2 Dialight BTI A/S changed its name to Dialight A/S on 1 January 2016.

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 loss for the period attributable to non-controlling interests is less than £0.1m (2014: less than £0.1m) and their share of equity is £0.1m (2014: £0.1m).

(b) Other companies

Name	Percentage owned	Country of incorporation	Principal activity
Belling Lee Limited	100%	England and Wales	Intermediary holding company
Dialight Disconnect Limited	100%	England and Wales	Non-trading
Dialight Lumidrives Limited	100%	England and Wales	Non-trading/intermediary holding company
Optino Limited*	100%	England and Wales	Dormant
PED Limited*	100%	England and Wales	Dormant
Roxboro Analytical Limited	100%	England and Wales	Non-trading
Roxboro Limited	100%	England and Wales	Non-trading
Roxboro Overseas Limited	100%	England and Wales	Non-trading/intermediary holding company
Roxboro Technology	100%	England and Wales	Dormant
Shildon Controls Limited*	100%	England and Wales	Non-trading
Shildon Investments Limited	100%	England and Wales	Non-trading/intermediary holding company
The Roxboro Trust Company Limited	100%	England and Wales	Dormant
The Roxboro UK Pension Trustee Limited*	50%	England and Wales	Corporate pension fund trustee
WGL (2003) Limited	100%	England and Wales	Non-trading/intermediary holding company
Zoomclose Limited*	100%	England and Wales	Dormant
Dialight de Mexico, S. de R.L. de C.V.*	100%	Mexico	Non-trading
Dialight Latin America, S. de R.L. de C.V.*	100%	Mexico	Non-trading
CRL Components, Inc*	100%	US	Dormant
Roxboro Analytical Inc*	100%	US	Non-trading
Roxboro Holdings Inc*	100%	US	Non-trading/intermediary holding company
Roxboro Metrology Inc*	100%	US	Non-trading

29. Contingent consideration

	2015	2014
Balance at 1 January	**0.3**	3.3
Change in fair value (note 8)	**—**	0.1
Effects of foreign exchange movement	**—**	—
Reduction due to settlement (note 6)	**—**	(3.1)
Payment in the year	**(0.3)**	—
Balance at 31 December	**—**	0.3

The contingent consideration related to the purchase of Airinet, Inc. in 2012.

30. Post balance sheet events

The Group is restructuring its manufacturing footprint in order to reduce excess capacity and overhead. As a result, the Group has announced on 8 March 2016 that it will close its UK manufacturing plant and that it also has signed a manufacturing partnership with Sanmina.

The non-underlying costs in 2016 relating to these and other strategic initiatives are expected to be around £12m, with cumulative cost savings of approximately £12m over the next three years.

Company balance sheet (prepared under FRS 102)

At 31 December 2015

	Note	2015 £'m	2014 £'m
Fixed assets			
Tangible assets	34	**—**	—
Investments	35	**17.4**	17.3
Debtors	39	**25.6**	25.0
		43.0	42.3
Current assets			
Debtors	39	**16.8**	16.6
Cash		**0.5**	0.6
		17.3	17.2
Creditors			
Amounts falling due within one year			
Other creditors	40	**(8.0)**	(6.3)
Borrowings	41	**(9.3)**	(7.3)
Current liabilities		**(17.3)**	(13.6)
Net current assets		**—**	3.6
Total assets less current liabilities		**43.0**	45.9
Net assets excluding pension fund liability		**43.0**	45.9
Pension fund asset	45	**0.2**	—
Net assets including pension fund liability		**43.2**	45.9
Capital and reserves			
Called up share capital	43, 44	**0.6**	0.6
Capital redemption reserve	44	**2.2**	2.2
Other reserve	44	**2.0**	1.9
Profit and loss account	44	**38.4**	41.2
Equity shareholder funds		**43.2**	45.9

The accompanying notes form part of the financial statements.

These financial statements were approved by the Board of Directors on 8 March 2016 and were signed on its behalf by:

Michael Sutsko, Group Chief Executive

Fariyal Khanbabi, Group Finance Director

31. Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and to the preceding year.

(a) General information and basis of accounting

Dialight plc is a company incorporated in the United Kingdom under the Companies Act. The address of the Registered Office is given on the inside front cover of this Annual Report and Accounts. The Company is a holding company that manages the other trading subsidiaries of the Dialight Group.

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with Financial Reporting Standard 102 ("FRS 102") issued by the Financial Reporting Council.

The prior year financial statements were restated for material adjustments on adoption of FRS 102 in the current year. For more information see note 33.

The functional currency of Dialight plc is considered to be UK Sterling because that is the currency of the primary economic environment in which the Company operates.

(b) Going concern

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for a period no shorter than twelve months from the date of this report. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

(c) Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life, which is between three and ten years.

(d) Financial instruments

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

(i) Financial assets and liabilities

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

The Company's debt instruments are subsequently measured at amortised cost using the effective interest method.

Debt instruments that are classified as payable or receivable within one year on initial recognition and which meet the above conditions are measured at the undiscounted amount of the cash or other consideration expected to be paid or received, net of impairment.

(ii) Investments

Investments in subsidiaries and associates are measured at cost less impairment. For investments in subsidiaries acquired for consideration, including the issue of shares qualifying for merger relief, cost is measured by reference to the nominal value of the shares issued plus fair value of other consideration. Any premium is ignored.

(iii) Equity instruments

Equity instruments issued by the Company are recorded at the fair value of cash or other resources received or receivable, net of direct issue costs.

(e) Impairment of assets

Assets, other than those measured at fair value, are assessed for indicators of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss.

Notes to the Company financial statements continued
For the year ended 31 December 2015

31. Accounting policies continued
(f) Taxation
Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

(g) Employee benefits
The Company operates both defined benefit and defined contribution plans. The assets of all 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.

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

Other long-term employee benefits are measured at the present value of the benefit obligation at the reporting date.

(h) Foreign currency
Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date.

Exchange differences are recognised in profit or loss in the period in which they arise.

(i) Leases
Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term.

(j) Share-based payment
The Company grants to its employees rights to its equity instruments of Dialight plc. 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 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.

32. Critical accounting judgements and key sources of estimation uncertainty
In the application of the Company's accounting policies, which are described in note 30, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The Directors consider that there are no critical accounting judgements or key sources of estimation uncertainty within the Company's individual financial statements.

33. Explanation of transition to FRS 102

This is the first year that the Company has presented its financial statements under Financial Reporting Standard 102 ("FRS 102") issued by the Financial Reporting Council. The following disclosures are required in the year of transition. The last financial statements under previous UK GAAP were for the year ended 31 December 2014 and the date of transition to FRS 102 was therefore 1 January 2014. As a consequence of adopting FRS 102, a number of accounting policies have changed to comply with that standard, although none have had a material impact on the recognition or measurement of balances within these financial statements.

There are therefore no reconciling items within either equity or profit and loss between balances reported under previous UK GAAP and balances reported under FRS 102 for the year ended 31 December 2014.

34. Fixed assets

	Fixtures, fittings and equipment £'m
Cost	
At 1 January 2015	0.2
Additions	—
At 31 December 2015	**0.2**
Depreciation	
At 1 January 2015	(0.2)
Charge for the year	—
At 31 December 2015	**(0.2)**
Net book value at 31 December 2015	**—**
Net book value at 31 December 2014	—

No assets of the Company are held under finance leases.

35. Fixed asset investments

Investments in subsidiary undertakings

	£'m
Cost	
At 1 January 2015	22.1
Share-based payment	0.1
At 31 December 2015	**22.2**
Provisions	
At 1 January 2015	(4.8)
Profit and loss account	—
At 31 December 2015	**(4.8)**
Net book value at 31 December 2015	**17.4**
Net book value at 31 December 2014	17.3

In accordance with Section 26 of FRS 102 "Share-based Payment" the cost of investment is increased to reflect the cost of share options awarded to employees of the Company's subsidiaries.

A full list of subsidiaries of the Company is provided in note 28 on page 100.

Notes to the Company financial statements continued

For the year ended 31 December 2015

36. Financial risk management

The Company has exposure to market risk and liquidity risk from its use of financial instruments. The overall framework for managing risk and the interest rate risk that affects the Company is discussed in note 23.

All carrying values are considered to be fair values.

A sensitivity analysis has been carried out in note 23 and is considered to not be materially different from the results for the Company only.

Foreign currency risk

The Company holds monetary assets and liabilities in currencies other than UK Sterling. The majority of these relate to inter-company balances which provide a natural hedge elsewhere in the Group.

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

	2015 $'m	**2015 £'m**	2014 $'m	2014 £'m
Currency cash	**0.1**	**—**	—	—
Other creditors	**—**	**—**	—	(0.5)
Gross balance sheet exposure	**0.1**	**—**	—	(0.5)

The exchange rates applied during the year are disclosed in note 23.

Liquidity risk

The Company's exposure to liquidity risk relates to its borrowings. This is discussed in note 23.

37. Share-based payments

Share-based payments are described in full in note 19.

PSP

The PSP relating to employees of the Company is disclosed on page 51 in the Remuneration report.

Save as you earn ("SAYE")

The options under the SAYE relating to employees of the Company are as follows:

	2015 Scheme	2014 Scheme
Outstanding at 1 January	**—**	171
Granted during the year	**257**	—
Forfeited during the year	**—**	(157)
Outstanding at 31 December	**257**	14

Details on assumptions and inputs used in the calculation of share-based payment amounts are disclosed in note 19.

38. Key management personnel

The main Board Directors are considered to be the Company's key management personnel. Details of their compensation is disclosed in note 27.

39. Debtors

	2015 £'m	2014 £'m
Amounts owed by subsidiary undertakings	**42.1**	41.1
Other debtors	**0.2**	0.4
Deferred tax asset (note 42)	**0.1**	0.1
	42.4	41.6
Less non-current portion: amounts owed by subsidiary undertakings	**(25.6)**	(25.0)
Current portion	**16.8**	16.6

40. Creditors

	2015 £'m	2014 £'m
Amounts falling due within one year:		
Amounts owed to subsidiary undertakings	**6.6**	5.3
Accruals and deferred income	**1.4**	1.0
	8.0	6.3

41. Borrowings

	2015 £'m	2014 £'m
Unsecured borrowings falling due within one year	**9.5**	7.6
Upfront loan facility costs	**(0.2)**	(0.3)
	9.3	7.3

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. Amongst the covenants attached to the facility are requirements related to the net debt to EBITDA ratio of the Group and interest cover. During the year and subsequently, the Group has operated well within those covenants.

At 31 December, £9.5m was drawn on the facility (2014: £7.6m).

42. Deferred tax assets

	2015 £'m	2014 £'m
At 1 January	**0.1**	0.1
Prior year adjustment	**—**	—
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 39)	**0.1**	0.1
Pension liability (see note 45)	**—**	—
	0.1	0.1

Notes to the Company financial statements continued
For the year ended 31 December 2015

43. Called up share capital

	2015 Number	2015 £'m	2014 Number	2014 £'m
Allotted and fully paid				
Ordinary shares of 1.89 pence each	**32,503,258**	**0.6**	32,503,258	0.6
Shares classified as liabilities		**—**		—
Shares classified in shareholder funds		**0.6**		0.6
		0.6		0.6

During the year, no shares were issued. The ordinary shares issued have the same rights as the other shares in issue.

44. 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 2015	0.6	2.2	1.9	41.2	45.9
Profit for the year	—	—	—	0.5	0.5
Dividends to shareholders	—	—	—	(3.2)	(3.2)
Share-based payments	—	—	0.1	—	0.1
Actuarial loss on pension plan	—	—	—	(0.1)	(0.1)
At 31 December 2015	**0.6**	**2.2**	**2.0**	**38.4**	**43.2**

At 31 December 2015 the number of shares held by the Group through the ESOT was 9,606 ordinary shares (2014: 9,606). The market value of these shares at 31 December 2015 was £43,227 (2014: £77,809).

The profit for the year was £0.5m (2014: £0.6m). Net expenses recognised directly in equity relate to the net actuarial gain (net of deferred tax) arising in respect of the pension scheme.

	2015 £'m	2014 £'m
Profit and loss reserve excluding pension liability	**38.5**	41.3
Pension reserve	**(0.1)**	(0.1)
Profit and loss reserve	**38.4**	41.2

Reconciliation of movement in shareholders' funds

	2015 £'m	2014 £'m
Profit for the year	**0.5**	0.6
Dividends paid	**(3.2)**	(4.8)
Dividends on shares awarded under the PSP	**—**	(0.1)
Actuarial loss on pension plan	**(0.1)**	(0.1)
Share-based payments, net of tax	**0.1**	0.2
Net reduction to shareholder funds	**(2.7)**	(4.2)
Opening shareholder funds	**45.9**	50.1
Closing shareholder funds	**43.2**	45.9

44. 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	2015 £'m	2014 £'m
Nil pence per ordinary share (2014: 9.8 pence)	—	3.2

During the year the following dividends were paid:

	2015 £'m	2014 £'m
Final – 9.8 pence (2014: 9.5 pence) per ordinary share	**3.2**	3.1
Interim – nil pence (2014: 5.2 pence) per ordinary share	—	1.7
	3.2	4.8
Dividends accrued on shares awarded under the PSP but not yet vested	—	0.1
Total (amount shown in the statement of changes in equity)	**3.2**	4.9

45. Pensions

The Company operates a defined contribution plan and a defined benefit pension arrangement called the Roxboro UK Executive Pension Fund (the "Executive Fund"). The Executive Fund provides benefits based on final salary and length of service on leaving. The Executive Fund is closed to new members. The following disclosures exclude any allowance for defined contribution funds operated by the Company.

The Executive Fund is subject to the "Statutory Funding Objective" under the Pensions Act 2004. An actuarial valuation of the Executive Fund is carried out at least once every three years to determine whether the Statutory Funding Objective is met. As part of the process the Company must agree with the Trustees of the Executive Fund the contributions to be paid to address any shortfall against the Statutory Funding Objective.

The most recent actuarial valuation was carried out on 5 April 2014. The results of that valuation were projected by an independent qualified actuary to 31 December 2014 allowing for Executive Fund cash flows and changes in the assumptions for FRS 102 purposes.

Recognised assets for defined benefit obligations

	2015 £'m	2014 £'m
Present value of funded obligations	**(2.0)**	(2.1)
Fair value of plan assets	**2.2**	2.1
Recognised asset for defined benefit obligations	**0.2**	—

Plan assets consist of the following:

	2015 £'m	2014 £'m
Bonds	**1.9**	1.9
Cash	**0.2**	0.2
	2.1	2.1

The assets do not include any investments in shares of the Company.

Notes to the Company financial statements continued

For the year ended 31 December 2015

45. Pensions continued

Movements in the present value of defined benefit obligations

	2015 £'m	2014 £'m
Liabilities at 1 January	**2.1**	1.8
Interest cost	**0.1**	0.1
Benefits paid	**(0.1)**	(0.1)
Experience loss on defined benefit obligation	**—**	0.1
Changes to financial assumptions	**(0.1)**	0.2
Liabilities at 31 December	**2.0**	2.1

Movements in fair value of plan assets

	2015 £'m	2014 £'m
Assets at 1 January	**2.1**	1.9
Interest on assets	**0.1**	0.1
Employer contributions	**0.1**	0.1
Benefit paid	**(0.1)**	(0.1)
Return on plan assets less interest	**(0.1)**	0.1
Assets at 31 December	**2.1**	2.1

Expense recognised in the profit and loss account

	2015 £'m	2014 £'m
Interest on obligation	**0.1**	0.1
Interest on plan 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)	
	2015	2014
Discount rate at 31 December	**3.70**	3.40
Future pension increases	**3.20**	3.20
Inflation – RPI	**3.20**	3.20
Inflation – CPI	**2.30**	2.30

For its UK pension arrangements the Group has, for the purpose of calculating its liabilities as at 31 December 2015, 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 26.6 years for females. For individuals currently aged 65 years the average life expectancy is 22.3 years for males and 24.9 years for females.

46. Related party transactions

During the period, the Company received management fees from subsidiaries that are not wholly owned totalling £nil (2014: £nil) and received interest totalling £nil (2014: £nil) on intercompany loans to those subsidiaries. At 31 December, a total of £1.9m was owed to the Company by those subsidiaries (2014: £2.0m).

47. Statement of cash flows

	31 December 2015 £'m	31 December 2014 £'m
Operating activities		
Profit for the year	**0.5**	0.6
Adjustments for:		
Depreciation of property, plant and equipment	**—**	0.1
Share based payments	**0.1**	0.2
Finance income	**(2.7)**	(2.5)
Financial expense	**0.5**	0.2
Operating cash flow before movements in working capital	**(1.6)**	(1.4)
Increase in debtors	**(0.3)**	(0.5)
Increase/(decrease) in other creditors	**1.7**	(1.0)
Cash generated from operations	**(0.2)**	(2.9)
Interest received	**1.4**	1.2
Interest paid	**(0.5)**	(0.2)
Net cash generated from operating activities	**0.9**	1.0
Financing activities		
Dividends paid	**(3.2)**	(4.8)
Drawdown of bank facility	**2.4**	7.6
Payment of upfront loan facility costs	**—**	(0.3)
Net cash (used in)/generated from operating activities	**(0.8)**	2.5
Net (decrease)/increase in cash and cash equivalents	**(0.1)**	0.6
Cash and cash equivalents at beginning of year	**0.6**	—
Cash and cash equivalents at end of year	**0.5**	0.6

Five-year summary

	Prepared under IFRSs				
	2015 £'m	2014 £'m	2013 £'m	2012* £'m	2011* £'m
Revenue	**161.4**	159.8	131.2	115.1	102.5
Research and development cash expenditure	**5.5**	6.2	5.9	5.0	5.1
Underlying operating profit	**6.1**	18.1	14.5	19.6	15.5
Non-underlying operating loss	**(9.5)**	(2.3)	(2.9)	—	(0.1)
Finance (charges)/income	**(0.5)**	(0.3)	(0.4)	0.2	(0.6)
(Loss)/profit before gain on disposal of discontinued operations and taxation	**(3.9)**	15.5	11.2	19.8	14.8
Cash generated from operating activities	**8.7**	8.6	6.9	13.8	12.4
Net (debt)/cash	**(3.8)**	0.6	7.1	15.0	13.7
Shareholders' funds	**70.1**	72.8	66.7	63.0	54.8

Statistical information	Pence	Pence	Pence	Pence	Pence
Basic earnings per ordinary share from continuing operations	**(6.4)**	29.4	23.9	41.4	31.3
Dividends per share	**9.8**	15.0	14.4	13.5	10.0
Dividend cover (times)	**n/a**	2.0	1.7	3.2	3.0
Underlying operating margin	**3.7%**	11.2%	11.1%	17.0%	15.1%

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

Directory and shareholder information

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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.

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

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 0345 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 and Vigilant, and are the registered trade marks of the Dialight Group.

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Financial calendar 2016/2017

Annual General Meeting
26 April 2016

Half Yearly Financial Report
2 August 2016

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