Dialight

Dialight plc
Annual Report and Accounts 2016

A VISIBLE DIFFERENCE

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Find more online:
www.dialight.com

Revenue (£'m)

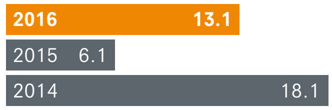
£182.2m

Underlying gross profit (£'m)

£69.5m

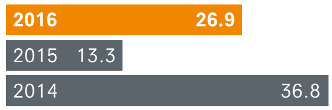
Underlying operating profit (£'m)

£13.1m



Underlying basic EPS (p)

26.9p



Statutory measures

	2016	2015	2014
(Loss)/profit from operating activities (£'m)	**(3.3)**	(3.4)	15.8
(Loss)/profit for the year (£'m)	**(2.8)**	(2.0)	9.5
Earnings per share (p)	**(8.4)**	(6.4)	29.4

Financial highlights

— Revenue up 13% (2% at constant currency).
— Lighting division order intake[1] up 8% at constant currency.
— Underlying profit growth reflecting management action to reduce cost base and improve operating model.
  – Profit in Lighting and Signals & Components grew by £6.7m and £2.2m respectively.
— Operating model changes reflected in non-underlying items charge of £16.4m; additional £2 – £3m final costs in 2017.
— Strong balance sheet supported by good working capital management and new five-year credit facility.

Strategic and operational highlights

— Rebuild phase largely complete.
— Growth initiatives underway.
  – Higher quality sales teams with broader international presence.
  – Three automation partnerships in progress, broadening our channels to market and value proposition.
— Investment in product roadmap: 37 new products launched.
— Revenues diversified, by sector and geography.

[1] Order intake is the value of orders received in a given period.

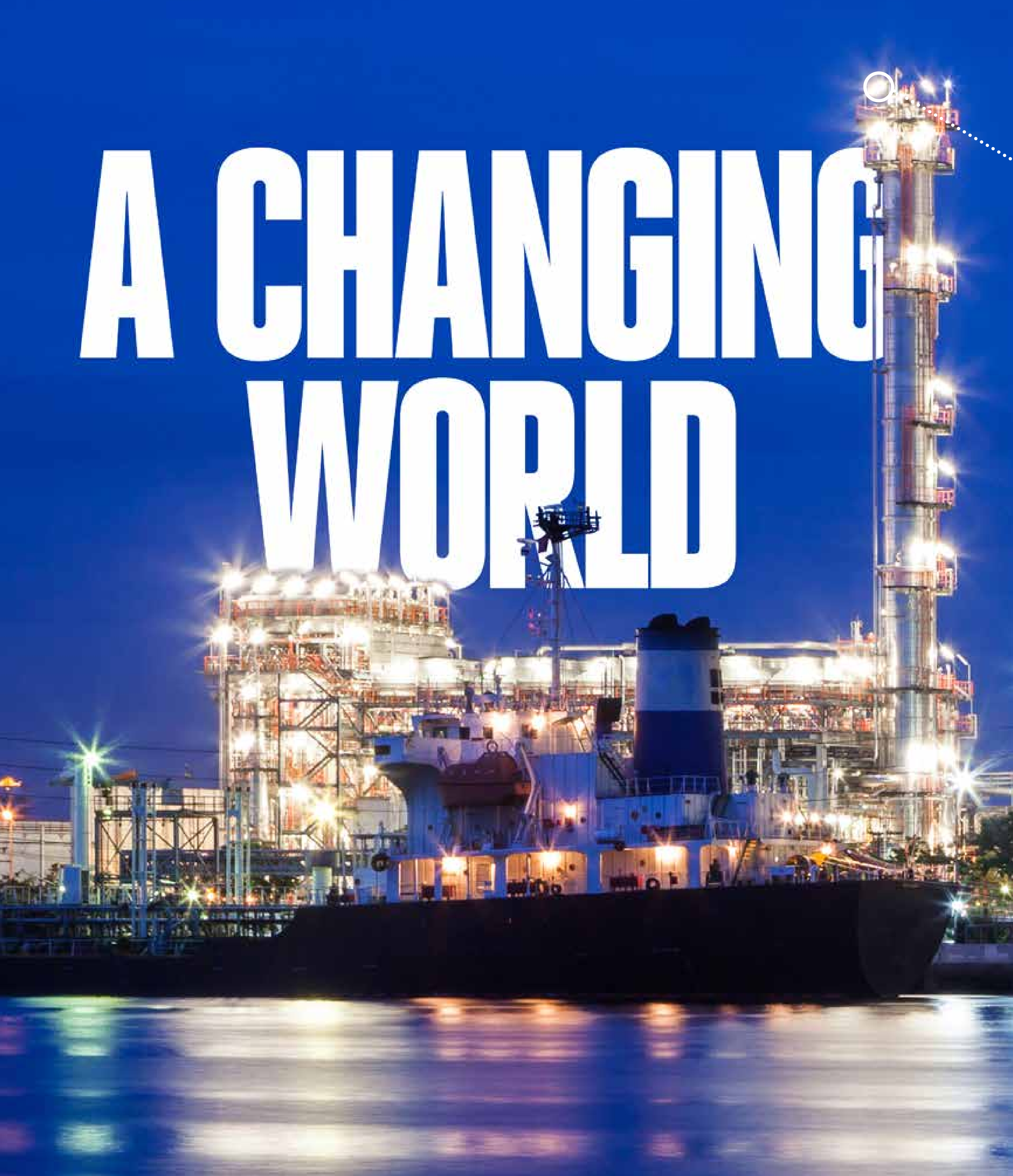
WHERE DOES THE NEXT SOLUTION COME FROM? HOW ARE PRODUCTS CONCEIVED?

Dialight defines the current state of LED lighting technology with our high-specification range of products. We are uniquely positioned for a number of long-term global growth trends.

Our people are the key to our success, understanding customers' needs and anticipating how they are changing. In today's global business environment, challenges are greater than ever. To continue to deliver market-leading, innovative products, we must think big and maintain an open mind, systematically researching and analysing each of our key markets and fostering an environment of enquiry and a pursuit of knowledge within the business.

Our employees are always looking ahead to answer the question "What's next?" This allows us to lead the energy efficient LED lighting revolution for industrial and hazardous applications. We are continuing to develop LED lighting solutions that enable our customers to lower their energy usage and carbon dioxide emissions, reduce maintenance requirements and improve safety while integrating key information within their operations.

A CHANGING WORLD



Leader in a changing world

Since the invention of incandescent bulbs there have been very few real innovations in the lighting industry. For Dialight customers lighting remains one of the most efficient ways to drive down energy usage. We are delivering the next generation of lighting solutions that not only reduce energy consumption but create a safer working environment. Our products are specifically designed to provide superior operational performance, reliability and durability, reducing energy consumption and ongoing maintenance and achieving a rapid return on investment.

Making a visible difference

Innovation in the lighting industry is leading to the development of products that combine lighting systems with network sources into a single platform. Dialight has taken advantage of this trend by adding building automation systems and enabling the "Internet of Things" into its product portfolio. The concept allows building owners to control individual systems within their buildings via a single platform. The "Internet of Things" allows the lighting fixture to collect data throughout the building, paving the path for the development of smart buildings.

MAKING A VISIBLE DIFFERENCE

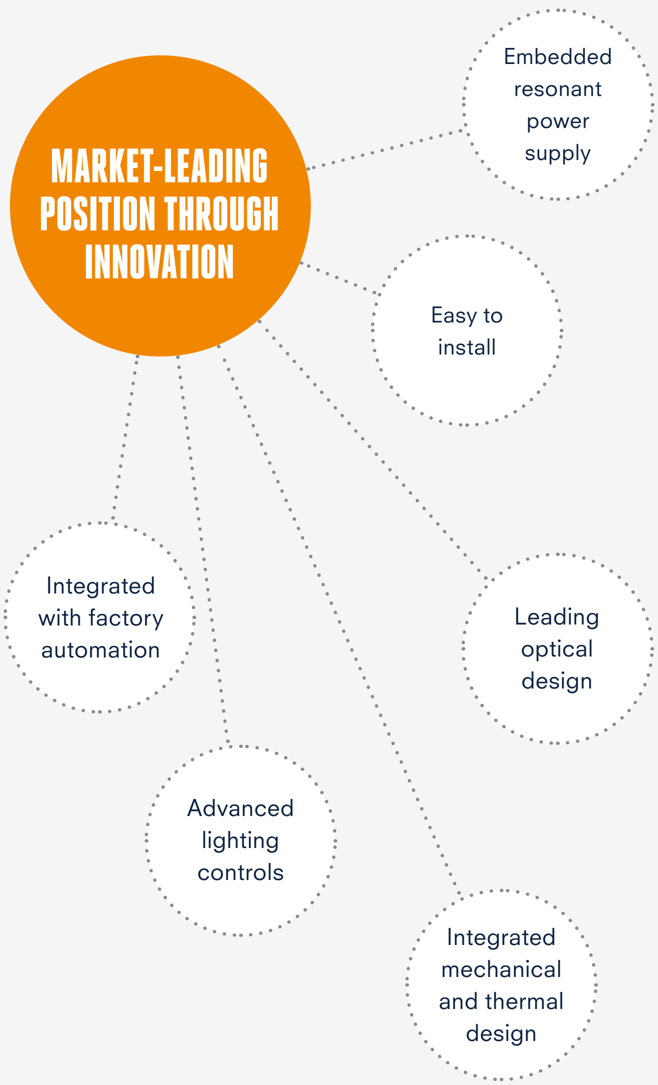
NO LONGER A LUXURY

The importance of sustainability

Sustainability will play a particularly important role in how businesses respond to this new world. Corporate responsibility used to be a "luxury" that businesses liked to look enthusiastic about. But perspective has changed. Sustainability is becoming the lens through which a business is judged by its consumers, workforce, society and its investors.

STRONG MARKET POSITIONING

Dialight's ability to rapidly develop and commercialise innovative and technological advancements has positioned us with significantly differentiated products resulting in the lowest total cost of ownership for our customers. As a result, we have taken a leading market position ahead of competition in our core vertical markets.



OUR DIVISIONS

LIGHTING

Overview of the business

Dialight is an innovative lighting solutions company that manufactures and sells lighting products in the industrial market. They are designed to work in harsh environments and enhance productivity while providing sustainable energy management solutions.

Growth drivers

The total addressable industrial market is estimated to be £50bn with only 3% cumulative conversion to LED. We believe the LED market will grow at a rapid pace with the overall market tailwinds and LED conversions becoming common as traditional lighting is phased out.

Operational key points

Restructuring of our manufacturing processes through a manufacturing partnership will support our growth initiatives. We develop our own power supply units, which allows us to provide an industry leading ten-year warranty.

Revenue (£'m)

2016	136.6
2015	120.6

75% of Group revenue

Underlying gross profit (£'m)

2016	57.4
2015	48.3

83% of Group underlying gross profit

Underlying operating profit (£'m)

2016	13.5
2015	6.8

73% of Group underlying segmental operating profit

SIGNALS AND COMPONENTS

Overview of the business

The Signals and Components division sells electronic components, traffic lights and niche vehicle lights. In Traffic and Transportation, Dialight provides LED lighting for signals, while the Components businesses include sales to electronic original equipment manufacturers ("OEMs") for status indication and components for automotive and niche industrial applications.

Growth drivers

This is a mature and stable market characterised by significant competition. We have been able to maintain our sales volumes while the Group manages this business for value.

Operational key points

We have a stable portfolio of products that continue to be managed for value. Operational improvements ensure stability of margin in a market where sales prices are under threat.

Revenue (£'m)

2016	45.6
2015	40.8

25% of Group revenue

Underlying gross profit (£'m)

2016	12.1
2015	7.9

17% of Group underlying gross profit

Underlying operating profit (£'m)

2016	4.9
2015	2.7

27% of Group underlying segmental operating profit

AN AWARD WINNING PORTFOLIO

NADCA

International Die Casting Competition 2016

Dialight Corp 60K LED Housing

For Excellence in Aluminum Die Casting Over 10lbs

INITIATIVES UNDER WAY TO DRIVE LONG-TERM SUSTAINABLE GROWTH

GOVERNANCE HIGHLIGHTS

The Governance report on pages 42 to 78 provides details of the Group's approach to governance and how it supports the delivery of our strategy. Highlights for the year included:

Nominations Committee

— Appointed three new Non-Executive Directors.
— Monitored the inductions of those Directors.
— Reviewed the pipeline of potential future Board members.

— **Read more in the Nominations Committee report on pages 56 and 57.**

Audit Committee

— Reviewed significant judgements made by management in preparing the 2016 financial statements.
— Monitored the Group's systems of risk management and internal controls.
— Supported the Board in providing the viability statement.

— **Read more in the Audit Committee report on pages 52 to 55.**

Remuneration Committee

— Reviewed the framework for executive remuneration.
— Consulted with shareholders with respect to the Executive Directors' remuneration for 2017.
— Approved the Executive Directors' 2016 bonus payments, assessed the Executive Directors' performance against 2016 targets and set their 2017 bonus targets.

— **Read more in the Remuneration Committee report on pages 58 to 74.**

Dialight has made excellent financial and operating progress in 2016. The Group delivered sales and underlying profit growth and took steps operationally which will ensure the business can deliver durable long-term profit growth. The core markets for our products remain robust despite near-term volatility, and intelligent lighting solutions continue to grow.

Our management team has responded by improving sales, product management and operating capabilities which will be leveraged further in coming years. We continue to believe the pace of LED conversion will continue to grow in the near term as traditional lighting solutions are phased out. As a result, the Board is confident in the Group's compelling opportunities in the future.

Results

Dialight delivered 2016 revenues of £182m and underlying operating profit of £13m. The Lighting segment generated an underlying operating profit of £14m reflecting a return to more normal levels as it continued rebuilding its organisation. The Signals and Components business generated an underlying operating profit of £5m. Restructuring costs in support of our three-year strategic plan were £16m resulting in a loss for the year of £3m. The Group ended the year with a strong cash balance of £8m and a new banking facility.

Our people

Changes were made to the senior management team in 2015 and 2016, including the hire of Michael Sutsko as Chief Executive. These changes were aimed at attracting people with the specific skills and experiences to support the Group's strategy and growth plans. Overall, under Michael's leadership, the team has made strong progress in improving sales and operational capabilities, controls and investment discipline as evidenced by our 2016 financial performance. The Board believes the management team is capable of achieving

growth and being a leader in the emerging LED market. We are committed to the safety and wellbeing of our people and reduced our accident incidence rate by 50% during the year.

Dividend

The Board ensures there is a strong capital base. Therefore no final dividend was declared for 2015 and the 2016 interim dividend. Given the Group's continued focus on the delivery of profitable growth, the Board has therefore not proposed a dividend for the year ended 31 December 2016.

The Board and corporate governance

The Board is committed to good governance, which we believe will support the delivery of the Group's strategy. In light of the Group's plan for future growth, we reviewed the composition of the Board to ensure that it has the correct balance of skills, experience and knowledge. As a result we are pleased to appoint David Thomas, Martin L. Rapp and Gaelle Hotelier.

Outlook

The Group's order book provides a resilient backdrop for the year ahead. The Group continues to perform well in growing market sector diversity. We are continuing with our productivity and efficiency initiatives to mitigate the impact of the challenging macroeconomic environment and will focus even more intently on optimising our future revenue growth opportunities. We remain focused on growing the business through improving operational efficiencies and investing in new technology to underpin that growth.

Finally, I would like to thank all our people and the Board for their hard work and commitment to Dialight, and to thank our shareholders for their support over the past 12 months.

Wayne Edmunds
Chairman
27 February 2017

INVESTMENT CASE

Dialight offers a sound and attractive investment proposition, based on the following investment attributes that combine to deliver significant shareholder value:

Market leader in an attractive underlying market

— Significant growth opportunity with the market only 3% converted to LED.

— Leading market position in the US, with a 50% share and 21% in the rest of the world.

Leading technology

— High barriers to entry supported by continuous innovation and long-term customer relationships.

— Strong intellectual property underpinned by sustained investment in R&D of 3–4% of revenue each year.

— Application expertise: our people have in-depth know-how and expertise in their chosen fields.

— We are increasingly focused not just on the supply of lighting fixtures but on the provision of innovative solutions to our customers, where lighting becomes more than just a light.

Diversified end markets

— Focused on customer solutions in niche markets with strong growth potential.

— Enhancing customers' productivity is an ever-present growth driver for our business.

— Broad spread of customers, end markets and geographies mitigates the risk to the Group from adverse changes to any single geography or end market.

Multiple channels to market

— The Group has multiple channels to market through established distribution networks and sales direct to end customers.

— Extending sales approach to target corporate decision makers, highlighting sustainability and total cost of ownership.

Strong cash conversion resulting from asset-light manufacturing model

— Low capital requirements as result of forming manufacturing partnerships.

— High gross margins and low capital requirements result in strong operating cash conversion.

Balance sheet strength and discipline

— Strong balance sheet ensures considerable financial firepower and flexibility.

SIGNIFICANT PROGRESS WITH STRATEGY IMPLEMENTATION

£13.1M
Underlying EBIT

A clear strategic vision
"We have a clear growth strategy, a simple financial model and a customer-focused organisation which enables the business to adapt to changing market opportunities."

Michael Sutsko, Group Chief Executive

£182.2M
Group revenue

Q&A WITH MICHAEL SUTSKO

Q: How would you summarise the past year?
A: We have executed phase one of our plan to rebuild, lead and grow Dialight to capture the industrial LED market opportunity. This strategy is progressing well and has fundamentally improved the Group's operating model, positioning it for long term sustainable growth. This progress is reflected in our financial results. We have made tremendous progress on the strategic vision I set out in last year's report. With a focus on maintaining our technology lead in Lighting, we have improved the quality of our earnings by building enhanced capabilities across multiple industrial segments and geographies. We have invested in building a scalable manufacturing operation and improving our business processes. As we successfully execute the early phase of our three year strategy, we are looking to use the additional scope and capability to deliver growth.

Q: Can you explain the results and the divisional performance?
A: In the year, we delivered an increase in underlying profit and cash flow on revenue growth of 13% (2% at constant currency). This was a particularly encouraging result in the context of uncertain market conditions. Group revenue was £182.2m (2015: £161.4m), including a favourable currency exchange impact of £17.9m. The US and Europe, which generate the majority of our revenues, were broadly flat on a constant currency basis. Underlying operating profit increased to £13.1m (2015: £6.1m), including a favourable exchange impact of £1.5m. Our lighting order intake for 2016 was up 8% to £139.8m (at constant currency) over 2015, reflecting early signs of progress in our strategic initiatives. Strong performance at a segment level saw a £6.7m increase in the operating profit of the Lighting division and a £2.2m increase in Signals and Components.

Dialight has a strong balance sheet supported by good working capital management and a new five-year credit facility. The Group's continued focus on working capital management delivered net cash from operations of £16.3m (2015: £8.7m). We continued to invest in long-term growth with net investment in capital expenditure of £3.9m (2015: £3.3m). The critical part of our strategy to rebuild for long-term growth resulted in non-underlying costs of £16.4m. These costs were predominately non cash with £5.1m relating to intangible assets. Further details are in the Financial Review. We finished the year with net cash of £8.0m and the Group refinanced its existing revolving credit facility of £25.0m with HSBC for a further 5 years ensuring significant financial flexibility.

Q: How has the Company maintained the advantage of differentiated technology and a strong brand?
A: The need for enhanced light and energy management – via controls and sensors – drives demand for our products. This plays to Dialight's strengths and differentiators: proven technology and a market leading position in industrial markets built over a decade as a group purely focused on LED lighting.

The Dialight Difference is a complex mix of technology and channel experience. We are unencumbered by the traditional lighting legacy of our competitors, which enables us to deliver an energy efficient solution that virtually eliminates maintenance costs. Through a robust technology roadmap we are able to quickly bring new products to market. Improvements in quality and delivery have also reinforced the value Dialight brings to its customers.

Innovation in the LED industrial market is increasingly combining lighting systems with network sources, into a single platform. This moves beyond energy and cost savings to providing meaningful improvements in safety and productivity. Dialight is capturing this trend by adding industrial automation systems and enabling the "Internet of Things" into its product portfolio. This allows factory owners to control individual systems within their plants via a single platform, and to collect data as part of the evolution towards smart buildings.

Three automation partnerships are now underway with Rockwell Automation, Honeywell Tridium and INEM (controls and maintenance system for Obstruction Lighting allowing connectivity with network operations centres).

Q: What are the market challenges and opportunities you see for the business?
A: Macroeconomic factors have been challenging, such as limited industrial spending due to low oil and commodity prices. However, there is a large market that is now familiar with LED technology though still unconverted. Dialight is in a leading position to capitalise on this growth opportunity. Our technologies will continue to deliver increasing returns and we expect continued favourable trends in energy and safety regulations.

Q: How is the strategy for sustainable, profitable growth progressing?
A: The first phase of our plan – to rebuild Dialight – is almost complete. Our operating model supports scalable and cost efficient production. By switching to 'platform engineering' (standardising the design of our product parts to be used as the foundation for all of our finished products), we have fundamentally improved supply chain management and streamlined our operations. Platform engineering our products reduces the number of discrete product lines, which in turn has improved forecast accuracy for manufacturing planning and reduced inventory. During 2016, 10 out of 12 product groups moved to platform engineering. The remaining two will follow in mid-2017.

The shift to platform engineering has enabled us to secure a manufacturing partnership with Sanmina (a Fortune 500 company with 44,000 employees worldwide based in 25 countries), giving us greater focus on our design capability. This first phase of the switch to a manufacturing partnership is progressing well, and supports our drive for scalable operations. Three product lines were transferred during 2016, with the balance to be completed by during 2017.

We have closed our factory in Newmarket, UK and are in the process of scaling back the facilities in Mexico.

Further growth initiatives are underway. With continued expansion of our distributor coverage, 47 new distributors were added in 2016. We have also continued to invest in our product roadmap to maintain our technological lead; 37 new products were launched. We have refocused our commercial teams to diversify our sector and geographic exposure and increase the sales to strategic accounts. This has seen a reduction in the reliance on the oil and gas sector from 24% of revenue in 2015 to 16% in 2016. We have a higher quality sales team with broader international experience which has increased our revenue per sales head from £1.2m in 2014 to £1.5m in 2016 at constant currency.

Q: What feedback do you get from customers?
A: Our customers are true Dialight enthusiasts. Our durable products live up to our guarantees and work even when other lights don't. Beyond the compelling financial reason to convert to Dialight lighting, it is the quality and safety of the work environment that we create for our customers that keep them coming back to us for more. This is further strengthened by our warranty.

Q: How does the multi-channel distribution model support the business objectives?
A: Our customers have many options and influences in choosing their lighting solutions. It is vital for Dialight to engage each of these channels and clearly communicate the value we bring, as our products are often purchased through industrial distributors; the benefits of choosing Dialight are also driven through our end use customers and their engineering and automation partners.

Q: How do you see the Group's international ambitions developing?
A: In 2016, Dialight was able to grow its business outside of North America at a greater pace. We have strengthened our European sales team and distribution relationships, and have implemented our technology centre in Copenhagen. In addition, we have seen strong growth in Australia and Brazil.

Q: How do you maintain a technological lead in products?
A: Dialight has deep relationships with its customers across our industrial segments and a strong connection to bring their voice back into our product development teams. This insight, combined with our engineering team's pulse on new technology, create a robust roadmap that will maintain Dialight's competitive advantage for many years. Continued innovation in power management, optics technology, ease of use and safety maintain our difference and lower our customers' cost of ownership.

Q: How is sustainability embedded in the Company strategy, management systems and operating processes?
A: The Group has the world's largest installed base in heavy industrial LED lighting, with over 750,000 LED fixtures worldwide. Dialight fixtures have contributed to a reduction of 1.1 billion kwh of energy consumption.

As we are delivering energy savings and workplace safety to our customers, we believe that we must live by the same values we sell. Dialight is committed to reducing its own carbon footprint, treating our employees and business partners with unwavering respect, and ensuring that we are doing everything possible throughout our supply chain to make the world better each day.

Q: What are the risks and opportunities you see over the next 24 months?
A: The US and global industrial markets continued to be challenging, led by the oil and gas sector. To counter this, Dialight's efforts to develop new opportunities have been successful and we have seen an 8% increase at constant currency in the lighting order book compared to 2016. There was continued growth in non-US markets with Australia up 15% and Brazil up 129%.

Our biggest risk centres on market uncertainty. If industrial capital and operational spending remains at current levels, we will see projects continuing to be delayed. Dialight has prepared for growth by rebuilding the organisation so that we are able to scale our operations. However, a rebound in spending, our own improvements of customers' cost of ownership, and increasing trends in energy and safety regulations provide a significant opportunity to accelerate the large industrial lighting conversion to our technology.

Q: How has the new executive team helped you shape the direction of the business?
A: As part of our rebuild strategy, we have simplified our organisation and built upon the talented team here, with some existing and some new people. Our strongest leaders have brought our entire organisation together to be more collaborative and focused. This executive team has fostered collaboration globally, giving Dialight tremendous capacity to drive growth, sustainability and profitability.

Q: How do your culture and values shape the business and drive performance?
A: Our values centre on unity, a company with a focused strategy globally. Our culture is now one of accountability, performance, collaboration, innovation, trust and respect. These values give us the framework to drive change and accelerate our path to achieving our goals.

Q: So are people generally responding well to the change within Dialight?
A: We have very engaged and energised people in Dialight. The sentiments are those of hard work but fun. The key has been sharing a common vision and strategy while empowering and enabling teams and individuals to share in our direction and leadership. This was my early focus at Dialight and has laid the foundation for our ability to execute changes. The teams can all see where we are headed and how exciting it is becoming.

Q: What is the outlook for the business?
A: 2016 was a year of change for Dialight. We are making good progress with our three-year plan to return to sustainable profit growth. Phase one of the plan, to rebuild our operating model, is largely complete. The sustainability benefits of reduced energy usage, lower carbon emissions, reduced maintenance and improved safety offer real value to our customers. This progress underpinned our encouraging financial performance in challenging market conditions.

Phase two of the plan – growth initiatives to capture the long-term opportunity in LED lighting – is underway, and on track to deliver against our strategic plan. We remain confident of the Group's prospects for 2017 and over the medium to long-term, based on current FX rates.

As set out in the coming pages, we have considered in detail what we need to do to amplify and evolve – strategically and operationally – to secure the next phase of our growth, and to be the company we want to be in a changing world. Through a programme of new initiatives to enhance productivity and efficiency across product and processes, we are confident that Dialight will outperform the sector in the coming years. We will become a more effective organisation in the process, because we will have to think differently and work differently to capture the significant revenue opportunities we have identified. This will bring change and challenge, but it will also energise our whole organisation.

Michael Sutsko
Group Chief Executive
27 February 2017

A STRONG AND ENGAGED MANAGEMENT TEAM

Pictured above are the members of the Dialight Executive Management Committee, which comprises functional heads from all areas of the business including Operations, Engineering, Sales, Finance, Legal and Human Resources.

A CLEAR PLAN TO CAPTURE THE LARGE GROWTH MARKET IN LED LIGHTING

£50BN
Estimated size of industrial lighting market over 20 years

3%
Cumulative adoption rate

32%
Market-leading share

Market size

The total industrial lighting market is estimated to be worth £50bn (source: IHS). The industrial LED lighting market, where Dialight is focused, has a 20-year retro-fit cycle. It is difficult to predict the rate of adoption over the 20-year cycle but it is not expected to be linear. (This excludes markets that Dialight does not currently serve such as China, Russia, India and Africa.)

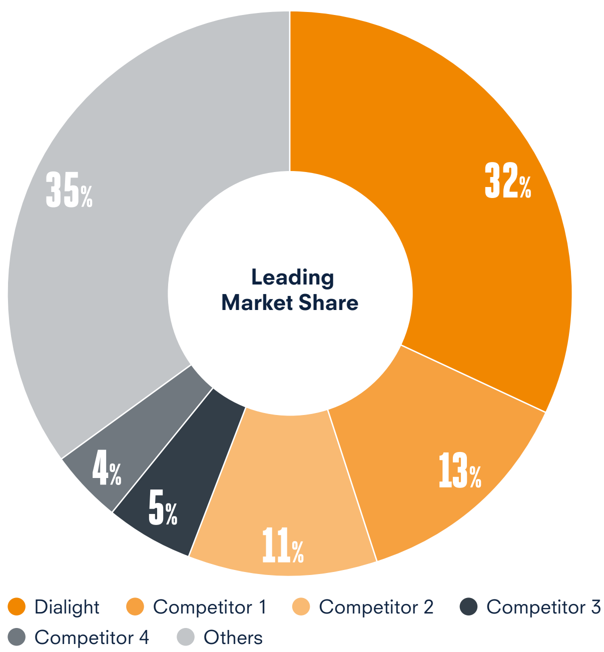
Market penetration

The industrial lighting market is undergoing rapid transformation driven by growing adoption of LED technology and the increasing popularity of connected lighting systems. Cumulative penetration of LED lighting is 3%, thus enabling strong growth potential for some years to come.

Market share

Within the industrial market, Dialight holds the largest share with 32%. This is the same size as the next four competitors combined (source: IHS).

LED technology is driving market share gains



Market sectors

The major market sectors in which the Group operates are:

LED industrial markets	
Energy, utilities and mining	Metal, chemical, petrochemical, oil and gas, steel
Industrial processing and manufacturing	Automotive, food and beverage, pulp and paper, pharmaceutical
Public and infrastructure	Water and sewage, rail and tunnels
Structural	Telecom and broadcast towers, wind turbines

The Group's range of regulatory compliant products that require low maintenance are ideally suited to these environments.

The LED advantage

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.
- Long lifetime: LED lighting lasts up to 15 years, which is 4 times the lifespan of compact fluorescent lighting and 10 times the lifespan of incandescent lighting.
- Enhanced versatility: LED lighting is smaller and more durable and comes in more colours than traditional lighting.

LEDs are revolutionising the lighting market due to their energy efficiency, lifetime, versatility, superior colour quality and ever-improving cost competitiveness. Due to the progression in the LED technology, LEDs have become a broader part of the lighting market, entering markets once held by traditional fixture products. Going forward, LED technology is expected to continue to improve, with increasing efficiency and decreasing prices as well as enabling opportunities for lighting design and energy savings.

This energy savings opportunity is driven largely by the linear fixture, outdoor, and low and high bay products. These products, characterised by high light output and long operating hours, are where increased controllability and networked capabilities will have the greatest value to customers. LEDs installed with traditional control strategies as well as connected capabilities will contribute to a significant portion of the forecast energy savings. Of the forecast annual energy savings by 2035, one-third is expected to be made possible by the penetration of connected LEDs.

Opportunities

These are some of the future opportunities that we anticipate:

- Increased adoption rates as customers embrace the benefits of ownership.
- Increased use of lighting controls to accelerate the adoption curve.
- Increased customer appetite for more sustainable products.
- Regulation which forces adoption and/or provides incentives for adoption.

Risks

These are some of the potential risks faced by the business:

- The Group needs to develop contingency plans to counteract the financial impact of potential tariffs on imports worldwide.
- The Group needs to maintain its market share through the continued development of market-leading products.
- The Group needs to ensure that it anticipates customer demand in order to ensure that it produces the products that the market wants.
- The Group needs to ensure the robustness of its supply chain in order to fulfil demand.

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 Brazil to come, and the EU has recently passed regulations to phase out halogen by 2018 with the US expected to follow suit.

The global lighting market is undergoing rapid transformation driven by growing adoption of LED technology and the increasing popularity of connected lighting systems. US regulation stipulates that lighting in most buildings must be controlled automatically to adjust light usage according to the time of day and occupancy.

In response to regulation and market trends, lighting controls have gathered momentum as a potential method of more intelligently operating lighting systems to save energy. Lighting controls, which include various dimming and sensor technologies used separately or in conjunction with other systems such as timers and daylighting, can, if used properly, yield significant energy savings, as they use feedback from the target environment to provide adequate lighting levels only when needed.

EXTERNAL ENVIRONMENT

Our range of high-specification products mean we are uniquely positioned to benefit from a number of long-term global growth trends, many of which are driven by government regulations and environmental initiatives.

OUR INPUTS

Financial
Strong financial performance through innovation, cost control and high returns on capital.

Product innovation
Developing market-leading products at the forefront of technology within the industrial markets.

Human capital
Dedicated and experienced senior management team with a focus on performance.

Sustainability
Developing products to reduce maintenance and improve safety and environmental efficiency.

Intellectual assets
Protecting our product innovation by patents, trademarks and intellectual property licences, and processes.

Relationships
Dialight has multiple routes to market through established distribution networks and selling directly to the end customer. Our sales approach targets plant managers as well as the corporate decision makers.

— Read more in the Resources, relationships and responsibilities section on pages 28 to 31.

WHAT WE DO

HOW WE CREATE VALUE

Research and analysis

- Investment in technology and product development updating and expanding its product range
- Close integration of power supply, optics and lighting designs

Design and design realisation

- Market-leading products to reduce maintenance, improve safety and reduce energy consumption
- Proof of concept and product return on investment to ensure that key performance indicators ("KPIs") are met

Prototyping

- Pilot plant is being established in the US, and the Group has significant in-house testing capabilities

A flexible supply chain

- We partner on the assembly part of our supply chain to gain flexibility and speed
- We establish distribution networks and sell directly to end customers

Multi-channel distribution model

- Established distribution networks through electrical wholesalers
- Sales directly to end customers
- Automation partnerships continue the expansion of the distribution channels

WHO WE CREATE VALUE FOR

Shareholders
We aim to deliver value to shareholders through the development of sustainability enhancing products which create market demand and generate better returns for shareholders.

Employees
We understand that intelligent innovation requires a way of working that supports the development of new ideas. Our entrepreneurial culture offers a creative working environment with scope for individual responsibility and personal achievement.

Customers
Many of our staff work directly with customers, which enables them to gain a deep understanding of their business and the solutions they need for the challenges they face.

Communities
We provide employment and opportunities for development for staff in 15 countries around the world.

Governments
We support the local economies by creating employment and paying local taxes while helping to reduce carbon footprint through the provision of more energy efficient products.

Competitive strengths
The Group addresses the needs of customers in heavy industrial locations where lighting is seen as mission critical. Dialight focuses on niche markets where its products are designed to meet the certifications and specific requirements of our customers. These are markets with significant barriers to entry as their environments demand continuous, 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.

How our business model and strategy work together
Our business model is based on value creation and value capture. Our strategy creates our unique and valuable position with our target markets.

— **Read more in the Strategy at a glance section on pages 20 to 21.**

Our goal

Our goal is to deliver the most energy efficient, reliable LED lighting solutions available – leading the way in the energy efficient LED lighting revolution for industrial and hazardous applications. We improve safety while integrating as a key information node within our customers' operations.

Our values

Our values are at the core of our business. Our culture is one of openness, honesty and accountability. We believe that businesses thrive by sharing knowledge and experiences. In order to capitalise on the cross fertilisation of ideas, we employ people from a diverse range of backgrounds and industries.

Commitments – All our actions are based on commitments made to each other and our business

Accountability – We empower and are held accountable to deliver results

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

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

Communication – We communicate with our teams; listening and partnering for faster and wiser business decisions

Innovation – We lead the market through our ground breaking technology

Excitement – We thrive on talent and passion. We are a great place for smart people with a passion to work

STRATEGY	ACHIEVEMENTS
1 REBUILD **Develop common production platforms**	— Platform engineering complete for ten out of twelve product lines
Rebuild scalable and efficient operations — Read more in the Strategy in action section on pages 22 to 27.	— Closure of UK manufacturing facility — Transfer of Lighting production to manufacturing partner on track for completion by mid 2017
2 LEAD **Lead the markets in products and technology**	— New product development continues to push the technological boundaries, launching 37 new products in 2016
Advance our sales approach — Read more in the Strategy in action section on pages 22 to 27.	— The proportion of global account sales achieved in 2016
3 GROW **Grow in new sectors and geographies**	— Geographical expansion achieved in Australia and Brazil
Intelligent lighting for safety and productivity — Read more in the Strategy in action section on pages 22 to 27.	— Three automation partnerships

KPIs	PRIORITIES	RISK
83% product platforms completed	— Continue progress at sufficient pace in order to hit target	— The transfer of production to our manufacturing partner is key to achieving scalability. Developing common platforms is a key enabler to achieving this
25% products transferred to manufacturing partnership	— Ensure that transfer is completed by mid 2017	— The transfer of production to our manufacturing partner is key to achieving scalability
37 new products launched	— Implement agile new product roadmap to ensure that we continue to lead the market	— The Group must be able to identify market trends and ensure it has the products to match
30% strategic accounts	— Continued focus on engaging with our customers at a corporate level	— Part of the execution of sales strategy is the growth of global accounts
15% revenue growth – Australia **129%** revenue growth – Brazil	— Continue to focus expansion on sectors and geographies where we feel there are significant growth opportunities	— The loss of market share to competition is evidenced by a lack of growth in new sectors and territories
3 automation partnerships	— Secure further automation partnerships	— Read more in the Principal risks and uncertainties section on pages 36 to 37.

— Read more in the Key performance indicators section on pages 32 and 33.

2018 OBJECTIVES

Our focus is on the Lighting segment delivering growth ahead of the market and margin expansion, together with strong cash flow conversion

25%
Annual runrate revenue growth

15%
EBIT margins

40%
Gross margins

80%
Cash conversion

1

REBUILD

COMMON PLATFORM

Improving delivery and quality

We are standardising the design of all of our products ("platform engineering"). This enables effective mass customisation. Ten out of twelve lines platform engineered to date.

SCALABLE OPERATIONS

Rebuilding scalable and efficient operations

We have formed a manufacturing partnership for all our lighting products. This enables the Group to respond more efficiently to changes in demand. There is increased focus on supply chain planning, quality of supplies and material costs.

2

LEAD

INNOVATIVE PRODUCTS

Lead the market in products and technology

Dialight employs the most efficient power supplies in the industry for its lighting products and this underpins the industry-leading warranty. Our market-leading products allow us to maintain our 32% share of the industrial LED market.

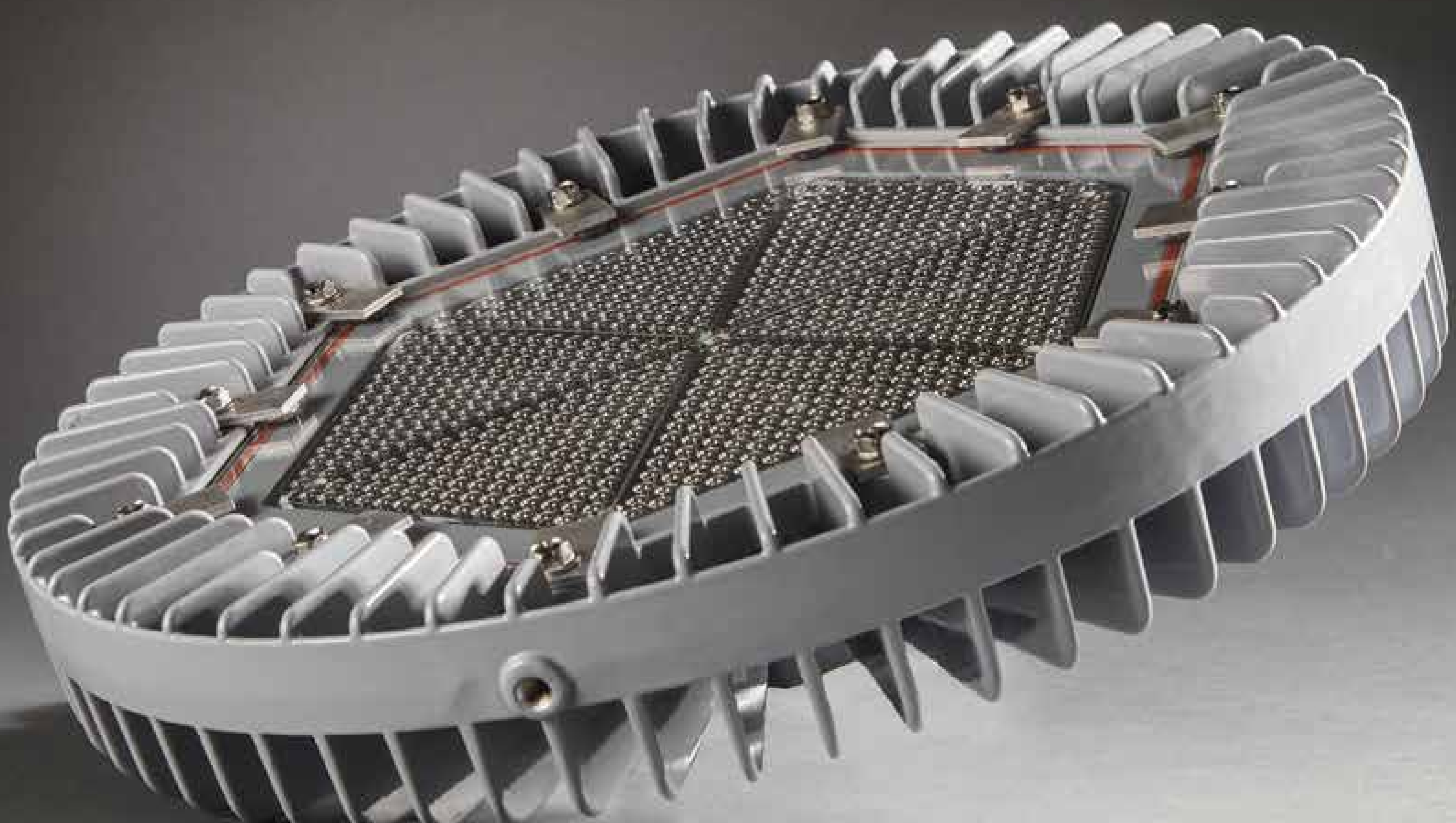
INTELLIGENT SOLUTIONS

Continuing to differentiate ourselves

Connected lighting systems are at the forefront of the industry and, in line with our strategy, we have partnered with three of the largest automation companies.

3

GROW



NEW SECTORS

Establishing our market position in new territories

The Group has reduced its exposure to a single sector by diversifying its end markets. Reliance on oil and gas has reduced from 24% to 16%. Growth is targeted in niche markets where Dialight can continue to differentiate itself.

NEW TERRITORIES

Grow partnerships in new sectors

Dialight's core strength lies in developing strong relationships with its customers. We are targeting senior decision makers to highlight sustainability through increased energy efficiency and lower total cost of ownership.

MANAGING OUR RESOURCES AND RELATIONSHIPS IS FUNDAMENTAL TO OUR LONG-TERM SUCCESS

Human capital

Developing talent and supporting diversity across our business help to ensure that we have teams motivated to deliver our goals. Having the right capabilities and best talent to match our growth ambitions will enable us to fulfil our strategic objectives.

Our sustained, high-level performance stems from the commitment, innovation and excellence of our people. Dialight believes in empowerment, and we support personal and professional development through our competency models and range of training programmes. The benefits are shown in our financial performance and in our succession planning.

We are committed to innovation and customer satisfaction. We develop people who have the initiative, knowledge and leadership qualities to make a positive impact, and our research and development give us a competitive edge. Through collaboration, the sharing of best practice and implementing new ways of working, we continue to deliver market-leading products that do more for our customers.

The Dialight way

We offer our people:

- the opportunity to make a difference – our products make the world a safer and healthier place;
- an entrepreneurial business environment, underpinned by a culture of innovation;
- in-house training for personal and professional development;
- international career development opportunities;
- an environment in which success breeds success; and
- performance-linked rewards.

Our core values

Our values drive our culture; and our culture drives our values. This produces teams that are highly aligned and productive, made up of individuals who take pride in their work and help us to retain a loyal customer base.

Safety

We make products that improve safety for our customers within industrial environments where safety is mission critical. So safety is deeply embedded in everything we do within the Group.

We provide a safe and comfortable place to work for our employees and manage our activities so as to avoid risks to health and safety and the environment. Dialight has an excellent health and safety record and a culture of safety.

Diversity

Diversity is the cornerstone of a culture that promotes respect for, and understanding of, different perspectives. By increasing the diversity of our workforce and leveraging their insights, we enhance our ability to compete in the world's increasingly diverse marketplace. We want to increase the proportion of staff with experience in the business and geographical markets in which we see our operations growing, and will develop policies and actions which support these long-term aims.

Focusing on gender pay differentials

Dialight welcomes the 2016 requirement for UK companies to publish gender pay statistics and will meet this requirement during 2017.

Ethics

Dialight's culture is one of openness, integrity and accountability. The Company requires employees to act fairly in their dealings with fellow employees, customers, suppliers and business partners. We require suppliers to be of high quality and to operate to accepted international standards. Dialight operates a confidential whistleblowing policy through an external provider who deals with any issues in confidence and, if wished, anonymously. We a have zero-tolerance policy on bribery and corruption across all areas of the business. Our policy and internal guidance in this area are routinely reviewed and compliance with the policy is checked as part of the half year and year-end processes. The Company does not make political donations and charitable donations are made only where legal and ethical according to local laws and practices.

Anti-slavery and human trafficking

The Company is committed to conducting business with integrity and fairness, which is reinforced through our Code of Business Conduct. We are committed to preventing acts of modern slavery and human trafficking from occurring within both our business and our supply chain, and we impose these same high standards on our suppliers.

Human rights

The Group does not have a formal human rights policy but it is committed to conducting business with integrity and fairness. Everyone working for Dialight is responsible for having due regard for human rights. Managers and supervisors must provide leadership that promotes human rights as an equal priority to other business issues. This is reinforced through our Code of Business Conduct.

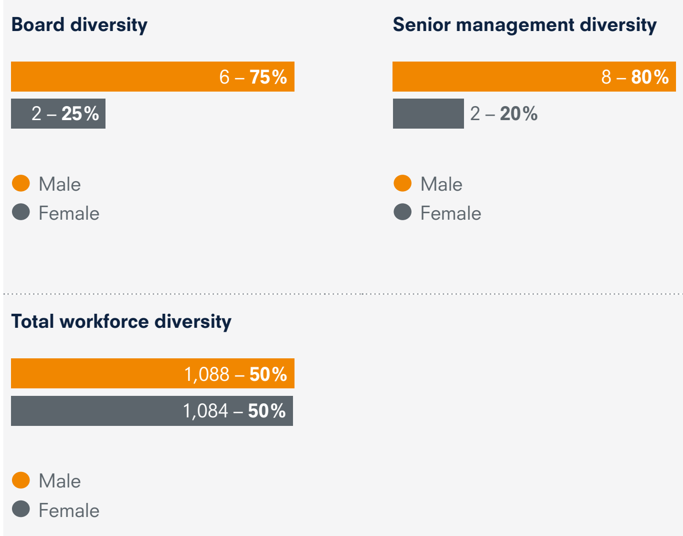
Geographical diversity

As our businesses continue to expand globally, it is imperative that the insights and perspectives of local markets be represented on our leadership teams. We continue to seek ways to ensure that local leadership is contributing to our global business strategies.

Disability rights

Applications for employment from those with a disability are always fully considered. In the event of a member of staff becoming disabled, every effort is made to ensure that their

Employee, senior management and Director numbers by gender at year end



employment with the Group continues with appropriate modifications made to their workplace, if required, and any re-training arranged. It is the policy of the Group that equality of opportunity with regard to training, career development and promotion is the same for all employees.

Financial

Our strategy is for our businesses to deliver strong financial performance through innovation, cost control and high return on capital. The Group enables its businesses to capitalise on opportunities in their local market, while operating within the financial and operational control framework of the Group. Our operations are inherently cash generative and the Group has access to competitively priced financing, providing good liquidity and support for our growth ambitions.

Product innovation

New products and solutions serve to protect our market-leading position and enhance organic growth. Our products are becoming increasingly sophisticated, many with artificial intelligence features that facilitate their direct linkage to our customers' IT infrastructure, increasing customer control while reducing the total cost of ownership.

1.1bn kWh
energy reduction

Our products

We lead the market in low-environmental impact LED products and have the most efficient power supply units in the industry. All our products benefit from temperature compensation technology, maximising their lifespan, and enhanced optics that direct light precisely where needed. All products have an industry-leading ten-year warranty.

Intellectual assets

Our R&D work generates a growing portfolio of patents, trademarks and other intellectual property which adds value to our Company while creating high barriers to entry for competitors.

Relationships

Working well with our customers and suppliers is key to developing market-leading positions in our territories. We strive to understand the needs of our customers and to meet them in the most cost effective way.

We aim to work actively with our suppliers who commit to our values, especially with regard to fair employment and good environmental practice. We recognise the importance of the supply chain and we are committed to developing secure relationships based on mutual trust for mutual benefit.

We work with our manufacturing partner to ensure that they are complying with relevant environmental legislation, regulations and industry standards so that they are producing high-quality products.

Sustainability

Dialight is committed to promoting sustainable business practices and works to improve the Group's environmental performance.

Sustainability is a central tenet of our business strategy and is integral to our decision making. As a global business, we consider both "Are we doing the right things?", and "Are we doing things right?"

Sustainability is not just part of our business strategy; it is also what we do for our customers. We make products that protect and improve the quality of life for people worldwide while bringing reduced maintenance requirements, improved safety benefits, easier disposal and lower environmental impact.

Our strategy is to operate close to our end markets so that the environmental impact of our operations is relatively low compared with other sectors. Our environmental policy is approved by the Board. We have an environmental management system ("EMS") certified to ISO 14001 across our European, Asian and North American businesses. Certified sites are located in Denmark, the UK, the US, Mexico and Malaysia.

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.

We are committed to raising employee awareness on environmental issues and the effects of their activities through Company-wide promotion and communication. We recognise that simple, small measures taken in the workplace can have a large impact on reducing environmental damage.

Greenhouse gas (GHG) emissions

As well as helping our customers to reduce their impact on the environment, it is also a focus for our own efforts and we monitor our GHG emissions. We not only comply with local environmental laws, but also ensure that the environment is a consideration in major operational decisions. We report annually on our GHG emissions and actively look to reduce these and other environmental effects year on year.

Our emissions have reduced as we continue to focus on our energy reduction initiatives. The table below sets out Dialight's emissions for 2016 and 2015 in accordance with the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

Type of emissions	**Tonnes of CO_2e 2016**	Tonnes of CO_2e 2015
Emissions from combustion of fuel and operation of facilities emissions	**729**	849
Emission from purchased electricity	**6,651**	6,642
Total	**7,380**	7,491

Energy and water use

Energy and water conservation are important in our commitment to lower the environmental impact from our operations.

Operations across the Group consumed the following resources in 2016 and 2015:

2016

Resource	**Total consumption**	**Unit**	**Consumption per £ turnover**
Electricity	**13,010,737**	**kWh**	**0.071**
Gas	**1,441,034**	**kWh**	**0.008**
Water	**8,366,616**	**litre**	**0.046**

2015

Resource	Total consumption	Unit	Consumption per £ turnover
Electricity	13,024,772	kWh	0.081
Gas	2,166,910	kWh	0.013
Water	10,353,798	litre	0.064

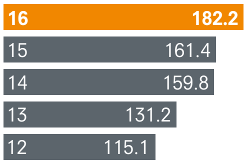
Waste management

Dialight has three zero-waste-to-landfill sites, which are located in Australia, Denmark and the UK. The variety of waste recycled across the business as a whole has increased and local management is supported in identifying additional recycling opportunities to further reduce waste-to-landfill.

FINANCIAL

Revenue (£'m)

£182.2M



Link to strategy
Growth in territories and segments can be measured by the increase in revenue

Description
Revenue from sales

Definition
Revenue of the business excluding items that are considered as non-recurring or not reflective of the underlying performance of the business

Target
By 2018 we aim to be delivering at least 25% growth in Lighting

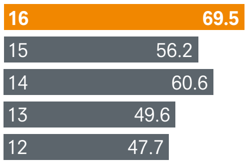
Link to remuneration
As a target set out in the Strategic report, delivery is directly linked to remuneration

— **Read more in the Remuneration Committee report from pages 58 to 74.**

Underlying gross profit (£'m)

£69.5M

(38%)
Gross margin



Link to strategy
The success of rebuilding the operational footprint can be measured by improvements in gross margin

Description
The gross profit related to the performance of the underlying business

Definition
Gross profit of the business excluding items that are considered as non-recurring or not reflective of the underlying performance of the business

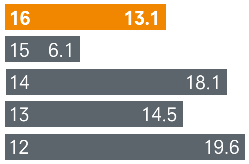
Target
By 2018 we aim to be delivering at least 40% gross margin in Lighting

Link to remuneration
As a target set out in the Strategic report, delivery is directly linked to remuneration

Underlying operating profit (£'m)

£13.1M

(7%) EBIT margin



Link to strategy
The combination of rebuilding, leading and growing combines as growth in the underlying EBIT

Description
The EBIT related to the performance of the underlying business

Definition
Operating profit of the business excluding items that are considered as non-recurring or not reflective of the underlying performance of the business

Target
By 2018 we aim to be delivering at least 15% EBIT margin in Lighting

Link to remuneration
As a target set out in the Strategic report, delivery is directly linked to remuneration

OPERATIONAL

New product introduction

37

Link to strategy
In order to continue leading the market, we must continually innovate

Description
New products that are launched in the year

Comment
Delays against target due to platform engineering

Target
46 launched in 2016

Link to remuneration
As an enabler for growth, this is linked to remuneration

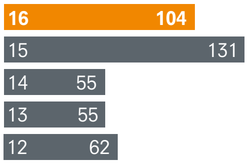
Link to strategy

1 Rebuild · 2 Lead · 3 Grow

NON-FINANCIAL

Cash conversion (%)

104%



Link to strategy
The foundation for rebuilding comes from the ability to turn underlying EBIT into cash

1 · 2 · 3

Description
The ability to turn profits into cash

Definition
Adjusted operating cash flow (see page 41) divided by adjusted EBITDA. Adjusted EBITDA is underlying operating profit, excluding depreciation and amortisation

Target
By 2018 we aim to be delivering at least 80% cash conversion

Link to remuneration
As a target set out in the Strategic report, delivery is directly linked to remuneration

Health and safety

10
recordable incidents

Link to strategy
Ensuring a safe working environment for employees is fundamental to attracting and retaining good calibre staff

1 · 2 · 3

Description
A measure of how many serious accidents have occurred within the Group

Definition
A recordable incident is one that results in a member of staff being incapacitated for more than three days

Target
Zero recordable incidents

Link to remuneration
As a target set out in the Strategic report, delivery is directly linked to remuneration

Retention

93%

Link to strategy
Retaining high-calibre staff is part of enabling the business to lead

1 · 2 · 3

Description
A measure of how well the Group can retain its staff

Definition
The number of staff at the end of the year divided by the total of the number of staff at the start of the year and joiners. This calculation excludes direct manufacturing staff

Target
At least 90% retention

Link to remuneration
As a target set out in the Strategic report, delivery is directly linked to remuneration

Platform conversion (%)

85%

Link to strategy
As part of rebuilding, all product platforms must be re-engineered

1 · 2 · 3

Description
This is the number of product families that have been re-engineered to facilitate transfer to our manufacturing partner

Comment
The re-engineering programme is on target

Target
100% by July 2017

Link to remuneration
As an enabler for rebuilding, this is linked to remuneration

THE BOARD HAS ULTIMATE RESPONSIBILITY FOR THE GROUP'S MANAGEMENT AND INTERNAL CONTROLS

Internal controls

The Board meets regularly throughout the year and has adopted a schedule of matters which are required to be brought to it for decision. This procedure is intended to ensure that the Directors maintain full and effective control over all significant financial and organisational issues.

Group internal control system

The process of embedding internal controls and risk management further into the operations of the business is ongoing.

Key areas of the Group's system of internal controls are as follows:

- Weekly data on cash, sales and orders are reported directly to the Chief Executive, Group Finance Director and Group Finance team. This provides an early warning system on potential risks and helps to direct mitigating actions.
- The Chief Executive submits a report to the Board each month which outlines the Group's operations and an analysis of the significant risks and opportunities facing the Group. The paper also covers progress against strategic objectives and shareholder related issues. The Group Finance Director also submits a separate financial report to the Board each month evaluating progress against our internal targets.
- The Chief Executive and Group Finance Director report to the Audit Committee on all aspects of internal control. A report was prepared by management detailing the internal controls and risk management operating in the business. The Board receives regular reports from the Audit Committee, and the papers and minutes of the Audit Committee are used as a basis for its annual review of internal controls.
- A comprehensive financial reporting package is received from all operating units monthly with comparisons against budget and prior year performance. A thorough re-forecast is prepared quarterly and a budget is prepared annually. Each operating unit is required to submit a quarterly self-certification on compliance and controls.

Introduction to our approach and appetite for risk

The effective understanding, acceptance and management of risk is fundamental to the long-term success of the Group. The Group has developed specialist knowledge in products, services, processes and regions which allows us to understand the associated risks and accept them in an informed way. Our approach is encapsulated in the key principles of our new Risk Management Policy:

- To understand the nature and extent of risks facing the Group.
- To accept and manage within the business those risks which our employees have the skills and expertise to understand and leverage.
- To assess and transfer or avoid those risks which are beyond our appetite for risk.
- By consideration of materiality, to establish the authority levels within the Group at which decisions on acceptance and mitigation of these risks are taken.

The Risk Committee which operated in the latter part of the year has accountability for overseeing the risk management processes and procedures, and reports to the Board through the Audit Committee on the key risks facing the Group. It monitors the mitigating actions put in place by the relevant operational managers to address the identified risks. The Board has approved the acceptance of certain risks which are considered appropriate to achieve the Group's strategic objectives. The degree of risk to be accepted within the business is managed on a day-to-day basis through the Board Delegated Authority levels. These provide the framework for informed risk taking within the businesses and the route for escalating decision making up to the Board.

— See Viability statement on page 51.

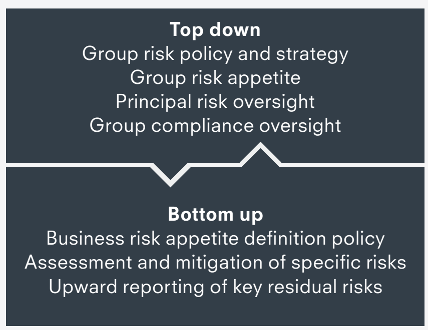
PRINCIPAL RISK SUMMARY

Name of risk	New risk	Risk level	Name of risk	New risk	Risk level
Production capacity		↔	Compliance		↔
Operational programme risk		↔	Reputational		↔
IT systems		↔	Competition		↔
Political conditions	✔	↑	Economic conditions		↔
Succession planning		↓	Supply chain		↔
Intellectual property		↔	Funding		↓
Market trends		↔	Foreign exchange		↑

The Group's principal risks are identified overleaf, together with:
— the risk category;
— a description of the risk;
— potential impact of the risk;
— mitigating controls and actions; and
— a link to the Group's strategy.

RISK MANAGEMENT FRAMEWORK

The diagram below summarises our complementary approach based on utilising a top down plus a bottom up process:



STRATEGIC OBJECTIVE	RISK CATEGORY	RISK DESCRIPTION
1 REBUILD	Production capacity	Production capacity needs to be scalable in line with growth Concentration of Lighting production at a single third party location reduces control and changes the order fulfilment process
	Operational programme risk	There is a risk that operational capability could be impacted during the period of transition of the products and production platforms and changes to the demand planning process
	IT systems	The Group uses IT systems to operate and control its business; any disruption to this would have an adverse impact on the business. The Group also needs to ensure the protection and integrity of its data
	Political conditions	The Group's main manufacturing plants are in Mexico and its main market is North America. Proposed import tariffs could impact the Group's business model. "Brexit" has introduced uncertainty to the level of tariffs on goods imported from Europe
2 LEAD	Succession planning and staff calibre	Group performance is dependent on attracting and retaining high-quality staff across all functions
	Intellectual property	Theft or violation of intellectual property ("IP") by third parties or third parties taking legal action for IP infringement
	Market trends	To continue to lead the market, the Group must be able to identify where customer demand is trending and ensure that we have the products to match. The Group's sales strategy is based on the cumulative LED adoption rate being 6% in industrial lighting markets by 2019
	Compliance	The Group needs to ensure that as the business expands, proper controls are put in place to ensure compliance with regulatory requirements relating to tax, trade and general code of conduct
	Reputational	Corporate profile and products need to retain brand equity
3 GROW	Competition	Failure to deliver technologically advanced products or to execute sales strategy could result in loss of market share
	Economic conditions	The Group's operations are located across a number of jurisdictions, which exposes the Group to a range of economic conditions
	Supply chain	The Group's ability to supply high-quality finished goods is dependent on having a robust supply chain
	Funding	The Group needs to ensure that it has access to sufficient cash in order to fund working capital and expansion
	Foreign exchange	Foreign currency risk is the most significant treasury related risk for the Group. In times of significant volatility this can have a material impact on performance

IMPACT	MITIGATION
— Inability to fulfil demand due to lack of product availability	— The Group has partnered with a world class manufacturing partner in order to ensure scalability of operations on a global scale — The Group has developed new processes to ensure that order fulfilment will be unaffected. Our manufacturing partner has a business continuity plan in place to deal with significant production disruptions
— Inability to supply existing markets on a timely basis — Unforeseen liabilities	— The Group has robust plans and controls to ensure that changes are seamless. This is monitored and reviewed regularly to ensure that milestones are being met
— Inability to supply customers — Loss of revenue and significant business disruption — Loss of commercially sensitive information	— The Group is continually reviewing its IT systems to ensure that they are robust and scalable in line with the expansion of the business — There are back-ups built into all Group systems and the spread of systems offers good protection from individual events — Third party suppliers are used to provide data protection software
— Reduced financial performance — Loss of market share — Unforeseen liabilities	— The Group is preparing contingency plans for alternative production locations in the event that significant import tariffs to North America are introduced — The Group is considering production locations within the EU
— Without good calibre staff, the Group will find it difficult to expand and achieve its strategic goals	— The Group's development programmes enhance the skills of executives and middle managers — A comprehensive recruitment process and ongoing evaluation assist high-quality hiring and development — Considerable time is spent assessing middle and senior management in order to identify succession plans
— Proprietary technology used by competitors leading to loss of market share — Unforeseen liabilities	— All IP is protected by patents and potential violations are pursued through legal process — Patent office screening used to avoid infringing existing patents
— Loss of market share — Lower margins and revenue	— Feedback from customers is fed through a product strategy board to evaluate market intelligence — Internal and external marketing resources are used to review market trends and ensure that the Group's products remain at the forefront of the market
— Fines and penalties for non-compliance	— The Group uses third party specialists to deal with local fiscal requirements — Requirements on material traceability will be provided through our manufacturing partner's systems — Training is provided for all staff on bribery/corruption legislation
— Loss of market share	— Corporate profile is protected using external advisers — Brand quality is central to the product development and product build quality is rigorously imposed
— Loss of market share — Lower margins and revenue	— The Group continually invests in research and development to push the boundaries of product development. The Group develops new products based on an ROI process to mitigate the risk of abortive expenditure
— Reduced financial performance — Loss of market share — Unforeseen liabilities	— The Group's geographical diversity limits its exposure to economic risk in any one country — The Group does not have significant operations, cash or assets in economically uncertain regions
— Unable to meet customer demand through failure of a key supply chain partner — Delays in meeting customer demand	— The Group has an ongoing programme to ensure that all critical components have dual suppliers and dual components specified — Critical suppliers are subject to due diligence and ongoing monitoring
— Curtailed trading — Inability to execute merger and acquisition opportunities	— The Group has an undrawn £25m revolving credit facility with an additional accordion feature for another £25m
— Volatile financial performance arising from translation of profit from overseas operations — Most of the Group's profit earned is not in the reporting currency	— The Group uses natural hedging to cover operational exposure as the majority of revenue and costs are in US Dollars. As the business expands geographically, the use of forward contracts will be reviewed to limit operational exposure on a selected currency basis — Translational exposure is not currently hedged but the Group reports key financial indicators on an actual and a constant currency basis

POSITIONED FOR THE FUTURE

£8m
net cash

Income statement

We have executed phase one of our plan to rebuild, lead and grow Dialight to capture the industrial LED market opportunity. The strategy to fundamentally improve the operating model and position it for long-term sustainable growth is reflected in the financial results for the year.

In the year, we delivered an increase in underlying profit and cash flow on revenue growth of 13% (2% at constant currency). This was in the context of challenging market conditions. Group revenue was £182.2m (2015: £161.4m), including a favourable currency exchange impact of £17.9m. The US and Europe, which generate the majority of our revenues, were broadly flat on a constant currency basis. Underlying operating profit increased to £13.1m (2015: £6.1m), including a favourable exchange impact of £1.5m. Our Lighting order intake for 2016 was up 8% (at constant currency) over 2015, reflecting early signs of progress in our strategic initiatives.

The significant increase in the Group's underlying profit was a result of the fundamental shift in Dialight's operating model, which has reduced costs and enabled scalable, efficient production:

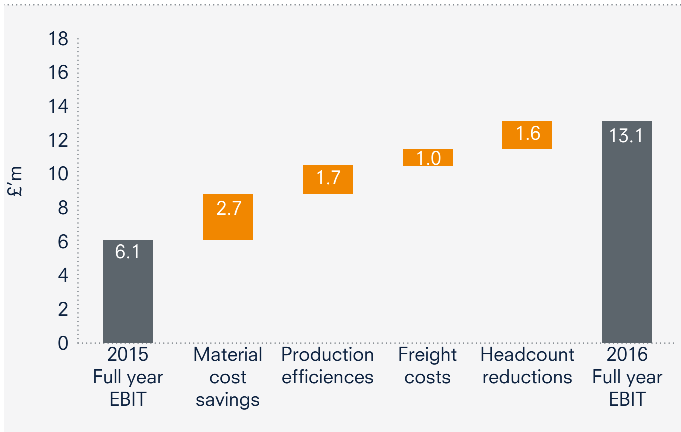
— Procurement programmes resulting in £2.7m improvement in cost of sales.

— Production efficiencies of £1.7m from lower operating costs at the Mexico plant including direct labour savings of £0.5m.

— Freight cost savings of £1.0m due to a new freight contract being negotiated at the start of the year.

— Headcount savings of £1.6m due to the headcount reduction programme of 2015.

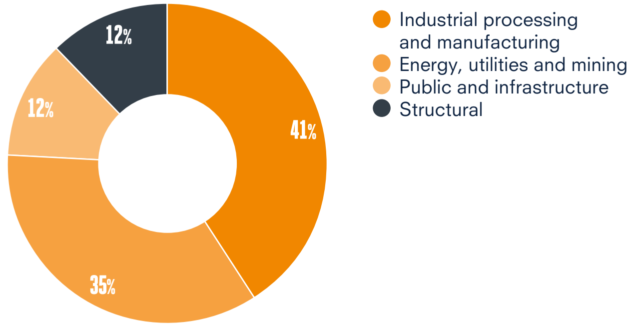
The bridge for underlying operating profit year on year is as follows:



Currency impacts

Dialight reports its results in Sterling. Our major trading currency is the US Dollar, which encompasses 70% of the Group's revenue. The Group has both translational and transactional currency exposure. Translational exposures arise on the consolidation of overseas Company results into Sterling and this is the major currency exposure. Transactional exposure is more limited with natural hedging on revenue and purchases mitigating the majority of the currency risk.

Revenues were 13% (2% at constant currency) higher compared with the prior year. Overall there has been a rise in the order book of 8% compared with last year. On a vertical sector basis the revenue profile was as follows:



There was continued growth in non-US markets with Australia up 15% and Brazil up 129% compared with the prior year. We have increased market penetration within key vertical markets and the top three market verticals now account for 42% of revenue compared with 54% in the prior year.

Gross margin expanded by 2% to 42% and increased by £9.1 million year on year. The major elements of the increase are:
— the elimination of production inefficiencies that gave rise to increased costs in 2015;
— the impact of commodity management, which resulted in significant material cost savings; and
— savings on freight charges due to a new contract being negotiated at the start of the year.

Operating costs were flat with incremental cost pressures offset by the full year impact of the headcount reduction programme put in place in August 2015.

Overall underlying operating profit in the Lighting segment doubled from the prior year as a result of our plan to rebuild our operating model and lay the foundations for longer-term profitable growth.

The strengthening of the US Dollar in the second half of the year has been the main driver for the currency impact. The average rate for the US Dollar against Sterling has moved from 1.53 in 2015 to 1.36 in 2016.

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

Lighting

	2016 £'m	2015 £'m	Increase %
Revenue	**136.6**	120.6	13%
Gross profit	**57.4**	48.3	19%
Gross margin %	**42%**	40%	2%
Overheads	**(43.9)**	(41.5)	(6%)
Underlying operating profit	**13.5**	6.8	99%

The Lighting segment represented 75% of the Group's revenue and 73% of the Group's underlying segmental operating profit.

Signals and Components

	2016 £'m	2015 £'m	Increase %
Revenue	**45.6**	40.8	12%
Gross profit	**12.1**	7.9	53%
Gross margin %	**27%**	19%	8%
Overheads	**(7.2)**	(5.2)	(38%)
Underlying operating profit	**4.9**	2.7	81%

Signals and Components are high-volume businesses operating within highly competitive markets. There is significant competition from low-cost producers but margins improved by 8% as traffic production was relocated from the US to Mexico. There was some increase in overheads due to impairment of development costs as product lines became obsolete. Overall there was an improvement in underlying operating profit of £2.2m (81%).

Central overheads are not allocated to these segments. In 2016 they amounted to £5.3m, an increase of £1.9m from 2015. The main increases related to management incentives and Board transition costs.

Non-underlying costs

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 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:

	2016 £'m	2015 £'m
Employee severance and restructuring costs	**(5.3)**	(1.8)
Intangibles write-down	**(5.1)**	(1.0)
Disposal of tangible assets	**0.2**	–
Inventory costs	**(3.7)**	(6.0)
Executive Director replacement costs	**–**	(0.8)
Production transfer costs	**(2.4)**	–
Settlement of legal case	**–**	0.5
Other	**(0.1)**	(0.4)
Non-underlying costs recorded in cost of sales and administrative expenses	**(16.4)**	(9.5)
Total cash impact	**(4.9)**	(2.4)

The non-underlying costs in 2016 relating to our strategic initiatives amounted to £16.4m with cumulative cost savings of approximately £12m over the next two years. The strategic initiatives will be completed in 2017 and the final costs relating to these will be £3.0m.

The Group is substantially advanced on a programme of product platform re-engineering and transferring lighting product assembly to its manufacturing partner. As part of these programmes the UK production facility was closed in September 2016. It has also been announced that the Mexican production facility will be reduced in scale by mid 2017. The £5.3m costs of redundancy relating to staff at both of these plants have been recognised in the year.

The product lines that were manufactured exclusively in the UK production facility were reviewed to assess the viability of transfer to our manufacturing partner. The review concluded that the European Traffic business was no longer viable and production would cease. This has resulted in a goodwill impairment of £4.0m. There has been a full review of all product lines and any development and patent costs associated with obsolete product lines have been impaired, resulting in a further charge of £1.1m. The total charge for intangible asset impairment is £5.1m which is a non-cash cost.

As part of the fundamental shift in Dialight's operating model, the UK production facility and assets have been sold resulting in a profit of £0.2m.

The switch to platform engineering which standardises the design of our product parts to be used as the foundation of all our finished goods has resulted in some of our inventory becoming obsolete. This amounted to £3.7m in the year; we expect a further £1.0m of obsolete inventory in 2017.

The transfer of lighting assembly to our manufacturing partner incurred set-up costs relating to project management, legal costs and dedicated engineering time; this amounted to £2.4m. The final phase of this will be completed by mid 2017 and the balance of the costs will be £2.0m.

Tax

The Group operates in eight tax jurisdictions throughout the world and the Group's effective tax rate is a blend of these national tax rates applied to locally generated profits. Profits of the Group are significantly weighted to the US where the tax rate is circa 38%. The Group's effective tax rate is lower than this due to the benefit of tax credits of £2m relating to prior year adjustments partially offset by non-deductible expenses of £1.4m relating to goodwill impairment.

The underlying business had a tax charge of £3.9m (2015: £1.3m) and a tax rate of 31% (2015: 23%). There is a deferred tax asset of £3.5m generated on losses related to restructuring in the year and this will be recoverable against future profits. The rate of the tax credit on the non-underlying business was 30%, resulting in an overall effective tax rate of 24.9%.

Earnings per share ("EPS")

The basic EPS for the underlying business was 26.9 pence (2015: 13.3 pence). The increase was due to the cost improvements discussed above. The statutory EPS was a negative 8.4 pence (2015: negative 6.4 pence) due to the large non-underlying costs recognised in the year.

Pension liabilities

The Group has two defined benefit schemes which are closed to new entrants. At the balance sheet date, there was a deficit of £1.3m relating to these schemes. The deficit has increased due to the reduction in bond yields. The triennial valuation of the schemes which determines the amount of cash paid to recover the deficit is in progress. This will be completed by the end of June 2017.

Strong cash generation

Cash generation is an important measure of the business model underpinning further investment in the business. Cash generation in 2016 was strong with adjusted operating cash flow of £21.0m (2015: £15.7m) and represented a cash conversion rate of 104% (2015: 131%). This is ahead of our cash conversion KPI target of 80% by 2018.

	2016 £'m	2015 £'m
Underlying operating profit (EBIT)	**13.1**	6.1
Depreciation	**3.1**	2.8
Amortisation	**4.0**	3.1
Adjusted underlying EBITDA	**20.2**	12.0
Working capital movements (excluding impact of non-underlying)	**0.8**	3.7
Adjusted operating cash flow	**21.0**	15.7
Cash conversion %	**104%**	131%

Cash flow

The Group's net cash position improved by £11.8m in the year from a net debt position of £3.8m at 31 December 2015 to a net cash position of £8.0m at 31 December 2016.

The roll forward from net debt to net cash was as follows:

	£'m
Net debt at 31 December 2015	(3.8)
Adjusted underlying EBITDA	20.2
Capital expenditure	(6.0)
Non-underlying costs	(2.9)
Other	0.5
Net cash at 31 December 2016	**8.0**

The major outflows of cash were £3.9m on tangible assets (2015: £3.3m), £2.1m on development costs (2015: £2.5m), interest paid of £0.5m (2015: £0.4m) and an inflow of £0.9m received from the sale of fixed assets.

Banking and covenant compliance

The Group has its banking relationships with HSBC Bank plc and Wells Fargo. The Group re-negotiated its revolving credit facility with HSBC Bank plc during the year. The new facility is for £25m with a further £25m "accordion" feature and has a five-year term. The Group has no borrowings against the facility at the balance sheet date and is fully compliant with its covenant requirements. This ensures significant financial flexibility.

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 2016 this totalled £77.1m (2015: £70.1m).

The Board is not proposing any final dividend payment for 2016 (2015: nil). The Group has a clear capital allocation discipline and is committed to returning any excess funds to our shareholders via either a future dividend or a share repurchase.

Going concern

As disclosed in the Viability statement, 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 2017 we expect to see modest 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. The final costs relating to the restructuring will be recognised in 2017 and are estimated to be in the region of £2–£3m. The Group remains cash generative which will support further investment for growth in the business to 2018 and beyond.

This Strategic report was approved and 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
27 February 2017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Board Committees key

A Audit Committee

N Nominations Committee

R Remuneration Committee

1. Michael Sutsko

Group Chief Executive

Term of office: Appointed as Group Chief Executive on 1 June 2015.

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.

2. Wayne Edmunds N

Chairman

Term of office: Appointed as Chairman on 25 January 2016 and is Chair of the Nominations Committee.

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: Wayne is a Non-Executive Director and Chair of the Audit Committee of Ashstead Group plc, Non-Executive Director and Chair of the Audit Committee of BBA Aviation plc and Non-Executive Director of MSCI Inc.

3. Fariyal Khanbabi

Group Finance Director

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

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

External appointments: None.

4. Stephen Bird A N R

Senior Independent Director

Term of office: Senior Independent Director since February 2013. Joined Dialight as Non-Executive Director on 10 January 2013.

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 has held senior roles at Danaher Corporation, Black & Decker, Unipart Group, Hepworth plc and Technicolor Group.

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

5. David Blood N

Non-Executive Director

Term of office: Joined Dialight on 1 July 2015 as a Non-Executive Director.

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

Current external appointments: David is on the Board of Directors of New Forests, On the Edge Productions, Ashden, SHINE, Social Finance UK and World Resources Institute, as well as being a Life Trustee of Hamilton College.

6. Martin L. Rapp A N R

Non-Executive Director

Term of office: Joined Dialight on 26 April 2016 as a Non-Executive Director and Chair of the Remuneration Committee.

Experience: Martin was Chief Executive Officer of Laird Technologies, Inc. from 2001 until his retirement in 2011, having held various management roles at Laird plc since joining in 1996. Previously, Martin held engineering, marketing and management positions with Monsanto, a chemical company, from 1981 to 1996.

Current external appointments: None.

7. David Thomas A N R

Non-Executive Director

Term of office: Joined Dialight on 26 April 2016 as a Non-Executive Director and Chair of the Audit Committee.

Experience: David was Chief Financial Officer at Invensys plc from 2011 until his retirement in 2014, having held senior roles across the business since 2002. Prior to joining Invensys, he was a Senior Partner in Ernst & Young LLP, specialising in long-term industrial contracting businesses, and is a former member of the Auditing Practices Board.

Current external appointments: None.

8. Gaelle Hotellier A N

Non-Executive Director

Appointed: 3 October 2016.

Board Committees: Audit and Nominations Committees.

Experience: Gaelle has worked for the Siemens Group since 2002 during which time she has held various senior management roles. Between 2013 and 2015, Gaelle was an Executive Board member of the European Union's Fuel Cell Hydrogen Joint Undertaking, a public-private partnership with the European Commission. She is a former Chairwoman of the Supervisory Board of Siemens Industriegetriebe GmbH in Penig.

Current external appointments: In transition to a Senior Manager role within Siemens AG Steam Turbine Unit from her role as Chief Operating Officer of Siemens' Mechanical Drives business in Germany. Gaelle is also a Member of the Advisory Board of Berthold Vollers GmbH.

COMMITTED TO MAINTAINING THE HIGHEST STANDARDS

Dear Shareholder

On behalf of the Board of Directors (the "Board") of Dialight plc ("Dialight" or the "Company") I am pleased to present you with our Corporate governance report. This report seeks to provide you with a clear and meaningful explanation of how we discharge our governance duties and apply the principles of good governance enshrined in the UK Corporate Governance Code (the "Code"), a copy of which can be obtained from the website of the Financial Reporting Council at www.frc.org.uk. Dialight reports in accordance with the revised April 2016 Code, the Listing Rules, the Disclosure and Transparency Rules and the Companies Act 2006.

The balance of this section includes reports from the respective chairs of the Audit, Nominations and Remuneration Committees. The Board remains committed to maintaining the highest standards of corporate governance and ensuring that values and behaviours are consistent across the business and underpin our business model. We have sought to manage the affairs of the Company not by merely following regimented rules, but by promoting a culture of open and transparent discussion, constructive challenge and support in the Board and across the Group. I am pleased with the progress Dialight has made and continues to make. As the Company is below the FTSE 350 some of the provisions do not apply but, to maintain good governance and in line with best practice, we endeavour to comply with the Code wherever possible.

Following the significant changes to the Board during 2015 and in order to support the Group's strategy of Rebuild, Lead and Grow, we have made additional appointments in 2016 to further strengthen the Board. I was pleased to welcome Martin L. Rapp and David Thomas, who both joined the Board in April, and Gaelle Hotellier, who joined in October. Martin brings valuable international experience leading global technology companies, with a relevant background in research and production engineering. David has a strong financial and audit background as a former Chief Financial Officer of a UK-listed technology company and previously as a partner at Ernst & Young LLP. Gaelle brings strong and current experience in the lighting industry and green technologies, as well as in digitisation and automation. All three new Directors are already bringing their experience to bear in Board and management interactions. I would like to thank both Tracey Graham and Robert Lambourne for their service and valuable contribution to the Company.

The result is an international Board of Directors with extensive experience of running public companies in a global environment which, I believe, brings the right blend of skills and experience to help guide the Company and executive management in its delivery of the Company's strategy for growth. Details of the remuneration and fee arrangements for each of the new Board appointments are included in the Remuneration Committee report.

As we move into 2017, our priorities are to improve focus on our customers and their needs through innovation and our go-to market strategies, seek opportunities in existing and new markets which complement our current portfolio and which can deliver the growth that we expect, and improve the capabilities and diversity of our talent.

I am proud to chair the Dialight Board and oversee the Group with each of my fellow Directors and would like to encourage all shareholders to find the time to attend our Annual General Meeting ("AGM") on 20 April 2017. It is an excellent opportunity to meet the Board.

Wayne Edmunds
Chairman
27 February 2017

Leadership

The role of the Board

The Board's key areas of focus in helping to create long-term sustainable value for shareholders are on strategic leadership, performance management, risk management, governance, succession planning and investor relations.

The Board has a scheduled forward programme of meetings to ensure that we can allocate sufficient time to each of these key areas. This enables us to plan Board and Committee meetings appropriately and use the Board's time together most effectively. There is sufficient flexibility in the programme for specific items to be added to any particular agenda and this ensures that the Board can focus on the key matters relating to the business at the appropriate time.

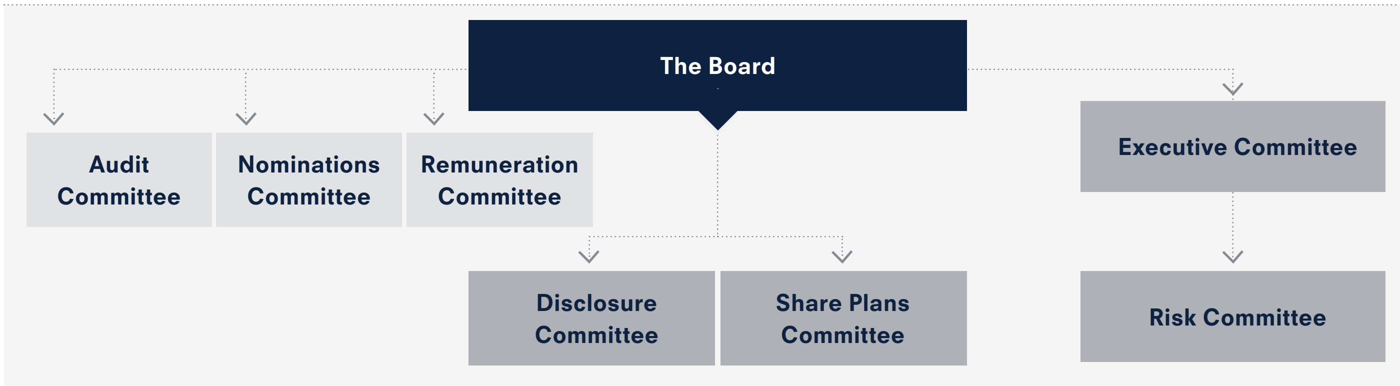
In the adjacent column is a list of items considered by the Board and its Committees in the annual cycle of meetings:

- Annual budget.
- Corporate strategic (three-year) plan.
- Chief Executive Officer report and trading updates.
- Financial items including monthly management reports.
- Preliminary and Interim results.
- Annual Report.
- Dividend policy and recommendations.
- Committee reports.
- Investor relations.
- Pensions.
- Project updates.
- Treasury and tax policy.
- Governance.
- Risk management.
- Board evaluation.
- Litigation.

The Board has oversight of and approves the Company's strategy, and monitors adherence to and supports the executive team in the delivery of that strategy.

STRATEGIC PRIORITY	THE BOARD'S GOVERNANCE ROLE IN SUPPORT OF THE STRATEGY	WHAT WE ACHIEVED IN 2016
1 REBUILD	The Board, together with its Committees, supports the "Rebuild" strategic priority by ensuring that senior management has the requisite skills and adequate resources to effectively deliver on the platform engineering and outsourcing objectives. The Board reviews progress against these objectives and provides sufficient challenge and guidance to the internal teams focused on these initiatives.	— Three-year strategic plan review in September 2016 — Review of executive team members and their respective functional plans — Regular review of strategic KPIs, including in relation to delivery against platform engineering and outsourcing project plans
2 LEAD	The Board recognises that part of Dialight's strength lies in the innovation of its products and is a key growth driver for the future. The Board endorses a flexible operating structure which is best suited to deliver successful innovation.	— Provided input into the introduction of a new business case review process to apply improved rigour, forward visibility and investment oversight to the innovation process — Provided guidance to facilitate a more focused new product development pipeline
3 GROW — **Read more on page 20.**	The Board provides the Group with the necessary investment and support to meet its growth targets, but subjects this to rigorous scrutiny so that investment can be evaluated adequately. The Board provides the executive team with the space to exercise control and authority while giving it the guidance and tools to operate.	— New appointments to the Board aligned to support the growth agenda, including Gaelle Hotellier who provides relevant sector and channel expertise, as well as a detailed understanding of the European market as the Company targets geographical sales diversification — Provided detailed input into and oversight of the revised sales strategy, overhauled to maximise the potential for growth — Review of executive team succession plan

BOARD COMMITTEE STRUCTURE



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, more information on which is provided on pages 52 to 74. The Board has a schedule of formally reserved powers, which it reviews regularly and a copy of which is available on the Company's website.

The Board held five scheduled meetings during the year as well as a strategy review meeting held in the US over a day and a half. Additional ad hoc meetings and conference calls were also convened to deal with specific matters, particularly in relation to key reviews and decisions. Further details of Directors' attendance at all scheduled meetings of the Board and its Committees can be found in the table in the adjacent column.

We ensure that all Directors are aware of the key discussions and decisions of each of the three principal Committees, the Chair of each Committee providing a detailed summary to all Directors at the Board meeting following the relevant Committee meeting. Minutes of Board and Committee meetings are circulated to Directors shortly after those meetings take place.

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, while 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.

The principal activities of the Board and its Committees during the financial year under review included:
— review and update of the Remuneration Policy in anticipation of the 2017 AGM vote;
— review and approval of the three-year strategic plan;
— review and approval of the replacement Group revolving credit facility; and
— review of executive management succession plans.

The following table shows the attendance in person of Directors at scheduled Board and Committee meetings. In addition to the table below, there were two scheduled Board conference calls, one in June and one in October, to discuss financial performance. The attendance of each Director (at in person meetings) is expressed in the table below as the number of meetings out of the number he or she was eligible to attend.

	Board	Audit Committee	Remuneration Committee	Nominations Committee
Wayne Edmunds	5/5	n/a	n/a	2/2
Michael Sutsko	5/5	n/a	n/a	n/a
Fariyal Khanbabi	5/5	n/a	n/a	n/a
Stephen Bird[1]	4/5	2/3	3/4	1/2
David Blood[2]	5/5	2/2	n/a	1/2
Tracey Graham[3]	1/1	1/1	1/1	n/a
Robert Lambourne[3]	1/1	1/1	1/1	n/a
Martin L. Rapp[4]	3/3	2/2	3/3	2/2
David Thomas[4]	3/3	2/2	3/3	2/2
Gaelle Hotellier[5]	1/1	1/1	n/a	1/1

1 Stephen Bird was unable to attend the Board and Committee meetings in July 2016 due to prior business commitments.
2 David Blood was unable to attend the Nominations Committee in July 2016 due to prior business commitments.
3 Tracey Graham and Robert Lambourne both stepped down as Non-Executive Directors following the Company's AGM on 26 April 2016.
4 Martin L. Rapp and David Thomas were appointed as Non-Executive Directors with effect from 26 April 2016.
5 Gaelle Hotellier was appointed as a Non-Executive Director with effect from 3 October 2016.

On the rare occasion that a Director is unavoidably unable to attend a meeting, the Chairman briefs them before the meeting so that their comments and input can be taken into account at the meeting, and provides an update to them after the meeting.

Division of responsibilities

Chairman

There is a clear division of responsibilities between the Chairman and the Group Chief Executive which is set out in writing and has been approved by the Board. The Chairman is responsible for leadership of the Board, ensuring its effectiveness in all aspects of its role, and for setting its agenda. The Chairman ensures effective communication with shareholders and that the Board is aware of the views of major shareholders. He facilitates the contribution of the Non-Executive Directors through a culture of openness and debate, and ensures constructive relations between Executive and Non-Executive Directors.

Senior Independent Director

The role of the Senior Independent Director is to act as a sounding board for the Chairman and as a trusted intermediary for the other Directors. In addition, the Senior Independent Director meets with the other Non-Executive Directors in the absence of the Chairman at least once a year in order to undertake a review of the Chairman's performance. He is also available to shareholders as required.

Group Chief Executive

The Group Chief Executive is responsible for the day-to-day management of the Company and execution of the strategy, once agreed by the Board. He creates a framework of strategy, values, organisation and objectives to ensure the successful delivery of results, and allocates decision making and responsibilities accordingly. He manages the risk profile in line with the risk appetite and categories of risk identified and accepted by the Board. He is assisted in his role by the Executive Committee, which he chairs.

Non-Executive Directors

The Non-Executive Directors combine broad business and commercial experience from relevant industry sectors. They bring independence, external skills and objective judgement, and constructively challenge the actions of senior management. This is critical for providing assurance that the Executive Directors are exercising good judgement in delivery of strategy and decision making. Apart from David Blood, each of the Non-Executive Directors is 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. David's letter of appointment contains additional clauses covering confidentiality, insider dealing and conflicts of interest. The Board considers David to be independent in character and judgement when joining in Board debates or discussion in which he is not conflicted. Information on the skills and experience of the Non-Executive Directors can be found in the Board biographies on page 43.

Company Secretary

The Company Secretary is responsible for advising the Board, through the Chairman, on all governance matters. In addition, each Director has access to the advice and services of the Company Secretary. In addition, the Company Secretary facilitates the induction of new Directors and assists with the ongoing training and development of the Board.

Effectiveness

Board Committees

The Board delegates a number of responsibilities to its Audit Committee, Remuneration Committee and Nominations Committee. The Chair of each Committee reports formally to the Board on its proceedings after each meeting and makes recommendations that he deems appropriate to the Board for its consideration and approval. There are formal terms of reference for each Committee, approved by the Board. The terms of reference for each of these Committees set out the scope of authority of the Committee, satisfy the requirements of the Code and are reviewed internally on an ongoing basis by the Board. Copies of the terms of reference of each Committee are available on the Company's website. The Committees are provided with all necessary resources to enable them to undertake their duties in an effective manner. The Company Secretary acts as secretary to the Committees and minutes of all Committee meetings are available to all Directors.

The current composition of the three Committees is as follows:

Audit Committee	Remuneration Committee	Nominations Committee
David Thomas (Chair)	Martin L. Rapp (Chair)	Wayne Edmunds (Chair)
Gaelle Hotellier	Stephen Bird	Stephen Bird
Martin L. Rapp	David Thomas	David Blood
Stephen Bird		David Thomas
		Martin L. Rapp
		Gaelle Hotellier

In addition to the three Board Committees, Dialight has other committees, including the Executive Committee, Disclosure Committee, the Share Plans Committee and the Risk Committee, each of which has specific terms of reference and delegated authority from the Board to carry out its respective functions.

Executive Committee
The Executive Committee 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 Executive Committee responsibilities have been sub-delegated to relevant individuals of that Committee.

Delegation of authority
Responsibility levels are communicated throughout the Group as part of the business management system and through an authority matrix which sets out, inter alia, delegated authority levels, segregation of duties and other control procedures.

Evaluation
The evaluation process of the Board and its Committees consists of an internal exercise performed annually with an independent third party evaluation carried out at least every three years.

The internal evaluation process involved a written questionnaire prepared by the Company Secretary, followed by the opportunity for individual Directors to discuss their responses with the Company Secretary. The Company Secretary collated a summary of the key issues raised for a report to the Chairman.

The Company Secretary then met with the Chairman to discuss the report. The report, which set out the principal issues raised, was submitted to the Board for discussion at the 8 December 2016 Board meeting.

During the 2016 evaluation process, the Non-Executive Directors (in the absence of the Chairman) met with Stephen Bird, as Senior Independent Non-Executive Director, to review the performance of the Chairman. The Chairman then met with the Group Chief Executive to discuss his objectives. The Chairman, the Senior Independent Director and all Non-Executive Directors met to discuss the performance of the Group Chief Executive and Group Finance Director against the agreed objectives.

Based on the feedback received, the Board concluded that the Board and its Committees continue to operate effectively. In order to address the comments made by Directors, a list of specific actions and focus areas were agreed, including the following:

— Non-Executive Directors will continue to actively engage with senior management, both formally and informally, building on the mentoring process implemented early in 2016.
— Having agreed the Company's three-year strategy during 2016, the Board will hold detailed reviews during 2017 to focus on progress against specific milestones in the execution of that strategy.
— In order to enhance the dialogue with shareholders, the Board, principally through the Chairman, will seek to engage more actively with major shareholders and improve the dissemination of shareholder views to the Board.

Time commitment
The Board, supported by the Nominations Committee, carefully considered the external commitments of the Chairman and each of the Non-Executive Directors. The Board is satisfied that each such Director committed sufficient time during the year to enable them to fulfil their duties as a Director of the Company and has capacity to continue to do so. None of the Non-Executive Directors have any conflict of interest that has not been disclosed to the Board in accordance with the Company's Articles of Association.

Induction, information and support
The Directors may consult with the Company Secretary at any time on matters related to their role on the Board. On joining the Company, Non-Executive Directors receive an induction to the Company consisting of a comprehensive briefing pack, which includes Group structure details, the constitution of the Company, the Group governance map, a guide to Directors' duties, terms of reference of each Committee, Group policies and the Company's delegation of authority. In addition to this, each Director is given the opportunity to meet Executive Directors and members of the Executive Committee as well as external advisers. All Non-Executive Directors have access to the Company's senior management between Board meetings and are, from time to time, given the opportunity to attend and speak at Executive Committee meetings and meetings of the Group's leadership team. In 2016, a programme was put in place whereby each Non-Executive Director was assigned to a member of the Executive Committee in a mentor capacity in order to provide one-to-one guidance and coaching. The Chairman monitors the breadth of knowledge, skills and experience of the Board and its Committees to ensure that they can fulfil their obligations.

Accountability

Conflicts of interest

The Board operates a policy to identify and, where appropriate, manage conflicts or potential conflicts of interest with the Company's interests. In accordance with the Directors' interests provisions in the Companies Act 2006, all the Directors are required to submit details to the Company Secretary of any situations which may give rise to a conflict, or potential conflict, of interest. The Board monitors and reviews potential conflicts of interest on a regular basis and is satisfied that formal procedures are in place to ensure that authorisation for potential and actual conflicts of interest are operated efficiently.

Anti-bribery and corruption

The Company has a detailed Code of Business Conduct and supporting policies, including an anti-bribery and corruption policy which is reviewed annually by the Board. Externally moderated online compliance training is required to be carried out by all new personnel to familiarise themselves with the Company's Code of Business Conduct, the supporting policies and relevant legislation. In addition, the Company operates a confidential, externally provided "speak up" line, available to all employees. During 2016 there were no incidents recorded through this facility. Any relevant instances would be investigated by the Company Secretary and reported to the Board as appropriate.

Risk management

The Board reviewed the Company's principal risks, and received regular updates on risk management and internal controls from the Chair of the Audit Committee. See pages 36 and 37 for more information on the Company's principal risks and uncertainties.

The Board receives a report on health and safety from the Group Chief Executive at every Board meeting. Specific issues on health and safety and any other matters which could have affected the Company's reputation were reported to the Board as they occurred.

Relations with shareholders

Shareholder engagement

The Company is committed to maintaining good communications with investors. Although overall responsibility for ensuring that there is an effective communication with shareholders lies with the Chairman, on a day-to-day basis the Board's primary contact with shareholders is through the Executive Directors. The Chairman is generally available to shareholders and meets with institutional and other large investors; the Senior Independent Director is also available as required.

The Company regularly meets with its large investors and institutional shareholders who, along with sell-side research analysts, are invited to presentations by the Company immediately after the announcement of the Company's interim and full year results. The contents of these presentations and conference calls are available on the website and shareholders can register on the website to receive email alerts.

The Annual General Meeting

The Company's AGM presents an additional opportunity to communicate with private and institutional investors. The AGM is attended by the Board and is open to all Dialight shareholders to attend.

The Group Chief Executive gives a presentation on operational matters before the Chairman deals with the formal business of the meeting. Each substantially separate issue is proposed as a separate resolution. Details of resolutions to be proposed, and shareholders' options for voting, at the forthcoming AGM can be found in the separate circular to shareholders. All shareholders present can question the Board during the meeting as well as informally afterwards.

The Company's forthcoming AGM will take place at 11.30am on Thursday, 20 April 2017 at the offices of Investec Bank plc, 2 Gresham Street, London EC2V 7QP.

Internal control statement

The Board's responsibilities

The Board has overall responsibility to the shareholders for the Group's system of internal controls and risk management, and the review of the system's effectiveness is carried out with the assistance of the Audit Committee. While not providing absolute assurance against material misstatements or loss, this system is designed to identify and manage those risks that could adversely impact the achievement of the Group's objectives. The Group's principal risks and uncertainties are detailed on pages 36 and 37.

The Board confirms that a process has been established for identifying, evaluating and managing the significant risks faced by the Group and for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. The Board, advised by the Audit Committee, has reviewed the process up to the date of approval of the Annual Report and Accounts. The Board has continued to improve and embed controls throughout the Group and will continue to keep the systems under review to ensure that the internal control and risk management framework remains fit for purpose.

Review of internal control effectiveness

The Board has engaged Ernst & Young LLP ("EY") as an outsource resource to aid the Group in its internal audit and risk management framework. The Group's external auditor, KPMG LLP, has audited the financial statements and has reviewed the financial control systems to the extent considered necessary to support the audit report.

Compliance with the UK Corporate Governance Code 2016 (the "Code")

Throughout the year ended 31 December 2016, the Company has fully complied with the provisions as set out in the Code. The Directors confirm that they consider the Annual Report and Accounts, taken as a whole, to be fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance. The Group's business model is set out on pages 18 and 19, and an explanation of the strategy and longer-term objectives of the Company is contained within the Strategic report on pages 1 to 41.

Going concern

The Group's business activities, together with the main trends and factors likely to affect its future development, performance and position, and the financial position of the Group, its cash flows, liquidity position and borrowing facilities, are set out in the Strategic report. In addition, note 22 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to currency and liquidity risks.

The Group has significant financial resources (including a £25m five-year revolving credit facility, of which the whole amount is undrawn at 31 December 2016) together with contracts with a diverse range of customers and suppliers across different geographical areas and industries. No one customer accounts for more than 10% of Group turnover. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully.

After conducting a formal review of the Group's financial resources, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

Longer-term viability

In accordance with the Code, the Board has considered the Company's longer-term viability and sets out its Viability statement on the opposite page.

Viability statement

During the year, the Board carried out a robust assessment of the principal risks affecting the Group, including those that would threaten its business model, future performance, solvency or liquidity. The principal risks and uncertainties, including an analysis of the potential impact and mitigating actions, are set out on pages 36 and 37 of the Strategic report.

The Board has assessed the viability of the Group over a three-year period, taking into account the Group's current position and the potential impact of the principal risks and uncertainties. While the Board has no reason to believe that the Group will not be viable over a longer period, it has determined that three years is an appropriate period to present users of the Annual Report with a reasonable degree of confidence while still providing a longer-term perspective. In drawing its conclusion, the Board has aligned the period of viability assessment with the Group's strategic planning process (a three-year period). The Board believes that this approach provides greater alignment with the share-based incentive plan.

In assessing the viability of the Group, sensitivity analyses have been performed on the following key assumptions:

— Revenue growth.
— Delays in transferring to our manufacturing partnership.
— Fluctuations in foreign exchange.
— Changes in import tariffs to the US and EU.

In reviewing the Company's viability, the Board has identified the following factors which they believe support their assessment:

— The Group operates in diverse end markets with no strong customer concentration.
— There is considerable financial capacity under current facilities and the Group has the ability to raise further funds.
— There is a strong culture of accountability within a robust governance and control framework.
— There is an ethical approach to business throughout the Group.

The Board carried out a comprehensive exercise of financial modelling and stress-tested the model with various scenarios. In each scenario, the effect on the Group's borrowing covenants was considered. Based on this assessment, the Board confirms that it has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three-year period to 31 December 2019.

David Thomas
Chair of the Audit Committee

Introduction

I took over as Chair of the Audit Committee in April 2016 and I am pleased to have the opportunity to explain its work. I am a qualified chartered accountant and Fellow of the Institute of Chartered Accountants in England and Wales and have worked in financial roles for over 30 years. My full biography is set out on page 43 together with those of the other members of the Audit Committee.

Membership

All current members of the Audit Committee are independent Non-Executive Directors.

Committee member	Member from/until
David Thomas (Committee Chair)	from 26 April 2016
Stephen Bird	from 10 January 2013
Martin L. Rapp	from 26 April 2016
Robert Lambourne	until 26 April 2016
Tracey Graham	until 26 April 2016
Gaelle Hotellier	from 3 October 2016
David Blood	until 3 October 2016

I invite executives from the Group's finance team as well as representatives of the external auditor and internal audit to join our meetings.

The Board is satisfied that at least one member of the Audit Committee has recent and relevant financial experience as required for corporate governance purposes.

Meetings

The Audit Committee held 3 scheduled meetings during the year and details of members' attendance are set out on page 46. The chart below shows how we spent our time and our activities are described in detail on page 53.

	Feb	Jul	Dec
Financial reporting			
Full year results and announcements	●		
Half year results and announcements		●	
Going concern	●	●	
External audit			
External audit plan		●	
Management representation letter	●	●	
Evaluation of external auditor effectiveness	●		
Non-audit fees	●	●	●
Recommendation of appointment	●		
Internal audit			
Review of reports and control environment	●	●	●
Evaluation of internal auditor effectiveness		●	
Approval of internal audit plan			●
Other			
Risk management (including whistleblowing)	●	●	●
Compliance with corporate governance	●	●	●
Review of terms of reference			●

Responsibilities

The Audit Committee is appointed by the Board from the Non-Executive Directors of the Group. The Audit Committee's terms of reference include all matters indicated by Disclosure and Transparency Rule 7.1 and the Code. The terms of reference are considered annually by the Audit Committee and are then referred to the Board for approval. The full terms of reference were updated on 8 December 2016.

The primary responsibilities of the Audit Committee are to:

— monitor the integrity of the financial statements of the Group and any formal announcements relating to the Group's financial performance and review significant financial reporting judgements contained therein;
— have oversight of risk management, including the review of the Group's financial, operational and compliance internal controls, as well as whistleblowing and fraud prevention procedures;
— monitor and review the effectiveness of the Group's internal audit function;
— review the tenure of the external auditor in the context of retendering requirements and make recommendations to the Board on the timing of any process;
— make recommendations to the Board, for a resolution to be put to the shareholders for their approval at the next general meeting, on the appointment of the external auditor and the approval of the remuneration and terms of engagement of the external auditor;
— review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration the periodic rotation of audit personnel and relevant UK professional and regulatory requirements; and
— develop and implement a policy on the engagement of the external auditor to supply non-audit services, taking into account relevant guidance regarding the provision of non-audit services by the external audit firm.

Key issues and activities

The Committee not only reviews the financial reporting of the Company, but spends a significant amount of its time reviewing the effectiveness of the Group's internal control process. Combined with the Committee's review of the internal and external audit functions, it is able to obtain sufficient information to discharge its responsibilities.

During 2016 the activities of the Audit Committee were as follows:

Financial statements and reports

— Reviewed the December 2015 Annual Report and Accounts and the June 2016 Half Year Report. As part of these reviews the Committee received a report from the external auditor.
— Reviewed the effectiveness of the Group's risk management and internal controls and disclosures made in the Annual Report and financial statements.
— Reviewed treasury policy.
— Reviewed currency exposure and hedging policies.
— Reviewed taxation provisions.

Risk management

— Considered the output from the Group-wide risk review process to identify, evaluate and mitigate risks, the Group's changing risk profile and future risk reports.
— Devoted additional time to adequately address risk management and internal control processes in the Group.

Internal audit

— Evaluated the effectiveness and the scope of work to be undertaken by the internal audit function.
— Reviewed management responses to audit reports issued during the year.
— Reviewed the Group's whistleblowing policy which allows internal audit, via the Company Secretary, to receive, in confidence, complaints on accounting, risk issues, internal controls, auditing issues and related matters.
— Reviewed the resourcing of internal audit.

External auditor and non-audit work

— Considered the timing and process for external auditor tender.
— Reviewed, considered and agreed the scope and methodology of the audit and non-audit work to be undertaken by the external auditor.
— Evaluated the independence and objectivity of the external auditor.
— Agreed the terms of engagement and fees to be paid to the external auditor for the audit of the 31 December 2016 financial statements.

Appointment and tenure

KPMG was first appointed as external auditor in 2001. KPMG is 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 auditor at the next AGM.

During 2016 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 auditor by 31 December 2023. At that point KPMG would not be able to be re-appointed. The Company currently plans to retender the external audit at the end of 2018.

External audit effectiveness

The effectiveness of the external audit process is assessed by the Committee, which meets regularly throughout the year with the audit partner and senior audit managers. Key to the overall effectiveness of the process is a "no surprises" approach adopted by both the Group and the external auditor under which each party makes the other aware of accounting and financial reporting issues as and when they arise, rather than limiting this exchange to the period in which formal audit and review engagements take place.

This general approach is supported by a formal annual survey process involving subsidiary and Group management as well as Audit Committee members and attendees.

Surveys are tailored and issued to three distinct groups of respondents:

— Subsidiary financial controllers.
— Group finance team.
— Audit Committee members and attendees.

The survey completed by the first group is divided between questions focusing on audit quality and client service. As this group is involved primarily in the execution phase of the audit, the responses cover practical audit management issues as well as observations made of the integrity and quality of audit field teams. The second and particularly the third group interact mainly with senior audit management and the audit partner and so the survey covers more general audit planning and wider issues around the audit relationship.

In addition to assessing the effectiveness of the external auditor, the Committee recognises that Group management has an important role to play in the overall effectiveness of the external audit process and the external auditor is therefore asked to conduct its own survey of both subsidiary and head office companies with which KPMG interacts. This survey addresses items such as the timeliness, quality and reliability of data provided to the external auditor.

Taken together, the Committee believes that sufficient and appropriate information is obtained to form an overall judgement on the effectiveness of the external audit process. The external audit effectiveness process findings from last year's review were also incorporated into our audit processes this year.

Risk management and internal controls

Further details of risk management and internal controls are set out on pages 36 and 37. Through monitoring of the effectiveness of its internal controls and risk management, the Committee is able to maintain a good understanding of business performance, key areas of judgement and decision making processes within the Group.

Fair, balanced and understandable

One of the key governance requirements is for the report and accounts to be fair, balanced and understandable. Ensuring that this standard is met requires continuous assessment of the financial reporting issues affecting the Group on a year-round basis in addition to a number of focused exercises that take place during the Annual Report and Accounts production process.

These focused exercises can be summarised as follows:

— A qualitative review of disclosures and a review of internal consistency throughout the Annual Report and Accounts. This review assesses the Annual Report and Accounts against objective criteria drawn up for each component of the requirement (individual criteria that indicate "fairness", "balance" and "understandability" as well as criteria that overlap two or more components).
— A risk comparison review, which assesses the consistency of the presentation of risks and significant judgements throughout the main areas of risk disclosure in the Annual Report and Accounts.
— A formal review of all Board and Committee meeting minutes by the Company Secretary to ensure that all significant issues are appropriately reflected and given due prominence in narrative reporting.
— Preparation and issue to the Audit Committee of the key working papers and results for each of the significant issues and judgements considered by the Audit Committee in the period.

The Directors' statement on a fair, balanced and understandable Annual Report and Accounts is set out on page 78.

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.

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.

To remove any potential conflict, Mr Blood resigned from the Audit Committee on 3 October 2016.

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.

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 2016 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 can have different contractual terms for transfer of ownership. The maintenance of an effective control environment within the production sites is fundamental to ensuring appropriate revenue recognition.	Controls relevant to the production sites are formally documented within the production 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 existing controls over revenue recognition and noted no significant issues with respect to the operation of the controls. The Audit Committee also considered a report from the external auditor, 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 it 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 auditor. 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 — Inventory	The use of judgement and estimates is required in a number of areas, primarily in assessing the amount of development costs capitalised and the value of inventory.	The Audit Committee has reviewed and challenged key assumptions used in these areas. The Audit Committee requested that management prepare an in-depth analysis of capitalised development costs 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 auditor 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.

David Thomas
Chair of the Audit Committee
27 February 2017

Wayne Edmunds
Chair of the Nominations Committee

I am pleased to present the Nominations Committee report for 2016 which provides a summary of the Nominations Committee's activities during the year.

In 2016, the Nominations Committee membership was altered due to the change in the Board's composition. The current composition of the Nominations Committee is set out below:

Committee member	Member from/until
Wayne Edmunds (Committee Chair)	from 25 January 2016
Stephen Bird	from 10 January 2013
Martin L. Rapp	from 26 April 2016
David Thomas	from 26 April 2016
David Blood	from 23 July 2015
Gaelle Hotellier	from 3 October 2016
Bill Ronald	until 25 January 2016

The Nominations Committee is appointed by the Board from the Non-Executive Directors. The Nominations Committee's terms of reference include all matters required by the Code. The terms of reference are considered annually by the Nominations Committee and are then referred to the Board for approval. The full terms of reference were reviewed during the year and updated in December 2016. The terms of reference can be found on the Company's website or can be obtained from the Company Secretary.

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

Role and responsibilities of the Nominations Committee

The role of the Nominations Committee is to:

- lead the process for all Board appointments, making recommendations to the Board where required;
- review the balance and composition of the Board and its Committees, ensuring that they remain appropriate;
- assume responsibility and oversee the Board's succession planning requirements, including the identification and assessment of potential Board candidates, and making recommendations to the Board for its approval; and
- keep under review the leadership needs of, and succession planning for, the Group in relation to both its Executive Directors and members of the Executive Committee. This includes the consideration of recommendations made by the Group Chief Executive for changes to the executive membership of the Board.

Activities during the year

During 2016 the Nominations Committee has focused heavily on Board succession and composition with the key outcomes described below.

In early 2016, the Nominations Committee met to consider potential Non-Executive Directors to replace Tracey Graham and Robert Lambourne, who were considering stepping down from the Board. Following a series of discussions, the

Nominations Committee, agreed to begin the search for two replacement Non-Executive Directors. Martin L. Rapp was known to the Board as he was previously identified by JCA Group, an executive search firm, during the search process for a replacement Chairman of the Company in 2015. On this occasion, and following a further interview process, the Board decided that Martin had the requisite skills to fill the role of Non-Executive Director and Chair of the Remuneration Committee, given his prior executive and non-executive experience, including as a member of the remuneration committees at Cascade Microtech, Inc. and Kionix, Inc. David Thomas was a direct recommendation from the Chairman of the Company. Following a rigorous interview process with the Board, David was considered to have the requisite experience, having previously acted as Chief Financial Officer at Invensys plc as well as having been a former member of the Auditing Practices Board, and was therefore appointed as a Non-Executive Director and Chair of the Audit Committee. Both Martin and David were appointed with effect from 26 April 2016.

As no external search firm was engaged and no open advertising was used in the search process for Martin and David, the Company was not in strict adherence to the provisions of provision B.2 of the Code. However, as previously noted, the Board undertook a rigorous and formal review of both their skills and experience. Martin and David were interviewed for their respective positions and the Board was satisfied that both Directors would bring strong and relevant industry expertise to complement the existing experience of the Board.

Following a recommendation by the Nominations Committee, the Board approved the renewal of Stephen Bird's appointment as Non-Executive Director and Senior Independent Director for a further three-year period until the conclusion of the Company's AGM in 2019.

In July 2016, following a review by the Nominations Committee of the relevant skills and experience of the Board, it was agreed that a further search process would be conducted to appoint an additional Non-Executive Director with experience in, amongst other things, technology and international business development, in order to support the Group's focus on sales growth across geographies and into new technology offerings. JCA Group was again engaged to facilitate the process. The members of the Nominations Committee were briefed on candidates who had been put forward for the roles. After a thorough interview and review process by the Nominations Committee, the Committee recommended and the Board approved the appointment of Gaelle Hotellier given the breadth and relevance of her experience (as described on page 43). Gaelle was appointed as a Non-Executive Director with effect from 3 October 2016. The Nominations Committee was satisfied that, when providing its advice, JCA Group did not have any other connections with the Company.

Priorities for the coming year

The Nominations Committee will continue to keep the composition of, and succession plans for, the Board and Board Committees under review. In addition, in 2017 the Nominations Committee will focus on succession planning at executive management level, to ensure that nominated successors are identified (or recruited where there are no internal candidates identified) and rigorous and formal development plans are in place for those nominated successors, where required.

Diversity

The Board continues to take into consideration the recommendations of the 2011 Lord Davies report "Women on Boards" (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.

Currently the Board consists of two Executive Directors and six Non-Executive Directors. Six of the Directors are male and two are female. It is not the Board's policy to have specific voluntary targets, but it will continue to recruit Board members based on skills and experience.

Further details of Dialight's total workforce diversity can be found on page 29.

Re-election to the Board

Following a formal review of the effectiveness of the Board, the Nominations Committee confirms that it is satisfied with the performance and the time commitment of each Non-Executive Director throughout the year. We remain confident that each of them is in a position to discharge their duties to the Company in the coming year and to continue to bring the necessary skills required to the Board. Detailed biographies for each Director, including their skills and external appointments, can be found on page 43.

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. Gaelle Hotellier, who was appointed to the Board during 2016, will seek election at the forthcoming AGM.

Wayne Edmunds
Chair of the Nominations Committee
27 February 2017

Martin L. Rapp
Chair of the Remuneration Committee

Membership

Committee member	Member from/until
Martin L. Rapp (Committee Chairman)	from 26 April 2016
Stephen Bird	from 10 January 2013
David Thomas	from 26 April 2016
Tracey Graham	until 26 April 2016
Robert Lambourne	until 26 April 2016
Bill Ronald	until 25 January 2016

Annual statement by Martin L. Rapp, Chair of the Remuneration Committee

On behalf of the Board, I am pleased to present the Remuneration Committee's (the "Committee") report on remuneration for 2016 (the "Report").

As in previous years, this Report is split into three sections: the Annual statement, the Directors' remuneration policy and the Annual report on remuneration. This year we will be asking you, our shareholders, to approve a new remuneration policy for Executive Directors (the "Policy") at our 2017 AGM. We expect this Policy to apply for three years from the AGM, subject to shareholder approval. The background to the proposed changes is set out later in this Annual statement.

Over the course of the last few years, Dialight has undergone significant change with both our Group Chief Executive, Michael Sutsko, and Group Finance Director, Fariyal Khanbabi, having been appointed to the Board, along with the introduction of a new Group strategy – Rebuild, Lead, Grow – focused on rebuilding the Group's operations, product development, sales strategy and delivering sustainable profitable growth. In addition, the Board and this Committee have seen changes in personnel, with myself and David Thomas being appointed to the Board and this Committee with effect from 26 April 2016, to join existing Committee member Stephen Bird. Tracey Graham, Robert Lambourne and Bill Ronald stepped down from the Committee during 2016 and I would like to take this opportunity to thank them for their contribution over the years. With these changes as the backdrop, the Committee's key decisions during the year related to the areas set out below.

Review of base salaries

The Committee undertook a review of Executive Directors' base salaries, taking into account a range of factors including individual experience, responsibilities and performance, as well as pay and conditions for employees more broadly across the Group. Following this review, the Committee agreed and recommended to the Board salary increases of 3% for each of the Group Chief Executive and Group Finance Director, to take effect from 1 January 2017. These increases are in line with planned increases across the organisation.

Change to the Group Finance Director's maximum bonus potential

A review of the Annual Performance Bonus Plan (the "APBP"), was carried out to ensure that it continues to provide appropriate levels of motivation and reward in order to incentivise performance not only to the expected level but also to achieve exceptional results. As a result of this review, the maximum potential financial reward for the Group Finance Director on achievement of exceptional results was felt to be insufficient, especially in comparison to that of the Group Chief Executive and the senior management team. The annual bonus for the Group Finance Director as a percentage of base salary will stay the same for targeted results, at 75% of base salary, but will be increased from 100% of base salary to 125% of base salary for exceptional results, the change being in line with the existing policy. Any bonus above target will be self-funded from additional EBIT above target, as it has been in the past.

Annual bonus outcomes for the financial year

Following a review of performance against targets set at the start of the financial year, the Committee determined that bonuses of US$740,898 and £219,262 – equivalent to 129% and 85% of salary respectively – would be payable to the Group Chief Executive and the Group Finance Director. Outcomes reflect strong financial performance during the year, achievement of specific individual goals, and significant progress in positioning the Company via the Rebuild, Lead, Grow programme. Bonuses will be paid in March 2017, with 22% of bonus for the Group Chief Executive and 11% of bonus for Group Finance Director payable in deferred shares. Further details are included in the relevant section on page 67.

Long-term incentives

Executive Directors were each granted an award under the Performance Share Plan ("PSP") during the year based on performance over the three financial years to 31 December 2018. These awards will vest to the extent that challenging earnings per share ("EPS") and relative total shareholder return ("TSR") targets are achieved over the three-year period. Further details of awards made to each Executive Director, including details of the performance targets applying, are included on page 70.

In respect of long-term incentive plan awards made in 2014, both the EPS and TSR performance of Dialight over the three-year performance period have been below the performance objectives set by the Committee at the date of grant. As a result, all 2014 PSP awards, including Fariyal Khanbabi's award, will lapse in full in 2017.

Proposed weighting of PSP Awards

For the PSP awards to be made to Executive Directors in 2017, the Committee has determined that these will again be subject to EPS and relative TSR performance measured over three years. In order to focus participants on the importance of Dialight's financial performance over the next performance cycle, the Committee will be increasing the weighting on EPS from 50% to 75% of the awards, with a commensurate reduction in the weighting on relative TSR from 50% to 25%, in each case as permitted under our Remuneration Policy. Targets applying to these awards will be finalised over the coming weeks and disclosed both at the time of award and in next year's report. All PSP awards will also be subject to a two-year post-vesting holding period.

Review of fee arrangements for Non-Executive Directors resident outside the UK

In accordance with the Policy, the Committee reviewed the Chairman's fee and the Board reviewed the Non-Executive Directors' fees, such fees having last been increased at the start of 2015. Given the number of recent changes to the Board, it was decided that there should be no wholesale increases to the base fees. However, given the appointment for the first time of a non-UK domiciled Chairman and Non-Executive Directors, the Committee (in respect of the Chairman) and the Board (in respect of the Non-Executive Directors) decided to implement "local" currency fees (based on exchange rates at start of 2016) as set out below, with effect from 1 January 2017:

- In respect of Wayne Edmunds as Chairman, a fee of US$192,400.
- In respect of Martin L. Rapp, a base Non-Executive Director fee of US$60,400, with an enhancement of US$7,400 as Chair of the Committee.
- In respect of Gaelle Hotellier, a base Non-Executive Director fee of €55,500.

Subject to any future change following review by the Committee in accordance with the Policy, such fees will apply to any future appointments in the relevant currency zones.

Proposed changes to the Policy

During 2016, the Committee undertook a comprehensive review of the Policy to ensure that it promoted the new strategy and continued to both motivate and retain our executive team.

As part of this review, in June 2016, on behalf of the Committee, I wrote to Dialight's top ten shareholders (by shareholding) and the key shareholder bodies to seek their thoughts on the Company's existing Policy in the context of the latest developments in executive remuneration. The feedback received was then considered by the Committee as part of its Policy review process, as a result of which a revised draft Policy was produced. I wrote again to the same shareholders and shareholder bodies in November 2016 to inform them of the proposed changes and invite any feedback. I thank all those who responded and engaged with us on this process.

Feedback was positive and, although the Committee considers that the existing Policy remains fit for purpose and promotes the Group's strategy, some changes are proposed. In general, these are evolutionary and focus on ensuring continued alignment with market practice and providing the Committee with sufficient flexibility over the life of the next Policy to modify incentive measures, weightings and targets. In addition, we will also be making some changes to the operation of long-term incentives below Board level to ensure that Dialight can continue to motivate and retain key individuals in a competitive talent market. I summarise below some of the key changes:

— The introduction of a mandatory two-year post-vesting holding period on all PSP awards granted to Executive Directors from 2017 onwards, bringing the total time horizon for holding long-term incentives to five years.
— Certain changes to the Policy wording which focus on improving the clarity and brevity of the Report and ensuring that the Committee has sufficient flexibility over the life of the next Policy in areas such as incentive measures, targets and weightings to respond to business circumstances over the next three years.
— A greater flexibility for below Board participants to receive some or all of future long-term incentive awards in the form of restricted share units with vesting conditional only on continued employment over a number of years. This change in approach is driven by the need to be able to incentivise and retain key personnel in different jurisdictions, particularly in the US where this practice is prevalent. This change does not impact Executive Directors and will therefore not form part of the Policy.

The Committee believes that the 2017 Policy and Dialight's approach to remuneration are appropriate and a fair balance of shareholder and management interests.

Other decisions

In addition to the above, the Committee's other principal activities and key decisions during the year included the following:

— Setting the 2016 salary increases for Executive Directors.
— Review of cash bonuses in respect of the 2015 financial year.
— Approving the 2016 PSP awards and setting the associated PSP performance targets.
— Review of the performance targets outcome in relation to the 2013 PSP award.
— Setting APBP objectives for 2016.
— Reviewing and approving the Committee's terms of reference.
— Reviewing the Committee's performance as part of the 2016 internal Board performance evaluation.

A summary of the Committee meeting attendance by members is set out in the table on page 46.

Compliance statement

This Report has been prepared in accordance with the provisions of the Companies Act 2006 and Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the "Regulations"). It also meets the requirements of the UK Listing Authority's Listing Rules and the Disclosure and Transparency Rules.

In accordance with the Regulations, the following sections of the Report are subject to audit: the single total figure of remuneration for Directors and accompanying notes (page 67), scheme interests awarded during the financial year and payments to past directors (pages 70 and 72), payments for loss of office and the statement of directors' shareholdings and share interests (page 73). The remaining sections of the Report are not subject to audit.

I hope that you find our Report helpful. The changes proposed to the Policy noted above were the subject of extensive shareholder engagement during the year under review. The Board values the opinions of its shareholders and other stakeholders and has proactively taken their views into account when finalising the proposed Policy and its application for 2017.

The Committee remains committed to aligning Dialight's remuneration framework with the strategy of the business to promote the long-term success of the Company. The Committee is keen to maintain an ongoing dialogue with shareholders on the issue of executive remuneration and I will be available to answer any questions at the AGM on 20 April 2017, at which I look forward to your support on the resolutions relating to remuneration.

Martin L. Rapp
Chair of the Remuneration Committee
27 February 2017

Directors' remuneration policy

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

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

Further detail is set out below.

Background and overview of the Policy

The Committee continues to have a clear policy on remuneration; namely that base salary and benefits for Executive Directors should represent a fair return for employment but that the majority of remuneration should be variable, dependent on the continued success of the Company, and aligned with the creation of shareholder value and delivery of Dialight's strategic plan. The Policy has been designed and reviewed so that it continues to reinforce these principles, while also taking account of prevailing best practice, investor expectations, and the level of remuneration and pay awards made generally to employees of the Group.

A breakdown of all elements of executive remuneration and their place in the Company's Policy can be found below:

Remuneration Policy table

Element/link to strategy	Operation	Opportunity	Performance metrics
Base salary To ensure that fixed pay represents a fair return for employment.	The Committee sets base salary with reference to relevant market data and an individual's experience, responsibilities and performance. Base salary is considered by the Committee on an individual's appointment and then reviewed once a year or when an individual changes position or responsibilities. When making a determination as to the appropriate level of remuneration, the Committee firstly considers pay and conditions for employees across the Group, the general performance of the Company and the wider economic environment and, where considered relevant, the Committee benchmarks remuneration against a bespoke group of comparator companies incorporated in both the US and the UK (size adjusted on the basis of market cap and revenue). Benchmarking is not the only driver in salary reviews.	Any base salary increases are applied in line with the outcome of the review. In respect of existing Executive Directors it is anticipated that salary increases will generally be in line with the broader employee population. In exceptional circumstances (including, but not limited to, a material increase in role size or complexity) the Committee has discretion to make appropriate adjustments to salary levels to ensure that they remain market competitive. It is not envisaged that this will be a frequent occurrence. Detail of current salaries for the Executive Directors can be found on page 67.	None.
Benefits The approach of the Committee is that other benefits payable remain in line with market practice to ensure that Dialight retains its ability to be competitive and remain attractive to prospective candidates.	Executive Directors receive benefits which consist primarily of the provision of a car allowance, life insurance and medical insurance, although they may include any such benefits as that the Committee deems appropriate.	Benefits vary by role and individual circumstances; eligibility and cost are reviewed periodically. The Committee retains the discretion to approve a higher total benefit cost in exceptional circumstances (e.g. relocation) or in circumstances where factors outside the Company's control have changed materially (e.g. increases in insurance premiums). The value of benefits awarded to the Executive Directors can be found in the table on page 67.	None.

Element/link to strategy	Operation	Opportunity	Performance metrics
Pension The Company provides this benefits package in order to be competitive in the relevant market and to ensure its ability to recruit and retain executives.	The Company operates the Roxboro UK Pension Scheme in the UK and a 401(k) and Supplemental Executive Retirement Plan ("SERP") in the US, with both employee and employer contributions made to the relevant schemes. Executive Directors in the UK are entitled to join the existing defined contribution scheme offering employer contributions of up to 15% or to receive an equivalent cash payment in lieu. Executive Directors in the US are entitled to participate in the 401(k) and the SERP. In relation to the SERP a participant is entitled to receive a cash equivalent payment in lieu of employer contribution. Salary is the only element of remuneration that is pensionable.	The Group Chief Executive does not currently participate in the SERP and in 2016 received a cash payment in lieu of employer contribution of $86,400. The Group Chief Executive does participate in the 401(k) scheme and in 2016 received an employer contribution of $10,600 in accordance with the plan rules. It is not anticipated that pension contributions (as a percentage of salary) will exceed the levels currently provided. Further details of what has been paid during 2016 can be found on page 67.	None.
Sharesave Plan To provide a mechanism by which employees can save up to purchase shares at a discount to the prevailing market price on an annual basis, encouraging employee retention and engagement with the Company.	The Sharesave Plan currently operates in the UK, the US and Mexico but may be introduced to other parts of the world at a future date. The Sharesave Plan has typically been operated on an annual basis and is open to all eligible employees, including Executive Directors.	Employees will be able to save up to the maximum of the limits approved by HM Revenue & Customs from time to time (or local currency equivalent) for a total period of three years. At the beginning of each savings period employees will be granted options over shares in Dialight plc up to a maximum discount of 20% to the prevailing market price. The employees' savings are then used to purchase and exercise these options at the end of three years.	None.
Annual Performance Bonus Plan The APBP rewards performance against our annual goals, and directly supports the achievement of EBIT, one of the key financial KPIs of the Company.	APBP measures, weightings and targets are set by the Committee at the beginning of each financial year following the finalisation of the budget for that year. Bonuses up to target are paid in cash, with payouts above target delivered in Dialight shares. Where the executive receives Dialight shares, half of these vest after two years with the balance vesting after three years, subject to continued employment with the Group. Dividends are accrued on these deferred shares and are paid to the participant on release of shares that are subject to the award. The rules of the APBP allow for the clawback of deferred share awards prior to their vesting should the Committee take the decision that to allow such awards to vest would be contrary to the best interests of the Company's shareholders.	The maximum bonus opportunity is 175% of salary. Threshold performance will deliver payouts of up to 20% of maximum, while payouts for target performance will be up to 60% of maximum.	Performance is assessed on an annual basis, as measured against specific objectives set at the start of each year. The primary measure is Company EBIT, although other financial measures may be rewarded, as may additional specific objectives, that can be triggered following satisfactory achievement of the primary EBIT targets. Further details of the measures, weightings and targets applicable for 2017 can be found on page 71.

Element/link to strategy	Operation	Opportunity	Performance metrics
Performance Share Plan The PSP provides direct alignment between the interests of shareholders and those of the Executive Directors by linking vesting of awards to the Company's long-term financial and share price performance.	PSP awards may be structured as conditional shares or nil-cost options with a two-year exercise window from the date of vesting. The release of awards may, at the discretion of the Committee, be deferred in whole or in part following the end of a three-year vesting period. All vested awards will be subject to a two-year post-vesting holding period. The Committee has the power to authorise the payment of dividends or dividend equivalents under the rules of the PSP. The PSP rules contain provisions that allow for clawback and malus in respect of both vested and unvested awards in exceptional circumstances.	The maximum PSP award is 150% of salary per annum, although the Committee has historically made awards of between 25% and 125% of salary. Threshold vesting delivers up to 25% of maximum.	Vesting of PSP awards is subject to continued employment and performance measures. The performance measures relating to grants are weighted as follows: — Between 25% and 75% on three-year earnings per share ("EPS") growth. — Between 25% and 75% on TSR relative to a relevant peer group or index. The Committee will review the performance measures, weightings and targets prior to each grant to ensure that they continue to be well aligned with the delivery of Company strategy. Further details of the measures, weightings and targets applicable for 2017 can be found on page 71.
Non-Executive Director fees The Company sets fee levels to attract and retain experienced and skilled Non-Executive Directors with the necessary experience and expertise to advise and assist with establishing and monitoring the strategic objectives of the Company.	Fee levels are typically considered every year, taking into account fees paid for equivalent roles at companies of similar size, time commitment and complexity. The fees paid to the Chairman are determined by the Committee, while fees for Non-Executive Directors are determined by the Board. Additional fees are payable for acting as Senior Independent Director and as Chair of any of the Board's Committees. Non-Executive Directors do not receive any bonus, do not participate in awards under the Company's share plans and are not eligible to join the Company's pension scheme.	The Company's policy in relation to fees is to reflect the time commitment and responsibilities of the roles, normally by paying up to median level fees, compared to market, depending on the experience and background of the Non-Executive Directors. The Company also reimburses the Non-Executive Directors for expenses reasonably and properly incurred in the performance of their duties. In normal circumstances, increases to fees will be broadly in line with price inflation, subject to cases of material misalignment with the market or a change in the complexity, responsibility or time commitment required to fulfil a Non-Executive Director role. It remains important for the Board to have the necessary flexibility to step outside this general policy should the requirement be clear that a certain type of individual is required to conform with new governance requirements or legislation. Aggregate fees for all Non-Executive Directors will be within the limits set by the Articles of Association. Details of current Non-Executive Director fees can be found on page 67.	None.

Notes to the remuneration policy table

Explanatory detail for future remuneration policy table

Executive Directors are eligible to receive payment from any award made prior to the approval and implementation of the Policy detailed in this Report.

Performance measures and targets

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

For the PSP, the Committee considers that TSR provides clear alignment between Executive Directors' interests and those of shareholders and provides an objective measure of the Company's success over time, while EPS provides good line of sight and helps to focus participants on the Company's financial performance. EPS targets will be reviewed and confirmed prior to each grant, taking account of the Company's strategic plan, analyst estimates, historical performance and EPS performance ranges used at other FTSE companies. Other performance measures may be adopted for future awards, should the Committee consider that these would be beneficial in aligning remuneration with Company strategy.

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

Difference between Director remuneration policy and that for other employees

All employees receive salaries and benefits which are consistent with local market practice, with any review of fixed pay taking into account experience, responsibility, individual performance and salary levels at comparable companies.

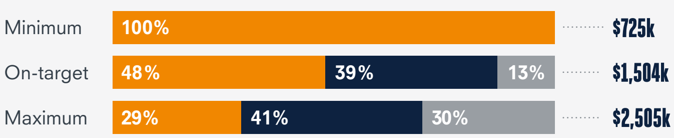
Senior management is typically eligible to participate in the APBP, with opportunities and performance measures reflecting organisational level and business area, as appropriate. PSP awards at senior management level and to other key employees have historically been operated on a similar basis as for Executive Directors, with the same performance measures applying. It is the Committee's intention that, going forward, there will be greater flexibility (for participants below Executive Director level) for some or all of such awards to take the form of restricted share units with vesting subject only to continued employment over a number of years. It is intended that this change will help Dialight to remain competitive in the main talent markets in which it operates, while also continuing to align plan participants with the interests of shareholders in growing the value of the Company over the longer term. Share awards (whether subject to performance conditions or not) to participants below Executive Director level will not be subject to a holding period.

Shareholding guidelines

Executive Directors are required to accumulate and maintain a holding of Dialight shares equivalent in value to their last annual PSP award. Executives will have five years from their date of joining to build their shareholdings to the required level. Current shareholding levels are included on page 73.

Remuneration scenarios

Group Chief Executive – Michael Sutsko

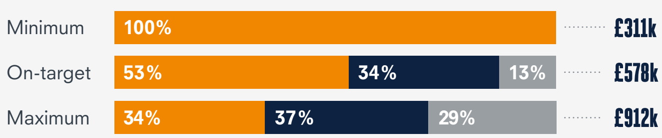


Minimum performance
Fixed elements of remuneration only.

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

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

Group Finance Director – Fariyal Khanbabi



Minimum performance
Fixed elements of remuneration only.

On-target performance
Fixed elements of remuneration plus:
— 75% of salary paid in bonus (60% of maximum opportunity); and
— 25% of PSP award (25% of salary).

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

Fixed · Short-term incentive · Long-term incentive

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

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

Base salaries of new appointees will be determined by reference to relevant market data, experience and skills of the individual, internal relativities and their current basic salary. Where new appointees have initial basic salaries set below market, any shortfall may be managed with phased increases over a period of two to three years subject to the individual's development in the role.

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

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

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

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

For Non-Executive Directors, the Committee and the Company would seek to pay fees in line with the Company's existing Policy. A base fee in line with the prevailing fee schedule would be payable for Board membership, with additional fees payable for acting as Senior Independent Director and/or as Chair of the Board Committees.

Service contracts
Executive Directors' service contracts, including arrangements for early termination, are carefully considered by the Committee. Executive service contracts contain provisions that require up to 12 months' notice of termination on either side. Such contracts do not contain any provisions for payments outside the scope of those contained in the contract. Executive Director service contracts are available to view at the Company's Registered Office.

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

Notice periods
Executive Directors' service contracts require up to 12 months' notice to be given by Dialight in the event of termination. Both can be terminated with and without cause and require up to 12 months' notice from either party.

Subject to his compliance with those restrictive covenants in the contract, the Group Chief Executive is entitled to a severance payment equivalent to a full year's salary, continuing healthcare under the Consolidated Omnibus Budget Reconciliation Act 1985 benefits for the same period and an amount equal to the current annual cost of life insurance to Dialight if his employment is terminated without cause. This does not apply should he resign or be terminated with cause.

The Group Finance Director's contract provides for pay in lieu of notice but does not contain any additional compensation provisions. None of the current Executive Directors' contracts contain liquidated damages clauses.

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

The Committee will exercise discretion in making appropriate payments in the context of outplacement, settling legal claims or potential legal claims by a departing Executive Director, including any other amounts reasonably due to the Executive Director, for example to meet the legal fees incurred in connection with the termination of employment, where the Company wishes to enter into a settlement agreement and the individual must seek independent legal advice.

Treatment of outstanding variable incentives will be as follows:

APBP

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

PSP

The PSP would operate in a similar way to the APBP. Assuming the Executive Director is classed as a “good leaver”, outstanding PSP shares would typically be pro-rated for the proportion of the performance period served and released, subject to applicable performance conditions, at the normal vesting date. The Committee has flexibility to allow awards to vest earlier than above when an individual leaves; however, the default position will be for awards not to be released early.

The treatment of shares subject to deferral or holding periods will be subject to the Committee’s discretion and will take into account the circumstances at the time.

For the purpose of the above, “good leaver” is defined as a participant ceasing to be employed by the Group by reason of death, disability, ill health, redundancy, retirement with agreement of the Company or any other reason that the Committee determines in its absolute discretion. Should the Executive Director leave the Company in any other circumstances, outstanding awards would typically lapse.

The Committee also retains discretion in the event of a change of control to release awards under the PSP. It is usual in this situation that awards would be pro-rated for time and performance subject to the discretion of the Committee.
In relation to the APBP, the scheme rules allow the Committee to determine that all deferred share elements of the bonus awards will vest on a change of control and may be exercised within such period as the Committee shall specify.

External appointments

It is the Company’s policy that, except in extraordinary circumstances, Executive Directors should only accept one appointment with a third party as a Non-Executive Director. Any such appointment is subject to prior Board approval and consideration will be given to potential conflicts of interest with Dialight and the time demands of the external appointment. The Executive Director concerned is entitled to retain any fees from such a non-executive directorship.

Employment conditions elsewhere in the Company

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

Shareholder views

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

Annual report on remuneration

2016 outcomes

Single figure of total remuneration

The following tables provide details of the Directors' remuneration for the 2016 financial year, together with their remuneration for the 2015 financial year, in each case before deductions for income tax and national insurance contributions (where relevant):

2016 (all figures in 000s)	Salary/Fee 2016	Benefits 2016	Pension 2016	Sub-total fixed 2016	Bonus 2016	PSP 2016	Sub-total variable 2016	Total remuneration 2016
Executive Directors								
Michael Sutsko	$576	$52[1]	$97	$725	$741	$0	$741	$1,466
Fariyal Khanbabi	£259	£13	£39	£311	£219	£0	£219	£530
Non-Executive Directors								
Wayne Edmunds[2]	£121	–	–	£121	–	–	–	£121
Stephen Bird	£46	–	–	£46	–	–	–	£46
David Blood	£41	–	–	£41	–	–	–	£41
Gaelle Hotellier[3]	£10	–	–	£10	–	–	–	£10
Martin Rapp[4]	£31	–	–	£31	–	–	–	£31
David Thomas[5]	£31	–	–	£31	–	–	–	£31
Past Directors								
Bill Ronald[6]	£9	–	–	£9	–	–	–	£9
Tracey Graham[7]	£20	–	–	£20	–	–	–	$20
Robert Lambourne[8]	£20	–	–	£20	–	–	–	£20

[1] Michael Sutsko's benefits figure is made up primarily of a car allowance, life insurance and medical insurance cover.
[2] Wayne Edmunds was appointed as Chairman on 25 January 2016.
[3] Gaelle Hotellier was appointed as a Non-Executive Director on 3 October 2016.
[4] Martin L. Rapp was appointed as a Non-Executive Director on 26 April 2016.
[5] David Thomas was appointed as a Non-Executive Director on 26 April 2016.
[6] Bill Ronald stepped down as Chairman on 25 January 2016.
[7] Tracey Graham stepped down as a Non-Executive Director on 26 April 2016.
[8] Robert Lambourne stepped down as a Non-Executive Director on 26 April 2016.

2015 (all figures in 000s)	Salary/Fee 2015	Benefits 2015	Pension 2015	Sub-total fixed 2015	Bonus 2015	PSP 2015	Sub-total variable 2015	Total remuneration 2015
Executive Directors								
Michael Sutsko	$334	$131	$58	$523	$0	$0	$0	$523
Fariyal Khanbabi	£247	£13	£37	£297	£0	£0	£0	£297
Non-Executive Directors								
Bill Ronald	£128	–	–	£128	–	–	–	£128
Stephen Bird	£46	–	–	£46	–	–	–	£46
David Blood	£20	–	–	£20	–	–	–	£20
Tracey Graham	£46	–	–	£46	–	–	–	£46
Robert Lambourne	£46	–	–	£46	–	–	–	£46
Past Directors								
Roy Burton	$108	$3	$1	$112	£0	£0	£0	$112
Richard Stuckes	£192	£7	£0	£199	£0	£0	£0	£199

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 Fariyal Khanbabi's and Michael Sutsko's pensions during the year. Fariyal Khanbabi received Company contributions of 15% of base salary/cash payment in lieu. Michael Sutsko received employer contributions under a US 401(k) plan. Michael Sutsko does not currently participate in the Supplemental Executive Retirement Plan ("SERP") and instead received cash payment in lieu of employer contribution.

APBP

The APBP operates on the basis that is set out in the Policy report on page 62. Maximum bonus potential, paid in a mixture of cash and, in respect of performance above target, deferred shares, is 175% of salary for the Group Chief Executive and 100% for the Group Finance Director.

2015 APBP

As discussed in the 2015 Remuneration Committee report, in light of the EBIT outturn for 2015 being below the objective target set, no bonuses became payable under the APBP 2015.

2016 APBP

The APBP 2016 was based primarily on EBIT performance. Up to 15% of the Executives' target bonus was subject to the achievement of individual goals. The annual bonus payable to the Group Chief Executive and Group Finance Director in respect of 2016 performance was capped at 175% and 100% of salary respectively, with any bonus in excess of Target (100% of salary and 75% of salary respectively), deferred in Dialight shares for up to three years.

The performance range in respect of the 2016 EBIT element was as follows:

	Threshold	Target	Maximum	Actual
EBIT (after provision for bonuses)	£9m	£12m	£15m	£13.1m

No bonuses are payable for below Threshold EBIT. For EBIT performance between Threshold and Target or between Target and Maximum, outcomes are based on a straight-line interpolation between the two points. EBIT is based on the total of the underlying EBIT shown the in the Annual Report and Accounts for 2016.

Actual EBIT performance for 2016 was £13.1m. In addition, having considered performance against individual targets linked to Dialight's strategy of 'Rebuild, Lead, Grow' and financial imperatives including the refinancing, the Committee determined that both Michael and Fariyal had fully met their executive goals. As a result, total bonuses of 128.6% of salary and 84.5% of salary became payable to Michael and Fariyal respectively, of which 28.6% and 9.5% of salary will be deferred in shares.

PSP

Awards made in 2013

Awards granted under the 2013 PSP lapsed on 9 April 2016 due to fact that the related performance conditions were not achieved.

Awards made in 2014

Awards made under the PSP in 2014 will lapse in April 2017 as the related performance conditions were not achieved during the three-year performance period to 31 December 2016.

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 2015 to 2016 compared with the average percentage change for employees as a whole:

	% change 2015–2016	
	Group Chief Executive	Group employees
Salary	3%	3%
Bonus	n/a	n/a
Benefits	0%	0%

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

In relation to the Group Chief Executive, the value of the benefits received during 2015 included an amount relating to relocation expenses. No such relocation expenses were payable in 2016 and the level of benefits provided in 2016 remained broadly in line with those provided in 2015 on an annualised basis.

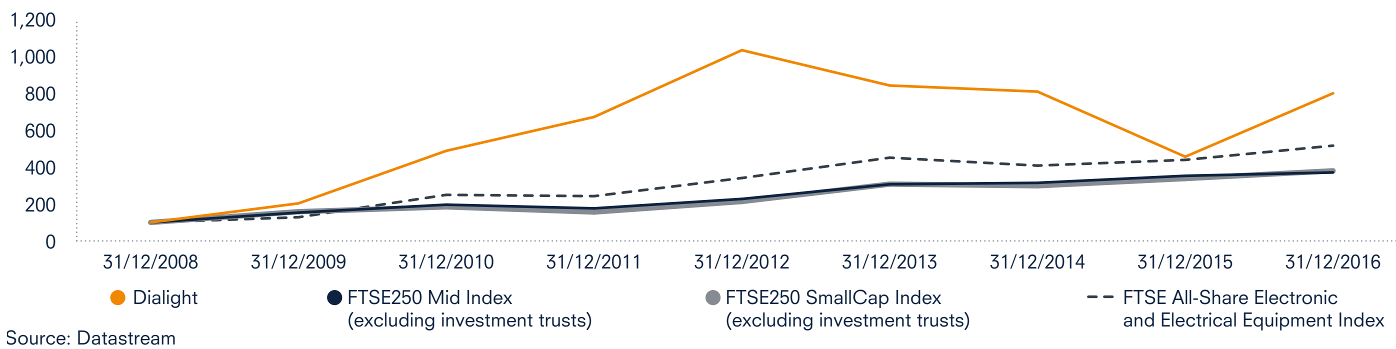
Relative importance of spend on pay

The table below shows the total amount paid by the Company to its employees (excluding severance costs) for 2016 and 2015. Details of the total amount of distributions for the same two years can also be seen.

Spend on pay		Distributions	
2016	**£36.6m**	**2016**	**£0m**
2015	£32.6m	2015	£3.2m

Performance graph and table

The below graph demonstrates the Company's TSR performance over the past eight years relative to the FTSE 250 Mid Index (excluding investment trusts), the FTSE SmallCap Index (excluding investment trusts) and the FTSE All-Share Electronic and Electrical Equipment Index.



Source: Datastream

The table below sets out the "single figure" of total remuneration of the Group Chief Executive over the same eight-year period:

	2009	2010	2011	2012	2013	2014	2015	2016
	R Burton	R Burton	R Burton	R Burton	R Burton	R Burton	R Burton (to Feb) R Stuckes (Mar to Jun) M Sutsko (from Jul)	M Sutsko
Total remuneration ($'000)	$745	$2,845	$4,170	$3,843	$1,564	$1,153	$112 £185 $523	$1,466
Bonus outcome (% of max)	70	100	100	66.6	0	29	0 n/a 0	74
PSP vesting outcome (% of max)	58	100	100	100	100	0	0 n/a n/a	n/a

PSP awards made in 2016

Awards granted in 2016 are measured against EPS and TSR on the following basis:

EPS

EPS is used in respect of 50% of awards. For awards made in 2016, this element will vest in full if Dialight's 2018 EPS exceeds 50 pence, with threshold vesting (25%) if Dialight's 2018 EPS is 40 pence. Awards will vest on a straight-line basis between these two points, with none of this element vesting if Dialight's 2018 EPS is less than 40 pence. The Committee will review the performance targets prior to the grant of any future awards to ensure that 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 2016, the TSR vesting condition is based upon Dialight's three-year TSR percentage outperformance of the FTSE SmallCap Index (excluding investment trusts). This element will vest in full if Dialight's three-year TSR exceeds Index TSR by 10% per annum, with threshold vesting (25%) 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.

The 2016 awards made to the Executive Directors are set out below:

Director	Plan	% of salary awarded	Nature of interest	Exercise price per share	Number of shares subject to an award	Face value of an award	Performance conditions	Date of grant of award	Date of end of performance period
Fariyal Khanbabi	PSP	100%	Nil-cost option	N/A	49,240	£259,347	TSR/EPS	16.03.16	31.12.18
Michael Sutsko	PSP	125%	Conditional share award	N/A	96,485	£508,186	TSR/EPS	16.03.16	31.12.18

Payments to past Directors

Exit payments

There were no exit payments paid to past Directors.

Roy Burton

As a result of the underlying performance criteria not having been achieved, Roy Burton's 38,491 outstanding 2014 PSP awards will lapse in full in April 2017.

Implementation of the 2017 remuneration policy

Executive salaries and Non-Executive Director fees

The Committee agreed a 3% pay increase in salary for the Group Chief Executive and Group Finance Director with effect from 1 January 2017, bringing their salaries to $593,280 and £267,131 respectively.

As stated in the Annual statement, the Chairman's and the Non-Executive Directors' fees were reviewed by the Committee and a decision was made that, with effect from 1 January 2017 "local" currency fees would be implemented for the Chairman and two Non-Executive Directors as follows:

- Wayne Edmunds' fee as Chairman was changed to US$192,400.
- Martin L. Rapp's base fee as a Non-Executive Director was changed to US$60,400, with an enhancement of US$7,400 as Chair of the Committee.
- Gaelle Hotellier's fee as Non-Executive Director was changed to €55,500.

Pensions

The Group Chief Executive does not currently participate in the SERP and will receive a cash payment in lieu of employer contribution of 15% of base salary. The Group Chief Executive does, however, participate in the 401(k) scheme and will receive an employer contribution of 3% of base salary in accordance with the plan rules.

The Group Finance Director will receive a contribution of 15% of base salary into a defined contribution pension scheme.

APBP

The 2017 APBP will be based on targets linked primarily to EBIT performance with a small element based on personal objectives, as in 2016. The maximum annual bonus achievable will remain as 175% of salary in respect of Michael Sutsko and, as mentioned in the Committee Chairman's statement, will increase to 125% of salary in respect of Fariyal Khanbabi for 2017. Target bonuses will remain 100% of salary and 75% of salary respectively.

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

PSP

PSP awards to Executive Directors for 2017 will be made in March or April subject to EPS and TSR performance targets. As mentioned in the Chairman's Statement, and consistent with our Remuneration Policy, it is the Committee's intention to increase the weighting on EPS from 50% to 75%, with a commensurate reduction in the weighting on relative TSR from 50% to 25% for these awards. The Committee considers that this rebalancing will serve to focus participants on Dialight's financial performance over the next 3 years, whilst continuing to recognise the strong shareholder alignment and objectivity offered by TSR. Awards will also be subject to a two-year post-vesting holding period. At the time of the production of this Report, the targets applying to the 2017 awards had not formally been approved by the Committee. We will be finalising targets over the coming weeks taking into account a range of internal and external reference points, and will provide full disclosure both at the time of award, and in next year's Annual Report and Accounts.

Outstanding awards under the PSP and APBP

	Type of award	Award date	Number at 1 January 2016	Awarded in year	Vested in year	Exercised in year	Lapsed in year	Number at 31 December 2016	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	–	(5,223)	–	–	5,222	–	31.01.17	13.03.20
PSP	NCO	16.03.16	–	49,240	–	–	–	49,240	–	16.03.17	16.03.21
Total			70,444	49,240	(5,223)	–	–	114,461	–	–	–

	Type of award	Award date	Number at 1 January 2016	Awarded in year	Vested in year	Exercised in year	Lapsed in year	Number at 31 December 2016	Exercise price	Earliest vesting/ exercise date	Expiry date
Michael Sutsko											
PSP	CSA	03.08.15	71,644	–	–	–	–	71,644	–	03.08.18	–
PSP	CSA	16.03.16	–	96,485	–	–	–	96,485	–	16.03.19	–
Total			71,644	96,485	–	–	–	168,129	–	–	–

Notes:
CSA denotes conditional share awards. These are subject to performance conditions set out on page 70.
NCO denotes nil-cost options. These are subject to performance conditions set out on page 70.
The average closing market price of a share over the five trading days of 9–15 March 2016, which was used for the purpose of calculating award values on 16 March 2016, the date of the awards recorded in the tables above made during the year, was 569.5 pence.
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 reduced to two years from the date of vesting.

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

During the year, the range of share prices was 380 pence to 823 pence, with the price on 31 December 2016 being 790 pence.

Awards under the PSP made in 2014 (including that made to Roy Burton) will lapse in April 2017 as a consequence of the related performance target not being achieved during the three-year financial period ended 31 December 2016.

Executive Directors' shareholding guidelines

Executive Directors are currently required to accumulate and maintain a holding of Dialight shares equivalent in value to their last annual PSP award (i.e. currently 125% of salary for the Group Chief Executive and 100% for the 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 2016 by Executive Directors and their compliance with the guidelines:

Executive Director	Shares held at 1 January 2016	Shares held at 31 December 2016
Fariyal Khanbabi	–	–
Michael Sutsko	–	4,669

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 shareholding up to the required levels.

Total shareholding of Directors

	Beneficially held shares[1]		Shares under incentives plans		
	Ordinary shares at 1 January 2016	Ordinary shares at 31 December 2016[2,3]	Subject to deferral[4]	Unvested and/or subject to performance conditions[5]	Shareholding guidelines met
Michael Sutsko	–	4,669	–	168,129	No
Fariyal Khanbabi	–	–	10,445	109,239	No
Wayne Edmunds	–	–	–	–	–
Stephen Bird	28,000	28,000	–	–	–
David Blood	–	–	–	–	–
David Thomas	–	1,294	–	–	–
Martin L. Rapp	300	13,500	–	–	–
Gaelle Hotellier	–	882	–	–	–

[1] Some of these shares are held through nominees.
[2] Each of Michael Sutsko, David Thomas, Martin L. Rapp and Gaelle Hotellier purchased ordinary shares during the year.
[3] There has been no change in Directors' holdings since 31 December 2016.
[4] Relates to deferred shares held under the APBP scheme.
[5] Relates to outstanding awards under the PSP.

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		
Wayne Edmunds	25 January 2016	Letter of appointment was for an initial term of three years.
Michael Sutsko	1 June 2015	The agreement is terminable by the Company or by the Director on 12 months' notice.
Fariyal Khanbabi	8 September 2014	The agreement is terminable by the Company or by the Director on six months' notice.
Non-Executive Directors		
Stephen Bird	10 January 2013	Letter of appointment was for an initial term of three years. During 2016 this was extended for a further three-year period.
David Blood	1 July 2015	Letter of appointment was for an initial term of three years.
Martin L. Rapp	26 April 2016	Letter of appointment was for an initial term of three years.
David Thomas	26 April 2016	Letter of appointment was for an initial term of three years.
Gaelle Hotellier	3 October 2016	Letter of appointment was for an initial term of three years.

The Committee and advisers

The Committee

While the Board remains responsible for the Group's remuneration policy, the Committee has delegated authority in respect of the determination and review of remuneration packages for the Executive Directors and certain other senior executives (including contract terms, remuneration and other benefits such as performance related bonus schemes, long-term incentives, pension rights and compensation payments) as well as a responsibility to recommend and monitor the structure of the remuneration of the senior management group as defined by the Board.

Committee members

The name of those individuals who served on the Committee during the year can be found on page 58. 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 (neither of whom participates in any discussion concerning their own remuneration) and external advisers as required.

External advice

During the year ended 31 December 2016 the Committee consulted:

- Kepler Associates, a brand of Mercer, which provided independent advice on long-term incentive measures and targets; updates on the external remuneration environment; performance testing for long-term incentive plans; Directors remuneration report drafting support; and assistance during shareholder consultation process for a fee of £36,000; and
- Clifford Chance, which advised on the operation of the Company's share and other incentive plans during the year and gave ad hoc advice on other remuneration issues, for a fee of £9,404.

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

Statement of shareholder voting

At the AGM held on 26 April 2016, the Directors' remuneration report received the following votes from shareholders:

Votes*	% of votes for	% of votes against	Votes withheld
Remuneration report	92.07	7.87	11,416

* 23,152,477 ordinary shares were voted, representing 71.23% of the issued share capital.

The remuneration policy was last submitted to a binding shareholder vote at the 2014 AGM, receiving 79.5% support.
The Remuneration Committee report has been approved by the Board.

Introduction

This Directors' report and the Strategic report collectively comprise the "management report" for the purposes of Disclosure and Transparency Rule 4.1.5R.

Information incorporated by reference

As permitted by legislation, the following information is incorporated by reference in this report:

Information	Reported in	Page number(s)
Corporate governance	Corporate governance statement	44 to 57 inclusive
	Directors' responsibility statement	78
Directors	Board of Directors	43
	Remuneration report – Directors' shareholdings and share interests	58 to 74 inclusive
Financial instruments	Financial statements	79 to 127 inclusive
Going concern	Internal control statement	50
Greenhouse gas emissions	Resources, relationships and responsibilities	31
Results and dividends	Directors' report	75

Dividend

The position of the Board is to ensure that there is a strong capital base. Therefore no final dividend was declared for the year ended 31 December 2015, and we announced in our 2016 half year results that there would be no 2016 interim dividend payment. Given the Group's continued strategic focus on the delivery of profitable growth, the Board has therefore not proposed a dividend for the year ended 31 December 2016. The Board will re-evaluate its dividend policy in due course.

Directors and re-election

The Directors' biographical details are set out on page 43. All the Directors will offer themselves for election or re-election at the Company's AGM on 20 April 2017, in accordance with the UK Corporate Governance Code provision for annual re-election of all the directors of FTSE 350 companies.

Directors' indemnity provisions

The Directors are entitled to be indemnified by the Company to the extent permitted by law and the Company's Articles of Association (the "Articles") in respect of all losses arising out of or in connection with the execution of their powers, duties and responsibilities. The Company purchased and maintained Directors' and Officers' liability insurance throughout 2015–2016, which has been renewed for 2016–2017.

Directors' interests

The interests of the Directors in the shares of the Company can be found in the report of the Remuneration Committee on pages 73 and 74, together with details of the Directors' service contracts.

Employee involvement

Dialight operates a framework for employee information and consultation with the aim of ensuring a clarity of purpose which in turn allows our employees to understand their role in improving the Group's business performance and awareness of factors affecting the Company's performance. Employees are informed about significant business issues and other matters of concern via regular meetings held by management teams to discuss the Company's performance and strategy. A quarterly newsletter is published, and twice a year a leadership meeting is held, which was this year attended by David Thomas and Martin L. Rapp. Further details of Dialight's employment policies and its approach to diversity and disability can be found in the Strategic report on pages 28 and 29 and in the report of the Nominations Committee on page 57.

Share capital and structure

As at 31 December 2016 the Company had 32,504,335 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 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 2016 AGM shareholders granted the Directors the authority to purchase up to 3,250,325 shares representing approximately 10% of the Company's ordinary share capital, which will expire on 30 June 2017. 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 16 to the financial statements.

Substantial interests in shares

As at 7 February 2017 the Company had received the following notifications pursuant to DTR 5 of the Disclosure and Transparency Rules of the Financial Conduct Authority:

		%
Parent/Shareholder	Holding	Voting rights
Generation Investment Management LLP	6,532,248	20.10
Schroders plc & Schroder Investment Management Limited	4,143,572	12.75
Impax Asset Management	2,538,327	7.81
FIL Limited	1,746,758	5.37
River & Mercantile Asset Management LLP	1,237,000	3.81
Baillie Gifford & Co	1,085,416	3.34

Global presence, investments and acquisitions

The Group's head office is based in London, 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.

There were no acquisitions or disposals during the year under review.

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. Following closure of the Company's Newmarket manufacturing site, no product development or manufacturing is now carried out in the UK. The Company strongly believes that investment in this area is essential for the Group to retain and increase its market share in competitive markets.

Human rights

The Company does not have a specific human rights policy but is committed to conducting business with integrity and fairness as reinforced through our Code of Business Conduct. We do not tolerate any form of illegal or immoral activity and believe that everyone is entitled to work in an environment which is equal, fair, respects human rights and is free from all forms of discrimination, bullying, victimisation, harassment and forced labour.

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 (2015: £nil).

Disclosures required under Listing Rule 9.8.4R

The following table is included to meet the requirements of Listing Rule 9.8.4R. The information required to be disclosed by that section, where applicable to the Company, can be located in the 2016 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	–	77
Remuneration Committee report and policy	–	58 to 74 inclusive
Employee benefits – Share-based payments (Consolidated)	18	108
Called up share capital (Company)	41	124
Share-based payments (Company)	35	122

Annual General Meeting

The Company's AGM will be held at the offices of Investec Investment Bank, 2 Gresham St, London EC2V 7QP on 20 April 2017. Formal notice of the AGM, including details of special business, is set out in the Notice of AGM which accompanies this Annual Report and Accounts and is also available on the Company's website at www.dialight.com.

Registrars

In connection with the ordinary shares traded on the London Stock Exchange, the Company's share registrar is Equiniti Registrars. Full details of the registrar can be found in the Directory and Shareholder information section on page 129.

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 22 to the Group's consolidated financial statements on pages 110 to 113.

Independent auditor

Having reviewed the independence and effectiveness of the auditor, the Audit Committee has recommended to the Board that the existing auditor, KPMG, be re-appointed. KPMG has expressed its willingness to continue as auditor. An ordinary resolution to re-appoint KPMG as auditor of the Company and authorising the Directors to set its remuneration will be proposed at the forthcoming AGM.

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 five-year unsecured £25m multi-currency revolving credit facility with HSBC Bank plc ("HSBC") which was originally entered into in 2014 and which was extended in December 2016 on substantially the same terms for a duration of five years expiring on December 2021, approved for renewal at the December 2016 Board meeting. Under the terms of that facility, and in the event of a change of control of the Company, HSBC can withdraw funding and all outstanding loans, accrued interests and other amounts due and owing can become payable within 30 days of the change.

The Company currently operates three share plans: a PSP, the APBP and an all-employee Sharesave Plan. Further details of these share plans are provided in the report of the Remuneration Committee on pages 58 to 74.

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 no shares as at 31 December 2016 (2015: 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.

Chris Fussell
General Counsel and Company Secretary
27 February 2017

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

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with the International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards.

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

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

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

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

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

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

We confirm that to the best of our knowledge:

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

As far as each Director is aware, there is no relevant audit information of which the Company's auditors are unaware. Each Director has taken steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

For and on the behalf of the Board of Dialight plc.

Michael Sutsko
Group Chief Executive
27 February 2017

Fariyal Khanbabi
Group Finance Director
27 February 2017

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 2016 set out on pages 83 to 127.
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 2016 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.

Overview		
Materiality: Group financial statements as a whole		£0.9m (2015: £0.9m) 0.5% (2015: 0.6%) of revenue
Coverage		96% (2015: 98%) of revenue
Risks of material misstatement vs 2015		
Recurring risks	Inventory valuation	↔
	Revenue recognition	↓
	Valuation of capitalised patents and development costs	↓

2. Our assessment of risks of material misstatement

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

	The risk	Our response
Inventory (£31.4m; 2015: £26.9m) Refer to page 55 (Audit Committee report), page 91 (accounting policy) and page 103 (financial disclosures).	**Valuation of inventory** 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 programme 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. Certain of these provisions may be classified as non-underlying.	Our procedures included: — Provision: Recalculating the provision in line with Group's policy and challenging the additional provision as a result of Platform re-engineering; — Net realisable value: Testing the carrying value of inventory by comparing the carrying value to average sales margin for each product to assess whether those items were held at the lower of cost or net realisable value; — Classification of non-underlying costs: Agreeing the quantum of costs disclosed as non-underlying to source documentation and challenging their classification as non-underlying with group directors; — Disclosures: We also assessed the adequacy of the Group's disclosures in respect of the judgements used in determining the carrying value of inventory.

	The risk	Our response
Revenue (£182.2m; 2015: £161.4m) Refer to page 55 (Audit Committee report), page 92 (accounting policy) and page 94 (financial disclosures).	**Revenue recognition** 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.	Our procedures included: — Sales cut-off: 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.
Patent and development costs (£6.4m; 2015: £8m) Refer to page 55 (Audit Committee report), page 90 (accounting policy) and page 101 (financial disclosures).	**Valuation of capitalised patents and development costs** Judgement is required in the initial capitalisation of development projects and there is a risk of misstatement if the criteria for capitalisation is incorrectly applied. There is further judgement required around the ongoing viability of the capitalised projects and a resulting risk of impairment. Certain of these costs may be classified as non-underlying.	Our procedures included: — Capitalisation: For a sample of projects where costs have been 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; — Forecasts: Performing an impairment review for a sample of completed projects by challenging forecast sales data with reference to actual sales achieved during the year, and challenging the assessment of the viability of projects through discussion with finance and engineering management; — Classification of Non-underlying costs: Agreeing the quantum of costs disclosed as non-underlying to source documentation and challenging their classification as non-underlying with group directors.

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

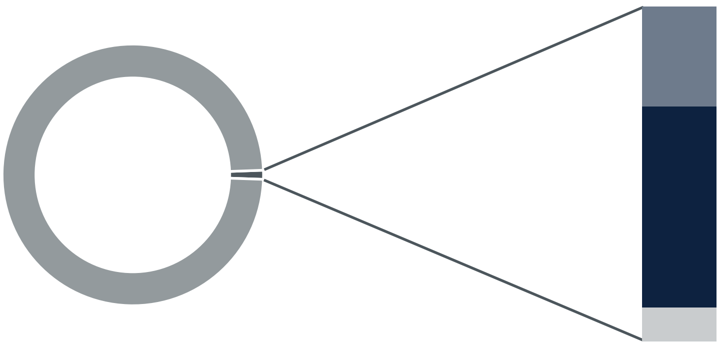
Materiality for the Group financial statements as a whole was set at £0.9m (2015: £0.9m), determined with reference to a benchmark of Group revenue (of which it represents 0.5% (2015: 0.6%). We consider that revenue is appropriate to use as a benchmark for materiality as revenue is a more stable measure year on year than Group profit before tax. We report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £45,000 (2015: £45,000), in addition to other audit misstatements that warranted reporting on qualitative grounds.

Of the Group's nine 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 96% (2015: 98%) of total Group revenue; 95% (2015: 93%) of total Group profits and losses that make up Group profit before taxation; and 97% (2015:100%) of total Group assets.

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 £0.5m to £0.7m (2015: £0.5m to £0.6m), 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 the US to perform the audit work. Telephone conference meetings were held with component auditors. At these meetings, the findings reported to the Group audit team were discussed in more detail, and any further work required by the Group audit team was then performed by the component auditor.

Revenue
£182.2m (2015: £161.4m)

Materiality
£0.9m (2015: £0.9m)



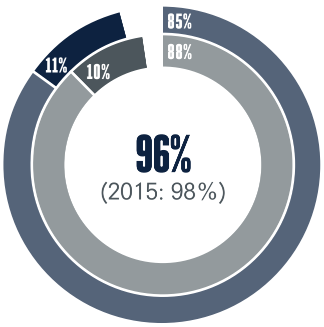
£0.9m
Whole financial statements materiality (2015: £0.9m)

£0.7m
Range of materiality at 6 components (£0.5m to £0.7m) (2015: £0.5m to £0.6m)

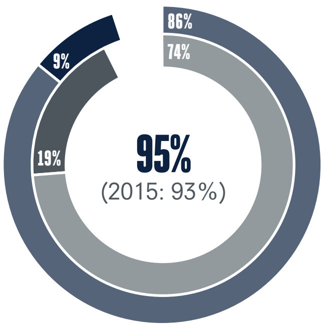
£0.045m
Misstatements reported to the Audit Committee (2015: £0.045m)

Revenue Group materiality

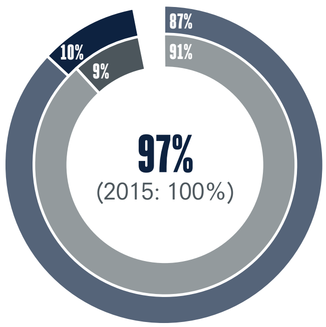
Group revenue



Group profit before tax



Group total assets



- Full scope for Group audit purposes 2016
- Specified risk-focused audit procedures 2016
- Full scope for Group audit purposes 2015
- Specified risk-focused audit procedures 2015
- Residual components

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 the Directors' report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:
- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

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' statement of viability on page 51, 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 2019; or
- the disclosures in note 1 of the financial statements concerning the use of the going concern basis of accounting.

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 Audit Committee report 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' statements, set out on pages 50 and 51, in relation to going concern and longer-term viability; and
- the part of the Corporate governance statement on page 50 relating to the company's compliance with the 11 provisions of the 2014 UK Corporate Governance Code specified for our review.

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

Scope and responsibilities

As explained more fully in the Directors' responsibly statement set out on page 78, 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
27 February 2017

Consolidated income statement
For the year ended 31 December 2016

	Note	Twelve months ended 31 December 2016 Underlying £'m	Non-underlying £'m	Total £'m	Twelve months ended 31 December 2015 Underlying £'m	Non-underlying £'m	Total £'m
Revenue	4	**182.2**	**–**	**182.2**	161.4	–	161.4
Cost of sales		**(112.7)**	**(3.7)**	**(116.4)**	(105.2)	(6.0)	(111.2)
Gross profit		**69.5**	**(3.7)**	**65.8**	56.2	(6.0)	50.2
Distribution costs		**(32.7)**	**–**	**(32.7)**	(30.7)	–	(30.7)
Administrative expenses		**(23.7)**	**(12.7)**	**(36.4)**	(19.4)	(3.5)	(22.9)
Profit/(loss) from operating activities	4	**13.1**	**(16.4)**	**(3.3)**	6.1	(9.5)	(3.4)
Financial income		**–**	**–**	**–**	–	–	–
Financial expense		**(0.5)**	**–**	**(0.5)**	(0.4)	(0.1)	(0.5)
Net financing expense	7	**(0.5)**	**–**	**(0.5)**	(0.4)	(0.1)	(0.5)
Profit/(loss) before income tax	4	**12.6**	**(16.4)**	**(3.8)**	5.7	(9.6)	(3.9)
Income tax (expense)/credit	8	**(3.9)**	**4.9**	**1.0**	(1.3)	3.2	1.9
Profit/(loss) for the year	9	**8.7**	**(11.5)**	**(2.8)**	4.4	(6.4)	(2.0)
Loss for the year attributable to:							
Equity owners of the Company				**(2.8)**			(2.0)
Non-controlling interests				**–**			–
Loss for the year				**(2.8)**			(2.0)
Earnings per share							
Basic	17			**(8.4p)**			(6.4p)
Diluted	17			**(8.4p)**			(6.3p)

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

Consolidated statement of comprehensive income
For the year ended 31 December 2016

	Note	2016 £'m	2015 £'m
Other comprehensive income			
Items that may be reclassified subsequently to profit and loss			
Exchange difference on translation of foreign operations		**11.3**	2.2
Income tax on exchange difference on translation of foreign operations		**(0.9)**	(0.4)
		10.4	1.8
Items that will not be reclassified subsequently to profit and loss			
Remeasurement of defined benefit pension liability	18	**(1.5)**	0.7
Income tax on remeasurement of defined benefit pension liability	18	**0.3**	(0.1)
		(1.2)	0.6
Other comprehensive income for the year, net of tax		**9.2**	2.4
Loss for the year		**(2.8)**	(2.0)
Total comprehensive income for the year		**6.4**	0.4
Attributable to:			
Owners of the parent		**6.4**	0.4
Non-controlling interests		**–**	–
Total comprehensive income for the year		**6.4**	0.4

Consolidated statement of changes in equity
For the year ended 31 December 2016

	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 2016		0.6	1.4	5.0	2.2	61.0	**70.2**	(0.1)	**70.1**
Loss		–	–	–	–	(2.8)	**(2.8)**	–	**(2.8)**
Other comprehensive income									
Foreign exchange translation differences, net of tax		–	–	10.4	–	–	**10.4**	–	**10.4**
Remeasurement of defined benefit pension liability, net of tax	18	–	–	–	–	(1.2)	**(1.2)**	–	**(1.2)**
Total other comprehensive income		–	–	10.4	–	(1.2)	**9.2**	–	**9.2**
Total comprehensive income for the year		–	–	10.4	–	(4.0)	**6.4**	–	**6.4**
Transactions with owners, recorded directly in equity									
Share-based payments, net of tax	6, 8	–	–	–	–	0.6	**0.6**	–	**0.6**
Dividends		–	–	–	–	–	**–**	–	**–**
Total contributions by and distributions to owners		–	–	–	–	0.6	**0.6**	–	**0.6**
Balance at 31 December 2016		**0.6**	**1.4**	**15.4**	**2.2**	**57.6**	**77.2**	**(0.1)**	**77.1**
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	18	–	–	–	–	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	6, 8	–	–	–	–	0.1	**0.1**	–	**0.1**
Dividends	16	–	–	–	–	(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**

At 31 December 2016 the number of shares held by the Group through the Dialight Employees' Share Ownership Plan Trust ("ESOT") was nil (2015: 9,606). The market value of these shares at 31 December 2016 was £nil (2015: £43,227).

Financial statements
Consolidated statement of total financial position
At 31 December 2016

	Note	2016 £'m	2015 £'m
Assets			
Property, plant and equipment	10	**15.9**	16.1
Intangible assets	11	**15.4**	20.0
Deferred tax assets	13	**3.5**	0.1
Total non-current assets		**34.8**	36.2
Inventories	14	**31.4**	26.9
Trade and other receivables	15	**40.0**	35.5
Asset held for sale	10	**2.0**	–
Cash and cash equivalents	21	**8.0**	5.5
Total current assets		**81.4**	67.9
Total assets		**116.2**	104.1
Liabilities			
Trade and other payables	20	**(31.3)**	(22.9)
Provisions	19	**(3.8)**	(0.8)
Tax liabilities		**(1.9)**	(0.3)
Borrowings	12	**–**	(9.3)
Total current liabilities		**(37.0)**	(33.3)
Employee benefits	18	**(1.3)**	(0.1)
Provisions	19	**(0.8)**	(0.6)
Total non-current liabilities		**(2.1)**	(0.7)
Total liabilities		**(39.1)**	(34.0)
Net assets		**77.1**	70.1
Equity			
Issued share capital	16	**0.6**	0.6
Merger reserve	16	**1.4**	1.4
Other reserves		**17.6**	7.2
Retained earnings		**57.6**	61.0
		77.2	70.2
Non-controlling interests		**(0.1)**	(0.1)
Total equity		**77.1**	70.1

The accompanying notes form part of the financial statements.

These financial statements were approved by the Board of Directors on 27 February 2017 and were signed on its behalf by:

Michael Sutsko
Group Chief Executive

Fariyal Khanbabi
Group Finance Director

Company number: 2486024

Consolidated statement of cash flows
For the year ended 31 December 2016

	Note	2016 £'m	2015 £'m
Operating activities			
Loss for the year		**(2.8)**	(2.0)
Adjustments for:			
Financial income	7	**–**	–
Financial expense	7	**0.5**	0.5
Income tax credit	8	**(1.0)**	(1.9)
Share-based payments		**0.6**	0.1
Depreciation of property, plant and equipment	10	**3.1**	2.8
Amortisation of intangible assets	11	**4.0**	3.1
Impairment losses on intangible assets and goodwill	11	**5.1**	1.0
Gain on disposal of tangible assets	5	**(0.2)**	–
Legal settlement		**1.3**	–
Operating cash flow before movements in working capital		**10.6**	3.6
(Increase)/decrease in inventories		**(0.2)**	6.4
(Increase)/decrease in trade and other receivables		**(1.5)**	3.1
Increase/(decrease) in trade and other payables		**5.0**	(4.1)
Increase in provisions	19	**2.9**	0.2
Pension contributions in excess of the income statement	18	**(0.5)**	(0.5)
Cash generated from operations		**16.3**	8.7
Income taxes received/(paid)		**0.3**	(3.9)
Interest paid	7	**(0.5)**	(0.4)
Net cash generated from operating activities		**16.1**	4.4
Investing activities			
Contingent consideration	28	**–**	(0.3)
Capital expenditure	10	**(3.9)**	(3.3)
Sale of fixed assets	10	**0.9**	–
Capitalised expenditure on development	11	**(2.1)**	(2.5)
Net cash used in investing activities		**(5.1)**	(6.1)
Financing activities			
Dividends paid	16	**–**	(3.2)
(Repayment)/drawdown of bank facility		**(9.5)**	2.4
Payment of upfront loan facility costs		**–**	–
Net cash (used in)/generated from financing activities		**(9.5)**	(0.8)
Net (decrease)/increase in cash and cash equivalents		**1.5**	(2.5)
Cash and cash equivalents at beginning of year		**5.5**	7.9
Effect of exchange rates on cash held		**1.0**	0.1
Cash and cash equivalents at end of year	21	**8.0**	5.5

1. Reporting entity

Dialight plc is a company domiciled in England. The address of the Company's Registered Office is Leaf C, Level 36, Tower 42, 25 Old Broad Street, London EC2N 1HQ. The consolidated financial statements of the Company for the year ended 31 December 2016 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 12 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 11)

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

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

Development and patent costs (see note 11)

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 14)

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 historical and forecast use for that product.

Other

Warranty (see note 19)

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 historical 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.

2. Basis of preparation continued

(c) Use of estimates, judgements and assumptions continued

Other continued

Tax (see note 13)

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

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

3. Significant accounting policies

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

(a) Basis of consolidation

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable.

Acquisitions on or after 1 January 2010

For acquisitions on or after 1 January 2010, the Group measures goodwill at the acquisition date as:
— the fair value of the consideration transferred; plus
— the recognised amount of any non-controlling interests in the acquiree; less
— the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

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

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

Acquisitions between 1 January 2004 and 1 January 2010

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

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

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

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

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

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

(b) Foreign currency translation

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

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

3. Significant accounting policies continued

(b) Foreign currency translation continued

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

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

(c) Derivative financial instruments

Derivative financial instruments are recorded initially at cost and are remeasured to fair value at subsequent reporting dates. The gain or loss on remeasurement to fair value is recognised immediately in the income statement.

(d) Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation.

(e) Other intangible assets

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

(f) Depreciation and amortisation

Depreciation

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

The estimated useful lives are as follows:

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

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.

3. Significant accounting policies continued

(i) Impairment

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

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its recoverable amount. A CGU is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairment losses are recognised in profit and loss. Impairment losses recognised in respect of 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.

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.

3. Significant accounting policies continued

(m) Employee benefits continued

(ii) Defined benefit pension plans continued

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.

(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 the 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.

3. Significant accounting policies continued

(s) Income tax expense

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

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

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

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

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

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

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

(t) 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 a number of standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2016. There was no material impact on the financial performance of the Group.

Adoption of new and revised standards

A number of new standards, amendments to standards and interpretations, including IFRS 9 Financial Instruments, IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning after 1 January 2018) and IFRS 16 Leases (effective for annual periods beginning after 1 January 2019), have not been applied in preparing these consolidated financial statements.

The Group is currently assessing the impact of IFRS 9, IFRS 15 and IFRS 16 but believes that none of these will have a material impact on the financial statements, but may require some further disclosure. Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

(u) Measurement of fair values

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

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

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

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

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

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

4. Operating segments

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

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

2016	**Lighting £'m**	**Signals and Components £'m**	**Total £'m**
Revenue	**136.6**	**45.6**	**182.2**
Underlying gross profit	**57.4**	**12.1**	**69.5**
Overheads	**(43.9)**	**(7.2)**	**(51.1)**
Segment results	**13.5**	**4.9**	**18.4**
Unallocated expenses			**(5.3)**
Underlying operating profit			**13.1**
Non-underlying expense			**(16.4)**
Operating loss			**(3.3)**
Net financing expense			**(0.5)**
Loss before tax			**(3.8)**
Income tax expense			**1.0**
Loss after tax			**(2.8)**

2015	Lighting £'m	Signals and Components £'m	Total £'m
Revenue	120.6	40.8	161.4
Underlying 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)

4. Operating segments continued

Other segmental data

	2016			2015		
	Lighting £'m	**Signals and Components £'m**	**Total £'m**	Lighting £'m	Signals and Components £'m	Total £'m
Depreciation	**2.3**	**0.8**	**3.1**	2.2	0.6	2.8
Amortisation	**3.3**	**0.7**	**4.0**	2.5	0.6	3.1
Gain on disposal of tangible assets	**(0.2)**	**–**	**(0.2)**	–	–	–
Impairment losses on intangible asset write-down	**1.1**	**4.0**	**5.1**	0.7	0.3	1.0

Geographical segments

The Lighting and Signals and Components segments are managed on a worldwide basis but operate in four principal geographical areas: North America, the 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

	2016 £'m	2015 £'m
North America	**129.7**	107.6
UK	**11.3**	11.8
Rest of Europe	**17.4**	15.6
Rest of World	**23.8**	26.4
	182.2	161.4

Reconciliations of reportable segment profit or loss

	2016 £'m	2015 £'m
Total profit for reportable segments	**18.4**	9.5
Unallocated amounts:		
Overheads	**(5.3)**	(3.4)
Non-underlying expense	**(16.4)**	(9.5)
Net financing expense	**(0.5)**	(0.5)
Loss before tax	**(3.8)**	(3.9)

5. Non-underlying income/(expense)

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:

	2016 £'m	2015 £'m
Inventory costs	**(3.7)**	(6.0)
Non-underlying costs recorded in cost of sales	**(3.7)**	(6.0)

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

	2016 £'m	2015 £'m
Employee severance and restructuring costs	**(5.3)**	(1.8)
Intangible asset impairment	**(5.1)**	(1.0)
Disposal of tangible assets	**0.2**	–
Production transfer costs	**(2.4)**	–
Executive Director replacement costs	**–**	(0.8)
Settlement of legal case	**–**	0.5
Other	**(0.1)**	(0.4)
Non-underlying costs recorded in administrative expenses	**(12.7)**	(3.5)

The non-underlying costs in 2016 relating to our strategic initiatives amounted to £16.4m with cumulative cost savings of approximately £12m over the next two years. The strategic initiatives will be completed in 2017 and the final costs relating to this will be £3.0m.

The Group is substantially advanced on a programme of product platform re-engineering and transferring lighting product assembly to its manufacturing partner. As part of these programmes the UK production facility was closed in September 2016. It has also been announced that the Mexican production facility will be reduced in scale by mid 2017. The £5.3m costs of redundancy relating to staff at both of these plants have been recognised in the year.

The product lines that were manufactured exclusively in the UK production facility were reviewed to assess the viability of transfer to our manufacturing partner. The review concluded that the European Traffic business was no longer viable and production would cease. This has resulted in a goodwill impairment of £4.0m. There has been a full review of all product lines and any development and patent costs associated with obsolete product lines have been impaired, resulting in a further charge of £1.1m. The total charge for intangible asset impairment is £5.1m, which is a non-cash cost.

As part of the fundamental shift in Dialight's operating model, the UK production facility and assets have been sold resulting in a profit of £0.2m.

The switch to platform engineering which standardises the design of our product parts to be used as the foundation of all our finished goods has resulted in some of our inventory being obsolete. This amounted to £3.7m in the year; we expect a further £1.0m of obsolete inventory in 2017.

The transfer of lighting assembly to our manufacturing partner incurred set-up costs relating to project management, legal costs, and dedicated engineering time; this amounted to £2.4m. The final phase of this will be completed by mid 2017 and the balance of the costs will be £2.0m.

5. Non-underlying income/(expense) continued

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

	2016 £'m	2015 £'m
Net interest on defined benefit liability	–	(0.1)
Non-underlying costs recorded in finance expense	–	(0.1)

6. Personnel expenses

	2016 £'m	2015 £'m
Wages and salaries	**34.2**	32.6
Social security contributions	**4.1**	3.6
Management incentives	**2.4**	–
Employee severance costs	**1.7**	1.8
Equity-settled share-based payment transactions	**0.6**	0.1
Contributions to defined contribution plans	**1.2**	1.2
Total charge for defined benefit plans	**0.2**	0.1
	44.4	39.4

Wages and salary costs are £3.1m higher in 2016 compared to 2015 due to the impact of currency movements.

The average number of employees by geographical location was:

	2016 Number	2015 Number
UK	**172**	208
US and Mexico	**1,808**	1,699
Rest of World	**193**	205
	2,173	2,112

In 2016 the Group employed an average of 1,408 direct staff (2015: 1,311) and 765 indirect staff (2015: 801). The 2015 redundancy programme related exclusively to indirect staff. The average annual staff numbers include a part year element relating to staff at the UK production facility that closed on 30 September 2016.

7. Net financing (expense)/income

Recognised in profit and loss

	Year ending 31 December 2016			Year ending 31 December 2015		
	Underlying £'m	**Non-underlying £'m**	**Total £'m**	Underlying £'m	Non-underlying £'m	Total £'m
Net interest on defined benefit liability	**(0.2)**	**–**	**(0.2)**	–	(0.1)	(0.1)
Interest expense on financial liabilities	**(0.3)**	**–**	**(0.3)**	(0.4)	–	(0.4)
Net financing expense recognised in the consolidated income statement	**(0.5)**	**–**	**(0.5)**	(0.4)	(0.1)	(0.5)

8. Income tax (income)/expense

Current tax expense

Recognised in the income statement

	2016 £'m	2015 £'m
Current tax (income)/expense		
Current year	**3.3**	(0.7)
Adjustment for prior years	**(0.3)**	(0.9)
	3.0	(1.6)
Deferred tax (income)/expense		
Origination and reversal of temporary differences	**(2.1)**	(0.4)
Adjustment for prior years	**(1.7)**	–
Reduction in tax rate	**(0.2)**	0.1
Recognition of previously unrecognised losses	**–**	–
Change in recognised deductible timing differences	**–**	–
Income tax income	**(1.0)**	(1.9)

Reconciliation of effective tax rate

	2016 %	2016 £'m	2015 %	2015 £'m
Loss for the year		**(2.8)**		(2.0)
Total income tax income		**(1.0)**		(1.9)
Loss excluding income tax		**(3.8)**		(3.9)
Income tax using the UK corporation tax rate	**(20.0)**	**(0.8)**	(19.6)	(0.8)
Effect of tax rates in foreign jurisdictions	**23.7**	**0.9**	12.8	0.5
Increase/(reduction) in tax rate	**(5.3)**	**(0.2)**	(7.9)	(0.3)
Non-deductible expenses	**36.8**	**1.4**	17.1	0.7
Current year losses for which no deferred tax is recognised	**–**	**–**	(1.8)	(0.1)
Recognition of tax effect of previously unrecognised losses	**(7.9)**	**(0.3)**	(7.7)	(0.3)
Adjustment for prior years	**(52.6)**	**(2.0)**	(24.3)	(1.0)
Non-taxable income	**5.6**	**0.2**	–	–
Research and development credits	**(2.6)**	**(0.1)**	(3.4)	(0.1)
Other	**(2.6)**	**(0.1)**	(12.7)	(0.5)
	(24.9)	**(1.0)**	(47.5)	(1.9)

The effective tax rate credit for the Group is 24.9%, a reduction on the prior year tax credit of 47.5%. The prior year tax credit was positively impacted by losses allowed in the year giving rise to the inflated tax credit. The tax credit for 2016 was in line with the Group distribution of profit/(loss) and the tax charge/(credit) associated to the jurisdiction it operates in. The rate in the year has been reduced by non-tax deductible items relating to the impairment of goodwill offset by previously unrecognised losses and accelerated capital allowances.

8. Income tax (income)/expense continued

Current tax expense continued

Tax recognised directly in equity

	2016 £'m	2015 £'m
Employee benefits	**(0.3)**	(0.1)
Other	**0.9**	(0.4)

The UK tax authorities have reduced the UK rate of corporation tax from 1 April 2017 to 19% and by a further 2% to 17% from 1 April 2020. No further UK corporation tax rate reductions have been announced. As such, the UK timing differences have been recognised at the rate at which the timing differences are expected to unwind. The Group's effective tax rate will continue to be impacted by the tax rates enacted in the various jurisdictions in which it operates. The deferred tax assets/(liabilities) have now all been recognised with previously unrecognised losses being utilised in the year. The deferred tax asset at 31 December 2016 have been calculated based on a rate of 17%. There are no deferred tax assets/(liabilities) that have not been recognised.

9. Loss for the year

Loss for the year has been arrived at after charging:

	2016 £'m	2015 £'m
Research and development costs		
Expensed as incurred	**4.5**	4.0
Amortisation charge	**2.2**	2.1
Total research and development costs	**6.7**	6.1
Depreciation of fixed assets	**3.1**	2.8
Amortisation of customer relationships	**0.3**	0.3
Impairment of goodwill and intangible assets	**5.1**	1.0
Operating leases – property	**2.0**	1.4
Operating leases – other	**0.1**	0.1

Auditor's remuneration

	2016 £'m	2015 £'m
Audit of these financial statements	**0.1**	0.1
Amounts receivable by auditor in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	**0.1**	0.1
Other services	**–**	0.1
Pension advisory services in respect of Group pension	**–**	–
	0.2	0.3

10. Property, plant and equipment

	Land and buildings £'m	Plant, equipment and vehicles £'m	Total £'m
Cost			
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
At 1 January 2016	6.0	45.1	51.1
Exchange adjustments	0.6	8.1	8.7
Additions	0.1	3.8	3.9
Reclassified as current asset	(1.0)	–	(1.0)
Disposals	(1.6)	(6.5)	(8.1)
At 31 December 2016	**4.1**	**50.5**	**54.6**
Accumulated depreciation			
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)
At 1 January 2016	(3.6)	(31.4)	(35.0)
Exchange adjustments	(0.5)	(5.5)	(6.0)
Charge for year	(0.2)	(2.9)	(3.1)
Disposals	0.7	4.7	5.4
At 31 December 2016	**(3.6)**	**(35.1)**	**(38.7)**
Carrying amount at 31 December 2016	**0.5**	**15.4**	**15.9**
At 31 December 2015	2.4	13.7	16.1

Assets held for sale at 31 December 2016 comprise the former UK manufacturing site which was closed at the end of September 2016 and was sold in January 2017.

The profit on disposal of tangible assets in non-underlying costs (see note 5) comprises the cash received on sale of assets of £0.9m (see consolidated statement of cash flows) plus the expected proceeds from asset held for sale of £2.0m less the net book value of disposals of £2.7m.

11. 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 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
Balance at 1 January 2016	5.2	11.9	2.1	0.6	15.5	35.3
Additions arising from internal developments	0.6	–	–	–	1.5	2.1
Effects of foreign exchange movement	1.3	1.3	–	–	2.8	5.4
Balance at 31 December 2016	**7.1**	**13.2**	**2.1**	**0.6**	**19.8**	**42.8**
Amortisation and impairment losses						
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)
Balance at 1 January 2016	(3.2)	(0.2)	(1.8)	(0.6)	(9.5)	(15.3)
Amortisation for the period	(1.5)	–	(0.3)	–	(2.2)	(4.0)
Impairment	–	(4.0)	–	–	(1.1)	(5.1)
Effects of foreign exchange movement	(0.8)	–	–	–	(2.2)	(3.0)
Balance at 31 December 2016	**(5.5)**	**(4.2)**	**(2.1)**	**(0.6)**	**(15.0)**	**(27.4)**
Carrying amount at 31 December 2016	**1.6**	**9.0**	**–**	**–**	**4.8**	**15.4**
At 31 December 2015	2.0	11.7	0.3	–	6.0	20.0
At 1 January 2015	1.9	11.7	0.6	–	6.8	21.0

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:

	2016 £'m	2015 £'m
UK Lighting	**2.3**	2.3
European Traffic	**–**	3.5
European Obstruction	**1.3**	1.3
Australian Lighting	**0.1**	0.1
US Lighting	**5.3**	4.5
	9.0	11.7

11. 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%.

The change in business model from in-house production to using a manufacturing partner has been considered in the impairment calculations. The goodwill related to the UK Lighting business continues to have a value as the business is unchanged and only the source of production has changed.

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 10.5% (2015: 11.0%) for Lighting and 13.5% (2015: 13.0%) 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 the carrying amount. No such risks were identified in the current year.

12. Interest-bearing loans and borrowings

	2016 £'m	2015 £'m
Unsecured borrowings falling due within one year	**–**	9.5
Upfront loan facility costs	**–**	(0.2)
	–	9.3

On 12 December 2016, the Company signed a five-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 2016 there were no drawings on the facility.

13. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2016 £'m	2015 £'m	**2016 £'m**	2015 £'m	**2016 £'m**	2015 £'m
Property, plant and equipment	**–**	0.3	**(0.1)**	–	**(0.1)**	0.3
Intangible assets	**0.3**	–	**–**	(2.8)	**0.3**	(2.8)
Employee benefits	**0.5**	0.6	**–**	–	**0.5**	0.6
Provisions	**0.2**	–	**–**	–	**0.2**	–
Other items	**2.6**	2.5	**–**	(0.5)	**2.6**	2.0
Tax assets/(liabilities)	**3.6**	3.4	**(0.1)**	(3.3)	**3.5**	0.1
Set-off of tax	**(0.1)**	(3.3)	**0.1**	3.3	**–**	–
Net tax assets	**3.5**	0.1	**–**	–	**3.5**	0.1

Deferred tax assets have been recognised in respect of all tax losses in entities expected to generate future taxable profits. There are no unrecognised deferred tax assets (2015: £0.3m).

The aggregate amount of temporary differences associated with investments in subsidiaries for which deferred taxation liabilities have not been recognised is £nil (2015: £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 2015	(0.6)	(2.8)	0.6	3.0	–	0.2
Recognised in income	0.9	–	–	(3.0)	2.5	0.4
Recognised in equity	–	–	–	–	(0.5)	(0.5)
Balance at 31 December 2015	0.3	(2.8)	0.6	–	2.0	0.1
Balance at 1 January 2016	0.3	(2.8)	0.6	–	2.0	0.1
Recognised in income	(0.4)	3.1	(0.4)	0.2	1.5	4.0
Recognised in equity	–	–	0.3	–	(0.9)	(0.6)
Balance at 31 December 2016	**(0.1)**	**0.3**	**0.5**	**0.2**	**2.6**	**3.5**

14. Inventories

	2016 £'m	2015 £'m
Raw materials and consumables	**16.9**	17.1
Work in progress	**3.8**	2.5
Finished goods	**10.7**	7.3
	31.4	26.9

Inventories to the value of £78.0m (2015: £70.0m) were recognised as expenses in the year. During the year, inventory write-downs totalled £7.3m. The write-downs are included in the income statement.

15. Trade and other receivables

	2016 £'m	2015 £'m
Trade receivables	**37.2**	30.7
Other non-trade receivables	**1.7**	2.1
Income tax recoverable	**–**	1.4
Prepayments and accrued income	**1.1**	1.3
	40.0	35.5

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

16. Capital and reserves

Share capital

	2016 Number	2016 £'m	2015 Number	2015 £'m
Allotted and fully paid				
Ordinary shares of 1.89 pence each	**32,504,335**	**0.6**	32,503,258	0.6

During the year, 1,077 shares were issued (2015: nil). The ordinary shares issued in the year have the same rights as the other shares in issue.

	Ordinary shares	
Issued share capital	2016 Number	2015 Number
In issue at 1 January	**32,503,258**	32,503,258
Shares issued	**1,077**	–
Issued and fully paid at 31 December	**32,504,335**	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 Dialight A/S 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.

16. Capital and reserves continued

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	**2016 £'m**	2015 £'m
Nil pence per ordinary share (2015: nil pence)	**–**	–

During the year the following dividends were paid:

	2016 £'m	2015 £'m
Final – nil pence (2014: 9.8 pence) per ordinary share	**–**	3.2
Interim – nil pence (2015: nil pence) per ordinary share	**–**	–
	–	3.2
Dividends accrued on shares awarded under the PSP and deferred share scheme but not yet vested	**–**	–
Total (amount shown in the consolidated statement of changes in equity)	**–**	3.2

17. Earnings per share

Basic earnings per share

The calculation of basic earnings per share ("EPS") at 31 December 2016 was based on a loss for the year of £2.8m (2015: loss of £2.0m) and the weighted average number of ordinary shares outstanding during the year of 32,503,348 (2015: 32,503,258).

Diluted earnings per share

The calculation of diluted EPS at 31 December 2016 was based on a loss for the year of £2.8m (2015: loss of £2.0m) and the weighted average number of ordinary shares outstanding during the year of 32,777,907 (2015: 32,731,992) calculated as follows:

Weighted average number of ordinary shares (diluted)

	2016 '000	2015 '000
Weighted average number of ordinary shares	**32,503**	32,503
Effect of share options in issue	**275**	229
Weighted average number of ordinary shares (diluted)	**32,778**	32,732

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

	2016 Per share	2015 Per share
Basic earnings	**(8.4p)**	(6.4p)
Underlying basic earnings*	**26.9p**	13.3p
Diluted earnings	**(8.4p)**	(6.3p)
Underlying diluted earnings*	**26.7p**	13.2p

* Underlying earnings excludes non-underlying items as explained in note 29 and allocates tax at the appropriate rate (see note 8).

18. 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 discrete funds (the "Funds") that are legally separate from the Group. Trustees include independent and Company-appointed individuals. The Trustees of the plans are required by law to act in the best interests of the plan participants and are responsible for setting certain policies (e.g. investment) of the Funds.

The Company is required to agree a Schedule of Contributions with the Trustees of the Funds following a valuation which must be carried out at least once every three years. The last valuation was completed in 2014. The Company expects to pay contributions of £0.5m in respect of the Funds in the year to 31 December 2017. 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)	
	2016 £'m	2015 £'m	**2016 £'m**	2015 £'m	**2016 £'m**	2015 £'m
Balance at 1 January	**23.7**	25.2	**(23.6)**	(24.0)	**0.1**	1.2
Included in profit or loss						
Administration costs	**–**	–	**0.2**	0.1	**0.2**	0.1
Interest cost/(income)	**0.9**	0.8	**(0.9)**	(0.8)	**–**	–
	0.9	0.8	**(0.7)**	(0.7)	**0.2**	0.1
Included in other comprehensive income						
Remeasurements (gain)/loss:						
Actuarial (gain)/loss arising from:						
– demographic assumptions	**(0.1)**	(0.3)	**–**	–	**(0.1)**	(0.3)
– financial assumptions	**4.7**	(1.0)	**–**	–	**4.7**	(1.0)
– experience adjustment	**–**	–	**–**	–	**–**	–
– return on plan assets excluding interest income	**(0.5)**	–	**(2.6)**	0.6	**(3.1)**	0.6
	4.1	(1.3)	**(2.6)**	0.6	**1.5**	(0.7)
Other						
Contributions paid by the employer	**–**	–	**(0.5)**	(0.5)	**(0.5)**	(0.5)
Benefits paid	**(1.4)**	(1.0)	**1.4**	1.0	**–**	–
	(1.4)	(1.0)	**0.9**	0.5	**(0.5)**	(0.5)
Balance at 31 December	**27.3**	23.7	**(26.0)**	(23.6)	**1.3**	0.1

Represented by:	**2016 £'m**	2015 £'m
Net defined benefit asset (Plan A)	**(0.1)**	(0.1)
Net defined benefit liability (Plan B)	**1.4**	0.2
	1.3	0.1

18. Employee benefits continued

Plan assets consist of the following:

	2016 £'m Total	2015 £'m Total
Equities	**13.7**	10.7
Bonds and gilts	**12.2**	12.4
Cash	**0.1**	0.5
	26.0	23.6

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	
	2016	2015
Discount rate at 31 December	**2.70**	3.70
Future salary increases	**n/a**	n/a
Future pension increases	**3.50**	3.20
Inflation – RPI	**3.60**	3.20
Inflation – CPI	**2.70**	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:

	2016		2015	
	Plan A	**Plan B**	Plan A	Plan B
Longevity at age 65 for current pensioners				
Males	**22.1**	**22.1**	22.1	22.1
Females	**24.6**	**24.6**	24.5	24.5
Longevity at age 65 for current members aged 45				
Males	**23.9**	**23.9**	23.8	23.8
Females	**26.5**	**26.5**	26.4	26.4

Sensitivity analysis

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

	Defined benefit obligation	
	Increase £'m	Decrease £'m
Discount rate (0.5% movement)	(1.8)	2.0
Inflation (0.5% movement)	1.3	(1.3)
Life expectancy (+/–1 year)	1.0	(0.9)

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

18. 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 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	37,987	–	–	(37,987)	**–**	684	3 years	Apr 2015
April 2013 (EPS)	17,187	–	–	(17,187)	**–**	1,291	3 years	Apr 2016
April 2013 (TSR)	17,187	–	–	(17,187)	**–**	707	3 years	Apr 2016
April 2014 (EPS)	22,422	–	–	–	**22,422**	886	3 years	Apr 2017
April 2014 (TSR)	22,422	–	–	–	**22,422**	377	3 years	Apr 2017
September 2014 (EPS)	13,837	–	–	–	**13,837**	904	3 years	Sep 2017
September 2014 (TSR)	13,837	–	–	–	**13,837**	395	3 years	Sep 2017
April 2015 (EPS)	34,935	–	–	–	**34,935**	802	3 years	Apr 2018
April 2015 (TSR)	34,935	–	–	–	**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
March 2016 (EPS)	–	101,752	–	–	**101,752**	570	3 years	Mar 2019
March 2016 (TSR)	–	101,752	–	–	**101,752**	356	3 years	Mar 2019
August 2016 (EPS)	–	2,159	–	–	**2,159**	710	3 years	Aug 2019
August 2016 (TSR)	–	2,159	–	–	**2,159**	493	3 years	Aug 2019
	286,393	207,822	–	(72,361)	**421,854**			

Further details of the PSP are included in the Directors' remuneration report on pages 58 to 73.

The 2016 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 2016 EPS and TSR award	**August 2016 EPS and TSR award**
Share price	**£5.70**	**£7.10**
Exercise price	**£nil**	**£nil**
Expected volatility	**48%**	**49%**
Award life	**3 years**	**3 years**
Correlation		
Dialight and the FTSE 250 Index (excluding investment trusts)	**21%**	**35%**

The employee expense in 2016 was £0.6m (2015: £0.1m) (see note 6).

18. Employee benefits continued

Share-based payments continued

Save As You Earn ("SAYE")

In 2014, 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 Number	2014 scheme Number
Outstanding at 1 January 2016	**73,183**	30,297
Granted during the year	**–**	–
Vested in the year	**(1,077)**	–
Forfeited during the year	**(12,432)**	(6,195)
Outstanding at 31 December 2016	**59,674**	24,102

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
Share price at grant date	6.02p
Exercise price	4.82p
Expected volatility	37%
Number of employees	79
Shares under option	73,183
Vesting period	3 years
Option life	3 years
Expected life	3 years
Expected dividends expressed as a dividend yield	2%
Fair value per option	2.12p

19. Provisions

	Warranty £'m	Restructuring £'m	Total £'m
Balance at 1 January 2016	1.4	–	1.4
Effects of foreign exchange movement	0.2	0.1	0.3
Provisions made during the year	1.4	5.0	6.4
Provisions used during the year	(1.2)	(2.3)	(3.5)
Balance at 31 December 2016	**1.8**	**2.8**	**4.6**

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. The restructuring provision relates to redundancy costs and production transfer costs (see note 5) and will all be utilised within one year.

	Total 2016 £'m	Total 2015 £'m
Due within one year	**3.8**	0.8
Due between one and five years	**0.8**	0.6
	4.6	1.4

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

20. Trade and other payables

	2016 £'m	2015 £'m
Trade payables	**15.3**	12.9
Other taxes and social security	**1.0**	0.6
Non-trade payables and accrued expenses	**15.0**	9.4
	31.3	22.9

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

21. Cash and cash equivalents

	2016 £'m	2015 £'m
Cash and cash equivalents in the statement of total financial position	**8.0**	5.5
Cash and cash equivalents in the statement of cash flows	**8.0**	5.5

22. Financial risk management

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

This note presents information about the Group's exposure to each of the above risks 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 who 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.

22. Financial risk management continued

Credit risk continued

Exposure to credit risk

The ageing of trade receivables at the reporting date was:

	Gross 2016 £'m	**Impairment 2016 £'m**	Gross 2015 £'m	Impairment 2015 £'m
Not past due	**28.6**	**–**	23.0	–
Past due 0–30 days	**6.6**	**–**	5.4	–
Past due 31–120 days	**2.0**	**–**	1.0	–
Past due 121–365 days	**0.1**	**(0.1)**	0.1	–
More than one year	**0.1**	**(0.1)**	1.3	(0.1)
Total	**37.4**	**(0.2)**	30.8	(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 2016	0.1
Effects of foreign exchange	–
Utilisation of provision	(0.2)
Provision created	0.3
Balance at 31 December 2016	**0.2**

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.

Other non-trade receivables of £1.7m (2015: £2.1m) 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 2016 the Group has no drawings 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 the 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 a 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.

22. Financial risk management continued

Market risk continued

Foreign currency risk continued

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

	2016 $'m	2016 €'m	2015 $'m	2015 €'m
Trade receivables	0.3	2.5	0.7	3.7
Currency cash	0.5	–	0.6	0.3
Trade payables	(0.1)	(0.1)	(1.1)	(0.3)
Gross balance sheet exposure	0.7	2.4	0.2	3.7

The following significant exchange rates applied during the year:

	2016 Average rate	2016 At balance sheet date	2015 Average rate	2015 At balance sheet date
US Dollar	1.36	1.23	1.53	1.48
Euro	1.22	1.17	1.38	1.36
Mexican Peso	25.25	25.56	24.28	25.66

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 2016	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	31.3	(31.3)	(31.3)	–	–
Borrowings	–	–	–	–	–
	31.3	(31.3)	(31.3)	–	–

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)	–	–

22. Financial risk management continued

Capital management

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 2016 this totalled £77.1m (2015: £70.1m).

The Board is not proposing any final dividend payment for 2016 (2015: nil). The Group has a clear capital allocation discipline and is committed to returning any excess funds to our shareholders via either a future dividend or a share repurchase.

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 2016 it is estimated that a general increase of 1% in the value of the Euro and the US Dollar against UK Sterling would have reduced the Group's loss before tax by approximately £0.1m for the year ended 31 December 2016 (2015: reduced the loss before tax by £0.1m), and would have had no impact on the Group's equity for the year ended 31 December 2016 (2015: no impact).

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 2016 £'m	**Fair value 2016 £'m**	Carrying amount 2015 £'m	Fair value 2015 £'m
Financial assets				
Cash and cash equivalents	**8.0**	**8.0**	5.5	5.5
Loans and receivables				
Trade and other receivables	**40.0**	**40.0**	35.5	35.5
Total financial assets	**48.0**	**48.0**	41.0	41.0
Financial liabilities				
Trade and other payables	**(31.3)**	**(31.3)**	(22.9)	(22.9)
Borrowings	**–**	**–**	(9.3)	(9.3)
Total financial liabilities	**(31.3)**	**(31.3)**	(32.2)	(32.2)
Net financial assets	**16.7**	**16.7**	8.8	8.8

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).

23. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2016 £'m	2015 £'m
Less than one year	**2.0**	1.3
Between one and five years	**3.2**	2.8
More than five years	**–**	0.3
	5.2	4.4

Of the £5.2m (2015: £4.4m), £4.9m (2015: £4.3m) relates to property and the balance to plant and equipment.

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

24. Capital commitments

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

	2016 £'m	2015 £'m
Contracted	**0.8**	0.1

25. 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 18. 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.

26. Related parties

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

	2016 £'m	2015 £'m
Short-term employee benefits	**1.1**	1.2
Post-retirement benefits	**0.1**	0.1
Share-based payments	**0.2**	–
	1.4	1.3

The aggregate of remuneration and amounts receivable under long-term incentive schemes of the highest paid Director was £0.5m (2015: £0.3m), and pension contributions of £0.1m (2015: £0.1m) were made to a money purchase scheme on his behalf. During the year, the highest paid Director received 96,485 shares under a long-term incentive scheme.

	2016	2015
Number of Directors accruing benefits under:		
– money purchase schemes	**2**	2
– defined benefit schemes	**–**	–
Number of Directors who exercised share options	**–**	–
Number of Directors in respect of whose qualifying services shares were received or receivable under long-term incentive schemes	**2**	2

27. Subsidiaries

In accordance with Section 409 of the Companies Act 2006, a full list of subsidiaries as at 31 December 2016 is disclosed below. 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. The investment is held directly by the Company except for those companies indicated by an *.

(a) Trading companies

Name	Percentage owned	Registered office	Principal activity
Dialight Corporation*	100%	1501 Route, 34 South Farmingdale, NJ 07727	Design, assembly and sale of Lighting and Signals and Components products
Dialight Europe Limited	100%	Leaf C Level 36, Tower 42, 25 Old Broad Street, London EC2N 1HQ	Sale of Lighting products
Dialight GmbH*	100%	Maximilianstrabe 54 80538 Munchen Germany	Sale of Lighting products
Dialight A/S	100%	Ejby Industrivej 91 B 2600 Glostrup Copenhagen	Assembly and sale of Lighting products
Dialight ILS Australia Pty Limited*	75%	Level 2 Spectrum 100 Railway Road Subiaco WA 6008 Australia	Sale of Lighting products
Dialight Asia Pte. Ltd*	75%	33 Ubi Avenue 3 07-72 Vertex (Tower A) Singapore, 408868	Sale of Lighting products
Dialight Penang Sdn. Bhd.*	100%	Room B, 3rd Floor 309-K Perak Road 10150, Penang Malaysia	Assembly and sale of Signals and Components products
Dialight Do Brasil Tecnologia Led Ltda*	75%	American Park Empresarial NR Indaiatuba Sao Paulo/SP 13347-662, Brazil	Assembly and sale of Lighting products
Dialight de Mexico, S. de R.L. de C.V.*	100%	Calle Lirios S/N Colona Pacheco Ensenda Baja California Mexico	Assembly of Lighting, Signals and Components products

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 (2015: less than £0.1m) and their share of equity is £0.1m (2015: £0.1m).

(b) Other companies

Unless otherwise stated, the registered office for the subsidiaries listed below is 1 More London Place, London SE1 2AF.

Name	Percentage owned	Registered office	Principal activity
Belling Lee Limited	100%	Leaf C Level 36, Tower 42 25 Old Broad Street London EC2N 1HQ	Intermediary holding company
Dialight Disconnect Limited*	100%		Non-trading
Dialight Lumidrives Limited	100%		Non-trading/intermediary holding company
Optino Limited*	100%		Dormant
PED Limited*	100%		Dormant
Roxboro Analytical Limited	100%		Non-trading
Roxboro Limited	100%		Non-trading

27. Subsidiaries

(b) Other companies continued

Name	Percentage owned	Registered office	Principal activity
Roxboro Overseas Limited	100%		Non-trading/intermediary holding company
Roxboro Technology	100%		Dormant
Shildon Controls Limited*	100%		Non-trading
Shildon Investments Limited	100%		Non-trading/intermediary holding company
The Roxboro Trust Company Limited	100%	Leaf C Level 36, Tower 42 25 Old Broad Street London EC2N 1HQ	Dormant
The Roxboro UK Pension Trustee Limited*	50%	Leaf C Level 36, Tower 42 25 Old Broad Street London EC2N 1HQ	Corporate pension fund trustee
WGL (2003) Limited	100%		Non-trading/intermediary holding company
Zoomclose Limited*	100%		Dormant
Dialight Latin America, S. de R.L. de C.V.*	100%	Calle Lirios S/N Colona Pacheco Ensenda Baja California Mexico	Non-trading
CRL Components, Inc.*	100%	The Corporation Trust Co., Corporation Trust Centre 1209 Orange Street City of Wilmington, County of New Castle DE, United States	Dormant
Roxboro Analytical Inc.*	100%	1501 Route 34 South Farmingdale NJ 07727	Non-trading
Roxboro Holdings Inc.*	100%	The Corporation Trust Co., Corporation Trust Centre 1209 Orange Street City of Wilmington, County of New Castle DE, United States	Non-trading/intermediary holding company
Roxboro Metrology Inc.*	100%	1501 Route 34 South Farmingdale NJ 07727	Non-trading

28. Contingent consideration

	2016 £'m	2015 £'m
Balance at 1 January	**–**	0.3
Payment in the year	**–**	(0.3)
Balance at 31 December	**–**	–

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

29. Reconciliation to non-Gaap performance measures

	2016 £'m	2015 £'m
Gross profit	**65.8**	50.2
Non-underlying items (see note 5)	**3.7**	6.0
Underlying gross profit	**69.5**	56.2
Loss from operating activities	**(3.3)**	(3.4)
Non-underlying items (see note 5)	**16.4**	9.5
Underlying operating profit/Underlying EBIT	**13.1**	6.1
Loss from operating activities	**(3.3)**	(3.4)
Non-underlying items (see note 5)	**16.4**	9.5
Depreciation of property, plant and equipment (see note 10)	**3.1**	2.8
Amortisation of intangible assets (see note 11)	**4.0**	3.1
Adjusted underlying EBITDA	**20.2**	12.0
Loss from operating activities	**(3.3)**	(3.4)
Non-underlying items	**16.4**	9.5
Depreciation of property, plant and equipment (see note 10)	**3.1**	2.8
Amortisation of intangible assets (see note 11)	**4.0**	3.1
Net movement on working capital (Inventories, trade and other receivables, trade and other payables) per Consolidated statement of cash flows	**3.3**	5.4
Movements in working capital related to non underlying	**(2.5)**	(1.7)
Adjusted operating cashflow	**21.0**	15.7

Financial statements

Company balance sheet (prepared under FRS 102)
At 31 December 2016

	Note	**2016 £'m**	2015 £'m
Fixed assets			
Tangible assets	32	**–**	–
Investments	33	**18.0**	17.4
Debtors	37	**30.7**	25.6
		48.7	43.0
Current assets			
Debtors	37	**16.4**	16.8
Cash		**0.3**	0.5
		16.7	17.3
Creditors			
Amounts falling due within one year			
Other creditors	38	**(16.8)**	(8.0)
Borrowings	39	**–**	(9.3)
Current liabilities		**(16.8)**	(17.3)
Net current assets		**(0.1)**	–
Total assets less current liabilities		**48.6**	43.0
Net assets excluding pension fund asset		**48.6**	43.0
Pension fund asset	43	**0.1**	0.2
Net assets including pension fund asset		**48.7**	43.2
Capital and reserves			
Called up share capital	41, 42	**0.6**	0.6
Capital redemption reserve	42	**2.2**	2.2
Other reserve	42	**2.6**	2.0
Profit and loss account	42	**43.3**	38.4
Equity shareholder funds		**48.7**	43.2

As permitted by Section 408 of the Companies Act 2006, a separate profit and loss account of the parent company has not been presented. The parent company's profit for the year was £5.1m (2015: £0.5m).

The accompanying notes form part of the financial statements.

These financial statements were approved by the Board of Directors on 27 February 2017 and were signed on its behalf by:

Michael Sutsko
Group Chief Executive

Fariyal Khanbabi
Group Finance Director

30. 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 back 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 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 12 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.

30. 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 credit 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.

31. 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.

32. Fixed assets

	Fixtures, fittings and equipment £'m
Cost	
At 1 January 2016	0.2
Additions	–
At 31 December 2016	**0.2**
Depreciation	
At 1 January 2016	(0.2)
Charge for the year	–
At 31 December 2016	**(0.2)**
Net book value at 31 December 2016	**–**
Net book value at 31 December 2015	–

No assets of the Company are held under finance leases.

33. Fixed asset investments

Investments in subsidiary undertakings

	£'m
Cost	
At 1 January 2016	22.2
Share-based payment	0.6
At 31 December 2016	**22.8**
Provisions	
At 1 January 2016	(4.8)
Profit and loss account	–
At 31 December 2016	**(4.8)**
Net book value at 31 December 2016	**18.0**
Net book value at 31 December 2015	17.4

In accordance with Section 26 of FRS 102, 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 27 on pages 115 and 116.

34. 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 22.

All carrying values are considered to be fair values.

A sensitivity analysis has been carried out in note 22 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 intercompany 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:

	2016 $'m	**2016 €'m**	2015 $'m	2015 €'m
Currency cash	**0.2**	**–**	0.1	–
Other creditors	**–**	**–**	–	–
Gross balance sheet exposure	**0.2**	**–**	0.1	–

The exchange rates applied during the year are disclosed in note 22.

Liquidity risk
The Company's exposure to liquidity risk relates to its borrowings. This is discussed in note 22.

35. Share-based payments
Share-based payments are described in full in note 18.

PSP
The PSP relating to employees of the Company is disclosed on page 63 in the Directors' remuneration report.

Save As You Earn ("SAYE")
The options under the SAYE relating to employees of the Company are as follows:

	2015 Scheme Number	2014 Scheme Number
Outstanding at 1 January	**7,472**	466
Granted during the year	**–**	–
Forfeited during the year	**(3,736)**	(466)
Outstanding at 31 December	**3,736**	–

Details on assumptions and inputs used in the calculation of share-based payment amounts are disclosed in note 18.

36. Key management personnel
The main Board Directors are considered to be the Company's key management personnel. Details of their compensation are disclosed in note 26.

37. Debtors

	2016 £'m	2015 £'m
Amounts owed by subsidiary undertakings	**46.6**	42.1
Other debtors	**0.5**	0.2
Deferred tax asset (note 40)	**–**	0.1
	47.1	42.4
Less non-current portion: amounts owed by subsidiary undertakings	**(30.7)**	(25.6)
Current portion	**16.4**	16.8

38. Creditors

	2016 £'m	2015 £'m
Amounts falling due within one year:		
Deferred tax liability (note 40)	**0.9**	–
Amounts owed to subsidiary undertakings	**14.0**	6.6
Accruals and deferred income	**1.9**	1.4
	16.8	8.0

39. Borrowings

	2016 £'m	2015 £'m
Unsecured borrowings falling due within one year	**–**	9.5
Upfront loan facility costs	**–**	(0.2)
	–	9.3

On 12 December 2016, the Company signed a five-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 2016 there were no drawings on the facility (2015: £9.5m).

40. Deferred tax assets/(liabilities)

	2016 £'m	2015 £'m
At 1 January	**0.1**	0.1
Prior year adjustment	**(0.1)**	–
Profit and loss account	**(0.9)**	–
Recognised in equity	**–**	–
At 31 December	**(0.9)**	0.1
An analysis of deferred tax is as follows:		
Capital allowances	**–**	–
Short-term timing differences	**(0.9)**	0.1
Debtors (see note 37)	**–**	0.1
Creditors (see note 38)	**(0.9)**	–
Pension liability (see note 43)	**–**	–
	–	0.1

41. Called up share capital

	2016 Number	2016 £'m	2015 Number	2015 £'m
Allotted and fully paid				
Ordinary shares of 1.89 pence each	**32,504,335**	**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, 1,077 shares were issued. The ordinary shares issued have the same rights as the other shares in issue.

42. Capital and reserves

a) Statement of changes in equity

	Share capital £'m	Other reserve capital contribution £'m	Capital redemption £'m	Retained earning £'m	Total equity £'m
Balance at 01 January 2016	0.6	2.0	2.2	38.4	**43.2**
Profit				5.1	**5.1**
Other comprehensive income					
Remeasurement of defined benefit pension liability, net of tax				(0.2)	**(0.2)**
Total other comprehensive income	**–**	**–**	**–**	**(0.2)**	**(0.2)**
Total comprehensive income for year	–	–	–	4.9	**4.9**
Transactions with owners, recorded directly in equity					
Share based payments, net of tax		0.6			**0.6**
Total contribution by and distribution to owners	–	0.6	–	–	**0.6**
Balance at 31 December 2016	**0.6**	**2.6**	**2.2**	**43.3**	**48.7**

	Share capital £'m	Other reserve capital contribution £'m	Capital redemption £'m	Retained earning £'m	Total equity £'m
Balance at 01 January 2015	0.6	1.9	2.2	41.2	**45.9**
Profit				0.5	**0.5**
Other comprehensive income					
Remeasurement of defined benefit pension liability, net of tax				(0.1)	**(0.1)**
Total other comprehensive income	**–**	**–**	**–**	**(0.1)**	**(0.1)**
Total comprehensive income for year	–	–	–	0.4	**0.4**
Transactions with owners, recorded directly in equity					
Share based payments, net of tax		0.1			**0.1**
Dividends				(3.2)	**(3.2)**
Total contribution by and distribution to owners	–	0.1	–	(3.2)	**(3.1)**
Balance at 31 December 2015	**0.6**	**2.0**	**2.2**	**38.4**	**43.2**

At 31 December 2016 the number of shares held by the Group through the ESOT was nil ordinary shares (2015: 9,606). The market value of these shares at 31 December 2016 was £nil (2015: £43,227)

42. Capital and reserves continued

b) 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	2016 £'m	2015 £'m
Nil pence per ordinary share (2015: nil pence)	–	–

During the year the following dividends were paid:

	2016 £'m	2015 £'m
Final – nil pence (2014: 9.8 pence) per ordinary share	–	3.2
Interim – nil pence (2015: nil pence) per ordinary share	–	–
	–	3.2
Dividends accrued on shares awarded under the PSP but not yet vested	–	–
Total (amount shown in the statement of changes in equity)	–	3.2

43. 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

	2016 £'m	2015 £'m
Present value of funded obligations	(2.3)	(2.0)
Fair value of plan assets	2.4	2.2
Recognised asset for defined benefit obligations	0.1	0.2

Plan assets consist of the following:

	2016 £'m	2015 £'m
Bonds	2.4	2.0
Cash	–	0.2
	2.4	2.2

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

43. Pensions continued

Movements in the present value of defined benefit obligations

	2016 £'m	2015 £'m
Liabilities at 1 January	**2.0**	2.1
Interest cost	**0.1**	0.1
Benefits paid	**(0.1)**	(0.1)
Experience loss on defined benefit obligation	**–**	–
Changes to financial assumptions	**0.3**	(0.1)
Liabilities at 31 December	**2.3**	2.0

Movements in fair value of plan assets

	2016 £'m	2015 £'m
Assets at 1 January	**2.2**	2.1
Interest on assets	**0.1**	0.1
Employer contributions	**0.1**	0.2
Benefit paid	**(0.1)**	(0.1)
Return on plan assets less interest	**0.1**	(0.1)
Assets at 31 December	**2.4**	2.2

Expense recognised in the profit and loss account

	2016 £'m	2015 £'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)	
	2016	2015
Discount rate at 31 December	**2.70**	3.70
Future pension increases	**3.60**	3.20
Inflation – RPI	**3.60**	3.20
Inflation – CPI	**2.70**	2.30

For its UK pension arrangements the Group has, for the purpose of calculating its liabilities as at 31 December 2016, used SAPS mortality tables based on year of birth (as is published by the Institute and Faculty 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.

44. Related party transactions

During the period, the Company received management fees from subsidiaries that are not wholly owned totalling £nil (2015: £nil) and received interest totalling £nil (2015: £nil) on intercompany loans to those subsidiaries. At 31 December 2016 a total of £2.3m was owed to the Company by those subsidiaries (2015: £1.9m).

45. Statement of cash flows

	31 December 2016 £'m	31 December 2015 £'m
Operating activities		
Profit for the year	**5.1**	0.5
Adjustments for:		
Depreciation of property, plant and equipment	**–**	–
Share-based payments	**0.6**	0.1
Intercompany debt forgiveness	**2.5**	–
Finance income	**(4.4)**	(2.7)
Financial expense	**0.3**	0.5
Operating cash flow before movements in working capital	**4.1**	(1.6)
Increase in debtors	**(4.7)**	(0.3)
Increase in other creditors	**8.8**	1.7
Cash generated from operations	**8.2**	(0.2)
Interest received	**1.4**	1.4
Interest paid	**(0.3)**	(0.5)
Net cash generated from operating activities	**1.1**	0.9
Financing activities		
Dividends paid	**–**	(3.2)
(Repayment)/drawdown of bank facility	**(9.5)**	2.4
Payment of upfront loan facility costs	**–**	–
Net cash (used in)/generated from financing activities	**(9.5)**	(0.8)
Net (decrease)/increase in cash and cash equivalents	**(0.2)**	(0.1)
Cash and cash equivalents at beginning of year	**0.5**	0.6
Cash and cash equivalents at end of year	**0.3**	0.5

	2016 £'m	2015 £'m	2014 £'m	2013 £'m	2012* £'m
	Prepared under IFRSs				
Revenue	**182.2**	161.4	159.8	131.2	115.1
Research and development cash expenditure	**6.0**	5.5	6.2	5.9	5.0
Underlying operating profit	**13.1**	6.1	18.1	14.5	19.6
Non-underlying operating loss	**(16.4)**	(9.5)	(2.3)	(2.9)	–
Finance (charges)/income	**(0.5)**	(0.5)	(0.3)	(0.4)	0.2
(Loss)/profit before gain on disposal of discontinued operations and taxation	**(3.8)**	(3.9)	15.5	11.2	19.8
Cash generated from operating activities	**16.3**	8.7	8.6	6.9	13.8
Net cash/(debt)	**8.0**	(3.8)	0.6	7.1	15.0
Shareholders' funds	**77.1**	70.1	72.8	66.7	63.0

Statistical information	**Pence**	Pence	Pence	Pence	Pence
Basic earnings per ordinary share from continuing operations	**(8.4)**	(6.4)	29.4	23.9	41.4
Dividends per share	**n/a**	9.8	15.0	14.4	13.5
Dividend cover (times)	**n/a**	n/a	2.0	1.7	3.2
Underlying operating margin	**7.2%**	3.7%	11.2%	11.1%	17.0%

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

Company Secretary and Registered Office

Chris Fussell
Leaf C
Level 36
Tower 42
25 Old Broad Street
London EC2N 1HQ
Telephone: +44 (0)20 3058 3541
Registered in England and Wales
Company number: 2486024
Email: info@dialight.com
www.dialight.com

Website

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

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

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

Financial advisers and stockbrokers

Investec Bank PLC
2 Gresham Street
London EC2V 7QP

Rothschild & Co
New Court
St. Swithin's Lane
London EC4N 8AL

Registrars

Equiniti
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA

Equiniti's Shareholder Contact Centre can be contacted by telephone on 0371 384 2495 (international callers: +44 121 415 7047) between 8.30am and 5.30pm Monday to Friday, excluding bank holidays.

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

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 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.

Trademarks

The following trademarks appear in this document: Dialight and Vigilant, and they are registered trademarks of the Dialight Group.

Auditors

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Birmingham B4 6GH

Legal advisers

Slaughter and May
One Bunhill Row
London EC1Y 8YY

Principal bankers

HSBC Bank PLC
Level 6 Metropolitan House
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Milton Keynes MK9 2GA

Financial PR

MHP Communications
6 Agar Street
London WC2N 4HN

Financial calendar 2016–2017

Annual General Meeting
20 April 2017

Half Yearly Financial Report
25 July 2017

Both the paper manufacturer and printer are registered to the Environmental Management System ISO 14001 and are Forest Stewardship Council (FSC) chain-of-custody certified.

Consultancy, design and production by Luminous
www.luminous.co.uk

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