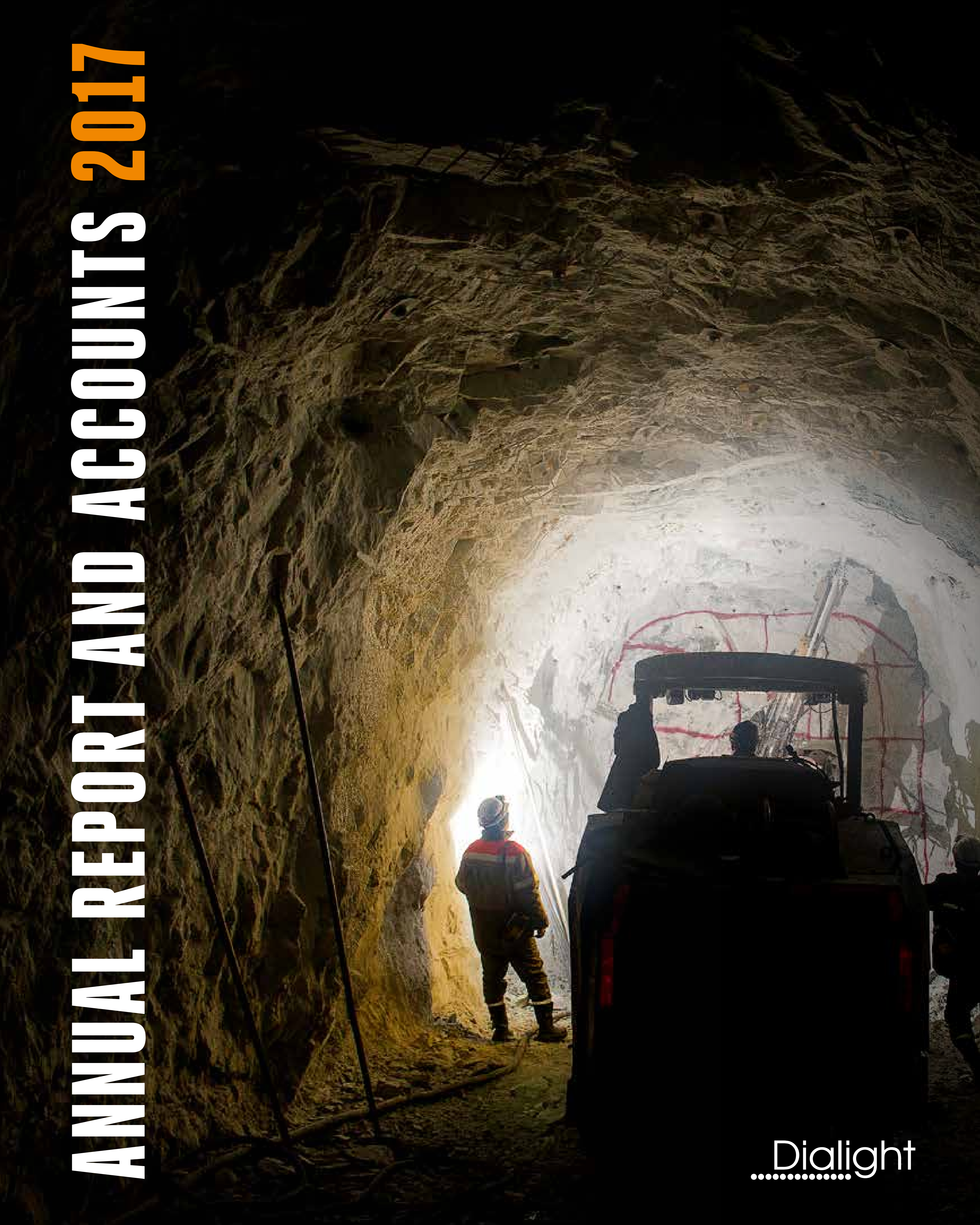
# ANNUAL REPORT AND ACCOUNTS 2017



Dialight

**Dialight is the world leader in LED industrial technology with over 1 million led fixtures installed worldwide.**

**Our sustainable, energy efficient and intelligent LED lighting technologies are market leaders. We enable industrial customers operating in demanding environments to reduce their energy costs, maintenance costs and carbon footprint while maximising their safety and productivity.**

## 2017 HIGHLIGHTS

### Revenue (£'m)

| | |
|---|---|
| **2017** | **181.0** |
| 2016 | 182.2 |
| 2015 | 161.4 |

### Underlying gross profit (£'m)

| | |
|---|---|
| **2017** | **66.7** |
| 2016 | 69.5 |
| 2015 | 56.2 |

### Underlying basic EPS (p)

| | |
|---|---|
| **2017** | **17.9** |
| 2016 | 26.9 |
| 2015 | 13.3 |

### Net cash debt (£'m)

| | |
|---|---|
| **2017** | **12.8** |
| 2016 | 8.0 |
| 2015 | (3.8) |

### Underlying operating profit (£'m)

| | |
|---|---|
| **2017** | **9.7** |
| 2016 | 13.1 |
| 2015 | 6.1 |

### Statutory measures

| | **2017 £'m** | 2016 £'m | 2015 £'m |
|---|---|---|---|
| Profit/(Loss) from operating activities (£'m) | **3.3** | (3.3) | (3.4) |
| Profit/(Loss) for the year (£'m) | **1.7** | (2.8) | (2.0) |
| Earnings per share (p) | **4.8** | (8.4) | (6.4) |

### Financial highlights

- revenue broadly flat (4% below at constant currency)
- lighting division order intake 4% down at constant currency
- underlying profit decline due to the operational difficulties
- net cash of £12.8m
- strong balance sheet supported by good working capital management and five-year credit facility maturing in December 2021

### Operational highlights

- operational difficulties due to:
  - reduced production output from our manufacturing partner;
  - procurement planning issues at our manufacturing partner; and
  - delays in new product launches of High Bay and Area Light
- actions underway to resolve production issues



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# OUR BUSINESS AT A GLANCE

**£137.5M**
Revenue
(2016: £136.6m)

**£54.3M**
Underlying gross profit
(2016: £57.4m)

**£11.2M**
Underlying operating profit
(2016: £13.5m)

## DIALIGHT IS A GLOBAL LEADER IN SUSTAINABLE LED LIGHTING FOR INDUSTRIAL APPLICATIONS

# LIGHTING

### Overview

Dialight's LED lighting for industrial applications is providing the next generation of lighting solutions that deliver reduced energy consumption and 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.

Competing in this segment requires significant development costs and regulatory certifications which create barriers to entry.

### What's driving demand

- LED market penetration of only 3% with significant opportunity for growth
- customer sustainability targets to reduce $CO_2$
- productivity and safety benefits of better quality light
- reliability of our fixtures in the harshest environments, at both extremes of the temperature scales
- long term cost savings of LED through lower energy use and reduced maintenance demands
- Industrial Internet of Things/connectivity in the industrial environment

### Industries we work in

- heavy industry – steel processing, pulp and paper, automotive plants
- oil and gas – upstream and downstream
- mining – surface and underground
- chemical and pharmaceutical
- power generation – from oil and coal to nuclear and wind powered
- collision avoidance lighting for towers, chimneys and wind farms
- food and beverage – processing, grain storage, flour milling and cold storage areas

### Fixture types

We have a broad range of fixtures that can be used hazardous and non-hazardous locations, examples are:

- process areas
- steam rooms
- catwalks
- blast furnaces
- cold storage
- cranes
- conveyor belts

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**£43.5M**
Revenue
(2016: £45.6m)

**£3.9M**
Underlying operating profit
(2016: £4.9m)

**£12.4M**
Underlying gross profit
(2016: £12.1m)

# SIGNALS AND COMPONENTS

### Overview

The Signals and Components division consists of the Traffic and Transportation and Components businesses. Traffic and Transportations is focused on supplying traffic lights plus niche lights for specialist vehicles. The Components businesses sells status indicators to electronic original equipment manufacturers ("OEMs"). This is a mature market with low barriers to entry and this segment is being managed for value.

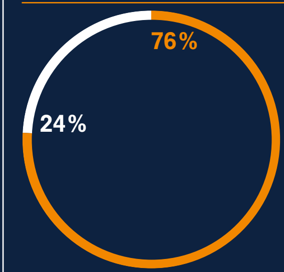
### What's driving demand

Our brand reputation and consequent repeat business help us maintain sales volumes in this mature and competitive market.

### Industries we work in

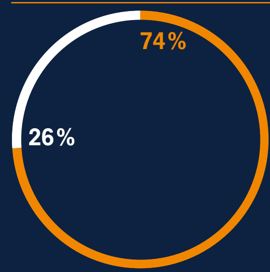
- traffic management, typically for municipalities
- vehicle manufacturing, supply of niche lights
- electronic equipment manufacturing, supply of status indicators

### Revenue by division



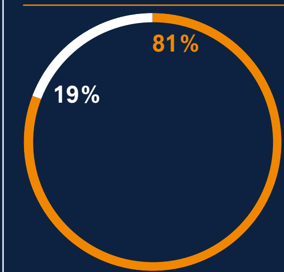

- Lighting
- Signals and Components

### Underlying operating profit



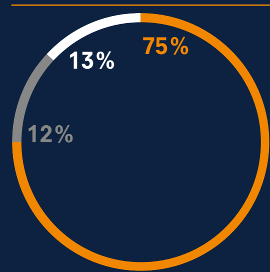

- Lighting
- Signals and Components

### Underlying gross profit by division




- Lighting
- Signals and Components

### Revenue by geography




- North America
- Europe
- ROW

SEE PAGE 38
FOR OUR FINANCIAL REVIEW

# CHAIRMAN'S LETTER

**Wayne Edmunds,** Chairman

**2017 was a poor year for Dialight, one in which we disappointed both our shareholders and ourselves. While we made significant progress in improving our products, our core product design platforms and our go-to-market capabilities, the execution of our manufacturing outsourcing significantly impacted our 2017 financial performance.**

The Dialight product family is designed for use in some of the most challenging processes of manufacturing and work environments. In 2017 we continued work on our outsourcing project which was expected to raise the capacity and the quality of our manufacturing capabilities. However, the execution of the transition has been disappointing, with frequent delays, raw material sourcing challenges and cost overruns resulting in a significant number of orders being unfulfilled in the year.

In response, we have made changes to our senior management team so that we can return to sustainable, profitable growth. We have entered 2018 with a new Group Chief Executive Officer and a new Chief Operating Officer ("COO"). Michael Sutsko stepped down on 8 January 2018 and Martin ("Marty") L. Rapp has been appointed Group Chief Executive Officer. Marty's prior experience is ideally suited to lead the Group through the transition of our manufacturing capabilities and as discussed in the Group Chief Executive Review, his operations action plan is the short-term focus for the Group.

## Dividend

The Board believes in balancing returns to shareholders with investment in the business to support future growth. The Board is not proposing any final dividend payment for 2017.

## Board changes

As previously discussed, Michael Sutsko resigned as Group Chief Executive Officer and Director on 8 January 2018 and Marty Rapp was appointed. Marty orginally joined us on 26 April 2016 as a Non-Executive Director.

Michael made a significant contribution to Dialight's strategic direction over the past two years and I would like to thank him for his contribution and wish him well for the future.

## People

In testing times, a company depends on the resilience and commitment of its people. We would like to thank all our employees for their hard work and efforts in 2017. We are confident that they will enable Dialight to deliver growth and success in 2018 and beyond.

## Outlook

Despite a disappointing year in 2017, we remain confident about the potential of Dialight to deliver for our shareholders. We have a good market position and technology in a fast-growing market and the new management team is committed to delivering value and growth for our business. We look forward to an improved performance in 2018.

**Wayne Edmunds**
Chairman
26 February 2018

# BUSINESS FUNDAMENTALS UNCHANGED

## POSITIONED FOR GROWTH

Our global footprint and diverse customer base ideally positions us to capture the potential of an industrial market which is largely unpenetrated by LED and whereby the majority of lighting is antiquated, dangerous and environmentally damaging. LED lighting represents the future.

## DIFFERENTIATED

Our best-in-class designs offer superior performance backed by a ten-year warranty, low maintenance, high efficiency and long-life. That's how we provide our customers with faster payback and a better Return on Investment.

## INTELLIGENT

Controlled lighting solutions that seamlessly integrate with existing factory automation and building management systems to conveniently optimise site safety and productivity.

## TRUSTED

Significant expertise exclusively in LED and decades of experience as a lighting partner to many of the world's leading organisations have helped us achieve the largest installed base with over one million industrial LED fixtures around the world.

## SUSTAINABLE

A strategic focus on environmentally friendly LED technology and a commitment to helping all organisations, including our own, reach corporate sustainability goals.

## SCALABLE

Strong cash flow that allows operational scalability without the requirement for significant fixed investment.

Strategic report

# TRUSTED TO DELIVER

# FROM THE HARSH ENVIRONMENT OF AUSTRALIA'S MINING INDUSTRY...

## The Nammuldi mine

The Nammuldi mine lies within an arid region of Western Australia where summer temperatures exceed 32° Celsius and cyclones are common. Lighting is needed for the iron ore conveyor belts and much of the rest of the site. Exposed to the elements year round and with high vibration from fully loaded conveyor belts, traditional fixtures were regularly shaken apart and required frequent replacement.

Dialight replaced the traditional lights with its Linear, Conveyor and Bulkhead lights. This improved safety by reducing voltage spikes and ensured that the site was fully lit at all times. Maintenance costs were significantly reduced as the number of fixtures required was reduced and with the rugged fixture design, they are built to work in these environments for ten years.

**60%**
**Energy reduction**

USED 30% FEWER FIXTURES

# TO SUB-ZERO FOOD STORAGE PLANTS IN ARKANSAS, USA

**CUT ENERGY USAGE BY 1M KWH PER ANNUM**

### Zero Mountain Cold Storage

Two cold storage facilities, a 0.3m square feet limestone cave and a 7m square feet warehouse, with temperatures as low as -38° Celsius, had metal halide fixtures. The existing fixtures were slow to warm-up, had to be left on 24/7 and generated excess heat that required the chillers to work harder.

We replaced the Metal Halide fixtures with our High Bay product, utilising 20% fewer fixtures. Maintenance costs were reduced as the High Bay fixtures provide a more durable solution for the harsh underground environment. Fewer fixtures, lower power usage and occupancy sensors all contribute to significant electricity savings.

**£78K**

**Annual savings on energy and maintenance**

# GROUP CHIEF EXECUTIVE'S REVIEW

**Martin L. Rapp,** Group Chief Executive

**In 2015, we outlined a plan to rebuild our operations to enable scalable and cost-efficient production. This plan included transitioning to outsourced manufacturing, streamlining our product portfolio and moving to common product platforms.**

Whilst much has been achieved, problems in execution of our outsource manufacturing transfer resulted in a poor year for reported financial results. Our results were adversely affected by reduced production output from our manufacturing partner principally as a result of procurement planning issues and delays in the new product launches of High Bay and Area Light.

I have been on board as the full time Group Chief Executive since 8 January 2018. I have visited each of our Lighting manufacturing locations and have spent time at our manufacturing partner site in Guadalajara, Mexico. The whole business is very focused on resolving the issues we have and ensuring the Group has a robust and scalable manufacturing platform.

We are taking aggressive action to address these operational issues. We are confident these will be significantly improved by the end of H1 2018 and we will start to see the benefits in the second half of the year. We have the right products and a market with good growth prospects; it is incumbent on us to better serve our customers in order to maximise the opportunities open to us as a Group.

## Operations

The product requirements for the market we serve result in a low volume/high mix product portfolio. In addition, given the variety of our customers and applications, and the difficulty in accurately predicting future demand to the part number level, our forecasts of required raw materials change significantly over time. In order to address this issue we platform engineered all of our product lines to reduce the sku count and thereby simplify the forecasting process. The concept of platform engineering and building to a sub assembly level was, with the benefit of hindsight, not fully recognised by our manufacturing partner.

The biggest issue affecting production continues to be, having materials available when required. The majority of the issue has been related to materials not being ordered in time and/or in sufficient quantities. This was compounded by industry wide material shortages of some of our critical components, which we estimate to be the cause of about 15% of our late order performance.

A further issue stemming from the platform engineering concept relates directly to the manufacturing process itself. Our manufacturing partner operates in a small batch-size environment, resulting in a more job-shop approach rather than a large scale manufacturing process and as a consequence has lost productivity due to frequent changeovers. There are nuances in scheduling lines to maximise throughput and minimise changeovers that come with experience. Our joint challenge is to increase the speed of learning.

The issues that we face came to the forefront in Q4 2017 as our two largest product lines transferred to our manufacturing partner. With the benefit of hindsight, we placed an over reliance on their ability to ramp up in our busiest quarter of the year and under estimated the difficulties of the transition.

We have taken two key steps in order to address these short term challenges. First, we have significantly increased the level of support we are providing at the plant level to our manufacturing partner. We now have a group of our most experienced supply chain and production management employees nearly full time on-site until we have sustainable performance at acceptable levels. Their mission is to review every raw material line item, side by side with our manufacturing partner employees, and take immediate action to relieve the shortages. They will also review the production planning schedule to help ensure that the lines are scheduled as efficiently as possible and that we are using raw materials to the maximum advantage.

The second key step is the removal of complexity from our manufacturing partner by transferring the more complex product types back to our Ensenada, Mexico facility, where we have retained assembly capabilities. We feel this will significantly help the overall production throughput at our manufacturing partner.

Our complete focus is on ensuring we get delivery times back to normal with a manufacturing process that is stable and efficient. We need to make our overall fulfilment process more robust by multi-sourcing key components to reduce the impact of shortages from a single supplier. This is one of the keys to building a robust operational platform.

It is important as we navigate through these operational challenges that we measure our recovery. The key lighting performance indicators we will focus on are order growth, gross margin and on-time delivery.

**Business fundamentals**

Despite the short term challenges we must not forget that Dialight remains well positioned in a growing market. We remain the market leader in terms of our technology and continue to have a strong balance sheet and remain cash positive.

Customers convert to LED lighting and buy Dialight's products because it remains the most efficient way to drive down energy usage. We are delivering the next generation of lighting solutions that not only reduce energy consumption further 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 rapid return on investment.

We also recognise the opportunity to drive focus on corporate-wide LED conversion programmes. The majority of Dialight's targeted strategic customers have a public commitment to sustainability, including carbon footprint reduction and energy saving programmes. Driving awareness of the economic benefits as well as the sustainability and safety benefits of our lighting at the corporate level can change the perception of our lighting away from just maintenance cost savings.

In addition, Dialight products are being built with upgradeable and integrated controls. Our customers can optimise their lighting solution through direct lighting controls. The value for customers is that they will be able to take advantage of their built-in network of intelligent lighting to provide access to a wide array of sensors and applications in safety and productivity.

We launched major upgrades to our High Bay and Area Light product lines. Controls enablement is a significant feature of the High Bay upgrade. This allows customers to use them as data harvesting points that can relay information to the facility control system for added safety and security. These products also provide customers with greater energy efficiency and global certifications.

Growth requires the right products, the preferred distribution channels, and experienced sales teams. Dialight has built its strongest capabilities in the U.S. providing a model that can be scaled around the world. Europe represents an advanced customer base and significant opportunity, yet has been under served by Dialight. Our new product road map will include the breadth of product features and certification requirements needed in Europe. With strong sales teams and a number of newly signed distributor partners, Dialight is well positioned to begin to seize the European opportunity.

Dialight's Australian team has proven to be very successful in driving growth and building capabilities in the region. Extending that leadership with strong local support into South East Asia represents a significant opportunity for growth.

The industrial LED opportunity remains largely untapped as the conservative customer base has sought low-risk, proven solutions. Dialight's 10 years of experience has earned a predominant position and we have an installed product base of over one million products. With the aim of improving our quality of earnings we have demonstrated our ability to sell across industrial sectors and reduce our reliance on oil and gas markets. This initiative has continued despite the operational challenges that we have faced.

Dialight will use its ability to deploy new technology to drive a shift in spending and accelerate adoption of LED technology in industrial customers. Our market proposition is compelling with the sustainability benefits of reduced energy usage, lower carbon emissions, reduced maintenance and improved safety offering real value to our customers.

**Corporate responsibility and sustainability is at Dialight's core**

Dialight delivers energy savings and workplace safety to its customers. We live by the same values and are committed to reducing our own carbon footprint. These market characteristics and our commitment to health and safety, the environment and people development are reflected in the values held by our employees and our operating culture.

A detailed report on our approach to corporate responsibility, including our $CO_2$ emissions reduction performance, is on pages 30 to 31.

**Outlook**

2017 was a disappointing year, in which operational issues hampered our ability to deliver orders to our customers. We are taking corrective action and in the near term are wholly focused on the manufacturing challenges which will continue to impact our results in H1. As a consequence our results for 2018 will be heavily weighted to H2 reflecting the successful resolution of these issues.

Our market proposition remains compelling with the sustainability benefits of reduced energy usage, lower carbon emissions, reduced maintenance and improved safety offering real value to our customers. We remain excited by the Group's prospects over the medium to long term and are confident of delivering future growth.

# TRUSTED TO DELIVER

## FROM OUR MAINTENANCE-FREE SYSTEM ON LAKE ERIE, USA...

### Donjon Shipbuilding

Being an open air facility on the shore of Lake Erie, Donjon Shipbuilding's 0.2m square feet facility, with ceiling heights up to 125 feet over a dry dock is a damp and harsh environment which resulted in less than 25% of the company's light fixtures working at any time. The poor-quality light meant that staff often extensively used flashlights to navigate the facility safely and the extreme height meant that changing any of the existing 266 metal halide fixtures was time-consuming and costly.

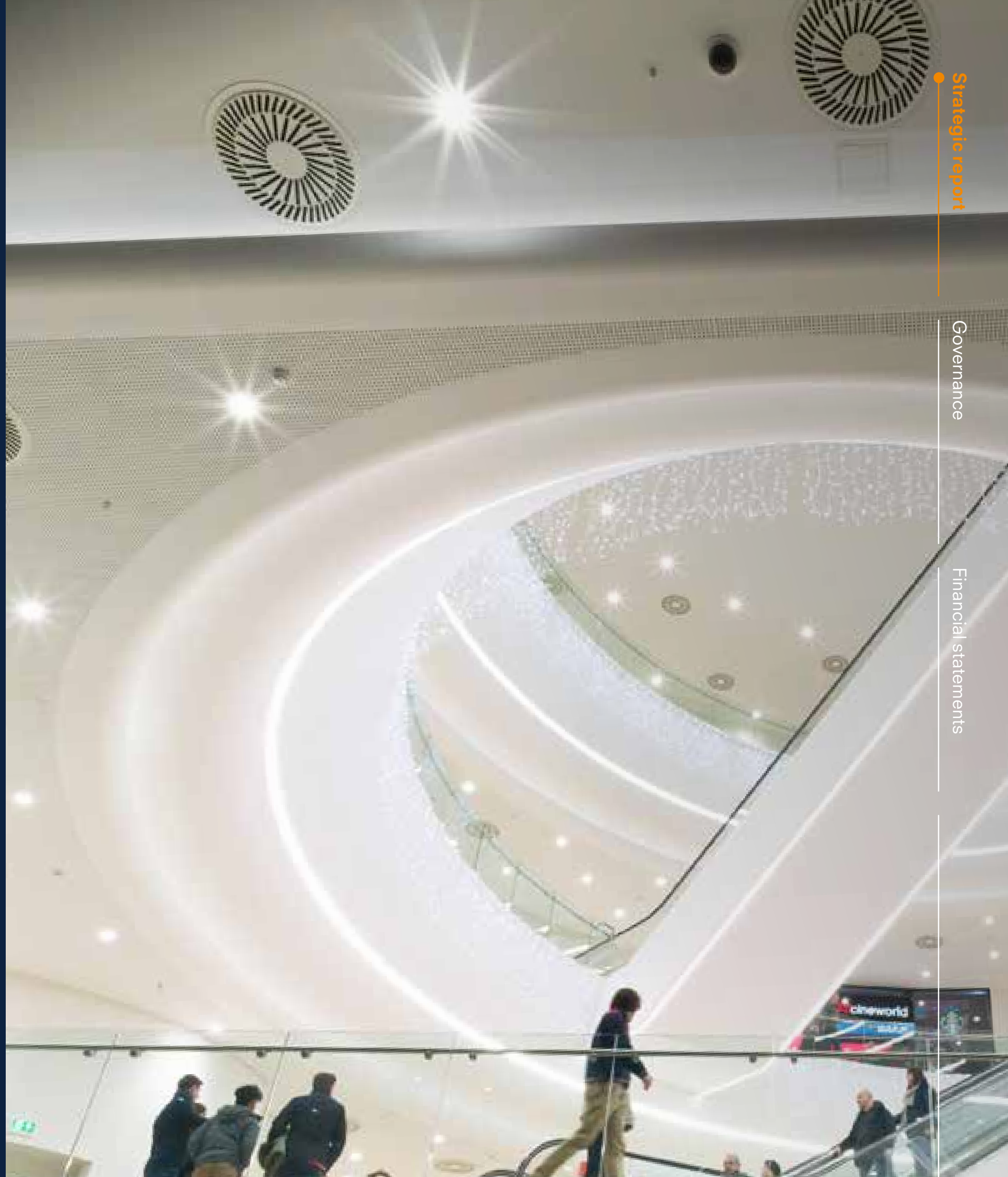
The existing fixtures were replaced by Dialight's 60,000 lumen Vigilant High Bays. The power output from the new fixtures resulted in a reduction of two thirds in the fixtures required whilst delivering increased quality light that improved safety and the working environment. The ten year performance warranty will eliminate the majority of maintenance costs on light replacement.

**67%**
**Reduction in number of fixtures**

**50% REDUCTION IN POWER CONSUMPTION PER FIXTURE**

# TO CONTROLLED WHITE LIGHTING IN THE UK

**2,250 FIXTURES INSTALLED**




### The National Exhibition Centre

The National Exhibition Centre (NEC) is the largest exhibition centre in the UK consisting of 20 interconnected halls. It hosts a wide variety of shows annually, all of which have one common aim – for attendees to see what is on display. The high pressure sodium lighting was slow to light and its yellow tinged light rarely did justice to the merchandise on display.

Following a five-year trial, the NEC chose to replace the high pressure sodium lights with Vigilant High Bays connected to the building control system. The result is instant and controllable white light that ensures that exhibitors can maximise their investment.

# MARKET DRIVERS

## RESPONDING TO A CHANGING ENVIRONMENT

**Market size**
The LED industrial lighting market is estimated to be worth £50bn based on a 20 year retrofit cycle (this was verified by IHS in a study commissioned by us in 2016). The market constitutes a wide variety of industries from heavy industrial to food and beverage.

Our lighting portfolio ensures that most of our fixtures have explosion proof and non-explosion proof variants, which allows us to service these diverse markets.

The market size is based on an assessment of the number of power plants, foundries, mines, petro-chemical plants, oil rigs, broadcast and telecoms towers, and other types of target locations. We have estimated the number of fixtures required per location and extrapolated the market value. Our assessment now is that the market potential is unchanged and the key to unlocking its potential lies in reducing the payback period, driving sales decisions at a corporate level and increasing market awareness of the benefits of LED.

Our customer base is conservative seeking low risk, proven solutions. Dialight's ten years of experience has earned a dominant position within this market.

### 1 CUSTOMER APPETITE FOR SUSTAINABLE PRODUCTS

Sustainability is high on commercial and environmental agendas making our products more important to customers. Their appetite is not just based on being able to quote lower $CO_2$ usage but the growing realisation that sustainable products can deliver savings in maintenance and energy costs. The corporate scenario can be set out as:

- the Sustainability Manager wants to lower $CO_2$ usage;
- the Finance Director wants to lower costs;
- the Health and Safety Manager wants a safer working environment; and
- the Plant Manager wants controllable lighting to help achieve production targets.

**Our response**
Quite often competitor products will satisfy one criteria, but not all. Dialight fixtures "tick all the boxes". Our products:

- significantly reduce $CO_2$ generation;
- cut power usage and maintenance costs;
- lower accident risk by ensuring all areas are well lit; and
- instantly provide better quality light to operational areas, the intensity of which can be varied according to requirements.

### 2 REGULATORY AND POLITICAL CHANGE

In the US there is a movement to get high pressure sodium llights banned. The decision of the UK to leave the EU ("Brexit") results in uncertainties surrounding potential tariffs on goods exported to the EU.

**Our response**

- in May 2017, we co-presented with Ford on the benefits of LED lighting to the Department of Energy in the US at the Better Buildings Summit in order to promote potential legislative change to ban old lighting technology; and
- we manufacture in Mexico which has a trade agreement with the EU. Such sales will be unaffected by Brexit, though Mexico to UK sales may be impacted by potential tariffs.

### 3 THE LED ADVANTAGE

LED lighting has many advantages over traditional lighting, so why is it not more widely adopted in the market?

**Our response**
LED lights:

- are instantly on compared to strike time delays of 15 to 20 minutes for other lights;
- provide better quality and white light compared to the yellow-tinged light of high pressure sodium;
- have a much longer life as they run cool i.e. do not create light via heat; and
- consume much less electricity than conventional lighting.

Our customers have seen the benefits of LED first hand (see case studies on pages 6, 7, 10, 11, 17, 18). For potential customers, there is sometimes a natural inertia that delays making the decision to change.

4

# CLIMATE CHANGE

A global shift is underway to the low carbon economy. The Paris Agreement's aim is to strengthen the global response to the threat of climate change by keeping temperature rise this century to well below 2° Celsius above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5° Celsius. Additionally, the agreement aims to strengthen the ability of countries to deal with the impacts of climate change.

The Trump administration has issued written notification that the US intends to withdraw from the Paris Climate Agreement. However, in the notice to the United Nations the US State department said Washington would remain in the talks process. Even if the US pulls out of the Agreement, climate change is high on the agenda of many US states, who have indicated that they will introduce separate legislation to combat climate change.

**Our response**

To help both countries and customers reach these ambitious goals, we are developing new technologies that offer superior energy efficiency, reliability, longevity, improved light levels, visual clarity, and ultimately cost savings from reduced or eliminated lighting related maintenance and energy costs.

5

# MACRO ECONOMIC CONDITIONS

The global recovery will continue, but at a slightly slower growth rate of around 3.5%. Low core inflation should also tick up in advanced economies as their labour markets continue to strengthen and the drag from low commodity and import prices unwinds.

**Our response**

We constantly strive to reduce the payback period on our fixtures which means we can target a maintenance budget rather than a capital expenditure budget. This is particularly important as it allows companies to maintain their capital budgets for other purposes.

# RESPONDING TO MARKET DRIVERS THROUGH LEADING-EDGE TECHNOLOGY

In September, we launched a major upgrade to our High Bay product line which had been significantly re-engineered. High Bay is the most installed fixture in the LED industrial lighting market and has contributed significantly to Dialight being the first to reach an installed base of one million fixtures. It is available in a full range of hazardous and non-hazardous options.

A significant feature of the new range is that they are controls enabled. As we continue to look at where the market requirement is trending, we are adding controls upgradeability as standard. This is part of our drive to make lights an integral part of the Industrial Internet of Things by allowing customers to use them as data harvesting points that can relay information to the facility control system for added safety and security.

In addition, all new fixtures have;

- increased efficiency from 125 lumens per watt up to 145 lumens per watt
- enhanced dimming capability as standard that further reduces energy usage
- additional lens options to provide variations of light as required for different work areas

In July, we launched the next generation of the Area Light, available for hazardous and non-hazardous applications. In the most aggressive technology upgrade to date for this product line, we increased the efficiency to deliver up to 143 lumens per watt and continue our drive to provide fixtures that reduce energy usage. An improved wide-optic design significantly improves lighting footprint, enabling one-for-two fixture replacements in conveyor and walkway applications to help customers reduce fixture count and improve safety.

The significantly upgraded power supply unit, designed in-house, allows us to increase the warranty offered from five years to ten years. We have also added additional features:

- salt corrosion resistance for outstanding resilience in off-shore applications
- stainless steel hardware for added installation security
- improved choice of optics to deliver more light precisely where it's needed, reduces fixture count and infrastructure
- enhanced dimming options to significantly reduce energy use
- an integrated mounting system to simplify new installations
- an extensive range of retrofit adapters that allow customers to replace competitors products easily

# OUR BUSINESS MODEL

## OUR INPUTS

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

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

**Product innovation**
Developing market-leading products at the forefront of technology within industrial markets. In 2017 we invested £6.9m in research and development to extend our product portfolio.

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

**Human capital**
We hire and develop innovative engineers who, together with supporting teams and senior management, can develop and deploy Dialight's sustainable, energy efficient and intelligent LED lighting solutions.

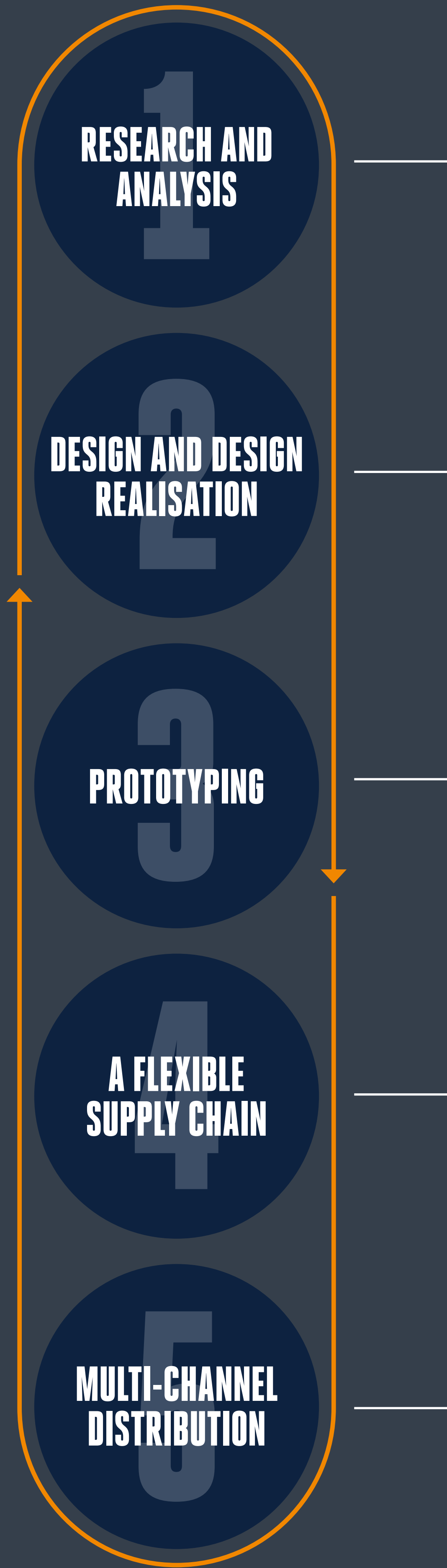
**Relationships**
Dialight has multiple routes to market through established distribution networks and selling directly to the end customer. Our sales approach targets plant managers as well as corporate decision makers.

## WHAT WE DO

Our purpose is to improve the world we live in through sustainable, energy efficient and intelligent LED lighting technologies. We enable industrial customers operating in demanding environments to reduce their energy costs, maintenance costs and carbon footprint while maximising the safety and productivity of their facilities.

We do this by offering the largest selection of rugged, cutting-edge products to suit virtually any industrial application. Additionally, our controls solutions can seamlessly integrate with existing factory automation and building management systems to deliver granular control and system-wide visibility that reduces lighting energy costs by as much as 60%.

SEE PAGE 12
FOR OUR MARKET DRIVERS
SEE PAGE 32
FOR OUR RISKS



**How we create value**
Investment in technology and product development to update and expand the product range. Integration of power supply, optics and lighting designs.

**How we create value**
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.

**How we create value**
The Group runs its new product prototypes in its facility in Mexico. It also has significant in house testing capabilities.

**How we create value**
The assembly part of our supply chain is a partnering arrangement in order to gain flexibility and speed. We establish distribution networks and sell directly to end customers.

**How we create value**
Established distribution networks through electrical wholesalers. Sales directly to end customers. Automation partnerships continue the expansion of the distribution channels.

# REVENUE

Our revenue is mainly derived from the sale of lighting fixtures (76%). We sell via distribution channels and direct to the customer using our own sales force. Fixtures are installed by the customer or by third-party contractors.

# CASH FLOW

Revenue is turned into cash flow, with a very small amount of bad debt, reflecting the quality of the customer base. This is used to fund the operating costs of the business, restructuring costs and any working capital requirements. Cash generation has remained strong and cash conversion has increased to 143%, 39% higher than the prior year.

# REINVESTMENT

Cash generated from operations is reinvested in three main ways: to pay for research and development to keep our product offering up to date; to buy tooling and other equipment to ensure that products are manufactured to high standards; and in accord with our capital allocation methodology, the return of capital to shareholders via dividend.

# THE VALUE WE SHARE

**Shareholders**
Our goal is to deliver long-term value for shareholders. We do this by developing products that are sustainable and stimulating demand in a market with very low penetration. We use our capital allocation discipline to balance between investment, balance sheet management and shareholder returns.

**Employees**
We offer opportunities for personal development and competitive rewards linked to performance. We believe in a creative working environment with scope for individual responsibility and personal achievement.

**Customers**
We add value to our customers' businesses. Our staff work closely with our customers in order to understand their requirements and help them achieve their objectives.

**Communities**
Our operations create jobs for local communities in 15 countries around the world. By supporting local supplier development, where possible, we drive sustainable value for shareholders and further economic benefits for local communities.

**Governments**
We support local economies by creating employment and paying local taxes. We stimulate local economic prosperity which contributes to the maintenance of public infrastructure and services.

# WHAT MAKES US DIFFERENT

## SUPERIOR FIXTURE PERFORMANCE & LONGEVITY

### ZERO REPLACEMENT PARTS

The value that heavy industrial customers receive encompasses the traditional energy savings of an LED system, plus savings in maintenance and installation costs that can surpass the energy savings.

Lighting in these sectors is safety critical and is installed in tough environments where maintenance is dangerous, disruptive and expensive. Dialight's industry-leading ten-year warranty and proven engineering are the best fit to deliver this value proposition.

### REDUCED MAINTENANCE DOWNTIME

Major causes of fixture failure are water ingress, excess vibration and extreme temperatures. Dialight fixtures are designed to withstand all these factors.

### OPTIMISED FIXTURE QUANTITIES

Dialight uses lighting designers to determine the precise location of its fixtures. We use their knowledge of our fixture and lens capabilities to recommend the optimal installation.

### ENVIRONMENTALLY FRIENDLY AND ENERGY EFFICIENT

Dialight's technology and product roadmap features improvements in energy efficiency, longevity and electrical, optical and mechanical features that reduce maintenance and installation costs. With a small investment, customers reduce their $CO_2$ footprint, reduce energy consumption, improve the quality of lighting and move to being a safer and more sustainable organisation.

## ADVANCED CONTROLS

### SYSTEM-WIDE CONTROL

Dialight is able to deploy intelligent lighting in factories, which creates tremendous opportunities to add value beyond the basic benefits of Dialight's LED lighting.

At the basic level, controlling the lights, through Dialight's proprietary DACS system or through a system integrated with leading factory automation partners, means customers can optimise their savings and light utility.

### DATA-DRIVEN INSIGHTS

At the second level, the lights can be used in applications that provide productivity and safety solutions. They are a great platform for providing location and tracking for staff and equipment, environment monitoring, emergency and safety indicators, audio and video applications.

### SEAMLESS INTEGRATION WITH FACTORY AUTOMATION

One of the economic barriers to deploying Industrial Internet of Things solutions is the cost to wire or otherwise connect multiple sensors. Dialight lighting solutions provide wireless capability and connectivity allowing Industrial Internet of Things solutions to be deployed in a much more cost-effective manner.

### UPGRADEABLE

Dialight products are built with upgradeable and integrated controls. This allows customers to subsequently retrofit controls and ensure future compatibility.

# WHAT DOES THE FUTURE OF LED LOOK LIKE?

**The future is about the connectivity of fixtures and building management systems to form an integrated data harvesting capability and action-deployment platform. The installed lights provide a wireless network in a strategic position to overview all activities in a plant. By harnessing this wireless data harvesting capability and connecting it to the building management systems the lighting system will enable two major improvements:**

### Productivity

- equipment and space utilisation
- inventory management
- predictive maintenance
- driverless vehicle tracking

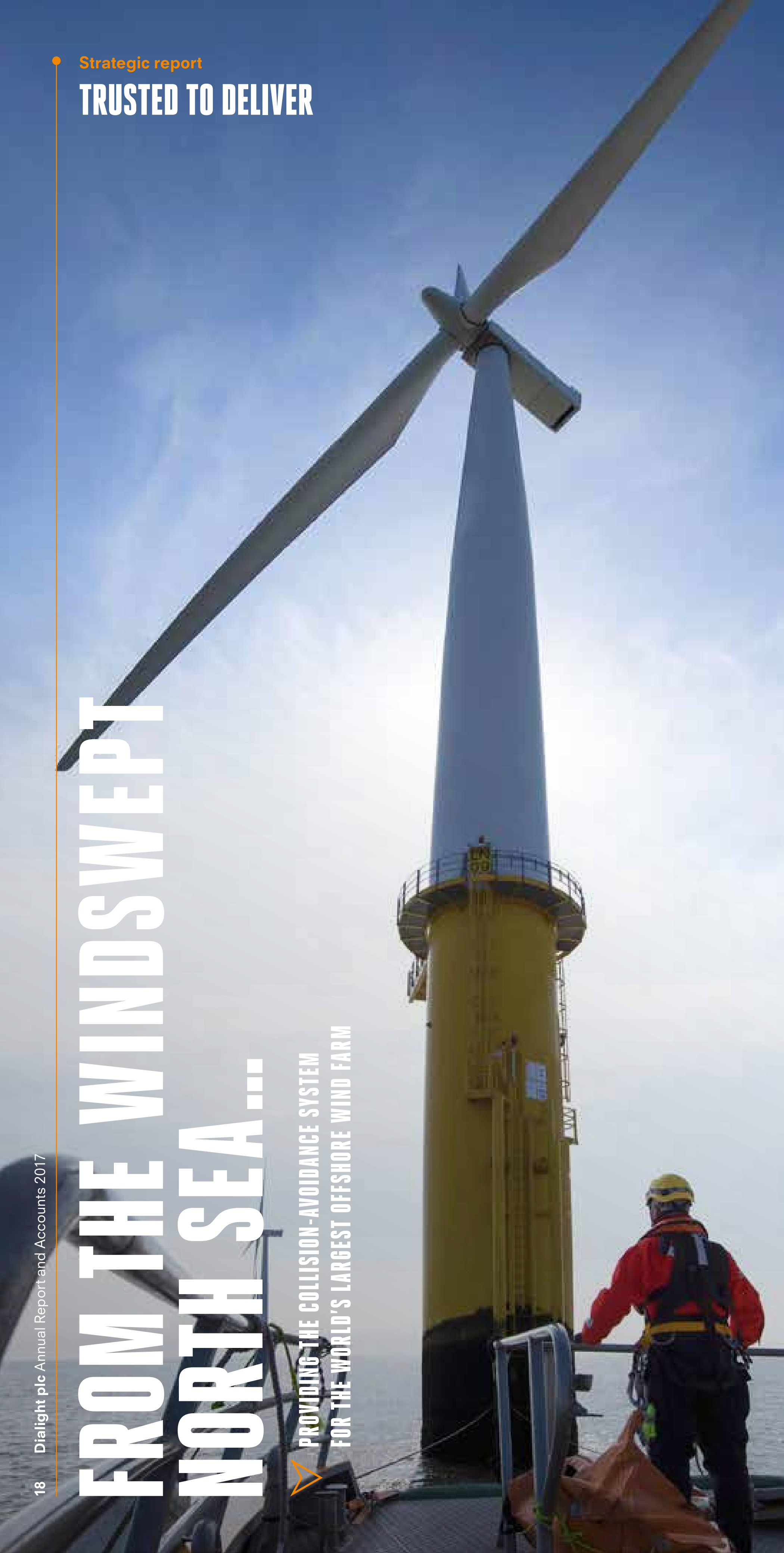
### Safety and Security

- emergency notification
- human-centric lighting – the right light at the right time
- unauthorised access notification
- lone worker monitoring

A wireless system is significantly cheaper and less disruptive to install than a hardwired alternative.

Our lights can integrate with Rockwell, Tridium and Schneider building management systems and we are using beta sites to test the system capabilities.

# TRUSTED TO DELIVER



# FROM THE WINDSWEPT NORTH SEA...

PROVIDING THE COLLISION-AVOIDANCE SYSTEM FOR THE WORLD'S LARGEST OFFSHORE WIND FARM

### The Hornsea1 wind farm

The Hornsea1 offshore wind farm is being built 75 miles off the coast of England in the North Sea, a harsh and unforgiving body of water that separates the UK from mainland Europe. Once completed, it will consist of 174 turbines each rising 600 feet into the air and will provide enough power for 1,000,000 homes. It is a challenge to ensure that aircraft and shipping are warned of their presence, regardless of weather conditions.

Dialight is able to provide a comprehensive range of Aviation Beacons that sit on top of the turbines and navigation systems. As an established provider of packaged solutions to off shore installations, Dialight tailors the solutions to customer specifications. Safety is the primary concern and it ensures connectivity to customers' systems, allowing remote monitoring and instant alerts for any problems, thereby ensuring an immediate response.

# TO THE CORROSIVE WEST COAST OF SWEDEN

ANNUAL ENERGY REDUCTIONS 2M KWH

**Petrochem facility**

This facility is located on the western coast of Sweden where temperatures range from +30°Celsius in summer to -25°Celsius in the winter. Light fixtures are mainly external and the proximity to the coast results in salt corrosion being a major problem. In addition, rapid temperature changes were causing the materials in the site's fluorescent fixtures to expand at different rates and thus allow water ingress, leading to failure of the fixtures.

Dialight's solution was to replace the existing units with its Stainless Steel Linear products which are designed to withstand such a harsh environment. The result is a reduction in annual maintenance costs of £100k, improved site safety and lower energy costs.

**£100k**

**Annual savings**

# OUR STRATEGY AT A GLANCE

## 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.

SEE PAGE 34
FOR OUR KPIs
SEE PAGE 32
FOR OUR RISKS
SEE PAGE 12
FOR OUR MARKET DRIVERS

## 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

## PRIORITY

### REINFORCE OUR FOUNDATIONS

**We are focused on fixing the short-term supply issues of 2017. Actions in progress:**

1. Increase production capacity in the short term to eliminate backlog of orders.
2. Improve our on time delivery for new orders to an acceptable level.
3. Build a more robust supply chain by reducing the number of components.

### STRENGTHEN OUR CAPABILITIES

1. After resolving short term operational problems, develop a longer term operational platform for a global supply chain.
2. We have a strong sales team that combines with the distribution network to ensure we understand our customers' requirements.
3. Improve our NPI process for speed and focus.
4. Enhance the strategic and tactical approach to our markets.
5. Expand our existing product portfolio by enhancing controls and adding building management interface capabilities.

### CREATE AND CAPTURE VALUE

**We will continue to focus on the major levers for accelerating market adoption:**

1. Concentration on strategic accounts to secure large multi-site supply contracts by becoming the supplier of choice for large corporates.
2. Reducing the payback timescale on our fixtures to enhance the return on investment and thus allow us to target maintenance budgets.
3. Lobbying governments in order to influence legislative restrictions on older lighting technology and promote awareness of the benefits of LED.
4. Becoming a trusted partner in the supply chain.

# KEY PERFORMANCE INDICATORS

## FINANCIAL

### Revenue (£'m)

| | |
|---|---|
| 2017 | 181.0 |
| 2016 | 182.2 |
| 2015 | 161.4 |
| 2014 | 159.8 |
| 2013 | 131.2 |

**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.

**Link to strategy**
Revenue growth in territories and segments is part of capturing value enabled by reinforcing our foundations and strengthening our capabilities.

**Remuneration linkage**
Revenue growth is a key element in achieving short term and long term incentive targets. Due to revenue reduction year on year, there were no management bonus payments in 2017.

**Target**
Year-on-year revenue growth (at constant currency). We did not achieve this in 2017 as there was a 4% decline.

### Underlying operating profit (£'m)

| | |
|---|---|
| 2017 | 9.7 |
| 2016 | 13.1 |
| 2015 | 6.1 |
| 2014 | 18.1 |
| 2013 | 14.5 |

**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 (see page 127).

**Link to strategy**
The key measure of the success of our near-term strategic goals is EBIT.

**Remuneration linkage**
EBIT is one of the main measures used in short term and long term incentive targets. The target for 2017 was not achieved and therefore there were no management bonus payments.

**Target**
For 2017 the target was consensus EBIT at the start of the year, which was £17.5m.

### Cash conversion (%)

| | |
|---|---|
| 2017 | 143 |
| 2016 | 104 |
| 2015 | 131 |
| 2014 | 55 |
| 2013 | 55 |

**Description**
The ability to turn profits into cash.

**Definition**
Adjusted operating cash flow divided by adjusted EBITDA. Adjusted EBITDA is underlying operating profit, excluding depreciation and amortisation (see page 127).

**Link to strategy**
In order to fund our strategic objectives, cash management is very important.

**Remuneration linkage**
Cash conversion does not directly link to remuneration but is an enabler to achieving our EBIT target.

**Target**
This has been consistently over 80% for the past three years.

## NON-FINANCIAL

### Health and safety (Number)

| | |
|---|---|
| 2017 | 6 |
| 2016 | 10 |
| 2015 | 32 |

**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.

**Link to strategy**
Ensuring a safe working environment for employees is fundamental to attracting and retaining good calibre staff which will enable us to achieve our strategic goals.

**Remuneration linkage**
Health and safety does not directly link to remuneration but is an enabler to achieving our EBIT target.

**Target**
Zero recordable incidents.

SEE PAGE 62
FOR OUR REMUNERATION REPORT

**Link to strategy**

- Reinforce our foundations
- Strengthen our capabilities
- Create and capture value



### Retention (%)

| | |
|---|---|
| 2017 | 94 |
| 2016 | 93 |
| 2015 | 83 |

**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.

**Link to strategy**
Retaining high-calibre staff is part of creating and capturing value.

**Remuneration linkage**
Business growth will come from the intellectual property generated by our engineers and our knowledgeable sales teams.

**Target**
At least 90% retention.

# RECOVERY INDICATORS

### Lighting orders (£'m)

| | |
|---|---|
| 2017 | 145 |
| 2016 | 151 |
| 2015 | 142 |

At constant currency.

**Description**
Orders received for lighting products.

**Definition**
Total orders received for lighting products in the year.

**Link to strategy**
Order growth is a lead indicator of the financial strength of our end markets and in resolving the current operational issues.

**Remuneration linkage**
Order growth drives revenue which in turn drives EBIT and EPS, both forming part of the remuneration targets.

**Target**
Year-on-year order growth.

### Lighting on-time delivery (%)

| | |
|---|---|
| 2017 | 48 |
| 2016 | 74 |
| 2015 | 70 |

**Description**
The percentage of orders delivered on time.

**Definition**
The value of orders shipped in the year meeting the customer request date over the total value of the orders shipped in the year.

**Link to strategy**
On-time delivery is a lead indicator of the operational issues being resolved.

**Remuneration linkage**
A low level of on-time delivery will impact revenue and hence EBIT and EPS. Due to the poor on time delivery performance this impacted revenue and EBIT and no management bonuses are payable for 2017.

**Target**
80%.

### Underlying lighting gross profit (£'m)

| | |
|---|---|
| 2017 | 54.3 |
| 2016 | 57.4 |
| 2015 | 48.3 |
| 2014 | 50.8 |
| 2013 | 40.0 |

**Description**
The gross profit related to the performance of the underlying lighting business.

**Definition**
Gross profit of the lighting business excluding items that are considered as non-recurring or not reflective of the underlying performance of the business (see page 104).

**Link to strategy**
One of the key near-term strategic goals is to build a robust and scalable operational platform. Lighting gross margin is a good indicator of the success of this target.

**Remuneration linkage**
Lighting gross profit expansion is a key part in achieving short term and long term incentive targets. Lighting gross margin contraction of 200 basis points was a key contributor to reduced EBIT and the fact that there were no management bonus payments in 2017.

**Target**
Year-on-year expansion of lighting gross margin. Due to operational issues there was a contraction in 2017.

# OUR PEOPLE

**Our policy reflects our commitment to employees and to those with whom we work. It outlines the commitments we make to select and develop our employees, and to establish a work environment where everyone can take an active part in reaching our strategic goals while feeling a sense of pride in working in Dialight.**

Dialight falls within the scope of the new non-financial regulations. On pages 26 and 27, we have outlined the matters, policies and outcomes of those polices where material to the business.

### Autonomy

We believe in empowerment. Our structure allows managers to be autonomous and responsible for making timely decisions in the best interests of our business. We support personal and professional development through a range of training programmes. The programmes enable and prepare leaders to continue to grow the business.

### Achievement

Our employees are highly motivated by the chance to make a difference. We strive each day to make products that protect lives and make the world a safer and healthier place. We invest a lot of time finding and developing the right people who have the initiative, knowledge and leadership qualities to do this.

To unleash their potential, we provide employees with:

- the opportunity to make a difference – our products make the world a safer and healthier place;
- an entrepreneurial business opportunity;
- a portfolio of cutting edge technologies and the ability to add more;
- in-house training for personal and professional development;
- international career development opportunities;
- performance-linked rewards; and
- the opportunity to learn from peers tackling similar challenges.

### Innovation

We are committed to innovation and customer satisfaction. Creating and developing new products gives us a competitive edge. We encourage the sharing of knowledge and technology throughout the Company.

Through collaboration and sharing best practice, we continue to deliver market-leading innovations that benefit our customers. Company leaders come together to learn from one another, identify ways to collaborate, share technologies or simply learn from each others' experience. We believe that this combination of empowered business leaders is a key part of our current and future success.

### Talent development

We offer challenging personal development programmes to enhance the quality of leadership throughout the Group. A number of our senior leaders have individual development programmes that are reviewed regularly. Our development programmes are designed to promote personal growth and enhance leadership and relationship skills. Our objective is to provide these individuals with the tools and training they need to achieve more in their existing role and potentially to advance through the organisation if their achievements merit it.

### Employee involvement

The Group places considerable value on the involvement of its employees, keeping them informed on matters affecting them as employees and on the various factors affecting the performance of the Group. We do this through formal and informal meetings, internal communications, and our Annual Report. Employee representatives are consulted routinely on a wide range of matters affecting employees' current and future interests.

# HOW DO WE MAKE A DIFFERENCE IN OUR COMMUNITIES?

Our social responsibilities also extend to the communities in which we operate. We like to play a positive role in our local communities and participate in a range of activities and educational initiatives.

Local management teams decide which community programmes to participate in and which charities to donate to or sponsor. Our involvement is very much built around the spirit of community. Many of the activities we undertake are aimed at supporting initiatives in the following areas:

_ partnerships with local schools, charities and other community organisations to promote community cohesion;
_ promote charitable giving and active volunteering in communities amongst our employees;
_ support training, employment and education for local people on our sites and in our offices;
_ utilise nearby businesses wherever possible to encourage local economic prosperity; and
_ provide or fund appropriate physical and community infrastructures to ensure a positive legacy is left beyond our involvement.

**Leadership Team – Orlando**

As part of Dialight's ongoing sustainability initiative the entire Dialight leadership team volunteered at the Second Harvest Food Bank, a non-profit organisation that relies on volunteers and donations to distribute food and dry goods to partner programmes such as food pantries, soup kitchens, women's shelters, senior centres and day care centres. The team spent an afternoon helping out in their warehouse, sorting and re-packaging food donations to supply smaller distribution centres.

**London Office**

Staff at the London office spent a morning at the Whitechapel Mission which gives breakfast to those in need 365 days per year, along with providing hot showers and clean clothes. Service users also receive life skills advice, where needed, on basic administrative tasks from completing benefits forms and job applications to paying bills and finding a hostel.


**Perth office – Australia**

Dialight Australia has partnered with Oz Harvest, a non-profit organisation that organises daily fresh food deliveries to those in need. Staff at the Perth office volunteered during the year to assist in their warehouse. In addition, they found that the warehouse was a dark, hence dangerous, place to work. Our team provided replacement lights and also encouraged a local electrician to install them.

**Farmingdale office – New Jersey**

Staff from Farmingdale established their "WE CARE" programme. "WE CARE" works with two local non-profit charitable organisations: the "FUFILL" Food Bank and "MONMOUTH CARES". All Farmingdale employees across multiple functions are invited to participate and contribute.

# OUR PEOPLE CONTINUED

### Diversity and inclusion

We see diversity and inclusiveness as being essential to our productivity, creativity, innovation and competitive advantage. They are the foundation of a performance culture that promotes understanding and appreciation of, and respect for, all perspectives, backgrounds and experiences.

We believe in developing policies and actions which support our long term aims, as well as establishing appropriate measurable targets.

The result is that we have significant diversity throughout our operations in 15 countries.

### Geographic diversity

As our business continues to expand globally, it is important 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.

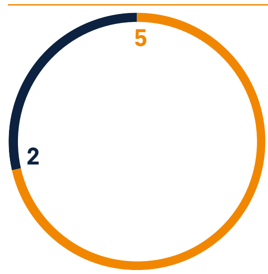
### Diversity and inclusion policy

We recognise that the diversity of the people in our business and the inclusion of all enriches our products and performance, and the lives of our employees. Our approach is formalised in the Group's diversity and inclusion policy.

### Applications of employment from disabled people and disabled employees

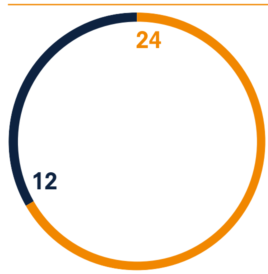
Applications for employment from disabled people are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort will be made to ensure that their employment with the Group continues and that any appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled people should, as far as possible, be identical to that of other employees.

### Gender diversity: Board[1]



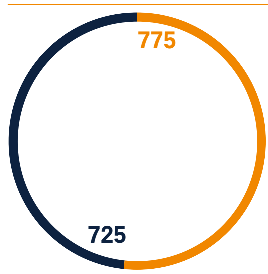

Male
Female

### Gender diversity: senior management




Male
Female

### Gender diversity: other employees




Male
Female

1 At the date of this report.

# WOMEN IN THE WORKPLACE

**We are committed to ensuring that our best people can thrive at Dialight, including enabling female leaders who might otherwise exclude themselves for promotions and new challenges.**

On an overall level Dialight has a very balanced workforce with 52% male and 48% female staff. This is consistent with the prior year where the balance was 50% male and 50% female.

The gender balance differs between different levels within the organisation. In senior management we have 33% female staff whereas in all other management and operative roles we have 48%.

We will look to develop leadership programmes to provide more support for women with the establishment of a mentoring group.

We are working with our local business leadership teams to investigate how we can allow employees to work in ways that best suits their personal responsibilities and circumstances.

**12**
**Women in senior management**

**Winnie Lu**
Winnie joined the Group as Global Supply Chain Director in 2016 and has been instrumental in driving material cost reductions. She has also played a pivotal role in the transition to outsource manufacturing.

**Kathy Sohrabi**
Kathy joined Dialight in May 2017 as Director of Technology in charge of our controls and automation initiatives. She will be key in driving the next phase of our controls strategy.

# SUSTAINABILITY

## Health and safety

We are committed to safeguarding the health and safety of our employees while at work. This is demonstrated by our culture of safety and our excellent health and safety record.

READ MORE P.31

## Corporate responsibility and sustainability

Our commitment to managing our business activities in a sustainable way and minimising our environmental impact is evidenced by our performance against the Group's carbon reduction target.

READ MORE P.30

## Human rights and ethics

A commitment to respecting human rights and operating in an ethical way is embedded throughout the Group and underpins the way that we work.

READ MORE P.31

**Dialight is involved in the design and manufacture of a wide range of products that improve safety in industrial environments, many of them hazardous and where safety is mission critical. We are committed to achieving continual improvement in our environmental management system to enhance environmental performance, and regard compliance with the relevant laws, regulations and other obligations as a minimum standard.**

This section of the Annual Report focuses on areas of progress and our performance in all areas of sustainability considered material by our stakeholders and which are important to the success of the business. Our key performance indicators (KPIs) reflect the importance that we place on sustainability and enable the Board to monitor our progress in meeting the objectives and responsibilities in these areas.

The Group's non-financial KPIs are set out on pages 22 and 23.

Areas of emphasis include health and safety, employee engagement and development, human rights, ethics and sustainability. The safety of its employees and of the products it designs are critical to the Group and are a major priority. We recognise the necessity of safeguarding the health and safety of our own employees while at work and operate so as to provide a safe and comfortable working environment for employees, visitors and the public.

Our policy is to manage our activities to avoid causing any unnecessary or unacceptable risks to health and safety and the environment. Dialight has an excellent health and safety record and a culture of safety is deeply embedded within the Group.

Our core values are respect, innovation, collaboration and commitment, and our culture is one of openness, integrity and accountability. We encourage our employees to act fairly in their dealings with fellow employees, customers, suppliers and business partners.

We recognise that our employees determine our success and we continue to invest in, and encourage, further development of our employees each year, by providing clear leadership and decisive action. We work with our leadership teams to ensure they find the best talent to fulfil our growth ambition.

We support the concept of sustainability and recognise that our business has an environmental impact. To that end, we constantly strive to reduce our carbon footprint.

### The environment

We make environmentally friendly products. We have an excellent long-term record and a clear strategy for addressing the environmental issues that affect our business.

### Our products

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

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 life-span, and enhanced optics that direct light precisely where it is needed. All products have an industry leading ten-year warranty.


# HOW DO WE HELP CLIENTS WORK SMARTER?

**As part of its sustainability commitments, in 2010, the Ford Motor Company pledged to reduce the energy used to produce each of its vehicles by 25%. Ford's philosophy is that improved sustainable performance is not just an environmental target, but a business opportunity. Ford found that their existing high intensity discharge (HID) and fluorescent lighting were inefficient and costly to maintain, and turned to Dialight for a solution. In 2012 they performed an on-site trial of Dialight lights and in 2013 Dialight was globally specified. Today, Ford has 75,000 fixtures installed across 51 facilities in seven countries, with the benefits including:**

- $CO_2$ output reduced by 75,000 tons per annum;
- maintenance hours cut by 100,000 per annum;
- the amount of energy saved could run one plant for a year; and
- anticipated electricity use cut by 56kWh annually, saving £5m per annum.

# SUSTAINABILITY CONTINUED

| | 2017 Tonnes $CO_2$ | 2016 Tonnes $CO_2$ | 2015 Tonnes $CO_2$ |
|---|---|---|---|
| Emissions from combustion of fuel and operation of facilities | 271 | 729 | 849 |
| Emissions from purchased electricity | 5,756 | 6,651 | 6,642 |
| **Total** | **6,027** | **7,380** | **7,491** |

| 2017 Resource | Total consumption (m's) | Unit | Consumption per £ turnover |
|---|---|---|---|
| Electricity | 11.0 | kWh | 0.060 |
| Water | 6.1 | litre | 0.033 |

**Recommendations of the Task Force on Climate-related Financial Disclosures**

The Task Force reported in June 2017, highlighting four key areas that companies should report on as part of their public disclosures. Compliance with these recommendations is voluntary and we intend to incorporate them within our compliance framework. The four areas we will be focused on as part of our public disclosure are as follows:

a) governance: the level of governance around climate-related risks and opportunities;
b) strategy: actual and potential impacts of climate-related risks and opportunities on an organisation's business, strategy and financial planning;
c) risk management: the processes used to identify, assess and manage climate-related risks; and
d) metrics and targets: the metrics and targets used to assess and manage relevant climate-related risks and opportunities.

## Our impact

The environmental effect of our operations is relatively low compared to manufacturers in other sectors. We place a high level of importance on the quality of our products and the service levels we provide to our customers. We strive to make our operations more flexible and responsive to our end markets and customers.

## Environmental management system (EMS)

We are committed to developing and implementing an EMS throughout the Group to measure, control and reduce our environmental impact. We have performance indicators to assist local management in implementing the policy and, ultimately, in developing an EMS. All Group companies are certified to ISO 14001 accreditation, where warranted. Group companies are encouraged to improve energy efficiency, to reduce waste and emissions and to reduce the use of materials in order to minimise their environmental impact.

The EMS includes procedures for the management of waste, trade effluent, hazardous substances, environmental processes and procedure, enforcement actions, and compliance with regulatory frameworks and legislation.

We are committed to raising employee awareness of 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.

## Carbon footprint

We are committed to reducing our carbon footprint. The Group set a target of reducing its total carbon emissions relative to revenues by 10% over the three years from December 2017. Our emissions have reduced as we continue to focus our energy reduction initiatives and partly due to the move to an outsourced manufacturing model. We are working with our manufacturing partner to reduce their carbon footprint.

The table above sets out Dialight's emissions from 2015 to 2017 in accordance with the Companies Act 2006 (Strategic Report and Directors' Report) Regulation 2013. The Group does not operate a fleet of distribution vehicles, although it does own a number of cars. To support the Group's commitment to sustainability, our policy, which is subject to regular review, operates a cap on permissible $CO_2$ emissions for all company-owned vehicles and vehicles bought by employees who have taken a cash allowance in lieu of a company car.

**Waste management**
The Group has two zero-waste-to-landfill sites: one in Australia and one in Denmark. We work with our manufacturing partner and suppliers to identify recycling opportunities. All administrative offices have a recycling policy to help reduce waste-to-landfill.

The Group will continue to report its environmental performance in the Annual Report and Accounts.

**Health and safety**
Dialight's products protect and improve the quality of life for people worldwide. Safety is critical to the Group and is a major priority for management. The Board has endorsed the inclusion of the Group's accident frequency rate as one of its non-financial KPIs on page 23.

The Group manages its activities to avoid causing any unnecessary or unacceptable risks to the health and safety of our employees in the workplace or to the public as a result of our activities. Health and safety performance is closely monitored to ensure that adequate processes, procedures and reporting are in place, and are in operation, to ensure a safe working environment for our employees and visitors to our sites.

We have an excellent health and safety record and a culture of safety is deeply embedded within the Group. Health and safety performance is regularly reviewed throughout all levels of the Group. Each site must have an independent health and safety review every three years, with a view to ensuring a consistent approach in the quality of reporting, adherence to internal processes and procedures, adequate reporting and investigation and to further promote our health and safety culture. We thoroughly review the root cause of any accidents to ensure that we take preventative measures, including further training and education of our employees. Our goal is to have no accidents.

The number of recordable incidents, i.e. an incident that results in a member of staff being incapacitated for more than three days was as follows:

| | 2017 | 2016 |
|---|---|---|
| Recordable incidents | 6 | 10 |

**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. 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.

**Whistleblowing**
We require our employees and business partners to maintain the highest standards of integrity and act in good faith. Dialight has a Group-wide whistleblowing policy which applies to all employees and to joint venture partners, suppliers, customers and distributors relating to our businesses. We encourage an open culture whereby any issues can be raised, we recognise that there will be times when it is not appropriate, or a person will not be comfortable, raising a concern through line management. An independent third-party provider, Safecall, has been appointed to operate a confidential reporting service which enables employees to raise any concerns they may have in confidence and, if they wish, anonymously via the telephone or by web-reporting. All reports are treated confidentially and are provided to the Group Company Secretary and Chair of the Audit Committee for review and to ensure that they are appropriately investigated and concluded. We are committed to ensuring that anyone raising a concern in good faith is not subject to any victimisation or detrimental treatment, although a malicious allegation may result in disciplinary action.

**Anti-bribery and corruption**
Dialight has a zero-tolerance policy on bribery and corruption which extends to all business dealings and transactions in which we are involved. We have a policy of not making political donations and a prohibition on offering or receiving inappropriate gifts or making undue payments to influence the outcome of business dealings. Our robust policy and guidance in this area are routinely reviewed and compliance with the policy is checked as part of the half-year and year-end process. During 2017, we rolled out anti-bribery and corruption training to all employees across the Group.

**A responsible investment**
Investing in Dialight shares meets the criteria of many professional and private investors who base their decisions on environmental, ethical and social considerations. The Group has a reputation for honesty and integrity in its relationships with employees, customers, business partners and shareholders.

**Human rights**
Dialight's core requirements for human rights prohibit forced labour, child labour, non-discrimination, freedom of association and right to collective bargaining. We do not tolerate practices which contravene these international standards. Compliance with, and respect for, these core requirements are integrated within our organisation. Managers and supervisors must provide leadership that promotes human rights as an equal priority to other business issues. All employees are responsible for ensuring that their own actions do not impair the human rights of others, and are encouraged to bring forward, in confidence, any concerns they may have about human rights. Our Group Chief Executive Officer has overall responsibility for ensuring that human rights considerations are integral to the way in which existing operations and new opportunities are developed and managed.

**Modern Slavery Act**
Dialight published its first Modern Slavery Act Statement in 2017. Since the introduction of the Act, we have worked to raise awareness of this important agenda.

During the year, a guidance note was prepared and sent to all businesses raising awareness of the Act and the issue of modern slavery in business and supply chains. Each business was requested to consider the potential issue of modern slavery and human trafficking within their business and supply chain. In addition, we rolled out Modern Slavery Act training to all employees across the Group to ensure that our business management understand their responsibilities and consider the Act in their operations.

# RISK MANAGEMENT

SEE PAGE 57
FOR OUR VIABILITY STATEMENT
SEE PAGE 41
FOR GOING CONCERN

### Risk landscape and key risk drivers

Our risk landscape consists of:

- strategic risks – market, technology, mergers and acquisitions;
- hazard risks – political and economic instability, natural disasters, fraud and corruption;
- operational risks – people, supply chain, order fulfilment and IT;
- compliance risks – laws and regulations, health and safety, and code of conduct; and
- financial risks – financial management, funding, foreign exchange, financial reporting and tax.

### Risk management approach

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 process:

- 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; and
- by consideration of materiality, establish the authority layers within the Group at which decisions on acceptance and mitigation of levels of risk are taken.

Embedding internal controls and risk management further into the operations of the business is an ongoing process. Key areas of the Group's system of internal controls are shown below.

### Risk appetite and culture

The Risk Committee is responsible for overseeing the risk management processes and procedures; it 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 are the framework for informed risk-taking within the businesses and the route for escalating decision making up to the Board.

## GROUP INTERNAL CONTROL SYSTEM

Daily and weekly data on cash, sales and orders are sent to the Group Finance Team by regional management. A weekly report is issued to the Group Chief Executive Officer and Group Finance Director which provides an early warning system on potential risks and helps to direct mitigating actions.

Each month the Group Chief Executive Officer reports to the Board outlining the Group's operations and giving analysis of significant risks and opportunities. The paper 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 internal targets and external expectations. Quarterly re-forecast papers, an annual budget paper and an annual strategic plan paper are also submitted to the Board.

The Group Chief Executive Officer and Group Finance Director report to the Audit Committee on all aspects of internal control. The internal audit function prepares quarterly reports on specific topics which are reviewed by the Audit Committee. The Board receives regular reports from the Audit Committee, and the papers and minutes of the Audit Committee are used as a basis for the Board's annual review of internal controls.

A comprehensive financial reporting package is received from all operating units monthly with comparisons against budget, forecast and prior year performance. Each operating unit is required to submit a quarterly self-certification on compliance and controls. A thorough re-forecast is prepared quarterly and a budget is prepared annually. The Group updates its three year strategic plan annually.

**Brexit – deep dive**

The decision by the UK to leave the EU, so called "Brexit" results in uncertainties surrounding potential tariffs on goods imported to the EU. We currently manufacture most of our lighting products in Mexico which has a trade agreement with the EU and therefore sales to the EU (excluding the UK) are unaffected by Brexit.

We saw a currency impact of the Brexit decision on the Group's reported results in 2017 due to translational gains on results from the US. Sales to the UK may be impacted by tariffs in the future but at this stage there is no certainty on this. We continue to make contingency plans to mitigate this risk.

## RISK MANAGEMENT FRAMEWORK

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

**Top down**
Group risk policy and strategy
Group risk appetite
Principal risk oversight
Group compliance oversight

**Bottom up**
Business risk appetite policy
Assessment and mitigation of specific risks
Upward reporting of key residual risks

| | |
|---|---|
| DIALIGHT PLC BOARD | |
| OPERATIONAL | COMPLIANCE |
| CHIEF EXECUTIVE | AUDIT COMMITTEE |
| RISK COMMITTEE | |
| EXECUTIVE COMMITTEE | COMPANY SECRETARY |
| SENIOR MANAGERS | INTERNAL AUDIT |
| SENIOR FINANCE STAFF | |

SEE PAGE 58
FOR OUR AUDIT COMMITTEE REPORT

# PRINCIPAL RISKS AND UNCERTAINTIES

| RISK CATEGORY | DESCRIPTION | GROSS RISK | IMPACT ON STRATEGY | KPI |
|---|---|---|---|---|
| PRODUCTION CAPACITY | Production capacity needs to be sufficient to ensure current orders can be fulfilled in a timely manner and be scalable to support growth<br><br>Risks to production capacity by using a single-site location, for the manufacture of all Lighting products<br><br>The Group needs to maintain a robust supply chain | H | | _ Revenue<br>_ Underlying operating profit<br>_ On-time delivery<br>_ Order growth |
| SUPPLY CHAIN MANAGEMENT | The procurement planning process is dependent on the accuracy of sales forecasts to ensure adequacy of component supply | H | | _ Revenue<br>_ Underlying gross profit<br>_ On-time delivery<br>_ Order growth |
| 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 | M | | _ Revenue<br>_ Underlying operating profit<br>_ On-time delivery<br>_ Order growth |
| 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 | M | | _ Revenue<br>_ Underlying operating profit |

Gross risk

L Low
H High
M Medium

Link to strategy

Reinforce our foundations
Strengthen our capabilities
Create and capture value

| IMPACT ON VIABILITY, REPUTATION AND H&S | MITIGATION |
| --- | --- |
| _ inability to fulfil demand due to lack of product availability<br>_ loss of revenue and operating profit | _ the Group moved Lighting production to its manufacturing partner during the year in order to provide scalable operations<br>_ the complexity of our products was not fully appreciated by our manufacturing partner. This resulted in a slower than expected ramp-up causing capacity constraints which led to delays in order fulfilment and lower revenue<br>_ we have placed full-time staff at our manufacturing partner's facility to hasten the knowledge transfer on production and procurement management<br>_ production capacity is being re-balanced between our manufacturing partner and our in-house facility to mitigate part of this risk by moving production of certain complex products back to our own Mexican facility<br>_ the material shortages at our manufacturing partner resulted in significant production capacity constraints. The dual sourcing programme has been delayed while these immediate issues were addressed but this is a high priority issue for the coming year |
| _ inability to fulfil demand due to lack of product availability<br>_ higher inventory obsolescence with an adverse impact on gross margin | _ we continue to refine our forecasting process and review the accuracy level monthly in order to provide a continuous cycle of ownership and improvement |
| _ inability to supply customers<br>_ loss of revenue and significant business disruption<br>_ loss of commercially sensitive information | _ the Group continually reviews its IT systems to ensure that they are robust and scalable in line with the expansion of the business<br>_ there are back-ups built into all Group systems and the spread of systems offers good protection from individual events<br>_ third-party suppliers are used to provide data protection software |
| _ reduced financial performance<br>_ loss of market share<br>_ unforeseen liabilities | _ based on current information potential tariffs on imports from Mexico to US and Canada are not a major risk<br>_ the Group is considering production locations within the EU |

# PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

| RISK CATEGORY | DESCRIPTION | GROSS RISK | IMPACT ON STRATEGY | KPI |
|---|---|---|---|---|
| SUCCESSION PLANNING AND STAFF CALIBRE | Group performance is dependent on attracting and retaining high-quality staff across all functions | M | | KPI<br>– Revenue<br>– Retention |
| INTELLECTUAL PROPERTY | Theft or violation of intellectual property ("IP") by third parties or third parties taking legal action for IP infringement | M | | KPI<br>– Revenue<br>– Underlying operating profit |
| MARKET TRENDS & COMPETITION | 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. Failure to deliver technologically advanced products or to execute sales strategy could result in loss of market share | M | | KPI<br>– Revenue<br>– Order growth |
| PRODUCT DEVELOPMENT STRATEGY | Ability to deliver new products to the market on a timely basis | H | | KPI<br>– Revenue<br>– Underlying gross profit<br>– Order growth |
| PRODUCT RECALL | The Group gives a ten year warranty on Lighting products | M | | KPI<br>– Underlying operating profit |
| 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 | M | | KPI<br>– Revenue<br>– Underlying operating profit |

Gross risk

L Low

H High

M Medium

Link to strategy

Reinforce our foundations

Strengthen our capabilities

Create and capture value

| IMPACT ON VIABILITY, REPUTATION AND H&S | MITIGATION |
|---|---|
| _ 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<br>_ a comprehensive recruitment process and ongoing evaluation assist high-quality hiring and development<br>_ 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 and revenue<br>_ unforeseen liabilities | _ all intellectual property is protected by patents and potential violations are pursued through legal<br>_ process patent office screening used to avoid infringing existing patents |
| _ loss of market share | _ the Group has a robust business case process which incorporates feedback from customers and is evaluated through market intelligence<br>_ 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<br>_ significant upgrades to our two largest product lines (High Bay and Area Light, see page 13) were launched during the year |
| _ loss of market share<br>_ lack of order growth | _ new product development process is being reviewed due to delays in 2017 and greater emphasis is being placed on manufacturability |
| _ unforeseen liabilities | _ we maintain a reserve against potential claims<br>_ product quality is a key focus in the design stage and during the manufacturing process |
| _ volatile financial performance arising from translation of profit from overseas operations<br>_ 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<br>_ translational exposure is not currently hedged but the Group reports key financial indicators on an actual and a constant currency basis |

# FINANCIAL REVIEW

**Fariyal Khanbabi,** Group Finance Director

### Income statement

We have had a challenging year in the execution of our three-year strategy to build a robust and scalable operational platform for future growth. In 2017, we expected to complete the move to our manufacturing partner by mid year. However, the platform engineering of our products was not completed on time. This delayed the launch of our two largest product families by six months.

The ability of our manufacturing partner to ramp up production was slower than anticipated. At the same time, we also experienced extended lead times on critical components that were in our manufacturing partner's forecast, leading to severe production delays which had a major impact on our results.

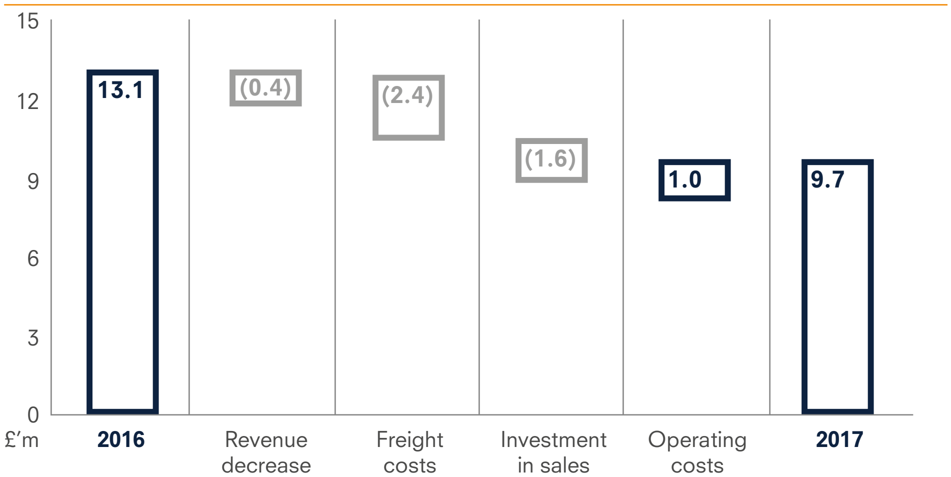
Despite the challenges that we faced, Group revenue was broadly flat compared to 2016 at £181.0m (2016: £182.2m) and on a constant currency basis was 4% lower than 2016.

The resilience in revenue was counteracted by additional costs of production due to the delays, resulting in a 130 basis point reduction in underlying gross margin. Operating costs were flat year on year, resulting in an underlying operating profit of £9.7m, a reduction of £3.4m compared to 2016.

The bridge for underlying operating profit year on year is shown in the table below.

The key drivers are below:

- (£0.4m) gross margin impact of the revenue reduction
- (£2.4m) due to additional freight charges due to expediting late orders
- (£1.6m) due to ongoing investment in sales
- £1m due to operational savings




### Management of currency volatility

Dialight reports its results in Sterling. Our major trading currency is the US Dollar, which comprises 81% 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; this is the major currency exposure. Transactional exposure occurs where the currency of sales or purchases differs from the local functional currency. We use natural hedging on revenue and purchases to mitigate the majority of the currency risk.

The US Dollar strengthened by 5% compared to the prior year and was the main driver for the currency impact. The average rate for the US Dollar against Sterling has moved from 1.36 in 2016 to 1.29 in 2017. Based on the current mix of currencies, a 1% movement of the US Dollar relative to Sterling changes revenue by £1.5m and EBIT by £0.2m.

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

| | **2017 £'m** | 2016 £'m | Increase % |
|---|---|---|---|
| Revenue | **137.5** | 136.6 | 1% |
| Gross profit | **54.3** | 57.4 | (5%) |
| Gross margin % | **40%** | 42% | -200bps |
| Overheads | **(43.1)** | (43.9) | (2%) |
| **Underlying operating profit** | **11.2** | 13.5 | (17%) |

The Lighting segment represented 76% of the Group's revenue and 74% of the Group's underlying segmental operating profit.

### Cash control

The Group has retained strong control over cash during a turbulent year. Closing cash has increased by 60% to £12.8m after funding non-underlying costs.

**£12.8M**
**Closing cash**

**143%**
**Cash conversion**

Revenues were 1% higher (4% lower at constant currency) compared with the prior year. The production delays adversely impacted the level of on time delivery and this resulted in lower revenues across all territories except Australia.

Our order intake, i.e. the value of orders received in the year, was also adversely impacted with a year-on-year decline of 4% at constant currency. This was caused by customers deferring orders due to delayed product launches and poor on time delivery.

On a vertical sector basis the revenue profile was as follows:

### Vertical sectors

| | **2017** | 2016 | 2015 |
|---|---|---|---|
| Industrial processing & manufacturing | **39%** | 41% | 40% |
| Energy, utilities & mining | **38%** | 35% | 42% |
| Public & infrastructure | **9%** | 12% | 8% |
| Structural | **14%** | 12% | 10% |
| | **100%** | 100% | 100% |

We have maintained our diversity of market penetration within key vertical markets and the top three market verticals now account for 39% of revenue in 2017 compared with 41% in the prior year.

Gross margin contracted by 200 basis points to 40% and gross profit reduced £3.1 million year on year. The major elements for the decrease are:

- increased freight costs due to air freighting late deliveries in order to meet customer demand;
- our manufacturing partner was not able to make the more bespoke and higher margin products; and
- we had to operate our in-house facility below capacity resulting in inefficiencies.

Operating costs increased by 2% with the cost of incremental headcount not funded by increased revenue.

The result of lower gross margin and higher costs is that the overall underlying operating profit in the Lighting segment reduced by 17% to £11.2m.

# FINANCIAL REVIEW CONTINUED

| | 2017 £'m | 2016 £'m |
|---|---|---|
| Employee severance and restructuring costs | **0.3** | (5.3) |
| Intangibles write-down | **(1.2)** | (5.1) |
| Tangible asset impairment and disposals | **(0.9)** | 0.2 |
| Inventory costs | **–** | (3.7) |
| Production transfer costs | **(4.6)** | (2.4) |
| Other | **–** | (0.1) |
| **Non-underlying costs recorded in cost of sales and administrative expenses** | **(6.4)** | (16.4) |
| Total cash impact | **(5.2)** | (4.9) |

## Signals and Components

| | 2017 £'m | 2016 £'m | Increase % |
|---|---|---|---|
| Revenue | **43.5** | 45.6 | (5%) |
| Gross profit | **12.4** | 12.1 | 2% |
| Gross margin % | **29%** | 27% | +200bps |
| Overheads | **(8.5)** | (7.2) | (18%) |
| **Underlying operating profit** | **3.9** | 4.9 | (20%) |

Signals and Components are high-volume businesses operating within highly competitive markets. Reported revenue reduced by 5% but the prior year includes revenue from the discontinued European business of £5.5m. Excluding this business, revenue grew by 8% year on year.

There is significant competition from low-cost producers but margins improved by 2% as a continuous cost improvement programme mitigated the price erosion. Overall there was a reduction in underlying operating profit of £1.0m (20%).

### Central overheads

Central overheads comprise of costs not directly attributable to the segment and therefore not allocated to these segments. In 2017 they amounted to £5.4m, a marginal increase of £0.1m from 2016.

### 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 above presents the components of non-underlying profit or loss recorded within cost of sales and administrative expenses.

Over the past two years the Group has been implementing its strategic plan to transform to a robust and scalable manufacturing platform. We have incurred costs in relation to this transition.

We incurred costs of £4.6m relating to the transfer of lighting assembly to our manufacturing partner. This figure relates to set-up costs, project management and dedicated engineering time. In addition, we reviewed and impaired fixed assets of £0.9m as part of scaling down our in-house Mexican facility and intangible assets of £1.2m related to product prototypes that have subsequently been superseded as a result of platform engineering.

In the prior year, non-underlying costs related to the closure of the UK manufacturing facility, expected redundancy costs at the Mexican production facility, goodwill impairment of the European Traffic business and the costs of initial production transfer to our manufacturing partner.

### Tax

The underlying business had a tax rate of 33.0% (2016: 31.0%), before one-off items. The recent US tax reforms have resulted in a reduction of £0.4m in the value of deferred tax assets. Non underlying costs receive tax relief at 34.4% (2016: 30.0%). The net impact of these changes result in a reported effective tax rate of 43.3% (2016: 24.9% credit) for the Group.

The majority of the Group's profits arise in the US where the corporation tax rate was 35% in 2017 and this is the main driver for the tax rate on the underlying business being 33%. The recently announced tax reforms in the US reduce the corporation tax rate to 21%, effective 01 January 2018. As a result, we anticipate an effective tax rate for 2018 in the low twenties before discrete tax items.

### Earnings per share ("EPS")

The basic EPS for the underlying business was 17.9 pence (2016: 26.9 pence). The decrease was due to the poor performance discussed above. The statutory EPS was 4.8 pence (2016: negative 8.4 pence).

### Pension asset

The Group has two defined benefit schemes which are closed to new entrants. The scheme valuation has increased by £2.3m

| | 2017 £'m | 2016 £'m |
|---|---|---|
| Underlying operating profit (EBIT) | **9.7** | 13.1 |
| Depreciation | **2.4** | 3.1 |
| Amortisation | **1.5** | 4.0 |
| **Adjusted underlying EBITDA** | **13.6** | 20.2 |
| Working capital movements (excluding impact of non-underlying items) | **5.9** | 0.8 |
| **Adjusted operating cash flow** | **19.5** | 21.0 |
| **Cash conversion %** | **143%** | 104% |

from a deficit of £1.3m at 31 December 2016 to a surplus of £1.0m at 31 December 2017. The increase is due to favourable movements in the asset portfolio. The triennial funding valuation of the schemes was concluded in the year and resulted in company contributions being unchanged.

### Strong cash generation

Cash generation is an important measure of the business model underpinning further investment in the business. Cash generation in 2017 was strong with adjusted operating cash flow (in the table above) of £19.5m (2016: £21.0m) and represented a cash conversion rate of 143% (2016: 104%). The conversion rate was high due to the reduction in inventory as production was partially transferred to our manufacturing partner.

### Cash flow

As a result of the high cash conversion, the Group's net cash position improved by £4.8m in the year from a net cash position of £8.0m at 31 December 2016 to a net cash position of £12.8m at 31 December 2017.

The roll forward of net cash was as follows:

| | £'m |
|---|---|
| Net cash at 31 December 2016 | 8.0 |
| Adjusted underlying EBITDA | 13.6 |
| Net working capital movement | 5.9 |
| Capital expenditure | (4.9) |
| Taxes and other | (3.7) |
| Non-underlying costs | (5.2) |
| Foreign exchange impact on cash | (0.9) |
| **Net cash at 31 December 2017** | **12.8** |

There was a net reduction in working capital of £5.9m mainly driven by inventory. The major outflows relate to capital expenditure of £4.9m (2016: £6.0m) and a net cash outflow of £5.2m for non-underlying items.

### Banking and covenant compliance

The Group has its banking relationships with HSBC Bank plc and Wells Fargo. The Group has a revolving credit facility with HSBC 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 which 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. At 31 December 2017 this equated to £76.1m (2016: £77.1m).

The Board is not proposing any final dividend payment for 2017 (2016: nil).

### 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.

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

**Martin L. Rapp**
Group Chief Executive Officer

**Fariyal Khanbabi**
Group Finance Director
26 February 2018

# CHAIRMAN'S INTRODUCTION TO GOVERNANCE

**Wayne Edmunds,** Chairman

**This corporate governance report provides shareholders and other stakeholders with an appreciation of how our Group is managed and the governance and control framework within which Dialight operates. Good governance is essential in enabling our Board to operate effectively in the leadership of the Group and in promoting the success of the Company in the long term.**

## People and culture

As Board members, we have a significant role in setting the Group's culture, which is in turn supported by the Group's core values. Our culture of accountability, collaboration and respect, enables management to embed our governance and control procedures throughout the business.

The Board is committed to maintaining the highest standards of corporate governance and this report sets out how we have applied the main principles and relevant provisions of the UK Corporate Governance Code 2016 (the "Code"). 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.

## Leadership

Our focus on improving the quality and performance of Dialight's management team continued throughout 2017. Senior management appointments have been made in a number of key areas to support Dialight's growth strategy, including the appointments of a new Group Chief Executive Officer and Chief Operating Officer. I am mindful of the importance of ethnic and gender diversity at Board level and at a senior manager level.

Biographies for each of the Directors and for the Executive Board are set out on pages 44 to 45. The progress in talent development and diversity can be found in the Our People section on pages 24 to 27.

We strive to have the right balance of skills, experience and knowledge on our Board to deliver strong leadership, to make clear and effective decisions and to harness our culture to encourage our business to be innovative.

## Compliance statements

Throughout the year ended 31 December 2017, the Company has complied with the provisions as set out in the Code (a copy of which is available on the Financial Reporting Council's website at www.frc.org.uk). The Group's approach to risk management and internal control is set out on pages 32 to 37.

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.

## Board priorities

Our priorities for 2018 are to focus on resolving our manufacturing delivery issues in order to build a robust operational platform. We will continue to build on the foundations we have established with talent and innovation to encourage our businesses to innovate, collaborate and seek out opportunities that keep pace with market developments.

**Wayne Edmunds**
Chairman
26 February 2018

# HOW THE BOARD SUPPORTED STRATEGY

Governance at Dialight is ingrained in the organisation's operating culture and within the Board of Directors. The Board has been actively engaged in the large-scale changes the Group has undergone. It has continued to improve the discipline around its procedures to ensure that they are appropriate for the Group.

| STRATEGY | THE BOARD'S GOVERNANCE ROLE | WHAT WE HAVE ACHIEVED |
| --- | --- | --- |
| REINFORCE OUR FOUNDATIONS | The Board is monitoring the short-term operational recovery plan very closely to ensure that progress is being made on the key issues of:<br><br>a) increasing production capacity<br>b) improving on time delivery<br>c) robustness of the supply chain<br><br>and that it is being delivered in a timely manner. | The Board has appointed a very experienced Group Chief Executive Officer with a background in operational management to ensure that the recovery plan is successful.<br><br>The Board approved the transfer of the production of certain products from our manufacturing partner back to our in-house facility. This reduces the complexity at our manufacturing partner. |
| STRENGTHEN OUR CAPABILITIES | The Board reviews the operational plans for the Group regularly to evaluate progress on:<br><br>a) the medium term supply chain strategy<br>b) the new product roadmap<br>c) the new technology roadmap<br><br>and that the deliverable timescale aligns with the business strategy. | Priorities have been re-aligned to ensure that resources are being used in the most effective manner based on current operational constraints. |
| CREATE AND CAPTURE VALUE | The Board monitors the major levers that will accelerate market adoption:<br><br>a) portion of revenue from strategic accounts<br>b) payback period on fixtures<br>c) influencing of regulatory/statutory bodies to place restrictions on the use of older, less environmentally friendly lighting technology<br><br>to ensure that the Group is meeting milestones. | The appointment of a new Head of Strategic Accounts was fully supported by the Board to give new impetus to the strategic account initiative.<br><br>Review of new product/technology roadmaps to ensure that they will support the growth targets over the medium term. |

# BOARD OF DIRECTORS

1


2


3


4


5


6


7


**Board committee key**

- **A** Audit Committee
- **N** Nominations Committee
- **R** Remuneration Committee
- Chairman of the Committee

### 1. Martin L. Rapp
### Group Chief Executive Officer

**Term of office:** Appointed as Group Chief Executive Officer on 8 January 2018.

**Background and career:** Martin was Chief Executive Officer of Laird Technologies, Inc. from 2001 until 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.

### 2. Wayne Edmunds
### Chairman

N

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

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

**Current external appointments:** Non-Executive Director and Chairman of the Audit Committee of Ashstead Group plc, Interim Chief Executive of BBA Aviation plc until 1 April 2018 (after which he will continue on the Board as a Non-Executive Director). Wayne is also a 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.

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

**Current external appointments:** None.

### 4. Stephen Bird
### Senior Independent Director

A N R

**Term of office:** Senior Independent Director since February 2013. Joined Dialight as Non-Executive Director on 10 January 2013 and was appointed Chairman of the Remuneration Committee on 8 January 2017.

**Background and career:** 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
### Non-Executive Director

N

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

**Background and career:** 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 Boards of New Forests Bike Shareholdings, SHINE, Social Finance UK, World Resources Institute, as well as being a Life Trustee of Hamilton College.

### 6. David Thomas
### Non-Executive Director

A N R

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

**Background and career:** 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.

### 7. Gaelle Hotellier
### Non-Executive Director

A N R

**Appointed:** 3 October 2016.

**Background and career:** 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 also a former Chairwoman of the Supervisory Board of Siemens Industriegetriebe GmbH in Penig.

**Current external appointments:** Within Siemens AG Power & Gas Division, Gaelle is in charge of the project management for the European, Middle East and Africa Region. Gaelle is also a Member of the Advisory Board of Berthold Vollers GmbH.

** Michael Sutsko served as a Director from 1 June 2015 until he stepped down on 8 January 2018.

# LEADERSHIP

### The role of the Board

The ultimate role of the Board is to promote the long-term success of the Company by delivering sustainable shareholder value. In order to fulfil its duty, the Board must ensure that the Group operates within a clearly defined operating structure which fits within a robust governance and control framework.

The Board has ultimate responsibility for the management, direction and performance of the Group, and sets the strategic goals which the Company implements through its business plans. The Board is also responsible for ensuring appropriate resources are in place to achieve its strategy and deliver sustainable performance.

The Board's powers are derived from the Company's Articles of Association but certain decisions and oversight roles have been delegated to its committees. The Board has established a formal schedule of matters reserved for its decision and has approved terms of reference where it has delegated responsibilities to its committees. The chairman of each committee reports to the Board on the activities of the committee. Committee minutes are approved by the committee and then reviewed by the Board.

### Corporate governance framework

The operation of the Board and the committees is described in this report and further information on each committee is detailed within the separate committee reports.

## OUR GOVERNANCE STRUCTURE

Dialight benefits from a robust corporate governance framework which is essential in order to maintain good oversight and control over: financial and management reporting; compliance and regulatory matters; risk management; and the approval of significant decisions (such as material agreements). The diagram below sets out the top level corporate governance framework for how the Board and its committees interact.

### BOARD

Provides strategic leadership to the Group within a framework of robust corporate governance and internal control, setting the culture, values and standards that are embedded throughout the business to deliver long-term sustainable growth for the benefit of our shareholders.

#### NOMINATIONS COMMITTEE

- reviews the composition of the Board;
- oversees the Board's succession planning; and
- keeps under review the leadership needs of, and succession planning for, the Company.

#### AUDIT COMMITTEE

- monitors the integrity of financial statements;
- oversees risk management and control;
- monitors the effectiveness of the internal audit function; and
- reviews external auditor independence and leads the audit tender process.

#### REMUNERATION COMMITTEE

- keeps under review the framework and policy on Executive Director and senior management remuneration (including pension arrangements); and
- approves the design and targets framework for share plan awards.

#### EXECUTIVE BOARD

- management committee chaired by the Group Chief Executive Officer, which reviews operational matters and business performance;
- reinforces the operational and governance structures in place across the Group; and
- acts as a forum for management decisions.

READ MORE PAGE 54

READ MORE PAGE 58

READ MORE PAGE 62

# DIVISION OF RESPONSIBILITIES OF THE BOARD

## CHAIRMAN

### GOVERNANCE

- promoting high standards of corporate governance;
- leading, chairing and managing the Board;
- ensuring all Board committees are properly structured and operate with appropriate terms of reference;
- regularly considering the composition and succession planning of the Board and its committees;
- ensuring that the Board and its committees' performance are evaluated on a regular basis;
- ensuring adequate time is available for all agenda items and that the Board receives accurate, clear and timely information; and
- ensuring that there is effective communication with shareholders.

### STRATEGY

- leading the Board in developing the strategy of the business and setting its objectives;
- promoting open and constructive debate in Board meetings;
- ensuring effective implementation of Board decisions with the support of the Group Chief Executive Officer;
- ensuring that the Board manages risk effectively; and
- consulting, where appropriate, with the Senior Independent Director on Board matters.

### PEOPLE

- chairing the Nominations Committee;
- identifying and meeting the induction and development needs of the Board and its committees;
- developing a strong working relationship with the Group Chief Executive Officer;
- ensuring a strong working relationship between Executive and Non-Executive Directors;
- setting clear expectations concerning the Company's culture, values and behaviours; and
- ensuring effective relationships are maintained with all major stakeholders in the business.

A summary of the business carried out by the Board during the year, the standing Board agenda items and a summary of the matters that are formally reserved for the Board (as set out in writing) are summarised on page 49.

## GROUP CHIEF EXECUTIVE OFFICER

- with the Chairman, providing coherent leadership and management of the Company;
- developing objectives, strategy and performance standards to be agreed by the Board;
- providing input to the Board's agenda;
- providing effective leadership of the Executive Board to achieve the agreed strategies and objectives;
- securing an Executive Board of the right calibre, with specific responsibility for its composition, and ensuring that its succession plan is reviewed annually with the Chairman and the Non-Executive Directors;
- monitoring, reviewing and managing key risks and strategies with the Board;
- ensuring that the assets of the Group are adequately safeguarded and maintained;
- building and maintaining the Company's communications and standing with shareholders, financial institutions and the public, and effectively communicating the Dialight investment proposition to all stakeholders; and
- ensuring the Board is aware of the view of employees on issues of relevance to Dialight.

## EXECUTIVE DIRECTORS

- implementing and delivering the strategy and operational decisions agreed by the Board;
- making operational and financial decisions required in the day-to-day management of the Company;
- providing executive leadership to senior management across the business;
- championing the Group's values and reinforcing the governance and control procedures; and
- promoting talent management, encouraging diversity and inclusion.

## SENIOR INDEPENDENT DIRECTOR

- acting as a sounding board for the Chairman;
- serving as a trusted intermediary for the other Directors; and
- providing an alternative channel for shareholders to raise concerns, independent of executive management and the Chairman.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

- contributing independent thinking and judgement, and providing external experience and knowledge, to the Board agenda;
- scrutinising the performance of management in delivering the Company's strategy and objectives;
- providing constructive challenge to the Executive Directors; and
- monitoring the reporting of performance and ensuring that the Company is operating within the governance and risk framework approved by the Board.

## COMPANY SECRETARY

- acting as a sounding board for the Chairman and other Directors;
- ensuring clear and timely information flow to the Board and its committees; and
- providing advice and support to the Board on matters of corporate governance and risk.

**Principal committees of the Board**

The Board has established three principal committees: the Nominations Committee, the Audit Committee and the Remuneration Committee.

Details of their constitution, their roles and responsibilities, and the activities of each committee during the year are set out in their respective reports, which follow this Governance report.

Each committee operates under its own terms of reference, which have been approved by the Board and which are reviewed annually. In addition, the Board has established an informal management committee, the Executive Board, which is chaired by the Group Chief Executive Officer. The Executive Board provides a forum in which the executives, representing their sector or functional area, can review and take decisions on operational and financial matters that arise in day-to-day business operations. The Executive Board is also an effective means for implementing actions from the Dialight Board and providing oversight of operational matters.

| Reporting requirement | Location |
|---|---|
| Description of the business model and strategy. | Strategic Review<br>See pages 8 to 9 and 14 to 16 |
| Description of the significant issues that the Audit Committee considered in relation to the financial statements and how these issues were addressed, having regard to the matters communicated to it by the external audit team. | Audit Committee report<br>See page 58 |
| Explanation of how the Audit Committee has assessed the effectiveness of the external audit process. | Audit Committee report<br>See page 58 |
| Identification of search consultancies used and any connections with the Company. | Nominations Committee report<br>See page 54 |
| Statement that the Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides information necessary for shareholders to assess the Company's position and performance. | Directors' Responsibilities<br>See page 85 |
| Future policy table and notes, performance scenario charts, remuneration obligations in service contracts. | Remuneration Committee report<br>See page 64 |
| Policy implementation, remuneration paid to service advisers, single total figure tables, GCEO pay comparison to Company performance and relative importance of spend on pay. | Remuneration Committee report<br>See page 69 |
| Directors' shareholdings and variable pay awarded in the year. | Remuneration Committee report<br>See page 75 |

## BOARD ACTIVITIES FOR THE YEAR

| FEBRUARY 2017 | APRIL 2017 | JULY 2017 | SEPTEMBER 2017 | DECEMBER 2017 |
|---|---|---|---|---|
| **PRELIMINARY RESULTS** | **AGM** | **HALF YEAR RESULTS** | **GROUP STRATEGIC PERFORMANCE AND PRIORITIES** | **BUDGET** |
| _ dividend planning<br>_ evaluation of prior year objectives<br>_ annual objectives for the Group<br>_ annual assessment of internal control processes<br>_ AGM notice of meeting | _ sector review<br>_ group performance and priorities<br>_ talent assessment and development<br>_ modern slavery statement | _ talent assessment and development<br>_ cyber security update | _ talent assessment and development<br>_ cyber security update<br>_ strategic planning review | _ Chairman and Non-Executive Director fees<br>_ sector review<br>_ review of risk appetite<br>_ review of actions from Board evaluation<br>_ approval of terms of reference for Board and committees |

## STANDING BOARD AGENDA ITEMS

In addition to the above Board matters considered over the past year, at each meeting there are standing items, which include:

- review and approval of the previous minutes;
- status update on any matters outstanding from previous meetings;
- updates from each Board committee on the activities since the last Board meeting;
- report from the Group Chief Executive Officer;
- report from the Group Finance Director;
- investor relations report;
- health and safety report;
- risk review;
- corporate governance update; and
- updates from the Company Secretary on legal and administrative matters.

## MATTERS RESERVED FOR DECISION BY THE BOARD

- setting the Group's long-term objectives and commercial strategy;
- approving annual operating and capital expenditure budgets;
- ceasing all or a material part of the Group's business;
- significantly extending the Group's activities into new business or geographic areas;
- changing the share capital or corporate structure of the Company;
- changing the Group's management and control structure;
- approving half year and full year results and reports; and
- approving dividend policy and the declaration of dividends.
- approving significant changes to accounting policies;
- approving key policies;
- approving risk management procedures and policies, including those on anti-bribery and corruption;
- approving major investments, disposals, capital projects or contracts (including bank borrowings and debt facilities);
- approving resolutions to be put to the AGM and documents or circulars to be sent to shareholders; and
- approving changes to the Board structure, size or composition (following a recommendation of the Nominations Committee).

**Board meetings**

The Board has five regular face-to-face meetings scheduled each year and three scheduled Board calls, but will also meet, as required, to consider urgent or non-routine matters. Additionally, the Board also meets once a year to review the overall strategy of the Group.

**Board meeting attendance**

During the year, attendance by Directors at Board and committee meetings was as follows:

| | Board | Audit | Remuneration | Nominations |
|---|---|---|---|---|
| Wayne Edmunds | 8 / 8 | n/a | n/a | 2 / 2 |
| Martin L. Rapp | 8 / 8 | 3 / 3 | 6 / 6 | 2 / 2 |
| Fariyal Khanbabi | 8 / 8 | n/a | n/a | n/a |
| Stephen Bird[1] | 8 / 8 | 3 / 3 | 6 / 6 | 1/ 2 |
| David Blood | 8 / 8 | n/a | n/a | 2 / 2 |
| David Thomas | 8 / 8 | 3 / 3 | 6 / 6 | 2 / 2 |
| Gaelle Hotellier | 8 / 8 | 3 / 3 | n/a | 2 / 2 |
| Michael Sutsko | 8 / 8 | n/a | n/a | n/a |

1 Stephen Bird was unable to attend the 12 December Nominations Committee meeting due to a prior business commitment.

# LEADERSHIP CONTINUED

## BOARD ACTIVITIES CONTINUED

**Ensuring Group objectives are aligned with shareholders**

- review of feedback from shareholders
- reviewing Group strategy annually
- reviewing capital allocation decisions
- reviewing Board evaluation

**Ensuring health and safety of employees**

- reviewing accident frequency rates
- reviewing any reports of near misses
- ensuring safe and comfortable working environments


**Ensuring succession planning**

- succession plans have been introduced for all senior managers
- board succession plans have also been put in place
- ensuring the Board interacts with senior managers as much as possible to judge the depth of the Management Team

**Ensuring adequacy of risk management framework**

- overseeing the results of the Risk Committee
- reviewing the output of internal audit
- reviewing any whistleblowing instances

**Ensuring robustness and integrity of financial statements**

- review areas of judgement within the financial statements
- review external auditor independence
- review of investor relations materials

# EFFECTIVENESS

### Independence

The Board has reviewed the independence of the Chairman and each Non-Executive Director and considers the Chairman and all of the Non-Executive Directors apart from David Blood to be independent of management and free from business or other relationships that could interfere with the exercise of independent judgement. David Blood is not considered to be independent as a consequence of his connection with Generation Management LLP, which is currently the Company's largest shareholder. David's letter of appointment contains additional clauses covering confidentiality, insider dealings and conflicts of interest. The Board considers David to be independent in character and judgement when joining Board debates or discussion in which he is not conflicted. The Board believes that any shares in the Company held by the Chairman and Non-Executive Directors serve to align their interests with those of the shareholders.

### Time allocation

The Board benefits from the wide variety of skills, experience and knowledge that each Director has. However, being available and committing sufficient time to the Company is essential and therefore the number of external directorships that a Non-Executive Director holds is an important consideration when recruiting and when performing the annual evaluation of Non-Executive Director effectiveness.

As announced on 5 June 2017, Wayne Edmunds was appointed interim CEO at BBA Aviation. Prior to the appointment, the Board considered the potential impact of this on Wayne's ability to fulfil his duties at Dialight. Based on a number of factors, the Board concluded that this appointment would not impact his effectiveness. This has proven to be the case as confirmed at the recent external Board evaluation. Wayne Edmunds will be stepping down as interim CEO of BBA Aviation on 1 April.

Executive Directors are permitted to accept one external appointment, subject to the prior approval of the Chairman. Approval will only be given where the appointment does not create a conflict of interest with the Group's activities and where the role is considered to be beneficial to the development of the individual, which will also benefit the Company.

In addition to the scheduled Board meetings (eight per year), Non-Executive Directors are expected to attend the AGM, the annual strategy meeting and certain other Company events and site visits throughout the year.

A time commitment of around 20 days per annum is the anticipated requirement for each Non-Executive Director. Confirmation is obtained on appointment from each Non-Executive Director that they can allocate sufficient time to the role.

The Chairman and Non-Executive Directors also meet twice a year without Executive Directors present to ensure there is an opportunity to discuss potentially sensitive matters. The Senior Independent Director meets with the Non-Executive Directors, without the Chairman present, at least once per year, to evaluate the Chairman's performance.

### Re-election of Directors

All of the current Directors will stand for re-election at the forthcoming AGM. Following the annual evaluation of the Board and its committees, all Directors standing for election or re-election at the AGM continue to be effective, hold recent and relevant experience and continue to demonstrate commitment to the role. Biographical details of each Director standing for election or re-election are set out on page 45.

### Liability insurance

Each Director is covered by appropriate directors' and officers' liability insurance, at the Company's expense. In addition, the Directors are entitled to be indemnified by the Company to the extent permitted by law and the Company's Articles of Association in respect of all losses arising out or in connection with the execution of their powers, duties and responsibilities.

### Induction of new Directors

Newly appointed Non-Executive Directors follow a tailored induction programme, which includes dedicated time with Group executives and visits to regional offices.

There are tailored induction materials, which provide a comprehensive overview of: the Group and the legal and organisational structure; the governance framework; the role of the Non-Executive Director; key business contacts at the Company level; and details of the external advisers. In addition to the latest Annual Report and Company announcements, further materials such as recent broker coverage and the last Board evaluation are also provided.

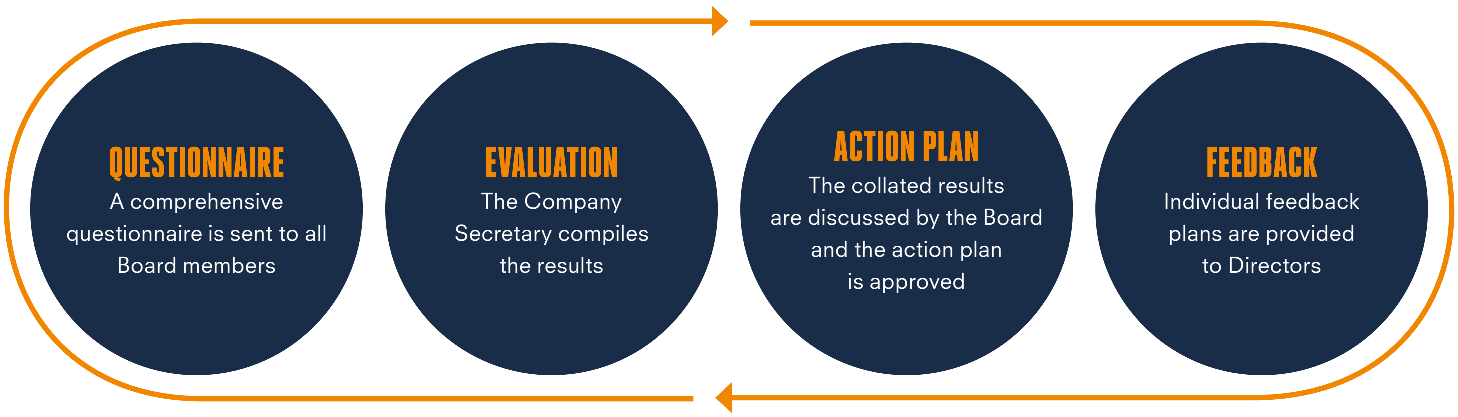
# EFFECTIVENESS CONTINUED

**Performance evaluation**

The Board undertakes a formal evaluation of its performance, and that of each Director, on an annual basis. The principal committees of the Board undertake an annual evaluation of their effectiveness, in accordance with their terms of reference.

The executive members of the Board have frequent contact with all executives and make regular visits to our sites. The Non-Executive members of the Board carry out Company visits as part of their induction and routinely thereafter. The Board members also engage with our current and future business leaders. This regular interaction between the Board and the businesses provides a vital channel of communication and forum for open dialogue, which encourages the sharing of knowledge and experience.

## BOARD, COMMITTEE AND DIRECTORS' PERFORMANCE EVALUATION CYCLE




**Board evaluation**

The Board evaluation is performed annually and externally moderated every three years. In 2017, the evaluation was carried out by Lintstock, an independent third party.

Based on feedback received, the Board concluded that the Board and its committees continue to operate effectively. However, the following items were noted as areas that required improvement:

a) the Board and executive management need to continually strive to maintain a culture within Dialight and individual relationships between the Board and executive management that encourage openness and collaboration;
b) the Board needs to ensure that any sub-committees or individuals to whom specific ad hoc responsibilities are delegated from time to time are sufficiently formalised in terms of scope and protocols; and
c) improved reporting on the operational performance of the Group.

# RELATIONS WITH SHAREHOLDERS AND STAKEHOLDERS

**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 Officer 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 Tuesday, 17 April 2018 at the offices of Investec Bank plc, 2 Gresham Street, London EC2V 7QP.

## HOW WE ENGAGE WITH STAKEHOLDERS

| STAKEHOLDER | WHY WE ENGAGE | METHODS OF ENGAGEMENT |
|---|---|---|
| **EMPLOYEES**<br>Employees are critical to the Group and it is essential that we engage with them. | Good communication with employees is a key requirement to support an agile approach to the business and encourage innovation. | _ group meetings<br>_ conference calls<br>_ site visits |
| **CUSTOMERS**<br>Customers are an essential part of the business. | Understanding our customers' requirements and behaviours allows us to deliver the products that our customers want. | _ feedback on existing products<br>_ requests for new product designs<br>_ requests for specific solutions |
| **COMMUNITIES**<br>What we do impacts communities around the world. | We employ people in 17 countries around the world thereby impacting many communities. | _ community outreach programmes<br>_ local media |
| **GOVERNMENT AND REGULATORS**<br>The products that we produce must meet stringent regulatory requirements. | Policy and regulatory changes can provide opportunities for business expansion as older forms of technology are phased out. | _ attending Government climate change conferences<br>_ providing feedback to regulators on future product developments |
| **SHAREHOLDERS**<br>As a publicly listed company, we need to provide fair, balanced and understandable information to instil confidence. | To ensure compliance with regulatory requirements and to gauge shareholder feedback on the business and management performance. | _ regulatory news announcements<br>_ updates to the investor relations section of our website<br>_ press releases<br>_ annual and half year reports and presentations<br>_ AGM |

# NOMINATIONS COMMITTEE REPORT

**Wayne Edmunds,** Chair of the Nominations Committee

**As I outlined in last year's report, the Board as a whole, through the leadership of the Nominations Committee, recognises its role in ensuring that a strong pipeline of future senior management has been identified from which future Board appointments can be made. Equally important, talent needs to be recognised and nurtured at executive and management levels.**

### Role of the Committee

The Committee is appointed by the Board and operates under written terms of reference, which are available on the Group's website. The primary role and responsibilities of the committee are to:

- review the size, balance and composition (evaluating the skills, knowledge and experience) of the Board and its committees, ensuring that they remain appropriate and making recommendations to the Board with regard to any changes;
- lead the process for Board appointments;
- oversee the succession planning requirements for the Board and other senior executives, including the identification and assessment of potential candidates, and making recommendations to the Board for its approval; and
- keep under review the leadership needs of the Group in relation to both its Executive Directors and other senior executives, including any recommendations made by the Group Chief Executive Officer for changes to the executive membership of the Board.

### Composition of the Committee

The committee currently comprises Wayne Edmunds (who chairs the committee) and four Non-Executive Directors. Wayne Edmunds would not chair a meeting which was dealing with the appointment of a successor to the chairmanship.

The following members served on the committee during the year:

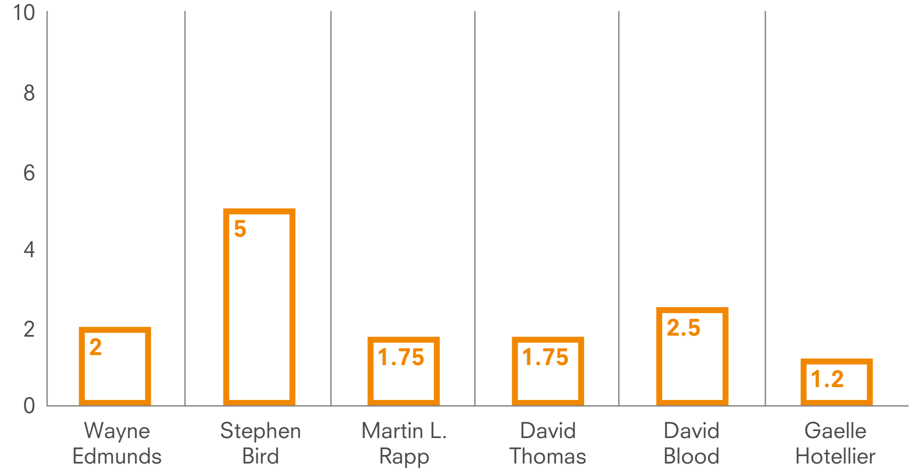
| Committee member | Member from |
|---|---|
| Wayne Edmunds | 25 Jan 2016 |
| Stephen Bird | 10 Jan 2013 |
| Martin L. Rapp | 26 April 2016 to 8 January 2018 |
| David Thomas | 26 April 2016 |
| David Blood | 23 July 2015 |
| Gaelle Hotellier | 3 October 2016 |

### Activities during the year

During the year, the committee has undertaken the following activities:

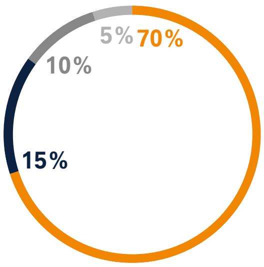
- appointment of a new Group Chief Executive Officer on 8 January 2018;
- Non-Executive Director succession planning;
- review of executive succession plans and talent;

## Non-Executive Director tenure (number of years)




– annual evaluation and review of Director independence in accordance with the terms of reference; and
– proposing the election and re-election of Directors at the AGM.

## Allocation of time




Governance and reporting
Succession planning and recruitment
Re-election of Directors
Composition of the Board

### Board appointments and process

Prior to making a recommendation to the Board for the appointment of Marty Rapp as Group Chief Executive Officer, the committee considered all options, internal candidates – on a permanent and interim basis – and an external recruitment process. The committee considered Marty's relevant experience, his knowledge of the business and his willingness to act, compared to the disruption of an external search process, and was unanimous in its recommendation to appoint him as a permanent successor.

### Diversity

The Board recognises the benefits of greater diversity on the Board and in management positions throughout the Group. At the date of this report, the Board comprised of seven Directors, of whom two are women (29%). The spread of nationalities is: three British, three American and one French. Dialight has the ambition of increasing the number of Company executives based outside the USA to better reflect the revenue generated outside those markets and to embrace diversity and inclusion across the Group.

Further details on diversity are set out in the Our people section on page 26.

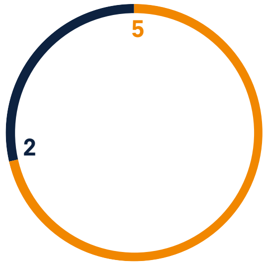
### Priorities for the coming year

The committee's priority for 2018 will be to focus on succession planning and talent development at executive and Board level.

On behalf of the Nominations Committee

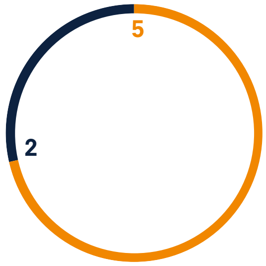
**Wayne Edmunds**
Chair of the Nominations Committee
26 February 2018

## Composition of the Board[1]



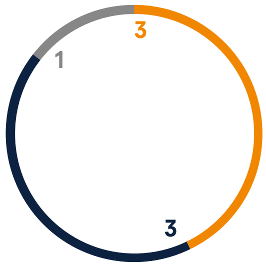

Non-executive
Executive

## Board gender diversity[1]




Male
Female

## Board nationalities[1]




UK
US
French

1 At the date of this report.

## INTERNAL CONTROL FRAMEWORK


### Internal control statement

**The Board's responsibilities**

The Board has overall responsibility to the shareholders for the Group's system of internal control and risk management, and the review of the system's effectiveness is carried out with the assistance of the Audit Committee. Whilst 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 risk management structure and process is detailed on pages 32 and 33.

The Group's principal risks and uncertainties are detailed on pages 34 to 37.

The Board confirms that there is an ongoing process 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, regularly reviews the process, which has been in place for the year under review and up to the date of approval of the Annual Report and Accounts. This process is in accordance with the Financial Reporting Council's (FRC) 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting'. 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 regularly reviews the effectiveness of the Group's risk management and internal control systems, including financial, operational and compliance controls. This is principally based on reviewing reports from management to consider whether significant risks have been identified, evaluated, managed and controlled. 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.

The Audit Committee had a separate report prepared to review the issues surrounding the outsourcing programme in 2017 and whether effective controls were in place. The report concluded that effective controls existed but the review and escalation process failed to flag issues in a timely manner.

### 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.

Having renegotiated its £25m three-year revolving credit facility in December 2016, of which the whole amount remains undrawn at the date of this report, the Group has considerable financial resources. The Group contracts with a diverse range of customers and suppliers across different geographic areas and industries and no one customer accounts for more than 5% 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 of accounting in preparing the Annual Report and Accounts.

### Longer-term viability

In accordance with the UK Corporate Governance Code, the Board has considered the Company's longer-term viability and sets out its Viability Statement in the panel on the right.

### 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 34 to 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. Whilst 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. 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, sensitivities have been performed on the key assumptions below:

- revenue growth;
- operational issues; and
- fluctuations in foreign exchange.

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 that are in place until December 2021 and there is the ability to raise further funds;
- there is a strong culture of accountability within a robust governance and control framework; and
- an ethical approach to business throughout the business.

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 2020.

# AUDIT COMMITTEE REPORT

**David Thomas,** Chair of the Audit Committee

**During the year, the Audit Committee has continued to focus on the effectiveness of the controls across the Group. The evolution of our risk management process is an area which the Committee will continue to focus on over the coming year.**

The difficulties experienced in the business during the year were operational in nature rather than financial. The monitoring of the operational performance of the Group is an area of on going review. The focus is on a number of key areas, the quality and KPIs pertaining to our manufacturing, production mix forecasting and reviewing our production capacity.

## Role and responsibilities

The Committee is appointed by the Board and operates under written terms of reference, which were updated in December 2016 and reviewed again in December 2017. These are available to view at www.ir.dialight.com. The Committee's primary duties are listed beneath the six subheadings below:

### 1. Financial reporting

- review significant financial reporting judgements and the application of accounting policies, including compliance with the accounting standards;
- ensure the integrity of the financial statements and their compliance with UK company law and accounting regulations;
- ensure the Annual Report and Accounts are fair, balanced and understandable and recommend their approval to the Board;
- monitor the integrity of announcements containing financial information;

### 2. Internal controls

- monitor the adequacy and effectiveness of the internal financial controls and processes;
- monitor compliance with the UK Corporate Governance Code;

### 3. Risk management

- review and provide oversight, on behalf of the Board, of the processes by which risks are managed;
- review the process undertaken and stress testing required to approve the Group's viability statement and going concern statement;

### 4. Fraud and whistleblowing

- monitoring the processes in place throughout the Group to prevent and detect fraud and to enable employees to raise concerns in confidence;
- receive reports on fraud attempts or incidents of concern;

### 5. Internal audit

- review and approve the internal audit work plan and charter;
- regularly review reports arising from internal audits, monitor the status of actions and consider remedial action for overdue items;
- monitor the structure, composition and resourcing of the internal audit function;
- review the role and effectiveness of the internal audit function;
- consider whether an independent third-party review of internal audit effectiveness and processes is appropriate;

### 6. External audit

- manage the relationship with the Group's external auditor;
- monitor and review the independence and performance of the external auditor and formally evaluate their effectiveness;
- review the policy on non-audit services carried out by the external auditor, taking account of relevant ethical guidance;
- negotiate and approve the external auditor's fee, the scope of the audit and the terms of their engagement; and
- make recommendations to the Board for the appointment or reappointment of the external auditor.

## Composition of the Committee

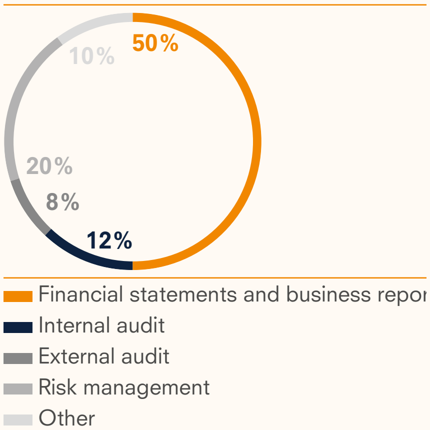
The committee currently comprises the three independent Non-Executive Directors. The following members served on the committee during the year:

- David Thomas
- Stephen Bird
- Martin L. Rapp (resigned 8 January 2018)
- Gaelle Hotellier

The Chairman, Group Chief Executive Officer and Group Finance Director are also in attendance at committee meetings, along with the Group Financial Controller. Representatives from the external auditor also attend key committee meetings.

### Activities during the year

The main areas of review by the committee throughout the year are set out below.




### The Committee's activities during the year

#### Financial statements and reports

- Reviewed the 2016 Annual Report and Accounts, the 2017 Half Year Report and the trading updates issued in July 2017, October 2017 and December 2017. As part of these reviews, the committee received a report from the external auditor on the audit of the Annual Report and Accounts and a report on the ISRE 2410 interim review performed on the half-year results;
- Reviewed the effectiveness of the Group's risk management and internal controls and disclosures made in the Annual Report and Accounts;
- Reviewed the process and stress testing undertaken to support the Group's viability and going concern statements;
- Reviewed currency exposure and the Group's treasury policies following the UK's decision to leave the EU; and
- 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;
- Reviewed the resource and requirements for risk management and internal control in the Group; and
- Considered export controls and other compliance-related matters.

#### External auditor and non-audit work

- 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 changes to the policy on non-audit services and independence; and
- Agreed the terms of engagement and fees to be paid to the external auditor for the audit of the 31 December 2017 financial statements.

#### 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 and procedures; and
- Reviewed and strengthened the resource in internal audit.

## Governance

The committee meets at least three times per year and routinely meets with the external auditor without the Executive Directors present. It is chaired by David Thomas, independent Non-Executive Director, who is a chartered accountant with recent and relevant financial experience. The Group Finance Director and Group Financial Controller work closely with the committee Chairman to facilitate open communication and regular information flow. Each committee member brings a wealth of professional and practical knowledge and experience which is relevant to the Company's industry. Such abilities ensure that the committee as a whole functions with competence and credibility. The committee receives regular updates on changes to financial accounting standards and reporting requirements, regulatory and governance changes and developments around risk management, fraud prevention and detection, and cyber security.

In its advisory capacity, the committee confirmed to the Board, that based on its review of the Annual Report and Accounts and internal controls that support the disclosures, the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable, and provide the necessary information for shareholders to assess the Company's position and performance, its business model and strategy.

## Whistleblowing

The committee has responsibility for ensuring that arrangements are in place for employees to raise concerns or suspicions they may have about possible wrongdoing in financial reporting or other matters. An external organisation, Safecall, operates a 24-hour confidential reporting service for the Group, which provides employees with the choice of making a report via a multilingual telephone line or via the internet.

The service allows employees to remain anonymous (subject to local legislation) and also provides a case reporting number which ensures that there is a mechanism for two-way communication between the reporter and the Company, even if they have chosen to remain anonymous.

Confidential reports from this service are provided to the Company Secretary, as well as the Committee Chairman, for investigation and to report any significant cases to the committee. During the year, the committee carried out a review of the effectiveness of the Group's whistleblowing arrangements.

## Engagement of the external auditor 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 2017, 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.

**Auditor independence**

At each meeting, the committee receives a summary of all fees, audit and non-audit, payable to the external auditor. A summary of fees paid to the external auditor is set out in note 9 to the Accounts.

The external auditor confirmed its independence as auditor of the Company, in a letter addressed to the Directors.

**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; and
- 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 so that 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 of 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 32 and 33. 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:

- 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);
- 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;
- 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; and
- 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 85.

### 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 matter is discussed and decisions are made.

David Blood is a partner at Generation Investment Partners LLP, the Group's largest shareholder. As a result, specific terms regarding dealing with conflicts of interest were incorporated in his letter of appointment. None of the 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, or 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 2017 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. |
| Inventory | The Group operates in an industry whereby technology is rapidly changing and the risk of obsolescence is high. The Group has also been undergoing a significant transformation programme which may result in inventory becoming slow moving or obsolete. Certain of these provisions may be classified as non-underlying. Further details of these costs are provided in note 14 to the Financial statements. | The Audit Committee has reviewed the detailed analysis provided by management. The Audit Committee is of the view that the provisions held by the Group are appropriate. The Audit Committee also considered the separate disclosure of exceptional costs relating to inventory and think this will aid investors in evaluating the performance of the business in the year. |
| Use of judgements<br>_ Development costs<br>_ Deferred tax | 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 the deferred tax asset. | The Audit Committee has reviewed and challenged key assumptions used in these areas.<br><br>The Audit Committee requested that management prepare an in-depth analysis of capitalised development costs and deferred tax assets. 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
26 February 2018

Governance

# DIRECTORS' REMUNERATION REPORT

**Stephen Bird,** Chair of the Remuneration Committee

**As in previous years, the Remuneration Committee's report for 2017 (the "Report") is split into three sections: the annual statement, the Directors' remuneration policy and the annual report on remuneration.**

As announced on 8 January 2018, Michael Sutsko stepped down as Group Chief Executive Officer with effect from the date of the announcement and was replaced by Marty Rapp on a permanent basis.

Following his appointment as Group Chief Executive Officer, Marty Rapp stepped down as a member and Chair of the Committee and was replaced by myself. Gaelle Hotellier has joined the Remuneration Committee with effect from 8 January 2018.

During 2016 and early 2017, the committee undertook a comprehensive review of our remuneration policy to ensure that it reflected recommended market practice and continued to both motivate and retain our international executive team. Following consultation with our major shareholders, the new remuneration policy (the "Policy") was tabled at the 2017 Annual General Meeting (''AGM'') and received the support of 99% of the votes cast. Below is a reminder of the key changes that were made to the Policy:

- the introduction of a mandatory two-year post-vesting holding period on all Performance Share Plan (''PSP'') awards granted to Executive Directors from 2017 onwards, which brought the total time horizon for holding long-term incentives to five years;
- language changes to ensure that the committee has sufficient flexibility in areas such as incentive measures, targets and weightings to respond to business circumstances over the life of the Policy; and
- 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, in particular those colleagues based in the US where this practice is prevalent.

No structural changes are considered necessary to the Policy or its implementation for the forthcoming year.

### Remuneration outcomes for 2017

#### Long-term incentives

Michael Sutsko and Fariyal Khanbabi were each granted an award under the PSP during the year, the vesting outcome of which will be based on performance over the three financial years to 31 December 2019. These awards will vest to the extent that the earnings per share ("EPS") and relative total shareholder return ("TSR") targets are achieved over the three-year period. Further details of awards made to Michael Sutsko and Fariyal Khanbabi, including details of the performance targets applying, are included on page 78.

In respect of the long-term incentive plan awards made in 2015, both the EPS and TSR performance of Dialight over the three-year performance period have been below the performance targets set by the committee at the time of grant. As a result, all 2015 PSP awards will lapse in full in 2018.

#### Annual bonus outcomes for the financial year

Following a review of Dialight's performance against the EBIT targets set for the annual Performance Bonus Plan ("APBP"), the committee determined that no bonuses would be payable to the former Group Chief Executive Officer and the Group Finance Director.

**Compensation arrangements for Michael Sutsko**

The remuneration payments payable to Michael Sutsko on leaving are in line with his contract and the Policy. See page 78 for further details.

**Compensation arrangements for Marty Rapp**

As a Non-Executive Director of Dialight and Chair of the Committee, Marty Rapp received an annual fee of $69,800 following the recent 3% increase to the Non-Executive Directors' fees described in more detail below. On his appointment as Group Chief Executive Officer, the committee agreed that Marty Rapp's annual fee be replaced with a remuneration package equivalent in all material respects to Michael Sutsko's, including the same salary adjusted as described below.

### Implementation of the Policy for 2018

As mentioned, there are no structural changes proposed to the implementation of the Policy for 2018. As it does every year, 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 the Executive Directors, to take effect from 1 January 2018. These increases are in line with planned increases across the organisation and are broadly in line with inflation.

The 2018 APBP awards for Executive Directors will be on a similar basis to 2017, with EBIT performance being the primary measure with 15% of the Executive Directors' bonuses being subject to the achievement of certain individual goals linked to the Company's strategic objectives, with a particular focus on production and a return to sustainable growth.

For the PSP awards to be made to Executive Directors in 2018, the committee has determined that these will again be subject to EPS and relative TSR performance measured over three years. The 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. In accordance with the Policy, PSP awards will also be subject to a two-year post-vesting holding period.

**Review of Non-Executive Director fees**

In accordance with the Policy, Non-Executive Director fees are typically reviewed every year, such fees having last been increased in January 2015.

The committee approved a 3% increase with effect from 1 January 2018 to the Chairman's fee and the Board approved an equivalent increase to the base fee for Non-Executive Directors and the uplift for both the Senior Independent Director and committee chairs. This 3% increase is broadly in line with inflation and salary adjustments applied to the wider Dialight employee population and is considered appropriate given the increased duration of Board calls during 2018 and beyond. Details of the adjusted fees can be found on page 79.

### Shareholder voting at the 2018 AGM

As there are no proposed changes to the Policy as approved by shareholders at the 2017 AGM, there will be no vote to approve the Policy at the 2018 AGM. There will however be the usual advisory resolution to approve the annual report on remuneration, which focuses on the remuneration outcomes for the year under review and how the Remuneration Committee intends to implement the Policy next year.

The committee is aware of the latest developments in the executive pay arena, particularly those recommended by institutional shareholders and we monitor these closely. We believe that Dialight's approach to remuneration is appropriate and represents a fair balance between shareholder and management interests.

On behalf of all of my colleagues on the Remuneration Committee, I hope that you will support the resolution approving the annual report on remuneration.

**Stephen Bird**
Chair of the Remuneration Committee
26 February 2018

# DIRECTORS' REMUNERATION POLICY

### Directors' remuneration policy

This section of the report details the Policy for Executive and Non-Executive Directors which shareholders approved at the 2017 AGM and is effective for up to three years. The Policy remains unchanged from that presented last year, save for the removal of the reference to the Roxboro UK Pension Scheme, which is a legacy defined benefit scheme in which neither Executive Director participates and which is closed to new members. 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 committee believes that the Policy 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.

### 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 74), scheme interests awarded during the financial year and payments to past Directors (pages 77 and 80), payments for loss of office and the statement of Directors' shareholdings and share interests (page 81). The remaining sections of the Report are not subject to audit.

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**<br>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.<br><br>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.<br><br>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 capitalisation and revenue).<br><br>Benchmarking is not the only driver in salary reviews. | Any base salary increases are applied in line with the outcome of the review.<br><br>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.<br><br>Detail of current salaries for the Executive Directors can be found on page 74. | None. |

| Element/link to strategy | Operation | Opportunity | Performance metrics |
|---|---|---|---|
| **Benefits**<br>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 such benefits as the committee deems appropriate. | Benefits vary by role and individual circumstances; eligibility and cost are reviewed periodically.<br><br>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 life insurance premiums).<br><br>The value of benefits awarded to the Executive Directors can be found in the table on page 74. | None. |
| **Pension**<br>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 a 401(k) and Supplemental Executive Retirement Plan ("SERP") in the US, with both employee and employer contributions made to the relevant schemes.<br><br>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.<br><br>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.<br><br>Salary is the only element of remuneration that is pensionable. | The new Group Chief Executive Officer does not currently participate in the SERP and instead receives a cash payment in lieu of employer contribution. The Group Chief Executive Officer does participate in the 401(k) scheme and receives an employer contribution of up to 3% of base salary in accordance with the plan rules.<br><br>It is not anticipated that pension contributions (as a percentage of salary) will exceed the levels currently provided.<br><br>Further details of what has been paid during 2017 can be found on page 74. | None. |

# DIRECTORS' REMUNERATION REPORT CONTINUED

## DIRECTORS' REMUNERATION POLICY CONTINUED

| Element/link to strategy | Operation | Opportunity | Performance metrics |
|---|---|---|---|
| **Sharesave Plan**<br>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.<br><br>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.<br><br>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**<br>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.<br><br>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.<br><br>Dividends are accrued on these deferred shares and are paid to the participant on release of shares that are subject to the award.<br><br>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.<br><br>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.<br><br>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.<br><br>Further details of the measures, weightings and targets applicable for 2018 can be found on page 79. |

| Element/link to strategy | Operation | Opportunity | Performance metrics |
|---|---|---|---|
| **Performance Share Plan**<br>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.<br><br>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.<br><br>The committee has the power to authorise the payment of dividends or dividend equivalents under the rules of the PSP.<br><br>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.<br><br>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:<br><br>– Between 25% and 75% on three-year earnings per share ("EPS") growth.<br>– Between 25% and 75% on TSR relative to a relevant peer group or index.<br><br>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.<br><br>Further details of the measures, weightings and targets applicable for 2018 can be found on page 79. |

# DIRECTORS' REMUNERATION REPORT CONTINUED

## DIRECTORS' REMUNERATION POLICY CONTINUED

| Element/link to strategy | Operation | Opportunity | Performance metrics |
|---|---|---|---|
| **Non-Executive Director fees**<br>The Company sets fee levels to attract and retain 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.<br><br>The fees paid to the Chairman are determined by the Committee, while fees for Non-Executive Directors are determined by the Board.<br><br>Additional fees are payable for acting as Senior Independent Director and as Chair of any of the Board's committees.<br><br>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.<br><br>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.<br><br>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.<br><br>Aggregate fees for all Non-Executive Directors will be within the limits set by the Articles of Association.<br><br>Details of current Non-Executive Director fees can be found on page 79. | 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 the Directors' 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.

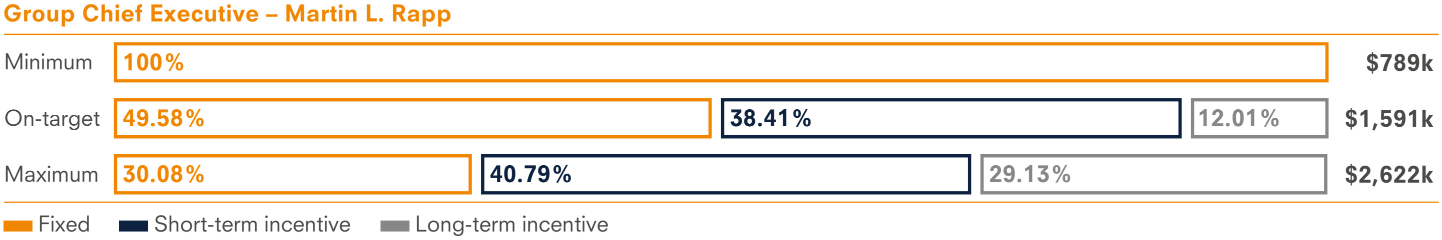
Senior management is typically eligible to participate in the APBP, with opportunities and performance measures reflecting organisational level and business area, as appropriate. PSP awards at senior management level and to other key employees now take the form of restricted share units with vesting subject only to continued employment over a number of years. This change provides participants below Executive Director level greater flexibility and helps Dialight 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 are not 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 have five years from their date of joining to build their shareholdings to the required level. Current shareholding levels are included on page 81.

### Remuneration scenarios

### Group Chief Executive – Martin L. Rapp




**Minimum performance**

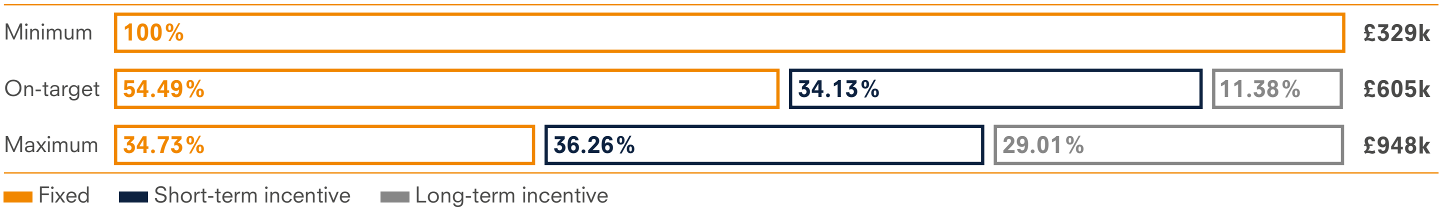
Fixed elements of remuneration only. For Marty Rapp, given his recent start date, the fixed elements of his remuneration include an estimation for 2018 of $14k in respect of his travel expenses between his home and the Farmingdale office in New Jersey. This is in addition to the value of employer pension contributions, life insurance, healthcare and car allowance.

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

- 100% of salary paid in bonus (57% of maximum opportunity); and
- 25% of PSP award (31% 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.

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 a Board Committee.

**Service contracts**

Executive Directors' service contracts, including arrangements for early termination, are carefully considered by the committee. Executive Directors' 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.

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 Officer is entitled to a severance payment equivalent to a full year's salary and continuing benefits. This does not apply should he resign or be terminated with cause.

Details of the remuneration package payable to the former Group Chief Executive Officer Michael Sutsko on leaving are available on page 78.

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 did not expressly seek the views of employees when drawing up the Policy but does carry out an annual review of salaries across the Group.

### Shareholder views

The committee maintains a regular dialogue with its major shareholders and will continue to monitor trends and developments in corporate governance and market practice to ensure that the structure of executive remuneration remains appropriate.

# ANNUAL REPORT ON REMUNERATION

The following section provides details of how the Policy was implemented during the financial year ending 31 December 2017, and how it will be implemented in 2018.

**Roles and responsibilities**

The primary responsibilities of the committee are to:

- set the remuneration policy for all Executive Directors, the Company's Chairman and the Company Secretary including, where appropriate, bonuses, incentive payments, share based incentive schemes and post-retirement benefits;
- determine the remuneration packages for the Executive Directors, the Company's Chairman and the Company Secretary, within the terms of the Policy;
- recommend and monitor the structure of the remuneration of the senior management group as defined by the Board;
- approve the design of, and determine targets for, any performance related incentive schemes operated by the Company and approve the total annual payments made under such schemes (in accordance with the provisions of Schedule A of the UK Corporate Governance Code); and
- review the design of all share incentive plans requiring approval by the Board and shareholders. For any such plans, the Committee shall determine each year, taking into account the recommendations of the Group Chief Executive Officer, whether awards will be made and, if so, the amount of such awards to the Executive Directors, Company Secretary, members of the Executive Committee and other senior Group employees from time to time nominated by the Group Chief Executive Officer, and any performance targets to be used.

A copy of the terms of reference for the committee is available on the Company's website or on request from the Company Secretary at the Registered Office.

**Other decisions**

The committee's other principal activities and key decisions during the year included:

- setting the 2017 salary increases for Executive Directors;
- reviewing of cash bonuses in respect of the 2016 financial year;
- approving the 2017 PSP awards and setting the associated PSP performance targets;
- reviewing the performance targets outcome in relation to the 2014 PSP award;
- setting APBP objectives for 2017;
- reviewing and approving the committee's terms of reference; and
- reviewing the committee's performance as part of the 2017 external Board performance evaluation.

**Committee members**

The names of those who served on the committee during the year can be found in the below table:

| Committee member | Member since |
|---|---|
| Martin L. Rapp (Committee Chair) | 26 April 2016 |
| Stephen Bird | 10 January 2013 |
| David Thomas | 26 April 2016 |

Following the end of the 2017 financial year, Marty Rapp stepped down as member and Chair of the Committee, and was replaced by Stephen Bird. Gaelle Hotellier joined the Committee as a member. These changes took effect from 8 January 2018.

All members of the committee are considered independent within the definition set out in the Code. None of the committee has any personal financial interest in Dialight (other than as shareholders), conflicts of interests arising from cross directorships or day-to-day involvement in running the business.

# DIRECTORS' REMUNERATION REPORT CONTINUED

## ANNUAL REPORT ON REMUNERATION CONTINUED

During the year, the committee met face-to-face three times and held additional meetings by conference call to deal with the review and approval of specific matters falling outside of the scheduled meetings. Attendance by individual members of the committee is disclosed in the Corporate governance report on page 49.

Only members of the committee have the right to attend Committee meetings. The Group Chief Executive Officer, the Group Finance Director, the Company Secretary and the Group HR Director attend the committee's meetings by invitation, but are not present when their own remuneration is discussed. The committee also takes independent professional advice as required.

### External advice

The committee has access to the advice of the Group Chief Executive Officer and the Company Secretary as well as external advisers as required. During the year ended 31 December 2017, 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 plan; and Directors' remuneration report drafting support for a fee of £19,273; and
- Clifford Chance, which advised on the operation of the Company's share and other incentive plans during the year, including the launch of the 2017 Sharesave Plan and gave ad hoc advice on other remuneration issues for a fee of £21,466.

In addition, Slaughter and May was engaged at the start of 2018 to provide advice on Michael Sutsko's compensation arrangements on leaving.

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 20 April 2017, the Directors' remuneration report and the Policy received the following proportions of votes from shareholders:

| | % of votes for | % of votes against | Votes withheld |
|---|---|---|---|
| Remuneration report | 99.24 | 0.76 | 4,288 |
| Remuneration policy | 99.42 | 0.58 | 3,911 |

### 2017 outcomes

#### Single figure of total remuneration

The following tables provide details of the Directors' remuneration for the 2017 financial year, together with their remuneration for the 2016 financial year, in each case before deductions for income tax and national insurance contributions (where relevant):

| 2017 (all figures in 000s) | Salary/Fee 2017 | Benefits 2017 | Pension 2017 | Sub-total fixed 2017 | Bonus 2017 | PSP 2017 | Sub-total variable 2017 | Total remuneration 2017 |
|---|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | | |
| Michael Sutsko | $593 | $53 | $100 | $746 | – | – | – | $746 |
| Fariyal Khanbabi | £267 | £13 | £40 | £320 | – | – | – | £320 |
| **Non-Executive Directors** | | | | | | | | |
| Wayne Edmunds | $192[1] | – | – | $192 | – | – | – | $192 |
| Stephen Bird | £46 | – | – | £46 | – | – | – | £46 |
| David Blood | £41 | – | – | £41 | – | – | – | £41 |
| Gaelle Hotellier | €55[1] | – | – | €55 | – | – | – | €55 |
| Martin L. Rapp | $67[1] | – | – | $67 | – | – | – | $67 |
| David Thomas | £46 | – | – | £46 | – | – | – | £46 |

1 Wayne Edmunds, Gaelle Hotellier and Martin L. Rapp received "local" currency fees with effect from 1 January 2017.

| 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 | $97 | $725 | $741 | $0 | $741 | $1,466 |
| Fariyal Khanbabi | £259 | £13 | £39 | £311 | £219 | £0 | £219 | £530 |
| **Non-Executive Directors** | | | | | | | | |
| Wayne Edmunds[1] | £121 | – | – | £121 | – | – | – | £121 |
| Stephen Bird | £46 | – | – | £46 | – | – | – | £46 |
| David Blood | £41 | – | – | £41 | – | – | – | £41 |
| Gaelle Hotellier[2] | £10 | – | – | £10 | – | – | – | £10 |
| Martin L. Rapp[3] | £31 | – | – | £31 | – | – | – | £31 |
| David Thomas[4] | £31 | – | – | £31 | – | – | – | £31 |
| **Past Directors** | | | | | | | | |
| Bill Ronald[5] | £9 | – | – | £9 | – | – | – | £9 |
| Tracey Graham[6] | £20 | – | – | £20 | – | – | – | £20 |
| Robert Lambourne[7] | £20 | – | – | £20 | – | – | – | £20 |

1 Wayne Edmunds was appointed as Chairman on 25 January 2016.
2 Gaelle Hotellier was appointed as a Non-Executive Director on 3 October 2016.
3 Martin L. Rapp was appointed as a Non-Executive Director on 26 April 2016.
4 David Thomas was appointed as a Non-Executive Director on 26 April 2016.
5 Bill Ronald stepped down as Chairman on 25 January 2016.
6 Tracey Graham stepped down as a Non-Executive Director on 26 April 2016.
7 Robert Lambourne stepped down as a Non-Executive Director on 26 April 2016.

## Additional disclosures

### Executive Directors' benefits

Executive Directors receive benefits comprising life insurance, healthcare and car allowances. In addition, Marty Rapp will be entitled to reimbursement of his costs of travel and accommodation in travelling from his home to the Farmingdale office in New Jersey.

### 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 and mid-year elected to receive a cash payment in lieu. Michael Sutsko received employer contributions under a US 401(k) plan. Michael Sutsko did not participate in the SERP and instead received a cash payment in lieu of employer contribution.

### APBP

The APBP operates on the basis that is set out in the Policy report on page 66. 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 Officer and 125% for the Group Finance Director.

### 2016 APBP

As discussed in the 2016 Remuneration Committee report, actual EBIT performance for 2016 was £13.1m. In addition, having considered performance against individual targets and financial imperatives including the refinancing, the committee determined that both Michael Sutsko and Fariyal Khanbabi 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 were paid in the form of deferred shares.

### 2017 APBP

The 2017 APBP was based primarily on EBIT performance with up to 15% of the Executive Directors' target bonus being subject to the achievement of certain individual goals linked to Dialight's key strategic goals. The performance range in respect of 2017 EBIT was as follows:

| | Threshold | Target | Maximum | Actual |
|---|---|---|---|---|
| EBIT (after provision for bonus) | £14.5m | £17.5m | £20.5m | £9.7m |

No bonus is payable under either element for below threshold EBIT.

Actual EBIT performance for 2017 was £9.7m and as a result no bonuses were payable in respect of the 2017 financial year.

### PSP

**Awards made in 2014**

Awards made under the PSP in 2014 lapsed in 2018 due to the fact that the related performance conditions were not achieved.

**Awards made in 2015**

Awards made under the PSP in 2015 will lapse on 7 April 2018 as the related performance conditions were not achieved during the three-year performance period to 31 December 2017.

### Percentage change in the remuneration of the Group Chief Executive Officer

The following table sets out the change in remuneration paid to the then Group Chief Executive Officer, Michael Sutsko, from 2016 to 2017 compared with the average percentage change for employees as a whole:

| | % change 2016–2017 | |
|---|---|---|
| | Group Chief Executive Officer | Group employees |
| Salary | 3% | 3% |
| Bonus | -100% | -100% |
| Benefits | 0% | 0% |

Due to operational performance no bonus was payable in relation to 2017 but a bonus was paid in 2016. The main benefits provided include healthcare, life insurance and car allowance. There has been no change in the level of benefits provided to Group employees.

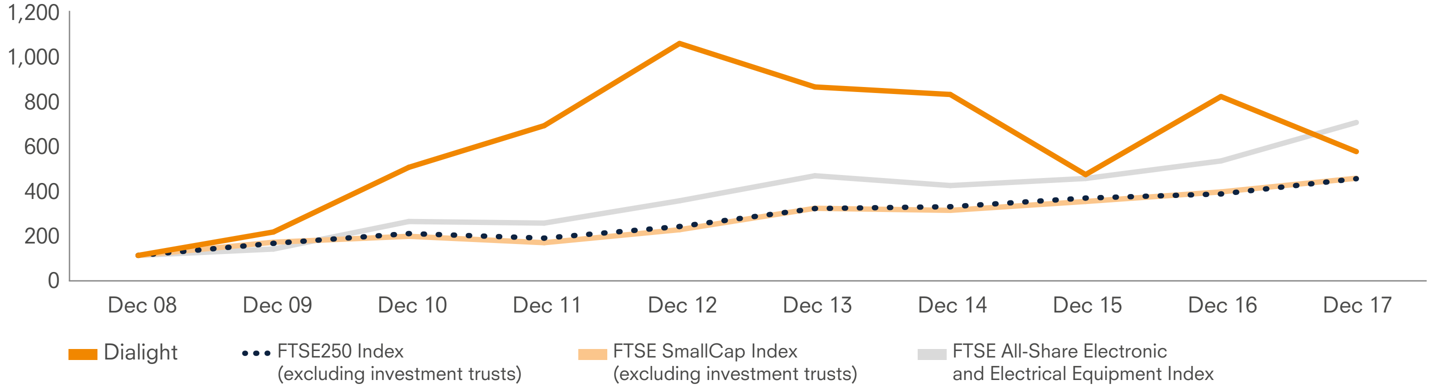
### Relative importance of spend on pay

The table below shows the total amount paid by the Company to its employees (excluding severance costs) for 2017 and 2016. Details of the total amount of distributions for the same two years can also be seen.

| Spend on pay | | Distributions | |
|---|---|---|---|
| **2017** | **£34.4m** | **2017** | **£0m** |
| 2016 | £36.6m | 2016 | £0m |

### Performance graph and table

The graph below demonstrates the Company's total shareholder return (''TSR'') performance over the past nine 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, indices of which Dialight has been a constituent over the period.




Source: Datastream

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

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|---|---|---|
| | R Burton | R Burton | R Burton | R Burton | R Burton | R Burton | R Burton (to Feb)<br>R Stuckes (Mar to Jun)<br>M Sutsko (from Jul) | M Sutsko | M Sutsko |
| Total remuneration ($'000) | $745 | $2,845 | $4,170 | $3,843 | $1,564 | $1,153 | $112<br>£185<br>$523 | $1,466 | £746 |
| Bonus outcome (% of max) | 70 | 100 | 100 | 66.6 | 0 | 29 | 0<br>n/a<br>0 | 74 | 0 |
| PSP vesting outcome (% of max) | 58 | 100 | 100 | 100 | 100 | 0 | 0<br>n/a<br>n/a | n/a | n/a |

### PSP awards made in 2017

Awards granted in 2017 are measured against EPS and TSR on the following basis:

#### EPS

EPS is used in respect of 75% of awards. For awards made in 2017, no part of the award that is subject to the EPS condition will vest if the Company's 2019 EPS over the three-year vesting period is below 62p, 25% of the award that is subject to the EPS condition will vest if the Company's 2019 EPS exceeds 62p, rising on a straight-line basis to 100% vesting if the Company's 2019 EPS exceeds 78p. 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 25% of awards in order to maintain strong shareholder alignment. No part of the awards made in 2017 that are subject to the TSR condition will vest if the percentage increase in the Company's TSR over the three-year vesting period is below the percentage increase in the TSR of the comparator index: 25% of the awards that are subject to the TSR condition will vest if the percentage increase in the Company's TSR is equal to the percentage increase in the TSR of the comparator index, rising on a straight-line basis to 100% vesting if the percentage increase in the Company's TSR is equal to the increase in the TSR of the comparator index plus 10% per annum. The comparator index for these purposes is the FTSE SmallCap Index, excluding investment trusts.

### Holding period

A mandatory two-year post-vesting holding period will apply to any shares received by Executive Directors on the vesting or exercise of the 2017 PSP awards.

The 2017 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[1] | Performance conditions | Date of grant of award | Date of end of performance period |
|---|---|---|---|---|---|---|---|---|---|
| Fariyal Khanbabi | PSP | 100% | Nil-cost option | n/a | 26,588 | £267,130 | TSR/EPS | 24.03.17 | 31.12.19 |
| Michael Sutsko | PSP | 125% | Conditional share award | n/a | 58,930 | £592,069 | TSR/EPS | 24.03.17 | 31.12.19 |

1 Based on five-day average share price on date of award of £10.0470.

## Payments to past Directors or for loss of office

### Exit payments

Following the end of the 2017 financial year, Michael Sutsko stepped down as Group Chief Executive Officer of Dialight. The key elements of the remuneration package payable on leaving are set out below and are consistent with the Policy and his service contract:

- the salary and benefits payable to Michael Sutsko prior to leaving, will continue to be paid during his 12-month garden leave;
- no bonus will be payable in respect of 2017 performance as the 2017 EBIT targets have not been met;
- Michael Sutsko will not be entitled to a bonus in respect of the 2018 financial year;
- for a period of 12 months following the end of his garden leave, Michael Sutsko will be entitled to a payment equivalent to (i) the cost to the Company of continuing healthcare benefits under the Consolidated Omnibus Budget Reconciliation Act 1985 for Michael Sutsko and his qualified beneficiaries and (ii) the cost to the Company of Michael Sutsko's benefits under the Company's group life insurance plan;
- in relation to his PSP awards which will remain outstanding at the end of the garden leave period (8 January 2019), the committee has exercised its discretion under the rules of the PSP to determine that these will vest on their normal vesting dates, subject to the satisfaction of the applicable performance conditions and time pro-rating to reflect the proportion of the vesting period that has elapsed at that point. Michael Sutsko's 2017 PSP award was subject to a two-year holding period. The committee has exercised its discretion to waive this holding period, should the pro-rated 2017 PSP awards vest;
- in relation to his outstanding deferred shares awarded as conditional shares as part of his 2017 bonus under the APBP, the committee has exercised its discretion under the rules of the APBP to determine that these will vest in full at the end of his garden leave; and
- the Company will pay Michael Sutsko's outplacement support costs of up to $30,000. He will continue to be covered by his current tax equalisation programme, and the Company will continue to pay the reasonable cost of foreign tax advice, in relation to any year in which tax advice continues to be required on earnings related to his employment by the Company.

The costs of Michael Sutsko's compensation on leaving will fall into the 2018 accounting period.

## Implementation of the remuneration policy for 2018

### New Group Chief Executive Officer

As previously mentioned, Marty Rapp succeeded Michael Sutsko and was appointed as Group Chief Executive Officer with effect from 8 January 2018. The committee agreed that Marty Rapp receive a remuneration package equivalent in all material respects to Michael Sutsko's entitlement.

### Executive salaries and Non-Executive Director fees

In line with the increase across the broader employee population, the committee agreed a 3% increase in salary for Executive Directors with effect from 1 January 2018. This brings the Group Finance Director's salary to £275,145. Marty Rapp, as the new Group Chief Executive Officer will receive a salary of $611,078, being the salary paid to Michael Sutsko during 2017, adjusted to reflect the agreed 3% uplift.

The Chairman's and the Non-Executive Directors' fees were also reviewed at the end of 2017 and a decision was made to increase these by 3% with effect from 1 January 2018. The enhancements for chairing a Board committee and acting as Senior Independent Director (''SID'') were also increased by 3% with effect from 1 January 2018. The table below sets out the adjusted fees:

| Name | Base fee following 3% increase | SID uplift | Committee chair | **Current fee** |
|---|---|---|---|---|
| Wayne Edmunds | $198,100 | | | **$198,100** |
| Stephen Bird | £42,000 | £5,100 | £5,100 | **£52,200** |
| David Blood | £42,000 | | | **£42,000** |
| Gaelle Hotellier | €57,100 | | | **€57,100** |
| David Thomas | £42,000 | | £5,100 | **£47,100** |

### Pensions

The Group Chief Executive Officer 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 Officer 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 either a contribution of 15% of base salary into a defined contribution pension scheme or a cash payment in lieu.

### APBP

The 2018 APBP will be based on targets linked primarily to EBIT performance with a small element based on personal objectives, as in 2017. The maximum annual bonus achievable will remain as 175% of salary in respect of Marty Rapp and 125% of salary in respect of Fariyal Khanbabi. Target bonuses will remain 100% of salary and 75% of salary respectively with any bonus earned above target being payable in the form of deferred shares, 50% of which vest after two years and 50% of which vest after three years.

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 2018 will be made in March or April this year subject to EPS and TSR performance targets. As communicated in last year's Annual Report and Accounts we have increased the weighting on EPS from 50% to 75%, with a commensurate reduction in the weighting on relative TSR from 50% to 25%. The committee believes that this rebalancing will continue to focus participants on Dialight's financial performance over the next three years, whilst also recognising the strong shareholder alignment and objectivity offered by TSR. Awards made to the Executive Directors are now subject to a two-year post-vesting holding period. At the time of the production of this Report, the targets applying to the 2018 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.

# DIRECTORS' REMUNERATION REPORT CONTINUED

## ANNUAL REPORT ON REMUNERATION CONTINUED

### Outstanding awards under the PSP and APBP

| | Type of award | Award date | Number at 1 January 2017 | Awarded in year | Vested in year | Exercised in year | Lapsed in year | Number at 31 December 2017 | 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[1] | NCO | 13.03.15 | 10,445 | – | 5,222 | (10,445) | – | – | – | 31.01.17 | 13.03.20 |
| PSP | NCO | 16.03.16 | 49,240 | – | – | – | – | 49,240 | – | 16.03.19 | 16.03.21 |
| APBP | NCO | 10.03.17 | – | 2,384 | – | – | – | 2,384 | – | 31.01.19 | 10.03.22 |
| PSP | NCO | 24.03.17 | – | 26,588 | – | – | – | 26,588 | – | 24.03.20 | 24.03.22 |
| **Total** | | | **114,461** | **28,972** | **5,222** | **(10,445)** | **(27,674)** | **110,537** | **–** | **–** | **–** |

1 Of the 10,445 deferred share options originally awarded to Fariyal Khanbabi, 5,223 had vested prior to 2017. The remaining 5,222 vested during 2017 and the full award of 10,445 options was subsequently exercised on 6 March 2017.

| | Type of award | Award date | Number at 1 January 2017 | Awarded in year | Vested in year | Exercised in year | Lapsed in year | Number at 31 December 2017 | Exercise price | Earliest vesting/exercise date | Expiry date |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Michael Sutsko** | | | | | | | | | | | |
| PSP[1] | CSA | 03.08.15 | 71,644 | – | – | – | – | 71,644 | – | 03.08.18 | n/a |
| PSP | CSA | 16.03.16 | 96,485 | – | – | – | – | 96,485 | – | 16.03.19 | n/a |
| APBP[1] | CSA | 10.03.17 | – | 13,058 | – | – | – | 13,058 | – | 31.01.19 | n/a |
| PSP | CSA | 24.03.17 | – | 58,930 | – | – | – | 58,930 | – | 24.03.20 | n/a |
| **Total** | | | **168,129** | **71,988** | **–** | **–** | **–** | **240,117** | **–** | **–** | **–** |

1 Michael Sutsko's 2017 APBP award will vest in full at the end of his garden leave (8 January 2019). His PSP awards which remain outstanding at that date will vest on their normal vesting dates, subject to the satisfaction of applicable performance conditions and time pro-rating.

Notes:
CSA denotes conditional share awards. These are subject to performance conditions set out on page 77.

NCO denotes nil-cost options. These are subject to performance conditions set out on page 77.

The average closing market price of a share over the five trading days of 17–23 March 2017, which was used for the purpose of calculating award values on 23 March 2017, the date of the awards recorded in the tables above made during the year, was 1004.7 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. Awards granted since 2017 are subject to a mandatory two-year post-vesting holding period.

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

Under the APBP scheme, awards vest 50% on or after 31 January in the second year after grant with the remaining 50% vesting on or after 31 January in the third year after grant.

During the year, the range of share prices was 550 pence to 1,115 pence, with the price on 31 December 2017 being 550 pence.

### 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 Officer 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 2017 by Executive Directors and their compliance with the guidelines:

| Executive Director | Shares held at 1 January 2017 | Shares held at 31 December 2017 |
|---|---|---|
| Fariyal Khanbabi | – | 5,483 |
| Michael Sutsko | 4,669 | 11,489 |

Following year-end, Marty Rapp purchased 12,500 Dialight plc ordinary shares, bringing the total number of Dialight plc ordinary shares he holds as at 8 January 2018 to 26,000 shares.

Fariyal Khanbabi and Marty Rapp, who were appointed Executive Directors on 8 September 2014 and 8 January 2018 respectively, have until 8 September 2019 and 1 January 2023 to build their respective shareholding up to the required levels.

### Total shareholding of Directors

| | Beneficially held shares[1] | | Shares under incentive plans | | |
|---|---|---|---|---|---|
| | Ordinary shares at 1 January 2017 | Ordinary shares at 31 December 2017[2,3] | Subject to deferral[4] | Unvested and/or subject to performance conditions[5] | Shareholding guidelines met |
| Michael Sutsko | 4,669 | 11,489 | 13,058 | 227,059 | No |
| Fariyal Khanbabi | – | 5,483 | 2,384 | 108,153 | No |
| Wayne Edmunds | – | – | – | – | – |
| Stephen Bird | 28,000 | 28,000 | – | – | – |
| David Blood | – | – | – | – | – |
| David Thomas | 1,294 | 1,294 | – | – | – |
| Martin L. Rapp | 13,500 | 13,500 | – | – | – |
| Gaelle Hotellier | 882 | 882 | – | – | – |

1 Some of these shares are held through nominees.
2 Michael Sutsko purchased ordinary shares during the year. Fariyal Khanbabi exercised 10,445 nil-cost options under the APBP scheme during the year and sold 4,962 shares to cover tax and commission.
3 Martin L. Rapp, Stephen Bird and Wayne Edmunds all purchased ordinary shares after 31 December 2017.
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 expiry dates as at 31 December 2017 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. |

# OTHER STATUTORY INFORMATION

### Activities
Dialight plc is a holding company. A list of its subsidiary companies, including its overseas branches, is set out on pages 125 and 126. Our businesses by sector and their activities are set out on page 2.

### Ordinary dividends
The Board is not proposing any final dividend payment for 2017 (2016: nil). The Group has a clear capital allocation discipline and is committed to returning excess funds via future dividend or share repurchase.

### Share capital and capital structure
Details of the share capital, together with details of the movements in the share capital during the year, are shown in note 16 to the accounts. The Company has one class of ordinary share which carries no right to fixed income. Each share carries the right to one vote at general meetings of the Company. There are no other classes of share capital. There are no specific restrictions on the size of a holding nor on the transfer of shares, with both governed by the general provisions of the Articles of Association (the "Articles") and prevailing legislation. No person has any special rights of control over the Company's share capital and all issued shares are fully paid. No purchases by the Company of its own shares were made in 2017 under the authority granted at the 2017 AGM.

### Rights and obligations of ordinary shares
Holders of ordinary shares are entitled to attend and speak at general meetings of the Company and to appoint one or more proxies or, if the holder of shares is a corporation, one or more corporate representatives. On a show of hands, each holder of ordinary shares who (being an individual) is present in person or (being a corporation) is present by a duly appointed corporate representative, not themselves being a member, shall have one vote, as shall proxies (unless they are appointed by more than one holder, in which case they may vote both for and against the resolution in accordance with the holders' instructions). On a poll, every holder of ordinary shares present in person or by proxy shall have one vote for every share of which they are the holder. Electronic and paper proxy appointments and voting instructions must be received not later than 48 hours before the meeting. A holder of ordinary shares can lose the entitlement to vote at general meetings where that holder has been served with a disclosure notice and has failed to provide the Company with information concerning interests held in those shares. Except as set out above and as permitted under applicable statutes, there are no limitations on voting rights of holders of a given percentage, number of votes or deadlines for exercising voting rights.

### Restrictions on transfer 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.

There are no other restrictions on the transfer of ordinary shares in the Company except certain restrictions which may from time to time be imposed by laws and regulations (for example insider trading laws). The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

### Employee share plans
Details of employee share plans are set out in note 18 to the accounts.

The Company currently operates three share plans: the 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 64 to 68. 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 2017 (2016: Nil). 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.

### Appointment and replacement of Directors

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the UK Corporate Governance Code, the Companies Act and related legislation. Directors can be appointed by the Company by ordinary resolution at a general meeting or by the Board. If a Director is appointed by the Board, such Director will hold office until the next annual general meeting and shall then be eligible for election at that meeting. In accordance with the UK Corporate Governance Code, each of the Directors, being eligible, will offer themselves for election or re-election at this year's Annual General Meeting. The Company can remove a Director from office, either by passing a special resolution or by notice being given by all the other Directors. The Articles themselves may be amended by special resolution of the shareholders.

### Powers of Directors

The powers of Directors are described in the Matters Reserved for the Board, copies of which are available on request from the Company Secretary, and are summarised in the Corporate Governance Report on page 42.

### Essential contracts and 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 becomes payable within 30 days of the change.

### Allotment authority

Under the Companies Act 2006, the Directors may only allot shares if authorised by shareholders to do so. At the Annual General Meeting, an ordinary resolution will be proposed which, if passed, will authorise the Directors to allot and issue new shares up to an aggregate nominal value that is in line with Investment Association guidelines In accordance with the Directors' stated intention to seek annual renewal, the authority will expire at the conclusion of the annual general meeting of the Company in 2019. Passing this resolution will give the Directors flexibility to act in the best interests of shareholders, when opportunities arise, by issuing new shares.

The Companies Act 2006 also requires that, if the Company issues new shares for cash or sells any treasury shares, it must first offer them to existing shareholders in proportion to their current holdings. At the Annual General Meeting, a special resolution will be proposed which, if passed, will authorise the Directors to issue a limited number of shares for cash and/or sell treasury shares without offering them to shareholders first. The authority is for an aggregate nominal amount of up to 10% of the issued share capital of the Company as at Annual General Meeting, of which 5% of the issued share capital can only be issued for the purposes of financing an acquisition or other capital investment. The Company's Annual General Meeting will be held on 17 April 2018. The Notice of Meeting, together with an explanation of the proposed resolutions, is enclosed with this Annual Report and Accounts and is also available on the Company's website at www.ir.dialight.com.

# OTHER STATUTORY INFORMATION CONTINUED

### Substantial interests in shares

As at 6 February 2018, the Company had been notified, in accordance with chapter 5 of the Disclosure and Transparency Rules, of the following voting rights as a shareholder of the Company.

| Shareholder | Holding | % Voting rights |
|---|---|---|
| Generation Investment Mgt | 6,532,248 | 20.09 |
| Schroder Investment Mgt | 3,691,158 | 11.35 |
| Impax Asset Mgt | 2,952,315 | 9.08 |
| Sterling Strategic Value Fund S.A. | 2,286,175 | 7.03 |
| River & Mercantile Asset Mgt | 1,373,119 | 4.22 |
| Financiere de l'Echiquier | 1,262,870 | 3.88 |
| AXA Investment Mgrs | 1,188,808 | 3.66 |
| Aberdeen Standard Investments (Standard Life) | 1,037,555 | 3.19 |

### Auditor

Each of the persons who is a Director at the date of approval of this Annual Report and Accounts confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's Auditor is unaware; and
- the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

The Board is recommending to shareholders the re-appointment of KPMG as auditor of the Company and a resolution authorising the Directors to set its remuneration will be proposed at the forthcoming Annual General Meeting.

### Scope of the reporting in this Annual Report and Accounts

The Directors present their Annual Report on the affairs of the Group, together with the financial statements and Auditor's Report, for the year ended 31 December 2017. The Corporate governance report set out on pages 42 to 85, which includes details of the Directors who served during the year, forms part of this report.

There have been no significant events since the balance sheet date. An indication of the likely future developments in the business of the Company and details of research and development activities are included in the Strategic Report on pages 12 to 16. Details related to employee matters are in the Our people section on pages 24 to 27. Environmental matters, including greenhouse gas emissions reporting, are included within the Sustainability Report on pages 28 to 31.

Information about the use of financial instruments by the Company and its subsidiaries is given in note 12 to the Financial statements.

Information on the Company's political and charitable contributions during the year is set out on page 31.

For the purposes of compliance with DTR 4.1.5 R(2) and DTR 4.1.8 R, the required content of the management report can be found in the Strategic report and these regulatory disclosures, including the sections of the Annual Report and Accounts incorporated by reference.

By order of the Board

**Chris Fussell**
General Counsel and Company Secretary
26 February 2018

# DIRECTORS' RESPONSIBILITY STATEMENT

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

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with 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.

| | |
|---|---|
| **Martin L. Rapp** | **Fariyal Khanbabi** |
| Group Chief Executive | Group Finance Director |
| 26 February 2018 | 26 February 2018 |

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DIALIGHT PLC ONLY

### 1. Our opinion is unmodified

We have audited the financial statements of Dialight plc ('the Company') for the year ended 31 December 2017 which comprise the Consolidated income statement, Consolidated statement of comprehensive income, Consolidated statement of changes in equity, Consolidated statement of total financial position, Consolidated statement of cash flows, Company balance sheet, and the related notes, including the account policies in notes 3 and 30.

**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 2017 and of the Group's profit 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.

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit Committee.

We were appointed as auditor by the Directors in 2001. The period of total uninterrupted engagement is for the 17 financial years ended 31 December 2017. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

| Overview | | |
|---|---|---|
| **Materiality:** Group financial statements as a whole | | 2017 – £0.45m (4.75% of normalised profit before tax)<br>2016 – £0.9m (0.5% of revenue) |
| **Coverage** | | 97% (2016: 96%) of revenue<br>95% of normalised profit before tax |
| **Risks of material misstatement vs 2016** | | |
| **Recurring risks** | ←→ | Inventory valuation |
| | ←→ | Revenue recognition |
| | ←→ | Valuation of capitalised development costs |
| | ←→ | Valuation of investments (Company only) |

### 2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters:

| | The risk | Our response |
|---|---|---|
| **Inventory**<br>(£24.6m;<br>2016: £31.4m)<br>Refer to page 58 (Audit Committee report), page 100 (accounting policy) and page 113 (financial disclosures). | **Subjective estimate**<br>The Group operates in an industry whereby developments in product technology may result in inventory becoming slow moving or obsolete. The Group has also undergone a programme of product platform re-engineering which resulted in changes to stock lines. These factors, in turn, may mean that inventory cannot be sold or sales prices are discounted to less than the inventory carrying value. | Our procedures included:<br>– **Our experience:** Making enquiries of management and challenging the assumptions used for any provisions additional to the group policy based on our knowledge of the group;<br>– **Enquiry of management:** Making enquiries of management about discontinued product lines and low usage products and then assess if appropriate provision has been recognised in relation to these products;<br>– **Test of detail:** Testing the carrying value of inventory by comparing the carrying value to average sales margin for each product recorded in the post year end period to assess whether those items were held at the lower of cost or net realisable value;<br>– **Assessing transparency:** We also assessed the adequacy of the Group's disclosures in respect of the judgements used in determining the estimates related to the carrying value of inventory.<br>**Our results:**<br>– We found the resulting estimate of the recoverable amount of inventory to be acceptable (2016: acceptable). |
| **Revenue**<br>(£181.0m;<br>2016: £182.2m)<br>Refer to page 58 (Audit Committee report), page 102 (accounting policy) and page 104 (financial disclosures). | **Existence of revenue**<br>There is a risk that transactions completed just before or after the year end could be incorrectly recorded in the wrong period due to the high volume of transactions close to the year-end reporting deadline. The Group 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:<br>– **Our experience:** Challenging the recognition of revenue for a sample of items recognised either side of the financial year end by reference to the customer agreement and the identified trigger event for revenue, such as when contractually the customer takes on the risks and rewards of ownership and tracing back to third party carrier documentation to confirm sales were recognised in the appropriate period.<br>**Our results:**<br>– We found the resulting recognition of revenue to be acceptable. (2016: acceptable). |
| **Development costs**<br>(£4.1m; 2016: £4.8m)<br>Refer to page 58 (Audit Committee report), page 100 (accounting policy) and page 111 (financial disclosures). | **Recoverability of capitalised development costs**<br>Judgement is required around the ongoing viability of capitalised projects and a resulting risk of impairment. | Our procedures included:<br>– **Re-performance:** Re-performing management's impairment review for a sample of completed projects. This included challenging forecast sales data with reference to actual sales achieved during the year, and<br>– **Our experience:** Challenging the assessment of the viability of projects through discussion with finance and engineering management.<br>**Our results:**<br>– We found the valuation of capitalised development costs to be acceptable (2016: acceptable). |

# INDEPENDENT AUDITOR'S REPORT CONTINUED

| | The risk | Our response |
|---|---|---|
| **Parent Company Risk: Investment in subsidiaries** (£17.9m; 2016: £18.0m) Refer to page 100 (accounting policy) and page 111 (financial disclosures). | **Low risk, high value** The carrying amount of the parent company's investments in subsidiaries represents 30.5% (2016: 27.5%) of the company's total assets. Their recoverability is not at a high risk of significant misstatement, or subject to significant judgement. However, due to their materiality in the context of the parent company financial statements, this is considered to be the area that had the greatest effect on our overall parent company audit. | Our procedures included:<br>_ **Tests of detail:** Comparing the carrying amount of 100% of investments of the total investment balance with the relevant subsidiaries' balance sheets to identify whether their net assets, were in excess of their carrying amount and assessing whether those subsidiaries have historically been profit-making.<br>_ **Assessing subsidiary audits:** Considering the results of our audit work on the profits and net assets of those subsidiaries.<br>**Our results:**<br>We found the group's assessment of the recoverability of the investment in subsidiaries to be acceptable. (2016: acceptable). |

**3. Key audit matters: our assessment of risks of material misstatement**

Materiality for the Group financial statements as a whole was set at £0.45 million, determined with reference to a benchmark of group profit before tax, normalised to exclude this year's non-underlying items as disclosed in note five of £6.4 million, and normalised to exclude volatility by averaging over the last five years ending 31 December 2013 to 31 December 2017, of which it represents 4.75% (2016: 0.5% Revenue). We consider a benchmark of profit before tax to be more appropriate in the current year due to that measure having become more stable than in prior years.

Materiality for the parent company financial statements as a whole was set at £0.3m (2016: £0.6m), determined with reference to a benchmark of gross assets, of which it represents 0.5% (2016: 1%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £23,000, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's eight (2016: eight) reporting components, we subjected four (2016: four) to full scope audits for group purposes and two (2016: two) to specified risk-focused audit procedures. The latter were not individually financially significant enough to require a full scope audit for group purposes, and did present specific individual risks that needed to be addressed. We conducted reviews of financial information (including enquiry) at a further two (2016: two) non-significant components.

The components within the scope of our work accounted for the percentages illustrated opposite.

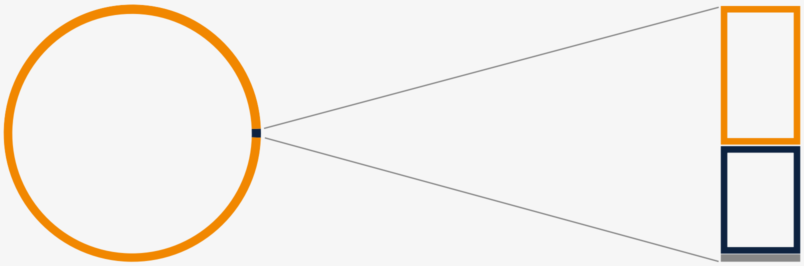
The remaining 3% of total Group revenue and 11% of Group profit before tax is represented by three reporting components, none of which individually represented more than 5% of any of total Group revenue or Group profit before tax. For these residual components, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group 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 team approved the component materialities, which ranged from £0.19 million to £0.35 million, having regard to the mix of size and risk profile of the Group across components. The work on three of the eight components (2016: three of the eight components) was performed by component auditors and the rest, including the audit of the parent company, was performed by the Group team.

The Group team visited three (2016: three) component locations in the UK and USA (2016: UK and USA) to assess the audit risk and strategy. Telephone conference meetings were also held with one component auditor and the other component sites were not physically visited. At these meetings, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.

**Normalised profit before tax**
£9.4m (2016: Revenue of £182.2m)

**Group materiality**
£0.45m (2016: £0.9m)



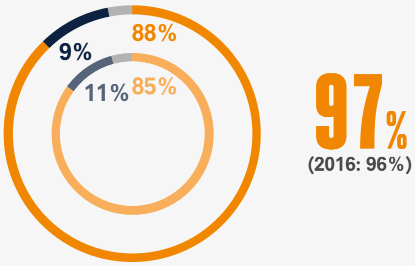
**£0.45m**
Whole financial statements materiality (2016: £0.9m)

**£0.35m**
Range of materiality at six components (£0.19m to £0.35m) (2016: £0.5m to £0.7m)

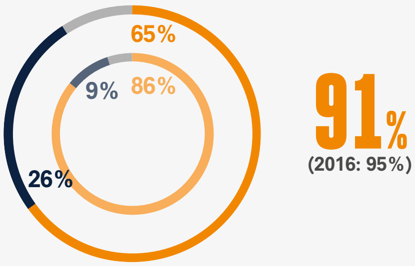
**£0.023m**
Misstatements reported to the audit committee (2016: £0.045m)

Normalised profit… Group materiality

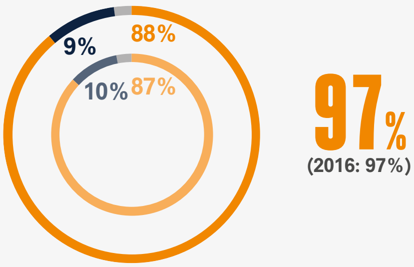
**Group revenue**



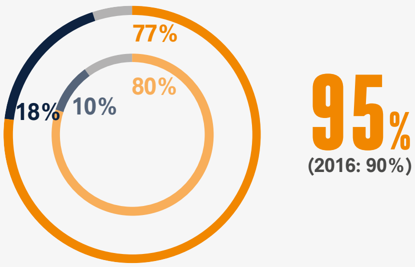

**Group profit before tax**




**Group total assets**




**Group profit before exceptional items and taxation**




Full scope for Group audit purposes 2017
Specified risk-focused audit procedures 2017
Full scope for Group audit purposes 2016
Specified risk-focused audit procedures 2016
Residual components

### 4. We have nothing to report on going concern

We are required to report to you if:

- we have anything material to add or draw attention to in relation to the Directors' statement in note 2 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- the related statement under the Listing Rules set out on page 57 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

### 5. We have nothing to report on the other information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

# INDEPENDENT AUDITOR'S REPORT CONTINUED

### Strategic report and Directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the Strategic report and the Directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

### Directors' remuneration report

In our opinion the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

### Disclosures of principal risks and longer-term viability

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

- the Directors' confirmation within the Viability Statement on page 57 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- the Directors' explanation in the Viability Statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the Viability Statement. We have nothing to report in this respect.

### Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements 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 section of the Annual Report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

### 6. We have nothing to report on the other matters on which we are required to report by exception

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.

We have nothing to report in these respects.

### 7. Respective responsibilities

#### Directors' responsibilities

As explained more fully in their statement set out on page 85, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

#### Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud, other irregularities, or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

#### Irregularities – ability to detect

Our audit aimed to detect non-compliance with relevant laws and regulations (irregularities) that could have a material effect on the financial statements. In planning and performing our audit, we considered the impact of laws and regulations in the specific areas of financial reporting, company and taxation legislation. We identified these areas through discussion with the directors and other management (as required by auditing standards), from our sector experience, and from inspection of the group's regulatory correspondence.

We considered the extent of compliance with those laws and regulations that directly affect the financial statements as part of our procedures on the related financial statement items.

We communicated identified laws and regulations throughout our team, which included individuals with experience relevant to those laws and regulations and remained alert to any indications of non-compliance throughout the audit.

As with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

### 8. The purpose of our audit work and to whom we owe our responsibilities

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

**Graham Neale (Senior Statutory Auditor) for and on behalf of KPMG LLP, Statutory Auditor**
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham B4 6GH
26 February 2018

# CONSOLIDATED INCOME STATEMENT

## FOR THE YEAR ENDED 31 DECEMBER 2017

| | Note | Twelve months ended 31 December 2017 Underlying £'m | Non-underlying £'m | Total £'m | Twelve months ended 31 December 2016 Underlying £'m | Non-underlying £'m | Total £'m |
|---|---|---|---|---|---|---|---|
| **Revenue** | 4 | **181.0** | **–** | **181.0** | 182.2 | – | 182.2 |
| Cost of sales | | **(114.3)** | **–** | **(114.3)** | (112.7) | (3.7) | (116.4) |
| **Gross profit** | | **66.7** | **–** | **66.7** | 69.5 | (3.7) | 65.8 |
| Distribution costs | | **(34.0)** | **–** | **(34.0)** | (32.7) | – | (32.7) |
| Administrative expenses | | **(23.0)** | **(6.4)** | **(29.4)** | (23.7) | (12.7) | (36.4) |
| **Profit/(loss) from operating activities** | 4 | **9.7** | **(6.4)** | **3.3** | 13.1 | (16.4) | (3.3) |
| Financial income | | **–** | **–** | **–** | – | – | – |
| Financial expense | | **(0.3)** | **–** | **(0.3)** | (0.5) | – | (0.5) |
| Net financing expense | 7 | **(0.3)** | **–** | **(0.3)** | (0.5) | – | (0.5) |
| **Profit/(loss) before income tax** | 4 | **9.4** | **(6.4)** | **3.0** | 12.6 | (16.4) | (3.8) |
| Income tax (expense)/credit | 8 | **(3.5)** | **2.2** | **(1.3)** | (3.9) | 4.9 | 1.0 |
| **Profit/(loss) for the year** | 9 | **5.9** | **(4.2)** | **1.7** | 8.7 | (11.5) | (2.8) |
| **Profit for the year attributable to:** | | | | | | | |
| Equity owners of the Company | | | | **1.3** | | | (2.8) |
| Non-controlling interests | | | | **0.4** | | | – |
| **Profit/(loss) for the year** | | | | **1.7** | | | (2.8) |
| **Earnings per share** | | | | | | | |
| Basic | 17 | | | **4.8p** | | | (8.4p) |
| Diluted | 17 | | | **4.8p** | | | (8.4p) |

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

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

## FOR THE YEAR ENDED 31 DECEMBER 2017

| | Note | **2017 £'m** | 2016 £'m |
|---|---|---|---|
| **Other comprehensive income** | | | |
| **Items that may be reclassified subsequently to profit and loss** | | | |
| Exchange difference on translation of foreign operations | | **(5.6)** | 11.3 |
| Income tax on exchange difference on translation of foreign operations | | **0.6** | (0.9) |
| | | **(5.0)** | 10.4 |
| **Items that will not be reclassified subsequently to profit and loss** | | | |
| Remeasurement of defined benefit pension liability | 18 | **1.9** | (1.5) |
| Income tax on remeasurement of defined benefit pension liability | 18 | **(0.4)** | 0.3 |
| | | **1.5** | (1.2) |
| Other comprehensive income for the year, net of tax | | **(3.5)** | 9.2 |
| Profit/(loss) for the year | | **1.7** | (2.8) |
| **Total comprehensive (expense)/income for the year** | | **(1.8)** | 6.4 |
| **Attributable to:** | | | |
| Owners of the parent | | **(2.2)** | 6.4 |
| Non-controlling interests | | **0.4** | – |
| **Total comprehensive (expense)/income for the year** | | **(1.8)** | 6.4 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## FOR THE YEAR ENDED 31 DECEMBER 2017

| | 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 2017 | | 0.6 | 1.4 | 15.4 | 2.2 | 57.6 | **77.2** | (0.1) | **77.1** |
| Profit for the year | | – | – | – | – | 1.3 | **1.3** | 0.4 | **1.7** |
| **Other comprehensive (expense)/income** | | | | | | | | | |
| Foreign exchange translation differences, net of tax | | – | – | (5.0) | – | – | **(5.0)** | – | **(5.0)** |
| Remeasurement of defined benefit pension liability, net of tax | 18 | – | – | – | – | 1.5 | **1.5** | – | **1.5** |
| Total other comprehensive (expense)/income | | – | – | (5.0) | – | 1.5 | **(3.5)** | – | **(3.5)** |
| **Total comprehensive (expense)/income for the year** | | – | – | (5.0) | – | 2.8 | **(2.2)** | 0.4 | **(1.8)** |
| **Transactions with owners, recorded directly in equity** | | | | | | | | | |
| Share-based payments, net of tax | 6, 8 | – | – | – | – | 0.8 | **0.8** | – | **0.8** |
| Dividends | | – | – | – | – | – | **–** | – | **–** |
| **Total contributions by and distributions to owners** | | – | – | – | – | 0.8 | **0.8** | – | **0.8** |
| **Balance at 31 December 2017** | | 0.6 | 1.4 | 10.4 | 2.2 | 61.2 | **75.8** | 0.3 | **76.1** |

| | 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 for the year | | – | – | – | – | (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** |

At 31 December 2017, the number of shares held by the Group through the Dialight Employees' Share Ownership Plan Trust ("ESOT") was nil (2016: nil). The market value of these shares at 31 December 2017 was £nil (2016: £nil).

# CONSOLIDATED STATEMENT OF TOTAL FINANCIAL POSITION
## AT 31 DECEMBER 2017

| | Note | 2017 £'m | 2016 £'m |
|---|---|---|---|
| **Assets** | | | |
| Property, plant and equipment | 10 | **13.9** | 15.9 |
| Intangible assets | 11 | **13.9** | 15.4 |
| Deferred tax assets | 13 | **5.3** | 3.5 |
| Employee benefits | 18 | **1.0** | – |
| Other receivables | 28 | **0.2** | – |
| **Total non-current assets** | | **34.3** | 34.8 |
| Inventories | 14 | **24.6** | 31.4 |
| Trade and other receivables | 15 | **34.3** | 40.0 |
| Asset held for sale | 10 | **–** | 2.0 |
| Cash and cash equivalents | 21 | **12.8** | 8.0 |
| **Total current assets** | | **71.7** | 81.4 |
| **Total assets** | | **106.0** | 116.2 |
| | | | |
| **Liabilities** | | | |
| Trade and other payables | 20 | **(26.9)** | (31.3) |
| Provisions | 19 | **(1.4)** | (3.8) |
| Tax liabilities | | **(0.7)** | (1.9) |
| Borrowings | 12 | **–** | – |
| **Total current liabilities** | | **(29.0)** | (37.0) |
| Employee benefits | 18 | **–** | (1.3) |
| Provisions | 19 | **(0.9)** | (0.8) |
| **Total non-current liabilities** | | **(0.9)** | (2.1) |
| **Total liabilities** | | **(29.9)** | (39.1) |
| **Net assets** | | **76.1** | 77.1 |
| | | | |
| **Equity** | | | |
| Issued share capital | 16 | **0.6** | 0.6 |
| Merger reserve | 16 | **1.4** | 1.4 |
| Other reserves | | **12.6** | 17.6 |
| Retained earnings | | **61.2** | 57.6 |
| | | **75.8** | 77.2 |
| Non-controlling interests | | **0.3** | (0.1) |
| **Total equity** | | **76.1** | 77.1 |

The accompanying notes form part of the financial statements. These financial statements were approved by the Board of Directors on 26 February 2018 and were signed on its behalf by:

**Martin L. Rapp**
Group Chief Executive

**Fariyal Khanbabi**
Group Finance Director

Company number: 2486024

# CONSOLIDATED STATEMENT OF CASH FLOWS

## FOR THE YEAR ENDED 31 DECEMBER 2017

| | Note | 2017 £'m | 2016 £'m |
|---|---|---|---|
| **Operating activities** | | | |
| Profit/(loss) for the year | | **1.7** | (2.8) |
| Adjustments for: | | | |
| Financial income | 7 | **–** | – |
| Financial expense | 7 | **0.3** | 0.5 |
| Income tax charge/(credit) | 8 | **1.3** | (1.0) |
| Share-based payments | | **0.8** | 0.6 |
| Depreciation of property, plant and equipment | 10 | **2.4** | 3.1 |
| Amortisation of intangible assets | 11 | **1.5** | 4.0 |
| Impairment losses on intangible assets and goodwill | 11 | **1.2** | 5.1 |
| Impairment losses on tangible assets | 10 | **0.9** | – |
| Gain on disposal of tangible assets | 5 | **–** | (0.2) |
| Legal settlement | | **–** | 1.3 |
| **Operating cash flow before movements in working capital** | | **10.1** | 10.6 |
| Decrease/(increase) in inventories | | **5.1** | (0.2) |
| Decrease/(increase) in trade and other receivables | | **3.4** | (1.5) |
| (Decrease)/increase in trade and other payables | | **(2.6)** | 5.0 |
| (Decrease)/increase in provisions | 19 | **(2.4)** | 2.9 |
| Pension contributions in excess of the income statement | 18 | **(0.5)** | (0.5) |
| **Cash generated from operations** | | **13.1** | 16.3 |
| Income taxes (paid)/received | | **(4.3)** | 0.3 |
| Interest paid | 7 | **(0.3)** | (0.5) |
| **Net cash generated from operating activities** | | **8.5** | 16.1 |
| **Investing activities** | | | |
| Capital expenditure | 10 | **(2.6)** | (3.9) |
| Sale of fixed assets | 10 | **2.0** | 0.9 |
| Capitalised expenditure on development | 11 | **(2.3)** | (2.1) |
| **Net cash used in investing activities** | | **(2.9)** | (5.1) |
| **Financing activities** | | | |
| Proceeds from issue of shares | | **0.1** | – |
| Repayment of bank facility | | **–** | (9.5) |
| **Net cash (used in)/generated from financing activities** | | **0.1** | (9.5) |
| **Net increase in cash and cash equivalents** | | **5.7** | 1.5 |
| Cash and cash equivalents at beginning of year | | **8.0** | 5.5 |
| Effect of exchange rates on cash held | | **(0.9)** | 1.0 |
| **Cash and cash equivalents at end of year** | 21 | **12.8** | 8.0 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 31 DECEMBER 2017

### 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 2017 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 judgements**

**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.

**Deferred 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 DECEMBER 2017

**2. Basis of preparation** continued

**Significant estimates**

**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. Inventory at our outsource manufacturer is only included on the balance sheet of the Group where ownership reverts to the Group under the terms of the outsourcing agreement.

**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. 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.

**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.

### 3. Significant accounting policies continued

#### (b) Foreign currency translation

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

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

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

Gains and losses resulting from the settlement of such transactions and from the translation of monetary and non-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 |

#### (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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 DECEMBER 2017

**3. Significant accounting policies** continued

### (h) Research and development costs

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

Development expenditure is capitalised only if the expenditure can be measured reliably, the product and process is technically and commercially viable, future economic benefits are probable and the Group intends and has sufficient resources to complete the development and to use or sell the asset. The expenditure capitalised includes direct cost of material, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

### (i) Impairment

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

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

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 in the period in which they are approved by the Company's shareholders, or in the case of an interim dividend, when the dividend is paid.
(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.

**3. Significant accounting policies** continued

## (m) Employee benefits

### (i) Defined contribution pension plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement when they are due.

### (ii) Defined benefit pension plans

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned for their service in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

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

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

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

### (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) Other 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.

**3. Significant accounting policies** continued

### (p) Trade and other payables

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

### (q) Revenue recognition

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

### (r) Expenses

#### (i) Operating lease payments

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

#### (ii) Net financing costs

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

### (s) Income tax expense

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

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

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

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.

## 3. Significant accounting policies continued

### (t) Changes in accounting policies

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 2017. 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 has undertaken analysis and 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.

IFRS 15 Revenue from Contracts with Customers (effective for the year beginning 1 January 2018), provides a single, principles-based five-step model to be applied to all sales contracts, based on the transfer of control of goods and services to customers. Based on the initial analysis, we expect that adoption of IFRS 15 will have no significant impact on the timing of recognition of revenue. The only changes for the Group are how revenue is disaggregated for the purpose of disclosure. The revenue will be primary disaggregated by geographical market and vertical segments within reportable segments.

### (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 the 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2017

### 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 Officer.

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 and no individual customers that represent more than 10% of 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.

Segmental assets and liabilities are not reported internally and therefore are not presented below.

#### Reportable segments

| 2017 | Lighting £'m | Signals and Components £'m | Total £'m |
|---|---|---|---|
| Revenue | **137.5** | **43.5** | **181.0** |
| Underlying gross profit | **54.3** | **12.4** | **66.7** |
| Overheads | **(43.1)** | **(8.5)** | **(51.6)** |
| **Segment results** | **11.2** | **3.9** | **15.1** |
| Unallocated expenses | | | **(5.4)** |
| **Underlying operating profit** | | | **9.7** |
| Non-underlying expense | | | **(6.4)** |
| **Operating profit** | | | **3.3** |
| Net financing expense | | | **(0.3)** |
| **Profit before tax** | | | **3.0** |
| Income tax expense | | | **(1.3)** |
| **Profit after tax** | | | **1.7** |

| 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) |

## 4. Operating segments continued

### Other segmental data

| | 2017 Lighting £'m | 2017 Signals and Components £'m | 2017 Total £'m | 2016 Lighting £'m | 2016 Signals and Components £'m | 2016 Total £'m |
|---|---|---|---|---|---|---|
| **Underlying** | | | | | | |
| Depreciation | **1.8** | **0.6** | **2.4** | 2.3 | 0.8 | 3.1 |
| Amortisation | **1.1** | **0.4** | **1.5** | 3.3 | 0.7 | 4.0 |
| **Non-underlying** | | | | | | |
| Gain on disposal of tangible assets | **–** | **–** | **–** | (0.2) | – | (0.2) |
| Impairment losses on tangible asset write-down | **0.9** | **–** | **0.9** | – | – | – |
| Impairment losses on intangible asset write-down | **1.1** | **0.1** | **1.2** | 1.1 | 4.0 | 5.1 |

### 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**

| | 2017 £'m | 2016 £'m |
|---|---|---|
| North America | **136.0** | 129.7 |
| UK | **5.5** | 11.3 |
| Rest of Europe | **15.7** | 17.4 |
| Rest of World | **23.8** | 23.8 |
| | **181.0** | 182.2 |

**Reconciliations of reportable segment profit or loss**

| | 2017 £'m | 2016 £'m |
|---|---|---|
| Total profit for reportable segments | **15.1** | 18.4 |
| Unallocated amounts: | | |
| Overheads | **(5.4)** | (5.3) |
| Non-underlying expense | **(6.4)** | (16.4) |
| Net financing expense | **(0.3)** | (0.5) |
| Profit/(loss) before tax | **3.0** | (3.8) |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2017

### 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:

| | **2017 £'m** | 2016 £'m |
|---|---|---|
| Inventory costs | **–** | (3.7) |
| **Non-underlying costs recorded in cost of sales** | **–** | (3.7) |

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

| | **2017 £'m** | 2016 £'m |
|---|---|---|
| Employee severance and restructuring costs | **0.3** | (5.3) |
| Intangible asset impairment | **(1.2)** | (5.1) |
| Tangible asset impairment and disposals | **(0.9)** | 0.2 |
| Production transfer costs | **(4.6)** | (2.4) |
| Other | **–** | (0.1) |
| **Non-underlying costs recorded in administrative expenses** | **(6.4)** | (12.7) |

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.

Over the past two years, the Group has been implementing our strategic plan to transform to a robust and scalable manufacturing platform. We have incurred costs in relation to this transition.

We incurred costs of £4.6m relating to the transfer of lighting assembly to our manufacturing partner. These related to set-up costs, project management and dedicated engineering time. In addition, we reviewed and impaired fixed assets of £0.9m as part of scaling down our in-house Mexican facility and intangible assets of £1.2m related to product prototypes that have subsequently been superseded due to platform engineering.

In the prior year, non-underlying costs related to the closure of the UK manufacturing facility, expected redundancy costs at the Mexican production facility, goodwill impairment on the European Traffic business and initial production transfer costs to our manufacturing partner.

## 6. Personnel expenses

| | 2017 £'m | 2016 £'m |
|---|---|---|
| Wages and salaries | **34.4** | 34.2 |
| Social security contributions | **3.6** | 4.1 |
| Management incentives | **–** | 2.4 |
| Employee severance costs | **–** | 1.7 |
| Equity-settled share-based payment transactions | **0.8** | 0.6 |
| Contributions to defined contribution plans | **1.3** | 1.2 |
| Total charge for defined benefit plans | **0.2** | 0.2 |
| | **40.3** | 44.4 |

Wages and salary costs in base currency reduced by 8% in 2017 compared to 2016. The reported wages and salary numbers reflect the strengthening of the USD compared to GBP as our largest salary base is in the US. The majority of the headcount reductions were direct labour at our Mexican facility who are in the lower salary quartile and therefore do not proportionately reduce the wages and salary costs. There were no management incentives or severance charges in 2017.

The average number of employees by geographical location was:

| | 2017 Number | 2016 Number |
|---|---|---|
| UK | **32** | 172 |
| US and Mexico | **1,304** | 1,808 |
| Rest of World | **200** | 193 |
| | **1,536** | 2,173 |

In 2017, the Group employed an average of 836 direct staff (2016: 1,408) and 700 indirect staff (2016: 765). The average annual staff numbers for 2016 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 2017 | | | Year ending 31 December 2016 | | |
|---|---|---|---|---|---|---|
| | Underlying £'m | Non-underlying £'m | Total £'m | Underlying £'m | Non-underlying £'m | Total £'m |
| Net interest on defined benefit liability | **(0.2)** | **–** | **(0.2)** | (0.2) | – | (0.2) |
| Interest expense on financial liabilities | **(0.1)** | **–** | **(0.1)** | (0.3) | – | (0.3) |
| Net financing expense recognised in the consolidated income statement | **(0.3)** | **–** | **(0.3)** | (0.5) | – | (0.5) |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2017

## 8. Income tax (income)/expense

### Current tax expense

#### Recognised in the income statement

| | 2017 £'m | 2016 £'m |
|---|---|---|
| **Current tax (income)/expense** | | |
| Current year | **2.5** | 3.3 |
| Adjustment for prior years | **(0.2)** | (0.3) |
| | **2.3** | 3.0 |
| **Deferred tax (income)/expense** | | |
| Origination and reversal of temporary differences | **(0.5)** | (2.1) |
| Adjustment for prior years | **(0.8)** | (1.7) |
| Reduction in tax rate | **0.4** | (0.2) |
| Recognition of previously unrecognised losses | **(0.1)** | – |
| Income tax expense/(income) | **1.3** | (1.0) |

#### Reconciliation of effective tax rate

| | 2017 % | 2017 £'m | 2016 % | 2016 £'m |
|---|---|---|---|---|
| Profit/(loss) for the year | | **1.7** | | (2.8) |
| Total income tax income | | **1.3** | | (1.0) |
| Profit/(loss) excluding income tax | | **3.0** | | (3.8) |
| Income tax using the UK corporation tax rate | **19.3** | **0.6** | (20.0) | (0.8) |
| Effect of tax rates in foreign jurisdictions | **16.9** | **0.5** | 23.7 | 0.9 |
| Increase/(reduction) in tax rate | **13.6** | **0.4** | (5.3) | (0.2) |
| Non-deductible expenses | **33.9** | **1.0** | 36.8 | 1.4 |
| Recognition of tax effect of previously unrecognised losses | **(3.4)** | **(0.1)** | (7.9) | (0.3) |
| Adjustment for prior years | **(33.6)** | **(1.0)** | (52.6) | (2.0) |
| Non-taxable income | **–** | **–** | 5.6 | 0.2 |
| Research and development credits | **(6.8)** | **(0.2)** | (2.6) | (0.1) |
| Other | **3.4** | **0.1** | (2.6) | (0.1) |
| | **43.3** | **1.3** | (24.9) | (1.0) |

The underlying business had a tax rate of 33.0% (2016: 31.0%), before one-off items. The recent US tax reforms have resulted in a reduction of £0.4m in the value of deferred tax assets. Non underlying costs receive tax relief at 34.4% (2016: 30.0%). The net impact of these changes result in a reported effective tax rate of 43.3% (2016: 24.9% credit) for the Group.

The majority of the Group's profits arise in the US where the corporation tax rate was 35% in 2017 and this is the main driver for the tax rate on the underlying business being 33%. The recently announced tax reforms in the US reduce the corporation tax rate to 21%, effective 01 January 2018. As a result, we anticipate an effective tax rate for 2018 in the low twenties before discrete tax items.

#### Tax recognised directly in equity

| | 2017 £'m | 2016 £'m |
|---|---|---|
| Employee benefits | **0.4** | (0.3) |
| Other | **(0.6)** | 0.9 |

### 8. Income tax (income)/expense continued

#### Current tax

Current tax is calculated with reference to the profit of the Company and its subsidiaries in their respective countries of operation. Set out below are details in respect of the significant jurisdictions where the Group operates and the factors that influenced the current and deferred taxation in those jurisdictions.

#### UK

The UK companies are subject to a corporate tax rate of 19.25% (2016: 20%). The UK entities have a tax credit due to losses arising in the period. 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.

#### US

On December 22, 2017, the US government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The new law makes broad and complex changes to the US tax code and it will take time to interpret the changes. Based on our current understanding of the law, we estimate the impact to our US full year 2017 earnings to be minimal for current taxes but have a £0.4m impact on the value of deferred tax assets.

The new territorial tax system will cause us to incur a deemed repatriation tax of £0.1m on undistributed earnings of certain non-U.S. subsidiaries. Beginning in 2018, we anticipate an effective tax rate in the low twenties before discrete tax items.

### 9. Profit/(loss) for the year

Profit/(loss) for the year has been arrived at after charging:

| | 2017 £'m | 2016 £'m |
|---|---|---|
| Research and development costs | | |
| Expensed as incurred | **6.2** | 4.5 |
| Amortisation charge | **1.7** | 2.2 |
| Total research and development costs | **7.9** | 6.7 |
| Depreciation of fixed assets | **2.4** | 3.1 |
| Amortisation of customer relationships | **–** | 0.3 |
| Impairment of goodwill and intangible assets | **1.2** | 5.1 |
| Impairment of tangible assets | **0.9** | – |
| Operating leases – property | **2.0** | 2.0 |
| Operating leases – other | **0.2** | 0.1 |

#### Auditor's remuneration

| | 2017 £'m | 2016 £'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 |
| | **0.2** | 0.2 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## FOR THE YEAR ENDED 31 DECEMBER 2017

### 10. Property, plant and equipment

| | Land and buildings £'m | Plant, equipment and vehicles £'m | Total £'m |
|---|---|---|---|
| **Cost** | | | |
| 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 |
| Balance at 1 January 2017 | 4.1 | 50.5 | 54.6 |
| Exchange adjustments | (0.3) | (4.1) | (4.4) |
| Additions | – | 2.7 | 2.7 |
| Disposals | (0.8) | (1.5) | (2.3) |
| **Balance at 31 December 2017** | **3.0** | **47.6** | **50.6** |
| Accumulated depreciation | | | |
| 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) |
| Balance at 1 January 2017 | (3.6) | (35.1) | (38.7) |
| Exchange adjustments | 0.1 | 2.9 | 3.0 |
| Charge for the period | (0.2) | (2.2) | (2.4) |
| Impairment | – | (0.9) | (0.9) |
| Disposals | 0.8 | 1.5 | 2.3 |
| **Balance at 31 December 2017** | **(2.9)** | **(33.8)** | **(36.7)** |
| **Carrying amount at 31 December 2017** | **0.1** | **13.8** | **13.9** |
| At 31 December 2016 | 0.5 | 15.4 | 15.9 |

The profit on sale of tangible assets in the prior year comprised of cash received on the sale of assets of £0.9m plus the expected proceeds of the asset held for sale of £2.0m less the net book value of disposals of £2.7m.

The asset held for sale was sold for £2.0m in the current year and the proceeds are shown in the consolidated statement of cash flows.

## 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 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 |
| Additions arising from internal developments | 0.6 | – | – | – | 1.7 | 2.3 |
| Effects of foreign exchange movement | (0.6) | (0.5) | – | – | (1.3) | (2.4) |
| **Balance at 31 December 2017** | **7.1** | **12.7** | **2.1** | **0.6** | **20.2** | **42.7** |
| **Amortisation and impairment losses** | | | | | | |
| 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) |
| Balance at 1 January 2017 | (5.5) | (4.2) | (2.1) | (0.6) | (15.0) | (27.4) |
| Amortisation for the period | (0.4) | – | – | – | (1.1) | (1.5) |
| Impairment | (0.4) | – | – | – | (0.8) | (1.2) |
| Effects of foreign exchange movement | 0.5 | – | – | – | 0.8 | 1.3 |
| **Balance at 31 December 2017** | **(5.8)** | **(4.2)** | **(2.1)** | **(0.6)** | **(16.1)** | **(28.8)** |
| **Carrying amount at 31 December 2017** | **1.3** | **8.5** | **–** | **–** | **4.1** | **13.9** |
| At 31 December 2016 | 1.6 | 9.0 | – | – | 4.8 | 15.4 |

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

### Lighting segment

Goodwill acquired in a business combination is allocated at acquisition to the CGUs that are expected to benefit from the business combination. All goodwill relates to the Lighting segment.

CGUs are identified either geographically or at a product segment level. In prior years, the CGU relating to goodwill on UK Lighting was considered to be the geographic revenue in Europe. Following the transfer of production and know-how from the UK to Mexico during 2017, the applicable CGU was re-assessed and is now considered to be a larger US & European segment. Goodwill of £2.3m related to this has been combined with goodwill of £4.9m that was previously solely related to US Lighting and the carrying amount of the goodwill is as follows:

| | **2017 £'m** | 2016 £'m |
|---|---|---|
| Lighting – US & Europe | **7.2** | 7.6 |
| Obstruction Lighting – Europe | **1.2** | 1.3 |
| Lighting – Australia | **0.1** | 0.1 |
| | **8.5** | 9.0 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 DECEMBER 2017

**11. Intangible assets** continued

**Lighting segment continued**

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

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

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

**Sensitivity to changes in key assumptions**

Impairment testing is dependent on management's estimates and judgements, particularly as they relate to the forecasting of future cash flows, the discount rates selected and expected long-term growth rates. The rate used to discount the forecast cash flow for the CGUs in the Lighting segment was 15.0% (2016: 10.5%). Due to production issues on Lighting in the year, the discount rate was increased in order to be prudent.

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**

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 2017 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 | |
|---|---|---|---|---|---|---|
| | **2017 £'m** | 2016 £'m | **2017 £'m** | 2016 £'m | **2017 £'m** | 2016 £'m |
| Property, plant and equipment | **–** | – | **(0.8)** | (0.1) | **(0.8)** | (0.1) |
| Intangible assets | **–** | 0.3 | **(0.9)** | – | **(0.9)** | 0.3 |
| Employee benefits | **0.2** | 0.5 | **–** | – | **0.2** | 0.5 |
| Provisions | **2.2** | 0.2 | **–** | – | **2.2** | 0.2 |
| Losses and other items | **4.6** | 2.6 | **–** | – | **4.6** | 2.6 |
| Tax assets/(liabilities) | **7.0** | 3.6 | **(1.7)** | (0.1) | **5.3** | 3.5 |
| Set-off of tax | **–** | (0.1) | **–** | (0.1) | **–** | – |
| Net tax assets | **7.0** | 3.5 | **(1.7)** | – | **5.3** | 3.5 |

Deferred tax assets have been recognised in respect of all tax losses in entities expected to generate future taxable profits. The Group expects to generate sufficient taxable profits to recover the deferred tax assets within 3 to 5 years. There are no unrecognised deferred tax assets (2016: £nil). The increase in the deferred tax asset in the year is mainly due to losses recognised in Europe partly offset by a write-down of £0.4m related to the change in corporation tax rate in the US.

The aggregate amount of temporary differences associated with investments in subsidiaries for which deferred taxation liabilities have not been recognised is £nil (2016: £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 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 |
| Balance at 1 January 2017 | (0.1) | 0.3 | 0.5 | 0.2 | 2.6 | 3.5 |
| Recognised in income | (0.7) | (1.2) | 0.1 | 2.0 | 1.4 | 1.6 |
| Recognised in equity | – | – | (0.4) | – | 0.6 | 0.2 |
| **Balance at 31 December 2017** | **(0.8)** | **(0.9)** | **0.2** | **2.2** | **4.6** | **5.3** |

## 14. Inventories

| | **2017 £'m** | 2016 £'m |
|---|---|---|
| Raw materials and consumables | **13.8** | 16.9 |
| Work in progress | **4.0** | 3.8 |
| Finished goods | **6.8** | 10.7 |
| | **24.6** | 31.4 |

Inventories to the value of £82.7m (2016: £78.0m) were recognised as expenses in the year. During the year, inventory write-downs totalled £1.4m (2016: £7.3m). The write-downs are included in the income statement.

Raw materials have reduced by £3.1m to reflect the partial transfer of Lighting production to our manufacturing partner. We continue to hold raw materials for Signals and Components, Obstruction and residual Lighting manufacturing.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2017

## 15. Trade and other receivables

| | 2017 £'m | 2016 £'m |
|---|---|---|
| Trade receivables | **28.4** | 37.2 |
| Other non-trade receivables | **4.1** | 1.7 |
| Income tax recoverable | **0.7** | – |
| Prepayments and accrued income | **1.1** | 1.1 |
| | **34.3** | 40.0 |

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

| | 2017 Number | 2017 £'m | 2016 Number | 2016 £'m |
|---|---|---|---|---|
| Allotted and fully paid | | | | |
| Ordinary shares of 1.89 pence each | **32,521,179** | **0.6** | 32,504,335 | 0.6 |

During the year, 16,844 shares were issued (2016: 1,077) in order to satisfy the requirement for shares that vested as part of the Sharesave scheme, the proceeds of issue were £0.1m (2016: less than £0.1m). The ordinary shares issued in the year have the same rights as the other shares in issue.

| | Ordinary shares | |
|---|---|---|
| Issued share capital | 2017 Number | 2016 Number |
| In issue at 1 January | **32,504,335** | 32,503,258 |
| Shares issued | **16,844** | 1,077 |
| Issued and fully paid at 31 December | **32,521,179** | 32,504,335 |

### 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 | 2017 £'m | 2016 £'m |
|---|---|---|
| Nil pence per ordinary share (2016: nil pence) | **–** | – |

## 17. Earnings per share

### Basic earnings per share

The calculation of basic earnings per share ("EPS") at 31 December 2017 was based on a profit for the year of £1.7m (2016: loss of £2.8m) and the weighted average number of ordinary shares outstanding during the year of 32,510,106 (2016: 32,503,348).

### Diluted earnings per share

The calculation of diluted EPS at 31 December 2017 was based on a profit for the year of £1.7m (2016: loss of £2.8m) and the weighted average number of ordinary shares outstanding during the year of 33,014,680 (2016: 32,777,907) was calculated as follows:

### Weighted average number of ordinary shares (diluted)

| | 2017 '000 | 2016 '000 |
|---|---|---|
| Weighted average number of ordinary shares | **32,510** | 32,503 |
| Effect of share options in issue | **505** | 275 |
| Weighted average number of ordinary shares (diluted) | **33,015** | 32,778 |

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

| | 2017 Per share | 2016 Per share |
|---|---|---|
| Basic earnings | **4.8p** | (8.4p) |
| Underlying basic earnings[1] | **17.9p** | 26.9p |
| Diluted earnings | **4.8p** | (8.4p) |
| Underlying diluted earnings[1] | **17.6p** | 26.7p |

1 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 with the latest valuation in 2017. The outcome of the valuation was that Company contributions remain unchanged. The Company expects to pay contributions of £0.5m in respect of the Funds in the year to 31 December 2018. 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) | |
|---|---|---|---|---|---|---|
| | **2017 £'m** | 2016 £'m | **2017 £'m** | 2016 £'m | **2017 £'m** | 2016 £'m |
| Balance at 1 January | **27.3** | 23.7 | **(26.0)** | (23.6) | **1.3** | 0.1 |
| **Included in profit or loss** | | | | | | |
| Administration costs | **–** | – | **0.1** | 0.2 | **0.1** | 0.2 |
| Interest cost/(income) | **0.7** | 0.9 | **(0.7)** | (0.9) | **–** | – |
| | **0.7** | 0.9 | **(0.6)** | (0.7) | **0.1** | 0.2 |
| **Included in other comprehensive income** | | | | | | |
| Remeasurements (gain)/loss: | | | | | | |
| Actuarial (gain)/loss arising from: | | | | | | |
| – demographic assumptions | **(0.3)** | (0.1) | **–** | – | **(0.3)** | (0.1) |
| – financial assumptions | **(0.1)** | 4.7 | **–** | – | **(0.1)** | 4.7 |
| – experience adjustment | **–** | – | **–** | – | **–** | – |
| – return on plan assets excluding interest income | **–** | (0.5) | **(1.5)** | (2.6) | **(1.5)** | (3.1) |
| | **(0.4)** | 4.1 | **(1.5)** | (2.6) | **(1.9)** | 1.5 |
| **Other** | | | | | | |
| Contributions paid by the employer | **–** | – | **(0.5)** | (0.5) | **(0.5)** | (0.5) |
| Benefits paid | **(1.8)** | (1.4) | **1.8** | 1.4 | **–** | – |
| | **(1.8)** | (1.4) | **1.3** | 0.9 | **(0.5)** | (0.5) |
| **Balance at 31 December** | **25.8** | 27.3 | **(26.8)** | (26.0) | **(1.0)** | 1.3 |

| Represented by: | **2017 £'m** | 2016 £'m |
|---|---|---|
| Net defined benefit asset (Plan A) | **(0.2)** | (0.1) |
| Net defined benefit liability (Plan B) | **(0.8)** | 1.4 |
| | **(1.0)** | 1.3 |

## 18. Employee benefits continued

Plan assets consist of the following:

| | 2017 £'m Total | 2016 £'m Total |
|---|---|---|
| Equities | **11.9** | 13.7 |
| Bonds and gilts | **14.8** | 12.2 |
| Cash | **0.1** | 0.1 |
| | **26.8** | 26.0 |

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

### Actuarial assumptions

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

| | % per annum | |
|---|---|---|
| | **2017** | 2016 |
| Discount rate at 31 December | **2.50** | 2.70 |
| Future salary increases | **n/a** | n/a |
| Future pension increases | **3.25** | 3.50 |
| Inflation – RPI | **3.30** | 3.60 |
| Inflation – CPI | **2.40** | 2.70 |

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:

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | **Plan A** | **Plan B** | Plan A | Plan B |
| **Longevity at age 65 for current pensioners** | | | | |
| Males | **22.3** | **22.3** | 22.1 | 22.1 |
| Females | **24.2** | **24.2** | 24.6 | 24.6 |
| **Longevity at age 65 for current members aged 45** | | | | |
| Males | **23.7** | **23.7** | 23.9 | 23.9 |
| Females | **25.7** | **25.7** | 26.5 | 26.5 |

### 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) | **(2.4)** | **0.9** |
| Inflation (0.5% movement) | **0.4** | **(2.0)** |
| Life expectancy (+/–1 year) | **0.3** | **(0.3)** |

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 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 | – | – | (9,856) | **25,079** | 802 | 3 years | Apr 2018 |
| April 2015 (TSR) | 34,935 | – | – | (9,856) | **25,079** | 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 | – | – | (5,829) | **95,923** | 570 | 3 years | Mar 2019 |
| March 2016 (TSR) | 101,752 | – | – | (5,829) | **95,923** | 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 |
| January 2017 (service condition) | – | 7,721 | – | – | **7,721** | 1037 | 2 years | Jan 2018 |
| January 2017 (service condition) | – | 7,721 | – | – | **7,721** | 1037 | 3 years | Jan 2019 |
| March 2017 (EPS) | – | 64,139 | – | – | **64,139** | 701 | 3 years | Mar 2020 |
| March 2017 (TSR) | – | 21,380 | – | – | **21,380** | 990 | 3 years | Mar 2020 |
| March 2017 (service condition) | – | 36,884 | – | (4,354) | **32,530** | 990 | 3 years | Mar 2020 |
| August 2017 (service condition) | – | 3,608 | – | – | **3,608** | 832 | 3 years | Aug 2020 |
| | 421,854 | 141,453 | – | (108,242) | **455,065** | | | |

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

The 2017 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:

| | **March 2017 EPS and TSR award** |
|---|---|
| Share price | **£10.05** |
| Exercise price | **£nil** |
| Expected volatility | **48%** |
| Award life | **3 years** |
| **Correlation** | |
| Dialight and the FTSE 250 Index (excluding investment trusts) | **33%** |

The employee expense in 2017 was £0.8m (2016: £0.6m) (see note 6).

## 18. Employee benefits 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 per scheme and not exceeding £500 per month for all schemes. 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. The latest scheme was rolled out in April 2017.

| | **2017 scheme number** | 2015 scheme number | 2014 scheme number |
|---|---|---|---|
| Outstanding at 1 January 2016 | **–** | 59,674 | 24,102 |
| Granted during the year | **48,354** | – | – |
| Vested in the year | **–** | (5,772) | (627) |
| Forfeited during the year | **(3,422)** | (7,738) | (16,768) |
| **Outstanding at 31 December 2017** | **44,932** | 46,164 | 6,707 |

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 | **26 April 2017** |
|---|---|
| Share price at grant date | **£10.10** |
| Exercise price | **£8.08** |
| Expected volatility | **37%** |
| Number of employees | **63** |
| Shares under option | **48,354** |
| Vesting period | **3 years** |
| Option life | **3 years** |
| Expected life | **3 years** |
| Expected dividends expressed as a dividend yield | **2%** |
| Fair value per option | **£3.55** |

## 19. Provisions

| | Warranty £'m | Restructuring £'m | Total £'m |
|---|---|---|---|
| Balance at 1 January 2017 | 1.8 | 2.8 | 4.6 |
| Effects of foreign exchange movement | (0.1) | (0.1) | (0.2) |
| Provisions made during the year | 1.0 | – | 1.0 |
| Provisions used during the year | (1.2) | (1.6) | (2.8) |
| Provision not required | – | (0.3) | (0.3) |
| **Balance at 31 December 2017** | **1.5** | **0.8** | **2.3** |

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 adjusted for the potential warranty received on products from our manufacturing partner. The Group expects to settle the majority of the liability over the next two to three years. Movements related to discounting the warranty provision are less than £0.1m in both years and therefore not disclosed. The restructuring provision relates to redundancy costs (see note 5) and will all be utilised within one year.

| | **Total 2017 £'m** | Total 2016 £'m |
|---|---|---|
| Due within one year | **1.4** | 3.8 |
| Due between one and five years | **0.9** | 0.8 |
| | **2.3** | 4.6 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2017

## 20. Trade and other payables

| | 2017 £'m | 2016 £'m |
|---|---|---|
| Trade payables | **14.6** | 15.3 |
| Other taxes and social security | **1.0** | 1.0 |
| Non-trade payables and accrued expenses | **11.3** | 15.0 |
| | **26.9** | 31.3 |

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

| | 2017 £'m | 2016 £'m |
|---|---|---|
| Cash and cash equivalents in the statement of total financial position | **12.8** | 8.0 |
| Cash and cash equivalents in the statement of cash flows | **12.8** | 8.0 |

## 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

## Exposure to credit risk

The ageing of trade receivables at the reporting date was:

| | Gross 2017 £'m | Impairment 2017 £'m | Gross 2016 £'m | Impairment 2016 £'m |
|---|---|---|---|---|
| Not past due | **21.2** | **–** | 28.6 | – |
| Past due 0–30 days | **5.5** | **–** | 6.6 | – |
| Past due 31–120 days | **1.6** | **–** | 2.0 | – |
| Past due 121–365 days | **0.3** | **(0.2)** | 0.1 | (0.1) |
| More than one year | **0.1** | **(0.1)** | 0.1 | (0.1) |
| Total | **28.7** | **(0.3)** | 37.4 | (0.2) |

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

| | £'m |
|---|---|
| Balance at 1 January 2017 | 0.2 |
| Effects of foreign exchange | – |
| Utilisation of provision | (0.2) |
| Provision created | 0.3 |
| **Balance at 31 December 2017** | **0.3** |

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 £4.1m (2016: £1.7m) 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 2017, the Group had 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, CAD Dollar 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 but the Group had no foreign exchange contracts at the balance sheet date.

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

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

| | **2017 $'m** | **2017 CAD'm** | **2017 €'m** | 2016 $'m | 2016 CAD'm | 2016 €'m |
|---|---|---|---|---|---|---|
| Trade receivables | **0.5** | **2.8** | **3.4** | 0.3 | 2.0 | 2.5 |
| Currency cash | **0.5** | **0.4** | **0.3** | 0.5 | 0.4 | – |
| Trade payables | **–** | **(0.1)** | **(0.1)** | (0.1) | – | (0.1) |
| Gross balance sheet exposure | **1.0** | **3.1** | **3.6** | 0.7 | 2.4 | 2.4 |

The following significant exchange rates applied during the year:

| | **2017 Average rate** | **2017 At balance sheet date** | 2016 Average rate | 2016 At balance sheet date |
|---|---|---|---|---|
| US Dollar | **1.29** | **1.35** | 1.36 | 1.23 |
| Euro | **1.14** | **1.13** | 1.22 | 1.17 |
| Canadian Dollar | **1.67** | **1.69** | 1.80 | 1.66 |
| Mexican Peso | **24.33** | **26.55** | 25.25 | 25.56 |

### 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 2017** | **Carrying amount £'m** | **Contractual cash flow £'m** | **2 months or less £'m** | **2–12 months £'m** | **1–2 years £'m** |
|---|---|---|---|---|---|
| **Non-derivative financial liabilities** | | | | | |
| Trade and other payables | **26.9** | **(26.9)** | **(26.9)** | **–** | **–** |
| Borrowings | **–** | **–** | **–** | **–** | **–** |
| | **26.9** | **(26.9)** | **(26.9)** | **–** | **–** |

| 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) | – | – |

The Group has a five-year unsecured £25m multi-currency revolving credit facility which is undrawn at the balance sheet date see note 12.

## 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 2017, this totalled £76.1m (2016: £77.1m).

The Board is not proposing a final dividend for 2017. 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 2017, it is estimated that a general increase of 1% in the value of the Euro and the US Dollar against UK Sterling would have increased the Group's profit before tax by approximately £0.3m for the year ended 31 December 2017 (2016: reduced the loss before tax by £0.3m), and would have had increased the Group's equity for the year ended 31 December 2017 by £0.1m (2016: £0.1m).

### Fair values versus carrying amounts

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

| | **Carrying amount 2017 £'m** | **Fair value 2017 £'m** | Carrying amount 2016 £'m | Fair value 2016 £'m |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash and cash equivalents | **12.8** | **12.8** | 8.0 | 8.0 |
| **Loans and receivables** | | | | |
| Trade and other receivables | **34.3** | **34.3** | 40.0 | 40.0 |
| **Total financial assets** | **47.1** | **47.1** | 48.0 | 48.0 |
| **Financial liabilities** | | | | |
| Trade and other payables | **(26.9)** | **(26.9)** | (31.3) | (31.3) |
| Borrowings | **–** | **–** | – | – |
| **Total financial liabilities** | **(26.9)** | **(26.9)** | (31.3) | (31.3) |
| **Net financial assets** | **20.2** | **20.2** | 16.7 | 16.7 |

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

## 23. Operating leases

Non-cancellable operating lease rentals are payable as follows:

| | **2017 £'m** | 2016 £'m |
|---|---|---|
| Less than one year | **1.6** | 2.0 |
| Between one and five years | **2.1** | 3.2 |
| | **3.7** | 5.2 |

Of the £3.7m (2016: £5.2m), £3.4m (2016: £4.9m) relates to property and the balance to plant and equipment.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 DECEMBER 2017

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

| | **2017 £'m** | 2016 £'m |
|---|---|---|
| Contracted | **0.8** | 0.8 |

### 25. Contingencies
During 2011 the Roxboro UK Pension Fund (the "Scheme") was closed to future accrual. This Scheme is included within the pension asset 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:

| | **2017 £'m** | 2016 £'m |
|---|---|---|
| Short-term employee benefits | **1.3** | 1.1 |
| Post-retirement benefits | **0.1** | 0.1 |
| Share-based payments | **0.8** | 0.2 |
| | **2.2** | 1.4 |

The aggregate of remuneration and amounts receivable under long-term incentive schemes of the highest paid Director was £0.6m (2016: £0.5m), and pension contributions of £0.1m (2016: £0.1m) were made to a money purchase scheme on his behalf. During the year, the highest paid Director received 58,930 shares under a long-term incentive scheme.

| | **2017** | 2016 |
|---|---|---|
| Number of Directors accruing benefits under money purchase schemes | **2** | 2 |
| 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 2017 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 Dialight plc except for those companies indicated by *.

### (a) Trading companies

| Name | Percentage owned | Registered office | Principal activity |
|---|---|---|---|
| Dialight Corporation* | 100% | 1501 Route, 34 South<br>Farmingdale, NJ 07727<br>United States | Design, assembly and sale of Lighting and Signals and Components products |
| Dialight Europe Limited | 100% | Leaf C<br>Level 36, Tower 42<br>25 Old Broad Street<br>London EC2N 1HQ<br>United Kingdom | Sale of Lighting products |
| Dialight GmbH* | 100% | Maximilianstrabe 54<br>80538 Munchen<br>Germany | Sale of Lighting products |
| Dialight A/S | 100% | Ejby Industrivej 91 B<br>2600 Glostrup<br>Copenhagen | Assembly and sale of Lighting products |
| Dialight ILS Australia Pty Limited* | 75% | Level 2 Spectrum<br>100 Railway Road<br>Subiaco WA 6008<br>Australia | Sale of Lighting products |
| Dialight Asia Pte. Ltd* | 75% | 33 Ubi Avenue 3<br>07–72 Vertex (Tower A)<br>Singapore, 408868 | Sale of Lighting products |
| Dialight Penang Sdn. Bhd.* | 100% | Room B, 3rd Floor<br>309-K Perak Road<br>10150, Penang<br>Malaysia | Assembly and sale of Signals and Components products |
| Dialight Do Brasil Tecnologia Led Ltda* | 75% | American Park Empresarial NR<br>Indaiatuba<br>Sao Paulo/SP<br>13347-662, Brazil | Assembly and sale of Lighting products |
| Dialight de Mexico, S. de R.L. de C.V.* | 100% | Calle Lirios S/N<br>Colona Pacheco<br>Ensenda<br>Baja California<br>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 (2016: less than £0.1m) and their share of equity is £0.1m (2016: £0.1m).

The Group also has branches in France and the United Arab Emirates.

## 27. Subsidiaries continued

### (b) Other companies

Unless otherwise stated, the registered office for the subsidiaries listed below is Leaf C, Level 36, Tower 42, 25 Old Broad Street, London EN2N 1HQ.

| Name | Percentage owned | Registered office | Principal activity |
|---|---|---|---|
| Belling Lee Limited | 100% | | Intermediary holding company |
| Roxboro Overseas Limited | 100% | | Non-trading/intermediary holding company |
| The Roxboro Trust Company Limited | 100% | | Dormant |
| The Roxboro UK Pension Trustee Limited* | 50% | | Corporate pension fund trustee |
| Dialight Latin America, S. de R.L. de C.V.* | 100% | Calle Lirios S/N<br>Colona Pacheco<br>Ensenda<br>Baja California<br>Mexico | Non-trading |
| CRL Components, Inc.* | 100% | The Corporation Trust Co.<br>Corporation Trust Centre<br>1209 Orange Street<br>City of Wilmington<br>County of New Castle DE<br>United States | Dormant |
| Roxboro Analytical Inc.* | 100% | 1501 Route 34 South<br>Farmingdale<br>NJ 07727<br>United States | Non-trading |
| Roxboro Holdings Inc.* | 100% | The Corporation Trust Co.<br>Corporation Trust Centre<br>1209 Orange Street<br>City of Wilmington<br>County of New Castle DE,<br>United States | Non-trading/intermediary holding company |
| Roxboro Metrology Inc.* | 100% | 1501 Route 34 South<br>Farmingdale<br>NJ 07727<br>United States | Non-trading |

## 28. Other receivables

| | 2017 £'m | 2016 £'m |
|---|---|---|
| Other receivables | **0.2** | – |

These relate to deposits on leasehold properties.

## 29. Reconciliation to non-GAAP performance measures

The Group has been involved in a major transformation of its operational footprint over the past two years. This has resulted in costs being incurred and revenues being earned that relate solely to the transformation and which are not representative of the on-going performance of the business. The Board consider that users of the financial statements find it useful to view the on-going costs and revenues of the business in isolation from costs related to the transformation.

| | 2017 £'m | 2016 £'m |
|---|---|---|
| Gross profit | **66.7** | 65.8 |
| Non-underlying items (see note 5) | **–** | 3.7 |
| **Underlying gross profit** | **66.7** | 69.5 |
| | | |
| Profit/(loss) from operating activities | **3.3** | (3.3) |
| Non-underlying items (see note 5) | **6.4** | 16.4 |
| **Underlying operating profit/underlying EBIT** | **9.7** | 13.1 |
| | | |
| Profit/(loss) from operating activities | **3.3** | (3.3) |
| Non-underlying items (see note 5) | **6.4** | 16.4 |
| Depreciation of property, plant and equipment (see note 10) | **2.4** | 3.1 |
| Amortisation of intangible assets (see note 11) | **1.5** | 4.0 |
| **Adjusted underlying EBITDA** | **13.6** | 20.2 |
| | | |
| Profit/(loss) from operating activities | **3.3** | (3.3) |
| Non-underlying items | **6.4** | 16.4 |
| Depreciation of property, plant and equipment (see note 10) | **2.4** | 3.1 |
| Amortisation of intangible assets (see note 11) | **1.5** | 4.0 |
| Net movement on working capital (Inventories, trade and other receivables, trade and other payables) as per Consolidated statement of cash flows | **5.9** | 3.3 |
| Movements in working capital related to non-underlying | **–** | (2.5) |
| **Adjusted operating cashflow** | **19.5** | 21.0 |

### Constant currency

The Group's revenues are mainly earned in the US and it presents certain key metrics on a constant currency basis to remove any impact of currency fluctuations. The constant currency impact is calculated by re-translating the prior year numbers at the exchange rate prevailing in the current year.

# COMPANY BALANCE SHEET (PREPARED UNDER FRS 102)

## AT 31 DECEMBER 2017

| | Note | 2017 £'m | 2016 £'m |
|---|---|---|---|
| **Fixed assets** | | | |
| Tangible assets | 32 | **0.1** | – |
| Investments | 33 | **17.9** | 18.0 |
| Debtors | 37 | **27.5** | 30.7 |
| | | **45.5** | 48.7 |
| **Current assets** | | | |
| Debtors | 37 | **12.9** | 16.4 |
| Cash | | **0.3** | 0.3 |
| | | **13.2** | 16.7 |
| **Creditors** | | | |
| Amounts falling due within one year | | | |
| Other creditors | 38 | **(2.9)** | (16.8) |
| Borrowings | 39 | **–** | – |
| **Current liabilities** | | **(2.9)** | (16.8) |
| **Net current assets** | | **10.3** | (0.1) |
| **Total assets less current liabilities** | | **55.8** | 48.6 |
| **Net assets excluding pension fund asset** | | **55.8** | 48.6 |
| Pension fund asset | 43 | **0.2** | 0.1 |
| **Net assets including pension fund asset** | | **56.0** | 48.7 |
| **Capital and reserves** | | | |
| Called up share capital | 41, 42 | **0.6** | 0.6 |
| Capital redemption reserve | 42 | **2.2** | 2.2 |
| Other reserve | 42 | **3.4** | 2.6 |
| Profit and loss account | 42 | **49.8** | 43.3 |
| Equity shareholder funds | | **56.0** | 48.7 |

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 £6.6m (2016: £5.1m).

The accompanying notes form part of the financial statements.

These financial statements were approved by the Board of Directors on 26 February 2018 and were signed on its behalf by:

**Martin L. Rapp**
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 page 140 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.

# NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

## FOR THE YEAR ENDED 31 DECEMBER 2017

**30. Accounting policies** continued

**(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.

### (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.

## 30. Accounting policies continued

### (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 value 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.

### (k) Dividends

Dividends are recognised in the period in which they are approved by the Company's shareholders, or in the case of an interim dividend, when the dividend is paid. Dividends receivable from subsidiaries are recognised when either received in cash or applied to reduce a creditor balance with a subsidiary.

## 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.

# NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED
## FOR THE YEAR ENDED 31 DECEMBER 2017

### 32. Fixed assets

| | Fixtures, fittings and equipment £'m |
|---|---|
| **Cost** | |
| At 1 January 2017 | 0.2 |
| Additions | 0.1 |
| **At 31 December 2017** | **0.3** |
| **Depreciation** | |
| At 1 January 2016 | (0.2) |
| Charge for the year | – |
| **At 31 December 2017** | **(0.2)** |
| **Net book value at 31 December 2017** | **0.1** |
| Net book value at 31 December 2016 | – |

No assets of the Company are held under finance leases.

### 33. Fixed asset investments

Investments in subsidiary undertakings

| | £'m |
|---|---|
| **Cost** | |
| At 1 January 2017 | 22.8 |
| Share-based payment | 0.8 |
| **At 31 December 2017** | **23.6** |
| **Provisions** | |
| At 1 January 2017 | (4.8) |
| Profit and loss account | (0.9) |
| **At 31 December 2017** | **(5.7)** |
| **Net book value at 31 December 2017** | **17.9** |
| Net book value at 31 December 2016 | 18.0 |

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 125 and 126.

### 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.

### 34. Financial risk management continued

#### 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:

| | **2017 $'m** | **2017 €'m** | 2016 $'m | 2016 €'m |
|---|---|---|---|---|
| Currency cash | **0.2** | **–** | 0.2 | – |
| Other creditors | **–** | **–** | – | – |
| Gross balance sheet exposure | **0.2** | **–** | 0.2 | – |

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:

| | **2017 scheme number** | 2015 scheme number |
|---|---|---|
| Outstanding at 1 January | **–** | 3,736 |
| Granted during the year | **6,416** | – |
| Forfeited during the year | **(445)** | – |
| **Outstanding at 31 December** | **5,971** | 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

| | **2017 £'m** | 2016 £'m |
|---|---|---|
| Amounts owed by subsidiary undertakings | **39.7** | 46.6 |
| Other debtors | **0.4** | 0.5 |
| Deferred tax asset (note 40) | **0.3** | – |
| | **40.4** | 47.1 |
| Less non-current portion: amounts owed by subsidiary undertakings | **(27.5)** | (30.7) |
| Current portion | **12.9** | 16.4 |

### 38. Creditors

| | 2017 £'m | 2016 £'m |
|---|---|---|
| Amounts falling due within one year: | | |
| Deferred tax liability (note 40) | – | 0.9 |
| Amounts owed to subsidiary undertakings | 1.2 | 14.0 |
| Accruals and deferred income | 1.7 | 1.9 |
| | 2.9 | 16.8 |

### 39. Borrowings

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 2017 there were no drawings on the facility (2016: £nil).

### 40. Deferred tax assets/(liabilities)

| | 2017 £'m | 2016 £'m |
|---|---|---|
| At 1 January | (0.9) | 0.1 |
| Prior year adjustment | – | (0.1) |
| Profit and loss account | 0.3 | (0.9) |
| Group relief | 0.9 | |
| Recognised in equity | – | – |
| At 31 December | 0.3 | (0.9) |
| An analysis of deferred tax is as follows: | | |
| Capital allowances | – | – |
| Short-term timing differences | 0.3 | (0.9) |
| Debtors (see note 37) | 0.3 | – |
| Creditors (see note 38) | – | (0.9) |

### 41. Called up share capital

| | 2017 Number | 2017 £'m | 2016 Number | 2016 £'m |
|---|---|---|---|---|
| **Allotted and fully paid** | | | | |
| Ordinary shares of 1.89 pence each | 32,521,179 | 0.6 | 32,504,335 | 0.6 |
| Shares classified as liabilities | | – | | – |
| Shares classified in shareholder funds | | 0.6 | | 0.6 |
| | | 0.6 | | 0.6 |

During the year, 16,844 shares were issued (2016: 1,077) in order to satisfy the requirement for shares that vested as part of the Sharesave scheme, the proceeds of issue were £0.1m (2016: less than £0.1m). The ordinary shares issued in the year 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 1 January 2017 | 0.6 | 2.6 | 2.2 | 43.3 | **48.7** |
| Profit | | | | 6.6 | **6.6** |
| **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** | – | – | – | 6.5 | **6.5** |
| **Transactions with owners, recorded directly in equity** | | | | | |
| Share based payments, net of tax | – | 0.8 | – | – | **0.8** |
| **Total contribution by and distribution to owners** | – | 0.8 | – | – | **0.8** |
| **Balance at 31 December 2017** | **0.6** | **3.4** | **2.2** | **49.8** | **56.0** |

| | Share capital £'m | Other reserve capital contribution £'m | Capital redemption £'m | Retained earning £'m | Total equity £'m |
|---|---|---|---|---|---|
| Balance at 1 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 |

At 31 December 2017 the number of shares held by the Group through the ESOT was nil ordinary shares (2016: nil). The market value of these shares at 31 December 2017 was £nil (2016: £nil).

# NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2017

## 42. Capital and reserves continued

### b) 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 | 2017 £'m | 2016 £'m |
|---|---|---|
| Nil pence per ordinary share (2016: nil pence) | **–** | – |

## 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 in 2017. The results of that valuation were projected by an independent qualified actuary to 31 December 2017 allowing for Executive Fund cash flows and changes in the assumptions for FRS 102 purposes.

### Recognised assets for defined benefit obligations

| | 2017 £'m | 2016 £'m |
|---|---|---|
| Present value of funded obligations | **(2.3)** | (2.3) |
| Fair value of plan assets | **2.5** | 2.4 |
| Recognised asset for defined benefit obligations | **0.2** | 0.1 |

Plan assets consist of the following:

| | 2017 £'m | 2016 £'m |
|---|---|---|
| Bonds | **2.5** | 2.4 |
| Cash | **–** | – |
| | **2.5** | 2.4 |

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

### Movements in the present value of defined benefit obligations

| | 2017 £'m | 2016 £'m |
|---|---|---|
| Liabilities at 1 January | **2.3** | 2.0 |
| Interest cost | **0.1** | 0.1 |
| Benefits paid | **(0.1)** | (0.1) |
| Experience loss on defined benefit obligation | **–** | – |
| Changes to financial assumptions | **–** | 0.3 |
| Liabilities at 31 December | **2.3** | 2.3 |

### 43. Pensions continued

#### Movements in fair value of plan assets

| | **2017 £'m** | 2016 £'m |
|---|---|---|
| Assets at 1 January | **2.4** | 2.2 |
| Interest on assets | **0.1** | 0.1 |
| Employer contributions | **0.1** | 0.1 |
| Benefit paid | **(0.1)** | (0.1) |
| Return on plan assets less interest | **–** | 0.1 |
| Assets at 31 December | **2.5** | 2.4 |

#### Expense recognised in the profit and loss account

| | **2017 £'m** | 2016 £'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) | |
|---|---|---|
| | **2017** | 2016 |
| Discount rate at 31 December | **2.50** | 2.70 |
| Future pension increases | **3.25** | 3.60 |
| Inflation – RPI | **3.30** | 3.60 |
| Inflation – CPI | **2.40** | 2.70 |

For its UK pension arrangements the Group has, for the purpose of calculating its liabilities as at 31 December 2017, used SAPS S2NA 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 23.7 years for males and 24.2 years for females. For individuals currently aged 65 years the average life expectancy is 22.3 years for males and 24.2 years for females.

### 44. Related party transactions

During the period, the Company received no management fees or interest on inter-company loans (2016: £nil) from subsidiaries that are not wholly owned. At 31 December 2017 a total of £2.2m was owed to the Company by those subsidiaries (2016: £2.3m).

# NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2017

## 45. Statement of cash flows

| | 31 December 2017 £'m | 31 December 2016 £'m |
|---|---|---|
| **Operating activities** | | |
| Profit for the year | **6.6** | 5.1 |
| Adjustments for: | | |
| Depreciation of property, plant and equipment | **–** | – |
| Impairment of investment | **0.9** | – |
| Share-based payments | **0.8** | 0.6 |
| Inter-company debt forgiveness | **–** | 2.5 |
| Finance income | **(2.4)** | (4.4) |
| Financial expense | **0.1** | 0.3 |
| **Operating cash flow before movements in working capital** | **6.0** | 4.1 |
| Increase/(decrease) in debtors | **6.7** | (4.7) |
| (Decrease)/Increase in other creditors | **(13.9)** | 8.8 |
| **Cash generated from operations** | **(1.2)** | 8.2 |
| Interest received | **1.4** | 1.4 |
| Interest paid | **(0.1)** | (0.3) |
| **Net cash generated from operating activities** | **1.3** | 1.1 |
| Investing activities | **–** | – |
| Capital expenditure | **(0.1)** | – |
| **Net cash used in investing activities** | **(0.1)** | – |
| Financing activities | | |
| Dividends paid | **–** | – |
| (Repayment)/drawdown of bank facility | **–** | (9.5) |
| Payment of upfront loan facility costs | **–** | – |
| **Net cash (used in)/generated from financing activities** | **–** | (9.5) |
| Net (decrease)/increase in cash and cash equivalents | **–** | (0.2) |
| Cash and cash equivalents at beginning of year | **0.3** | 0.5 |
| **Cash and cash equivalents at end of year** | **0.3** | 0.3 |

Finance income and interest is received from wholly owned subsidiaries.

# FIVE-YEAR SUMMARY

| | Prepared under IFRSs | | | | |
|---|---|---|---|---|---|
| | **2017 £'m** | 2016 £'m | 2015 £'m | 2014 £'m | 2013 £'m |
| **Revenue** | **181.0** | 182.2 | 161.4 | 159.8 | 131.2 |
| **Research and development cash expenditure** | **6.9** | 6.0 | 5.5 | 6.2 | 5.9 |
| **Underlying operating profit** | **9.7** | 13.1 | 6.1 | 18.1 | 14.5 |
| **Non-underlying operating loss** | **(6.4)** | (16.4) | (9.5) | (2.3) | (2.9) |
| Finance (charges)/income | **(0.3)** | (0.5) | (0.5) | (0.3) | (0.4) |
| **Profit/(loss) before gain on disposal of discontinued operations and taxation** | **3.0** | (3.8) | (3.9) | 15.5 | 11.2 |
| Cash generated from operating activities | **13.1** | 16.3 | 8.7 | 8.6 | 6.9 |
| Net cash/(debt) | **12.8** | 8.0 | (3.8) | 0.6 | 7.1 |
| Shareholders' funds | **76.1** | 77.1 | 70.1 | 72.8 | 66.7 |

| Statistical information | **Pence** | Pence | Pence | Pence | Pence |
|---|---|---|---|---|---|
| Basic earnings per ordinary share from continuing operations | **4.8** | (8.4) | (6.4) | 29.4 | 23.9 |
| Dividends per share | **n/a** | n/a | 9.8 | 15.0 | 14.4 |
| Dividend cover (times) | **n/a** | n/a | n/a | 2.0 | 1.7 |
| Underlying operating margin | **5.4%** | 7.2% | 3.7% | 11.2% | 11.1% |

# DIRECTORY AND SHAREHOLDER INFORMATION

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

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

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

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

**Dealing service**
Equiniti offers Shareview Dealing, a service which allows you to sell your Dialight plc shares or add to your holding if you are a UK resident. You can deal in your shares on the internet or by telephone. For more information about this service and for details of their rates, log on to www.shareview.co.uk/dealing or telephone 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.

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**Financial calendar 2018**
**Annual General Meeting**
17 April 2018
**Half Yearly Financial Report**
30 July 2018

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.

**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.

MIX
Paper from responsible sources
FSC® C020659

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.

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

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