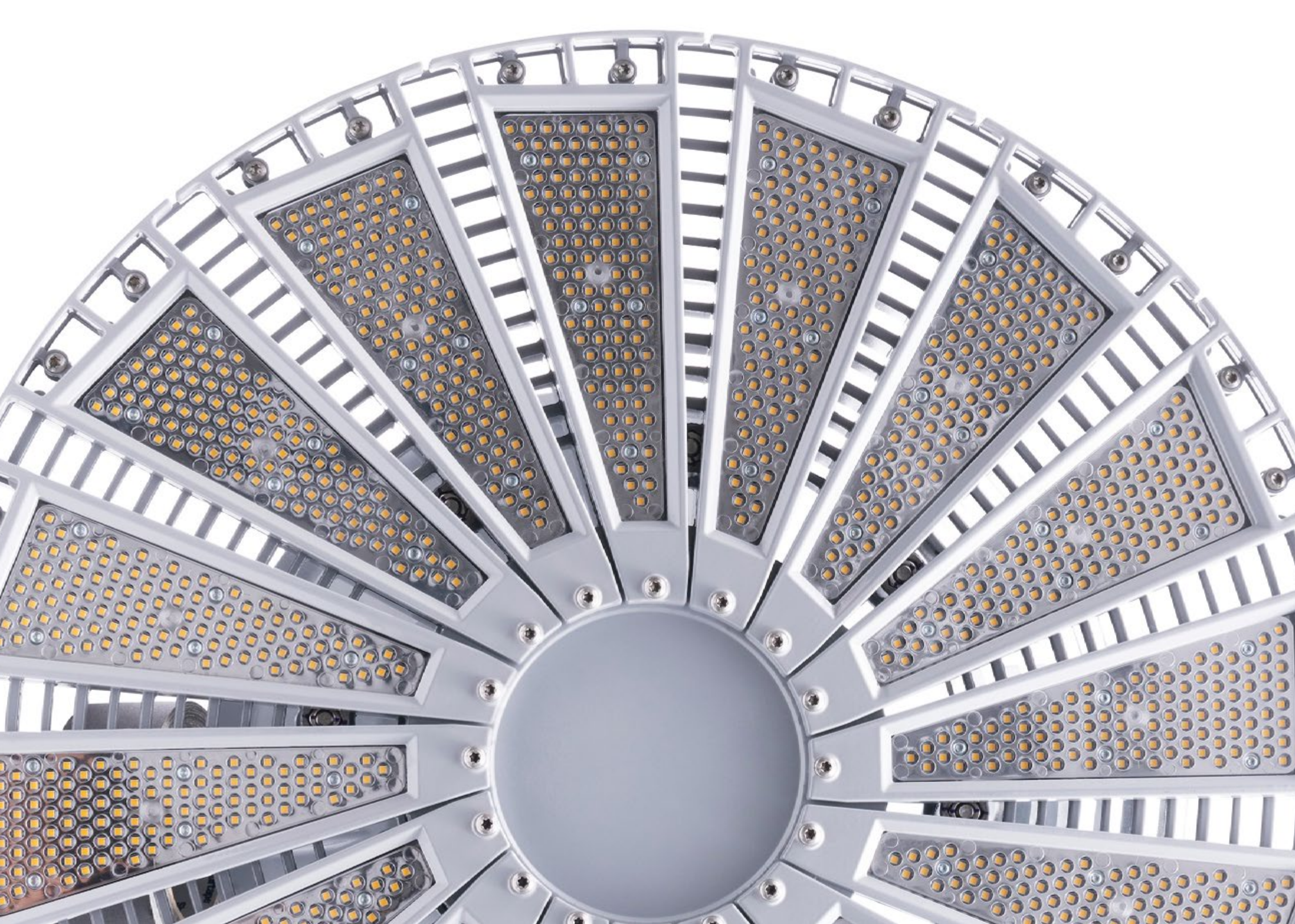
Dialight

DIALIGHT PLC
ANNUAL REPORT AND ACCOUNTS 2018



Dialight is the global leader in industrial LED technology with over 1.8 million fixtures installed worldwide, providing one of the most efficient ways to drive down energy usage

Our next generation of lighting solutions not only reduce energy consumption but create a safer environment. Our products are specifically designed to provide superior operational performance, reliability and durability, reducing energy consumption and ongoing maintenance while achieving a rapid return on investment.

Sustainability is playing an increasingly important role in how businesses respond to the world. It is becoming the lens through which a business is judged by its consumers, workforce, society and its investors.

2018 highlights

Operational highlights

- Underlying Group profit in line with revised expectations
- Europe revenues up 4%, APAC up 16%, US down 5% (with improved Q4)
- Profit achieved despite cost impacts of operationlal issues
- Increase in inventory as expected, to be reversed during 2019
- All product assembly now back in-house, full exit from former manufacturing partner by end of H1 2019

Strategic highlights

- New facilities in Mexico and Malaysia
- New market approach centred on regional technical and product innovation
- Three new product launches in 2019 to significantly expand served market

Statutory measures

	2018	2017	2016
Profit/(Loss) from operating activities (£'m)	**7.6**	3.3	(3.3)
Profit/(Loss) for the year (£'m)	**5.3**	1.7	(2.8)
Earnings per share (p)	**16.4**	4.8	(8.4)

Revenue (£'m)

2018	169.6
2017	181.0
2016	182.2

Underlying Gross Profit (£'m)

2018	60.3
2017	66.7
2016	69.5

Underlying operating profit (£'m)

2018	8.0
2017	9.7
2016	13.1

Underlying basic EPS (p)

2018	17.3
2017	17.9
2016	26.9

Net cash debt (£'m)

2018	(2.9)
2017	12.8
2016	8.0

Underlying performance measures are defined on pages 121 and 134.

Find more online:

www.ir.dialight.com

Contents

Strategic report

IFC 2018 highlights
02 Our business at a glance
04 Chairman's letter
08 Group Chief Executive's review
12 Our market drivers
14 Our business model
16 Our strategy at a glance
18 Key performance indicators
22 Sustainability
32 Risk management
34 Principal risks and uncertainties
38 Financial review

Governance

44 Chairman's introduction to governance
46 Board of Directors
48 Leadership
54 Effectiveness
58 Nominations Committee report
60 Accountability
62 Audit Committee report
66 Directors' remuneration report
68 Directors' remuneration policy
76 Annual report on remuneration
84 Other statutory information
87 Directors' responsibility statement

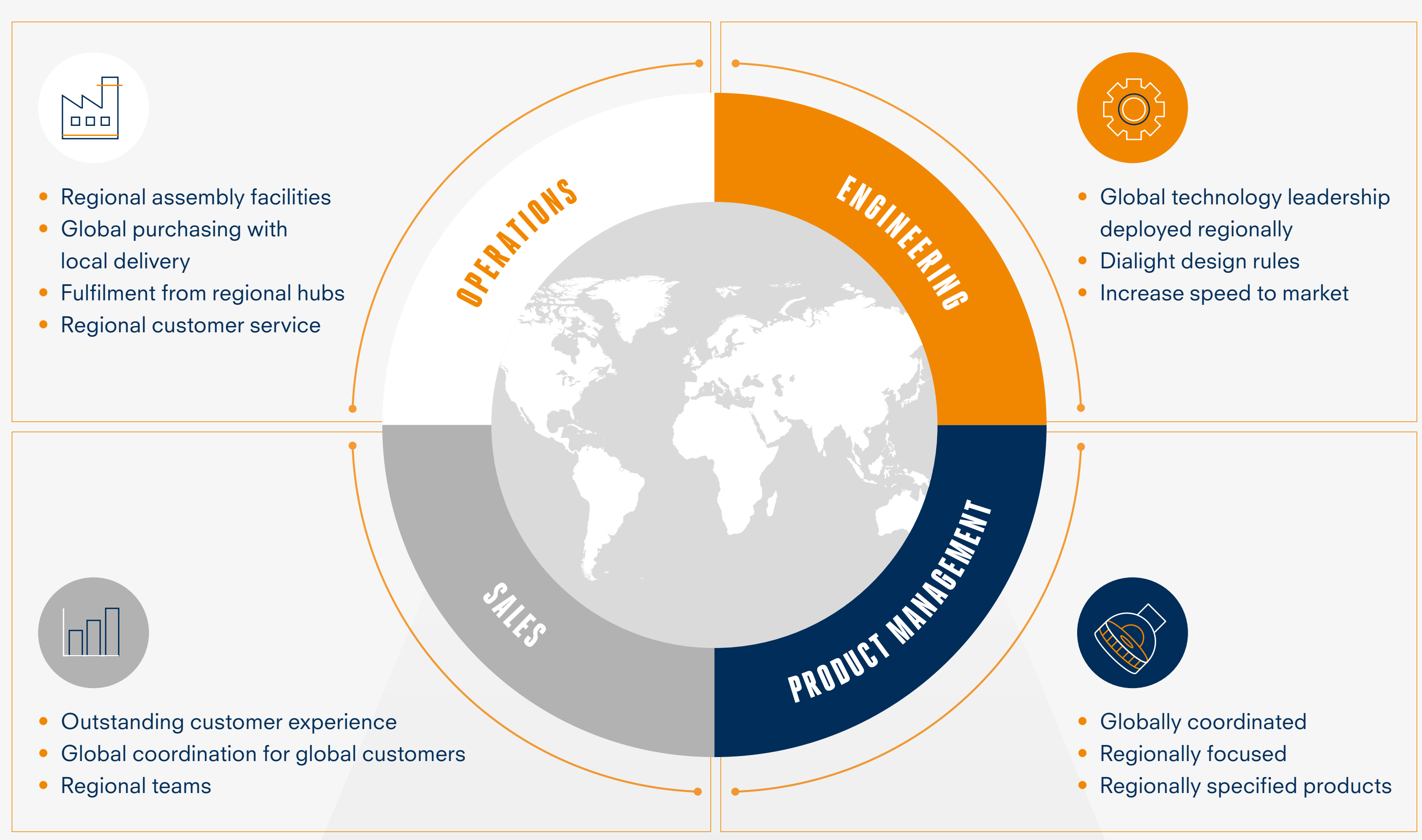
Financial statements

88 Independent auditor's report
98 Consolidated income statement
99 Consolidated statement of comprehensive income
100 Consolidated statement of changes in equity
101 Consolidated statement of total financial position
102 Consolidated statement of cash flows
103 Notes to the consolidated financial statements
135 Company balance sheet
136 Statement of changes in equity
137 Notes to the Company financial statements
146 Five-year summary
147 Directory and shareholder information

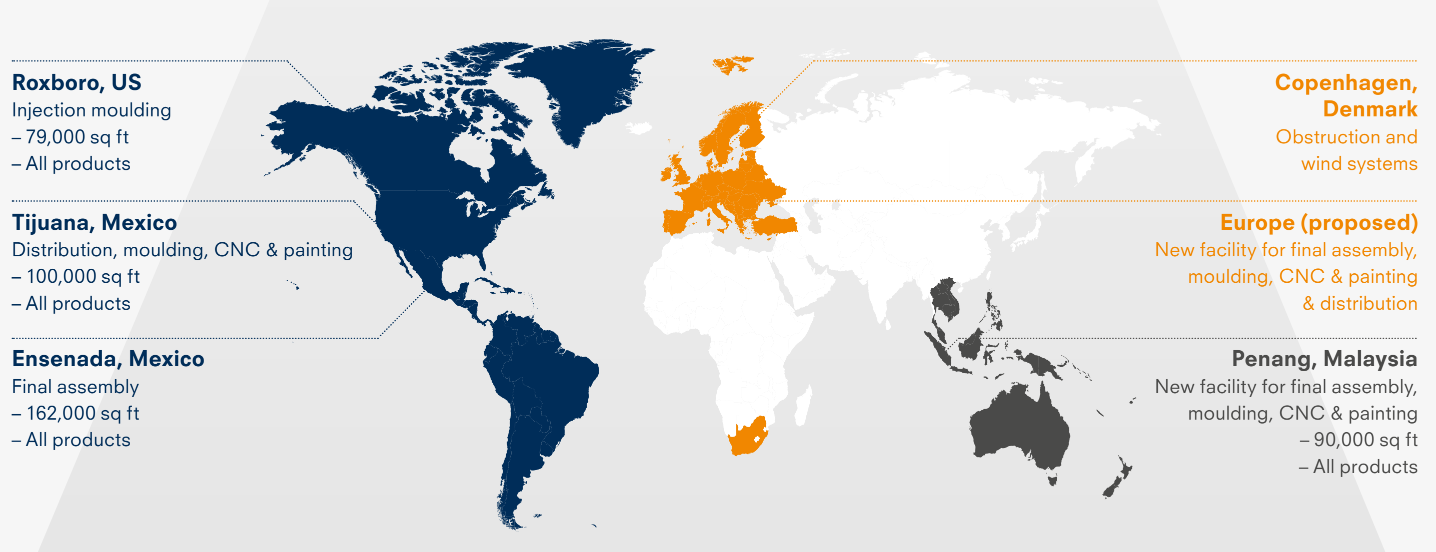
Our business

Business	LIGHTING	SIGNALS AND COMPONENTS
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.	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 business sells status indicators to electronic original equipment manufacturers ("OEMs"). This is a mature market with low barriers to entry.
What's driving demand?	• Industrial LED market penetration is only single digit 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	Our brand reputation and consequent repeat business help us maintain sales volumes in this mature and competitive market.
Industries we work in	• Heavy industry – steel processing, pulp and paper, automotive plants • Oil and gas – upstream, midstream 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	• Traffic management, typically for municipalities • Vehicle manufacturing, supply of niche lights • Electronic equipment manufacturing, supply of status indicators
Performance	**Revenue** £125.0M (2017: £137.5m) **Underlying operating profit** £8.5M (2017: £11.2m) **Underlying gross profit** £47.1M (2017: £54.3m)	**Revenue** £44.6M (2017: £43.5m) **Underlying operating profit** £4.5M (2017: £3.9m) **Underlying gross profit** £13.2M (2017: £12.4m)
	Read more on pages 38 to 41	Read more on pages 38 to 41

Regional emphasis to support local expansion



Operational footprint



Wayne Edmunds
Chairman

2018 was a frustrating year for Dialight which led us to terminate our outsourced manufacturing contract on 27 September 2018. Despite our best efforts to support our manufacturing partner, they were unable to ramp up production to meet our requirements. Our operational challenges damaged relationships with customers, shareholders and employees. We will need to work extremely hard to regain the trust of our stakeholders. However, as outlined below, we are committed to do just that.

Firstly, we are pleased to say all our Lighting assembly is back in–house. We have seen a marked improvement in on-time delivery and our level of late orders is down by 54% compared with the start of 2018. We continue to upgrade and expand our operational footprint. We have secured new facilities in Tijuana, Mexico and Penang, Malaysia. We will look to secure a site in Europe during the second half of 2019. There is still further improvement to be made but we are confident our hybrid manufacturing model where we control final assembly will meet our customers' expectations going forward.

We are improving our go to market strategy. The geographical regions we serve have a number of differences in terms of type of fixture, voltage and installation requirements. In order to address these needs, we are establishing regional centres in EMEA and Asia. This will enable the engineering and product management teams to be closer to the end customer.

We are also focused on expanding our potential market in order to deliver a wider range of products to our existing customers. In 2019, we will launch three major products which will service our expanded market.

Most importantly, we have hired strong professionals in our operations, engineering and product management groups, and restructured to provide focus in our technology organisation. This, coupled with our strong global sales team, will enable Dialight to deliver on our market opportunity.

Our end markets remain strong and the brand is well respected despite the operational issues of the last two years. Our products are compelling and offer real value to customers. Our focus is on improving service levels to our customers and regaining the market share loss of the last two years.

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 2018.

Board changes

We have further strengthened our Board by the appointment of Steve Good on 1 June 2018. Steve's international experience of manufacturing and diverse industrial markets will help the Group in its next phase of development.

People

We would like to thank all our employees for their hard work and efforts in 2018. Their resilience and commitment has enabled us to exit the year with Lighting assembly back in-house and three new products in the pipeline.

Outlook

The actions we have undertaken to improve our operational performance have significantly reduced our late orders. These actions together with our strong focus on product development and expansion of the available market has laid the foundations to drive growth and recapture lost market share.

Our market proposition remains compelling and we are confident of the Group's ability to deliver future growth.

Wayne Edmunds
Chairman
05 March 2019

Our investment proposition

Our value proposition continues to ensure that Dialight products provide the best cost of ownership to industrial customers with paybacks based on energy savings and maintenance cost avoidance, all backed by a ten-year warranty.

Positioned for growth

Our global footprint and diverse customer base ideally position 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. In 2019, we will launch the next generation of our controls offering.

Trusted

Significant expertise exclusively in LED and a decade of experience as a lighting partner to many of the world's leading organisations have helped us achieve the largest installed base with over 1.8 million industrial LED fixtures around the world.

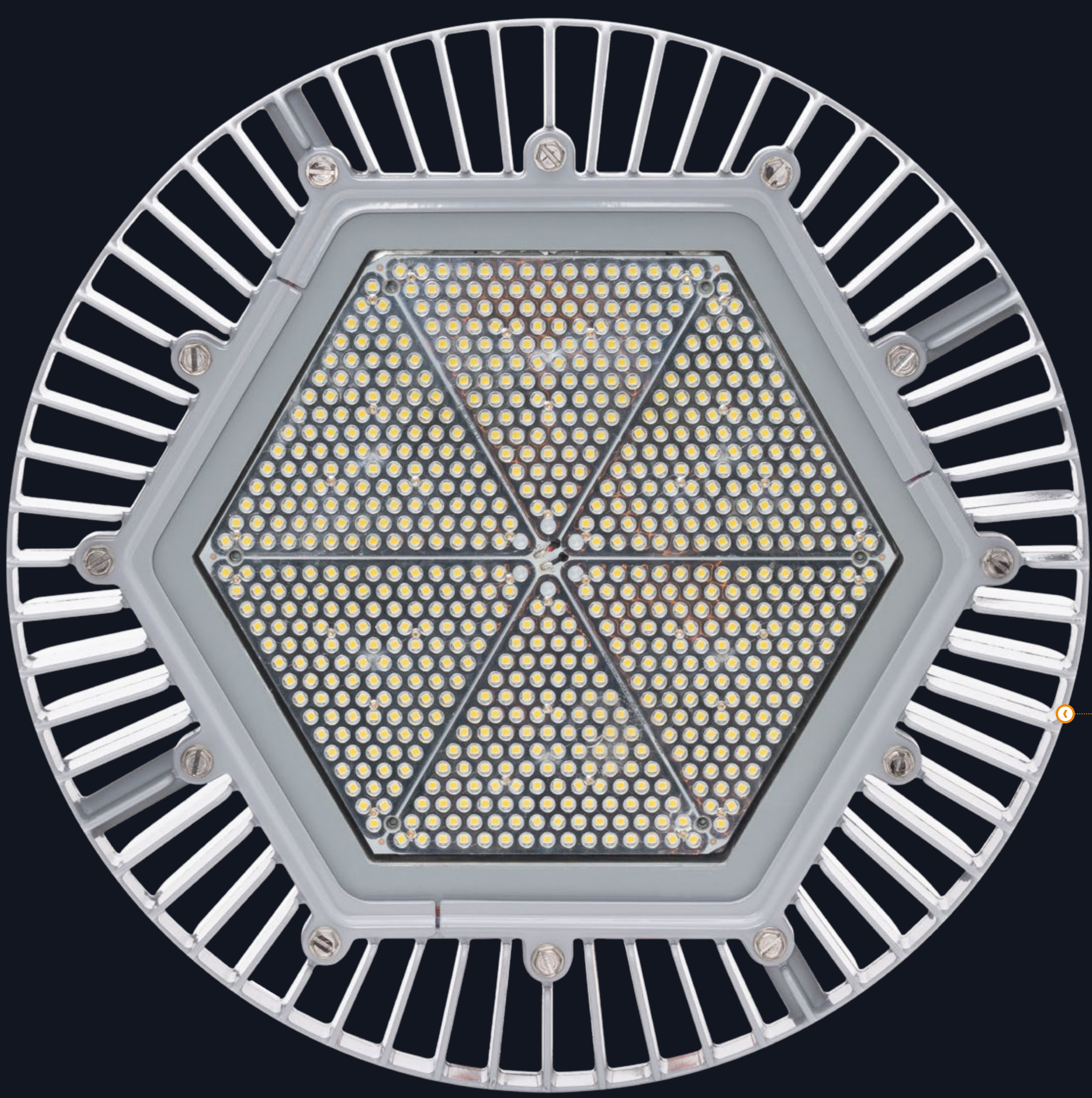
Sustainable

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

Scalable

Increased manufacturing capacity with our new facility in Tijuana, Mexico and enlarged facility in Penang, Malaysia in order to provide scalable production.

ASSEMBLY OF LIGHTING PRODUCTS COMMENCED IN PENANG TO SERVE EMEA AND APAC



New facilities

We have moved all Lighting assembly back to our own facilities following the termination of our outsourced manufacturing agreement in 2018. We have focused on upgrading and expanding our geographical footprint. Our two new facilities, in Mexico and Malaysia, give us the capacity to meet our future growth plans. In addition, we have plans for a new facility in Eastern Europe. Our aim is to provide our customers with industry leading on-time delivery.

Our hybrid manufacturing model combines the ability to source sub-assemblies from local providers or to manufacture in-house. This model will give us the ability to respond quickly to peaks in customer demand.

Martin L. Rapp
Group Chief Executive

2018 was a challenging year for Dialight, but one in which we made significant progress to address the operational issues we faced at the start of the year. The most critical issue facing us was the continued inability of our manufacturing partner to achieve adequate production output, resulting in late product deliveries and lost orders. The primary focus during the year was improving our service levels, and I am happy to say that at year end all product assembly was back in-house and performing as expected. While there is still work to be done to completely disengage from our manufacturing partner and achieve targeted service levels, our fate is back in our own hands. Our markets remain strong and growing, the Dialight brand is well respected in the market, and we have developed a clear and comprehensive growth plan that is centred on bringing technical and product innovation to our customers in a regionally focused way.

Early in the year, we took several targeted actions to improve our operational performance and, although these actions produced significant improvements, they were not adequate to restore our performance to acceptable levels. The main action taken was transitioning production of High Bay, our largest product line, back to our own facility, which resulted in a significant reduction in late orders on this line and service levels returning to normal levels.

In August 2018, having seen a further deterioration in the performance of our manufacturing partner and the success achieved in our own facilities, we terminated our contract on 27 September 2018. Given the extent of the transfer of our operations to our manufacturing partner (including facilities and equipment), it was impossible to take resolute actions as quickly as we would have liked and this process is ongoing.

We have made significant progress in upgrading, expanding and geographically diversifying our current operational footprint. The Lighting business has moved to a hybrid operations model with our own distribution centres. We have secured two new facilities in Tijuana, Mexico and Penang, Malaysia to provide sufficient capacity to meet our future growth aspirations. The Group's operational performance improved markedly in the final months of 2018, giving us growing confidence in our strategy.

While we have placed top priority on the operational challenges, we have also maintained a strong focus on product development and have started establishing regional development centres which will expand our capacity to develop new products appropriate for local markets. We have made significant progress in better understanding our core markets and looking at ways to expand our available market. We are planning to launch three major products in 2019 that will significantly expand the Group's served market. We have also made changes in the management team and structure in order to ensure that we have the necessary skills and experience to maximise the opportunities for the Group.

Business performance

The Group achieved revenues of £170m and underlying profit from operating activities of £8m for the year ended 31 December 2018. Our results were adversely affected by reduced production output from our former manufacturing partner, significant use of air freight to mitigate against late orders and dual running costs as we kept our own facility partially staffed prior to the transfer back to in-house assembly. It is a testament to the strength of the Dialight products and the sales team that we achieved revenues marginally down on 2017 and overall statutory profit before tax has improved by 147%.

Dialight has built up strong sales capabilities across our three global regions. Lighting revenue excluding obstruction was 1% down compared with 2017 at constant currency (see page 134). We saw the strongest growth in our APAC region which achieved 16% growth at constant currency. The European Lighting business was 4% up on the previous year at constant currency. Both regions operate with a narrow product range that is serviced largely from inventory, therefore were not as affected by the operational issues.

The US Lighting business has been the most impacted by the significant delivery issues and extended lead times, resulting in a decline in revenue of 5% at constant currency. The team had deferred bidding on certain large capital projects which have short lead times due to the extended delivery from our former manufacturing partner. The US also has 40% of its revenue from customers' maintenance budgets which are supplied from inventory at our distribution channels. The extended lead times have reduced inventory within the channel and hence impacted revenue. However, this team is extremely strong and with the operational issues easing was able to achieve good recovery in the fourth quarter of the year.

Our Obstruction business consists of lighting and safety systems for the wind market in EMEA and cell phone towers in the US. There has been a decline of 32% at constant currency across these businesses as some larger customers have deferred their capital projects. We aborted the transfer of obstruction products to our manufacturing partner just before the planned transfer date, and our on-time deliveries suffered as a result of a depleted supply chain. There has also been insufficient investment made in updating these product lines in prior years. We will be focused on rejuvenating this business during 2019.

The recent challenges in our Lighting business have overshadowed our other business – Signals and Components. This business continues to perform well, with 3% revenue growth (6% at constant currency) and 15% EBIT growth (23% at constant currency) in 2018. This is a more mature market than our industrial lighting business, but the strong leadership team in Signals and Components has proven that there are growth opportunities even in mature markets and that diligent efforts in manufacturing and sourcing can lead to solid margins. We will continue to explore ways to incrementally grow this business.

Operations

In September 2018 we terminated our agreement with our manufacturing partner to retake control of our manufacturing operations. By year end, we had moved all final assembly back in-house. We are in the process of moving our equipment for machining and coating housings that currently resides in the facility of our former manufacturing partner back to our own facilities. By the end of the first half of 2019 we will have completely exited our outsourcing agreement. The separation process from our manufacturing partner has been relatively smooth to date. We continue to negotiate our final exit, including remaining working capital balances.

There are three main actions being undertaken to further improve our operations base. First, we are continuing our move to a regional operations model. In Mexico, we have secured a new facility in Tijuana which is easily accessible from our current facility in Ensenada and close to the US commercial port of entry in Tijuana. This new building will house the CNC machines and paint line, owned by Dialight, which will be moved from our former manufacturing partner in the first half of 2019. In Malaysia, we are in the process of relocating the operations in our current facility in Penang to a new and larger nearby facility by the end of Q2 2019. This new facility will house our Signals and Components operations, lighting assembly, and sub-assembly manufacturing operations. We have not finalised a location for our EMEA operations facility but expect to secure a facility in Eastern Europe in the second half of 2019 that will be operational in 2020.

Second, we are establishing distribution centres within our assembly plants so that we can provide rapid collection, packaging and shipping of a diverse set of lights for a single order, allowing us to "ship in full" in the shortest possible time. This will ensure we have market leading customer response time.

Third, we are maturing the hybrid model, whereby we use a local supply base to produce the majority of our sub-assemblies but establish and retain internal capacity and capability ensuring we have the best possible mix of speed of response, fixed capital investment and working capital usage.

As we returned production to our own facility our on-time delivery improved compared with the normal level of service we would have experienced in the past. Our aim is to set a new standard rather than just return to the levels prior to outsourcing our manufacturing. Our target is to have greater than 95% on-time delivery in full, everywhere we compete. Our on-time-delivery as we exited 2018 was 70%. This was impacted by the late orders that were transferred from our former manufacturing partner. The significant change in our ability to service our customers has been in faster turnaround of orders. In Q4 we were able to deliver orders with a 3-4 week lead time as opposed to our former manufacturing partner's average lead time of 12-18 weeks.

Strategy

An enormous amount of energy and resources has been consumed in the ultimately unsuccessful efforts to improve the performance of our manufacturing partner. Most functions in the Company were affected. Not only were the financial results impacted, but the growth of Dialight was stunted. Following the extended period of poor operational performance, we need to prioritise repairing the impact on our relationships with both our customers and channel partners.

We believe that simply getting things back to where they were is not good enough. Our reputation has been diminished in the market, we have allowed competitors to sell into applications that have traditionally been Dialight product users and the market has simply moved ahead by two years in terms of LED acceptance and product sophistication.

We need not only to continue to provide the best products in our current niche, but also to offer a wider product range so that we become more relevant to our customers and channel partners. Dialight pioneered the use of LED technology in the heavy industrial space, and was very successful in convincing "early adopters" to make the leap to LED to reap the advantages of energy efficiency, significantly reduced maintenance cost, and less frequent replacement and cost in doing so. This led to a high market share first in the US then Australia, but market share growth elsewhere has been difficult to achieve given the operational challenges and the fact that the products had been designed primarily to serve US market preferences.

The current product portfolio is serving an approximately £500m served market size, but we must enter a larger market space to provide adequate room to grow. The Dialight product range is well respected in the market, and there are many applications where customers would prefer the Dialight efficiency, product longevity and toughness but just cannot afford to pay the price for our current products. We have been selectively using price reduction and feature removal to extend our served market, but there are limits to this strategy as broadly discounting prices of a premium product risks devaluing the product position.

We completed a comprehensive market analysis during 2018 in which we studied the broader industrial lighting market. In facilities where Dialight's current products are being used there is a wide range of other lights with varying degrees of environmental protection and "toughness" requirements. We believe that there is a significantly larger opportunity for Dialight in applications where the customer would prefer to use a light of Dialight's quality but cannot afford to pay for a traditional higher specification Dialight product, designed for use in more challenging applications. If we specifically design products to suit these "tough but not quite as tough as our current products" applications, there

is a significantly expanded market of about four times the size of our current market, at c. £2bn per annum. We can offer these products to our current customers in the same facilities where we are already selling our existing lights, through the same sales channels. Importantly, from our analysis we believe we will be able to drive similar gross margins from these new, lower functionality products.

As part of our market analysis, we also found that the products used for similar applications differed to a more significant extent across the geographical regions. We have concluded that we can grow market share of our existing products and expand our product range, by offering products that are specifically designed to meet regional and local preferences for shape, performance, installation method and price. We believe that the opportunity to expand our served market is significant in all regions if we pursue this strategy.

In order to provide regionalised products and access an expanded market, we need to develop a significantly larger number of products more quickly than we have done in the past. We are doing this by improving our internal new product development processes to be faster and more efficient,

by establishing product development centres in the UK and Malaysia, and by using outside design firms to help with some aspects of the product development process.

Achieving these growth and transformational plans requires different skills and experiences and we have recruited to make significant changes to the skill sets within the Group. In operations, we have a number of new managers who come with broad experience in larger global companies in areas including manufacturing, supply chain management, trade compliance and logistics. Our operations team is fully in place and is working to help us deliver the outstanding customer service experience and cost structure that we need for the future. We have recruited new senior leaders in engineering and product management. They have experience in managing larger and more complex global networks of product lines and design centres feeding multiple manufacturing plants. We have restructured to provide the focus in our technology organisation to maintain and grow our leading technology position and deliver the strategy described here.

None of these actions will have an immediate effect on our financial performance, but we are now on the path that will lead to a larger, faster, and more regionally responsive and balanced Company. The first three of our large new product lines designed to allow us to serve a wider market will be launched in the year, and we also have updates and upgrades of our existing products planned, so 2019 promises to be an exciting year.

Dialight has been through a very challenging period – with an extended inability to deliver products on time when the market is growing and customers want our products. We have strained relationships – with our customers, our channel partners, our employees and our shareholders. I am confident that the plan that we are now executing will result in a full recovery and will result in regained confidence in Dialight.

Business fundamentals

Despite the short-term challenges, we must not forget that Dialight remains well positioned in a growing market in which we are the market leader in terms of our technology.

Customers convert to LED lighting and buy Dialight's products because doing so remains the most efficient way to drive down energy usage and total cost of ownership of their lighting. 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 delivering attractive return on investment to our 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.

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.

The industrial LED opportunity remains largely untapped, as the conservative customer base has sought low-risk, proven solutions. Dialight's ten years plus of experience have earned us 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 many industrial sectors and reduce our reliance on oil and gas markets. This initiative has continued despite the operational challenges that we have faced.

Outlook

2018 was a challenging year for Dialight but one in which we made considerable progress to address the operational issues we faced at the start of the year, reducing late orders significantly during the year. This improvement is primarily due to moving manufacturing under our hybrid model back in-house and terminating the relationship with our manufacturing partner. Further improvement in our operations remains a priority for us.

With a strong focus on product development and expansion of the available market, we have laid the foundations to drive growth and restore market share. We are planning to launch three major products in 2019 that will significantly expand the Group's served market. We have two new facilities, in Mexico and Malaysia, to provide us with sufficient capacity to meet our growth aspirations.

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. The Board's expectations of further progress in 2019 remain unchanged, again with a second half weighting.

Industrial LED market

Global LED Lighting market

Potential expanded market

Expanded product offering to provide a more competitive product for the lighter industrial areas of our existing customers

Dialight current market

£0.5BN

Core product offering in hazardous environments of the heavy industrial space

Expanded market

Within the industrial LED lighting market, Dialight has historically focused on specific niches where hazardous location certifications are required. Within the last five years, Dialight has expanded its focus to include applications where its products can withstand extreme environments such as high heat, high humidity, shock and vibration, dust, water and other challenges but hazardous location certifications are not essential.

The global annual LED lighting market is reported to be approximately £50bn, with the largest share being residential at 39% and the industrial lighting market being £4bn.

Our recent internal analysis of the industrial LED market confirms that the niche currently served by Dialight products is in the range of £0.5bn and Dialight has about a 27% share of this market, with high market shares in the US and Australia and low market shares elsewhere. A study of price and feature elasticity of demand indicates that about a £2bn market would be available to Dialight if additional products could be developed that allow segmentation of the market by price, and development of products that specifically address the regional needs of customers versus continuing to have basically a global product line. We have significant opportunities to grow in the industrial lighting market by increasing our range of offerings to our existing customer base.

Dialight is focused on broadening its range of product offering to its existing customers in sites where we are already supplying lights for their hazardous locations. These types of applications include warehouses, lighter duty assembly or manufacturing applications, cold storage, distribution centres and other industrial environments. We have initially focused this expansion in geographical regions where we already have strong direct sales resources.

In parallel with development of our product strategy to address this expanded served market, we are developing plans for changes in the rest of the business to enable and support successful delivery of more significant growth, predominantly in our operational and engineering footprint. The key theme of our expansion plans is moving to a more regional structure in recognition that we need the speed that comes with proximity to our end markets and the fact that the industrial LED market has strong regional differences versus being a truly global market.

27%

Share of existing LED market

The Led advantage

The clear advantages of LED technology are revolutionising the lighting market, with an increasing focus on total cost of ownership:

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

15 YEARS

LED lifespan

Hybrid manufacturing 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.

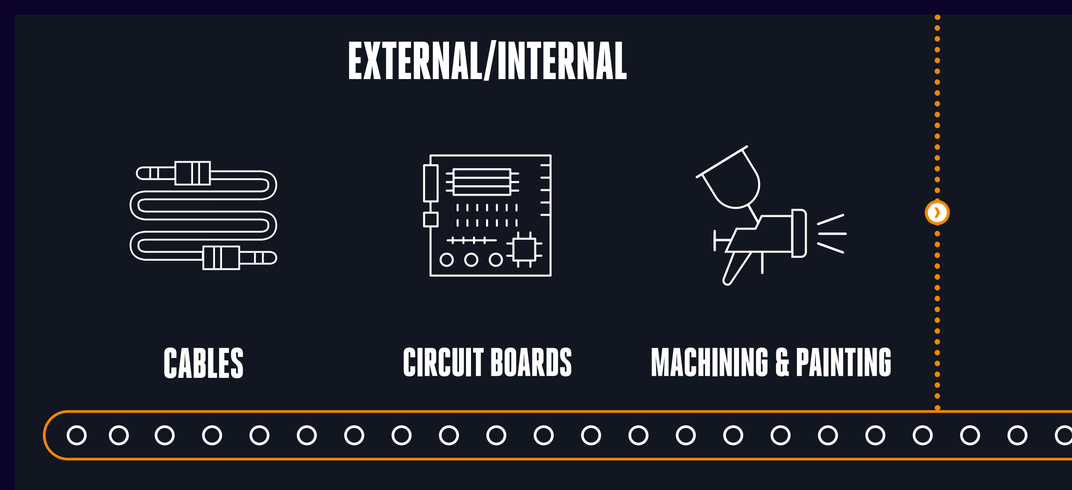
Product innovation
Developing market-leading products at the forefront of technology within industrial markets. In 2018 we invested £7.3m in research and development to extend our product portfolio.

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.

How it works



Our outputs

Revenue
Our revenue is mainly derived from the sale of lighting fixtures (74%). 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.

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.

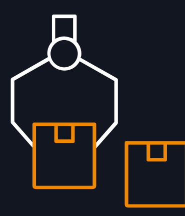
Employees
We offer opportunities for personal development and competitive rewards linked to performance. We believe in a creative working environment with scope for individual responsibility and personal achievement.

Our purpose

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 reduce lighting energy costs by as much as 60%.

60%

Potential reduction in lighting energy costs for our customers



FINAL ASSEMBLY AND SUPPLY CHAIN MANAGEMENT

CUSTOMERS

REDUCED LEAD TIME

IMPROVED TIME ON DELIVERY

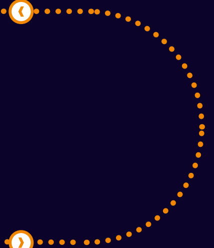
COMPETITIVE PRICING

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, working capital requirements and re-investment.

Re-investment

Cash generated from operations is re-invested in three main ways: to pay for research and development to keep our product offering up to date; to expand our manufacturing capacity; and, in accordance with our capital allocation methodology, the return of capital to shareholders via dividend.



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.

Strategy to address expanded LED market

Our goal

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

Our values

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

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

2. Accountability
We empower and are held accountable to deliver results

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

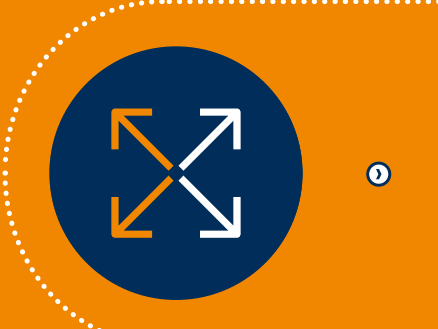
4. Collaboration
No one person or team can do it alone. The Company is larger than any one individual

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

6. Innovation
We lead the market through our ground breaking technology

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

Our strategy



SCALABLE OPERATIONS

NEW PRODUCT DEVELOPMENT

CREATE AND CAPTURE VALUE

See our KPIs on page 18
See our Risks on page 34
See our Market drivers on page 12

Our priorities

Upgrading, expanding and geographically diversifying our current operational footprint to provide sufficient capacity for our future growth aspirations.

1. Increase production capacity to eliminate backlog of orders.
2. Improve our on-time delivery to market-leading level.
3. Mature the hybrid manufacturing model to provide flexibility.
4. Provide the best possible mix of speed of response to our customers.

Continue to provide the best products in the current niche. Develop products to serve a significantly expanded market of c. £2bn per annum.

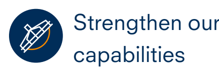
1. Expand the ability to develop new products.
2. Reduce the development time of new products.
3. Develop products that serve the regional differentiation requirements.
4. Develop regional engineering and product management teams.

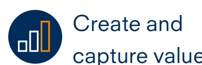
Continued focus on the major levers for accelerating market adoption.

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

Link to strategy

Reinforce our foundations


Strengthen our capabilities


Create and capture value

FINANCIAL

Revenue (£'m)

Year	Revenue (£'m)
2018	169.6
2017	181.0
2016	182.2

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.

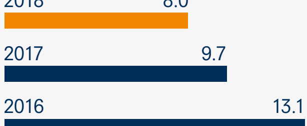
Link to strategy

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 2018.

Target
Year-on-year revenue growth (at constant currency). We did not achieve this in 2018 as there was a 3% decline.

Underlying operating profit (£'m)



Description
The operating profit (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 134).

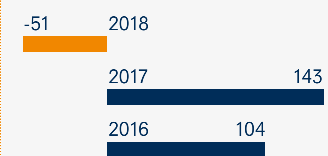
Link to strategy

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 2018 was not achieved and therefore there were no management bonus payments.

Target
For 2018 the target was consensus EBIT at the start of the year, which was £13.3m.

Cash conversion (%)



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 134).

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
The target was 80% but due to the requirement to purchase inventory as part of in-sourcing assembly the value of inventory increased significantly resulting in a negative conversion rate.

NON-FINANCIAL

Health and safety (number)

Year	Health and safety (number)
2018	5
2017	6
2016	10

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.

OPERATIONAL

Retention (%)

Year	Value
2018	92
2017	94
2016	93

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.

Lighting orders (£'m)

Year	Value
2018	124
2017	145
2016	151

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. Due to continued operational issues in 2018, this target was not achieved.

Lighting on-time delivery (%)

Year	Value
2018	70
2017	48
2016	74

Description
The percentage of orders delivered on time (year-end numbers are shown).

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. For most of the year on-time delivery was poor due to the performance of our manufacturing partner. It improved in Q4 but this impacted revenue and EBIT therefore no management bonuses were payable for 2018.

Target
80%.

Underlying lighting gross profit (£'m)

Year	Value
2018	47.1
2017	54.3
2016	57.4

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 110).

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 2018.

Target
Year-on-year expansion of lighting gross margin. Due to operational issues there was a contraction in 2018.

2018 SAW THE DEVELOPMENT OF AN INNOVATIVE NEW PRODUCT CONCEPT

High Output High Bay 72,000 Lumen

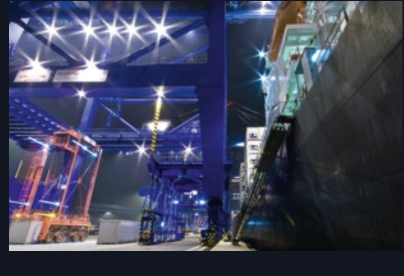
In November 2018 we launched an innovative concept in the industrial Lighting market. We updated our existing 60,000 lumen High Bay by removing the power supply from the interior of the fixture and allowing it to be located up to 200 metres away. This has the following benefits:

- Reduced requirement for heat dissipation allowing us to increase lumen output to 72,000 lumens
- Increased reliability and easier maintenance
- Installation is easier due to weight reduction and fixture being smaller

Easier installation

The installation of the fixture was simplified as the new version is 20% lighter and has a fixture depth of 45% less than our previous version. The reduced weight allows it to be installed by a single person compared with a two-person team required for the previous version. The reduced depth allows it to be mounted nearer the ceiling and it also has an uplight capability if required. Additional features such as the 480 volt transformer can also be remotely located.

200M
the distance that the power supply can be fixed



Easier to maintain and more reliable

In addition to the normal reduction in maintenance costs by using our fixtures, a remote power supply adds the following benefits;

- In the unlikely event of fixture failure, the power supply is the most likely element that will fail. By having this remotely located there is no requirement to take down the fixture if it needs replacing.
- Power supplies can be located away from production lines in more accessible areas reducing any requirement to halt production if there is an issue with the fixture.

19%

Greater lumen efficiency than previous model

20%

Lower fixture weight

Dialight's business is built on providing products that enable our customers to improve safety, working environments and help to achieve sustainability goals through the use of technology. We continue to innovate by producing new products that further push the boundaries of reduced power consumption. Our latest High Bay, launched in November, has increased the lumen efficiency by 19%, giving 149 lumens per watt of output. Our current product pipeline will broaden the range of our products and expand our sustainability offering to our customers.

Introduction

Dialight's products can and will play a key role in helping our customers make the transition to a low carbon economy with our industry-leading, energy-efficient lighting solutions.

Dialight helps our customers change their emission profiles and assist countries to reach their emission goals. Governments around the world have to update their emission reduction plans by 2020 as part of the Paris climate change agreement process.

2019 will be the year that organisations will need to strengthen their activities to tackle their carbon emissions in terms of target setting followed by actions and subsequent reporting.

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.

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 18 and 19.

Areas of emphasis include health and safety, employee engagement and development, human rights, ethics and sustainability. The safety of our employees and of the products we design are critical to the Group. We recognise the necessity of safeguarding the health and safety of our own employees while at work and operate 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.

COMMUNITIES

How we make a difference in our communities

We like to play a positive role in our local communities and participate in a range of activities and educational initiatives. Our local management teams decide which community programmes to take part in and which charities to donate to or sponsor.

Some of the ways we are active in our local communities are:

- partnering with local schools, charities and other local organisations that promote community cohesion;
- promoting charitable giving and active community volunteering among our employees;
- supporting training, employment and education for local people on our sites and in our offices;
- sourcing from local businesses wherever possible to encourage local economic prosperity; and
- providing or funding appropriate physical and community infrastructures to leave a legacy of our involvement.

The total number of hours donated to volunteering activities in 2018 was 150. Our community participation was truly global, with our offices in the UK, US, Australia, Singapore and Brazil all being involved.

1. Brazil

The Brazilian team planted trees at the Municipal Environmental School which is dedicated to the development and promotion of environmental research. The school's focus is to train students and teachers to make a cleaner and greener future.

2. Australia and UK

The Perth and London offices continued their association with OZ Harvest and Whitechapel Mission. Both are dedicated to providing food for the needy and homeless respectively.

3. New Jersey, US

The New Jersey office continued their work to combat hunger in their local community. This year they have planted a garden to grow fresh food to be distributed to local families in need.

4. Vietnam

As part of a program of regeneration, the Asia team in conjunction with a potential customer spent a day planting trees at the world's largest tungsten mine in Vietnam.

COLLEAGUES

Our people

Our culture reflects the collective capabilities of our people and is one of our unique strategic assets. We attract high achievers interested in working collaboratively and making a positive difference in the world. We facilitate this by minimising bureaucracy, preferring instead to act with speed and precision to maximise our impact. This encourages us all to imagine the future and then create it, working seamlessly with internal and external partners to ensure our purpose is fulfilled. We view talent, culture and communications as strategic growth enablers.

We have launched new communications efforts internally to foster more awareness of the challenges and opportunities across the Group, and share best practices and know-how to help grow the business. Our "people policy" reflects our commitment to our employees. It outlines the commitments we make to select and develop our people, 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 their contribution.

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. These enable and prepare leaders to continue to grow the business.

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 the acquisition of greater technological understanding throughout the Group.

Through collaboration and sharing best practice, we continue to deliver market-leading innovations that benefit our customers. Group leaders come together to learn from one another, identify ways to collaborate, share developments in our technology or simply learn from each other's experience. We believe that empowered business leaders are 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 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 individually and on the various factors affecting the performance of the Group as a whole. 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.

ACHIEVEMENT

Our employees are highly motivated by the opportunity 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 help us 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 environment;
- a portfolio of cutting-edge technologies with which to work 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.

10
women in senior management

49%
women overall staff

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.

Geographical diversity

As our business continues to expand globally, it is important that the insights and perspectives of local markets are 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.

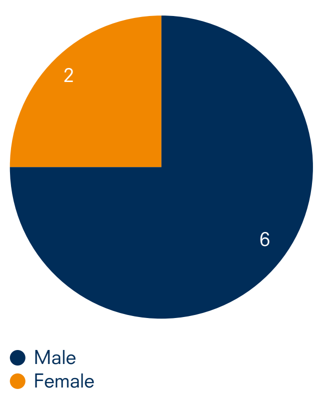
Diversity is one of our biggest competitive advantages. The diversity of our workforce provides stability and broadens the scope for growth. The diversity of our people helps us stay agile as the needs of our customers change and as business adapts. From a gender perspective in Dialight, the representation of women is strong in management and production roles, and weakest in middle management roles. We are committed to gender pay equality and we have parity by role. We operate in many countries and the diversity of our workforce can be seen in the chart below.

Applications for employment from disabled people and disabled employees

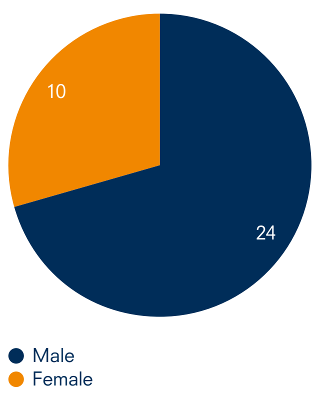
Applications for employment from disabled people are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort will be made to ensure that their employment with the Group continues and that any appropriate training 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.

Employment diversity

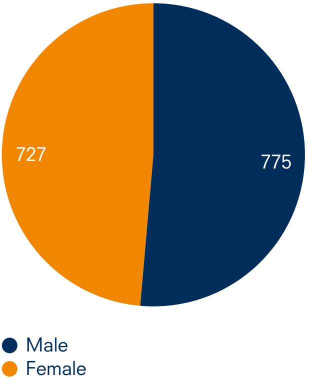
Gender diversity: Board



Gender diversity: senior management



Gender diversity: all employees



CARBON AND THE ENVIRONMENT

Reducing emissions

The environment

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

Our impact

The environmental impact of our operations is relatively low compared with 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, reduce waste and emissions and 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 significantly but we continue to focus on other energy reduction initiatives.

The table below sets out Dialight's emissions in 2018 compared with 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 supply chain to identify recycling opportunities. In 2018, we recycled over 300 tonnes of cardboard, plastic, wood and metals at our production facilities. All administrative offices have a recycling policy to help reduce waste going to landfill.

Consumption of resources

	2018 Tonnes CO_2	2017 Tonnes CO_2	Variance
Emissions from combustion of fuel and operation of facilities	85	271	186
Emissions from purchased electricity	5,104	5,756	652
Total	**5,189**	**6,027**	**838**

2018 Resource	Total consumption (m's)	Unit	Consumption per £ turnover
Electricity	9.5	kWh	0.056
Water	15.5	litre	0.091

CARBON EMISSIONS AND POWER SAVINGS

Every year, our products help our customers:

- eliminate 300,000 tonnes of carbon emissions; and
- reduce electricity consumption by 4000 GWh.

CARBON EMISSIONS AND POWER CONSUMED IN PRODUCTION

- Carbon emissions: 6,000 tonnes
- Electricity: 8,100 GWh.

RECYCLING

- We recycled over 300 tonnes of materials at our production facilities.

CERTIFICATIONS

- Our three main production facilities have Environmental Management Systems and are certified under ISO 14001.

GOVERNANCE

Our goal is to have no accidents

Health and safety

Dialight's products protect and improve the quality of life of people working in industrial and hazardous environments around the world. 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 18.

The Group manages its activities to avoid causing unnecessary or unacceptable risks to the health and safety of its employees in the workplace or to the public. Health and safety processes, procedures and reporting are closely monitored to ensure a safe working environment for our employees and visitors to our sites. Our three main production sites in Ensenada, Mexico, Roxboro, North Carolina, US and Penang, Malaysia, all use an occupational health and safety management system and are accredited to BS OHSAS 18001.

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 for, and education of, our employees.

Ethics

Dialight's culture is one of openness, integrity and accountability. The Group 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.

Whistleblowing

We require our employees and business partners to maintain the highest standards of integrity and to act in good faith. Dialight has a Group-wide whistleblowing policy which as well as applying to all employees, applies to joint venture partners, suppliers, distributors and customers. Although we encourage and maintain an open culture in which any issues can be raised, we recognise that there will be times when it is not appropriate, or a person will not be comfortable, to raise a concern through line management. An independent third-party provider, Safecall, has been appointed to operate a confidential reporting service for the Group which enables employees to raise any concerns they may have in confidence. All reports are also 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 resolved. We are committed to ensuring that anyone raising a concern in good faith is not subject to any form of victimisation or detrimental treatment, although a malicious allegation may result in disciplinary action.

Political and charitable donations

The Group does not make political donations. Charitable donations are made only where legal and ethical according to local laws and practices.

Anti-bribery and corruption

Dialight has a zero-tolerance policy as regards to bribery and corruption. This extends to all business dealings and transactions and includes a prohibition on offering or receiving

inappropriate gifts or making undue payments to influence the outcome of business dealings. Compliance with the policy is checked as part of the half year and year-end process. All employees were trained on anti-bribery and corruption in the year.

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 and discrimination, and respect freedom of association and the right to collective bargaining. We do not tolerate practices which contravene recognised international standards. Managers and supervisors must promote human rights alongside 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 disregard or abuse of human rights. Our Group Chief Executive Officer has overall responsibility for ensuring that human rights considerations are integral to existing operations and in how new opportunities are developed and managed.

Modern Slavery Act

Dialight published its first Modern Slavery Act statement in 2017 and has worked since the Act's introduction to raise awareness of this important issue. We have done this by rolling out Modern Slavery Act training to all employees across the Group to ensure that we all understand our responsibilities and consider the Act in all our operations.

Each business has performed a risk assessment as regards the potential for modern slavery and human trafficking within the business and its supply chain. All existing and new clients and suppliers are subject to a check on the non-compliance database.

CUSTOMERS

Helping clients work smarter

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 (AI) features that allow them to link directly 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 advanced optics that direct light precisely where it is needed. All products have an industry-leading ten-year warranty.

Historically, high-intensity discharge lighting (HID) such as high pressure sodium (HPS) units have dominated the industrial sector, particularly in the US. The major differences between our LED and HPS units are that LED lighting:

- outputs 30–60% more light
- uses 50% less power per day, assisted by using lighting controls
- does not use mercury (which is toxic and environmentally dangerous)
- has a longer lifespan (by a factor of 4)
- requires fewer fixtures to illuminate the same area

We estimate that the total benefit to our customers from switching to Dialight LED lighting has been a reduction in electricity consumption of some 2.5 million MWh, the equivalent to taking 400,000 passenger vehicles off the road for a year.

NON-FINANCIAL REPORTING

Sustainability governance

For many investors, climate change poses significant financial challenges and opportunities. The expected transition to a lower carbon economy is estimated to require around £2.7 trillion, on average, in energy sector investments a year for the foreseeable future, generating new investment opportunities. At the same time, the risk return profile of companies exposed to climate-related risks may change significantly because of physical impacts of climate change, climate policy or new technologies.

UN Sustainable Development Goals "SDGs"

The UN Sustainable Development Goals are the blueprint for a better and more sustainable future for all. They address global challenges we all face, including those related to poverty, inequality, climate change, environmental degradation, and peace and justice. The UN has set 2030 as the target for achievement.

We consider four of the SDGs directly relevant to our business:

- Goal 5 – Gender Equality (e.g. target 5.5, 'Ensure women's full and effective participation and equal opportunities for leadership')
  The Dialight response: 48% of our total workforce is female. The percentage falls to 29% in senior management and we continue to employ based on ability and the availability of candidates.

- Goal 7 – Affordable and Clean Energy (e.g. target 7.3, 'Double the global rate of improvement in energy efficiency').
  The Dialight response: Our new products continually take energy efficiency to new levels.
- Goal 12 – Responsible Consumption and Production (e.g. target 12.2, 'Achieve the sustainable management and efficient use of natural resources').
  The Dialight response: We constantly strive to reduce consumption of resources. We design products that enable our customers to achieve this.
- Goal 13 – Climate Action (e.g. 13.3, 'Improve education, awareness-raising and capacity on climate change mitigation').
  The Dialight response: Our growth strategy includes raising awareness of climate impact to educate potential customers to embrace LED and move away from older forms of lighting which are damaging to the environment.

The Task Force on Climate-related Financial Disclosures 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 this year is our first disclosure under the framework. We recognise that this will evolve and expand over time. The Task Force issued an update in September 2018 that reviewed the challenges associated with measuring and disclosing information on risks related to climate change.

Recommendations of the Task Force on Climate-related Financial Disclosures

Reporting requirement	Policies and standards which govern the approach
Governance: the level of governance around climate-related risks and opportunities	Climate-related opportunities are at the heart of the business. Our growth strategy is designed to harvest these opportunities as companies switch to more sustainable lighting solutions. This is a key focus at Board level.
Strategy: actual and potential impacts of climate-related risks and opportunities on an organisation's business, strategy and financial planning	There are significant opportunities for the business related to purchasing decisions made on the basis of climate impact. This could be driven by legislative change that bans non-environmentally friendly lighting such as high pressure sodium or from voluntary transition to LED as a means of achieving sustainability targets. Satisfying the above forms the basis of our business plans.
Risk management: the processes used to identify, assess and manage climate-related risks	Climate related risks are identified as part of ongoing business risk assessment. The mitigation of these risks, Production Capacity and Market Trends & Competition, is set out in our Risks and Uncertainties section on pages 34 to 37.
Metrics and targets: the metrics and targets used to assess and manage relevant climate-related risks and opportunities.	We target the reduction of our carbon emissions as a proportion of revenue by 10% over the period from December 2017 to December 2020. The results are set out on page 26.

We aim to comply with the new Non-Financial Reporting requirements contained in sections 414CA and 414CB of the Companies Act 2006. The below table, and information it refers to, is intended to help stakeholders understand our position on key non-financial matters.

Non-financial information statement

Reporting requirement	Policies and standards which govern the approach	Evidence of implementation/action taken to manage the issue	Due diligence
Colleagues	Health and safety policy	Page 24	Safety audits conducted and management systems implemented
Carbon emissions	Statement on carbon reduction/target	Page 26	Carbon footprint data is monitored internally
Human rights	Company policy and international law	Page 28	–
Social matters	–	–	–
Anti-corruption and anti-bribery	Company policy and international law	–	–
Description of principal risks and impact of business activity	–	Pages 34–37	–
Description of the business model	–	Page 14	–
Non-financial key performance indicators	–	Pages 18–19	–

HELPING OUR CLIENTS DELIVER ZERO EMISSIONS

Rubis Group

French-based Rubis Group is an independent operator of downstream petroleum and chemical facilities. Its Rubis Terminal division operates 14 facilities around Europe with a combined storage capacity of 3 million cubic metres. For their new facility in Rotterdam they wanted to eliminate the problems they had encountered with their existing facilities:

- **Energy efficient** – the target was zero emissions and the combination of fluorescent linear and flood lights was not going to deliver this
- **Safety** – staff needed to use supplemental, temporary, portable lights to perform their work
- **Reliable illumination** – with fluorescent lighting, workers had to build scaffolding and work at high elevation, in teams of two, with portable lighting. Vibration from equipment caused frequent failures, so maintenance was an ongoing process.

In addition, they wanted to avoid light pollution by having lights that were Dark Sky compliant for the benefit of wildlife.

60%

Energy consumption reduction

The powerful combination of energy and maintenance savings is expected to generate a payback period of less than four years, creating a substantial ROI for Rubis at this new facility. The outstanding efficiency and sustainability of the LED fixtures also allows the company to more easily meet annual governmental energy audit requirements, and achieve its goal of operating a zero-emissions facility.

The project has been so successful, the company plans to expand the project to retrofit existing terminals with new, state-of-the-art Dialight LED fixtures.

£90k

Annual maintenance saving

The Dialight solution was to provide;

- 137 SafeSite Linears
- 23 SafeSite Area Lights
- 19 SafeSite Wallpacks
- 14 SafeSite High Bays
- 22 Stainless Steel Linears
- 57 Street Lights

The complexity of the lighting requirement was satisfied by utilising six different product ranges designed to work in different areas to provide the correct illumination necessary. Our SafeSite products were used in areas which contained hazardous materials and our non-SafeSite products were used in more general areas.

6

Product ranges utilised

Our approach

We believe that great risk management involves people at all levels in the organisation being empowered to manage risks and take advantage of opportunities. Our risk awareness culture allows management to make better commercial decisions and helps to maximise the benefits of our business model.

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.

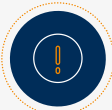
Key areas of the Group's system of internal controls are shown on the opposite page.

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.

See Viability statement on page 61
See Going concern on page 61

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.

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

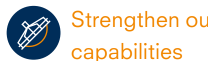
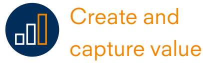
Executive Committee	Company Secretary
Senior managers	Internal audit

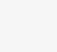
SENIOR FINANCE STAFF

Gross risk

Low Medium High

Link to strategy

Reinforce our foundations  Strengthen our capabilities  Create and capture value

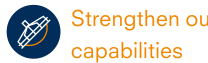
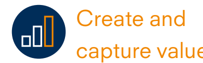
Risk	Risk Description	Gross risk	Impact on strategy
PRODUCTION CAPACITY	Production capacity needs to be sufficient to ensure current orders can be fulfilled in a timely manner and be scalable to support growth Risks to production capacity by using a single-site location, for the manufacture of all Lighting products		 **KPIs** – Revenue – Underlying operating profit – On-time delivery – Order growth
SUPPLY CHAIN MANAGEMENT	The procurement planning process is dependent on the accuracy of sales forecasts to ensure adequacy of component supply The Group needs to maintain a robust supply chain		 **KPIs** – Revenue – Underlying gross profit – On-time delivery – 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		 **KPIs** – Revenue – Underlying operating profit – On-time delivery – 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. The Group has operations in countries with unstable political climates hence there is a risk of tax changes. Brexit has introduced uncertainty to the level of tariffs on goods imported from Europe into the UK		 **KPIs** – Revenue – Underlying operating profit
SUCCESSION PLANNING AND STAFF CALIBRE	The Group performance is dependent on attracting and retaining high-quality staff across all functions		 **KPIs** – Revenue – Retention

Impact on viability, reputation and health and safety	Mitigation
– Inability to fulfil demand due to lack of product availability – Loss of revenue and operating profit	– The Group has expanded it sub-assembly providers in Mexico – Establish two new facilities in Mexico and Malaysia – Transitioning CNC and paint equipment from our former manufacturing partner to our own facility – All final assembly is in-house – Key hires in supply chain, logistics and trade and compliance – Continued focus on a dual sourcing programme is a high-priority issue for the coming year
– Inability to fulfil demand due to lack of product availability – 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 – Focus on design for manufacturing – Variety of product offering reduced based on empirical analysis
– Inability to supply customers – Loss of revenue and significant business disruption – 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 – There are back-ups built into all Group systems and the spread of systems offers good protection from individual events – Third-party suppliers are used to provide data protection software
– Reduced financial performance – Loss of market share – Unforeseen liabilities	– Based on current information potential tariffs on imports from Mexico to US and Canada are not a major risk – The Group is considering production locations within the EU to mitigate against Brexit – External tax advisers appointed in high risk areas
– Without good-calibre staff, the Group will find it difficult to expand and achieve its strategic goals	– The Group's development programmes enhance the skills of executives and middle managers – A comprehensive recruitment process and ongoing evaluation assist high-quality hiring and development – Considerable time is spent assessing middle and senior management in order to identify succession plans

Gross risk

Low Medium High

Link to strategy

Reinforce our foundations  Strengthen our capabilities  Create and capture value

Risk	Risk Description	Gross risk	Impact on strategy
INTELLECTUAL PROPERTY	Theft or violation of intellectual property ("IP") by third parties or third parties taking legal action for IP infringement		 **KPIs** – Revenue – 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		 **KPIs** – Revenue – Order growth
PRODUCT DEVELOPMENT STRATEGY	Ability to deliver new products to the market on a timely basis		 **KPIs** – Revenue – Underlying gross profit – Order growth
PRODUCT RECALL	The Group gives a ten year warranty on Lighting products		 **KPIs** – Underlying operating profit
FOREIGN EXCHANGE	The Group reports in Sterling; however, the majority of its revenues and its cost base are in US Dollars. Fluctuations in exchange rates between Sterling and US Dollar could cause profit and balance sheet volatility		 **KPIs** – Revenue – Underlying operating profit

Impact on viability, reputation and health and safety	Mitigation
– Proprietary technology used by competitors leading to loss of market share and revenue – Unforeseen liabilities	– Intellectual property is protected by patents and potential violations are pursued through legal action – 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 – Establishing new regional development centres – 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
– Loss of market share – Lack of order growth	– The target market has been re-evaluated during the year and has been increased based on a detailed regional analysis – Product management and engineering will be regionally focused – Three major product launches targeted in 2019
– Unforeseen liabilities	– We maintain a reserve against potential claims – Closely monitor root cause of failures – 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 – Most of the Group's profit earned is not in the reporting currency	– The Group uses natural hedging to cover operational exposure as the majority of revenue and costs are in US Dollars. As the business expands geographically, the use of forward contracts will be reviewed to limit operational exposure on a selected currency basis – Translational exposure is not currently hedged but the Group reports key financial indicators on an actual and a constant currency basis

Fariyal Khanbabi
Group Finance Director

LIGHTING

£125.0M

2018 revenue

SIGNALS AND COMPONENTS

£44.6M

2018 revenue

The Group has had a challenging year as a result of operational issues that came to the forefront in 2017. The Group decided to outsource production of all lighting products in 2016, however our manufacturing partner was unable to ramp up production from the inception of the contract. We dedicated significant internal resources to support the transition including having a team permanently based at our contract manufacturer. In the first half of 2018 we removed our largest product line, High Bay, moving final assembly back to our plant in Ensenada. These actions resulted in some short-term improvements but were not adequate to restore our performance to acceptable levels.

In August 2018, we saw a further deterioration in the performance of our manufacturing partner and this led us to terminate the contract on 27 September 2018. The timing of the termination was challenging during our busiest period of the year, as traditionally the lighting industry is heavily Q4 weighted. However, we believe that having control of our operations and expanding our current operational footprint will help us recover faster.

All final assembly of our lighting products was in house at the end of the year. Our former manufacturing partner is still producing some sub-assemblies but with our new alternate suppliers ramped up, this will also be removed by the end of H1 2019.

We have a number of CNC machines and a paint line based at our former manufacturing partner which is also in the process of being removed and re-housed in our new facility in Tijuana, Mexico.

The operational issues affected the Group results in two ways. Firstly, the extended lead times impacted our Group revenue and secondly there were a number of additional costs that impacted our profitability.

Group revenue was 6% behind 2017 at £169.6m and on a constant currency basis (see page 134) was 3% lower than 2017. The revenue was impacted due to the operational issues within the Lighting segment.

We had a number of additional costs which adversely affected our performance, reducing gross margin by 130 bps compared to 2017. The reduced production output from our former manufacturing partner resulted in significant use of air freight to mitigate against late orders and dual running costs as we kept our own facility staffed prior to the transfer back to in house assembly. These costs have not been reported separately as non-underlying items. Overall revenues were only marginally down on 2017 and underlying EBIT was 18% lower than 2017 due to the margin reduction.

During this period, we have had strong cost control discipline and have seen our operating costs (excluding non-underlying) reduce from £57.0m in 2017 to £52.3m in 2018.

The reduction in the Group's underlying EBIT of £1.7m includes the impact of £0.7m of foreign exchange. The key drivers for the reduction in the EBIT on a constant currency basis were as follows:

- (£2.0m) gross margin impact of the revenue reduction;
- (£2.1m) reduction in gross margin due to dual running costs incurred for maintaining the Ensenada plant, additional freight charges partly offset by improved inventory management; and
- £3.1m operational savings.

The costs associated with the transfer back to our own facilities which consisted of dual running costs and the internal resources dedicated to the transfer have not been treated as a non-underlying item in 2018. In 2017 there was £6.4m of non-underlying costs of which £4.6m related to the transfer to our former manufacturing partner. Therefore, the results for 2018 at a statutory profit before tax level have increased by 147%, £7.4m for 2018 compared to £3.0m in 2017.

Currency impact

Dialight reports its results in Sterling. Our major trading currency is the US Dollar, which in 2018 comprised 80% of the Group's revenue. The Group has both translational and transactional currency exposure. Translational exposures arise on the consolidation of overseas results into Sterling and this is the major currency exposure. Transactional exposure is where the currency of sales or purchases differ from the local functional currency. We use natural hedging on revenue and purchases to mitigate the majority of the currency risk.

The average rate for the US Dollar against Sterling weakened by 3% compared to the prior year, with the rate moving from 1.29 in 2017 to 1.33 in 2018. Based on the current mix of currencies, a 1% movement of the US Dollar relative to Sterling changes revenue by £1.4m and EBIT by £0.1m.

Lighting segment (fig 1)

The Lighting segment represented 74% of the Group's revenue and 65% of the Group's underlying segmental operating profit. Revenues were 9% lower (6% lower at constant currency) compared with the prior year. The production delays adversely impacted the US region which was 5% below 2017 offset by growth in EMEA and APAC. The Obstruction business although not significantly impacted by the operational issues, had revenues 32% (at constant currency) below 2017. There has been a decline in this business as some larger customers have deferred their capital projects. There has also been insufficient investment made in updating these product lines in prior years which has resulted in loss of market share. These issues are being addressed in 2019 with the product portfolio getting a full refresh.

Our order intake, i.e. the value of orders received in the year, was also adversely impacted with a year on year decline of 10% at constant currency. The APAC lighting business delivered order growth of 21% (at constant currency). The US lighting orders were significantly impacted due to the operational issues resulting in a decline of 14% (at constant currency). The EMEA Lighting business is project driven with little revenue attained from stocking distributors. We had some large capital projects in the first half however, due to supply constraints we were unable to bid for many projects in the second half resulting in a 15% decline (at constant currency) compared to 2017. The order intake for the Obstruction business was 31% down (at constant currency) compared to the previous year.

Gross margin contracted by 190 bps to 37.6%. The effects of our operational issues were evident in 2017 which had £2.4m of

Lighting segment (fig 1)

Lighting	2018 £'m	2017 £'m	Variance
Revenue	125.0	137.5	(9%)
Gross profit	47.1	54.3	(13%)
Gross profit %	38%	40%	(190 bps)
Overheads	(38.6)	(43.1)	10%
Underlying EBIT	8.5	11.2	(24%)

additional freight costs. The incremental costs over 2017 are:

- (110 bps) reduction due to raw materials markup charged by our former manufacturing partner with no offsetting savings achieved in the period;
- (20 bps) reduction due to continued use of air freight to mitigate the extended lead times;
- (150 bps) reduction due to retaining our skilled production labour force during the transition from our former manufacturing partner: offset by
- 90 bps increase due to elimination of dual plant running costs as we transferred to our facility in Ensenada.

As the volume of in-house production increases and service levels return to a more normal level, the negative impact of these additional costs will be mitigated.

Operating costs reduced by £4.7m compared to last year. This was due to sales related costs flexing with the lower revenues and strict cost control procedures.

The result of lower revenues and contraction in gross margin, partially offset by lower costs, was that the overall underlying operating profit in the Lighting segment reduced by 24% to £8.5m (21% at constant currency).

Signals and Components (fig 2)

Signals and Components is a high-volume business operating within highly competitive markets. This business continues to perform, with 3% revenue growth (6% at constant currency) and 15% EBIT growth (23% at constant currency) in 2018. There remains significant competition from low cost producers but margins have been maintained through diligent efforts in manufacturing and sourcing which mitigated any price erosion. Overall there was an increase in underlying operating profit of £0.6m.

Capital expenditure

£2.9M

Net debt

Signals and components (fig 2)

Signals and Components	2018 £'m	2017 £'m	Variance
Revenue	**44.6**	43.5	3%
Gross profit	**13.2**	12.4	6%
Gross profit %	**30%**	29%	100 bps
Overheads	**(8.7)**	(8.5)	(2%)
Underlying EBIT	**4.5**	3.9	15%

Central overheads

Central overheads comprise of costs not directly attributable to a segment and therefore not allocated to these segments. In 2018 they amounted to £5.0m marginally lower than £5.4m in 2017.

Non-underlying costs (fig 3)

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 in prior periods, management examined underlying performance, which removed the impact of non-underlying costs and income. The table below presents the components of non-underlying profit or loss recorded within cost of sales and administrative expenses.

The charge related to Guaranteed Minimum Pension (GMP) equalisation have been included as a one-off charge in the year (see note 18).

In the prior year, non-underlying costs related to the transfer of lighting assembly to our former manufacturing partner. The costs were for set up costs, project management and dedicated engineering time. There are no further transfer costs being incurred, all accrued redundancy costs have been utilised in the period against terminations related to the project.

Pension costs

The company has two defined benefit pension schemes which are closed to new entrants. The scheme surplus has reduced by £0.6m in the year and the surplus in the balance sheet at 31 December 2018 is £0.4m. The surplus has reduced due to changes in the discount rate and the impact of adding an additional liability of £0.4m for Guaranteed Minimum Pension, which is 1.8% of scheme liabilities. This has been included as a non-underlying item. This has had no impact on the scheme funding in the current year as the next triennial funding valuation is in 2020.

Non-underlying costs (fig 3)

	2018 £'m	2017 £'m
Employee severance and restructuring costs	–	0.3
Pension liability for GMP equalisation	**(0.4)**	–
Intangible asset impairment	–	(1.2)
Tangible asset impairment and disposals	–	(0.9)
Production transfer costs	–	(4.6)
Non-underlying costs recorded in administrative expenses	**(0.4)**	(6.4)

BREXIT

The decision of the UK to leave the EU creates uncertainties regarding the level of tariffs on goods imported to the UK once the UK exits the EU.

The majority of our sales in Europe are outside the UK and will not be impacted by Brexit. In the short-term goods that have already been imported to the UK prior to exit will not be impacted as they will not attract any further tariff. Any goods that are currently stored in the UK and destined for the EU can be moved to another storage location in the EU prior to an exit.

As part of our business plan, independent of Brexit, we are reviewing potential locations in eastern Europe for a production facility to serve the EU. Any potential tariffs on goods imported to the UK from this facility would need to be considered in conjunction with any tariffs from production at our Malaysia or Mexico facility, shipping costs and lead times.

Tax

The effective tax rate for the year is 28.4% compared with 43.3% in the prior year. Non-underlying items in the current year have very little impact on the tax rate, whereas, in the prior year, the tax rate on the underlying business was 37.2%. The reduction in tax rates in the US has helped to reduce the overall tax rate in the current year. However, the overall tax rate is higher than the US rate of 21% as the mix of profits in the year is weighted more towards higher tax rate jurisdictions compared to the US.

Inventory

	2018 £'m	2017 £'m
Raw materials and work in progress	**28.6**	17.8
Finished goods	**17.4**	6.8
	46.0	24.6

Total inventory increased by £21.4m as a result of the termination of our outsourced manufacturing agreement. We build up raw materials and finished goods in advance of the transfer back to our own facilities. During the year, inventory write backs totalled £1.3m (2017: write down £1.4m). The write backs are included in the income statement and relate to aged inventory fully reserved in the prior year which has now been sold.

Cash flow

The Group's net cash position decreased by £15.7m in the year from net cash of £12.8m at 31 December 2017 to net debt of £2.9m at 31 December 2018.

The roll forward of net cash was as follows:

Cash flow	£'m
Net cash at 31 December 2017	12.8
EBITDA	12.6
Net working capital excluding inventory	0.6
Increase in inventory	(19.6)
Capital expenditure	(6.4)
Taxes	(2.1)
Provisions and other movements	(0.8)
Net debt at 31 December 2018	**(2.9)**

The main driver in the reduction in cash is an increase in inventories. As previously announced we expected the cash position to reduce as we built up raw material inventory prior to the transfer. The termination of our manufacturing partner contract resulted in all final assembly being transferred prior to the year end. We also purchased a significant amount of our manufacturing partner's inventory which will be utilised during 2019. There was an improvement in debtors due to strong cash collection across the Group. The cash generated from earnings in the year was utilised to fund capital expenditure relating to some production and testing equipment required for our own plant in Mexico and development cost for new products.

Banking

The Group has its banking relationships with HSBC Bank plc and Wells Fargo. The Group has a revolving credit facility with HSBC of £25m, with a further £25m "accordion" feature, and a five-year term. The Group had net debt of £2.9m at the balance sheet date and remains fully compliant with its covenant requirements. There is sufficient headroom within the facility which ensures significant financial flexibility.

Capital management and dividend

The Board's policy is to maintain a strong capital base in order to maintain customer, investor and creditor confidence and to sustain future development of the business. The Board considers consolidated total equity as capital. At 31 December 2018 this equated to £85.1m (2017: £76.1m).

The Board is not proposing any final dividend payment for 2018 (2017: nil). The Group has a clear capital allocation discipline and is committed to returning excess funds to shareholders via future dividend or share repurchase.

Full year guidance for 2019

The Board's expectations for the Group's trading performance for the year ending 31 December 2019 are unchanged, again with an H2 weighting. We expect some gross margin recovery as we return to more normal levels of service. We expect our capital expenditure to be in the region of £8–10m for 2019 excluding capitalised development costs.

The strategic report from pages 01 to 43 was approved by the board and signed on its behalf by:

Marty Rapp
Group Chief Executive

Fariyal Khanbabi
Group Finance Director
05 March 2019

We serve diverse markets.
Our major market segments are:

- Oil and gas
- Heavy industrial
- Obstruction (collision avoidance lighting for tall structures)
- Pulp and paper
- Food and beverage
- Mining and power generation

We provide lighting solutions to a range of challenges via superior products. Our ATEX range is used in hazardous locations where safety is critical – for example, in flour mills, oil and gas terminals, and petrochemical locations.

OUR PRODUCTS PROVIDE A RANGE OF SOLUTIONS FOR OUR EXISTING CUSTOMERS

Our high-output Lighting products are well suited to installation at height. They are particularly suitable for locations such as aircraft hangers and shipyards where the quality of light is beneficial for the general working environment and site safety. Clients tell us that their teams report there being no need to use secondary lighting at ground level (traditionally required to supplement poor overhead lighting).

We provide lighting solutions for rugged terrain, extremes of temperature and sites with severe and constant vibration. Our fixtures are specifically designed to work in such environments and are all guaranteed for ten years.

Obstruction (collision avoidance)

Our FAA-approved collision avoidance lights are used on mobile phone towers, other telecom masts, chimneys and on and off shore wind turbines to highlight their presence to aircraft. All systems can be remotely managed.

Wayne Edmunds
Chairman

The Board and I are committed to maintaining our high standards of corporate governance. This report sets out how we have applied the principles and provisions of the UK Corporate Governance Code 2016 (the "2016 Code"). As the Company is below the FTSE 350 some of the 2016 Code's provisions do not apply. However, in line with best practice, we endeavour to comply with the Code wherever possible. We are already addressing changes introduced with the implementation of the revised version of the UK Corporate Governance Code published in 2018 and supported by the Guidance on Board Effectiveness (the "2018 Code") and, noting that the 2018 Code applies to accounting periods beginning on or after 1 January 2019, will report on our implementation of, and our level of compliance with, the 2018 Code in our 2019 Annual Report.

As Board members, we have a significant role in setting the Group's culture and core values. We believe that there is a balance between accountability, collaboration and respect that enables autonomous and agile decision making and constructive challenge, and which in turn allows innovation and open collaboration.

The Board and I take very seriously our responsibilities in setting Group strategy, monitoring and reviewing progress as that strategy is implemented, and in ensuring that we manage any risks that threaten that strategy. In support of this responsibility, the Board held an in-depth strategy review with the Executive team in July and September 2018 to consider and challenge the three-year strategic plan and the proposed organisational model to support that plan in a systematic and thorough manner. A review of the implementation of the strategy agreed at that meeting is included on the agenda of all scheduled Board meetings.

As a Board, we are conscious that we are accountable to our shareholders and must have regard to other stakeholders such as employees, customers, suppliers and the environment. We maintain an active dialogue with shareholders throughout the year and listen to views of representatives of investors and financial institutions. We welcome the opportunity to meet and answer shareholders' questions at our Annual General Meeting ("AGM").

Leadership

Our focus on improving the quality and performance of Dialight's management team continued throughout 2018. The executive team is being refreshed and senior management appointments have been made in a number of key areas to support Dialight's growth strategy. We strive to have the right balance of skills, experience and knowledge on our Board to deliver strong leadership, make clear and effective decisions, and to harness our culture to encourage our business to be innovative. Accordingly, the leadership improvement process at an executive level has been replicated at a Board level with the appointment of Steve Good as a new Non-Executive Director.

Biographies for each of the Directors and for the Executive Board are set out on pages 46 and 47. The progress in talent development and diversity can be found in the Our People section on pages 24 and 25.

Compliance statements

Throughout the year ended 31 December 2018, the Company has complied with the provisions as set out in the 2016 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, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance.

Board priorities

Our priorities for 2019 are to continue to focus on the Group's wider strategic plans as well as monitoring the final steps in resolution of our manufacturing delivery issues under the operational recovery plan. We will continue to build on the strong foundations put in place over the last 12 months through investment in talent, innovation and new products in order to build a robust operational platform for the long-term success of the Group and its stakeholders.

Wayne Edmunds
Chairman
05 March 2019

How the Board supported strategy

This report aims to provide shareholders and other stakeholders with an understanding of how our Group is managed and the governance and control framework in which we operate. Governance at Dialight is integral to the organisation's operating culture and the functioning of the Board of Directors. The Group has undergone some large-scale changes over the last 12 to 18 months as it implements the change strategy and the Board has been at the forefront of these changes in ensuring robust but pragmatic levels of governance and risk-management, focused on delivering long-term shareholder value.

Strategy

SCALABLE OPERATIONS

The Board has monitored and is continuing to monitor the short-term operational recovery plan very closely to ensure that progress is being made on the key issues of:

- transfer back from our outsource manufacturing partner
- improving on-time delivery
- reducing the level of late orders
- robustness of the supply chain
- improving customer service levels

What we have achieved

The Board approved the termination of the contract with our manufacturing partner. It also approved the transfer back of all product lines to our in-house facility, in addition to securing a larger facility in Mexico to house the equipment from our manufacturing partner.

It also approved securing a larger facility in Malaysia to expand Dialight's regional operational footprint.

NEW PRODUCT DEVELOPMENT

The Board reviews the operational plans for the Group regularly to evaluate progress on:

- the medium-term supply chain strategy
- the new product roadmap
- the new technology roadmap

and that the timescale for deliverables aligns with the business strategy.

What we have achieved

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:

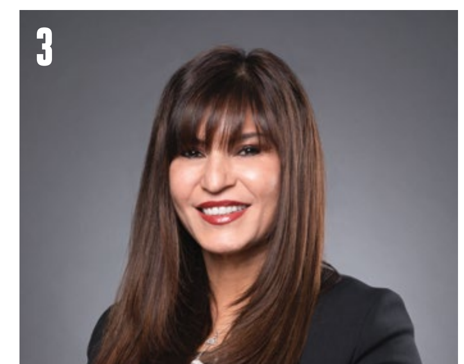
- enhanced product features
- reduced payback period
- promoting benefits of LED technology
- consultation with regulatory/statutory bodies to restrict the use of older, less environmentally friendly lighting technology

to ensure that the Group is meeting milestones.

What we have achieved

Review of new product/technology roadmaps to ensure that they support our growth targets over the medium term.

Our strategy on pages 16 to 17



Board committee key

- A Audit Committee
- N Nominations Committee
- R Remuneration Committee
- Chair of the Committee

1. Martin L. Rapp

Group Chief Executive Officer

Appointed: 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

Appointed: 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 to 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. He was also Interim Chief Executive Officer of BAA Aviation plc from 1 July 2017 to 31 March 2018.

Current external appointments: Wayne is a Non-Executive Director of BAA Aviation plc and MSCI Inc.

3. Fariyal Khanbabi

Group Finance Director

Appointed: 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

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

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

Appointed: 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. Previously, he spent 18 years at Goldman Sachs, including serving as CEO and co-CEO 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 SHINE, Social Finance UK and the World Resources Institute, as well as being a Life Trustee of Hamilton College.

6. David Thomas

Non-Executive Director

Appointed: 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. David also has responsibility as the nominated Employees Liaison Non-Executive Director, introduced by the Board to assist in strengthening the representation of employees' views and issues at a Board level.

Current external appointments: David is a Non-Executive Director and Audit Committee Chairman at Victrex plc.

7. Gaelle Hotellier

Non-Executive Director

Appointed: Joined Dialight on 3 October 2016 and was appointed as Chairwoman of the Remuneration Committee on 1 June 2018.

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 EU'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.

8. Steve Good

Non-Executive Director

Appointed: Joined Dialight on 1 June 2018 as a Non-Executive Director.

Background and career: Steve has international experience in speciality chemicals businesses, manufacturing and diverse industrial markets. Steve was Chief Executive Officer at Low & Bonar plc from 2009 to 2014. Prior to that role, he was Managing Director of its technical textiles division between 2006 and 2009, Director of New Business between 2005 and 2006, and Managing Director of its Plastics division between 2004 and 2005. Prior to joining Low & Bonar Steve spent 10 years with BTP plc (now part of Clariant) in a variety of leadership positions managing international speciality chemicals businesses. Steve was also a Non-Executive Director of Cape plc and Chairman of its Remuneration Committee from July 2015 until 2017, and was a Non-Executive Director of Anglian Water Services Ltd and a member of its Audit, Nominations and Remuneration Committees until October 2018

Steve holds a degree in Economics and Financial Management from Sheffield University and is a chartered accountant.

Current external appointments: Non-Executive Chairman of Zotefoams plc and Chairman of the Nomination Committee as well as a member of the Remuneration Committee. He is a Non-Executive Director and Chairman of the Remuneration Committee of Elementis plc and is a member of its Nominations Committee.

Role of the Board and Principal Committees

The role of the Board is to provide entrepreneurial leadership, within a framework of prudent and effective controls, that promotes the interests of the Company over the long term and for the benefit of its stakeholders. The Board sets the Group's strategic goals and has ultimate responsibility for its management, direction and performance. The Company's Articles of Association set out the Board's powers. The Board has adopted a formal schedule of matters reserved solely for its decision (a summary of which is set out on page 53) and certain decision-making and monitoring activities have been delegated to Board Committees or management, through formal terms of reference for Board Committees and a clearly defined Group delegated authority matrix. The Board has established three principal Committees: the Nominations Committee; the Audit Committee; and the Remuneration Committee, which review and monitor key areas on behalf of the Board and make recommendations for its approval. Each Board Committee operates under written terms of reference which are approved by the Board and made available at www.dialight.com. The Chair of each Committee reports to the Board on its activities after each meeting and minutes are circulated to all Board members once they have been approved by the Committee.

Further information on the activities and composition of each Committee is detailed within the separate Committee reports.

Board meeting attendance

The Board has eight regular face-to-face meetings scheduled each year (which may also be attended by telephone where necessary) and three scheduled Board calls, but will also meet, as required and on an ad hoc basis, to consider urgent or non-routine matters. Additionally, the Board meets once a year to review the overall strategy of the Group.

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

	Board	Audit	Remuneration	Nominations
Wayne Edmunds	12/12	n/a	n/a	2/2
Martin L. Rapp	12/12	n/a	n/a	n/a
Fariyal Khanbabi	12/12	n/a	n/a	n/a
Stephen Bird[1,3]	10/12	1/3	4/4	1/2
David Blood	12/12	n/a	n/a	2/2
David Thomas	12/12	3/3	7/7	2/2
Gaelle Hotellier[2]	12/12	3/3	6/7	2/2
Steve Good[3]	5/6	n/a	3/3	1/1

1 Stephen Bird was unable to attend several Board and Committee meetings due to a prior business commitment.
2 Gaelle Hotellier became a member of the Remuneration Committee on 8 January 2018, after its first meeting of the year.
3 Steve Good was appointed as a Non-Executive Director on 1 June 2018. Stephen Bird (who replaced Martin Rapp as Chair of the Remuneration Committee on 8 January 2018) stepped down as Chair and a member of the Remuneration Committee on 1 June 2018. Stephen was replaced as Chair by Gaelle Hotellier.

Our governance structure

Dialight benefits from a robust corporate governance framework structured 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 of the Board and its interaction with its Committees.

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.

Division of responsibilities of the Board

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) is given on page 53.

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.

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 corporate 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 approved the establishment of 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 Report See pages 9 and 10 and 14 to 17
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 See page 62
Explanation of how the Audit Committee has assessed the effectiveness of the external audit process.	Audit Committee report See page 62
Identification of search consultancies used and any connections with the Company.	Nominations Committee report See page 58
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 See page 87
Future policy table and notes, performance scenario charts, remuneration obligations in service contracts.	Remuneration Committee report See page 68
Policy implementation, remuneration paid to service advisers, single total figure tables, Group Chief Executive Officer pay comparison to Company performance and relative importance of spend on pay.	Remuneration Committee report See page 77
Directors' shareholdings and variable pay awarded in the year.	Remuneration Committee report See page 77 to 83

Board activities

- Strategy meeting – developing a three-year plan to reset the business
- Review of organisational structure
- Strategic growth opportunities
- Communications strategy – centered around resetting market expectations and
- Review of regional sales strategy

Ensuring Group objectives are aligned with shareholders

- Review of feedback from shareholders
- Review of Group strategy annually
- Review of capital allocation decisions
- Review of the Board evaluation

Board activities

- Succession planning and talent development for all senior roles
- Review of implementing engagement surveys
- Review of strengthening operations team

Ensuring health and safety of employees

- Reviewing accident frequency rates
- Reviewing any reports of near misses
- Ensuring safe and comfortable working environments

Board activities

- Budget for 2018/19
- Half-year results, full-year results and trading updates
- Review of Group cash position and forecasting
- Review of changing global taxation landscape
- Approval of the Group's tax strategy

Ensuring robustness and integrity of financial statements

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

Board activities

- Review and discussion of the external Board and Committee evaluations
- Review of Chairman and Non-Executive Director fees
- AGM business
- Code of conduct approval
- Review of the Annual Report
- Review of compliance reports (including progress reports on GDPR compliance)
- Review of cyber security
- Review of pension policies
- Modern Slavery Act Statement approval
- Review and discussion of external Board and Committee evaluations

Ensuring adequacy of risk management framework

- Overseeing the results of the Risk Committee
- Reviewing the output of internal audit
- Reviewing any whistleblowing instances

STANDING BOARD AGENDA ITEMS

At each meeting the Board considers the following 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
- Report from the Group Finance Director
- Investor Relations report
- Health & Safety review
- Risk review
- Corporate governance update Updates from the Company Secretary on administrative matters

MATTERS RESERVED FOR 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
- Approving dividend policy and the declaration of dividends
- Approving significant changes to accounting policies
- Approving key policies
- Approving risk management procedures and policies, including anti-bribery and corruption
- Approving major investments, disposals, capital projects or contracts (including bank borrowings and debt facilities)
- Approving guarantees and material indemnities
- Approving resolutions to be put to the AGM and documents or circulars to be sent to shareholders
- Approving changes to the Board structure, size or its composition (following the recommendation of the Nominations Committee)

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

Effectiveness

Composition of the Board

The Board comprises eight directors, who bring a wide variety of skills and experience to the Boardroom. With two Executive Directors and six Non-Executive Directors (including the Chairman) of whom four have been judged by the Board under Code B1.1 of the 2016 Code to be independent, there is a strong independent element to Dialight's Board which encourages constructive challenge and ensures that the balance of power rests with the Non-Executive members of the Board. The Board considers the current Board structure to be appropriate in terms of both size and the balance of skills.

The biographies of each Director, including an overview of their skills and experience, are set out on pages 46 and 47. The Board has established a formal process for the search and appointment of new Directors, details of which are set out in the Nomination Committee report on page 58.

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 personally by the Chairman and Non-Executive Directors serve to align their interests with those of the shareholders. Notwithstanding the fact that the Company is deemed to be a smaller company under the 2016 Code, it voluntarily meets the requirement under Code B.1.2 of the 2016 Code that at least half of the Board has been determined by the Board to be independent.

Time allocation

The Board benefits from the wide variety of skills, experience and knowledge that each Director brings to her/his role. However, being available and committing sufficient time to the Company is essential. 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.

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 eight scheduled Board meetings and three Board calls, 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 at least 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

Notwithstanding the fact that the Company is deemed to be a smaller company under the 2016 Code, it voluntarily meets the requirement under Code B.7.1 of the 2016 Code that all of the current Directors will stand for re-election at the forthcoming AGM. Following the annual evaluation of the Board and its committees, the Board has determined that 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 47.

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 of 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.

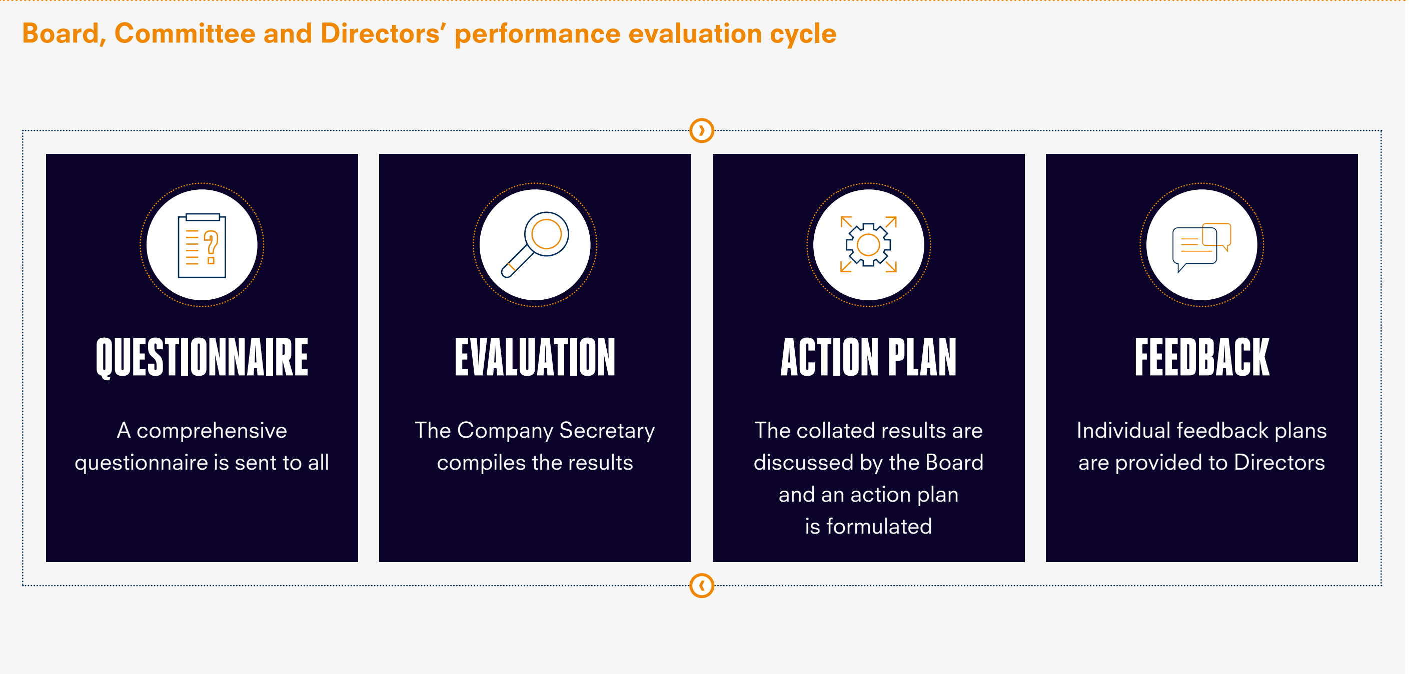
There are tailored induction materials which provide a comprehensive overview of: the Group and its legal and organisational structure; the governance framework; the role of the Non-Executive Director; key business contacts at the Company level; and details of the Board's external advisers. In addition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

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 Group 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 working within the Group. This regular interaction between the Board and the businesses provides a vital channel of communication and a 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, notwithstanding the fact that the Company is deemed to be a smaller company under the 2016 Code, it voluntarily meets the requirements under Code B.7.2 of the 2016 Code that the review of Board performance is externally moderated every three years.

In 2018 the Board review was conducted internally and, based on the feedback received, the Board determined that the Board and its Committees continue to operate effectively. However, the following items were noted as areas that required improvement:

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;

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

Current improvements reporting on the operational performance of the Group should be maintained and further developed.

Relations with shareholders and stakeholders

Shareholder engagement

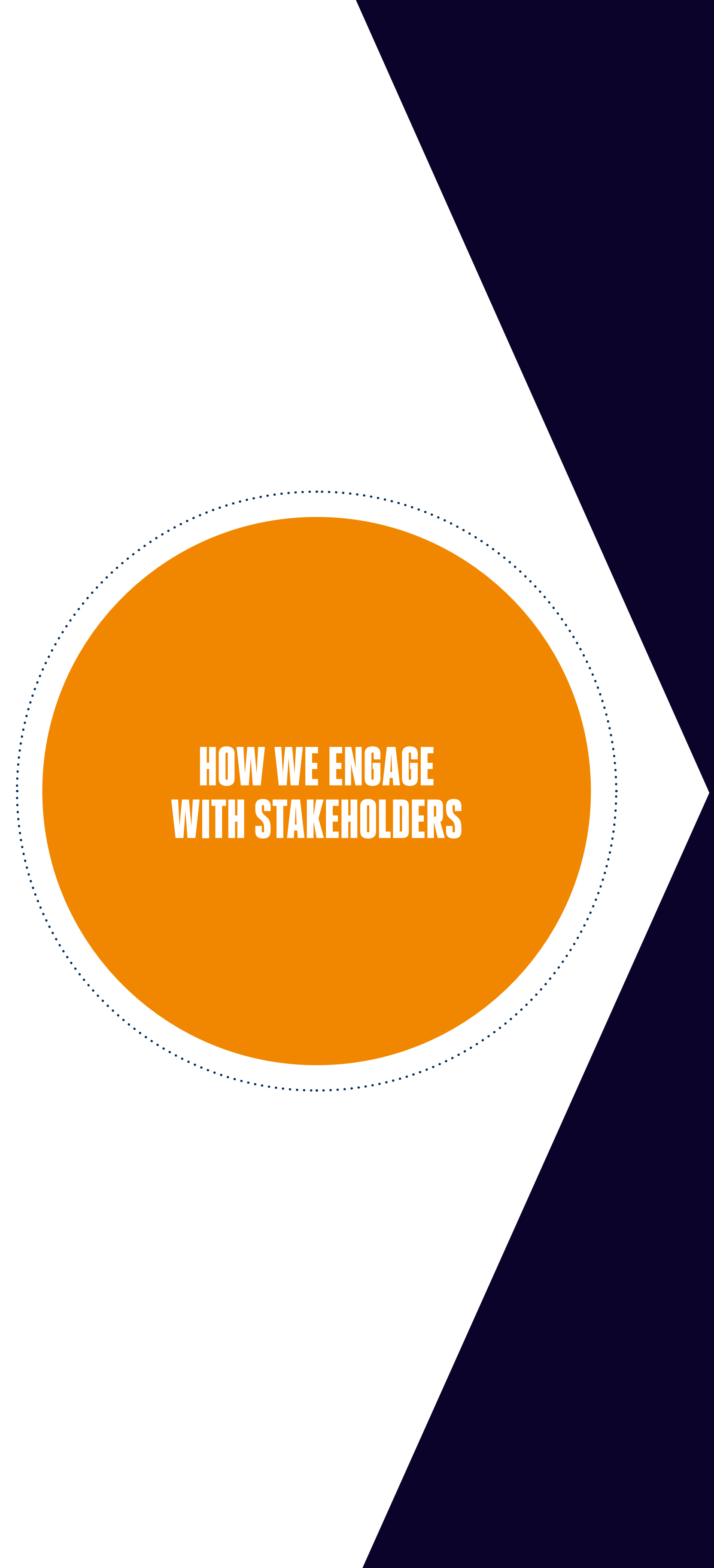
The Company is committed to maintaining good communications with investors. Although overall responsibility for ensuring that there is an effective communication with shareholders lies with the Chairman, on a day-to-day basis the Board's primary contact with shareholders is through the Executive Directors. The Chairman is generally available to shareholders and meets with institutional and other large investors; the Senior Independent Director is also available to shareholders 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 Group's website www.ir.dialight.com/reports-presentations-and-results/resports-and-presentations 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 are to 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 Wednesday, 17 April 2019.



EMPLOYEES

Employees are critical to the Group and it is essential that we engage with them.

Why we engage

Good communication with employees is a key requirement to support an agile approach to the business and encourage innovation.

Methods of engagement

- Group meetings
- Conference calls
- Site visits
- Through the nominated employee engagement Non-Executive Director

CUSTOMERS

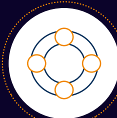
Customers are an essential part of the business.

Why we engage

Understanding our customers' requirements and behaviours allows us to deliver the products that our customers want.

Methods of engagement

- Feedback on existing products
- Requests for new product designs
- Requests for specific solutions



COMMUNITIES

What we do impacts communities around the world.

Why we engage

We employ people in many countries around the world thereby impacting many communities.

Methods of engagement

- Community outreach programmes
- Local media

GOVERNMENT AND REGULATORS

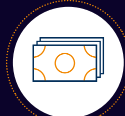
The products that we produce must meet stringent regulatory requirements.

Why we engage

Policy and regulatory changes can provide opportunities for business expansion as older forms of technology are phased out.

Methods of engagement

- Attending Government climate change conferences
- Providing feedback to regulators on future product developments



SHAREHOLDERS

As a publicly listed company, we need to provide fair, balanced and understandable information to instil confidence.

Why we engage

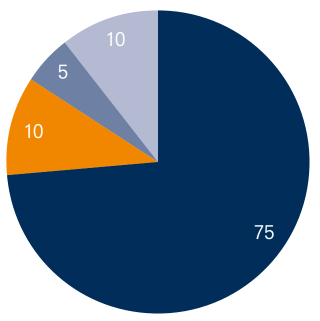
To ensure compliance with regulatory requirements and to gauge shareholder feedback on the business and management performance.

Methods of engagement

- Regulatory news announcements
- Updates to the investor relations section of our website
- Press releases
- Annual and half year reports and presentations
- AGM

Wayne Edmunds
Chair of the Nominations Committee

Allocation of time



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

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 importantly, 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 of the Committee 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 January 2016
Stephen Bird	10 January 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
Steve Good	1 June 2018

Activities during the year

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

- Reviewed succession plans for Board and Executive Board members;
- Reviewed talent and development at sector and company managing director level;
- Agreed the new Executive Board structure (including the appointment of Marty Rapp as Group Chief Executive Officer (Marty Rapp did not participate in this decision-making process);
- Carried out the annual self-evaluation and review of Director independence in accordance with the terms of reference; and
- Proposed based on the evaluation, the election and re-election of Directors.

Board appointments and process

Prior to making a recommendation to the Board for the appointment of Steve Good as Non-Executive Director, the Committee considered all options after launching an externally facilitated recruitment process. The Committee considered Steve's relevant experience and his knowledge of the sector, and was unanimous in its recommendation to appoint him.

Diversity

The Board recognises the benefits of greater diversity on the Board and in management positions throughout the Group. The Board comprises of eight Directors, of whom two are women (25%). The spread of nationalities is: four British, three American and one French. Dialight has the ambition of increasing the number of Company Executives based outside the US regional structure to better reflect the revenue generated outside those markets and to embrace diversity and inclusion across the Group. The Board is mindful of the current gender imbalance of Board Directors. It believes that gender is one, but not the only, indicator of Board cognitive diversity and diversity of experience, and is mindful of the need to further strengthen such diversity in any future Board appointments.

Further details on diversity are set out in the Our People section on page 25.

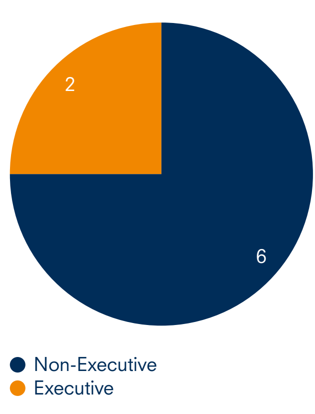
Priorities for the coming year

The Committee's priority for 2019 will be to focus on succession planning and talent development at executive and Board level.

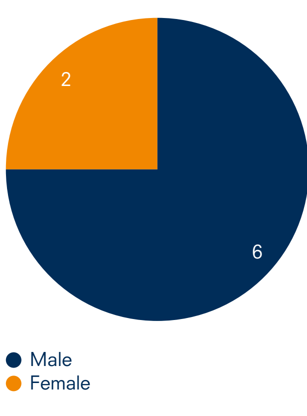
On behalf of the Nominations Committee.

Wayne Edmunds
Chair of the Nominations Committee
05 March 2019

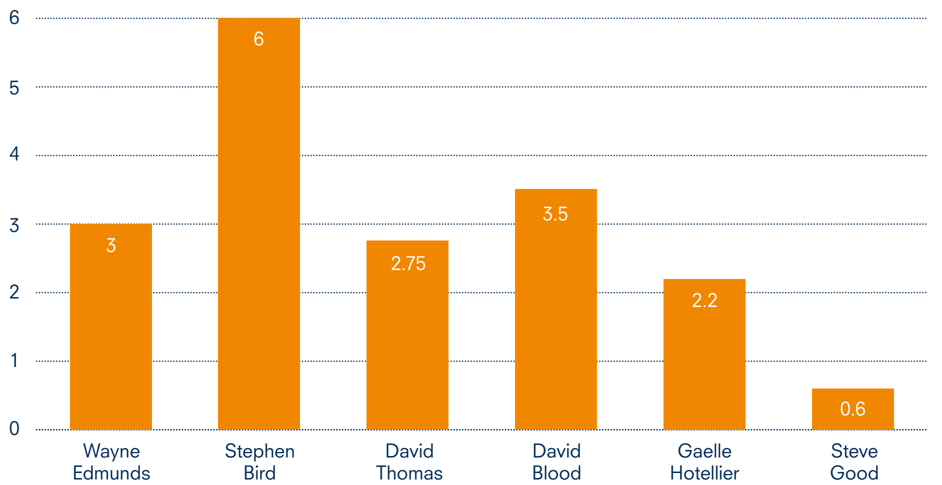
Composition of the Board



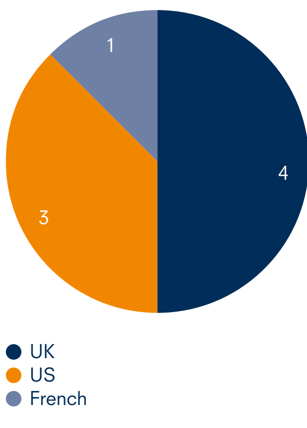
Board gender diversity



Non-Executive Director tenure (number of years)



Board nationalities



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.

There is a Risk Committee at a sub-Board level that periodically reviews strategic and tactical risks facing the Group and is comprised of members of the Executive Committee. This Committee is responsible for maintaining the Group risk register which is then periodically reported to, and reviewed by, the Board. The Group's principal risks and uncertainties, extracted from the Group risk register, 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.

Going concern

The Group's business activities, together with the main trends and factors likely to affect its future development, performance and position, and the financial position of the Group, its cash flows, liquidity position and borrowing facilities, are set out in the Strategic Report.

In addition, note 22 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to currency and liquidity risks.

The Group has a £25m three-year revolving credit facility, of which a significant amount remains undrawn at the date of this report. The Group has considerable financial resources available to it. The Group contracts with a diverse range of customers and suppliers across different geographical 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 Group's viability across 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 (similarly a three-year period). The Board believes that this approach also provides an appropriate alignment with annual awards under 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.

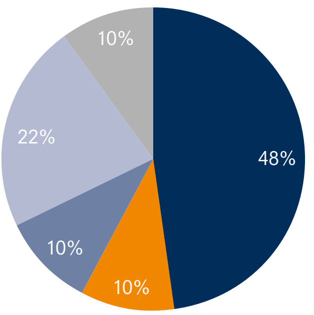
In reviewing the Company's viability, the Board has identified the following factors which they believe support their assessment:

- 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
- there is 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. The downside sensitivities relating to the cash outflows from changes in key assumptions, both in isolation and in aggregate. These demonstrate that the Group has sufficient resources in all cases. 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 2021.

David Thomas
Chair of the Audit Committee

Activities during the year



- Financial statements and business report
- Internal audit
- External audit
- Risk management
- Other

We have continued to focus our efforts on the Committee's core areas of responsibility of maintaining integrity across all aspects of corporate reporting, internal control, risk management and audit quality. I am committed to delivering strong leadership of the Committee throughout my tenure and to actively encouraging the Committee to challenge management assumptions. Each member of the Committee has a detailed understanding of Dialight's strategy and business model and the Group's culture and core values.

The difficulties experienced in the business during the year were primarily operational in nature rather than financial, although they did have financial impacts. The monitoring of the operational performance of the Group is an area of ongoing review with the focus on a number of key areas: the quality of 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 2018. These are available to view at www.ir.dialight.com. The Committee's primary duties are listed beneath the five sub-headings below:

1. Financial reporting

- Review and challenge 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; and
- Monitor the integrity of announcements containing financial information.

2. Internal controls and risk management

- Monitor the adequacy and effectiveness of the internal financial controls, internal controls and risk management systems;
- Review and approve the statements to be included in the Annual Report and Accounts concerning internal controls and risk management;
- Review and provide oversight, on behalf of the Board, of the processes by which risks are managed; and
- Review the process undertaken and stress testing required to approve the Group's viability statement and going concern statement.

3. Compliance, whistleblowing and fraud

- 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.

4. 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; and
- Consider whether an independent third-party review of internal audit effectiveness and processes is appropriate.

5. 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 (26 April 2016)
- Stephen Bird (10 January 2013)
- Martin L. Rapp (26 April 2016 to 8 January 2018)
- Gaelle Hotellier (3 October 2016)

The Chairman, Group Chief Executive Officer and Group Finance Director also attend Committee meetings, together, where appropriate 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 2017 Annual Report and Accounts, the 2018 Half Year Report and the trading updates issued in April 2018, September 2018 and December 2018. 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 2018 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, an 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 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 therein, 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 Chair, 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 ended in 2018 with a new audit partner being responsible for the 2018 audit.

During 2018, the Committee continued to monitor legislative and best practice changes in this area. Under the Statutory Auditors and Third Country Auditors Regulations 2016, 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.

Subsequent to the AGM, the Audit Committee will consider whether the Group should be recommended to enter into a tender process for the 2019 audit or later.

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 financial statements.

The current auditor is not allowed to tender for non-audit services.

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;
- the 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. 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 this Annual 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:

- 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 87.

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. None of the Directors have 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 2018 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.
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 has resulted in a change in its manufacturing footprint. The current standard costing system has been modified to account for the hybrid manufacturing model of the Group. Further details are provided in note 14 to the financial statements.	The Audit Committee has reviewed the nature of the costs absorbed into inventory, the level of production over which these costs are absorbed, the variances between standard cost and actual cost and the reasons for movements in inventory value period to period. The basis for and level of provisioning, including those areas that are judgemental are presented to the Committee by management. The Audit Committee has discussed and assessed the information provided by management and concluded that the value of Inventory and provisions held by the Group are appropriate.
Use of judgements – Development costs – Deferred tax	The use of judgements 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. 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
05 March 2019

Gaelle Hotellier
Chair of the Remuneration Committee

On behalf of the Board, I am pleased to present the Directors' remuneration report for the year ended 31 December 2018 (Remuneration Report).

Our executive remuneration framework operates within the wider Group governance and control framework. The Group's strategic planning is underpinned by the remuneration framework, which balances short-term incentives related to the current year's financial performance – with a longer-term share incentive related to earning per share (EPS) and relative total shareholder return (TSR).

The Remuneration Committee undertook a significant review of the remuneration policy in 2016 that led to the current remuneration policy, which received the support of 99% of shareholders at our 2017 Annual General Meeting. No structural changes are considered necessary to the Remuneration Policy or its implementation for the forthcoming year.

The Remuneration Committee is mindful that there has been a considerable movement in remuneration policy across 2018 with the introduction of the 2018 Code and the expansion of remuneration reporting requirements. It intends to review these requirements within the context of the Group's remuneration policy during 2019 and will report further to shareholders on the implementation of these requirements in its 2020 report and through the draft 2020 remuneration plan. The review is made more challenging, and therefore requires greater care and consideration, as a result of having a US-based CEO. In particular, but in no way limiting the scope of its review, the Remuneration Committee is mindful of the need to focus on reporting of exercises of discretion, the disclosure of CEO pay ratios, and the need for alignment of pension contribution rates.

The Remuneration Committee ensures that the Company takes a responsible approach to pay both at the senior level and across the wider workforce. We are also committed to ensuring that the Group's remuneration structures support Dialight's values and reflect the experience of our shareholders. The Group as a whole seeks to review gender diversity on an on-going basis. We pay colleagues according to their role, not their gender, and the Board is committed to improving the representation of women at senior levels.

As in previous years, the Remuneration Committee's report for 2018 is split into three sections: the annual chair's statement; the Remuneration Policy; and, the annual report on remuneration.

Key remuneration outcomes for 2018

The Remuneration Committee remains committed to ensuring that rewards received by our Executives reflect performance.

Long-term incentives

Marty Rapp 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 2020. These awards will vest to the extent that the EPS and TSR targets are achieved over the three-year period. Further details of awards made to Marty Rapp and Fariyal Khanbabi,

including details of the performance targets applying, are included on page 80.

In respect of the long-term incentive plan awards made in 2016, both the EPS and TSR performance of Dialight over the three-year performance period have been below the performance targets set by the Remuneration Committee at the time of grant. As a result, all 2016 PSP awards will lapse in full in 2019.

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 Remuneration Committee determined that no bonuses would be payable to the Group Chief Executive Officer or to the Group Finance Director.

Implementation of the Policy in 2019

As detailed above, there are no structural changes proposed to the implementation of the Policy for 2019. As it does every year, the Remuneration Committee will undertake 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 Remuneration Committee will recommend to the Board salary increases for the Executive Directors, to take effect from 1 April 2019. These increases will be in line with planned increases across the organisation and in line with inflation.

The 2019 APBP awards for Executive Directors will be on a similar basis to 2018, 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.

In respect of the PSP awards to be made to Executive Directors in 2019, the Remuneration 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.

Overall, the Remuneration Committee is satisfied that the total remuneration received by Executive Directors in 2018 is a fair reflection of performance over the period.

Review of Non-Executive Director fees

In accordance with the policy, Non-Executive Director fees are typically reviewed every year. The Remuneration Committee will review the Chairman's and the Non-Executive Directors fees with increases taking effect from 1 April 2019. This increase will be broadly in line with inflation and salary adjustments applied to the wider Dialight employee population.

Shareholder voting at the 2019 AGM

As there are no proposed changes to the current shareholder-approved Remuneration Policy there will be no vote at the 2019 AGM to approve the Remuneration Policy. There will however be the usual advisory resolution to approve the annual report on remuneration, which focuses on the remuneration outcomes for the reporting period and how the Remuneration Committee intends to implement the Remuneration Policy next year. We believe that Dialight's approach to remuneration is appropriate and represents a fair balance between shareholder and management interests, and hope that the disclosure provided in this report provides clear insight into the Remuneration Committee's decisions.

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 at the 2019 AGM.

Finally, I would like to thank Stephen Bird for his leadership of the Remuneration Committee from January to June 2018, as well as to formally welcome Steve Good to the Remuneration Committee.

Gaelle Hotellier
Chair of the Remuneration Committee
05 March 2019

Directors' remuneration policy

This section of the report details the Remuneration Policy for Executive and Non-Executive Directors. The remuneration policy was approved at the 2017 AGM and is effective for up to three years.

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 (Regulations). It also meets the requirements of the UK Listing Authority's Listing Rules and the Disclosure and Transparency Rules.

The sections of the Remuneration Report that are subject to audit are marked as Audited Information. The remaining sections of the Remuneration Report are not subject to audit.

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

Remuneration Policy table

Element/link to strategy	Operation	Opportunity	Performance metrics
Base salary To ensure that fixed pay represents a fair return for employment.	The Remuneration Committee sets base salary with reference to relevant market data and an individual's experience, responsibilities and performance. Base salary is considered by the Remuneration Committee on an individual's appointment and then reviewed once a year or when an individual changes position or responsibilities. When making a determination as to the appropriate level of remuneration, the Remuneration 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 Remuneration 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). Benchmarking is not the only driver in salary reviews.	Any base salary increases are applied in line with the outcome of the review. In respect of existing Executive Directors, it is anticipated that salary increases will generally be in line with the broader employee population. In exceptional circumstances (including, but not limited to, a material increase in role size or complexity), the Committee has discretion to make appropriate adjustments to salary levels to ensure that they remain market competitive. It is not envisaged that this will be a frequent occurrence. Detail of current salaries for the Executive Directors can be found on page 77.	None.

Element/link to strategy	Operation	Opportunity	Performance metrics
Benefits The approach of the Remuneration 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. The Remuneration 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). The value of benefits awarded to the Executive Directors can be found in the table on page 77.	None.
Pension The Company provides this benefits package in order to be competitive in the relevant market and to ensure its ability to recruit and retain Executives.	The Company operates a 401(k) and Supplemental Executive Retirement Plan (SERP) in the US, with both employee and employer contributions made to the relevant schemes. Executive Directors in the UK are entitled to join the existing defined contribution scheme offering employer contributions of up to 15% or to receive an equivalent cash payment in lieu. Executive Directors in the US are entitled to participate in the 401(k) and the SERP. In relation to the SERP, a participant is entitled to receive a cash equivalent payment in lieu of employer contribution. Salary is the only element of remuneration that is pensionable.	The Group Chief Executive 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. It is not anticipated that pension contributions (as a percentage of salary) will exceed the levels currently provided. Further details of what has been paid during 2018 can be found on page 77.	None.
Sharesave Plan To provide a mechanism by which employees can save up to purchase shares at a discount to the prevailing market price on an annual basis, encouraging employee retention and engagement with the Company.	The Sharesave Plan currently operates in the UK, the US and Mexico but may be introduced in other parts of the world at a future date. The Sharesave Plan has typically been operated on an annual basis and is open to all eligible employees, including Executive Directors.	Employees will be able to save up to the maximum of the limits approved by HM Revenue & Customs from time to time (or local currency equivalent) for a total period of three years. At the beginning of each savings period, employees will be granted options over shares in Dialight plc up to a maximum discount of 20% of the prevailing market price. The employees' savings are then used to purchase and exercise these options at the end of three years.	None.

Element/link to strategy	Operation	Opportunity	Performance metrics
Annual Performance Bonus Plan The APBP rewards performance against our annual goals, and directly supports the achievement of EBIT, one of the key financial KPIs of the Company.	APBP measures, weightings and targets are set by the Remuneration Committee at the beginning of each financial year following the finalisation of the budget for that year. Bonuses up to target are paid in cash, with payouts above target delivered in Dialight shares. Where the executive receives Dialight shares, half of these vest after two years with the balance vesting after three years, subject to continued employment with the Group. Dividends are accrued on these deferred shares and are paid to the participant on release of shares that are subject to the award. The rules of the APBP allow for the clawback of deferred share awards prior to their vesting should the Committee take the decision that to allow such awards to vest would be contrary to the best interests of the Company's shareholders.	The maximum bonus opportunity is 175% of salary. Threshold performance will deliver payouts of up to 20% of maximum, while payouts for target performance will be up to 60% of maximum.	Performance is assessed on an annual basis, as measured against specific objectives set at the start of each year. The primary measure is Company EBIT, although other financial measures may be rewarded, as may additional specific objectives, which can be triggered following satisfactory achievement of the primary EBIT targets. Further details of the measures, weightings and targets applicable for 2019 can be found on page 81.
Performance Share Plan The PSP provides direct alignment between the interests of shareholders and those of the Executive Directors by linking vesting of awards to the Company's long-term financial and share price performance.	PSP awards may be structured as conditional shares or nil-cost options with a two-year exercise window from the date of vesting. The release of awards may, at the discretion of the Committee, be deferred in whole or in part following the end of a three-year vesting period. All vested awards will be subject to a two-year post-vesting holding period. The Remuneration Committee has the power to authorise the payment of dividends or dividend equivalents under the rules of the PSP. The PSP rules contain provisions that allow for clawback and malus in respect of both vested and unvested awards in exceptional circumstances.	The maximum PSP award is 150% of salary per annum, although the Remuneration Committee has historically made awards of between 25% and 125% of salary. Threshold vesting delivers up to 25% of maximum.	Vesting of PSP awards is subject to continued employment and performance measures. The performance measures relating to grants are weighted as follows: – Between 25% and 75% on three-year "EPS" growth. – Between 25% and 75% on TSR relative to a relevant peer group or index. The Remuneration Committee will review the performance measures, weightings and targets prior to each grant to ensure that they continue to be well aligned with the delivery of Company strategy. Further details of the measures, weightings and targets applicable for 2019 can be found on page 81.

Element/link to strategy	Operation	Opportunity	Performance metrics
Non-Executive Director fees 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. The fees paid to the Chairman are determined by the Remuneration Committee, while fees for Non-Executive Directors are determined by the Board. Additional fees are payable for acting as Senior Independent Director and as Chair of any of the Board's committees. Non-Executive Directors do not receive any bonus, do not participate in awards under the Company's share plans and are not eligible to join the Company's pension scheme.	The Company's policy in relation to fees is to reflect the time commitment and responsibilities of the roles, normally by paying up to median level fees, compared to market, depending on the experience and background of the Non-Executive Directors. The Company also reimburses the Non-Executive Directors for expenses reasonably and properly incurred in the performance of their duties. In normal circumstances, increases to fees will be broadly in line with price inflation, subject to cases of material misalignment with the market or a change in the complexity, responsibility or time commitment required to fulfil a Non-Executive Director role. It remains important for the Board to have the necessary flexibility to step outside this general policy should the requirement be clear that a certain type of individual is required to conform with new governance requirements or legislation. Aggregate fees for all Non-Executive Directors will be within the limits set by the Company's Articles of Association. Details of current Non-Executive Director fees can be found on page 77.	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 remuneration 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 Remuneration 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 Remuneration Committee consider that these would be beneficial in aligning remuneration with Company strategy.

If an event occurs which causes the Remuneration Committee to consider that an outstanding PSP award or bonus would not achieve its original purpose without alteration, the Remuneration 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

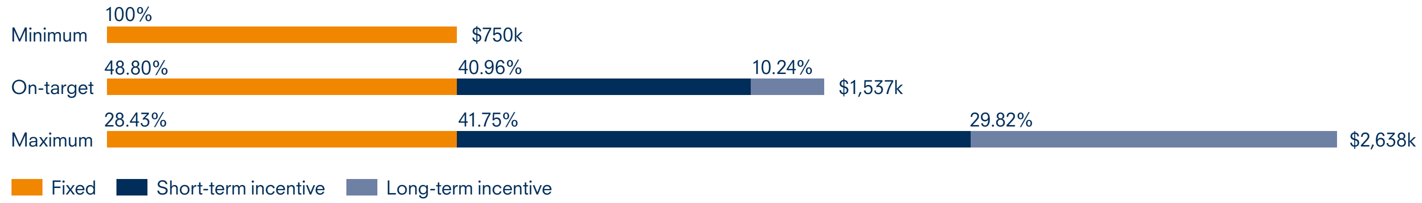
Executive Directors are required to accumulate and maintain a holding of Dialight shares equivalent in value to their last annual PSP award. Executives have five years from their date of joining to build their shareholdings to the required level. Current shareholding levels are included on page 83.

Pay-for-performance

The following charts provide an estimate of the potential future rewards for executive directors, and the potential split between different elements of pay, under three different performance scenarios: 'Fixed', 'On-target' and 'Maximum'. The policy of the Remuneration 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.

Remuneration scenarios

Group Chief Executive – Martin L. Rapp



Minimum performance

Fixed elements of remuneration only, including employer pension contributions, life insurance, healthcare and car allowance.

On-target performance

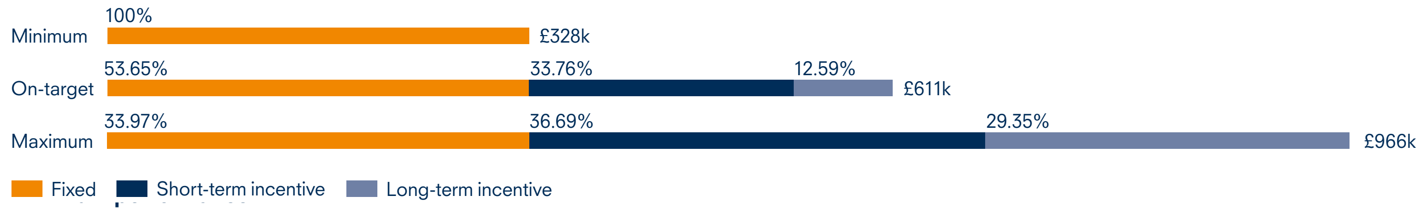
Fixed elements of remuneration plus:

- 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



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.

Recruitment policy

In cases of appointing a new Executive Director from outside the Company, the Remuneration Committee may make use of all the existing components of remuneration as follows:

Component	Approach
Salary	Executive Directors will receive a base salary which 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.
Benefits	New appointees will be eligible to receive benefits in line with the current policy, as well as expatriation allowances and any necessary expenses relating to an executive's relocation on appointment.
Pension	New appointees will be eligible to participate in the Company's defined contribution, or receive a cash supplement or local equivalent.
APBP	The scheme as described in the policy table will apply to new appointees. The maximum level of variable pay (excluding any buy-outs) offered to any new Executive Directors on appointment would be 325% of salary (comprising 175% of salary in the APBP and 150% in the PSP).
PSP	New appointees will be granted performance awards under the ESP on the same terms as other Executives, as described in the policy table.

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

For Non-Executive Directors, the Remuneration 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 Remuneration 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.

Notice periods

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

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

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

If a contract is to be terminated, the Remuneration 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 2016 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 Remuneration 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 Remuneration 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 Remuneration 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 Remuneration 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 Remuneration 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 Remuneration Committee determines in its absolute discretion. Should the Executive Director leave the Company in any other circumstances, outstanding awards would typically lapse.

The Remuneration 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 Remuneration 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 Remuneration 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 Remuneration 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 remuneration policy but does carry out an annual review of salaries across the Group.

Shareholder views

The Remuneration 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.

The following section provides details of how the Policy was implemented during the financial year ending 31 December 2018, and how it will be implemented in 2019.

Roles and responsibilities

The primary responsibilities of the Remuneration 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 Remuneration Committee is available on the Company's website or on request from the Company Secretary at the registered office.

Other decisions

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

- On 7 January 2018: approving the heads of terms and settlement agreement for Michael Sutsko, Dialight's former Group Chief Executive Officer;
- On 22 February 2018: setting the 2018 salary increases for Executive Directors;
- On 22 February 2018: reviewing of cash bonuses in respect of the 2017 financial year;
- On 22 February 2018: reviewing the performance targets outcome in relation to the 2015 PSP award;
- On 22 February 2018: setting APBP objectives for 2018;
- On 20 March 2018: approving the 2018 PSP awards and setting the associated PSP performance targets;
- On 26 July 2018: reviewing the Company's all-employee Sharesave plan;
- On 22 August 2018: considering the Company's pay-ratio disclosures and shareholder engagement; and
- On 10 December 2018: reviewing and approving the Remuneration Committee's terms of reference.

Committee members

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

Committee member	Member from/until
Gaelle Hotellier (Committee Chair)	from 8 January 2018 (Chair from 1 June 2018)
David Thomas	from 26 April 2016
Steve Good	from 1 June 2018
Stephen Bird	until 1 June 2018
Marty Rapp	until 8 January 2018

All members of the Remuneration Committee are considered independent within the definition set out in the 2016 Code. None of the Remuneration 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.

During the year, the Remuneration Committee met face-to-face four 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 Remuneration Committee is disclosed in the Corporate Governance report on page 48.

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

External advice

The Remuneration 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 2018, the Remuneration Committee consulted:

- Kepler Associates, a part of the Mercer Group, 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 £21,000; and
- Clifford Chance, which advised on the operation of the Company's share and other incentive plans during the year, including on the vest of the 2015 Sharesave Plan, and which gave ad hoc advice on other remuneration issues for a fee of £15,000.

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

The Remuneration 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

The following table shows the results of the voting at the 2017 (policy) and 2018 (report) annual general meetings.

	% of votes for	% of votes against	Votes withheld
Directors' Remuneration report (2018)	96.10	3.90	7,352,766
Remuneration policy (2017)	99.42	0.58	3,911

2018 outcomes

Single figure of total remuneration (audited information)

The following tables provide details of the Directors' remuneration for the 2018 financial year, together with their remuneration for the 2017 financial year, in each case before deductions for income tax and national insurance contributions (where relevant):

2018 (all figures in 000s)	Salary/Fee 2018	Benefits 2018	Pension 2018	Sub-total fixed 2018	Bonus 2018	PSP 2018	Sub-total variable 2018	Total remuneration 2018
Executive Directors								
Marty Rapp	$599	$28	$123	$750	–	–	–	$750
Fariyal Khanbabi	£275	£22	£31	£328	–	–	–	£328
Non-Executive Directors								
Wayne Edmunds	$197[1]	–	–	$197	–	–	–	$197
Stephen Bird	£49[1]	–	–	£49	–	–	–	£49
David Blood	£42[1]	–	–	£42	–	–	–	£42
Gaelle Hotellier	€60[1]	–	–	€60	–	–	–	€60
David Thomas	£47[1]	–	–	£47	–	–	–	£47
Steve Good[2]	£25	–	–	£25	–	–	–	£25
Past Director								
Michael Sutsko[3]	$14	$1	$4	$19	–	–	–	$19

1 The Chairman's and the Non-Executive Directors' fees were 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%.
2 Steve Good was appointed on 1 June 2018 and received a pro-rated amount of his annual fee of £42,000.
3 Michael Sutsko resigned as a Director on 8 January 2018.

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
Marty Rapp	$67[1]	–	–	$67	–	–	–	$67
David Thomas	£46	–	–	£46	–	–	–	£46

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

Additional disclosures (audited information)

Executive Directors' benefits

Executive Directors receive benefits comprising life insurance, healthcare and car allowances. In addition, Marty Rapp is entitled to reimbursement of his costs of travel and accommodation in travelling from his home to the Farmingdale office in New Jersey. In addition, the figure for Fariyal Khanbabi includes a one-off payment of £18,700 in lieu of holiday. This payment was calculated on a consistent basis to other payments made to a small number of other finance and operations staff who were required to deploy for extended periods of time at short notice to the outsourced manufacturing partner located in central Mexico to address urgent operational problems facing the Group. The Committee view the circumstances leading to the payment of cash in lieu as exceptional and do not anticipate any requirement for similar payments in the future

Pensions

The figure includes the amount of Company contributions to Fariyal Khanbabi's and Marty Rapp'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. Marty Rapp received employer contributions under a US 401(k) plan. Marty Rapp 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 remuneration policy report on page 70. 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.

2017 APBP

As discussed in the 2017 Remuneration Committee report, in light of the EBIT outturn for 2017 being below the objective target set, no bonuses became payable under the APBP 2017

2018 APBP The 2018 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 2018 EBIT was as follows:

	Threshold	Target	Maximum	Actual
EBIT (after provision for bonus)	£10.9m	£13.3m	£15.6m	£8.0m

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

Actual EBIT performance for 2018 was £8m and as a result no bonuses were payable in respect of the 2018 financial year.

PSP

Awards made in 2015

Awards made under the PSP in 2015 lapsed in 2018 due to the fact that the related performance conditions were not achieved.

Awards made in 2016

Awards made under the PSP in 2016 have lapsed as the related performance conditions were not achieved during the three-year performance period to 31 December 2018.

Percentage change in the remuneration of the Group Chief Executive Officer

The following table sets out the change in remuneration paid to the Group Chief Executive Officer from 2017 to 2018 compared with the average percentage change for employees as a whole:

	% change 2017–2018	
	Group Chief Executive Officer	Group employees
Salary	3%	3%
Bonus	0%	0%
Benefits	0%	0%

Due to operational performance, no bonus was payable in relation to 2018 or 2017. 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.

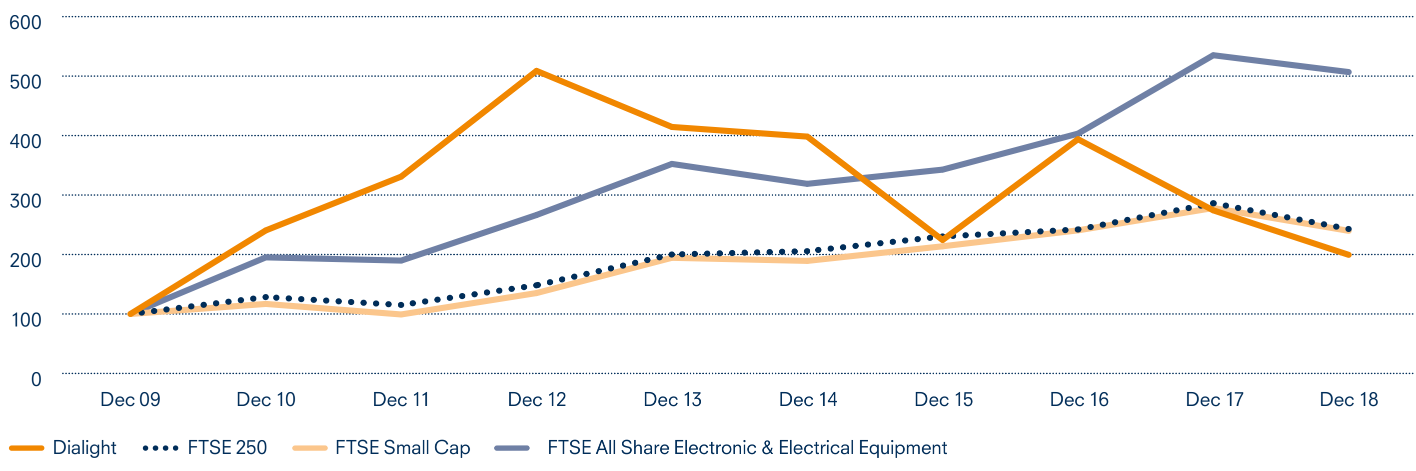
Relative importance of spend on pay

The table below shows the total amount paid by the Company to its employees (excluding severance costs) for 2018 and 2017. Details of the total amount of distributions for the same two years can also be seen.

Spend on pay		Distributions	
2018	**£31.9m**	**2018**	**£0m**
2017	£34.4m	2017	£0m

Performance graph and table

The graph below demonstrates the Company's 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:

	2010	2011	2012	2013	2014	2015	2016	2017	2018
	R Burton	R Burton	R Burton	R Burton	R Burton	R Burton (to Feb) R Stuckes (Mar to Jun) M Sutsko (from Jul)	M Sutsko	M Sutsko	M Rapp
Total remuneration ($'000)	$2,845	$4,170	$3,843	$1,564	$1,153	$112 £185 $523	$1,466	$746	$750
Bonus outcome (% of max)	100	100	66.6	0	29	0 n/a 0	74	0	0
PSP vesting outcome (% of max)	100	100	100	100	0	0 n/a n/a	n/a	n/a	n/a

PSP awards made in 2018

Awards granted in 2018 are measured against EPS and TSR on the following basis:

EPS

EPS is used in respect of 75% of awards. For awards made in 2018, no part of the award that is subject to the EPS condition will vest if the Company's 2020 EPS over the three-year vesting period is below 45 pence, 25% of the award that is subject to the EPS condition will vest if the Company's 2020 EPS equals 45 pence; rising on a straight-line basis to 100% vesting if the Company's 2020 EPS exceeds 60 pence. The Remuneration 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 2018 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 2018 PSP awards.

The 2018 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	50,862	£267,131	TSR/EPS	15.03.18	31.12.20
Marty Rapp	PSP	125%	Conditional share award	n/a	104,280	£547,678	TSR/EPS	15.03.18	31.12.20

1 Based on five-day average share price on date of award of £5.2520.

Payments to past Directors or for loss of office (audited information)

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, which would continue to be paid during his 12-month garden leave, were fully disclosed in the 2017 Annual Report and Accounts. Michael Sutsko then notified the Company on 23 August 2018 that he wished to bring forward the date of termination of his employment with the Company to 30 September 2018. As a result of this notice his outstanding deferred shares awarded as conditional shares as part of his 2017 bonus under the APBP vested on 30 September 2018. In relation to Michael Sutsko's outstanding PSP awards, the Remuneration Committee had already 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 have already been pro-rated to reflect Michael's revised leaving date of 30 September 2018. These PSP awards would not be subject to the usual mandatory two-year post-vesting holding period.

No bonus was paid in respect of 2017 performance as the 2017 EBIT targets were not met. He was not entitled to a bonus in respect of the 2018 financial year. Up until his termination on 30 September 2018 he was entitled to a payment equivalent to the cost to the Company of continuing healthcare benefits under the Consolidated Omnibus Budget Reconciliation Act 1985 for him and his qualified beneficiaries and the cost to The Company of his benefits under the Company's group life insurance plan.

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 is required on earnings related to his employment by the Company.

The costs of Michael Sutsko's compensation on leaving fell into the 2018 accounting period. The total costs (in thousands) paid in the year were $544 salary, $50 benefits, $91 pension and $30 for outplacement fees.

Implementation of the remuneration policy for 2019

Executive Director salaries

The Remuneration Committee will review the salary for the Group Chief Executive Officer and Group Finance Director with effect from 1 April 2019.

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 2019 APBP will be based on targets linked primarily to EBIT performance with a small element based on personal objectives, as in 2018. 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 Remuneration 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 Remuneration 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. The weighting on EPS was increased from 50% to 75% in 2017, with a commensurate reduction in the weighting on relative TSR from 50% to 25%. The Remuneration Committee is of the view that this rebalancing focuses participants on Dialight's financial performance over the three-year vesting period of these awards, whilst also recognising the strong shareholder alignment and objectivity offered by TSR. Awards made to the Executive Directors continue to be subject to a two-year post-vesting holding period. At the time of the production of this Remuneration Report, the targets

applying to the 2019 awards had not formally been approved by the Remuneration Committee. We will be finalising targets over the coming weeks, taking into account a range of internal and external reference points, and will provide full disclosure both at the time of award, and in next year's Annual Report and Accounts.

Outstanding awards under the PSP and APBP (audited information)

	Type of award	Award date	Number at 1 January 2018	Awarded in year	Vested in year	Exercised in year	Lapsed in year	Number at 31 December 2018	Exercise price	Earliest vesting/ exercise date	Expiry date
Fariyal Khanbabi											
PSP	NCO	07.04.15	32,325	–	–	–	(32,325)	–	–	07.04.18	07.04.20
PSP	NCO	16.03.16	49,240	–	–	–	–	49,240	–	16.03.19	16.03.21
APBP[1]	NCO	09.03.17	2,384	–	(1,192)	–	–	1,192	–	31.01.19	10.03.22
PSP	NCO	24.03.17	26,588	–	–	–	–	26,588	–	24.03.20	24.03.22
PSP	NCO	16.03.18	–	50,862	–	–	–	50,862	–	16.03.21	16.03.23
Total			**110,537**	**50,862**	**(1,192)**	**–**	**(32,325)**	**127,882**	**–**	**–**	**–**

1 Of the 2,384 deferred share options originally awarded to Fariyal Khanbabi, 1,192 had vested on 31 January 2018 and the balance on 31 January 2019.

	Type of award	Award date	Number at 1 January 2018	Awarded in year	Vested in year	Exercised in year	Lapsed in year	Number at 31 December 2018	Exercise price	Earliest vesting/ exercise date	Expiry date
Marty Rapp											
PSP	CSA	16.03.18	–	104,280	–	–	–	104,280	–	16.03.21	n/a
Total			**–**	**104,280**	**–**	**–**	**–**	**104,280**	**–**	**–**	**–**

Notes:
CSA denotes conditional share awards. These are subject to performance conditions set out on page 70.
NCO denotes nil-cost options. These are subject to performance conditions set out on page 70.
The average closing market price of a share over the five trading days of 9–15 March 2018, which was used for the purpose of calculating award values on 16 March 2018, the date of the awards recorded in the tables above made during the year, was 525.2 pence.
Options under the PSP granted from 2015 are exercisable for two years from the date of vesting. Awards granted since 2018 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 295 pence to 650 pence, with the price on 31 December 2018 being 395 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 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).

Whilst the Group Chief Executive Officer has over four years to accumulate the requirement holding, the Group Finance Director has until September 2019 to meet the required holding. Fariyal Khanbabi's shareholding position reflects the fact that none of her PSP awards have vested in recent years. The Remuneration Committee is aware of the significance of Executive Directors having a personal holding of shares in Dialight as that creates an alignment of management's interests with those of the shareholders. Although the Committee recognises the forthcoming deadline for Fariyal Khanbabi, the Remuneration Committee acknowledges the mitigating circumstances surrounding this issue.

The table below shows the holdings of ordinary shares in the Company as at 31 December 2018 by Executive Directors and their compliance with the guidelines:

Executive Director	Shares held at 1 January 2018	Shares held at 31 December 2018
Fariyal Khanbabi	5,483	6,675
Marty Rapp	13,500	46,000

Total shareholding of directors (audited information)

	Beneficially held shares[1]		Shares under incentive plans		
	Ordinary shares at 1 January 2018	Ordinary shares at 31 December 2018[2]	Subject to deferral[3]	Unvested and/or subject to performance conditions[4]	Shareholding guidelines met
Marty Rapp	13,500	46,000	–	104,280	No
Fariyal Khanbabi	5,483	6,675	1,192	126,690	No
Wayne Edmunds	–	12,000	–	–	–
Stephen Bird	28,000	41,728	–	–	–
David Blood	–	–	–	–	–
David Thomas	1,294	5,994	–	–	–
Gaelle Hotellier	882	882	–	–	–
Steve Good	–	7,500	–	–	–

1 Some of these shares are held through nominees.
2 50% of Fariyal Khanbabi's 2016 APBP of 2,384 award became exercisable on 31 January 2019.
3 Relates to deferred shares held under the APBP scheme.
4 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 2018 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.
Marty Rapp	8 January 2018	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. During 2019, 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. During 2018, this was extended for a further three-year period.
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.
Steve Good	1 June 2018	Letter of appointment was for an initial term of three years.

Activities

Dialight plc is a holding company. A list of its subsidiary companies, including its overseas branches, is set out on pages 132 and 133. Our businesses by sector and their activities are set out on page 02.

Ordinary dividends

The Board is not proposing any final dividend payment for 2018 (2017: nil). The Group has a clear capital allocation discipline and is committed to returning future excess funds via future dividend or share repurchases.

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 financial statements. 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 2018 under the authority granted at the 2018 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 Performance Share Plan (PSP), the Annual Performance Bonus Plan (APBP) and, an all-employee Sharesave Plan. Further details of these share plans are provided in the report of the Remuneration Committee on pages 69 and 70. 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 respect of which all employees of the Group, including Executive Directors, are potential beneficiaries. The ESOT held no shares as at 31 December 2018 (2017: 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 subject to Board recommendation, for election at that meeting. Notwithstanding the fact that the Company is deemed to be a smaller company under the 2016 Code, it voluntary meets the requirement under Code B.7.1 of the 2016 Code that 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 Articles and 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 53.

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 become payable within 30 days of the change.

Substantial interests in shares

As at 1 February 2019, 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 Management	6,532,248	20.08
Schroder Investment Management	3,744,131	11.51
Impax Asset Management	2,910,646	8.95
Sterling Strategic Valuation Fund	2,286,175	7.03
Aberforth Partners	2,250,306	6.92
Financiere de l'Echiquier	1,922,321	5.91
GVQ Investment Management	1,215,550	3.74
AXA Investment Management	1,109,079	3.41
Blackmoor Investment Partners	1,073,752	3.40

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 2020. 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 2019. 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.

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 2018. The Corporate governance report set out on pages 44 to 87, 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 17. Details related to employee matters are in the Our people section on pages 24 and 25. Environmental matters, including greenhouse gas emissions reporting, are included within the Sustainability Report on pages 26 and 27.

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 23.

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.

Ronan Sheehy
Group Financial Controller
05 March 2019

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

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with the International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards, including FRS 102 the financial reporting standard applicable in the UK and Republic of Ireland.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable 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
- assess the Group and parent Company ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use 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.

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 are responsible for 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, and 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.

We consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

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

Martin L. Rapp
Group Chief Executive
05 March 2019

Fariyal Khanbabi
Group Finance Director
05 March 2019

1. Our opinion is unmodified

We have audited the financial statements of Dialight plc ("the Company") for the year ended 31 December 2018 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, Company statement of changes in equity and the related notes, including the accounting policies in note 3 and note 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 2018 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 first appointed as auditor by the directors in 2001. The period of total uninterrupted engagement is for the 18 financial years ended 31 December 2018. 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		£0.37m (2017:£0.45m) 4.75% (2017: 4.75%) of normalised profit before tax
Coverage		95% (2017:95%) of normalised group profit before tax
Key audit matters vs 2017		
New risks	↑	**New:** The impact of uncertainties due to the UK exiting the European Union on our audit
	↑	**New:** Going concern
	↑	**New:** Recoverability of deferred tax assets
Recurring risks	↔	Inventory valuation
	↔	Revenue recognition
	↔	Valuation of capitalised development costs
	↔	Carrying amount of investments in subsidiaries (Company only)

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

Key audit matters are those matters that, in our professional judgment, 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 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
The impact of uncertainties due to the UK exiting the European Union on our audit Refer to page 34 (principal risks), page 61 (viability statement), page 62 (Audit Committee Report).	**Unprecedented levels of uncertainty** All audits assess and challenge the reasonableness of estimates, in particular as described in valuation of inventory, recoverability of capitalised development costs, recoverability of deferred tax assets and carrying value of investments in subsidiaries below, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements (see below). All of these depend on assessments of the future economic environment and the group's future prospects and performance. In addition, we are required to consider the other information presented in the Annual Report including the principal risks disclosure and the viability statement and to consider the directors' statement 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. Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.	**Our response** We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included: – Our Brexit knowledge – We considered the directors' assessment of Brexit-related sources of risk for the group's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks. **Sensitivity analysis** – When addressing recoverability of capitalised development costs, recoverability of deferred tax assets, carrying value of investments in subsidiaries, going concern and other areas that depend on forecasts, we compared the directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty. – As well as assessing individual disclosures as part of our procedures on valuation of inventory, recoverability of deferred tax assets and recoverability of capitalised development costs we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks. **Our results** As reported under valuation of inventory, recoverability of capitalised development costs, recoverability of deferred tax assets, and carrying value of investments in subsidiaries, we found the resulting estimates and related disclosures of the above and disclosures in relation to going concern to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

	The risk	Our response
Going concern	**Disclosure quality** The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the group and parent company. That judgement is based on an evaluation of the inherent risks to the Group's and Company's business model and how those risks might affect the Group's and Company's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements. The risks most likely to adversely affect the Group's and Company's available financial resources over this period were: – Significant loss of customers; – The impact of a significant business continuity issue affecting the Group's manufacturing facilities or those of its suppliers; There are also less predictable but realistic second order impacts, such as the impact of erosion of customer or supplier confidence, which could result in a rapid reduction of available financial resources.The risk for our audit was whether or not those risks were such that they amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern. Had they been such, then that fact would have been required to have been disclosed. In the event where there is no material uncertainty that may have cast significant doubt about the ability to continue as a going concern, we consider whether the going concern disclosure is appropriate.	**Our procedures included:** **Funding assessment:** We assessed the financing facility arrangement and tested the relevant covenants. **Historical comparisons:** We assessed the directors' track record of forecasts vs actual cash flows achieved in the year and previously. **Sensitivity analysis:** We considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible adverse effects that could arise from these risks individually and collectively. We reviewed and challenged management's sensitivity analysis in relation to key assumptions which are revenue growth, cost savings and gross margin. **Assessing transparency:** We assessed the completeness and accuracy of the matters covered in the going concern disclosure. **Our results:** We found the going concern disclosure without any material uncertainty to be acceptable.

	The risk	Our response
Inventory valuation (£46.0 million; 2017: £24.6 million) Refer to page 65 (Audit Committee Report), page 103 (accounting policy) and page 115 (financial disclosures).	**Subjective estimate** The Group operates in an industry whereby developments in product technology may result in inventory becoming slow moving or obsolete. These factors, in turn, may mean that inventory cannot be sold or sales prices are discounted to less than the inventory carrying value. The termination of the Sanmina outsourcing agreement in the current year resulted in the Company purchasing back large quantities of inventory. As a result the Group has undergone operational changes as such there is increased estimation and so inherent risk associated with the method of costing inventory in the US and Malaysia components relating to sub-assemblies and finished goods. The effect of these matters is that, as part of our risk assessment, we determined that the valuation of inventory has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.	**Our procedures included:** **Tests of detail:** Recalculating (using Data & Analytics 'D&A') the provision in line with Group's policy. We tested the integrity of the ageing and usage data by selecting a sample of transactions to vouch to source information. **Personnel interview** We enquired with management about discontinued products lines and then assessed, if appropriate, whether a provision has been recognised in relation to those products. **Our sector experience:** We formed our own expectation of the stock provision based on stock usage and ageing and compared this to management's provision and challenged management where differences arose. **Historical comparisons:** We performed a retrospective review of the historical accuracy of provisions previously recognised against actual inventory write off in the year. **Tests of detail:** We tested the carrying value of inventory by comparing the carrying value to average sales margin for each product to assess whether those items were held at the lower of cost or net realisable value. **Tests of detail:** In the US and Malaysia components, we tested the accuracy of inventory by recalculating the inventory costing in accordance with the Group's inventory accounting policy. We assessed the level of overheads and labour absorbed in the inventory costing. Our work included assessing the appropriateness of the costing policy in accordance with IAS2. **Assessing transparency:** We assessed the adequacy of the Group's disclosures of the critical accounting estimates, judgements and assumptions and accounting policy and whether they properly reflect the judgements and estimates inherent in valuing inventory. **Our results:** We found the resulting estimate of the recoverable amount of inventory to be acceptable (2017: acceptable)..

	The risk	Our response
Revenue recognition (£169.6 million; 2017: £181.0 million) Refer to page 65 (Audit Committee Report), page 104 (accounting policy) and page 106 (financial disclosures).	**Accounting application** There is a risk that transactions completed just before or after the year end could be recorded in the incorrect period due to the high volume of transactions close to the year-end reporting deadline. The Group also has a number of customers who have different contractual terms meaning that the transfer of control of the goods occurs 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:** **Accounting analysis:** We reviewed specific commercial terms applied by the various businesses within the group and made our own independent assessment of the appropriate point in time to recognise revenue having regard to the requirements of the relevant accounting standards. **Tests of detail:** We challenged the recognition of revenue for a sample of items from either side of the financial year end by reference to the identified trigger event for revenue recognition from the contractual agreement and checked that performance obligations have been satisfied, and traced back to third party carrier documentation to confirm revenue was recognised in the correct period. **Our results:** We found the resulting recognition of revenue to be acceptable (2017: acceptable).
Recoverability of capitalised development costs (£6.3 million; 2017: £4.1 million) Refer to page 65 (Audit Committee Report), page 106 (accounting policy) and page 113 (financial disclosures).	**Forecast-based valuation** The group has significant intangible assets from capitalised development costs. Judgement is required around the ongoing viability of the capitalised development projects and the resulting intangible assets are at risk of impairment. The effect of these matters is that, as part of our risk assessment, we determined that the recoverable amount of capitalised development costs has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.	**Our procedures included:** **Historical comparisons:** For closed projects, we performed an impairment review for a sample of development projects by challenging the carrying value through forecast sales data and referencing to actual sales and gross margin achieved during the year. **Our sector experience:** We challenged the assessment of the viability of a sample of projects through discussion with finance and engineering management. **Benchmarking assumptions:** We challenged the sales forecasts by considering external evidence (if any) from third party sources. **Accessing transparency:** We assessed the adequacy of the Group's disclosures about the judgement used in determining the carrying value of the capitalised development costs. **Personnel interview** We enquired with management about specific projects to understand their status. For closed projects we enquired whether they were revenue generative or included within the forecasts to be revenue generative. For open projects we enquired with management about the feasibility of those projects. **Our results:** We found the valuation of capitalised development costs to be acceptable (2017: acceptable).

	The risk	Our response
Recoverability of deferred tax assets (£4.9 million; 2017: £4.6 million) Refer to page 65 (Audit Committee Report), page 104 (accounting policy) and page 115 (financial disclosures).	**Forecast based valuation** The group has significant deferred tax assets in respect of tax losses in Dialight Europe Limited and Dialight GmbH. There is inherent uncertainty involved in forecasting future taxable profits, which determines the extent to which deferred tax assets are or are not recognised. The effect of these matters is that, as part of our risk assessment, we determined that the recoverable amount of deferred tax assets has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.	**Our procedures included:** **Assessing forecasts:** We assessed forecasts and challenged assumptions used, in particular those relating to forecast revenue growth and profit margins in Dialight Europe Limited and Dialight GmbH. **Our tax expertise:** We used our own tax specialists to assist us in assessing the recoverability of the tax losses against the forecast future taxable profits, taking into account the group's tax position, the timing of forecast taxable profits, and our knowledge and experience of the application of relevant tax legislation. **Assessing transparency:** We also assessed the adequacy of the group's disclosures about the recognition of deferred tax assets and the key assumptions. **Our results:** We found the recoverability of deferred tax assets to be acceptable.
Recoverability of parent company's investment in subsidiaries (£16.3 million; 2017: £17.9 million) Refer to page 65 (Audit Committee Report), page 132 (accounting policy) and page 135 (financial disclosures).	**Low risk, high value** The carrying amount of the parent company's investments in subsidiaries represents 25.8% (2017: 30.4%) 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:** **Tests of detail:** We compared the carrying amount of 100% of the investment balance with the relevant subsidiaries' balance sheets to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount. **Assessing subsidiary audits:** We assessed the work performed by the subsidiary audit teams on all of those subsidiaries and considered the results of that work, on those subsidiaries' profits and net assets. **Our results** We found the Group's assessment of the recoverability of parent company investments in subsidiaries to be acceptable. (2017: acceptable).

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

Materiality for the Group financial statements as a whole was set at £0.37 million (2017: £0.45m), determined with reference to a benchmark of group profit before tax, normalised to exclude this year's non-underlying items as disclosed in note 5 of £0.4 million (of which it represents 4.75% (2017: 4.75%)).

Materiality for the parent company financial statements as a whole was set at £0.24m (2017: £0.3m), determined with reference to a benchmark of gross assets, of which it represents 0.4% (2017: 0.5%).

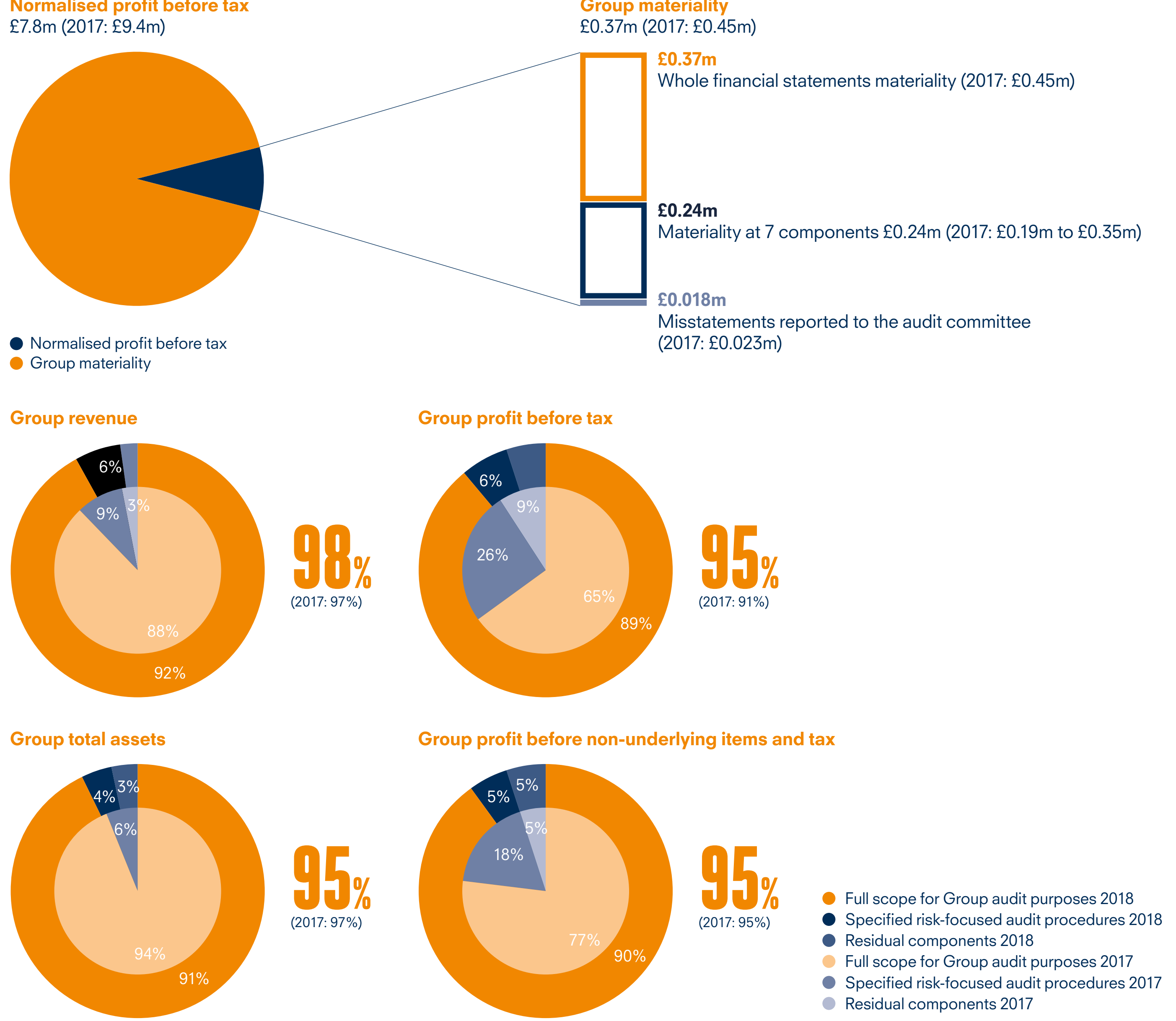
We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £18,000, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's nine (2017: nine) reporting components, we subjected five (2017: four) to full scope audits for group purposes and one (2017: 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. The group team performed procedures on the items excluded from normalised group profit before tax.

The components within the scope of our work accounted for the percentages illustrated opposite. For the 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 each component materiality, at £0.24 million, having regard to the mix of size and risk profile of the Group across components. The work on two of the nine components (2017: three of the nine components) was performed by component auditors and the rest, including the audit of the parent company, was performed by the Group team.

Telephone conference meetings were held with two 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.



4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the Company will continue in operation.

We identified going concern as a key audit matter (see section 2 of this report). Based on the work described in our response to that key audit matter, 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 61 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.

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 61 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.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

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 87, 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 or other irregularities (see below), 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

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the group's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the group to component audit teams of relevant laws and regulations identified at group level.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), taxation legislation and distributable profits legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the group's licence to operate. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery, employment law, regulatory capital and liquidity and certain aspects of company legislation recognising the financial and regulated nature of the group's activities.

Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. These limited procedures did not identify actual or suspected non-compliance.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, 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. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

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.

David Neale (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square, London E14 5GL
05 March 2019

Consolidated income statement
for the year ended 31 December 2018

		Twelve months ended 31 December 2018			Twelve months ended 31 December 2017		
	Note	Underlying £'m	Non-underlying £'m	Total £'m	Underlying £'m	Non-underlying £'m	Total £'m
Revenue	4	**169.6**	**–**	**169.6**	181.0	–	181.0
Cost of sales		**(109.3)**	**–**	**(109.3)**	(114.3)	–	(114.3)
Gross profit		**60.3**	**–**	**60.3**	66.7	–	66.7
Distribution costs		**(30.4)**	**–**	**(30.4)**	(34.0)	–	(34.0)
Administrative expenses		**(21.9)**	**(0.4)**	**(22.3)**	(23.0)	(6.4)	(29.4)
Profit/(loss) from operating activities	4	**8.0**	**(0.4)**	**7.6**	9.7	(6.4)	3.3
Financial income		**–**	**–**	**–**	–	–	–
Financial expense		**(0.2)**	**–**	**(0.2)**	(0.3)	–	(0.3)
Net financing expense	7	**(0.2)**	**–**	**(0.2)**	(0.3)	–	(0.3)
Profit/(loss) before income tax	4	**7.8**	**(0.4)**	**7.4**	9.4	(6.4)	3.0
Income tax (expense)/credit	8	**(2.2)**	**0.1**	**(2.1)**	(3.5)	2.2	(1.3)
Profit/(loss) for the year	9	**5.6**	**(0.3)**	**5.3**	5.9	(4.2)	1.7
Profit for the year attributable to:							
Equity owners of the Company				**5.2**			1.3
Non-controlling interests				**0.1**			0.4
Profit for the year				**5.3**			1.7
Earnings per share							
Basic	17			**16.4p**			4.8p
Diluted	17			**16.1p**			4.8p

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

Consolidated statement of comprehensive income
for the year ended 31 December 2018

	Note	2018 £'m	2017 £'m
Other comprehensive income			
Items that may be reclassified subsequently to profit and loss			
Exchange difference on translation of foreign operations		**4.2**	(5.6)
Income tax on exchange difference on translation of foreign operations		**(0.3)**	0.6
		3.9	(5.0)
Items that will not be reclassified subsequently to profit and loss			
Remeasurement of defined benefit pension liability	18	**(0.6)**	1.9
Income tax on remeasurement of defined benefit pension liability	18	**0.1**	(0.4)
		(0.5)	1.5
Other comprehensive income for the year, net of tax		**3.4**	(3.5)
Profit for the year		**5.3**	1.7
Total comprehensive income/(expense) for the year		**8.7**	(1.8)
Attributable to:			
Owners of the parent		**8.6**	(2.2)
Non-controlling interests		**0.1**	0.4
Total comprehensive income/(expense) for the year		**8.7**	(1.8)

Consolidated statement of changes in equity
for the year ended 31 December 2018

	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 2018		0.6	1.4	10.4	2.2	61.2	**75.8**	0.3	**76.1**
Profit for the year		–	–	–	–	5.2	**5.2**	0.1	**5.3**
Other comprehensive (expense)/income									
Foreign exchange translation differences, net of tax		–	–	3.9	–	–	**3.9**	–	**3.9**
Remeasurement of defined benefit pension liability, net of tax	18	–	–	–	–	(0.5)	**(0.5)**	–	**(0.5)**
Total other comprehensive (expense)/income		–	–	3.9	–	(0.5)	**3.4**	–	**3.4**
Total comprehensive income for the year		–	–	3.9	–	4.7	**8.6**	0.1	**8.7**
Transactions with owners, recorded directly in equity									
Share-based payments, net of tax	6, 8	–	–	–	–	0.3	**0.3**	–	**0.3**
Total contributions by and distributions to owners		–	–	–	–	0.3	**0.3**	–	**0.3**
Balance at 31 December 2018		0.6	1.4	14.3	2.2	66.2	**84.7**	0.4	**85.1**

	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 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**
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**

At 31 December 2018, the number of shares held by the Group through the Dialight Employees' Share Ownership Plan Trust ("ESOT") was nil (2017: nil). The market value of these shares at 31 December 2018 was £nil (2017: £nil).

Consolidated statement of total financial position

at 31 December 2018

	Note	2018 £'m	2017 £'m
Assets			
Property, plant and equipment	10	**14.7**	13.9
Intangible assets	11	**16.5**	13.9
Deferred tax assets	13	**5.3**	5.3
Employee benefits	18	**0.4**	1.0
Other receivables	28	**0.2**	0.2
Total non-current assets		**37.1**	34.3
Inventories	14	**46.0**	24.6
Trade and other receivables	15	**36.8**	33.6
Income tax recoverable		**1.2**	0.7
Cash and cash equivalents	21	**2.2**	12.8
Total current assets		**86.2**	71.7
Total assets		**123.3**	106.0
Liabilities			
Trade and other payables	20	**(30.0)**	(26.9)
Provisions	19	**(1.0)**	(1.4)
Tax liabilities		**(1.6)**	(0.7)
Borrowings	12	**(5.1)**	–
Total current liabilities		**(37.7)**	(29.0)
Employee benefits	18	**–**	–
Provisions	19	**(0.5)**	(0.9)
Total non-current liabilities		**(0.5)**	(0.9)
Total liabilities		**(38.2)**	(29.9)
Net assets		**85.1**	76.1
Equity			
Issued share capital	16	**0.6**	0.6
Merger reserve	16	**1.4**	1.4
Other reserves		**16.5**	12.6
Retained earnings		**66.2**	61.2
		84.7	75.8
Non-controlling interests		**0.4**	0.3
Total equity		**85.1**	76.1

The accompanying notes form part of the financial statements. These financial statements were approved by the Board of Directors on 05 March 2019 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 2018

	Note	2018 £'m	2017 £'m
Operating activities			
Profit for the year		5.3	1.7
Adjustments for:			
Financial expense	7	0.2	0.3
Income tax charge	8	2.1	1.3
Share-based payments		0.3	0.8
Depreciation of property, plant and equipment	10	3.1	2.4
Amortisation of intangible assets	11	1.5	1.5
Pension charge for GMP equalisation	18	0.4	–
Impairment losses on intangible assets and goodwill	11	–	1.2
Impairment losses on tangible assets	10	–	0.9
Operating cash flow before movements in working capital		12.9	10.1
(Increase)/decrease in inventories		(19.6)	5.1
(Increase)/decrease in trade and other receivables		(1.2)	3.4
Increase/(decrease) in trade and other payables		1.8	(2.6)
Decrease in provisions	19	(0.8)	(2.4)
Pension contributions in excess of the income statement	18	(0.5)	(0.5)
Cash (used in)/from operations		(7.4)	13.1
Income taxes paid		(1.7)	(4.3)
Interest paid	7	(0.2)	(0.3)
Net cash used in operating activities		(9.3)	8.5
Investing activities			
Capital expenditure	10	(3.1)	(2.6)
Sale of fixed assets	10	–	2.0
Capitalised expenditure on development	11	(3.3)	(2.3)
Net cash used in investing activities		(6.4)	(2.9)
Financing activities			
Proceeds from issue of shares		–	0.1
Drawdown of bank facility		5.1	–
Net cash generated from financing activities	12	5.1	0.1
Net increase in cash and cash equivalents		(10.6)	5.7
Cash and cash equivalents at beginning of year		12.8	8.0
Effect of exchange rates on cash held		–	(0.9)
Cash and cash equivalents at end of year	21	2.2	12.8

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 2018 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 reviewed short-term and medium-term strategic forecasts including consideration of the principal risks faced by the Group, as detailed on pages 34 to 37. Following this review, the Directors have a reasonable expectation that the Company has sufficient resources to continue to operate and meet their liabilities as they fall due 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

Inventory (see note 14)

The valuation of inventory, detailed in note 12, requires the use of judgement in the identification of directly attributable costs to be absorbed into inventory valuation, and the level of production over which these costs are absorbed. The estimation of production considers current year actual when concluding on the appropriate level over which to absorb production costs. Similarly, judgement is used in determining which costs are considered to be directly attributable to the production of inventory based on inventory turns and using a countback method. Management use their detailed experience in this process in forming their view on the adjustment required to record inventory at cost. The value of directly attributable costs over which judgement was exercised was £6.4m, which represents 13% of inventory.

Development and patent costs (see note 11)

The Group capitalises development costs and patent costs provided they meet all criteria set out in the respective accounting policy. Costs are only capitalised where management are 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. The Group has £6.5m of development costs that relate to the current product portfolio and new product expected to launch in 2019. Management have reviewed all of these for impairment by using our market intelligence and are satisfied that there is no evidence of impairment.

2. Basis of preparation continued

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. There are £4.9m of deferred tax assets relating to losses in Dialight Europe Ltd and Dialight GmBh. We expect to recover this over 5 years as we use these entities to expand our European market. Recovery is based on the 3 year board approved strategy extrapolated for years 4 and 5 based on zero growth.

Significant estimates

Manufacturing partner

The decision to terminate the agreement with our manufacturing partner during the year requires the Group to consider all estimates regarding potential liabilities at the balance sheet date. Management have assessed the risks and have concluded that only a low level risk of liability exists, as disclosed in note 25, and no provision has been made for this.

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. The impact of the significant increase in inventory value year on year was assessed for any potential obsolescence. The inventory ageing profile shows that a significant amount of this inventory was built up in the second half of the year and consequently no additional provision for inventory was required. The inventory provision at the balance sheet date was £4.7m, which represents 10% of inventory (2017: £7.3m 30% of inventory).

Warranty (see note 19)

The Group offers performance warranties on many of its products which apply over a period of 5 to 10 years. Products with a 10 year warranty were introduced from 2014 onwards. 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, product specific warranty term, 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. The warranty provision at the balance sheet date was £1.5m which is under 1% of revenue for the year. A 10% increase in the warranty provision would result in an increase of £0.2m.

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.

3. Significant accounting policies continued

Acquisitions between 1 January 2004 and 1 January 2010

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

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

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

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

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(b) Foreign currency translation

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

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

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

Gains and losses resulting from the settlement of such transactions and from the translation of monetary 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:

Plant, equipment and vehicles	3–10 years

3. Significant accounting policies continued

Amortisation

Amortisation is recognised in profit and loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use.

The estimated useful lives are as follows:

Patents and trademarks	4 years
Development costs	3–5 years

(g) Goodwill

Goodwill that arises upon acquisition of subsidiaries is included in intangible assets. For the measurement of goodwill at initial recognition, see note 3(a).

Subsequent measurement

After initial recognition, goodwill is measured at cost less any accumulated impairment losses until disposal or termination of the previously acquired business when the profit or loss on disposal or termination will be calculated after charging the gross amount at current exchange rates of any such goodwill through the income statement. Goodwill is allocated to the CGUs and is tested at least annually for impairment. An impairment loss recognised for goodwill is not reversed in a subsequent period.

(h) Research and development costs

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

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

3. Significant accounting policies continued

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.

(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.

(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. In accordance with IFRIC 14 – IAS 19 'The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction', the pension surplus can be recognised as an asset on the balance sheet. The recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

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

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

3. Significant accounting policies continued

(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.

(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 by completion of the performance obligations in the contract and 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 in line with performance of contractual obligations and based on Incoterms in contract.

(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.

3. Significant accounting policies continued

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered. Deferred tax is calculated using tax rates that are enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited to profit and loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis. Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

(t) Changes in accounting policies

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 2018. 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) have been adopted in these financial statements. IFRS 16 Leases (effective for annual periods beginning after 1 January 2019) has not been applied in preparing these consolidated financial statements.

IFRS 16 – Leases: the standard is effective for accounting periods beginning on or after 1 January 2019 and will be adopted by the Group on 1 January 2019. The Directors are assessing the likely impact on the reported results and financial position of the Group. The existing obligations under operating lease agreements at 31 December 2018 are £7.7m (see note 23), which primarily relate to buildings. We are using the modified retrospective approach for transition on 1 January 2019 and we are taking advantage of the exemption on transition relating to low value assets. We have not yet concluded on the value of the expected adjustment to the balance sheet for leases capitalised and the corresponding lease liability. Similarly, the expected impact on the income statement for the year ending 31 December 2019 has not been concluded.

IFRS 15 Revenue from Contracts with Customers (effective for the year beginning 1 January 2018), and subsequent amendments 'Clarifications to IFRS 15' set out the requirements for recognising revenue and costs from contracts with customers. IFRS 15 provides a single source of accounting requirements for all contracts with customers, thereby replacing all current accounting pronouncements on revenue.

Under IFRS 15, revenue is recognised in a manner that depicts the completion of performance obligations to customers in an amount that reflects the consideration to which the provider of the goods or services expects to be entitled. The Group has identified the applicable performance obligations and the primary obligation is the supply of lighting fixtures with some lesser obligations related to revenue rebates. Revenue continues to be recognised based on Incoterms, normally on dispatch. Warranty is not a separate obligation and therefore does not impact the timing of revenue recognition. All credits to customers under rebate programs continue to be accounted for as reductions to revenue. Consequently, the recognition requirements of IFRS 15 did not have any impact on the timing and amount of revenue recorded in the Financial Statements.

IFRS 9 – 'Financial instruments' replaces IAS 39 (Financial instruments– Recognition and measurement) and addresses the classification and measurement of financial instruments, introduces new principles for hedge accounting and a new forward-looking impairment model for financial assets. The primary impact of IFRS 9 on the Group relates to provisioning for potential future credit losses on financial assets.

3. Significant accounting policies continued

The adoption of IFRS 9 hedge accounting principles did not result in a restatement of the group's results and the impact on the year ended 31 December 2018 is not material. The adoption of IFRS 9 did not result in any changes in the measurement or classification of financial instruments as at 1 January 2018. All classes of financial assets and financial liabilities at 1 January 2018 had the same carrying values under IFRS 9 as they had under IAS 39.

There is no material impact on the Financial Statements of adopting IFRS 9.

(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.

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.

4. Operating segments continued

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

Reportable segments

2018	Lighting £'m	Signals and Components £'m	Total £'m
Revenue	125.0	44.6	169.6
Underlying gross profit	47.1	13.2	60.3
Overheads	(38.6)	(8.7)	(47.3)
Segment results	8.5	4.5	13.0
Unallocated expenses			(5.0)
Underlying operating profit			8.0
Non-underlying expense			(0.4)
Operating profit			7.6
Net financing expense			(0.2)
Profit before tax			7.4
Income tax expense			(2.1)
Profit after tax			5.3

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 loss			3.3
Net financing expense			(0.3)
Loss before tax			3.0
Income tax expense			(1.3)
Profit after tax			1.7

Other segmental data

	2018			2017		
	Lighting £'m	Signals and Components £'m	Total £'m	Lighting £'m	Signals and Components £'m	Total £'m
Underlying						
Depreciation	2.3	0.8	3.1	1.8	0.6	2.4
Amortisation	1.1	0.4	1.5	1.1	0.4	1.5
Non-underlying						
Impairment losses on tangible asset write-down	–	–	–	0.9	–	0.9
Impairment losses on intangible asset write-down	–	–	–	1.1	0.1	1.2

4. Operating segments continued

Geographical segments

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

	2018 £'m	2017 £'m
North America	124.1	136.0
EMEA	20.3	21.2
Rest of World	25.2	23.8
	169.6	181.0

Reconciliations of reportable segment profit or loss

	2018 £'m	2017 £'m
Total profit for reportable segments	13.0	15.1
Unallocated amounts:		
Overheads	(5.0)	(5.4)
Non-underlying expense	(0.4)	(6.4)
Net financing expense	(0.2)	(0.3)
Profit before tax	7.4	3.0

5. Non-underlying 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 administrative expenses:

	2018 £'m	2017 £'m
Employee severance and restructuring costs	–	0.3
Increase pension liability for GMP equalisation	(0.4)	–
Intangible asset impairment	–	(1.2)
Tangible asset impairment and disposals	–	(0.9)
Production transfer costs	–	(4.6)
Non-underlying costs recorded in administrative expenses	(0.4)	(6.4)

In the current year, there is a one-off charge of £0.4m for the impact of Guaranteed Minimum Pension (GMP) equalisation. This is an increase in the pension liability related to the equalisation of pension entitlements between the sexes which dates back to the 1990's and which is treated as a past service cost and therefore a charge to the Income Statement. It is a one-off event and has no cash impact at the moment as we are within an agreed triennial funding window until 2020.

5. Non-underlying expense continued

In the prior year, non-underlying costs related to the transfer of lighting assembly to our manufacturing partner. The costs were for set up costs, project management and dedicated engineering time. There are no further transfer costs being incurred, all accrued redundancy costs have been utilised in the period against terminations related to the project.

6. Personnel expenses

	2018 £'m	2017 £'m
Wages and salaries	31.9	34.4
Social security contributions	3.2	3.6
Equity-settled share-based payment transactions	0.3	0.8
Contributions to defined contribution plans	1.2	1.3
Total charge for defined benefit plans	0.5	0.2
	37.1	40.3

Wages and salary costs have reduced year on year with the main driver being reduced average headcount at our production facility in Mexico as the majority of production in the first half was at our manufacturing partner. In the second half, as we transferred production back in-house the number of heads increased. There were no management incentives in 2018 or the prior year.

The average number of employees by geographical location was:

	2018 Number	2017 Number
US and Mexico	1,093	1,304
Rest of World	239	232
	1,332	1,536

In 2018, the Group employed an average of 717 direct staff (2017: 836) and 615 indirect staff (2017: 700).

7. Net financing expense

Recognised in profit and loss

	Total £'m	Total £'m
Net interest on defined benefit liability	–	(0.2)
Interest expense on financial liabilities	(0.2)	(0.1)
Net financing expense recognised in the consolidated income statement	(0.2)	(0.3)

8. Income tax (income)/expense

Current tax expense

Recognised in the income statement

	2018 £'m	2017 £'m
Current tax expense		
Current year	2.1	2.5
Adjustment for prior years	0.2	(0.2)
	2.3	2.3
Deferred tax expense		
Origination and reversal of temporary differences	(0.4)	(0.5)
Adjustment for prior years	0.1	(0.8)
Reduction in tax rate	0.1	0.4
Recognition of previously unrecognised losses	–	(0.1)
Income tax expense/(income)	2.1	1.3

Reconciliation of effective tax rate

	2018 %	2018 £'m	2017 %	2017 £'m
Profit for the year		5.3		1.7
Total income tax income		2.1		1.3
Profit excluding income tax		7.4		3.0
Income tax using the UK corporation tax rate	19.0	1.4	19.3	0.6
Effect of tax rates in foreign jurisdictions	5.8	0.4	16.9	0.5
Increase/(reduction) in tax rate	0.9	0.1	13.6	0.4
Non-deductible expenses	–	–	33.9	1.0
Recognition of tax effect of previously unrecognised losses	–	–	(3.4)	(0.1)
Adjustment for prior years	3.9	0.3	(33.6)	(1.0)
Non-taxable income	–	–	–	–
Research and development credits	(2.0)	(0.2)	(6.8)	(0.2)
Other	0.8	0.1	3.4	0.1
	28.4	2.1	43.3	1.3

The effective tax rate for the year is 28.4% compared with 43.3% in the prior year. Non-underlying items in the current year have very little impact on the tax rate, whereas, in the prior year, the tax rate on the underlying business was 37.2%. The reduction in tax rates in the US has helped to reduce the overall tax rate in the current year. However, the overall tax rate is higher than the US rate of 21% as the mix of profits in the year is weighted more towards higher tax rate jurisdictions compared to the US.

Tax recognised directly in equity

	2018 £'m	2017 £'m
Employee benefits	(0.3)	0.4
Other	0.1	(0.6)

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 19.0% (2017: 19.25%). The UK tax authorities have reduced the UK rate of corporation tax will reduce by 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

The majority of the Group's profits arise in the US where the corporation tax rate reduced from 35% in the prior year to 21% in the current year and this is the main driver for reduction in effective tax rate.

9. Profit/(loss) for the year

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

	2018 £'m	2017 £'m
Research and development costs:		
Expensed as incurred	6.3	6.2
Amortisation charge	0.8	1.7
Total research and development costs	7.1	7.9
Depreciation of fixed assets	3.1	2.4
Impairment of goodwill and intangible assets	–	1.2
Impairment of tangible assets	–	0.9
Operating leases – property	2.0	2.0
Operating leases – other	0.1	0.2

Auditor's remuneration

	2018 £'m	2017 £'m
Audit of these financial statements	0.2	0.1
Amounts receivable by auditor in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	0.1	0.1
	0.3	0.2

10. Property, plant and equipment

	Land and buildings £'m	Plant, equipment and vehicles £'m	Total £'m
Cost			
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)
At 31 December 2017	3.0	47.6	50.6
Balance at 1 January 2018	3.0	47.6	50.6
Exchange adjustments	0.1	2.7	2.8
Additions	0.1	3.0	3.1
Disposals	–	(2.0)	(2.0)
Balance at 31 December 2018	**3.2**	**51.3**	**54.5**
Accumulated depreciation			
At 1 January 2017	(3.6)	(35.1)	(38.7)
Exchange adjustments	0.1	2.9	3.0
Charge for year	(0.2)	(2.2)	(2.4)
Impairment	–	(0.9)	(0.9)
Disposals	0.8	1.5	2.3
At 31 December 2017	(2.9)	(33.8)	(36.7)
Balance at 1 January 2018	(2.9)	(33.8)	(36.7)
Exchange adjustments	(0.1)	(1.9)	(2.0)
Charge for the period	(0.1)	(3.0)	(3.1)
Disposals	–	2.0	2.0
Balance at 31 December 2018	**(3.1)**	**(36.7)**	**(39.8)**
Carrying amount at 31 December 2018	**0.1**	**14.6**	**14.7**
At 31 December 2017	0.1	13.8	13.9

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 2017	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
Balance at 1 January 2018	7.1	12.7	2.1	0.6	20.2	42.7
Additions arising from internal developments	0.8	–	–	–	2.5	3.3
Disposals	–	–	(2.1)	(0.6)	–	(2.7)
Effects of foreign exchange movement	0.5	0.3	–	–	1.1	1.9
Balance at 31 December 2018	**8.4**	**13.0**	**–**	**–**	**23.8**	**45.2**
Amortisation and impairment losses						
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)
Balance at 1 January 2018	(5.8)	(4.2)	(2.1)	(0.6)	(16.1)	(28.8)
Amortisation for the period	(0.7)	–	–	–	(0.8)	(1.5)
Disposals	–	–	2.1	0.6	–	2.7
Effects of foreign exchange movement	(0.5)	–	–	–	(0.6)	(1.1)
Balance at 31 December 2018	**(7.0)**	**(4.2)**	**–**	**–**	**(17.5)**	**(28.7)**
Carrying amount at 31 December 2018	**1.4**	**8.8**	**–**	**–**	**6.3**	**16.5**
At 31 December 2017	1.3	8.5	–	–	4.1	13.9

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

Lighting segment

Goodwill recognised is measured against discounted future cash flow projections for the relevant CGU. Management has prepared cash flow projections for a three-year period based on its 3 year strategy approved by the Board. These forecasts include assumptions around revenue growth, sales prices, costs of manufacture, operating costs, working capital movements and capital expenditure.

During 2017 there was a significant change in the business model for European Lighting which became a re-seller of goods from the US following the closure of the UK manufacturing facility. We changed from having Lighting CGU's on a geographic basis derived from the acquisition that gave rise to the goodwill and instead we recognised a much larger CGU of European and North American Lighting. This recognised the integration of all production in Mexico and resulted in a larger CGU which represented 84% of Lighting revenue.

In 2018, we reviewed the CGU's assumptions again and concluded that Lighting in totality was really only one CGU as the assets that currently create the intellectual property and the physical assets used in production are all held in North America. All residual goodwill was therefore combined into one figure of £8.8m that was then tested for impairment.

11. Intangible assets continued

The Group has two cash-generating units, Lighting and Signals & Components, which are the smallest identifiable independent groups of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Where assets and costs are shared between the two cash-generating units a reasonable apportionment of these are made for the purpose of the impairment calculation.

The goodwill and other intangible assets all relate to the Lighting cash-generating unit. The long-term average growth rate used was 1.0% (2017: 1.0%) and the risk-adjusted post-tax discount rate was 13.0% (2017: 15.0%). The impairment test results in significant headroom and it is unlikely that a reasonable change in a key assumption would result in an impairment of goodwill or other intangibles.

The carrying amount of the goodwill is as follows:

	2018 £'m	2017 £'m
Lighting	8.8	8.5
	8.8	8.5

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 CGU is 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.

Management has arrived at the three-year plan based upon certain assumptions derived from a combination of internal assessment of the market size, an assessment of customer product requirements, production capacity requirements and the operational costs of the organisation. The key assumptions within the three-year forecasts are revenue growth 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

The rate used to discount the forecast cash flow for the CGUs in the Lighting segment was 13% (2017: 15.0%). The discount rate reflects the production issues that the Lighting business has suffered over the past two years. Management has applied different growth rates for the value in use calculations of each CGUs over the five-year period due to the differing 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. The impairment tests showed significant headroom with reduced growth rates and higher discount levels.

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 2018 there was £5.1m drawn on the facility (2017: £nil).

	Loans and borrowings £'m	Total £'m
Opening balance	–	–
Proceeds from loans or borrowings	5.1	5.1
Total change in financing cash flows	5.1	5.1

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	
	2018 £'m	2017 £'m	**2018 £'m**	2017 £'m	**2018 £'m**	2017 £'m
Property, plant and equipment	**–**	–	**(0.9)**	(0.8)	**(0.9)**	(0.8)
Intangible assets	**–**	–	**(1.4)**	(0.9)	**(1.4)**	(0.9)
Employee benefits	**0.1**	0.2	**–**	–	**0.1**	0.2
Provisions	**2.4**	2.2	**–**	–	**2.4**	2.2
Losses and other items	**5.1**	4.6	**–**	–	**5.1**	4.6
Tax assets/(liabilities)	**7.6**	7.0	**(2.3)**	(1.7)	**5.3**	5.3
Set-off of tax	**–**	–		–	**–**	–
Net tax assets	**7.6**	7.0		(1.7)	**5.3**	5.3

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 4 to 6 years. There are no unrecognised deferred tax assets (2017: £nil). The increase in the deferred tax asset in the year is mainly due to losses recognised in Europe and profits arising in other jurisdictions. The geographic split of the deferred tax asset is – UK £3.5m, Germany £1.4m, Australia £0.2m, Malaysia £0.1m and Singapore £0.1m. The aggregate amount of temporary differences associated with investments in subsidiaries for which deferred taxation liabilities have not been recognised is £nil (2017: £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 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
Balance at 1 January 2018	(0.8)	(0.9)	0.2	2.2	4.6	5.3
Recognised in income	(0.1)	(0.5)	–	0.2	0.2	(0.2)
Recognised in equity	–	–	(0.1)	–	0.3	0.2
Balance at 31 December 2018	**(0.9)**	**(1.4)**	**0.1**	**2.4**	**5.1**	**5.3**

14. Inventories

	2018 £'m	2017 £'m
Raw materials and consumables	**17.9**	13.8
Work in progress	**10.7**	4.0
Finished goods	**17.4**	6.8
	46.0	24.6

Inventories to the value of £76.7m (2017: £82.7m) were recognised as expenses in the year. During the year, inventory write-backs totalled £1.3m (2017: write-down £1.4m).

14. Inventories continued

There has been a significant increase in inventory during the year. The primary reason for the increase was due to the termination of the manufacturing partnership on 27 September 2018. In order to ensure a smooth transition back to our own facility we purchased a significant amount of raw materials and sub-assemblies. In addition, we also purchased some of the inventory at our manufacturing partner. Finished goods levels at December 2017 were low due to production delays at our manufacturing partner. As production has been moved back in-house, the supply of finished goods to our regional distribution centres has improved significantly.

15. Trade and other receivables

	2018 £'m	2017 £'m
Trade receivables	28.6	28.4
Other non-trade receivables	6.5	4.1
Prepayments and accrued income	1.7	1.1
	36.8	33.6

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

	2018 Number	2018 £'m	2017 Number	2017 £'m
Allotted and fully paid				
Ordinary shares of 1.89 pence each	32,534,237	0.6	32,521,179	0.6

During the year, 13,058 shares were issued (2017: 16,844) in order to satisfy the requirement for shares that vested as part of the Sharesave scheme, the proceeds of issue were less than £0.1m (2017: £0.1m). The ordinary shares issued in the year have the same rights as the other shares in issue.

	Ordinary shares	
Issued share capital	2018 Number	2017 Number
In issue at 1 January	32,521,179	32,504,335
Shares issued	13,058	16,844
Issued and fully paid at 31 December	32,534,237	32,521,179

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.

16. Capital and reserves continued

Capital redemption reserve

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

Dividends

No dividends were declared in the current or the prior year. After the balance sheet date no dividends were proposed by the Directors and there are no income tax consequences for the Company.

17. Earnings per share

Basic earnings per share

The calculation of basic earnings per share ("EPS") at 31 December 2018 was based on a profit for the year of £5.3m (2017: £1.7m) and the weighted average number of ordinary shares outstanding during the year of 32,527,708 (2017: 32,510,106).

Diluted earnings per share

The calculation of diluted EPS at 31 December 2018 was based on a profit for the year of £5.3m (2017: £1.7m) and the weighted average number of ordinary shares outstanding during the year of 33,006,459 (2017: 33,014,680) was calculated as follows:

Weighted average number of ordinary shares (diluted)

	2018 '000	2017 '000
Weighted average number of ordinary shares	32,527	32,510
Effect of share options in issue	479	505
Weighted average number of ordinary shares (diluted)	33,006	33,015

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

	2018 Per share	2017 Per share
Basic earnings	16.4p	4.8p
Underlying basic earnings[1]	17.3p	17.9p
Diluted earnings	16.1p	4.8p
Underlying diluted earnings[1]	17.0p	17.6p

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 closed defined benefit plans (referred to below as Plan A and Plan B) to provide benefits for employees and former employees upon retirement. The plans expose the Group to actuarial risks, such as longevity risk, interest rate risk and investment risk. Both plans 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.

Part of the increase in pension liability in the year to incorporate the Guaranteed Minimum Pension (GMP) equalisation (£0.4m representing 1.8% of liabilities) into the scheme liabilities. The equalisation issue relates to people who chose to pay part of their state contributions into a Company pension rather than to the state pension in the 1990's as there was a requirement to ensure that the Guaranteed Minimum Pension that they received was the same under both. A recent court decision has clarified the permitted methods of calculating the adjustment and we have used method C2. This has had no impact on the scheme funding in the current year as the next triennial funding valuation is in 2020.

18. Employee benefits continued

The Company is required to agree a Schedule of Contributions with the Trustees of the Funds following a valuation which must be carried out at least once every three years 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)	
	2018 £'m	2017 £'m	2018 £'m	2017 £'m	2018 £'m	2017 £'m
Balance at 1 January	25.8	27.3	(26.8)	(26.0)	(1.0)	1.3
Included in profit or loss						
Current service cost	–	–	0.1	0.1	0.1	0.1
Past service cost-GMP	0.4	–	–	–	0.4	–
Interest cost/(income)	0.6	0.7	(0.6)	(0.7)	–	–
	1.0	0.7	(0.5)	(0.6)	0.5	0.1
Included in other comprehensive income						
Remeasurements (gain)/loss:	–	–	–	–	–	–
Actuarial (gain)/loss arising from:						
– demographic assumptions	(0.2)	(0.3)	–	–	(0.2)	(0.3)
– financial assumptions	(0.7)	(0.1)	–	–	(0.7)	(0.1)
– return on plan assets excluding interest income	0.3	–	1.2	(1.5)	1.5	(1.5)
	(0.6)	(0.4)	1.2	(1.5)	0.6	(1.9)
Other						
Contributions paid by the employer	–	–	(0.5)	(0.5)	(0.5)	(0.5)
Benefits paid	(1.3)	(1.8)	1.3	1.8	–	–
	(1.3)	(1.8)	0.8	1.3	(0.5)	(0.5)
Balance at 31 December	24.9	25.8	(25.3)	(26.8)	(0.4)	(1.0)

Represented by:	2018 £'m	2017 £'m
Net defined benefit asset (Plan A)	(0.1)	(0.2)
Net defined benefit asset (Plan B)	(0.3)	(0.8)
	(0.4)	(1.0)

Plan assets consist of the following:

	2018 £'m Total	2017 £'m Total
Equities (class 2)	9.2	11.9
Bonds and gilts (class 2)	16.0	14.8
Cash	0.1	0.1
	25.3	26.8

18. Employee benefits continued

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	
	2018	2017
Discount rate at 31 December	2.70	2.50
Future salary increases	n/a	n/a
Future pension increases	3.25	3.25
Inflation – RPI	3.35	3.30
Inflation – CPI	2.35	2.40

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

	2018		2017	
	Plan A	Plan B	Plan A	Plan B
Longevity at age 65 for current pensioners				
Males	22.1	22.1	22.3	22.3
Females	24.2	24.2	24.2	24.2
Longevity at age 65 for current members aged 45				
Males	23.7	23.7	23.7	23.7
Females	25.7	25.7	25.7	25.7

Sensitivity analysis

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

	Defined benefit obligation	
	Increase £'m	Decrease £'m
Discount rate (0.5% movement)	(1.4)	1.6
Inflation (0.5% movement)	1.1	(1.1)
Life expectancy (+/–1 year)	1.1	(1.1)

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.

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 three components, based on the EPS performance of the Group, based on the Group's total shareholder return ("TSR") performance and based on service conditions.

18. Employee benefits continued

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 2015 (EPS)	25,079			(25,079)	–	802	3 years	Apr 2018
April 2015 (TSR)	25,079			(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)	95,923			(10,453)	85,470	570	3 years	Mar 2019
March 2016 (TSR)	95,923			(10,453)	85,470	356	3 years	Mar 2019
August 2016 (EPS)	2,159			(240)	1,919	710	3 years	Aug 2019
August 2016 (TSR)	2,159			(240)	1,919	493	3 years	Aug 2019
January 2017 (service condition)	7,721		(6,529)		1,192	1037	2 years	Jan 2018
January 2017 (service condition)	7,721		(6,529)		1,192	1037	3 years	Jan 2019
March 2017 (EPS)	64,139			(22,099)	42,040	701	3 years	Mar 2020
March 2017 (TSR)	21,380			(7,367)	14,013	990	3 years	Mar 2020
March 2017 (service condition)	32,530			(11,524)	21,006	990	3 years	Mar 2020
August 2017 (service condition)	3,608				3,608	832	3 years	Aug 2020
March 2018 (EPS)		116,357			116,357	550	3 years	Mar 2021
March 2018 (TSR)		38,786			38,786	272	3 years	Mar 2021
March 2018 (service condition)		57,076		(5,795)	51,281	522	3 years	Mar 2021
March 2018 (service condition)		5,536			5,536	536	3 years	Mar 2021
	455,065	217,755	(13,058)	(189,973)	469,789			

Further details of the PSP are included in the Directors' remuneration report on pages 66 to 83.

The 2018 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 2018 EPS and TSR award
Share price	5.5
Exercise price	Nil
Expected volatility	48%
Award life	3 years
Correlation	
Dialight and the FTSE 250 Index (excluding investment trusts)	29%

The employee expense in 2018 was £0.3m (2017: £0.8m) (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 £250 per month (or local currency equivalent) per scheme and up to £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 2018	44.932	46,164	6,707
Granted during the year	–	–	–
Vested in the year	–	–	–
Forfeited during the year	(9,091)	(29,490)	(6.707)
Outstanding at 31 December 2018	35,841	16,674	–

There is a 6 month window for exercise of options at the end of each scheme. The 2015 scheme has finished but the options are in that exercise window. The options remaining have a weighted average remaining contractual life of two 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:

19. Provisions

	Warranty £'m	Restructuring £'m	Total £'m
Balance at 1 January 2018	1.5	0.8	2.3
Effects of foreign exchange movement	0.2	–	0.2
Provisions made during the year	0.9	–	0.9
Provisions used during the year	(1.1)	(0.8)	(1.9)
Provision not required	–	–	–
Balance at 31 December 2018	**1.5**	**–**	**1.5**

The warranty provision relates to sales made over the past five years. The provision has been estimated based on historical warranty data with similar products. The Group expects to settle the majority of the liability over the next two to three years. Movements related to discounting the warranty provision was less than £0.1m in the prior year and therefore not disclosed. The restructuring provision related to redundancy costs linked to our outsourcing program that was utilised in the year (see note 5).

	Total 2018 £'m	Total 2017 £'m
Due within one year	**1.0**	1.4
Due between one and five years	**0.5**	0.9
	1.5	2.3

20. Trade and other payables

	2018 £'m	2017 £'m
Trade payables	**19.4**	14.6
Other taxes and social security	**0.9**	1.0
Non-trade payables and accrued expenses	**9.7**	11.3
	30.0	26.9

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

21. Cash and cash equivalents

	2018 £'m	2017 £'m
Cash and cash equivalents in the statement of total financial position	**2.2**	12.8
Cash and cash equivalents in the statement of cash flows	**2.2**	12.8

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. The Group has no significant credit risk as it does not have any major customer concentration.

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 conditions and 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 expected future 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.

All receivables are less than 120 days, with the exception of one for £0.1m which is fully impaired.

22. Financial risk management continued

Exposure to credit risk

The ageing of trade receivables at the reporting date was:

	Gross 2018 £'m	Impairment 2018 £'m	Gross 2017 £'m	Impairment 2017 £'m
Not past due	21.7	–	21.2	–
Past due 0–30 days	4.4	–	5.5	–
Past due 31–120 days	2.6	–	1.6	–
Past due 121–365 days	–	–	0.3	(0.2)
More than one year	0.1	(0.1)	0.1	(0.1)
Total	**28.8**	**(0.1)**	28.7	(0.3)

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

	£'m
Balance at 1 January 2018	0.3
Effects of foreign exchange	–
Utilisation of provision	(0.3)
Provision created	0.1
Balance at 31 December 2018	**0.1**

The allowance in respect of trade receivables is used to record forecast 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 £6.5m (2017: £4.1m) are not past due and have no impairment.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Group's income. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Interest rate risk

The Group's policy is to manage exposure to interest rate risk by utilising short-term fixed rate borrowings. At 31 December 2018, the Group had £5.1 drawn 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.

22. Financial risk management continued

Market risk continued

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

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

	2018 $'m	2018 CAD'm	2018 €'m	2018 AUDm	2017 $'m	2017 CAD'm	2017 €'m	2018 AUDm
Trade receivables	0.9	2.4	2.6	–	0.5	2.8	3.4	–
Currency cash	(3.9)	–	–	0.1	0.5	0.4	0.3	–
Trade payables	–	–	–	–	–	(0.1)	(0.1)	–
Gross balance sheet exposure	(3.0)	2.4	2.6	0.1	1.0	3.1	3.6	–

The following significant exchange rates applied during the year:

	2018 Average rate	2018 At balance sheet date	2017 Average rate	2017 At balance sheet date
US Dollar	1.33	1.27	1.29	1.35
Euro	1.13	1.11	1.14	1.13
Canadian Dollar	1.73	1.74	1.67	1.69
Mexican Peso	25.63	25.02	24.33	26.55

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.

22. Financial risk management continued

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

31 December 2018	Carrying amount £'m	Contractual cash flow £'m	2 months or less £'m	2–12 months £'m
Non-derivative financial liabilities				
Trade and other payables	(30.0)	(30.0)	(30.0)	
Borrowings	(5.1)	(5.1)		(5.1)
	(35.1)	(35.1)	(30.0)	(5.1)

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

The Group has a five-year unsecured £25m multi-currency revolving credit facility, of which £5.1m is drawn at 31 December 2018 (2017: £nil), see note 12.

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 2018, this totalled £85.1m (2017: £76.1m).

The Board is not proposing a final dividend for 2018. 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 2018, 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 £0.4m for the year ended 31 December 2018 (2017: increased profit before tax by £0.3m), and would have had increased the Group's equity for the year ended 31 December 2018 by £0.1m (2017: £0.1m).

22. Financial risk management continued

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 2018 £'m	Fair value 2018 £'m	Carrying amount 2017 £'m	Fair value 2017 £'m
Financial assets				
Cash and cash equivalents	2.2	2.2	12.8	12.8
Loans and receivables				
Trade and other receivables	32.9	32.9	34.3	34.3
Total financial assets	35.1	35.1	47.1	47.1
Financial liabilities				
Trade and other payables	(29.1)	(29.1)	(26.9)	(26.9)
Borrowings	(5.1)	(5.1)	–	–
Total financial liabilities	(34.2)	(34.2)	(26.9)	(26.9)
Net financial assets	0.9	0.9	20.2	20.2

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:

	2018 £'m	2017 £'m
Less than one year	2.2	1.6
Between one and five years	5.5	2.1
	7.7	3.7

Of the £7.7m (2017: £3.7m), £6.8m (2017: £3.4m) relates to property and the balance to plant and equipment.

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

24. Capital commitments

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

	2018 £'m	2017 £'m
Contracted	1.9	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.

We continue to negotiate our final exit from our former manufacturing partner which include remaining working capital balances. The Directors believe there is a low probability of this crystallising into an outflow.

The Group operates in jurisdictions that are unstable or have changing political conditions. From time to time certain tax positions are challenged which carry a financial risk. The Directors have considered these risks and believe that they are not material to the Financial Statements.

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. There are no loans between the Group and key management personnel.

Key management personnel compensation comprised the following:

	2018 £'m	2017 £'m
Short-term employee benefits	1.2	1.3
Post-retirement benefits	0.1	0.1
Share-based payments	0.3	0.8
	1.6	2.2

The aggregate of remuneration and amounts receivable under long-term incentive schemes of the highest paid Director was £0.6m (2017: £0.6m), and pension contributions of £0.1m (2017: £0.1m) were made to a money purchase scheme on his behalf. During the year, the highest paid Director received 104,280 shares under a long-term incentive scheme.

	2018	2017
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 2018 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 Farmingdale, NJ 07727 United States	Design, assembly and sale of Lighting and Signals and Components products
Dialight Europe Limited	100%	Leaf C Level 36, Tower 42 25 Old Broad Street London EC2N 1HQ United Kingdom	Sale of Lighting products
Dialight GmbH*	100%	Maximilianstrasse 54 80538 Munchen Germany	Sale of Lighting products
Dialight A/S	100%	Ejby Industrivej 91 B 2600 Glostrup Copenhagen	Assembly and sale of Lighting products
Dialight ILS Australia Pty Limited*	75%	Level 2 Spectrum 100 Railway Road Subiaco WA 6008 Australia	Sale of Lighting products
Dialight Asia Pte. Ltd*	75%	33 Ubi Avenue 3 07–72 Vertex (Tower A) Singapore, 408868	Sale of Lighting products
Dialight Penang Sdn. Bhd.*	100%	Room B, 3rd Floor 309-K Perak Road 10150, Penang Malaysia	Assembly and sale of Lighting and Signals and Components products
Dialight Do Brasil Tecnologia Led Ltda*	75%	American Park Empresarial NR Indaiatuba Sao Paulo/SP 13347-662, Brazil	Assembly and sale of Lighting products
Dialight de Mexico, S. de R.L. de C.V.*	100%	Calle Lirios S/N Colona Pacheco Ensenda Baja California Mexico	Assembly of Lighting, Signals and Components products

Dialight ILS Australia Pty Limited, Dialight Asia Pte. Ltd and Dialight Do Brasil Tecnologia Led Ltda are all owned 75% by the Group and there are non-controlling interests of 25%. The total profit for the period attributable to non-controlling interests is £0.1m (2017: £0.4m) and their share of equity is £0.4m (2017: £0.3m).

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 Colona Pacheco Ensenda Baja California Mexico	Non-trading
CRL Components, Inc.*	100%	The Corporation Trust Co. Corporation Trust Centre 1209 Orange Street City of Wilmington County of New Castle DE United States	Dormant
Roxboro Analytical Inc.*	100%	1501 Route 34 South Farmingdale NJ 07727 United States	Non-trading
Roxboro Holdings Inc.*	100%	The Corporation Trust Co. Corporation Trust Centre 1209 Orange Street City of Wilmington County of New Castle DE, United States	Non-trading/intermediary holding company
Roxboro Metrology Inc.*	100%	1501 Route 34 South Farmingdale NJ 07727 United States	Non-trading

28. Other receivables

	2018 £'m	2017 £'m
Other receivables	**0.2**	0.2

These relate to deposits on leasehold properties.

29. Reconciliation to non-GAAP performance measures

In the current year, costs related to GMP equalisation (see note 18) have been treated as non-underlying. The Group was involved in a major transformation of its operational footprint in the prior year. This 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 and other non-recurring costs.

	2018 £'m	2017 £'m
Profit from operating activities	7.6	3.3
Non-underlying items (see note 5)	0.4	6.4
Underlying operating profit/underlying EBIT	8.0	9.7
Profit from operating activities	7.6	3.3
Non-underlying items (see note 5)	0.4	6.4
Depreciation of property, plant and equipment (see note 10)	3.1	2.4
Amortisation of intangible assets (see note 11)	1.5	1.5
Adjusted underlying EBITDA	12.6	13.6
Profit from operating activities	7.6	3.3
Non-underlying items	0.4	6.4
Depreciation of property, plant and equipment (see note 10)	3.1	2.4
Amortisation of intangible assets (see note 11)	1.5	1.5
Net movement on working capital (Inventories, trade and other receivables, trade and other payables) as per Consolidated statement of cash flows	(19.0)	5.9
Adjusted operating cashflow	(6.4)	**19.5**

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.

Net (debt)/cash

Net debt is defined as total Group borrowings less cash. Net debt of £2.9m at the year end consisted of borrowings of £5.1m less cash of £2.2m (2017: £12.8m cash and no borrowings).

Company balance sheet (prepared under FRS 102)
At 31 December 2018

	Note	2018 £'m	2017 £'m
Fixed assets			
Tangible assets	32	**0.1**	0.1
Investments	33	**16.3**	17.9
Pension fund asset	37	**0.3**	0.2
		16.7	18.2
Current assets			
Debtors (including £28m over 1 year)	37	**46.0**	40.1
Deferred tax asset	40	**0.3**	0.3
Cash		**0.3**	0.3
		46.6	40.7
Creditors			
Amounts falling due within one year			
Other creditors	38	**(3.4)**	(2.9)
Borrowings	39	**(5.1)**	–
Current liabilities		**(8.5)**	(2.9)
Net current assets		**38.1**	37.8
Total assets less current liabilities		**54.8**	56.0
Capital and reserves			
Called up share capital	41, 42	**0.6**	0.6
Capital redemption reserve	42	**2.2**	2.2
Other reserve		**3.7**	3.4
Profit and loss account		**48.3**	49.8
Equity shareholder funds		**54.8**	56.0

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 loss for the year was £1.5m (2017: profit of £6.6m).

The accompanying notes form part of the financial statements.

These financial statements were approved by the Board of Directors on 05 March 2019 and were signed on its behalf by:

Martin L. Rapp
Group Chief Executive

Fariyal Khanbabi
Group Finance Director

Company statement of changes in equity
for the year ended 31 December 2018

	Share capital £'m	Other reserve capital contribution £'m	Capital redemption £'m	Retained earning £'m	Total equity £'m
Balance at 1 January 2018	0.6	3.4	2.2	49.8	**56.0**
Loss				(1.5)	**(1.5)**
Other comprehensive income					
Remeasurement of defined benefit pension liability, net of tax	–	–	–	–	–
Total other comprehensive income	–	–	–	–	–
Total comprehensive income for year	–	–	–	(1.5)	**(1.5)**
Transactions with owners, recorded directly in equity					
Share based payments, net of tax		0.3			**0.3**
Total contribution by and distribution to owners	–	0.3	–	–	**0.3**
Balance at 31 December 2018	**0.6**	**3.7**	**2.2**	**48.3**	**54.8**

	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

At 31 December 2018 the number of shares held by the Group through the ESOT was nil ordinary shares (2017: nil). The market value of these shares at 31 December 2018 was £nil (2017: £nil).

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 2006. The address of the Registered Office is given on page 147 of this Annual Report and Accounts. The Company is a holding company that manages the other trading subsidiaries of the Dialight Group.

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

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

(b) Going concern

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for a period no shorter than 12 months from the date of this report. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

(c) Tangible fixed assets

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

(d) Financial instruments

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

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

(i) Financial assets and liabilities

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

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

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

(ii) Investments

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

(iii) Equity instruments

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

30. Accounting policies continued

(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.

(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.

30. Accounting policies continued

(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.

32. Fixed assets

	Fixtures, fittings and equipment £'m
Cost	
At 1 January 2018	0.3
Additions	0.0
At 31 December 2018	**0.3**
Depreciation	
At 1 January 2017	(0.2)
Charge for the year	0.0
At 31 December 2018	**(0.2)**
Net book value at 31 December 2018	**0.1**
Net book value at 31 December 2017	0.1

No assets of the Company are held under finance leases.

33. Fixed asset investments

Investments in subsidiary undertakings

	£'m
Cost	
At 1 January 2018	23.6
Share-based payment	0.3
At 31 December 2018	**23.9**
Provisions	
At 1 January 2018	(5.7)
Profit and loss account	(1.9)
At 31 December 2018	**(7.6)**
Net book value at 31 December 2018	**16.3**
Net book value at 31 December 2017	17.9

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. Following the impairment review of the carrying value of parent company investments, the future cash flows of the European wind business were reduced based on current year performance, resulting in an impairment of £1.9m.

A full list of subsidiaries of the Company is provided in note 27 on pages 132 and 133.

34. Financial risk management

The Company has exposure to market risk and liquidity risk from its use of financial instruments. The overall framework for managing risk and the interest rate risk that affects the Company is discussed in note 22.

All carrying values are considered to be fair values.

A sensitivity analysis has been carried out in note 22 and is considered to not be materially different from the results for the Company only.

Foreign currency risk

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

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

	2018 $'m	2018 €'m	2018 AUD 'm	2017 $'m	2017 €'m	2017 AUDm
Currency cash	**(3.9)**	**–**	**0.1**	0.2	–	–
Other creditors	**–**	**–**	**–**	–	–	–
Gross balance sheet exposure	**(3.9)**	**–**	**0.1**	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 70 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	5,971	3,736
Granted during the year	–	–
Forfeited during the year	(3,185)	–
Outstanding at 31 December	2,786	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

	2018 £'m	2017 £'m
Amounts owed by subsidiary undertakings < 1 year	17.6	12.2
Amounts owed by subsidiary undertakings > 1 year	28.0	27.5
Other debtors	0.4	0.4
	46.0	40.1

38. Creditors

	2018 £'m	2017 £'m
Amounts falling due within one year:		
Deferred tax liability (note 40)	–	–
Amounts owed to subsidiary undertakings	1.4	1.2
Accruals and deferred income	2.0	1.7
	3.4	2.9

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 2018 there were £5.1m drawings on the facility (2017: £nil).

40. Deferred tax assets/(liabilities)

	2018 £'m	2017 £'m
At 1 January	**0.3**	(0.9)
Prior year adjustment	**–**	–
Profit and loss account	**–**	0.3
Group relief	**–**	0.9
Recognised in equity	**–**	–
At 31 December	**0.3**	0.3
An analysis of deferred tax is as follows:		
Capital allowances	**–**	–
Losses and other items	**0.3**	0.3

41. Called up share capital

	2018 Number	2018 £'m	2017 Number	2017 £'m
Allotted and fully paid				
Ordinary shares of 1.89 pence each	**32,534,237**	**0.6**	32,521,179	0.6
Shares classified as liabilities		**–**		–
Shares classified in shareholder funds		**0.6**		0.6
		0.6		0.6

During the year, 13,058 shares were issued (2017: 16,844) in order to satisfy the requirement for shares that vested as part of the Sharesave scheme, the proceeds of issue were less than £0.1m (2017: £0.1m). The ordinary shares issued in the year have the same rights as the other shares in issue.

42. Capital and reserves

Dividends

No dividends were declared in the current or the prior year. After the balance sheet date no dividends were proposed by the Directors and there are no income tax consequences for the Company.

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

	2018 £'m	2017 £'m
Present value of funded obligations	(2.2)	(2.3)
Fair value of plan assets	2.5	2.5
Recognised asset for defined benefit obligations	0.3	0.2

Plan assets consist of the following:

	2018 £'m	2017 £'m
Bonds	2.5	2.5
Cash	–	–
	2.5	2.5

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

Movements in the present value of defined benefit obligations

	2018 £'m	2017 £'m
Liabilities at 1 January	2.3	2.3
Interest cost	0.1	0.1
Benefits paid	(0.1)	(0.1)
Experience loss on defined benefit obligation	–	–
Changes to financial assumptions	(0.1)	–
Liabilities at 31 December	2.2	2.3

Movements in fair value of plan assets

	2018 £'m	2017 £'m
Assets at 1 January	2.5	2.4
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	2.5

43. Pensions continued

Expense recognised in the profit and loss account

	2018 £'m	2017 £'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)	
	2018	2017
Discount rate at 31 December	**2.70**	2.50
Future pension increases	**3.25**	3.25
Inflation – RPI	**3.35**	3.30
Inflation – CPI	**2.35**	2.40

For its UK pension arrangements the Group has, for the purpose of calculating its liabilities as at 31 December 2018, 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 (2017: £nil) from subsidiaries that are not wholly owned. At 31 December 2018 a total of £1.1m was owed to the Company by those subsidiaries (2017: £2.2m).

45. Statement of cash flows

	31 December 2018 £'m	31 December 2017 £'m
Operating activities		
(Loss)/Profit for the year	**(1.5)**	6.6
Adjustments for:		
Depreciation of property, plant and equipment	**–**	–
Impairment of investment	**1.9**	0.9
Share-based payments	**0.3**	0.8
Finance income	**(1.9)**	(2.4)
Financial expense	**0.2**	0.1
Operating cash flow before movements in working capital	**(1.0)**	6.0
(Decrease)/Increase in debtors	**(5.8)**	6.7
Increase/(Decrease) in other creditors	**0.5**	(13.9)
Cash used in operations	**(6.3)**	(1.2)
Interest received	**1.4**	1.4
Interest paid	**(0.2)**	(0.1)
Net cash generated from operating activities	**1.2**	1.3
Investing activities		
Capital expenditure	**–**	(0.1)
Net cash used in investing activities	**–**	(0.1)
Financing activities		
Drawdown of bank facility	**5.1**	–
Net cash generated from financing activities	**5.1**	–
Net (decrease)/increase in cash and cash equivalents	**–**	–
Cash and cash equivalents at beginning of year	**0.3**	0.3
Cash and cash equivalents at end of year	**0.3**	0.3

Finance income and interest is received from wholly owned subsidiaries.

	Prepared under IFRSs				
	2018 £'m	2017 £'m	2016 £'m	2015 £'m	2014 £'m
Revenue	169.6	181.0	182.2	161.4	159.8
Research and development cash expenditure	7.3	6.9	6.0	5.5	6.2
Underlying operating profit	8.0	9.7	13.1	6.1	18.1
Non-underlying operating loss	(0.4)	(6.4)	(16.4)	(9.5)	(2.3)
Finance charges	(0.2)	(0.3)	(0.5)	(0.5)	(0.3)
Profit/(loss) before taxation	7.4	3.0	(3.8)	(3.9)	15.5
Cash (used in)/generated from operating activities	(7.4)	13.1	16.3	8.7	8.6
Net (debt)/cash	(2.9)	12.8	8.0	(3.8)	0.6
Shareholders' funds	85.1	76.1	77.1	70.1	72.8

Statistical information	Pence	Pence	Pence	Pence	Pence
Basic earnings per ordinary share	16.4	4.8	(8.4)	(6.4)	29.4
Dividends per share	n/a	n/a	n/a	9.8	15.0
Dividend cover (times)	n/a	n/a	n/a	n/a	2.0
Underlying operating margin	4.7%	5.4%	7.2%	3.7%	11.2%

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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 2019

Annual General Meeting

17 April 2019

Half Yearly Financial Report

30 July 2019

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.

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