DIALIGHT PLC

ANNUAL REPORT AND ACCOUNTS 2021

Dialight

INTRODUCTION

MAKING A POSITIVE IMPACT THAT LASTS

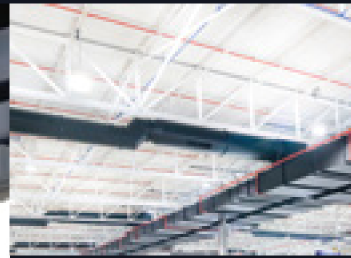
WHO WE ARE

At Dialight we are passionate about playing our part in building a fairer and more resilient world for generations to come. We are committed to being a net zero* company by 2040 and see the transition as both an opportunity, and an obligation to help drive meaningful change in the industrial sector.

WHAT WE DO

We offer the largest selection of cutting-edge LED lighting products to suit virtually any industrial application. Our controls seamlessly integrate with existing factory and building automation solutions, reducing energy costs by up to 70%.

* We are targeting Net Zero across Scopes 1,2 and 3 by 2040, see pages 33 to 35 for more details



Durability
Solid components that can endure harsh and rugged environments

Environmental impact
Reduces the carbon footprint for customers

Efficiency
Uses 30% to 70% less power

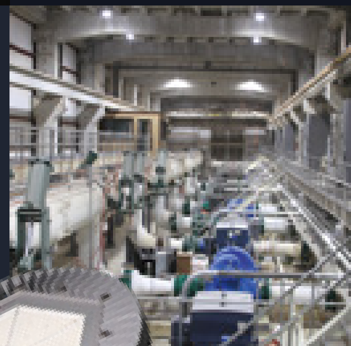
Reaction time
Turn on and off instantly

Low maintenance
Longer operating life than traditional lighting

Temperature
Used in extreme temperatures

Our products
- Used in both hazardous and non-hazardous locations
- Function at a range of temperatures from -40c to +65c
- Withstand significant vibration
- Used as marker lights on tall structures

We serve a wide range of markets
- Mining
- Heavy industry
- Pulp and paper
- Power generation
- Oil and gas



Introduced the most efficient heavy industrial product

PERFORMANCE AT A GLANCE

See our Website, for full performance data

Financial

Group revenue
2020: £119.0m
131.6M
Robust MRO demand in Lighting

Net debt*
2020: £11.4m
£15.7M
Working capital movement, including inventory

Gross margin
2020: 29%
36%
Improved factory efficiency and benefit from cost reduction programmes

Underlying EBIT*
2020: £(6.4)m
£4.5M
Strong revenue and margin improvement combined with cost control

Profit/(loss)
2020: £(7.8)m
£0.3M
Strong revenue and margin improvement combined with cost control

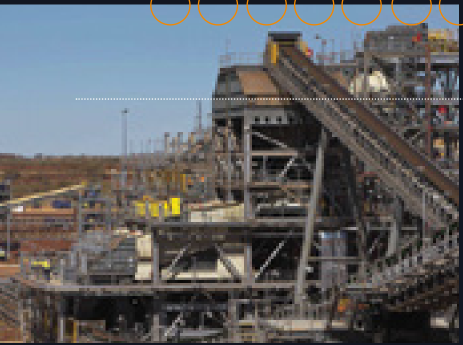
Group On time delivery
2020: 81%
71%
Adverse impact of global commodity shortages

Inventory
2020: £32.5m
£42.4M
Growth in raw material inventory to protect supply chain

Working hours lost
2020: 0.001%
0.00%
Safety continues to be a major focus

Growth in order take
2020: (14)%
24%
Reclaiming market share and recovery in end markets

Reduction in Scope 1 & 2 emissions per £m of revenue
2020: 2% increase
3%
This is an intensity measure for internal processes that are captured by Scope 1 & 2; see page 22 for details



DURABILITY
Products that last up to 5x longer than legacy lighting

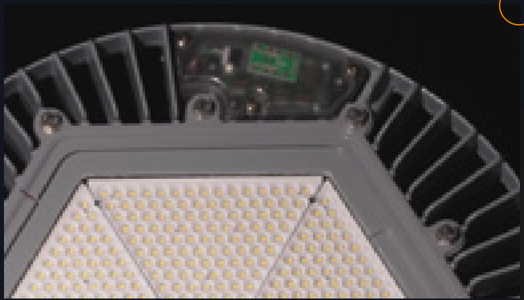
EPD CERTIFIED
Key Lighting product families are now EPD certified

FOCUSED
Pure play LED lighting company with global footprint

WORLDWIDE
Our industrial LED lighting base now has more than 2.5 million fixtures

ISO 14001 CERTIFIED
Our main production facilities have Environmental Management Systems, certified to ISO 14001

* Alternative performance measures are defined in note 28 of the consolidated financial statements

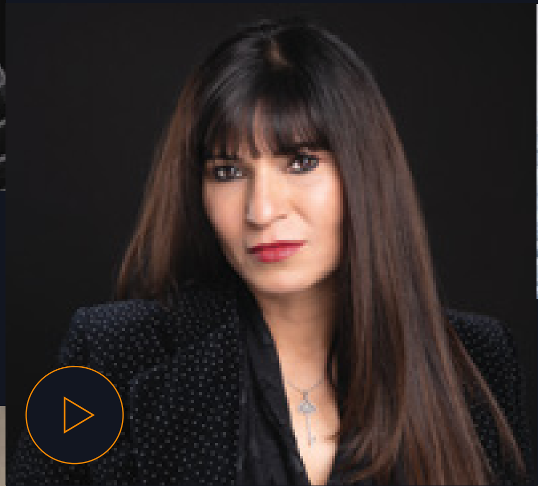


INNOVATIVE BY DESIGN

We aim to produce the first fully recyclable industrial lighting fixture

NET ZERO BY DESIGN

Our key Lighting products have independently verified Environmental Product Declarations



GROWING A SUSTAINABLE BUSINESS

We are pioneers in lighting energy efficiency through long-term strategic investment in R&D

DIALIGHT FOUNDATION

Our mission is to transform the lives of people in need in our local communities

LEADING WITH PURPOSE

We help our customers reduce their costs and carbon footprint

PRODUCT DESIGN

Our LED products have a lifespan up to 5x longer than legacy lighting technologies

CONTENTS

OUR BUSINESS AT A GLANCE

Our Purpose

Dialight has been a pure LED company for over 50 years with all our products developed in-house. We are working to accelerate the transition to greener solutions through our cutting-edge technology and support our industrial customers to achieve their sustainability targets.

Our Vision

We see a world where our environmentally friendly LED technology and market-leading innovations reduce the carbon footprint of harsh and hazardous industries whilst also improving the safety and well-being of people working in those sectors.

Our Values

Cultural genes
These are the unique cultural and behavioural principles we must protect and leverage to optimise our organisational genes and deliver our purpose.

Live the process
Be passionate about making the world safer, cleaner and healthier. See real problems and create innovative solutions.

Embrace the adventure
Continually grow and change, as individuals and collectively. Challenge assumptions and see opportunities. Seek insight from all directions and leverage diverse points of view.

Be an entrepreneur
Be an owner, risk taker, visionary. Transform bold ambitions into reality. Be agile and responsive in the face of constant change.

Can do
A "can do" attitude to conflicting priorities. Build for tomorrow and deliver today. Have stability and constantly evolve. Enjoy autonomy and eagerly collaborate to accomplish our goals.

Integrity
Play to win, but not at the expense of others. Operate with impeccable ethics, transparency and integrity in all that we do.

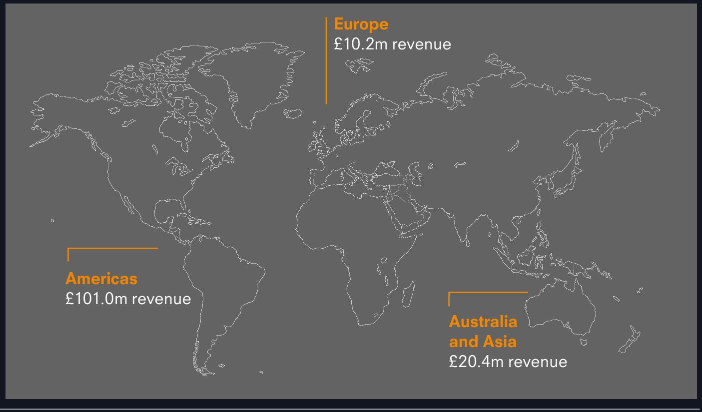
Operational footprint

Engineering
- Primary facility in New Jersey

Product management
- Regionally located

Operations
- Manufacturing in Mexico, US and Malaysia
- Distribution centres in Mexico, Holland, Malaysia and Australia

Sales
- Global and regional, depending on customer. Major markets in USA, Australia and EMEA



Our divisions

LED Industrial Lighting

Our range of LED Industrial Lighting is aimed at a market that is still dominated by older, more inefficient technologies. With low levels of conversion to LED, the catalyst for mass conversion is significant energy savings, lower maintenance costs and increased regulation to phase out older technologies.

Revenue
2020: £81.7m
£90.5m

Underlying EBIT
2020: £(3.1)m
£5.3m

Signals and Components

This division has a diverse range of products with extended life-cycle opportunities in both mature markets and fast-growing markets for medical and wearable technology. This division uses LED lights in a variety of safety products and as performance status indicators.

Revenue
2020: £37.3m
£41.1m

Underlying EBIT
2020: £2.6m
£5.5m

ESG

Dialight is committed to being net zero by 2040

Environmental
LED lighting provides significant energy savings and reduction in carbon emissions

Social
We are committed to an inclusive and diverse culture within a safe working environment

Governance
Our structure prioritises ethical behaviour, transparency and accountability

Read more on pages 19 to 39

CHAIR'S STATEMENT

IMPRESSIVE RECOVERY WITH AN EXCITING FUTURE

Learn more about Karen Oliver

The health and wellbeing of our people and their families throughout the pandemic has and will continue to be our priority. We have maintained our impressive safety performance with no recordable lost time days during 2021.

In September 2021, I succeeded David Blood to become Chair of Dialight. I acknowledge with gratitude David's significant contribution to the recovery and development of Dialight during his time as Chair and thank him for agreeing to remain on the Board.

I am delighted with how well Dialight has recovered from the unprecedented challenges and global disruptions caused by the COVID-19 pandemic and delivered a strong return to profitability with a good order book going into 2022. Our results demonstrate Dialight's very relevant and sustainable offering of low-carbon and high-energy efficiency products. Dialight is a technology company with 50 years of experience in the LED market. We have been and continue to be a pioneer of innovation, through continued development of technologies to help our customers achieve their sustainability targets.

At Dialight our core strength starts with our people who are the key to our success and drive everything we do. I am proud and inspired by what has been achieved this year through the incredible determination and courage our team has shown globally. Dialight has emerged from its historic operational issues and the current pandemic challenges as a significantly stronger company and is now well positioned to secure significant growth over the coming years, with an exciting future ahead of us.

2021 performance

We continue to assess financial performance across the Group using a framework of profitability, return and cash flow measures. This framework underpins our key performance indicators (pages 17 to 18) and is central to our remuneration criteria.

The business has returned to profitability in 2021 despite the challenging market conditions and the well-publicised global supply chain issues. We have made significant progress in strengthening our sales platform to deliver strong market share gains globally and expanded our channels to market.

We have continued to build our operational strength by focusing on operational excellence initiatives and continue to streamline our systems and processes. We are simplifying and building more flexibility into our supply chain with a strong focus on common sub-assemblies and local suppliers.

During 2021 we have continued to invest into developing new and improved products, improving factory efficiency, and expanding our sales capabilities through the creation of a strategic sales team. Combined with a strong balance sheet, healthy order book and improving levels of customer quotations, these investments will support Dialight's continuing profitable growth.

The 2021 results provide a clear demonstration that the strategy is on track and delivering for shareholders. Achieving strong order, revenue and profit growth in the current business climate is a credit to the whole Dialight team.

I would also like to take this opportunity to thank Stephen Bird who retired from the Board in September 2021 after nine years of strong contributions.

The Board was delighted to welcome Clive Jennings as Chief Financial Officer and Executive Director in January 2022 following his period as our Interim CFO since May 2021 during which he made a significant contribution. Prior to joining Dialight, Clive was CFO at Rank Group PLC for eight years, Interim CFO at McBride PLC and also held several PLC senior finance roles.

CHAIR'S STATEMENT CONTINUED

Commitment to ESG and Net Zero

We believe in creating a safer, cleaner, healthier future for everyone. Our products are well positioned to play a positive role in society, addressing issues which are fundamental to human wellbeing, are long term in nature and of global reach; and ensure safety in industrial environments while addressing key environmental challenges.

We continue to deliver on our environmental and social objectives and our commitment to being a net zero business by 2040 and supporting our customers to reduce their emissions through advancing the increased use of industrial LED technology. In 2021 we obtained independent Environmental Product Declarations for our major products, launched the most efficient heavy industrial high bay in the market, published our first ESG report and continued our research and development in fully recyclable products. We still have lots to do and 2022 will see us publish our detailed plan, targets, and milestones to achieve net zero.

The transition to net zero carbon is both an opportunity and obligation for Dialight.
Our products help enable our customers to achieve net zero. We have committed to being a net zero business by 2040. We are working to drive our Environmental, Social and Governance (ESG) initiatives across all aspects of our business.

Outlook

Dialight enters 2022 in a good position with a healthy order book and continuing strong customer demand, particularly for new products launched in the last 12 months. Whilst the near-term global trading environment remains uncertain particularly in the first half of 2022, the Group is well positioned to continue to build on the revenue and profit improvements seen in FY21.

Our strong operational performance in 2021 and ongoing initiatives to strengthen our supply chain and sales platforms and implement operational efficiency improvements position Dialight for accelerated revenue and profit growth in the mid-term. We continue to make good progress in implementing our refreshed organic growth strategy and delivering our new products which will underpin Dialight's revenue growth over the coming years.

On behalf of the Board, I would like to thank Fariyal Khanbabi and all our Dialight colleagues throughout the world for their significant contributions and commitment, and the way they continued to respond to the challenges of the pandemic. Lastly, I would like to thank our customers, suppliers and shareholders for their confidence and trust in us as we continue to implement our growth strategy and secure an exciting future for Dialight.

Karen Oliver
Chair
27 March 2022

INVESTMENT CASE

WHY INVEST?

Dialight is a story of sustainability built on long-term strategic investment in R&D. We are pioneers in energy efficiency and safety, trusted globally in the most demanding environments.

1. POSITIONED FOR GROWTH

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

2. DIFERENTIATED

Our best-in-class designs offer superior performance backed by a 10-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.

3. INTELLIGENT

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

4. EXPERIENCED

Significant expertise exclusively in LED and over 50 years of experience as a lighting partner to many of the world's leading organisations have helped us achieve the largest installed base with over 2 million industrial LED fixtures around the world.

5. SUSTAINABLE

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

Find out more about our net zero approach on our website.

6. SCALABLE

Increased manufacturing capacity with our facilities in the US, Mexico and Malaysia providing scalable production.

CASE STUDIES: INNOVATION

INNOVATIVE BY DESIGN

We continue to invest in innovation and are pushing boundaries in pursuit of a fully recyclable fixture – revolutionising the way industrial lighting is designed and doing so with the planet in mind.

▲ Skilled manufacturing

REDESIGNED VIGILANT® HIGH OUTPUT HIGH BAY

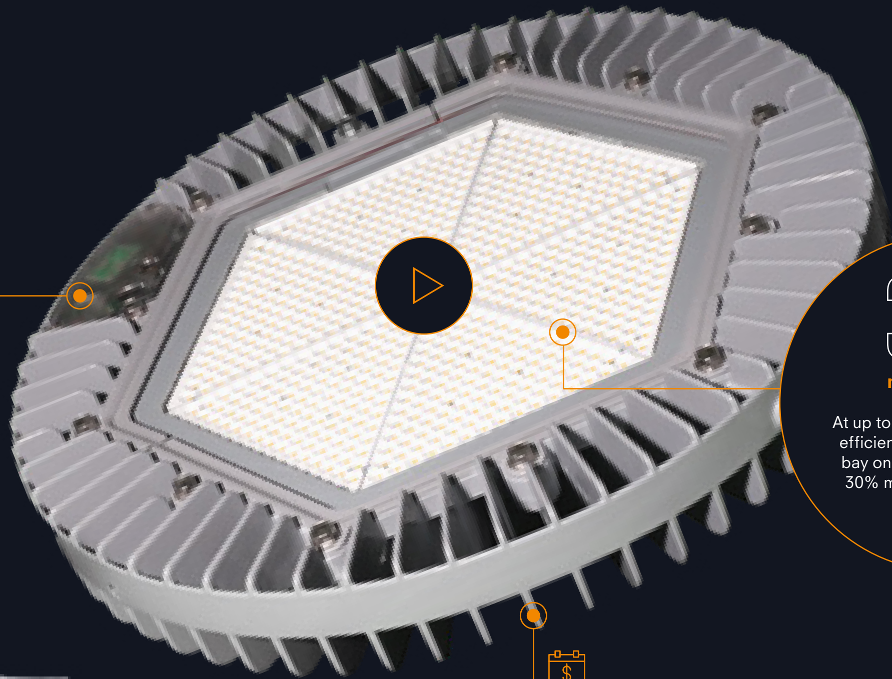
- 30% reduction in weight and 60% reduction in height
- At just under 48lbs (22 kilos) fewer installers are required
- Up to 71,000 lumens of output for mounting heights of up to 100 ft (30m)

To watch our launch video click here

MARKET LEADING INNOVATION

In 2021 we leveraged our expertise to push the boundaries of product performance while also putting a priority on reducing carbon and material waste.

ULTRA EFFICIENT VIGILANT® HIGH BAY



New adjustable range microwave occupancy sensor offers superior sensing for industrial facilities

30%
more efficient

At up to 200 LPW, it is the most efficient heavy industrial high bay on the market and nearly 30% more efficient than the prior model

Offers faster payback: up to 1 year sooner vs. legacy model

◀ Advanced optics

ALL NEW PROSITE® FLOODLIGHT

Watch video

Chipscale LEDs and unique moulded optics offer powerful output in a small package

Wiring accessibility offers future upgradeability

Modular design scales to the needs of a facility

CASE STUDIES: SCALE

GLOBAL SCALE

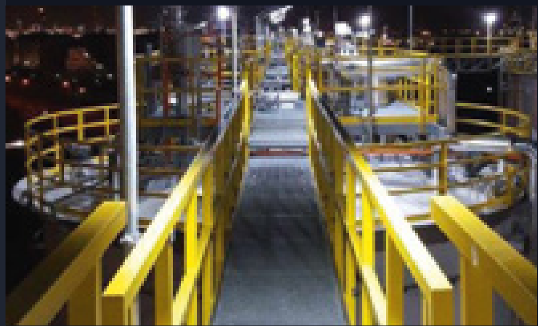
Across the world, our products help heavy industry to be safer, more productive, and environmentally friendly through improved illumination.

BUILT TO LAST

Nammuldi
Australian Mining

The Nammuldi mine lies within an arid region of Western Australia where summer temperatures exceed 32° Celsius and cyclones are common. Lighting was needed for the iron ore conveyor belts and much of the rest of the site. Exposed to the elements year round and with high vibration from fully loaded conveyor belts, traditional fixtures were regularly shaken apart and required frequent replacement. Dialight replaced the traditional lights with its Linear, Conveyor and Bulkhead lights. This improved safety by reducing voltage spikes and ensured that the site was fully lit at all times. Maintenance costs were significantly reduced as the number of fixtures required was reduced and with the rugged fixture design, they are built to work in these environments for 10 years.

CASE STUDIES: HOW OUR PRODUCTS BENEFIT OUR CUSTOMERS



Rubus Terminal, Rotterdam, The Netherlands
Downstream petroleum and chemical facilities

When designing its state-of-the-art Net Zero facility, Rubis' goals included reducing total energy consumption, maximising lighting efficiency, improving sustainability and safety, reducing maintenance demand and lowering total operating cost.

Saved €100,000 per year on maintenance

Reduced energy lighting consumption by 60%

"We've been extremely pleased with the Dialight products. They not only give us the high efficiency and low emissions we needed to meet our specifications, but they also give our facility a modern, safe and vibrant look, which our staff and customers both appreciate."

Arthur Wrana
E/I & A Supervisor

INCREASING LIGHT QUALITY

Miller Industries
US Global towing and recovery equipment manufacturer

Facility managers at the plants were frustrated with the constant maintenance and upkeep required of the antiquated lighting on the shop floor and began investigating options for an upgrade to enhance safety and reduce maintenance costs.

"We had to make sure our staff could see the paint finishes accurately. If you can't see the part adequately, you cannot make a quality product."

Bill Couch
General Manager, Miller Industries

Industrial LED lighting solutions

1,750

New fixtures across three facilities ensure outstanding visibility & energy savings for years to come

CASE STUDIES: ESG

NET ZERO BY DESIGN

SUSTAINABLE BY DESIGN

We are rethinking every aspect of our products from material science and supply chain to product assembly to end of life.

Part of this analysis includes conducting Environmental Product Declaration (EPD) evaluations for each of our major product lines to identify the carbon footprint of materials used in our products. This information has already informed our material choices for our next generation of products.

Product benefits

- **Long life**
- **Reduced waste**
- **High efficiency performance**
- **Increased recyclability**
- **Non-toxic materials**
- **Reduced carbon emissions**

We continue to push boundaries by re-evaluating the materials, form factor and technology used in our products to minimise carbon impact and maximise efficiency and lifespan.

Net Zero

2040

We have the same goals as our customers

HOW WE HELP OUR CUSTOMERS GET TO NET ZERO

1. **Lower impact materials**
2. **Reduced fixture size**
3. **Localise supply chain**
4. **Efficiency enhancements**

To watch our Sustainability video click here

CARBON IMPACT OF LEGACY LIGHTING USAGE VS. DIALIGHT LED

Legacy lighting | **Dialight LED lighting**

SUSTAINABLE BY DESIGN

Lighting by its nature, consumes energy in order to perform its required task.

Therefore, when looking at Net Zero targets, the usage of the lighting itself poses a challenge in achieving Net Zero until the decarbonisation of the electricity grid progresses; see pages 33 to 35.

If the customers who bought Dialight LED lighting in 2021 had retained their legacy lights their carbon emissions would have been 2.5m tonnes*.

As a comparison, highly efficient, long-lasting Dialight LED lighting that they have purchased uses 0.9m tonnes which is a saving of 1.6m tonnes over the 10 year life.

Despite these significant savings, we continue to push boundaries to maximise energy efficiency and usable lifespan.

- Immediate financial benefit
- Lifetime benefit of 1.8x
- 1.6m tonnes saving

* Based on internal calculations of the impact of lighting products sold in 2021 and the estimated impact of the fixtures they replaced.

CASE STUDIES: SOCIAL

SOCIAL BY DESIGN

Dialight is fortunate to not only have a female CEO but also a female Chair of the Board, both with extensive knowledge of the industrial space and a deep desire to make the sector accessible for all.

"As a female executive in the heavy industrial world, I am committed to ensuring that opportunities exist for women to thrive in this industry as it continues to evolve."

Fariyal Khanbabi
Group Chief Executive

CORPORATE CITIZENSHIP

We recognise that as a business we have social, cultural, and environmental responsibilities in our local communities. In addition to the efforts of the Dialight Foundation, all Dialight employees are encouraged to get involved in our local communities through paid Volunteer Time Off each year. Through this programme, our teams have been able to share their time and talents with numerous meaningful causes worldwide.

MANUFACTURING INSTITUTE STEP AHEAD AWARDS

Dialight CEO, Fariyal Khanbabi was honoured at the Manufacturing Institute's STEP Ahead Awards Gala on 4 November 2021 in Washington, D.C. as one of the esteemed Honorees across the manufacturing sector for her leadership during the pandemic and her efforts with Dialight Foundation. STEP Ahead Award Honorees and Emerging Leaders have accomplished success within their companies and have proven to be leaders in the industry as a whole.

DIALIGHT FOUNDATION

Dialight Foundation was formed in June 2020 in the midst of a global pandemic upon seeing how deeply affected our local communities were by COVID-19.

Its mission is to transform the lives of people in need in the local communities near our facilities, with a focus on supporting children and women's causes.

The Dialight Foundation has provided support for charities in Tijuana and Ensenada, Mexico as well as near our Roxboro facility in the US. It has also partnered with the Women's Earth Alliance (WEA).

See more details of activities on page 27.

WOMEN'S EARTH ALLIANCE (WEA)

The WEA is on a mission to protect our environment, reverse climate change, and ensure a just, thriving world by empowering women's leadership.

The WEA model identifies grassroots women leaders working on the frontlines to reverse climate change and protect their communities' natural resources, livelihoods, and health. They invest in their long-term leadership through training, funding, and networks of support.

These women leaders spread their solutions to many others for years beyond project investments creating a ripple effect that benefits women's communities, regions, our Earth, and future generations.

This long-term sustainable approach to tackling environmental issues whilst benefitting the community is a perfect fit with the ESG ethos of Dialight, see page 27 for more detail.

https://womensearthalliance.org/

Help at Christmas
Dialight employees and residents celebrate Christmas at the Casa Hogar El Reino orphanage

Featured Foundation projects

Casa Hogar El Reino De Los Niños, Ensenada, MX

- Home to 36 children aged 3-23
- Provided new beds and sofas for facility and a meal plus gifts for the Christmas holiday
- Provided a new solar powered water heater

GROUP CHIEF EXECUTIVE'S REVIEW

WE HAVE AN IMPORTANT ROLE TO PLAY IN HELPING SOCIETY

Order Growth
2020: 14% decline

24%

Underlying EBIT
2020: £(6.4)m

£4.5m

Dialight made important financial and operational progress in 2021, reflecting the benefits of our growth model, strong culture and leading position within the industrial markets. The Group returned to profitability and has taken steps operationally which should ensure the business can deliver long-term profitable growth. The strength of our product portfolio and the agility of our business model enabled us to respond to changing conditions in our end markets, disruption in the supply chains and labour markets.

Overall orders grew by 24% which reflects some recovery in our end markets and reclaiming of market share. Orders have run ahead of revenue. We continue to see a robust MRO market and are starting to see larger projects come online, despite a backdrop of escalating construction costs which have a dampening impact. COVID-19 has also brought severe supply chain disruption, driving significant cost inflation. We navigated these challenges well, adjusting inventory levels, production and prices proactively. Cost pressures are expected to continue in the near-term and we are working hard to offset these pressures. Due to operating leverage and our operational excellence initiatives, we expect further operating margin improvement going forward.

Our primary goal remains to accelerate revenue growth across our global industrial markets. We continue to focus on developing new routes to market as well as leading the market in innovation. Our next generation of technology is heavily focused on the sustainability needs of our customers. Our customers are increasingly seeking more environmentally friendly products to help meet their net zero commitments. As market leader we are at the forefront of providing the solutions.

* Alternative performance measures are defined in note 28 of the consolidated financial statements

Results

Overall Group revenues in 2021 were 17% higher than the prior year at constant currency* (11% higher at reported currency). Revenue growth reflects some recovery in our end markets but has been impacted by supply chain disruption. We are pleased to report an underlying EBIT of £4.5m for 2021 compared with a loss of £6.4m in 2020. This was driven by increased revenue and gross margins improving to 36% compared with 2020 where gross margins were 29%. The improvement in revenue and gross margin resulted in a profit after tax of £0.3m, compared with a £(7.8)m loss in the prior year, a £8.1m turnaround.

Lighting gross margins rose to 37% in 2021, showing strong year on year progress despite the cost pressures in the global supply chain.

Lighting order growth was 23% at constant currency. The majority of Lighting order growth was generated in our core US market which had an increase of 27% compared with the prior period. This region has a very solid foundation, with a well-established channel strategy and a strong sales team. We believe the US-market remains a significant growth opportunity for Dialight.

Orders in our EMEA business were 2% ahead on a constant currency basis compared with the prior period. This region continued to be impacted by the lockdowns and travel restrictions imposed by COVID-19. Our APAC region was 17% ahead on a constant currency basis, driven by a strong performance in Australia from the buoyant mining sector.

Included within the Lighting segment is Obstruction which provides marker lights for communication towers, mainly in North America. This business grew revenue by 44% in 2021, moved back into profit and saw customer orders up 53% in a very concentrated end-user market.

GROUP CHIEF EXECUTIVE'S REVIEW CONTINUED

Signals & Components is a high-volume business operating within highly competitive markets. The resurgence of this division that we saw in 2020 continued in 2021 with order growth of 27% at constant currency. Within this division, opto-electronic component sales were fuelled by increased demand in the electronics market related to home-working. In addition, demand for Traffic Lighting continued to be strong. Raw material shortages impacted conversion of orders to revenue, but the division enters 2022 with a strong order book.

We entered 2022 with an order book higher than usual due to the supply constraints, but we have been able to achieve Group on-time delivery at 71%, above current industry standard. The supply constraints are not expected to significantly improve this year, but we are expecting an improvement in on-time delivery based on targeted production improvements.

To mitigate the impact of on-going challenges of the availability of raw materials coupled with extended lead times, we increased our inventory of critical components by £9.6m at constant currency during 2021. We have actions underway to reduce underlying stock levels, however, we will continue to maintain above average raw material and finished good safety stocks until shipping and lead times for raw materials return to more normal levels.

We remain focused on further improving our operation performance. We accelerated our manufacturing transformation initiative, improved efficiency and added capacity for the future. We have continued to invest in our supply chain development, implementing dual sourcing strategies, localising some key components and implementing more efficient working practices.

The Group operates with a high level of focus on safety at all sites. The extensive range of measures to support and ensure our teams' safety continue to be applied despite many regions lifting COVID-19 restrictions.

Our commitment to product development remains unchanged. We launched two new major products in 2021. We added the 200 LPW High Bay to our best-selling High Bay portfolio. This fixture is the ultimate solution for sustainable lighting for industrial environments, offering a faster return on investment up to a full year sooner than previous Dialight High Bay models. This best-in-class fixture will help companies achieve carbon-neutral operation goals faster while saving money on lighting related energy costs. This product is available with an adjustable-range microwave occupancy sensor option to activate the lights only when necessary. Microwave sensors are uniquely suited for industrial applications, since they can detect movement over and around obstructions such as boxes, shelving and other barriers that commonly hamper other sensors. Design improvements helped reduce fixture weight of the wireless model by up to 57%.

We also launched our new ProSite Flood Light for mounting heights of up to 100 feet. This product provides superior visibility to worksites with crisp, near daylight illumination. The ProSite Flood features Dialight's hallmark dependability and efficiency in an innovative, compact new design that provides a brighter, safer and more secure work environment.

We made significant progress in strengthening our sales platform and expanding multi-channel access to markets. As part of this initiative, we recognised our current product portfolio covers approximately 80% of a typical customer lighting schedule. The remaining 20% of the schedule is for products that are not highly specified but are required to fulfil the customer's applications. To address this 20% we are taking a "Source & Sell" approach. We are exploring options to purchase these products or partner with companies that can provide them. This initiative protects our market leading position within key strategic accounts, and increases our relevancy to the large accounts we are targeting.

Strategy

Dialight's core strengths centre around our products and a long history of innovation within the industrial lighting markets. Our fixtures meet the needs of our customers to enhance safety, reduce energy and maintenance costs and critically, help them achieve the objective of net zero carbon. Our products also provide the best cost of ownership to industrial customers, with paybacks based on energy savings and maintenance cost avoidance. Our in-house custom designed power supply is the key to our market leading 10- year warranty and field reliability. Our optimised optics ensure improved light illumination, providing uniformity and quality whilst enabling our customers to use fewer lights to illuminate the target area. Their integrated design significantly reduces the burden of installation and maintenance. Our products have the ability to withstand extreme environmental conditions such as very high or low temperatures, humidity, high vibration and corrosive environments. The addition of sensors and controls brings an additional element to the value proposition for our customers.

Dialight was very proud to be awarded Impact Partner of the Year recently at the Supply Force awards, in the face of peer group competition.

Supply Force is a large US based buying group created by members of Affiliated Distributors to supply MRO products (see page 14) to major electrical distributors from across the US.

Our overall strategy is focused on organic growth supported by product innovation.

We have three key objectives:

Convert our core heavy and harsh industrial markets – which have low levels of LED conversion. We believe that sustainability will be a major driver in the conversion to LED and this has accelerated post COVID-19. Dialight has a leading position within this space to continue to grow through market share gains in MRO together with capex project recovery.

Expand our market reach – by leveraging corporate sustainability goals and our differentiated products. We have made progress in identifying and engaging key accounts in addition to developing new routes to market. This consists of targeting the EPC/engineering firms and electrical contractors. We are continuing to work on strengthening our branding and focusing on vertical market applications.

Product innovation – we continue to lead the market in innovation. Our next generation of technology is heavily focused on building on the sustainability needs of our customers, with the goal to have the first fully recyclable industrial LED lighting fixture. Our source and sell initiative will further protect our market leading position.

GROUP CHIEF EXECUTIVE'S REVIEW CONTINUED

Purpose and sustainability

We are actively working to accelerate the industrial evolution to greener solutions through our cutting-edge technology. As a company we are committed to being net zero by 2040. Creating a safer, cleaner, healthier future for everyone is the cornerstone of our approach to sustainability. We are focused on ensuring we can continue to serve our markets in a sustainable way over the long-term. Our products are well positioned to play a positive role in society, addressing issues which are fundamental to human wellbeing, are long-term in nature, and of global reach: ensuring safety in industrial environments while addressing key environmental challenges. We believe that lighting has a critical role to play in helping businesses' journey to become net zero.

Our sustainability strategy has dovetailed into our operational ethos and therefore has not caused a fundamental change of direction. This, coupled with a business purpose that has always been centred on climate change, means that it is a natural extension of our existing strategy. Over the past year we engaged with SBTi, CDP and ISS ESG.

In November 2021, we launched our first ESG Report which outlines some of the key areas underscoring our approach to Environmental, Social and Governance issues. This will be prepared annually going forward.

We are rethinking every aspect of our products from material science and supply chain to product assembly to end of life. Part of this analysis includes conducting Environmental Product Declaration (EPD) evaluations for each of our major product lines to identify the carbon footprint of materials used in our products. This information has already informed our material choices for our next generation of products. To date we have had nine EPDs issued covering seven product lines.

We are also concentrating on the end of life of our products and how we recycle them. This is in two parts: firstly, partnering with companies that can recycle the product, and secondly using recyclable materials. The level of recycling that can be achieved varies across recycling processes, but our UK partner can recycle up to 96% of the components of the fixture. There are no similar schemes in the Americas or Australia currently, but nonetheless, we have recycling partners that can process the aluminium in these locations. Given the long life of our products we expect that this ability will be enhanced over the coming years and programmes like Waste from Electrical and Electronic Equipment ("WEEE") will be introduced globally by the time many of our long life fixtures reach end of life.

We performed a full Green House Gas (GHG) inventory for 2021 in addition to our baseline in 2020. Dialight processes are not very resource hungry therefore Scope 1 and 2 usage is low compared with Scope 3 customer usage, upstream materials and logistics. We have a target to reduce Scope 1 & 2 by 3% per annum (per £m of revenue) in the short term but this will be superseded by the Net Zero targets that will be agreed with SBTi.

People are at the heart of our business. We recognise that the skill and commitment of our employees plays a large part in the success of our company, and we recognise that each person has their own individual contribution to make. It is through our people that we will progress our strategy and ensure that we realise the potential for growth. Developing a high performing and inclusive culture is a key enabler in our ability to deliver strategic growth. Engaged, motivated, empowered and appropriately skilled employees are integral to our success. We support all our people by creating a safe, inclusive environment, where every individual can work and contribute to the development of the business.

We are very proud of our Dialight Foundation, which was started in June 2020, a non-profit arm of our Company dedicated to helping the communities we operate within, with a focus on supporting children and women's causes. It is governed by the Dialight Foundation Board, comprised of employees from around the globe. This group was carefully selected to bring diverse perspectives based on a variety of job functions, cultural backgrounds and charitable expertise. The overwhelming support from our employees around the world has made a meaningful difference in the lives of so many and we look forward to continuing to build on this initiative.

In celebration of Dialight's 50th year of LED-only innovation, the Dialight Foundation provided a $25,000 donation to the Women's Earth Alliance as the sole sponsor of its COVID-19 and Climate Relief Programme in Tijuana, Mexico. This area has been hit hard by COVID-19 as well as an influx of vulnerable asylum seekers looking to cross the border. We were able to provide food and information to thousands of vulnerable asylum seekers. Additionally, our donation provided comprehensive support for 67 people so far consisting of food, shelter, and legal services.

Full year guidance for 2022 and longer term

We have made a good start to the year, with order intake ahead of the same period last year and a strong order pipeline. Our expectation for 2022, despite current headwinds including supply chain constraints and inflation, is for further strong progress driven by revenue growth and improved margins.

Our products meet the needs of our customers to enhance safety, reduce energy and maintenance costs and critically will help them achieve net zero carbon. The market opportunity is substantial and Dialight is well positioned to deliver its growth strategy.

Fariyal Khanbabi

Group Chief Executive
27 March 2022

THE MARKET

Dialight serves the industrial LED lighting market, dominated by legacy technology, which requires fixtures that are designed to withstand harsh working environments 24/7. As a result, despite the obvious environmental and financial benefits, the market still has low conversion to LED.

MARKET SIZE

The global LED lighting market is estimated to be worth £50bn on an annual basis. Dialight serves the LED industrial portion of this market which is sized at 7%, giving a target market of c. £3.5bn annually with a 20-year retrofit cycle.

THE ADOPTION CURVE

Pre-COVID-19, the drivers for adoption were mainly based on financial benefits with the environmental upside not being a primary driver. This resulted in a very flat adoption curve.

The steepness of the adoption curve is not yet known. We have clearly seen an inflection point resulting from COVID-19 but the larger subsequent inflection will be driven by other items, such as

- companies taking action to meet Science Based targets to achieve net zero using LED lighting as a quick win See DS Smith on pages 31 and 32
- legislation that bans older mercury based lighting in the industrial sector
- increased awareness of the significant financial, environmental and social benefits from LED

The potential opportunities and risks to the business from a very steep adoption curve are discussed in the TCFD section on pages 36 to 39.

THE CUSTOMER PROPOSITION

The challenge facing many businesses today is to demonstrate their commitment to ESG and also show a science-based approach to reducing their carbon footprint.

This should also make financial sense and act as a business efficiency initiative rather than a burden. It is possible to achieve benefits in all three of the categories.

There remain factors impeding adoption such as high initial investment and the fact that lighting is often considered as a lower priority item for many businesses. The investment requirement is likely to be a greater hurdle to overcome in the short term as a result of COVID-19.

Environmental benefits

LED lighting products significantly reduce CO_2 emissions, have much longer operating lives so reduce landfill and our R&D is continually driving enhancements with a goal of producing the first net zero industrial lighting fixture.

Financial benefits

- The reduction in energy usage and Scope 2 emissions provides a direct and immediate reduction in operating costs.
- The reduction in maintenance by having more reliable, longer-life fixtures are:
  a) reduced production disruption as lamp replacement is infrequent resulting in fewer production stoppages due to staff work over production areas on cherry-pickers
  b) reduced number of maintenance staff needed to constantly change fixtures
  c) staff spend more time on preventative maintenance that would reduce repair bills
  d) no need to stock large number of replacement fixtures and ballasts
  e) less frequent capital expenditure on replacement fixtures as LED lights last up to 5x longer than traditional lighting
  f) reduce accident rates thereby lower insurance premiums and reduction in compensation claims
- Overall better working conditions assist productivity and reduce downtime

Social benefits

- By reducing the number of cherry-picker rollouts for lamp replacement, the risk of injury from working at heights is greatly reduced.
- Changing from old legacy technology that can contain mercury to LED technology that does not contain hazardous substances reduces health risks from handling products and dealing with faults.
- The superior quality of LED lighting increases the visibility all the way to the shop floor and makes the working environment much safer.
- The range of lights available helps to ensure that the amount of light in specific work areas is sufficient to meet requirements.

MARKET SEGMENTS

Within the industrial lighting market, we operate across a broad range of verticals. Our core product heritage was based on the harsh industrial requirements of Oil & Gas, Mining and Petrochemical which had the added requirement for high safety standard compliance.

See product safety on page 30

The major vertical markets that we serve are as follows:

Mining	Pulp and Paper
Heavy Industry	Petrochemical
Oil and Gas	Power Generation

In addition, we also have products aimed at less hazardous segments such as Pulp and Paper and Power Generation.

The markets we serve are diverse and they value different aspects of our products.

There are two main ways in which customers approach the conversion to LED

1) Conversion is funded from the maintenance budget and therefore orders are low volume over a longer period; these are known as Maintenance, Repair and Operations (MRO) orders. The customer lead time is short for these orders and generally these are satisfied by made to stock (MTS) inventory. We lost some of this market share during 2017-2018 due to production delays at our former manufacturing partner but we have seen this recover during 2020 and 2021.

2) Conversion is funded by a capital expenditure programme. These are higher value and less frequent orders that generally will upgrade a complete facility or building on a multi-site facility. We saw significant reduction in these orders during 2020 and early 2021 as customers restricted their capital commitments in response to uncertainty resulting from COVID-19. In the latter part of 2021 we have seen recovery in these orders.

OUR BUSINESS MODEL

Our purpose

To improve the world we live in through intelligent LED lighting technologies. We enable industrial customers operating in demanding environments to reduce their costs and carbon footprint while maximising the safety and productivity of their facilities.

Reduction in energy costs for customers

up to 70%

Our inputs

Sustainability
Developing recyclable products that reduce carbon emissions and provide a safer working environment.

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

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

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

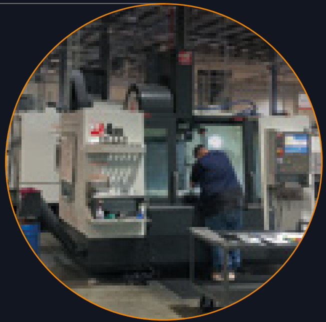
Relationships
Dialight has multiple routes to market through established global distribution networks and strong supplier relationships.

Financial
Strong balance sheet to support innovation.

What we do

Product innovation
Using our industry leading power supply technology, our engineering teams develop sustainable LED lighting, sourcing innovative materials to improve thermal management and ensuring high efficiency through optimum optical design.

Manufacturing and supply chain
Our facilities in Mexico, Malaysia and the US carry out production for the Group, operating lean processes that are supported by our robust supply chain and relationships with key suppliers.



Multi-channel distribution
Leveraging strong relationships with our distributor network and our global distribution centres, we provide market leading lead times.

Our outputs

Revenue
Our revenue is mainly derived from the sale of lighting fixtures. We sell via distribution channels and direct to the end customer using our highly technical sales force. Installation is carried out by the customer.

Cash flow
Revenue is turned into cash and used to fund operating costs and working capital requirements. Surplus cash is re-invested in the business.

Re-investment
Cash generated from operations is re-invested in R&D and operational improvements.

The value we share

Shareholders
Our goal is to deliver long-term value for our shareholders. We do this by developing market-leading sustainable products 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 provide ongoing personal and professional development at all levels of the business, and competitive rewards linked to performance. We believe in a creative working environment with scope for individual responsibility and personal achievement.

Customers
We work closely with our customers to understand and meet their objectives. We meet our customers' needs for reducing their carbon footprint by reducing their energy and maintenance costs.

Communities
Our operations create jobs for local communities around the world. We support local supplier development to deliver economic benefits for local communities.

Government
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.

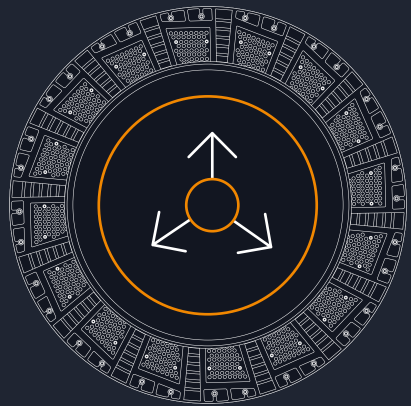
STRATEGY AT A GLANCE

Dialight's strategy is to grow the business in global industrial markets. We believe that the combination of our products, strong ESG credentials, people and culture differentiates us from our peers, and we expect to deliver sustainable value for our shareholders.

INVEST IN OUR CORE MARKETS

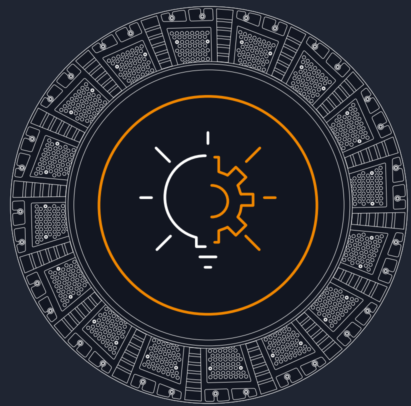
Increasing conversion to LED in our core markets

EXPAND OUR MARKET REACH



Expanding our market reach by developing new routes to market

CONTINUED INNOVATION



Maintaining our market leading position and filling portfolio gaps

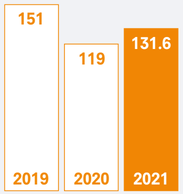
Our overall strategy is focused on organic growth, supported by product innovation and an agile supply chain

KEY PERFORMANCE INDICATORS

Link to strategy
Invest in our core markets
Continued innovation
Expand our market reach

Financial

Revenue (£m)



Description
Revenue from sales.

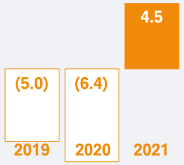
Definition
Revenue from continuing operations and organic growth.

Link to strategy
Revenue growth is essential to long-term success.

Remuneration linkage
Revenue growth is a key element in achieving short-term and long-term incentive targets.
Due to revenue growth, a management bonus has been earned.

Target
Year on year revenue growth. We met this target with revenue growth of 11% to £131.6m (17% at constant currency) driven by strong customer demand across both business segments.

Underlying EBIT (£m)



Description
The underlying EBIT related to the performance of the underlying business.

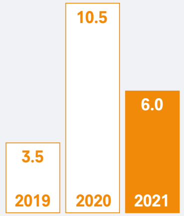
Definition
Operating profit of the business excluding items that are considered as not reflective of the underlying performance of the business (see note 6).

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

Remuneration linkage
Underlying EBIT is one of the main measures used in short-term and long-term incentive targets.
The target for 2021 was achieved due to increased revenue and improved margins, and a management bonus has been earned.

Target
For 2021 the target was consensus underlying EBIT at the start of the year, which was £4.0m.

Cash generated by operations (£m)



Description
The ability to turn profits into cash.

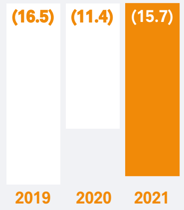
Definition
Cash generated by operations is defined as the operating cashflow after working capital movements.

Link to strategy
Cash generation is critical to support our growth ambitions.

Remuneration linkage
Cash generation does not directly link to remuneration but impacts net debt which is directly linked. In 2021 it was a vital measure of the ability to ensure liquidity in the business.

Target
Year on year growth. This was not achieved due to the ramp up of inventory as a result of supply chain disruptions and an increase in trade receivables resulting from the growth in revenue that is traditionally weighted towards the end of the quarter.

Net debt (£m)



Description
To manage the Group's borrowings within the available facilities.

Definition
Long- and short-term borrowings less cash in bank.

Link to strategy
Net debt is a critical measure to ensure the business has sufficient liquidity to support growth ambitions.

Remuneration linkage
Net debt is directly linked to remuneration to ensure the business maintains adequate headroom against its bank facilities.

Target
For 2021 the target was consensus net debt at the start of the year, which was £10.0m. This target was not achieved due to management's decision to invest into inventory due to supply chain disruptions.

Non-Financial (Future KPI)

ESG

Environmental

Social

Governance

Description and definition
Over the past 12 months the Group has expanded its ESG profile and data collection to encompass more granularity on environmental impact as well as engaging with ESG rating agencies in relation to establishing a baseline of overall ESG performance (see page 19 for details).

Link to strategy
Ensuring that the ESG credentials of the business are maintained and enhanced is fundamental to achieving growth.

Remuneration linkage
The Remuneration Committee intends to use this detailed work to form the basis for robust and challenging quantitative targets for the 2023 Executive Director and management bonus plans.

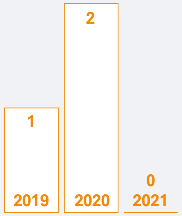
Target
These will be based on the short-term science-based targets to meet Net Zero that will be prepared during 2022. These targets will be based on the reductions that are controllable by management (see page 35).

KEY PERFORMANCE INDICATORS CONTINUED

Link to strategy
Invest in our core markets
Continued innovation
Expand our market reach

Non-financial

Health and safety (number)



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

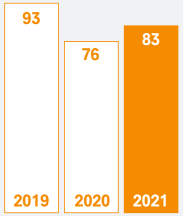
Definition
A recordable incident is a work-related incident that results in a member of staff being incapacitated for more than three days.

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 revenue and underlying EBIT targets.

Target
Zero recordable incidents is the moral imperative. We have met this target recording no serious accidents demonstrating Dialight's importance of staff welfare.

Retention (%)



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.

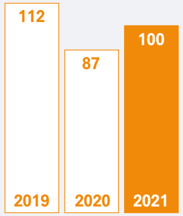
Link to strategy
Retaining high-calibre staff is part of creating and capturing value.

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

Target
We have generally targeted 90% retention. We have seen an improvement on prior year but lower than target due to increased employee turnover post pandemic.

Operational

Lighting orders (£m)



Description
Orders received for Lighting products.

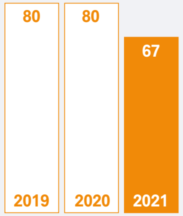
Definition
Total orders received for Lighting products in the year.

Link to strategy
Order growth is a lead indicator of the financial strength of our end markets.

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

Target
We target year on year order growth. We exceeded target with order growth of 23% at constant currency which reflects some recovery in our end markets and reclaiming of market share.

Lighting on-time delivery (%)



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

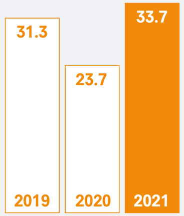
Definition
The value of orders shipped in the year meeting the customer request date over the total value of the orders shipped in the year.

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. Our on-time delivery was impacted in 2021 due to severe supply chain disruption brought about by global commodity shortages.

Target
Our target was to maintain or exceed our prior year on-time delivery. We did not meet this target due to supply chain disruptions.

Lighting gross profit (£m)



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 not reflective of the underlying performance of the business (see note 6).

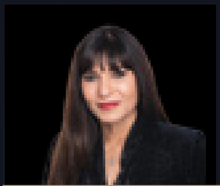
Link to strategy
One of the key near-term strategic goals is to build a robust and scalable operational platform. Lighting gross profit is a good indicator of the success of this target.

Remuneration linkage
Lighting gross profit expansion is a key part in achieving short-term and long-term incentive targets. Lighting gross profit is a key contributor to EBIT.

Target
We target year on year expansion of the Lighting gross margin. This year's gross margin has exceeded target due to two factors: revenue was higher than last year and margin improved despite cost pressure in the global supply chain.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

LEADING WITH PURPOSE



Fariyal Khanbabi
Group
Chief Executive

> We believe that lighting has a critical role to play in helping businesses' journey to become Net Zero."

INTRODUCTION

For 50 years Dialight has been solely focused on environmentally friendly LED technology, introducing market-leading innovations to ensure the safety and well-being of people working in harsh and hazardous industrial applications. We are actively working to accelerate the industrial evolution to greener solutions through our cutting-edge technology and bringing the first fully recyclable product to the market. We as a company are committed to being Net Zero by 2040.

People are at the heart of our business. It is through our remarkable people that we created the Dialight Foundation in 2020, a non-profit arm of our company dedicated to helping the communities we operate within. The overwhelming support from our employees around the world has made a meaningful difference in the lives of so many and we look forward to continuing to build on this initiative.

Creating a safer, cleaner, healthier future for everyone is the cornerstone of our approach to ESG. We are focused on ensuring that we can continue to serve our markets in a sustainable way over the long term.

Our products are well positioned to play a positive role in society, addressing issues which

- are fundamental to human wellbeing
- are long term in nature
- have a global reach
- ensure safety in industrial environments

while addressing key environmental challenges.

Our unwavering focus continues to be on the increasing needs of our industrial customers for solutions that reduce their carbon impact (see case studies on pages 9, 31 and 32) whilst also protecting human lives, (see Safety section on page 25) and are produced using ethically sourced materials (see page 28).

ESG Strategy

The ESG strategy has been dovetailed into Dialight's operational ethos and therefore has not caused a fundamental change of direction.

This coupled with a business purpose that has always been centred on climate change means that it forms a natural extension of the existing strategy.

For more detail on our approach to ESG, see page 20.

ESG profile

Over the past year we have improved the ESG profile of the Group by engaging more fully with selected rating agencies.

Investor focused rating agencies
In July we completed the CDP Climate Change, Water Security and Supplier Engagement questionnaires.

We engaged with ISS ESG who issued a rating in November 2021 showing a transparency level of Very High.

Supply chain rating agency
We completed the EcoVadis questionnaire in September which saw us improve to a silver rating.

Our rating can be summarised as follows:

CDP	Climate change	C
	Water security	C
	Supplier Engagement	B-
ISS ESG	Corporate Rating	C
ecovadis Silver 2021	Rating increased from a Bronze in the prior year	

Other ESG Highlights

In addition, during 2021 we have engaged with a number of other organisations in the ESG arena:

We have committed to achieving Net Zero with SBTi by 2050. Our internal target is to achieve this by 2040, see pages 33 to 35.

We have prepared Environmental Product Declarations (EPDs) for 9 products, and these have been verified by BRE Group, see page 23.

We have joined the Clean Lighting Coalition which is a global coalition to eliminate toxic lighting through the Minamata Convention on Mercury, see page 24.

We continued our sponsorship of the Women's Earth Alliance who are empowering women's leadership to solve climate-related issues, see pages 10 and 27.

Our first ESG Report

In November 2021, we launched our first ESG Report (click here) which outlines some of the key areas underscoring our approach to Environmental, Social and Governance issues. This will be prepared annually going forward and will contain updates on ESG part-way through the year.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE CONTINUED

Our Purpose

To improve the world we live in through intelligent LED lighting technologies. We enable industrial customers operating in demanding environments to reduce their costs and carbon footprint while maximising the safety and productivity of their facilities.

Our Approach to ESG

	ENVIRONMENTAL	SOCIAL	GOVERNANCE
Our key areas:	We push the boundaries of technology to produce LED lights that reduce carbon footprints and promote their use as a cleaner and more sustainable technology Our products help our customers achieve their environmental target	Safe working environment Support local communities We continue to localise supply chains in order to reduce the Greenhouse Gas ("GHG") impact of sourcing and support local suppliers	We operate our production facilities using recognised Environmental Management Systems We promote ethical business practices through our codes of conduct on bribery, corruption, material sources and human rights
Sustainability strategy	– Innovate and educate to reduce carbon footprint – Deliver customer sustainability targets – Responsible production	– Promote a culture of bio and physical security – Dialight Foundation supports local communities	– Ethical sourcing – Business integrity
Link to business strategy	Product innovation is key to growth by stimulating new demand and accelerating the rate of adoption of LED.	A sustainable supply chain ensures that our factories can satisfy current and future demand.	Operating with ethics and integrity ensures that we do not suffer adverse business reputational damage which would restrict our ability to grow.
	200 LPW Lumens Per Watt (LPW) is an efficiency measure in 2021, Dialight released the most efficient High Bay light in the industrial market	**Zero** **Reportable accidents** Safety is a key focus area in our facilities	**ESG Committee** **Enhanced governance through ESG Committee formed in 2021**
Contributing to SDGs:	9 Industry, Innovation and Infrastructure 13 Climate Action	3 Good Health and Well-Being 10 Reduced Inequalities	3 Good Health and Well-Being 9 Industry, Innovation and Infrastructure 10 Reduced Inequalities 13 Climate Action
	Read more on pages 21 to 24	Read more on pages 24 to 27	Read more on pages 28 to 30

ENVIRONMENTAL, SOCIAL AND GOVERNANCE CONTINUED

ENVIRONMENTAL

End Of Life (EOL) considerations

The industrial LED lighting market is in its infancy with conversion rates from legacy lighting of less than 10%. This adoption has mainly happened over the past decade and with most fixtures expected to last in excess of 10 years and Dialight offering a 10-year warranty on most fixtures, EOL considerations have not been a major focus before now.

There are four main aspects to EOL

1) design a fixture that will last significantly longer than conventional lighting
2) extend the working life by designing field replaceable parts
3) retrofittable upgrades
4) Use materials that are easier to recycle at the end of life

Design Life

The market in industrial LED lighting is about 12 years old and Dialight have been pushing the R&D envelope since inception. In 2009, the signature High Bay product had an efficiency of 53 lumens of light output per watt of electricity (LPW).

Fast forward to 2021 where Dialight introduced the industry-leading 200 LPW High Bay, a 4-fold improvement over a 12-year period.

This is a developing market, which is constantly evolving, and major product lines are upgraded/replaced every 3 years. There are no defined efficiency targets but rather R&D is focused on every new product being as efficient as the technology at that time will permit.

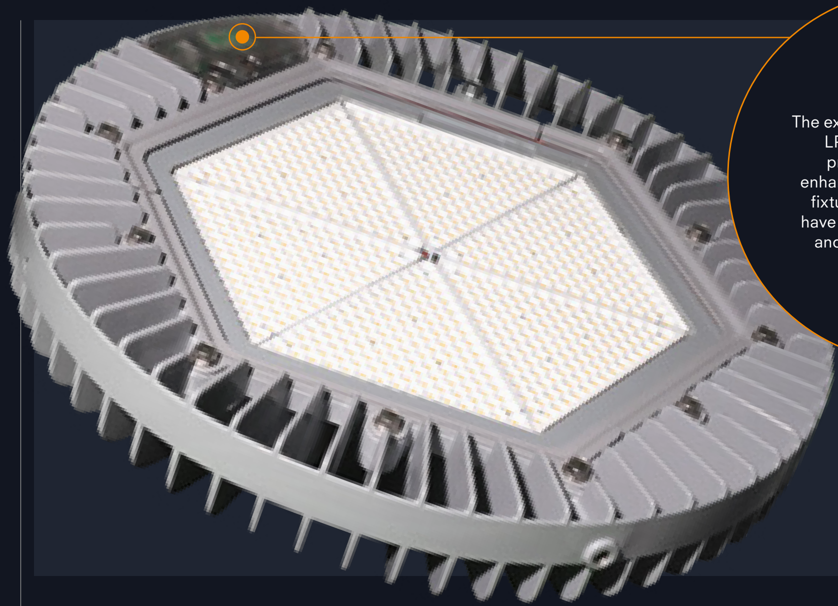
There are two aspects to R&D

- Technology driven – this is where the new generation of power supplies and materials are conceived
- Fixture driven – this is where the products identified for upgrade are re-designed and incorporate the latest technology

Key consideration of design

- Efficiency
- Durability
- Reliability
- Longevity
- No hazardous materials
- No banned materials
- Safe manufacture
- Safe operation
- Minimise carbon footprint

WE AIM TO PRODUCE THE FIRST NET ZERO (NOT CARBON NEUTRAL) FIXTURE FOR THE INDUSTRIAL WORLD. THE TIME FRAME IS NOT YET CLEAR BUT THIS IS OUR GOAL.



SENSORS

The external slot on the new 200 LPW High Bay houses a proximity sensor which enhances the efficiency of the fixture. Other products can have sensors fitted in the field and have field replaceable parts.

Fixtures are designed for rugged industrial environments which can also include hazardous locations, areas of high vibration and areas with extreme heat or extreme cold. They are designed by an in-house R&D team

Most Dialight fixtures are warranted to last for 10 years and in reality, may last much longer even though used in harsh environments, due to their design. Those with an L70 rating mean that the LED's themselves must maintain at least 70% of their original brightness over their life which is expected to be between 100,000 and 150,000 hours i.e., equivalent of running for 12 to 17 years continuously.

Replaceable parts

If a failure occurs in the field, it is likely to relate to the power supply as that is the most complex aspect of the fixture. Newer fixtures such as the Reliant High Bay have field replaceable power supplies that will prolong the fixture life beyond the original 10 year life.

Retrofittable Upgrades

The ability to upgrade in the field is being incorporated into newer fixtures with a dedicated external slot for plug and play sensors to be added. This allows new safety features/efficiency features to be subsequently added.

Recycling at EOL

The ability to recycle is dependent on several factors

a) The type of materials used in the fixture
b) The geographic location of the end user
c) Types of electrical recycling schemes in operation

Currently we see a range of recycling options, as follows:

In Europe, all lighting sales are covered by the Waste Electrical and Electronic Equipment (WEEE) legislation and by paying a levy at the point of sale, this allows any of our fixtures to be disposed of through a WEEE partner. The level of recycling that can be achieved varies but our UK partner can recycle up to 96% of components of the fixture.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE CONTINUED

There are no similar schemes in the Americas or Australia currently, but nonetheless, we have recycling partners that can process the Aluminium in these locations. Given the long life of our products we expect that this ability will be enhanced over the coming years and programs similar to WEEE will be introduced globally by the time many of our longlife fixtures reach end of life.

The level of recycled fixtures is very low at the moment due to the extended product life cycle, it is mainly product failures/older model fixtures that are recycled from the field. Field failures returned to the factories are passed to local certified recycling facilities and other failures can be disposed via WEEE partners in Europe or other recycling partners such as Veolia in North America.

Waste Management

Three of the four operational sites use Environmental Management Systems certified to ISO 14001. All sites have well established recycling programs that ensure that as much waste as possible does not go to landfill. The in-house processes are light industrial and do not generate significant waste. The major waste items relate to inbound packaging for materials and some metal off-cuts from machining. The recycling for 2021 was as follows:

Product Type	2021 Tonnes	2020 Tonnes
Cardboard	273	256
Plastic	70	149
Metals	137	121
Wood	7	12
Other	4	2
Total	491	540

Environmental Reporting

We have performed a full Green House Gas (GHG) inventory for 2021 in additional to our baseline in 2020. The 2020 baseline was externally verified under ISO 14064 and the 2021 GHG inventory will be verified in the coming months.

Scope 1 and 2 data was mainly extracted from utility bills. Scope 3 emissions are calculated using upstream materials impacts taken from the EPD analysis and logistics impacts based on 3rd party carrier data. Where no 3rd party data is available, internal calculations are used. The calculation of Scope 3 customer usage impact is very subjective (see page 33 for estimated impact) and this has not been verified. Dialight processes are not very resource hungry therefore Scope 1 and 2 usage is comparatively low with a combined 44 tonnes of CO_2 used for every £m of revenue generated. We have a target to reduce Scope 1 & 2 by 3% per annum (per £m of revenue) in the short-term but this will be superseded by the Net Zero targets that will be agreed with SBTi. For more details see the Road to Net Zero section on pages 33 to 35.

Emissions calculated using GHG Protocol were:

USAGE DISCLOSURES

		CO_2	2021	2020**	2021 Vs 2020	Commentary
Scope 1	Emissions from combustion of fuel	Tonnes	1,190	1,168	(22)	Absolute increase but intensity reduction
Scope 2	Emissions from purchased electricity	Tonnes	4,832	4,464	(368)	Absolute increase but intensity reduction
Scope 3	Emissions from all other activities (except customer usage)	Tonnes	103,907	123,218	19,311	Change of materials mix reduced impact
	Total (excluding customer usage – see page33 and 34)	Tonnes	**109,929**	**128,850**	**18,921**	

**Scope 1 & 2 numbers per 2020 Annual Report were revised slightly during verification process later in 2021

	Consumption	2021	2020**	2021 Vs 2020	Commentary
		m's	m's	m's	
Electricity**	Kwh	11.0	10.2	(0.8)	Absolute increase but intensity reduction
Water	Litre	14.6	14.6	0	Intensity reduction

**Electricity usage was revised slightly during verification process later in 2021

INTENSITY RATIOS

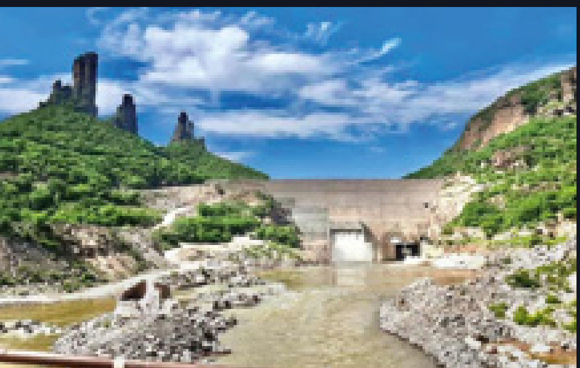
Revenue	**£m's**	**131.6**	**119.0**	**11%**
Consumption per £m of turnover		**2021**	**2020**	**Variance**
Scope 1	Tonnes/£m revenue	9.0	9.8	8%
Scope 2	Tonnes/£m revenue	36.7	37.5	2%
Scope 3 (excluding customer usage)	Tonnes/£m revenue	789.6	1,035.4	24%
Electricity**	MWh/£m revenue	**83.3**	**85.7**	**3%**
Water	Kilo litre/£m revenue	**110.8**	**122.7**	**10%**

ENVIRONMENTAL, SOCIAL AND GOVERNANCE CONTINUED

Water Stewardship
As a responsible business, we need to ensure that our water usage is minimised as much as possible so that there is an equitable distribution of freshwater. Access to clean water and sanitation is a basic human right and aligns with the United Nations Sustainable Development Goal (UN SDG) 6 "Clean water and sanitation".

Water usage in the production processes is not extensive and accounts for c. 30% of water usage. Where there is any contamination from these processes, water is treated before release to public sewers. The majority of water usage relates to WASH (Water, Sanitation & Hygiene) services for staff and is therefore discharged to public sewers.

Nonetheless, our facilities in Mexico which account for 57% of water usage are in high water stress areas and we are therefore looks at ways to reduce usage. We have set a target of reducing water consumption by 5% per annum per £m of revenue. This target was exceeded in 2021 with a reduction of 10%.



Reduction in water usage per £m of revenue

10%

Sustainable product design

Our highly efficient products have a lifespan double that of many other LED competitor products and up to 5x longer than legacy lighting technologies, reducing landfill waste through longer product replacement cycles. Additionally, our products do not contain any mercury or other toxic materials requiring hazardous disposal. As we continue to evolve, our focus is on designing for sustainability.

LONG LIFE

HIGH EFFICIENCY PERFORMANCE

REDUCED WASTE

INCREASED RECYCLABILITY

NON-TOXIC MATERIALS

REDUCED CARBON EMISSIONS

WE AIM TO PRODUCE THE FIRST FULLY RECYCLABLE FIXTURE

We are rethinking every aspect of our products from material science and supply chain through to product assembly and end of life. Part of this analysis includes conducting Environmental Product Declaration (EPD) evaluations for each of our major product lines to identify the carbon footprint of materials used in our products. This information has already informed our material choices for our next generation of products.

We are currently one of the only industrial LED lighting companies certifying our products using EN 15804 with independently verified Environmental Product Declarations (EPDs).

BRE Global Verified EPD

To date we have had 9 EPD's issued covering 7 product lines. These are published on the internet at https://www.greenbooklive.com/search/scheme.jsp?id=372

We are using the data from this to understand the impact of three major factors

- Material choice – aluminium has a higher carbon impact than Glass Reinforced Plastic (GRP) but we need to do more work to understand the EOL implications
- Material source – the aluminium impact can be greatly reduced depending on whether renewable energy is used in the smelting process
- Weight of the fixture – regardless of the material choice and source, using less of it reduces the carbon footprint

The volume of materials used across all products in 2021 was as follows:

Tonnes of materials used – 2021

Aluminium – 1,711
Packaging – 655
Molded parts – 693
Electronics – 622
Wiring – 138

ENVIRONMENTAL, SOCIAL AND GOVERNANCE CONTINUED

Hazardous materials

One major advantage of LED lighting over legacy solution is they do not contain hazardous substances. Most fluorescent tubes and High Intensity Discharge (HID) lighting contains mercury which is dangerous at the manufacturing stage, dangerous during use due to escape from a failed unit and dangerous during de-commissioning.

The LED lighting manufacturing process is mainly light engineering and assembly and therefore there is no need for heavy chemical use. Some of our processes generate waste that is classified as hazardous such as soldering residue and industrial alcohol used to clean finished products. The level of waste generated is low and for 2020 and 2019 averaged 9 tonnes. We have used the Resource Conservation and Recovery Act (RCRA) compliance monitoring guidelines of the Environmental Protection Agency (EPA) in the USA to classify this waste.

This waste is handled using protocols for hazardous waste, including use of protective clothing and is stored in secure areas before collection by registered waste contractors in the relevant country.

We comply with REACH standards and California proposition 65 in relation to chemicals, RoHS and conflict mineral standards in relation to restrictions on the use of certain materials.

We are proud to be part of the Clean Lighting Coalition. For over 50 years we have been focused exclusively on developing LED lighting technology for industrial applications. In addition to being the most efficient white light available, LEDs also do not contain any harmful mercury which can be highly toxic in the event of bulb and ballast breakage. The Clean Lighting Coalition (CLC) aims to leverage expert knowledge and clean lighting stakeholders to transition global markets to safe, cost-effective, and energy-saving LED lighting by removing the exemption for fluorescents in the Minamata Convention on Mercury.

Clean Lighting Coalition

SOCIAL

There are three main groups of people that we consider in our operations

1. Our people
2. The communities in which we operate
3. People in the supply chain

1. OUR PEOPLE

People are at the heart of our business. We recognize that the skill and commitment of our employees plays a large part in the success of our Company and we recognize that each person has their own individual contribution to make. It is through our people that we will progress our strategy and ensure that we realise the potential for growth. Developing a high performing and inclusive culture is a key enabler in our ability to deliver strategic growth.

Engaged, motivated, empowered and appropriately skilled employees are integral to our success. We support all our people by creating a safe, inclusive environment, where every individual is able to work and contribute to the development of the business.

Global footprint, local focus

Dialight supports a global customer base with offices around the world. We have had a long-term presence in many of our operating locations which creates socio-economic value and we are proud to be a longstanding employer in the communities in which we operate. As an example, our primary manufacturing location for the Americas has been in Ensenada, Mexico since 2001. Likewise, our Roxboro, NC facility is one of the largest employers in the area and has been in existence since 1985.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE CONTINUED

The COVID-19 crisis has meant that it is more important than ever to keep our people, their families and the wider community safe and the business running in support of our customers and other external stakeholders. Our approach to developing a high performing and inclusive culture is focused on four key areas, all within an overall environment focused on safety:

Safe working environment
- Understanding our people
- Engaging with our people
- Developing our people
- Diversity and inclusion

SAFE WORKING ENVIRONMENT

Our goal is zero harm. Not as a statistical target, but as a moral imperative which will be achieved by establishing a strong, proactive safety culture

As the world leader in heavy industrial and hazardous LED lighting, safety is always on our minds. Not only for the customers that we serve, but also for our own employees. We have a strong track record of safety at all of our global sites. Our main sites are certified under ISO 45001 for H&S Management. Safety is a high priority and near misses are reviewed weekly to prevent injury to our workforce.

Accident rate trends

Accident rates per SASB TC-ES-320a.1	UOM	2021	2020	2019
Total Recordable Incident Rate (TRIR) – Direct Employees (per 200,000 hours worked)	Rate	0	0.1	0.1
Near Miss Frequency Rate (NMFR) – Direct Employees (per 200,000 hours worked)	Rate	17.3	17.5	25.7

All new factory staff are trained in Health & Safety using local language presentations to ensure that they understand the briefing. **Examples from these are:**

We continue to prioritise all forms of Health & Safety at operational sites. We are pleased to say that there have been Zero recordable incidents during 2021. We have also seen the level of near-misses reduce as well.

DIALIGHT SAFETY
0
Year-to-date lost time work accidents in 2021

Safety footwear is compulsory at all operational sites

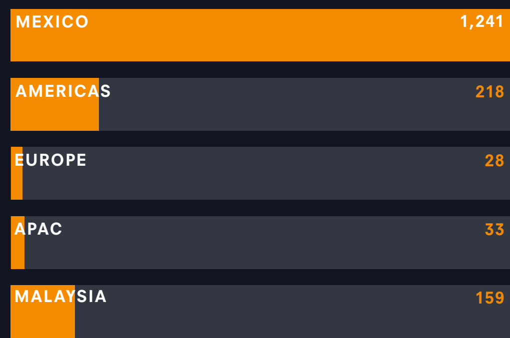
Eye protection is mandatory on the production floor in addition to face masks/ distancing for Covid protection

Hi-vis clothing is obligatory in warehouses and any locations where moving vehicles are present

Understanding our people

Our business is diverse across both skillsets and geographies. Our products are designed by engineers in our R&D function in New Jersey, they are manufactured in the three main production centres, North Carolina US, Tijuana and Ensenada Mexico and Penang Malaysia by technicians and operators. The safe operation is overseen by functional experts in areas such as health and safety, people and technology. Products are sold using our highly skilled in-house sales staff in conjunction with distributors and other partners. Our success depends on our people and understanding our global population is core to that.

Average No Employees



ENVIRONMENTAL, SOCIAL AND GOVERNANCE CONTINUED

Engaging with our people

Communication both within and across the Group is key to engagement. The pandemic again provided some challenges to communication during 2021 with scheduled meetings and visits having to be postponed, fewer face to face meetings and reduced opportunities to converse in person.

Each region uses a range of formal and informal channels including all-hands meetings, smaller team briefings, employee forums, direct email addresses and the CEO's global monthly video calls, with an active Q&A encouraging anyone from across the business to ask questions. In addition, the factory sites also use notice boards and TV screens in communal areas that play corporate updates in local languages.

During the year, Gaëlle Hotellier who has been a Non-Executive Director since 2016, took over the role of Workforce Engagement NED, however, she had limited opportunities to meet with groups of colleagues from different business areas and at different levels in the organisation due to scheduled operational visits being cancelled due to COVID-19 restrictions.

Development and creating networks are key themes at all levels in the organisation. Constant, regular updates and virtual meetings of the global leadership teams have ensured that this key Group remains well connected and up to date on the challenges around the business and have provided the opportunity for discussion and debate.

COVID-19 put extraordinary pressure on our teams and ensuring we were able to monitor how they were coping and provide support as it was required was very important.

Development & Training

Development is the cornerstone of the drive to continuously improve the quality of our business. Our colleagues are involved in performing a huge number of often complex processes and procedures and work continues to ensure high levels of operator competence throughout the organisation. Individuals across the organisation are encouraged to undertake continuing professional development to ensure that their expertise and knowledge remains up to date. Outside of technical competence, our focus is on the development of management and leadership skills.

A development program on ESG is being rolled out across the business starting at a VP and Strategic Accounts level as this links to the overall business strategy. It will be cascaded to lower levels during 2022.

Training is encouraged at all levels of the organisation and includes

- all new starters receive Health & Safety training
- first aid training
- technical training in chosen discipline
- diversity and inclusion training

Diversity

Making sure that we have an appropriately diverse pool of talent within the organisation is a fundamental metric. Ensuring that our employee gender diversity is reflected in our Board make up has been a key focus over the past two years and we are delighted that this has now been achieved.

The Board currently complies with the requirements of the Hampton Alexander report and the Parker Review, see page 53 for diversity graphs.

We are committed to ensuring that we have an inclusive and diverse culture across the Group which reflects the communities we operate in, as well as providing an environment where all our people are able to attain their potential at work. Different expertise and experiences contribute positively to Dialight's development and contributes to a broader and better basis for decision making.

Dialight strives for diversity on a broad basis including gender, age, background, education, disability and nationality (within the constraints of our regulatory requirements). As a business, we are committed to meeting, at a minimum, the labour rights and legislation requirements in each country in which we operate. In practice, we often exceed these requirements.

We have a number of formal and informal groups around the business which support and connect people with shared characteristics or interests. The Group makes no distinction between disabled and able-bodied persons in recruitment, employment and training, career development and promotion, provided that any disability does not make the particular employment impractical or impossible under the stringent regulatory requirements under which Dialight operates.

Future focus is on ensuring all our recruitment procedures incorporate our commitment to diversity. We ensure that any external bodies we work with for the provision of support have diverse candidate pools and attraction approaches that are open to all suitably qualified individuals.

At operational sites, the labour pools vary depending on the characteristics of the region.

Our operations in Mexico are staffed 100% by local staff. Our operations in Malaysia predominantly comprise local labour but we also use some migrant workers that supplement the local labour pool. These employees are directly contracted by Dialight on a full term contract and we ensure they are treated equally with the local workers.

Employees in North America are from diverse backgrounds with sales staff located all around the US, Canada and Mexico. Many newly hired administrative staff are home-based thereby allowing access to a much broader labour pool.

The Lighting industry has traditionally been heavily male dominated but we are attempting to break the mould by having the top two roles in the business held by females.

Blazing the trail for gender equality in the industrial sector

The Lighting industry has traditionally been heavily male dominated, but we are attempting to break the mould and Dialight is fortunate to not only have a female CEO but also a female chair of the board, both with extensive knowledge of the industrial space and a deep desire to make the sector accessible for all.

Fariyal Khanbabi
Group Chief Executive

"As a female executive in the heavy industrial world, I am committed to ensuring that opportunities exist for women to thrive in this industry as it continues to evolve."

Karen Oliver
Board Chair

"As chair of Dialight's board, we pride ourselves on setting the example with gender parity starting with the board level and instilling the values of diversity and representation throughout the group."

In addition, the CEO has received various awards over the past 18 months that recognise the changing face of the industry:

Manufacturing Institute STEP Ahead Awards

The CEO received an award from the Manufacturing Institute in the US for her leadership during the pandemic and her efforts with the Dialight Foundation, see page 10.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE CONTINUED

SUPPLY CHAIN

Supply Chain & Human Rights

Dialight is committed to conducting its business in an ethical and responsible manner at all times, and in full compliance with all applicable laws and regulations. Our Code of Conduct, which sits alongside our Operational Framework, embraces our fundamental values of Safety, Excellence and Innovation. It provides direction to all employees on legal, ethical and risk issues that they may encounter in their day-to-day activities. All employees and all third parties who act on the Group's behalf are required to comply with our standards of behaviour and business conduct, as set out within the Code, and applicable laws and regulations in all of the countries in which we operate.

We expect our employees and suppliers:

- To behave professionally, honestly and with integrity at all times
- To avoid situations that involve a conflict between personal interests and those of Dialight
- To avoid deceptive, dishonest or fraudulent acts or omissions
- To ensure that they do not instigate or participate in bribery or corruption
- To avoid instigation or receipt of gifts and hospitality designed to make the recipient feel obligated in a certain way
- To ensure they do not engage with suppliers in countries that are subject to sanctions and embargoes
- To ensure that they do not engage with suppliers that do not adhere to the Anti-Slavery and Human Trafficking legislation
- To ensure that all staff have a safe and secure working environment free from discrimination
- To ensure all staff are paid a fair wage and do not have to work beyond legal requirements

We do not buy materials that have been produced by suppliers using forced labour, child labour or other forms of oppressive tactics to exploit workers.

Community Involvement

It is not just about Dialight being a good employer but about giving back to the communities in which we operate. In order to facilitate this, the Dialight Foundation was formed in June 2020. Our mission is to transform the lives of people in need in our local communities, with a focus on supporting children and women's causes. It is governed by the Dialight Foundation Board, comprised of employees from around the globe. This group was carefully selected to bring diverse perspectives based on a variety of job functions, cultural backgrounds and charitable expertise. This group serves as the representatives for each of the locations where we conduct business and their surrounding communities.

The Foundation is funded by employee contributions and Dialight funding. In December 2021, it raised $50k to further the work of the foundation.

Partnership with Women's Earth Alliance (WEA)

Dialight chose to partner with the WEA, an organisation with long-term goals for climate improvement through empowerment of women. The Dialight Foundation provided a $25k donation as the sole sponsor of their COVID-19 and Climate Relief Program in Tijuana, Mexico.

The Tijuana area, in proximity to our facility, has been hit hard by the impacts of COVID-19 as well as an influx of vulnerable asylum seekers looking to cross the border.

It was important for us to support our local community during this particularly challenging time. The WEA worked with local grassroots organization, Espacio Migrante, to directly provide food and information to thousands of vulnerable asylum seekers.

Women's Earth Alliance (WEA) is a 15-year global initiative that trains, resources and catalyses grassroots women-led efforts to protect our environment and build healthy, safe and just communities now and into the future.

DIALIGHT FOUNDATION

The Foundation is funded by a combination of employee and company donations. Investment decisions are governed by a Board comprising staff from all the major operating sites and is chaired by the CEO.

Featured foundation projects:

Casa hogar el reino de los niños

- Ensenada, MX
- Home to 36 children ages 3-23
- Provided new beds and sofas for facility and a meal + gifts for the Christmas holiday
- Providing new solar powered water heater

Casa Gabriel

- Ensenada, MX
- Home to 19 children with special needs
- Provided new commercial refrigerator for their kitchen

Person County elementary schools

- Roxboro, NC
- 2 lower income elementary schools
- In preparation for return to in-person learning, Dialight Foundation provided 70 backpacks filled with schools supplies for the students.

In 2022 the Foundation is focused on expanding its impact in 3 key areas:

Continued support of local causes
Continued support to the local communities in the US and Mexico mentioned above.

Expanding geographic impact
Expanding projects to help charitable projects near our factory in Penang, Malaysia and we are in the process of conducting due diligence on a number of charities.

Transforming the industrial world
The Foundation is considering sponsoring WEA's Accelerator program which develops and empowers women leaders to help establish critical environmental and climate initiatives, including upcycling plastic pollution, developing clean energy solutions, removing toxins from our environment, planting trees, growing sustainable food and providing education about women's health, and more.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE CONTINUED

GOVERNANCE

The main Corporate Governance section is on pages 49 to 82. The section deals with Governance in relation to ESG but also applies the same principles in relation to ethical behaviour, transparency and accountability. The Board are committed to developing and monitoring progress against Dialight's ESG strategy and performance with primary oversight in Board Meetings where ESG is a standing agenda item.

To assist with this, the ESG Committee was established in 2021, which is comprised of Dialight's CEO and functional area VPs, who meet on a monthly basis to address ESG in all facets of our business including our ESG roadmap, monitoring of supply chain risks and transition to Net Zero. In addition, a new role of Director of ESG has been created to act as a co-ordinator of all ESG deliverables.

We comply with externally verified ISO standards (14001, 45001, 9001 and 14064) to ensure good operational management.

OUR APPROACH

We are committed to promoting a culture within Dialight where everyone does the right thing and takes personal responsibility for their actions. Our Operational Framework and Code of Conduct set out the standards of business conduct and behaviours we expect of all of our businesses, our employees and all third parties who act on our behalf. We require all employees and third parties who act on our behalf to conduct business honestly and with integrity, and to take personal responsibility for ensuring that our commitment to sound and ethical business conduct is delivered.

GAN checks on new suppliers and customers

100%

Operational Framework

Our Operational Framework incorporates a broad range of policies and procedures. The Operational Framework implements a robust governance and compliance framework to enable us to operate in a safe, consistent and accountable way.

The leaders within our business are required to ensure that:

Every employee, at every level of the organisation, has access to and understands the requirements of the Operational Framework	**Appropriate training and monitoring processes are in place to ensure proper implementation of the Operational Framework**	**Local procedures and processes are adopted to implement the requirements of the Operational Framework**

Ethics and business conduct

At Dialight, we are committed to doing business the right way. This means acting professionally, morally, ethically and lawfully in our dealings with all of our colleagues, business partners, customers and shareholders. The Code of Business Conduct explains what we really mean by this. It provides guidance and sets out key company principles that apply to everyone at Dialight. We also expect our business partners to uphold the same commitment and principles.

Our Terms & Conditions of purchase set out the requirements of our suppliers including compliance with:

- Anti-slavery and human trafficking legislation (including the UK Modern Slavery Act 2015)
- Anti-slavery and human trafficking legislation in the supplier's supply chain
- Anti-bribery and anti-corruption legislation
- Occupational Safety and Health Act 1970
- Equal Employment Act

We use third party platforms to monitor compliance as follows:

Supply chain & customer due diligence
All our new customers and suppliers must comply with the Dialight Code of Business Conduct.

Due diligence is currently in two parts:

1. Screening prior to on-boarding
2. On-going surveillance using external assurance platforms

We are expanding our on-going due diligence program based on supplier size and risk analysis.

The external platforms currently used are:

Checks for any negative ESG issues in the public domain on an on-going basis

Used for materials compliance
1. To check whether they contain any harmful substances like heavy metals
2. Compliance with REACH/RoHS, California Prop 65
3. Human Trafficking
4. Conflict Minerals

ENVIRONMENTAL, SOCIAL AND GOVERNANCE CONTINUED

Code of conduct

Our Code of Conduct, which sits alongside our Operational Framework, embraces our fundamental values of Safety, Excellence and Innovation. It provides direction to all employees on legal, ethical and risk issues that they may encounter in their day-to-day activities. All employees and all third parties who act on the Group's behalf are required to comply with our standards of behaviour and business conduct, as set out within the Code, and applicable laws and regulations in all of the countries in which we operate.

All employees, current and new, are provided with a copy of the Code of Conduct and asked to confirm that they will adhere to its standards. Our aim is to ensure that all employees complete mandatory training on the Code of Conduct on an annual basis in future.

Anti-bribery and corruption

Dialight has a zero-tolerance policy in respect of 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 have been trained on antibribery and corruption policies. Group policy prohibits making political donations or making payments to lobbyists.

Whistleblowing

Our culture embraces transparency and openness, and we encourage all employees to speak up if they have any concerns. We have a whistleblowing policy and associated procedures in place which enable all employees to raise concerns, in confidence, about possible improprieties or wrongdoing within the business, without fear of reprisal or retaliation. Employees are able to raise issues by contacting our 24-hour ethics reporting service (independent third-party service) by phone, email or an external website.

All issues reported by employees are taken seriously and investigated appropriately in a confidential manner. We encourage openness and will support those who raise concerns in good faith, even if they turn out to be mistaken. Nobody will suffer any detrimental treatment as a result of their actions taken in good faith. A whistleblower can remain anonymous, but it aids the investigation and feedback process if the person identifies themselves.

Local language versions of the whistleblower notice are posted in all sites and the 3rd party service has local language staff available to deal with calls and emails.

A report of any complaint is passed to the Group's Company Secretary for investigation and for appropriate action to be taken. The outcome of all reports and their subsequent investigation is provided to the Audit Committee.

Human rights

The Group is committed to respecting human rights in the countries in which we do business. Our Code of Conduct and other applicable policies under the Operational Framework support our commitment to ensuring, as far as we are able, that there is no slavery or human trafficking in any part of our business or in our supply chain. We see compliance with local legislation as a minimum requirement and generally strive to operate at a higher level.

Tax strategy

We are committed to being a responsible business, and core to this is our commitment to comply with tax legislation in each country in which we operate. Dialight Plc believes its obligation is to pay the amount of tax legally due in any territory, in accordance with rules set by governments.

Compliance for us means providing the relevant tax returns and tax payments within statutory timescales. In addition, we will promptly disclosure to the tax authorities if errors arise in relation to our tax liabilities.

The core of all of our transfer pricing is compliance both with the OECD Transfer Pricing Guidelines for Multinational Enterprises and with local domestic tax legislation. Compliance is supported through a global transfer pricing policy and framework, which apply across the business. Our approach is to use the 'arm's-length principle', which is endorsed by most countries. This assumes that prices are based on an equitable and willing arrangement between two independent parties. Transactions are priced within an appropriate arm's-length range, which meets the stringent local compliance requirements in territories at both ends of each transaction.

Governance structure for ESG

ENVIRONMENTAL, SOCIAL AND GOVERNANCE CONTINUED

Product safety

The safety of our own workforce and that of our customers is paramount in the design and manufacture of products. All products have to be certified for compliance by local regulatory authorities in order to be sold. The certifications are regional rather than global and are summarised below.

The major safety standards are:

Safety standard	Geographic applicability: North America	South America	Europe	Middle East	South East Asia	Australia/New Zealand
CB		✓	✓	✓	✓	✓
ENEC			✓			
RCM						✓
UL	✓			✓		
ATEX/IECEx		✓	✓	✓	✓	✓
ABS	✓					
DNV-GL			✓			
INMETRO		✓				

Some standards can have categories that deal with both hazardous and non-hazardous variants. Hazardous lighting standards (for example, ATEX/IECEx) are much more stringent as these cover lights that are used in explosive atmospheres and therefore the risk to life and property is much higher in the event of failure.

In addition to certification at product inception, our Lighting products undergo a series of tests before leaving the factory. These involve checking correct operation by illuminating each unit for a defined test period, using electrical test equipment to identify hidden faults and carrying out ingress and egress tests for air and water on selected models.

Our 10 year warranty was approved by the National Lighting Bureau (NLB) Trusted Warranty Program in the US.

WE PROVIDE A 10 YEAR WARRANTY ON MOST LIGHTING PRODUCTS AND THAT GUARANTEES THE WORKMANSHIP OF THE PRODUCT

We provide a 10 year warranty on most Lighting products and that guarantees the workmanship of the product provided that it has been installed correctly and is used in an environment for which it was designed. All fixtures come with installation instructions that advise that only suitably qualified personnel are used for installation. Due to the weight of the fixtures and the height at which they are mounted, we recommend the use of secondary retention lanyards in certain installations to prevent danger of injury.

In April 2021, Dialight's 10 year warranty was approved by the National Lighting Bureau (NLB) Trusted Warranty Program in the US.

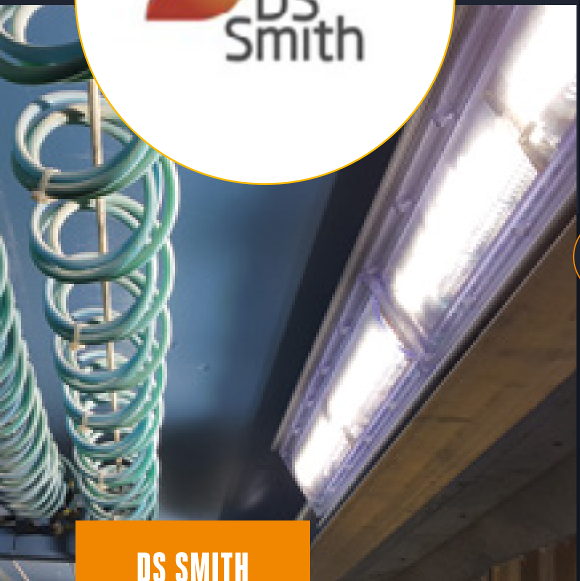
This recognizes excellence in lighting companies that meet objective quality standards and practices regarding their warranty administration. The program empowers Customers, Lighting Designers, Electrical Distributors, Electrical Contractors and other Industry Stakeholders to feel comfortable specifying, buying, and installing luminaires from companies that have had their warranty department audited and approved by the NLB. Acceptance in this program validates companies that reliably stand behind their warranty.

Information Security

The level of information security should be appropriate for the nature of the information and systems, and the risk and impact that breach, disclosure or loss could cause for one or more individuals, businesses or Dialight.

This means that only authorized personnel should have access to information. We are also mindful about how computers and mobile devices are secured, when used by the mobile workforce or by staff working from home. This has created additional hazards for protecting information as such personnel work outside the traditional protected office boundary. Any such personnel still can transport paper documents, and these require the same level of security. Dialight expects staff to apply the same standards whether in the office or not as it is still responsible for customer information, even if it is being handled or processed outside of Dialight offices.

CASE STUDIES: CORPORATE ROLLOUT PROGRAM



DS SMITH

DS Smith is a leading provider of sustainable packaging solutions, paper products and recycling services worldwide.

THE ENVIRONMENTAL CHALLENGE

By 2014, DS Smith had set out their targets for emissions reduction which included

- Reducing CO_2 emissions from fossil fuels by 20% by 2020
- Reduce waste to landfill by 20% by 2020

In order to achieve the reduction in fossil fuels impact, they had a two-pronged approach

1) Better energy efficiency – Reduce their Scope 2 emissions

2) Switching to renewable energy – Reduce their Scope 2 emissions

THE ENVIRONMENTAL SOLUTION

Looking for a more efficient, dependable solution, DS Smith discovered Dialight, the world leader in LED industrial lighting technology with had more than 1 million fixtures installed worldwide at the time.

The benefits were not only reduced energy consumption, which translated to a direct reduction in carbon emissions but the longest maintenance-free performance of any other industrial LED lighting supplier.

THE OPERATIONAL CHALLENGE

Not only was the high energy consumption a concern for DS Smith but also the maintenance required by existing fixtures was time-consuming and expensive. At many locations, high ceilings and difficult access over the top of machinery added to the cost and time required for a simple lamp change, which was often only possible during planned maintenance.

OPERATIONAL SOLUTION

Dialight's DuroSite® and Vigilant® LED products also offered a much lower operating temperature, an important safety factor in the packaging environment. The deployment of polycarbonate lenses coupled with the elimination of ultra-violet radiation contributes to the attainment of compliance with lighting quality standards for relevant sites.

"Dialight demonstrated a robust, long-life solution to meet the needs of DS Smith across our many business operations. They also offered the sophisticated support for a large commercial project of this kind, with outstanding technical expertise and account management"

Martin Mead
Head of Energy Efficiency at DS Smith

DS Smith employs 30,000 people across 30 countries and has a turnover of c. £6.5 bn per annum

Turnover

c. £6.5bn

per annum

Dialight 4ft low profile linear fixtures mounted under paper machine winders

CASE STUDIES:
CORPORATE ROLLOUT PROGRAM

THE ROLLOUT PROGRAM

THE EXTENT AND BENEFITS

At the end of the rollout, the number of lighting fixtures replaced was 40,000 across 100 sites in 16 countries over a 7 year period.

100
sites converted to energy saving LED

In addition, it means DS Smith now achieves annual savings as follows, compared to using legacy lighting

65%
reduction in energy consumption for converted sites

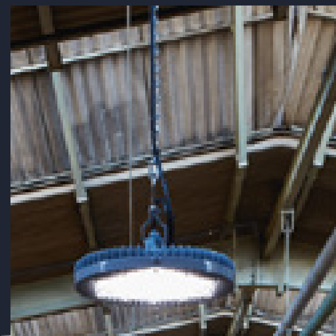
14,000
tonnes of Scope 2 emissions saved per annum

Having achieved these major milestones, DS Smith is now focused on switching to renewable energy in order to continue reducing its Scope 2 emissions. This will in turn reduce the Scope 3 emissions for Dialight.

Read more about Net Zero on pages 33 to 35

DS Smith were one of the early adopters of LED lighting to reduce their emissions.

As other corporates look at options for setting their Science Based Targets in pursuit of Net Zero, energy usage will be a key target. One of the easier ways to achieve substantial reductions quickly is to switch to LED lighting. This can be combined with sourcing renewable energy, but the latter may not be available in all locations.



Read more about Net Zero on page 33 to 35

ROAD TO NET ZERO

NET ZERO ROADMAP

INTRODUCTION

As part of Dialight's environmental responsibility, it has committed with the Science Based Targets initiative (SBTi) to be Net Zero by 2050 but has set an internal target to achieve this by 2040.

The SBTi is a global body enabling businesses to set ambitious emissions reductions targets in line with the latest climate science. It is focused on accelerating company actions across the world to halve emissions before 2030 and achieve net-zero emissions before 2050.

We believe that lighting has a critical role to play in helping businesses' journey to become Net Zero."

Fariyal Khanbabi
Group Chief Executive

Net Zero scope

This applies to all of the business across four major aspects.

IN SCOPE

Upstream activities

Materials extraction and processing

Material transformation

Transportation

SCOPE 3

Internal Operations

Energy usage at operational and administrative facilities

1 2 3

Downstream activities

Transportation to the end customer

Installation

End of Life

SCOPE 3

Impact of lights in use

The estimated impact of emission from usage of lights over their life, whilst not using green energy.

SCOPE 3

NOT IN SCOPE

The emissions savings of 1.6m tonnes of CO_2 by customers switching from harmful legacy lighting to LED. This benefit is c.1.8x the full impact that is in scope.

Net Zero is very different to carbon neutrality.

To achieve Net Zero a business has to reduce its total carbon impact to zero by changes in its business practices.

Typically, those claiming carbon neutrality are only referring to internal operations (Scope 1 & 2), thereby ignoring Scope 3 emissions which are typically >80% of the total impact. In addition, we often see these internal impacts balanced with purchased carbon offsets rather than changes in business practices.

Read more on page 35

Measuring existing carbon footprint (Greenhouse Gas Inventory GHG)

In order to be able to apply a science-based target, Dialight carried out its base year assessment of its GHG inventory for 2020, calculated using ISO 14064 which was independently verified by a 3rd party (BSI Group). The 2021 GHG will be verified in the coming months. The scope that we used for both of these assessments was Upstream Activities, Internal Operations and Downstream Activities. The results are summarised in the table to the right:

Overall Summary (Tonnes)	Fy-21 000's	%
Scope 1	1.2	0.1%
Scope 2	4.8	0.5%
Scope 3 (excluding customer usage)	103.9	10.5%
Total (excluding customer usage)	**109.9**	**11.1%**
Scope 3 customer usage	882.0	88.9%
Total	**991.9**	**100%**

The items included in each Scope are shown on page 34.

ROAD TO NET ZERO CONTINUED

Items included in each Scope

Scope:

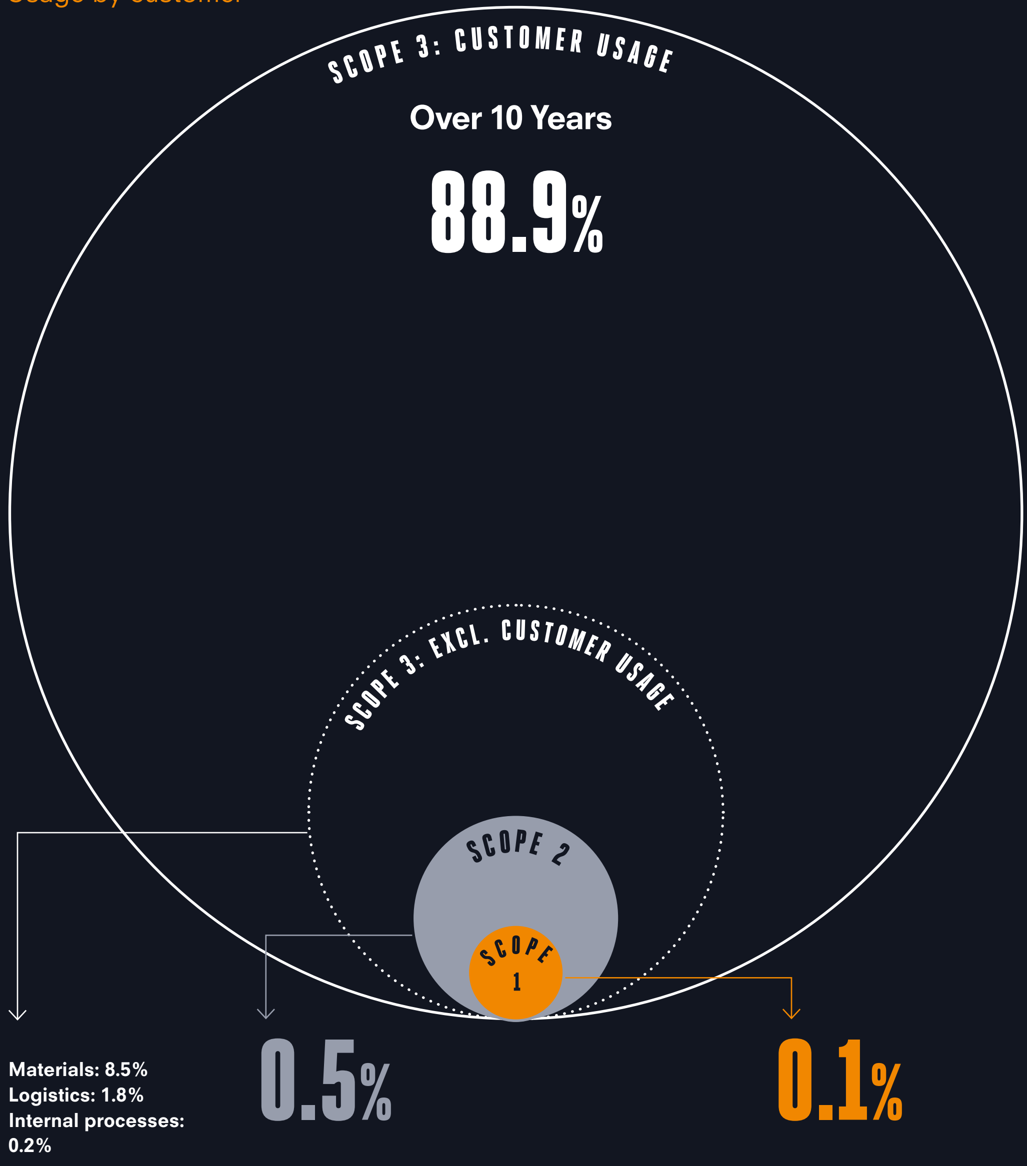
1
- Natural gas used for heating
- Propane used in the paint curing process and by forklifts
- Company vehicle emissions
- Refrigerant gases

2
Emissions from purchased electricity at operational and administrative sites

3
All other emissions related to purchased materials, upstream & downstream logistics, commuting & business travel, waste & recycling and end of life impacts.

The calculation of customer usage impact is very subjective and relies heavily on a set of high level assumptions.

Usage by customer



Due to the fundamental purpose of the products, they must consume electricity. The customer accounts for the CO_2 usage impact of this as part of their Scope 2 emissions and Dialight also includes this as part of its Scope 3 emissions. In effect, these are counted twice in the overall GHG inventory.

The calculation of the usage by the customer is subject to one very significant assumption – the number of hours that lights are in use in the year.

Dialight sells to industrial customers across a broad range of markets. Some customers have facilities that are run 24/7 such as oil & gas refining; others such as power generation may run 18/7 and food & beverage could run 12/6. Because of this we have taken an average of the outcomes based on usage 24/7 and 12/6 as an approximation.

This cannot be calculated definitively but it represents c. 90% of the emissions. This impact will be reduced as we push the boundaries of product efficiency further and customers use more sensors to reduce usage. It is currently not possible to know which customers have access to green energy so this will be an additional assumption until such time as there is a fully decarbonised grid that eliminates emissions related to energy usage.

The relative impact of each scope is very different. The impact of Scope 1, Scope 2 and Scope 3 (excluding usage) is the one-time impact related to production in one year. The Scope 3 customer usage is an estimate of the product impact in use over a 10-year life (estimated product life) which results in this being such a high proportion of the overall impact.

On the other hand, the savings by a customer switching from older technology to LED cannot be counted in the current definition of net zero. Therefore, increasing the adoption of LED and extending product life both increase the challenge for Dialight.

ROAD TO NET ZERO CONTINUED

DIALIGHT ROADMAP

There are two key recommendations from the Net Zero Standard:

1. Set short-term targets of 5-10 years that will reduce CO_2 emissions by 50%
2. Set longer term goals to reduce to Net Zero by 2040

We have applied the principles of the SBTi Corporate Net Zero Standard issued on 28 October 2021.

The Standard provides guidance, criteria, and recommendations to support corporates in setting Net Zero targets through the SBTi. The main objective is to provide a standardised and robust approach for corporates to set Net Zero targets that are aligned with climate science on this topic.

Action plan to be drawn up in 2022

During 2022, we will be drawing up a detailed action plan that will form the Science Based Targets that we will use to agree with SBTi. We have not formulated these in detail but they are likely to be in line with the following outline:

They are likely to include a combination of two key factors:

- ● Actions that we can take and directly control
- ○ Dependencies on other third parties in order to be able to achieve reduction

2030 2040

	SHORT TERM TO 2030	LONGER TERM 2031 TO 2040
Upstream activities	● Review of material choice and source ● Reduction in fixture size ● Localisation of supply chain ○ Availability of decarbonised freight transport	● Review of material choice and source ● Reduction in fixture size ● Localisation of supply chain ○ Availability of decarbonised freight transport
Internal operations	● Reduce energy usage ● Generate renewable energy internally ● Reduce business travel ○ Availability of renewable energy at all sites ○ Availability of low carbon business transport	○ Availability of renewable energy at all sites ○ Availability of low carbon business transport
Downstream activities	● Reassess location of manufacturing sites ○ Availability of decarbonised freight transport	● Proximity of manufacturing sites to end markets ○ Availability of decarbonised freight transport
Customer usage	● Increased energy efficiency from design improvements ○ Availability of renewable energy	● Further energy efficiency from design improvements ○ Availability of renewable energy to all customers

TCFD REPORT

We are pleased to confirm that we have included all of the recommended disclosures in relation to the Task Force on Climate-related Financial Disclosures (TCFD) which was announced in October 2021 (2021 TCFD Annex All Sector Guide), in line with the current Listing Rules requirements (as referred to in Listing Rule 9.8.6R(8)).

Governance

The Board of Directors is responsible for the oversight of climate-related risks and opportunities as part of the strategy and risk management of the Group. The Board monitors and oversees progress of the Group's GHG emissions (Scope 1, 2 & 3), which are measured and verified under ISO 14064; see page 22 for further details.

The Group's Audit Committee supports the Board in this function and is responsible for reviewing the climate-related risk and opportunity register every six months at meetings scheduled to approve the Group's overall risk management. The Board is responsible for approving the content of the Group's TCFD disclosures.

The executive management level oversight of climate-related issues at Dialight is performed by the CEO, with the support of the ESG Committee, which consists of VPs from all the major departments. The Committee convenes on all aspects of ESG including sustainability and climate change at least quarterly and is responsible for

- determining the sustainability goals & objectives
- setting best practice for the Group
- assigning responsibility for delivery
- monitoring progress against the action plan and
- reporting to the Audit Committee.

As the Chair of the ESG Committee, the CEO has overall responsibility for climate change and environmental matters; certain environmental aspects are allocated to specified VPs for example

- the VP of Operations is responsible for operational emissions and assessing climate-related risks linked to the supply chain
- the VP of Engineering is responsible for carbon impact in product design, material choices, end of life and product efficiency.

The ESG Committee is in turn supported by other functions and project teams who have responsibility for implementing the underlying sustainability framework actions, including the day-to-day management of climate-related issues, and reporting any relevant data, progress or issues to the ESG Committee.

Strategy

Through our process, the following key risks and opportunities that could have a material financial impact on the organisation have been identified. Whilst we outline both risks and opportunities in the same detail, the Group believes that, because of our business model, strategy and exposure, our climate-related opportunities are more significant and the majority of the risks relate to the ability to cope with accelerated product demand.

Scenario analysis requires analysis of specific factors and modelling them with fixed assumptions. A number of assumptions were made in this analysis:

- We assume that in the future Dialight will have the same business activities that are in place today. That means impacts should be considered in the context of the current financial performance and prices.
- Impacts are assumed to occur without the company or governments responding with any mitigation actions, which would reduce the impact of risks.
- The analysis considered each risk and scenario in isolation, when in practice they may occur in parallel as part of a wider set of potential global impacts.

These scenarios were supplemented with additional sources specific to each risk to inform any assumptions included in projections. Much of our scenario analysis remains qualitative at this stage, but against certain risks, we have begun to develop quantified impacts internally where the underlying data is available and where the current understanding of the risks is robust. There will be opportunities in future years to increase the sophistication of modelling as new data is made available both internally and externally to support a meaningful quantitative assessment.

Risk Management

Dialight considers climate-related risks and opportunities in all physical and transition risk categories, current and emerging, whether they occur within our own operations, or upstream and downstream of the Group and whether they occur within the short- (1 to 3 year), medium- (3 to10 years) or long-term (10+ years) time horizons. Risks and opportunities relevant to Dialight were identified with the help of external consultants and refined through consultation with the Risk Committee and senior management.

The Risk Committee evaluates climate-related risks and opportunities quarterly on the Company's risk management five-point scales for likelihood (Remote to Likely) and impact (Minor to Critical). A substantive financial risk is one that would have an underlying EBIT impact of more than 25% in any one year. A strategic risk is one that would have a similar impact per annum over at least three years and could severely impact the ongoing business.

The completed climate-related risk and opportunity register was reviewed and approved by the Audit Committee during the financial year such that the significance of climate-related risks is considered in relation to risks identified in the standard risk management process. This ensures the management of climate-related risks is integrated into Dialight's overall enterprise risk management framework. The climate-related register is reviewed every six months to incorporate ongoing refinement and quantification of risks and to ensure the register reflects any material changes in the operating environment and business strategy.

Our analysis of climate-change impacts includes looking forward to 2050 but we have an internal Net Zero target as a Group by 2040. We have used climate-related scenario analysis to improve or understanding of the behaviour of certain risks to different climate outcomes. We employed three public climate-related scenarios which help us better understand the resilience of the business to climate change.

- Sustainable Development ("SDS")* outlining a global low carbon transition which limits the global temperatures rise to 1.65 °C by 2100, with 50% probability.
- Stated Policies ("STEPS")* outlining a combination of physical and transitions risk impacts as temperatures rise by 2.6°C by 2100, with 50% probability.
- RCP 8.5** an extreme physical risk scenario, where global temperatures rise between 4.1 and 4.8°C by 2100.

* IEA (2021), World Energy Model, IEA, Paris www.iea.org/reports/world-energy-model

** IPCC, 2014: Climate Change 2014: Synthesis Report. Contribution of working groups I, II and 3.

TCFD REPORT CONTINUED

A summary of the overall risks and opportunities is as follows:

TRANSITIONAL OPPORTUNITIES	TRANSITIONAL RISK				PHYSICAL RISK		
MARKET	TECHNOLOGICAL	CHANGE OF CUSTOMER TYPE	SUPPLY CHAIN	OPERATIONAL CAPACITY	CHANGING WEATHER PATTERNS	EXTREME WEATHER EVENT	DROUGHT
Scale and speed of increases in market adoption of LED	Product redesigns to meet carbon footprint reduction targets	Changes to existing customer working environments resulting in change of customer type	Disruption from climate related issues leading to shortage of materials	Sufficiency of capacity to deal with large-scale increase in demand	Impact of disruption to upstream and downstream logistics	Impact of one-off events at operational sites that have discrete risks	Impact of water shortages in high water stress areas

Once identified, further details related to each key risk and opportunity, such as a quantification of the financial impact, the appropriate strategic response and cost of response and the variance of key risks in relation to climate-related scenarios were developed where possible. These details help to determine the materiality of each risk and alongside the magnitude and likelihood assessment outlined above, this allows Dialight to prioritise resources in managing the most material climate-related impacts, determine the best management response or highlight areas requiring further investigation.

Metrics and targets

Dialight monitors Scope 1, 2 & 3 greenhouse gas (GHG) emissions, measured and verified under ISO14064 as reported on page 22. Dialight recognises the need to outline targets for emissions, energy use, water and waste, to provide a more structured response to the management of our climate-related risks and opportunities. Targets are based on a full GHG inventory using 2020 as a baseline and we have now updated this for 2021; see page 22.

We will be using the 2021 figures to develop detailed associated emissions targets. We aim to put targets in place soon and during 2021 we made the public commitment to set a science based target for Net Zero by 2040, aligned with the Science Based Targets initiative's (SBTi) target-setting criteria. This is discussed in more detail in the Net Zero section on pages 33 to 35.

TCFD REPORT CONTINUED

CLIMATE-RELATED OPPORTUNITIES

Opportunity	Regulatory pressure to reduce emissions and ban older lighting technologies	Reduction of aluminium content/unit	Greener aluminium & transport	Solar self-generation
Type	Markets	Resource efficiency	Resource efficiency	Energy source
Area	Downstream	Own operations	Upstream	Own operations
Primary potential financial impact	Increased sales	Higher margin per unit	Higher margin per unit	Lower operating costs/variability
Time horizon	Medium term	Medium term	Medium term	Medium term
Likelihood	Very likely	Very likely	Likely	Likely
Magnitude of impact	High	Medium	Medium-Low	Medium
Impact on the business and strategy	Legislation on the efficiency requirements for lighting is expected to become more stringent in the transition to a low carbon economy. The industrial lighting market is less than 10% converted to LED. With governments, banks and institutional investors putting pressure on companies to reduce GHG emissions, the adoption curve for LED is likely to hasten. Dialight's largest markets, the US has announced Net Zero targets. Decarbonising industry, and the promotion of products that increase industrial energy efficiency are key to achieving all these targets. On a 20-year retrofit cycle, the LED industrial market is estimated to be worth c£50bn (based on internal calculations and a survey carried out for Dialight in 2016 by HIS). This means that the annual market is worth c. £3.5bn so there is considerable runway on the adoption curve. This represents a potential acceleration of the existing business plans rather than any fundamental shift. Dialight's existing manufacturing capacity can cope with a doubling of demand. Assuming an accelerated adoption of LED by the market, there would be additional capacity requirements via step changes (new factories) but these are not hugely capital intensive and would cost c. £10m capital expenditure per additional factory.	The carbon in purchased goods and services accounts for c. 10% of Dialight's total Scope 1, 2 & 3 emissions. Aluminium is 50-60% by volume of the lighting product. Reducing the weight of aluminium per fixture would reduce overall cost of goods per unit as well as our Scope 3 emissions. Our R&D is constantly reviewing the use of other materials to replace aluminium; for example we launched a Glass Reinforced Plastic ("GRP") fixture in 2020. As part of our ambition to produce the first Net Zero fixture, this could lead to a significant reduction in the quantity of aluminium used over the medium term. The timing of this is dependent on the successful testing of alternative materials as this R&D is pushing the boundaries of material usage for industrial lighting.	If we continue using aluminium, there may be opportunities to reduce the upstream carbon impact by sourcing it from smelters that use renewable energy. In addition, the use of electric vehicles for transportation from source to factory would also have a positive impact. Transportation accounts for 2% of Group total emissions. Further analysis is required to investigate the production method of aluminium suppliers and/or identify potential alternative suppliers utilising low- or zero-carbon approaches. The use of recycled aluminium would also be an important contributor to decarbonisation for Dialight as primary production is approximately 10 times more energy intensive than secondary production.	Solar installations will reduce our reliance on local grid and reduce our emissions. The Group is looking to install solar self-generation where practically possible and economically viable and targets 25% of energy required to be supplied by solar energy at operational sites with a pilot being put in place at our Roxboro facility. Mexico and Malaysia operations would be next on the list. We estimate a direct annual operating cost saving of c. £0.5-0.7m to annual operating expenses (based on assumed production levels), with the additional associated reduction in avoided carbon taxes, as related to carbon prices.

TCFD REPORT CONTINUED

CLIMATE-RELATED RISKS

Risk	Wildfires/Extreme weather	Carbon prices	Upstream issues
Type	Physical	Transition (emerging regulation)	Physical
Area	Own operations	Upstream/Own operations	Upstream
Primary potential financial impact	Disruption, asset base	Higher cost of inputs	Higher cost of inputs
Time horizon	Medium term	Medium term	Medium term
Likelihood	Likely	Very likely	Very likely
Magnitude of impact	High	Medium	Medium

Impact on the business and strategy

Wildfires/Extreme weather

The wildfire risk in Tijuana and Ensenada is classified as high, meaning that there is a greater than 50% chance of encountering weather that could support a significant wildfire, leading to loss of life, damage to property and impact on local services and employees. The financial impact to Dialight (estimated at a maximum of £80m for complete loss of production over 12 months) would be dependent on the scale of any damage, the timescale of any fire-related disruption and the offset by any insurance monies recouped under the business interruption policy.

Studies indicate climate change will increase the prevalence of wildfires, their intensity and the length of the wildfire season. For instance, climate change projections using Representative Concentration Pathway 8.5 suggest an increase in days conducive to extreme wildfire events of between 20% and 50%, but it should be noted that in all three scenarios studied, global temperatures rise until 2050.

Our operational sites have specific weather related risks that we monitor as part of normal business operations. Climate changes may increase this volatility and increase risk.

We are unable to accurately quantify this increase for our specific locations in Mexico, and to date, our operations in Mexico have not been impacted by wildfires and the specific locations of our sites provide some mitigation against wildfire risk.

Carbon prices

Carbon pricing (applied directly or indirectly) is expected to expand in scope and the price of carbon is expected to rise. The International Energy Agency forecasts that carbon prices ($/t$CO_2$e) relevant to Dialight under SDS and STEPS are projected to increase as below:

Carbon price estimates (US$/t)

Scenario – SDS	2030	2040	2050
Advanced economies with Net Zero pledges	120	170	200
Emerging economies with Net Zero pledges	40	110	160
Other selected EM economies	–	35	95
Scenario – STEPS	**2030**	**2040**	**2050**
UK	65	75	90
US, Australia, Mexico & Malaysia	–	-	–

Carbon pricing could increase the cost of electricity, albeit the Group is not energy intensive. Using SDS carbon prices on the Group's 2020 emissions, the additional costs related to our Scope 1 & 2 emissions, if passed through fully, would be under £0.5m annually through to 2040. The Group's larger carbon exposures are in our Scope 3, in the embedded carbon of purchased goods and services and the cost of transportation.
The cost implications to Dialight of carbon prices on Scope 3 emissions would be dependent on where in the value chain the responsibility for the cost increase lies and whether price increases can be passed on.

Upstream issues

Issues such as COVID-19 and Brexit have exposed general supply chain risks over the last two years. Whilst these are derived from non-climate related drivers, similar impacts could occur if the supply chain is subject to physical risks resulting from climate change. This would result in an inability to source inputs or higher cost to Dialight.

Climate impacts are largest in the STEPS and RCP 8.5 scenarios, where there are higher chances of high magnitude extreme heat events, ecological droughts, extreme rainfall, wildfires and flooding. Dialight is reviewing supply chain resilience and its suppliers, including analysis of where the critical component supplier relationships are, whether key suppliers have site-specific climate-related risks and what options there are for flexibility in supply.

RISK MANAGEMENT

Strategic risk approach and risk culture

Dialight's approach to effective risk management involves our people, at all levels in the organisation, being empowered to manage risks and take advantage of opportunities as an integral part of their day-to-day activities – creating an entrepreneurial organisation with a high level of risk literacy. Our risk awareness culture allows management to make better commercial decisions and helps to maximise the benefits of our business model.

Risk management principles

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 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.

A rapidly changing world

Embedding internal controls and risk management further into the operations of the business is an ongoing process and we will continually strive for improvement. This is not a static process with an end-point, but a continually evolving process as we adapt to a changing business environment. Our integrated approach to risk, our simple and flat corporate structure and our flexible and adaptable ways of applying our risk framework, enable the Group to respond quickly, and identify opportunities, in emerging challenges to our supply chain, product development and production operations, and our end markets.

Risk summary

1. FUNCTIONAL AND FRONT LINE CONTROLS

2. ASSURANCE ACTIVITIES

3. MONITORING AND OVERSIGHT CONTROLS

4. ETHICAL AND CULTURAL ENVIRONMENT

Risk governance and controls

The Risk Committee is responsible for overseeing the risk management processes and procedures. It primarily comprises the members of the Executive Committee and reports to the Board through the Audit Committee on the key risks facing the Group. It monitors the mitigating actions put in place by the relevant operational managers to address the identified risks. The Board has approved the acceptance of certain risks which are considered appropriate to achieve the Group's strategic objectives. The degree of risk to be accepted within the business is managed on a day-to-day basis through the Board-delegated authority levels. These are the framework for informed risk taking within the businesses and the route for escalating decision making up to the Board. Further details on the governance structure in the Group are provided on pages 55 to 58. Whilst the governance structure provides the framework for the Group's approach to, and management of, risk, visibility of current and emerging risks is provided:

- strategically, through periodic reviews by the Risk Committee; and
- tactically, through the Group's internal controls system and routine reporting to the senior executives and the Board.

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

Group risk control and visibility cascade

The key component in any risk management system is people. Dialight invests heavily in its people, recruiting capable and adaptable individuals and focusing on the retention of our skilled workforce. It is our employees who maintain our high standards of risk control and create a culture in which risk can be managed to the advantage of the Group

Functional reviews (e.g. finance, legal and compliance reviews) are hard-coded into our approvals systems. All cash payments from the Group are reviewed and approved at a supplier level by the CEO and CFO. Cash forecasting has been enhanced to be at a more granular level and rolling 13-week forecasts are updated weekly. Manufacturing operations, including relevant supply chain, inventory and production metrics are reviewed daily. Sales and orders reports are reviewed daily in order to assess any changing risk profile on sales activity by geographic location.

A comprehensive financial reporting package is received from all operating units on a monthly basis, with comparisons against budget, forecast and prior year performance. Each operating unit is required to submit quarterly self-certification on compliance and controls.

Each month the CEO and CFO report to the Board. The CEO report outlines the Group's operations and provides analysis of significant risks and opportunities. The report covers progress against strategic objectives and shareholder-related issues. The CFO report sets out progress against internal targets and external expectations – including routine reporting on liquidity risk and covenant compliance.

The CEO and CFO report to the Audit Committee periodically on all aspects of internal control. 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.

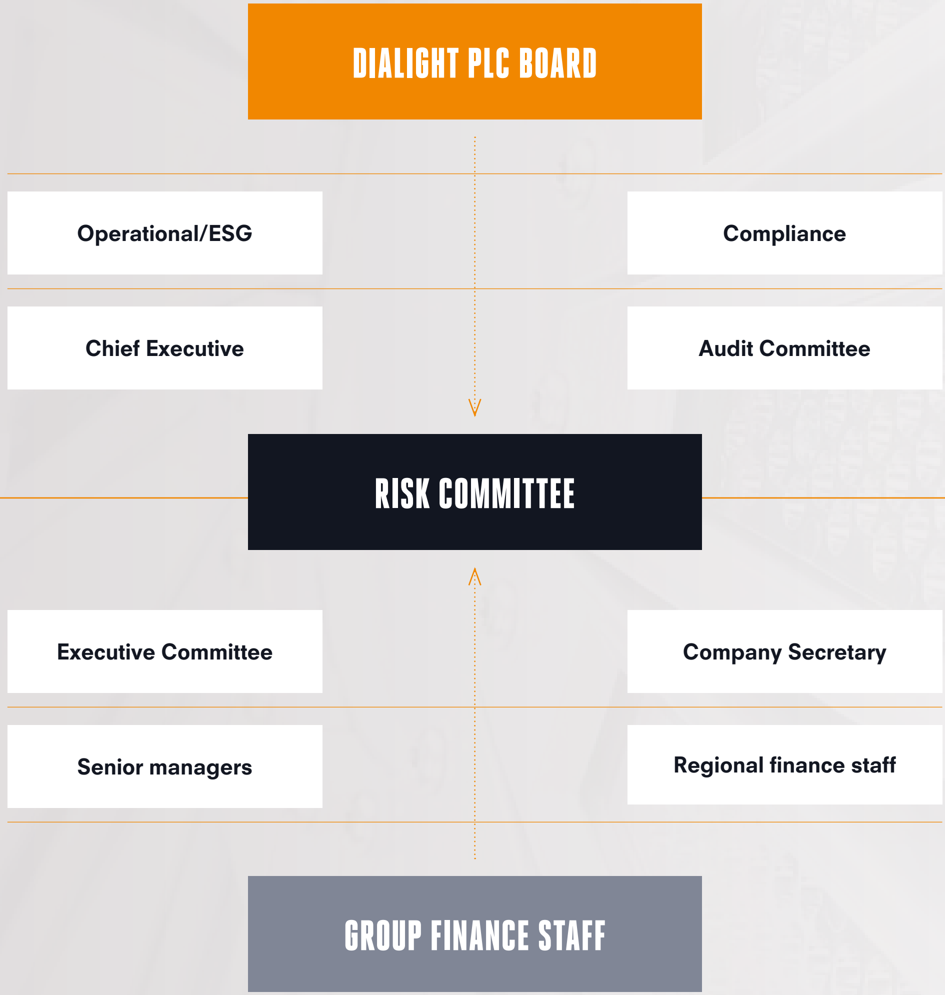
Re-forecasting scenarios are prepared quarterly (or as otherwise required) for Board review and the annual budget paper and three-year strategic plan papers are also submitted to the Board on an annual basis.

The Board reports annually to shareholders on its risk management framework, providing shareholders with an opportunity to challenge Group Strategy, including in respect of the Group's risk mitigation.

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

PRINCIPAL AND EMERGING RISKS AND UNCERTAINTIES

Link to strategy
- Invest in our core markets
- Continued innovation
- Expand our market reach

Gross risk – change
- Increased/ Reduced
- No change

Organic growth

Gross risk	Impact on strategy	Description	Impact on viability, reputation, and health and safety	Mitigation
High (Increased/Reduced)	– Revenue – Underlying operating profit (Invest in our core markets; Continued innovation; Expand our market reach)	The risk of stagnation of growth where the product portfolio is not renewed, where there is any failure to identify customer requirements (including pricing sensitivity and economic models), and the risk of concentration of certain verticals and/or geographical markets.	– Loss of reputation – Loss of market value	During the 2021 reporting period there was significant growth across the Group with sustained on-time delivery rates and improved gross margin – driven by continued improvement in our in-house manufacturing operations. Our diverse product mix mitigates risk in any particular sector and focus on continued and improved product management and new product development mitigates future risk.

Environmental and geological

Gross risk	Impact on strategy	Description	Impact on viability, reputation, and health and safety	Mitigation
High (No change)	– Revenue – Underlying operating profit (Invest in our core markets; Continued innovation; Expand our market reach)	The Group's main manufacturing centre is in Mexico and its main market is North America. Any impediment to raw materials getting into Mexico or restrictions on finished goods entering North America related to natural disasters could have a large impact on profitability. Disruption to global markets and transport systems arising from geological, biological, or environmental events may impact the Group's ability to operate and the demand for its products.	– Reduced financial performance – Loss of market share – Unforeseen liabilities	The Group maintains appropriate structural risk mitigations including comprehensive insurance and contingency planning. With its in-house manufacturing capacity leveraged across several, geographically dispersed, sites and through the maintenance of finished goods inventory the Group is able to reduce risk relating to meeting customer demands.

Funding

Gross risk	Impact on strategy	Description	Impact on viability, reputation, and health and safety	Mitigation
Medium (No change)	– Revenue – Underlying operating profit (Invest in our core markets; Continued innovation)	The Group has a net debt position and there is a risk related to liquidity. The Group has not paid a dividend since 2015. 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.	– Covenant compliance – 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 has sufficient headroom against its borrowing covenants and has significant borrowing capacity. The financial sensitivities run for the Viability Statement show that the Group remains compliant with its financial covenants. Capital allocation policy is used to determine re-investment or distribution of cash. The Group uses natural hedging to cover operational exposure as the majority of revenue and costs are in US Dollars. The business uses forward contracts to limit currency exposure on a selected currency basis.

PRINCIPAL AND EMERGING RISKS AND UNCERTAINTIES CONTINUED

Link to strategy

- Invest in our core markets
- Continued innovation
- Expand our market reach

Gross risk – change

- Increased/ Reduced
- No change

Production capacity and supply chain

Gross risk
High

Impact on strategy
- Revenue
- Underlying operating profit
- On-time delivery
- Order growth

Description
The Group operates a complex international supply chain (both inbound and outbound) which can be impacted by a range of risk factors including political disruption, border frictions, logistics challenges and other compliance issues. Supply chain challenges can in turn impact production capacity and efficiency – as well as other factors including investment in capacity, labour-supply issues and costs of production.

Impact on viability, reputation and health and safety,
- Inability to fulfil demand
- Loss of market share
- Higher costs to expedite materials
- Loss of revenue and operating profit

Mitigation
During COVID-19 our strong focus on health and safety across all our operations helped secure essential business status and keep our operations largely open throughout the pandemic. This strong focus will be maintained.
Improvements in supply chain and inventory management and upskilling in our management process have resulted in an improved operational environment.
We continue to focus on product and manufacturing process re-engineering, streamlining production processes.

Cyber and data systems

Gross risk
High

Impact on strategy
- Revenue
- Underlying operating profit
- On-time delivery
- Order growth

Description
Disruption to business systems would have an adverse impact on the Group. The Group also needs to ensure the protection and integrity of its data. With the Group's dispersed international footprint and increased homeworking following COVID-19 there is greater risk of impact on IT infrastructure/communications between employees.

Impact on viability, reputation, and health and safety
- Inability to supply customers
- Loss of revenue and significant business disruption
- Loss of commercially sensitive information

Mitigation
The Group continually reviews its IT systems to ensure that they are robust and scalable in line with the expansion of the business. Back-ups are integrated to all Group systems and the diversity of systems offers protection from individual events.
The use of third parties who have robust security to host certain applications.
Home workers can only connect to Group servers via secure VPN functionality.

Product development strategy

Gross risk
Medium

Impact on strategy
- Revenue
- Underlying gross profit
- Order growth

Description
Inability to translate market requirements into profitable products.
Failure to deliver technologically advanced products and to react to disruptive technologies.

Impact on viability, reputation, and health and safety
- Loss of revenue
- Loss of market share
- Lack of order growth

Mitigation
Our product development cycle includes direct input from customers and distributors, and we benefit from a highly-experienced multi-disciplinary in-house engineering teams. Core R&D across our technology types can be leveraged across multiple product lines based on customer requirements. The successful roll-out of the new product development pipeline in 2021 has demonstrated our ability to enhance existing products in a way that meets evolving customer needs, addresses structural changes in the market (for example utilising less carbon-dense manufacturing materials) and filling portfolio gaps.

PRINCIPAL AND EMERGING RISKS AND UNCERTAINTIES CONTINUED

Link to strategy
- Invest in our core markets
- Continued innovation
- Expand our market reach

Gross risk – change
- Increased/ Reduced
- No change

Product risk

Gross risk	Impact on strategy	Description	Impact on viability, reputation, and health and safety	Mitigation
Low (Reduced)	– Revenue – Underlying operating profit Invest in our core markets; Continued innovation; Expand our market reach	The Group gives a 10-year warranty on Lighting products which are installed in a variety of high-risk environments. Risks could arise in relation to product failure and harm to individuals and damage to property.	– Unforeseen liabilities – Covenant compliance	We maintain a reserve against potential claims; product quality is a key focus in the design stage and during the manufacturing process. The Group manages post-sale risk exposure through the distribution of product specification, safety installation and maintenance information and through appropriate insurance protections.

Talent and diversity

Gross risk	Impact on strategy	Description	Impact on viability, reputation, and health and safety	Mitigation
Medium (Increased)	– Revenue – Retention Invest in our core markets; Continued innovation; Expand our market reach	The Group performance is dependent on attracting and retaining high-quality staff across all functions.	– Without good-calibre staff, the Group will find it difficult to expand and achieve its strategic goals	A comprehensive recruitment process and ongoing evaluation assist high-quality hiring and development. Our ESG focus will assist the recruitment and retention of good calibre staff. Considerable time is spent assessing middle and senior management in order to identify succession plans.

Intellectual property

Gross risk	Impact on strategy	Description	Impact on viability, reputation, and health and safety	Mitigation
Medium (No change)	– Revenue – Underlying operating profit Invest in our core markets; Continued innovation	Theft or violation of intellectual property ("IPR") by third parties or third parties taking legal action for IPR infringement.	– Proprietary technology used by competitors leading to loss of market share and revenue – Unforeseen liabilities	Core Group IPR is protected by patents (where applicable) and potential violations will be pursued through legal action. By ensuring internal technical IPR expertise and the use of third party patent specialists in the production development process, the risk of infringing third party IPR is minimised.

Geo-political / macro-economic impacts

Gross risk	Impact on strategy	Description	Impact on viability, reputation, and health and safety	Mitigation
High (Increased)	– Revenue – Underlying operating profit Invest in our core markets; Continued innovation; Expand our market reach	The Group faces a range of external geo-political, socio-political and macro-economic risks which, after a period of relative calm in global markets, have recently emerged as significant potential disruptors.	– Reduced financial performance – Lack of growth	The Group has no exposure to the Russian Federation, with its end markets focused primarily in Australia, Canada, the EU, USA and UK. The Group provides products to a wide-range of sectors within these markets, many of which are, or supply, essential services. Diversification of supply-chain has reduced, to an extent, risk relating to eastern Asia and the South China Sea area – and the Group has no in-house manufacturing operations in this areas. The performance of the Group throughout the COVID-19 pandemic demonstrates the ability of its agile management structure to react to events and implement effective tactical mitigations.

CHIEF FINANCIAL OFFICER'S REVIEW

FINANCIAL REVIEW

Clive Jennings
Chief Financial Officer

"Strong revenue growth and return to profitability."

2021 saw the Group return to profitability with revenue growth of 11% to £131.6m (17% at constant currency), driven by strong customer demand across both business segments. The gross profit margin grew by 710bps to 36% and with strong cost control, the Group delivered a profit from operating activities of £2.1m, an improvement of £10.9m on the 2020 loss of £(8.8)m. On an underlying basis the Group delivered £4.5m in EBIT (see note 6 for items regarded as non-underlying).

The underlying EBIT bridge for the year on year movement is:

Underlying EBIT bridge (ccy)	£m
Underlying EBIT loss 2020	(6.4)
Revenue increase impact	5.5
Gross margin improvement	9.3
Change in SG&A costs	(3.9)
Underlying EBIT 2021	4.5

Increased revenue delivered a £5.5m increase in underlying EBIT. Gross margin improvements delivered a £9.3m uplift in EBIT driven by cost reduction programmes in key Lighting products, continuing benefits from 2020 cost reductions and operational leverage due to increased production volumes. These were partly offset by increased freight costs and increases in Mexican employment costs linked to minimum wage rate rises. Selling, General and Administrative costs increased as temporary salary reductions in 2020 were reversed, revenue generating activity increased and bonuses were accrued.

This strong growth and return to profitability were delivered against a challenging operating environment, with industry-wide component shortages impacting production and lead times to customers. Customer demand continued to improve through the year, and our order book at 31 December was double the 2020 year-end level.

Lighting revenue grew by 11% (16% at constant currency), with our core US market seeing increased levels of project and MRO business. Australia saw continued strong sales and demand, but EMEA and Asia were particularly impacted by COVID-19 travel restrictions and customers delaying projects.

Signals & Components performed positively with revenue up 10% (18% at constant currency) despite disruptions in the supply chain, driven by strong demand for opto-electronic product.

Supply chains were challenging in 2021; despite this the Group performed well operationally. In addition to the continuing disruption from COVID-19 and government restrictions, global industry-wide shortages of key components severely impacted our supply chain along with significant increases in shipping times and availability. In order to safeguard production, the Group decided to temporarily increase stocks of raw material which contributed the majority of the £9.6m increase in inventory. As availability improves and lead times reduce, inventory levels will be reduced to more normal levels.

Net debt increased by £4.3m to £15.7m following the increase in raw material inventory, with the Group having access to a further £14.1m in undrawn facilities and £1.2m in cash at 31 December.

Currency impact

Our major trading currency is the US Dollar (77% of revenue) due to the size of our US business and the use of USD as a contract currency elsewhere in the world. The Group reports its results in Sterling, and this gives rise to translational exposures on the consolidation of overseas results.

Transactional exposure is where the currency of sales or purchases differs from the local functional currency. We use natural hedging on revenue and purchases to mitigate the majority of the currency risk and forward contracts on a currency specific basis. The average US Dollar rate against Sterling fell to 1.38 from 1.28, an adverse impact of 7% whereas the year-end spot rate with the US Dollar weakened by only 1%.

In constant currency, Group revenue grew by 17% with gross profit up 46% (versus 11% and 38% at actual rates) but there was no impact on underlying EBIT which grew by £10.9m.

The Lighting segment saw good growth in 2021 with revenue up 11%, despite the impacts from COVID-19 continuing to be felt across most of our geographies. It represents 69% of Group revenue, consistent with 2020.

The Lighting business consists of two main revenue streams: large retrofit projects and ongoing maintenance (MRO) spend. Overall revenue in the US was up by 23% over the prior year as we continued to gain market share in the MRO market by demonstrating that our operational issues are behind us. In the US, H2 saw an increasing number of project orders and customer enquiries but we are also seeing escalating costs of construction leading to projects being re-bid, temporarily slowing order intake for us.

The EMEA business remained significantly impacted by lockdowns in Europe but managed to grow revenue by 2% over the previous year and delivered an improvement in performance through tight cost control.

Lighting

Lighting	2021 £m	2020 £m	Variance %	2020 at constant currency £m	Constant currency variance %
Revenue	90.5	81.7	+11%	77.7	+16%
Gross profit	33.7	23.7	+42%	22.7	+48%
Gross profit %	37.2%	29.0%	+820bps	29.2%	+800bps
Overheads	(28.4)	(26.8)	(6%)	(25.4)	(12%)
Underlying EBIT	5.3	(3.1)	+271%	(2.7)	+296%

CHIEF FINANCIAL OFFICER'S REVIEW CONTINUED

Australia has a good combination of MRO and project business and had a positive year with revenue up 11% over 2020. Whilst it has suffered from fairly stringent lockdowns for most of 2021, strong relationships with customers and demand for bulkhead products in the key mining vertical delivered the revenue growth. Asia, our smallest market, saw revenue decline by 46% with COVID-19 restrictions making travel very challenging, limiting access to customers.

There was an 820bps improvement in gross margin year on year to 37%. The material cost reduction programmes on key product lines, improved factory efficiency and a full year benefit from 2020 actions were the main drivers, partially offset by higher freight costs.

Overheads were £1.6m higher than the prior year due to a combination of revenue related costs, increased travel costs for our large field-based sales force, bonuses and the reversal of salary reductions and furloughs made in 2020 during the peak of the pandemic.

Signals & Components

Signals & Components	2021 £m	2020 £m	Variance %	2020 at constant currency £m	Constant currency variance %
Revenue	**41.1**	37.3	+10%	34.8	+18%
Gross profit	**13.3**	10.3	+29%	9.5	+40%
Gross profit %	**32.4%**	27.6%	+480bps	27.3%	+510bps
Overheads	**(7.8)**	(7.7)	(1%)	(7.3)	(7%)
Underlying EBIT	**5.5**	2.6	+112%	2.2	+150%

Signals & Components is a high-volume business operating within highly competitive markets. There are three main elements to this business: traffic lights, opto-electronic ("OE") components and vehicle lights.

This division performed well during 2021 with revenue up 10%. High customer demand drove OE revenue up 26%, helped by increased sales of new products and expansion of our distributor footprint.

Traffic improved by 13% despite significant material shortages, especially LEDs and power supplies. Vehicle grew by only 5%, with a weak bus market suffering from low ridership levels. With revenue more heavily weighted to the higher margin OE products we saw gross margin improve by 480bps. With only a marginal increase in overheads, underlying EBIT profit of £5.5m for the year was over double 2020 and we enter 2022 with a strong order book.

Central overheads

Central overheads comprise costs that are not directly attributable to a segment and are shown separately. In the year, they were £6.3m, an increase of £0.4m as COVID-19 related salary reductions by the Board and senior managers were reversed and a bonus accrual made following the Group's return to profitability.

Non-underlying costs

Non-underlying costs	2021 £m	2020 £m
Redundancy costs	**–**	0.9
Costs relating to manufacturing partner	**2.9**	0.3
Loss on disposal of subsidiary	**–**	0.8
Release of warranty provision post sale	**(0.3)**	–
Release of litigation provision	**(0.2)**	0.4
Total	**2.4**	2.4
Cash impact	**2.4**	1.3

In order to give a full understanding of the Group's performance and aid comparability between periods, the Group reports certain items as non-underlying. These are summarised above, and further details are in note 6.

The Group has continued to progress its legal claim against its former manufacturing partner, Sanmina Corporation, following the termination in September 2018 of the manufacturing services agreement. During the year, costs of £2.9m have been expensed, comprising £2.4m of legal costs in preparing for litigation and a £0.5m provision against slow-moving inventory. This inventory was acquired at transition and was expected to be used within two years. This has not proved to be the case and with the cost having been added to the legal counterclaim against Sanmina during 2021, the Directors have determined that provision is now appropriate. Further details on the litigation and contingent liability are provided in note 27.

Release of warranty provision of £0.3m relates to unclaimed warranty related to the disposal of the Group's Wind business in 2019. The Group has already received and paid all claims related to this disposal and the remaining balance of the provision was therefore released.

Other litigation credit related to employment litigation cases: a provision of £0.4m (see note 27) was released as it was not probable that Group would have to pay for the claims which was netted off with £0.2m legal cost incurred in the year relating to the cases.

Prior year redundancy costs of £0.9m related to severance payments for the various initiatives during the year to right-size the cost base. Costs of £0.7m relate to legal fees for defending against employment litigation (£0.4m)and legal costs relating to the legal claim with the former manufacturing partner (£0.3m). The loss on disposal of subsidiary related to the sale of the Group's Brazil business in November 2020.

Inventory

Inventory levels grew £9.9m over 2020 (£9.6m at constant currency), driven by an increased holding of raw materials.

Inventory	2021 £m	2020 £m
Raw materials and sub-assemblies	**30.9**	19.6
Finished goods	**11.2**	12.6
Spare parts	**0.3**	0.3
	42.4	32.5

Dialight, in common with many companies, has been impacted by the global industry-wide commodity shortages as well as increased shipping times for inbound raw materials and outbound finished goods. Supplier lead times have increased, and market availability reduced for a number of key components, including semiconductors, LEDs and metals. Availability and lead time uncertainty, compounded by supplier de-commits, led to the decision to increase the level of raw material holdings in order to safeguard future production and fulfil the high levels of customer orders being placed.

CHIEF FINANCIAL OFFICER'S REVIEW CONTINUED

As commodity availability improves and shipping times normalise, the level of raw material holdings will be reduced. This is not anticipated to occur for some time, with further reductions delivered in later years through increased product and sub-assembly standardisation.

Capital expenditure

During 2021, the Group invested £5.6m in capital expenditure (2020: £4.5m) with the majority committed to new product development.

New product development expenditure included the new 200LPW Vigilant High Bay, a new mid- and high-output floodlight, a new power supply and other enhancements to our existing product range. Maintenance and improvement expenditure focused on increasing the production capacity in our factories, replacing end of life machines, new and upgraded IT hardware and software as well as carrying out essential health and safety works.

In 2022 the Group is planning to increase the level of maintenance and expansionary capital expenditure to c. £10m as we complete a number of improvement projects that are currently underway, continue to increase our production capacity, replace end of life equipment and digitise the business. We expect the increased spend will help to facilitate our multi-year growth.

Cash and borrowings

The Group ended the year with net debt of £15.7m, an increase £4.3m from December 2020. Net debt excludes lease liabilities related to the adoption of IFRS 16 "Leases", which is consistent with the basis of covenant testing.

The roll forward of net debt was as follows:

Net debt	£m	£m
Opening balance 1 January 2021		(11.4)
Inflows		
Underlying EBITDA	**11.1**	
Net working capital excluding inventory	**5.4**	16.5
Outflows		
Increase in inventory	**(9.6)**	
Investment in new products	**(3.5)**	
Maintenance capex/other	**(2.3)**	
Non underlying costs	**(2.4)**	
Provisions & other movements	**(1.2)**	
Interest paid	**(1.4)**	
FX	**(0.4)**	(20.8)
Closing balance at 31 December 2021		(15.7)

The main factors behind the increase in net debt were:

- increased inventory to mitigate the impact of global industry-wide commodity shortages and increased shipping times
- increased capital investment into new product development, improving factory capacity and maintenance (see earlier capital expenditure section)
- payment of warranty claims, previously provided on the sale of our Wind business
- an increase in trade receivables resulting from the growth in revenue that is traditionally weighted towards the end of quarter four

The interest expense of £1.4m is analysed in note 8 and is expected to be at a similar level in 2022.

Banking

The Group has its banking relationships with HSBC Bank plc and Wells Fargo. The Group's multi-currency revolving credit facility with HSBC of £25m was due to expire in February 2023 but has been re-negotiated until March 2025. The new £25m multi-currency three year loan has been fully approved and contains normal covenants, covering maximum net leverage and minimum interest cover levels. Documentation is ongoing and formal signing is expected in April. In accordance with the Group's strong ESG commitment, the new facility is a sustainability linked loan.

The Group increased its banking facility with HSBC on 15 June 2020 by adding a further £10m facility on a three year basis, utilising a combination of £8m under the COVID-19 Large Business Interruption Scheme ("CLBILS") and a £2m commercial loan. The £10m additional facilities are repayable over 30 months, in equal instalments, from January 2021. £4m was repaid in the year, with a further £4m payable in 2022 and the facilities fully repaid by June 2023 at the latest. At 31 December the Group had £31m of available funds across both facilities and £1.2m of cash on hand.

Covenants

As part of the additional £10m funding arrangement, the Group's banking covenants based on leverage and interest cover were replaced by a 12-month rolling minimum EBITDA test for the periods June 2020 to June 2021 inclusive.

The covenants have now reverted to a maximum leverage and minimum interest cover level for all facilities, with the £10m facility having an additional test based on the ratio of adjusted cash flow to debt service. The Group was fully compliant with all its banking covenants at 31 December 2021 and throughout 2021.

Tax

Based on a profit before tax of £0.7m in the year, the Group had an effective tax rate of 57.1% resulting in a tax charge of £0.4m. This was higher than our normalised rate of 28.6% due to UK trading losses for which we are not recognising a deferred tax asset and other non-deductible costs, partially offset by a continued benefit from the Cares Act in the US which allows us to reclaim £0.4m. The 2022 effective tax rate is expected to be c. 25%.

In the year we paid £0.6m in corporation tax on operations in Australia and Malaysia.

Pension costs

The Group has two defined benefit schemes that are closed to new entrants. The aggregate surplus on both schemes is £3.9m, an increase of £2.7m from 31 December 2020. The increase is the result of actuarial gains from changes in demographic and financial assumptions, as well as investment returns being higher than expected and cash contributions. The cash cost of the scheme in 2021 was £0.4m (2020: £0.4m) as agreed with the Trustees following the 2019 valuation. The next valuation is due in April 2022 and, once this is completed, cash contribution levels will be re-negotiated.

Capital management and dividend

The Board's policy is to have 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 2021 this equated to £60.2m (2020: £57.3m).

The emphasis in 2021 was on profitably growing revenue and maintaining availability of component supplies during a period of global industry-wide commodity shortages, which has led to the higher-than-normal level of inventory. Distributions are not permitted under the terms of the CLBILS facility whilst there is debt outstanding, with the last repayment due in June 2023. Therefore, the Board is not proposing a final dividend payment for 2021 (2020: nil). The Group has a clear capital allocation discipline and is committed to returning excess funds to shareholders via future dividend or share repurchase.

GOING CONCERN STATEMENT

In accordance with provisions of the UK Corporate Governance Code and considering the Group's current position and its principal risks for a period longer than the 12 months required by the going concern statement, the Board has also considered the Company's longer-term viability.

Going concern

The Directors have performed a robust going concern assessment including a detailed review of the base case financial forecast and considered potential downside scenarios alongside the principal risks faced by the Group.

In assessing the going concern assumptions, the Directors have prepared various scenarios that reflect the continuing impact of COVID-19, worldwide commodity shortages, extended logistics delays, government enforced restrictions in the countries we operate in, the extent to which performance is recovering as these restrictions lift, the associated forecast outturns alongside identified downside risks and mitigating actions. The Group has modelled two main scenarios in its assessment of going concern, being the base case and a downside scenario.

Base case

The base case is derived from the Board approved 2022 budget and strategic plan, which assume, consistent with current trading patterns, that our factories continue to have "essential business" status and operate as normal. In this scenario, the Directors consider that the Group will continue to operate within its available committed facilities of £31m (see note 23) with sufficient headroom and meet its financial covenant obligations.

The key assumptions in the base case include:

- Lighting growth consistent with 2021 driven by a strong level of project-based activity
- gross margin reflects levels consistent with the final quarter of 2021
- operating costs flexed in line with the incremental revenue

Downside case

In a severe but plausible downside scenario, the Directors have assumed continuing adverse impacts from a prolonged global pandemic with severe impact to our customers, suppliers and operations. The associated forecast has considered the following identified downside risks:

- Significantly lower revenue growth in 2022 as compared with 2021, with lower growth in 2023 and 2024 growth reverting to normal levels but from a lower base
- Gross margin reductions ranging from 1.9% to 2.9% over the three years
- Only 75% of the targeted inventory unwind is achieved in 2022
- Litigation by the former manufacturing partner is settled at the maximum liability of their claim and the Dialight claim for damages in excess of £190m is unsuccessful

In all these scenarios, the Group assumes a series of mitigating actions can be put in place swiftly, including various temporary and permanent cost and cash reductions.

In the severe but plausible downside scenario, the Group continues to retain sufficient committed headroom on liquidity and is able to meet its financial covenant obligations within the going concern assessment period. The scenario shows the Group maintains a strong balance sheet, with net debt headroom of at least £10m. Consequently, the Directors are confident that the Group will have sufficient funds to continue to meet their liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

VIABILITY STATEMENT

The Directors have assessed the Group's longer-term prospects, primarily with reference to the Board approved 2022 budget and strategic plan.

This is driven by the Group's business model and strategy as detailed on pages 17 to 18, which are fundamental to understanding the future direction of the business, while factoring in the Group's principal risks detailed on pages 42 to 44.

The Board has assessed the viability of the Group over a three-year period, taking into account the Group's current position and the potential impact of the principal risks and uncertainties. Whilst the Board has no reason to believe that the Group will not be viable over a longer period, it has determined that three years is an appropriate period.

In drawing its conclusion, the Board has aligned the period of viability assessment with the Group's three-year strategic plan which increases the reliability in the modelling and stress testing of the Group's viability. In addition, the Board believes that this approach also provides an appropriate alignment with the annual awards under the share-based incentive plan and our external banking facilities.

In making its assessment, the Board carried out a comprehensive exercise of financial modelling and stress tested the model with various scenarios based on the principal risks identified in the Group's annual risk assessment process. The scenarios modelled used the same assumptions as for the going concern statement. These scenarios included a delay in the recovery from the effects of COVID-19, lower gross margins, lower reductions in inventory levels and a combination of these scenarios in addition to the impacts from the Group's principal risks such as litigation. In each scenario, the effect on the Group's KPIs and borrowing covenants was considered, along with any mitigating factors.

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

- continued strong market drivers for LED adoption due to the increasing focus on sustainability;
- the Group operates in diverse end markets, with no material individual customer concentration;
- positive customer and distributor feedback and invitations to bid on large projects;
- current order book levels, improved sales performance in 2021 and pipeline expectations;
- new product development to close portfolio gaps;
- the Group's resilience in addressing the operational, materials and supply chain challenges over the last 12 months;
- continued strengthening of balance sheet and strong cash generation during the assessment period; and
- the Group's long-term, strong relationship with HSBC and its ability to secure approval for the renewal of the Group's three year £25m revolving credit facility with HSBC until March 2025, as set out in note 23.

Based on this robust assessment, the Board confirms that it has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period to 31 December 2024.

CHAIR'S INTRODUCTION TO GOVERNANCE

LEADING WITH PURPOSE

Karen Oliver
Board Chair

Dear shareholders

On behalf of the Board, I am pleased to report on Dialight's corporate governance during the past financial year. This part of our Annual Report explains Dialight's governance framework and outlines how it was applied, on a practical basis, in the year under review.

Overview

The Board's role in setting the Group's culture and core values is a significant one and the Executive Directors and Non-Executive Directors ("NEDs") work as a team to ensure the success of the Group. Fariyal Khanbabi and I speak frequently with each other, and I am very grateful to all the Board members who have given their time to support the management team, in various capacities, across another challenging year. 2021 has demonstrated that the Board's diversity and cohesiveness continue to enable a culture across the Group of agile decision making and speed of reaction to events, whilst maintaining the innovative drive that has been the hallmark of Dialight's successes in the past.

Leadership and Board changes

There have been significant changes across the Board over the past 12 months, but I am confident that succession planning has operated well, and we have maintained a balance of core knowledge of the business with fresh ideas and approaches. In April 2020 Gotthard Haug (with an extensive manufacturing background) joined the Board – and this allowed Stephen Bird to step down from the Board in September 2021, without any loss of core manufacturing expertise. Stephen was approaching the end of his nine years' service on the Board, and we are all hugely grateful for his contribution over his term of service and wish him the very best in the future.

In September 2021 David Blood stepped down as Chair. David has provided invaluable continuity and strong leadership during his time as Chair and intends to stand for re-election as a NED at the 2022 Annual General Meeting ("AGM").

Lastly, we are very pleased to welcome Clive Jennings to the Board as CFO. Although he was formally appointed to the Board as a Director in January 2022, Clive has served as Interim CFO and has attended Board meetings since May 2021. He has extensive experience as a FTSE 250 CFO and gained manufacturing experience in a CFO role at McBride plc. Clive will be standing for election to the Board at the forthcoming AGM. Further details on Board composition and leadership can be found on pages 53 to 59.

Stakeholder engagement

As a Board, we are accountable to all 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 on a number of different levels and believe that ongoing engagement and listening to the views of all our stakeholders is key to the long-term success of Dialight. Fariyal Khanbabi and I lead on shareholder engagement generally, whilst Gaëlle Hotellier leads on remuneration matters. We have strengthened Board engagement with our employees with Gaëlle also taking on the role of Workforce Engagement NED.

We also welcome the opportunity to answer shareholders' questions at our 2022 AGM. Further details of stakeholder engagement are on pages 50 to 52, and page 59.

Diversity

As a Board we continue to prioritise cognitive and experiential diversity as a key indicator of independence and to enable robust challenge in Board discussions on the range of challenges and opportunities facing the Group. Notwithstanding this, we are pleased that the Board has a natural balance in terms of gender, nationality and ethnic background. Further details of Board composition are on pages 53 to 55.

Board priorities

Our priorities for 2022 are very much focused on building on the operational improvements made in 2021, achieving further sustainable growth in the Group and delivering on our strategic plan with a strong governance underpin.

Karen Oliver
Board Chair
27 March 2022

Board focus areas in 2021

- Strategic overview of improvements in financial and operational performance.
- Continued investment in people, products and delivering our ESG strategy.
- Strengthening stakeholder engagement.
- Delivery on Board succession planning.
- Risk management of employee health and welfare and of supply chain challenges.

COMPLIANCE STATEMENTS

UK Corporate Governance Code 2018

Throughout the year ended 31 December 2021, the Company has complied with the provisions as set out in the UK Corporate Governance Code 2018 (the "2018 Code") (a copy of which is available on the Financial Reporting Council's website at www.frc.org.uk) in all respects except that David Blood (who stepped down as Chair on 10 September 2021) was not deemed to be independent upon appointment to the Chair role (Provision 9). An explanation of the Board's view on this matter is set out on page 60. A summary of compliance against the 2018 Code is included opposite.

Risk management and internal control

The Group's approach to risk management and internal control is set out on pages 40, 41 and 63.

Section 172 Companies Act 2006 statement

Section 172 ("s172") of the Companies Act 2006 imposes on company directors a duty to act in the interests of a broad range of stakeholders including shareholders, employees, suppliers and local communities. A statement in respect of compliance with s172 is on pages 50 to 52.

Board certification

The Strategic Report, and this Annual Report generally, has been reviewed and approved by the Board. The Board confirms that it considers that the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance.

UK Corporate Governance Code 2018 compliance statement

Section 1: Board leadership and Company purpose	Compliant	See page
1. Opportunities and risks/sustainability of business model/governance delivering strategy	Yes	11-44, 53-57
2. Board activities/investment in workforce	Yes	24-27, 52, 58
3. Communication with shareholders	Yes	59
5. s172 statement	Yes	50-52
6. Mechanism for workforce concerns	Yes	29
7. Management of conflicts of interest	Yes	60

Section 2: Board division of responsibilities	Compliant	See page
9. Chair independence on appointment (current Chair)	Yes	60
10. Statement on non-executive independence	Yes	53, 57, 60
11. 50% of Board to be independent	Yes	53, 57
12. Identification of Senior Independent NED	Yes	54
13. Board review process and independence	Yes	60
14. Division of responsibilities	Yes	55

Section 3: Board composition, succession and evaluation	Compliant	See page
18. Annual re-election of directors	Yes	60
20. Use of external search agency	Yes	60
21. Formal and rigorous annual evaluation	Yes	60
23. Report on work of the Nominations Committee	Yes	61

Section 4: Audit, risk and internal controls	Compliant	See page
26. Report on work of the Audit Committee	Yes	62-64
28. Emerging and principal risks	Yes	42-44
30. Going concern statement	Yes	48
31. Viability statement	Yes	48

Section 5: Remuneration	Compliant	See page
35. External remuneration consultant	Yes	66
36. Post-employment shareholding requirements	Yes	71
37. Use of discretion to override formulaic outcomes	Yes	66, 71
38. Executive director pension alignment with workforce	Yes	67, 69
41. Description of work of the Remuneration Committee	Yes	65-79
Engagement with shareholders	Yes	66, 73
Alignment of executive director remuneration with wider pay policy	Yes	67-73
Application of discretion on outcomes	Yes	66, 71

S172 statement

The Board has a duty to promote the long-term, sustainable success of the Company and of the wider Group. The baseline duty is set out in s172 of the Companies Act 2006, but in reality, the breadth of factors considered by the Board in its decision-making process is far wider – including a range of statutory and other factors.

Board decision making will always encompass:

- the likely consequences of any decision in the long term and the risks to the Group and its stakeholders;
- the interests and wellbeing of our people and of the communities where we have a presence;
- the impact of our products and businesses on the environment and the need to "decarbonise" our inbound and outbound supply chains and our manufacturing and other operations;
- the Group's relationships with its customers and suppliers; and
- the importance of our reputation for integrity and high standards of business conduct.

Dialight believes that a key mechanism in ensuring that it makes good long-term and sustainable decisions is open, two-way dialogue with all our key stakeholders. We believe that understanding the perspective and needs of our stakeholders is vital to the Group's success.

Good governance and our business ethics and integrity are essential for Dialight to continue to be an attractive company for our investors, employer for our employees, partner for our suppliers and distributors, and manufacturer of our long-life products for our customers.

This s172 statement sign-posts some of the main ways in which we have engaged with stakeholders across 2021 and built confidence in the sustainability of their relationship with the Group. It should be read in conjunction with:

- the Chair's Statement on pages 5 to 6;
- the Group Chief Executive's Review on pages 11 to 13;
- the ESG Report on pages 19 to 39;
- Risk Management on pages 40 to 44;
- the Chief Finance Officer's Review on pages 45 to 47; and
- the Governance and related reports on pages 49 to 82.

COMPLIANCE STATEMENTS CONTINUED

Stakeholder	Why it is important to engage with this stakeholder group	Board decision making impact and how we engage generally	Board decision making impact and what we did differently in 2021
COMMUNITIES	Dialight has a long-standing presence through our manufacturing plants in Mexico; Roxboro, US; and Penang, Malaysia. As a responsible employer, we want to contribute to the economic development and sustainability of these communities as part of our efforts to secure a loyal and motivated workforce with high levels of training, health and welfare and employee satisfaction.	– Sponsorship and volunteering opportunities for employees. – Membership of local trade associations and industry bodies. – Enhanced benefits for employees, such as transport to and from factory locations and food vouchers. – Establishment of the Dialight Foundation – with a management board staffed by employee representatives from around the world and tasked with fund-raising and dispensing Group-provided funds on charitable projects in the communities adjacent to our manufacturing locations. – Establishment of a hardship fund to which any employee can apply for one-off financial and other assistance in a range of hardship situations.	– Dialight Foundation has continued fund-raising within our employee and partner communities. – Dispersal of funds to local community charities by the Dialight Foundation. – Dedicated "volunteering day" across the whole Group to encourage employee involvement in local communities. – Enhanced benefits for workers and paid leave for "at risk" workers where minimum local government support during COVID-19 pandemic (helping to reduce community infection rates).
CUSTOMERS	Dialight operates in highly differentiated but competitive markets. To maintain our best-in-class differentiation we are reliant upon a constant pipeline of new technical innovation and of new products. The clarity and precision with which we listen to the "voice of the customer" and map these needs across to new product design functionality and pricing is a key determinant of the future success of the Group.	– Sales proximity to our end users through direct sales force and indirect distribution partners. – Dedicated product management specialists integrated within our sales and marketing functions. – Detailed product planning and innovation pipeline bringing together product, application and technology specialists from our dedicated in-house product innovation teams. – Detailed new product development management and review process integrated with sales and commercial reviews.	– Incremental improvements in existing best-practice, new product development management and review process. – Maintenance of on-site task-focused team-working throughout COVID-19 lockdowns (in compliance with local regulations) on a rotational basis. – Specific focus on maintaining development review gates despite remote working through new collaborative tools. – Extension of post-launch product and commercial review cycle.
ENVIRONMENT	On a wider perspective, we believe that Dialight and its product offering can be at the forefront of efforts to "decarbonise", promote the success of sustainable GHG-neutral products and services, and reverse environmental damage historically caused by the sectors we operate in. We see an absolute confluence of interest in promoting GHG-neutral products and the interests of all our key stakeholders (not least our shareholders) – as we believe that knowledge of the low GHG density of our products, the inherent power efficiency of our technology (including LED light generation generally) and our extended product life-cycle will be key drivers of the future success of the Group. We view engagement with all our stakeholders on environmental matters to be a central element of our future strategy.	– Dialight products already benefit from high power efficiency (through design and utilisation of LED technology) and extended life-cycles (typically 10-year warranties on solid state logic ("SSL") products). This inherently positive impact on the environment is recognised with our FTSE Green Economy Mark certification. – Supply chain codes of conduct and screening in respect of raw material tracing and impacts (e.g. conflict minerals).	– Roll out of Environmental Product Declarations that comply with ISO 14025 and EN 15804 standards on our key new product types – enabling customers to make informed decisions on the GHG potential of all our products (expressed as kg CO_2 equivalent per unit of product). – Implementation of ISO 14064 and internal GHG audit control environment as part of the enhanced efforts at decarbonising our products and corporate operations and reporting to investors and other stakeholders on progress against carbon-neutrality objectives. – Commitment to Net Zero with SBTi and setting outline plans for scientific targets which will be further developed during 2022 to achieve this.

COMPLIANCE STATEMENTS CONTINUED

Stakeholder	Why it is important to engage with this stakeholder group	Board decision making impact and how we engage generally	Board decision making impact and what we did differently in 2021
EMPLOYEES	Dialight has a diverse mix of employees across four continents ranging from manufacturing production operatives to highly skilled design engineers. We are entirely reliant upon our workforce for our differentiating innovation, efficient and high-quality manufacturing production, and for sales of our product in our end markets. We need to retain our skilled staff as well as attract highly skilled talent to new roles. By understanding the motivations, talents, ambitions, needs and concerns of our employees we can best secure an innovative, adaptable and highly productive workforce that will operate as a team and, in turn, secure the future success of the Group.	– Ongoing focus on communications with, and policies for, employees relating to employee health, safety, and welfare. – Employee surveys. – Training and development. – One-on-one and skip-level meetings with the designated Workforce Engagement Non-Executive Director. – Site visits by members of the Board (conducted physically and online). – Update newsletters from the Group Chief Executive. – Whistleblowing hotline.	– Monthly all-employee calls with the CEO and executive team to keep all our employees updated on progress in COVID-19 precautions across the Group and focusing on employee health and welfare. – Specific welfare precautions for employees at our manufacturing plants including additional food supplies, paid leave (for high-risk individuals), and in-house medical care. – Implementation across the Group of additional health and safety COVID-19 precautions including personal protective equipment and protocols. – Enhanced internal audit by senior management (or third parties where travel restrictions require) to ensure COVID-19 precaution compliance and employee health and welfare.
INVESTORS	As a company with a premium listing on the London Stock Exchange's Main Market and a borrower of bank debt, we need to communicate clearly and effectively with our existing and prospective shareholders and lenders to develop their understanding of how the Group's businesses are managed to generate sustainable returns and long-term success.	– Meetings with current and potential shareholders, current and potential lenders, and analysts. – Addressing enquiries from institutional and retail investors. – AGM, Annual Report and Accounts, and preliminary and interim announcements. – Regulatory announcements. – Corporate website.	– Increased depth and frequency of reporting by senior management to the Board to provide assurance to the Board on adequacy of communications with investors during COVID-19 pandemic. – More frequent discussions with existing shareholders and lenders. – Revised 2021 Remuneration Policy brought Dialight into line with best practice and aligned Executive Director and employee incentive structures. – High level of shareholder satisfaction with governance standards evidenced by AGM voting levels.
PARTNERS	Our key commercial partner relationships are spread across the inbound supply chain and our outbound distribution networks. With our high-SKU product range, we are highly reliant upon the integrity and efficiency of our supply chain. We were a first-mover in the introduction of long-warranty products (typically 10 years for SSL), but this in turn requires high levels of assurance over the consistency and reliability of component parts for our manufacturing operations. Our sales model is a hybrid of active direct selling, active indirect selling and indirect product supply. We are therefore highly reliant upon the strength and depth of our relationships with our distributors (across all our product ranges).	– Supplier and distributor on-boarding due diligence (financial, quality, business integrity and compliance, component supply, Modern Slavery etc) – Supplier Code of Conduct – Audits and inspections of suppliers – Ongoing management of supplier relationships	– Rationalisation and localisation (where possible) of our supply chain to strengthen product quality, production efficiency, inventory management and supplier relationships generally. – CEO and senior management team focus on supply chain challenges arising from COVID-19 pandemic. – Further strengthening of supply chain team and processes.

BOARD: GOVERNANCE AT A GLANCE

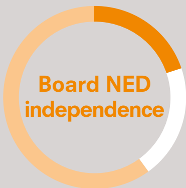
A HIGHLY SKILLED AND BALANCED BOARD

Governance overview

This report aims to provide shareholders and other stakeholders with an understanding of how our Group is managed and the governance and control framework within which we operate. Dialight, as a smaller company with a focused product portfolio, benefits from having a lean and agile management structure. Our governance and controls are integral to the organisation's operating culture and provide good visibility of the performance of the business. The Board is focused on getting the right balance between robustness and pragmatism in its oversight of governance, controls and risk management as the best means of delivering the Group's strategic aims of growth, customer relevance and differentiation.

Board

- Executives **2** (29%)
- Non-executives **5** (71%)



- Chair (independent on appointment) **1**
- Non-independent NED **1**
- Independent NEDs **3** (50%)*

* Calculated excluding Chair

- 1-3 years **3** (43%)
- 4-6 years **2** (29%)
- 7+ years **2** (29%)

- British **3** (43%)
- French **1** (14%)
- German **1** (14%)
- South African **1** (14%)
- USA **1** (14%)

Gender diversity

- Female **2** (66%)
- Male **1** (34%)

- Female **3** (43%)
- Male **4** (57%)

- Female **2** (15%)
- Male **11** (85%)

- Female **835** (49.7%)
- Male **844** (50.3%)

How the Board supported strategy

Drive growth in core markets Read more on pages 11-18	Sustainable profit growth is at the heart of Board oversight and forms the basis for both routine monthly reporting and function-specific reporting to the Board. The Board ensures that the right balance is achieved between short-term operational and financial performance and investment in the future products, technology, markets and product types that will drive long-term sustainable growth.	– Operations: continuity of manufacturing during COVID-19 pandemic. – Supply chain: on-shoring and shortening of supply lines. – Finance: focus on working capital management through improved inventory management. – Markets: strong performance in Signals & Components division and rejuvenation of Obstruction sector. – Operations: manufacture process improvement (process and controls).
Continued product innovation Read more on pages 11-18	The Board reviews and approves the new product development roadmap and the technology roadmap – elements of the overarching product strategy – annually and through ad hoc reviews. It also periodically reviews the route-to-market strategy. It then monitors the tactical implementation of these strategies throughout the financial year through routine monthly reporting and function-specific briefings.	– Product: maintenance of R&D innovation programmes during year. – Product: momentum on new product development and launches maintained. – Product: strategic focus on product differentiation through performance and extended life-cycle. – Operations: materials innovation to strengthen recyclability and reduce product carbon density.
Expand our market reach Read more on pages 11-18	The Board reviews and approves the long-term elements of the overarching product and sales strategies annually and through ad hoc reviews. It then monitors the tactical implementation of these strategies throughout the financial year through function-specific briefings and ad hoc consideration of markets and commercial structures.	– Sales: considerable progress on restructuring the route-to-market and sales configurations. – Sales: sales stability and recapturing MRO market share – Product: designing in product sustainability. – Product: broadening product families based on common design platforms.
ESG Read more on pages 19-39	The Board reviews and approves the Group ESG strategy (as set out on pages 19 to 35) and reviews and approves the TCFD report (pages 36 to 39).	– People: strongly promoting health, safety and welfare priorities for our workforce (upon whom we rely for future growth). – ESG: Environmental Product Declarations certification for key product lines. – ESG: embedding corporate carbon/ESG systems and controls.

NED skills and experience matrix

Skills/experience	Direct experience	Indirect experience
Industry/sector:		–
– Manufacturing (general)	✓✓✓✓	–
– Manufacturing (high-mix, low volume)	✓✓✓✓	–
– Lighting	✓	✓✓
– Heavy industrial	✓✓✓	✓
CEO role	✓✓✓	✓
Strategy	✓	–
UK plc	✓✓	–
Accountancy	✓✓	✓✓
Sustainability	✓✓✓	✓✓
Finance/private equity	✓✓✓✓	✓
People / social	✓✓✓✓✓	–
Territories:		
– Non-US markets	✓✓✓✓✓	–
– US markets	✓✓✓✓✓	–

BOARD: LEADERSHIP AND COMPANY PURPOSE

Key

Appointments and Committee membership

- N Nominations Committee
- A Audit Committee
- R Remuneration Committee
- D Disclosure Committee
- WE Workforce Engagement NED
- S Senior Independent Director
- ● Committee Chair

Karen Oliver
Board Chair
(Independent upon appointment as Chair)

R N (Chair)

Appointed
1 April 2020. Appointed as Chair of the Board on 10 September 2021.

Background and career
Karen was, until April 2021, Chair of the Arvos Group, which is a world-leading manufacturer of industrial equipment headquartered in Luxembourg. She was formerly Managing Director of Johnson Matthey plc's Chemicals business; Head of Strategy & Business Planning at Foster Wheeler AG; and Head of Global Business Development, Tonnage at the Linde Group. Karen was also a non-executive director of African Oxygen Ltd, which is listed on the Johannesburg Stock Exchange and the Namibian Stock Exchange. Karen holds a BSc in Chemical Engineering from the University of Cape Town.

Current external appointments
Independent consultant.

Fariyal Khanbabi
Group Chief Executive
(Executive, non-independent)

Appointed
Appointed Group Chief Executive on 5 March 2020. Formerly interim CEO since 10 August 2019, and prior to that CFO.

Background and career
From 2009 until September 2014, Fariyal was Chief Financial Officer at Blue Ocean Group, an independent privately-owned £4bn revenue fuel trading and distribution business. She has over 10 years' experience in senior financial positions, including roles at NYSE and Nasdaq-listed companies. Fariyal joined Dialight as CFO on 8 September 2014.

Current external appointments
None.

Clive Jennings
Chief Financial Officer
(Executive, non-independent)

Appointed
Joined Dialight as Interim CFO on 4 May 2021. Appointed as Executive Director and CFO on 18 January 2022.

Background and career
Clive has over 25 years of finance experience in large listed multinationals in the gaming, entertainment, hospitality and consumer goods manufacturing sectors, most recently as CFO of The Rank Group plc and as Interim CFO at McBride plc. Over his 19 years in the Rank Group, he held a number of senior global and divisional finance roles, becoming CFO in July 2011. Prior to the Rank Group, Clive's career has included senior finance roles, working for Lex Service plc and Forte plc. Clive has a BSc in Business Economics from Southampton University and is a qualified chartered accountant.

Current external appointments
None.

David Thomas
Senior Independent Director
(Independent)

A (Chair) N R S

Appointed
26 April 2016. Appointed as Senior Independent Director on 10 September 2021.

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. He is also a former member of the Auditing Practices Board.

Current external appointments
David is a Non-Executive Director and Audit Committee Chair of Victrex plc.

Gaëlle Hotellier
Workforce Engagement Non-Executive Director
(Independent)

R (Chair) A N WE

Appointed
3 October 2016. Appointed Workforce Engagement Non-Executive Director from 1 September 2021.

Background and career
Gaëlle is Executive Vice President, Operations at Krohne Group. She worked for the Siemens Group from 2002 to 2021, during which time she held various senior management roles, most recently in charge of Global Operations for the Generation Service unit within Siemens Energy AG. Between 2013 and 2015, Gaëlle 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 Chair of the Supervisory Board of Siemens Industriegetriebe GmbH in Penig and was a Member of the Advisory Board of Berthold Vollers GmbH.

Current external appointments
Gaëlle is Executive Vice President, Operations at Krohne Group.

David Blood
Non-Executive Director
(Non-independent)

N

Appointed
1 July 2015. Appointed Chair of the Board on 5 August 2019. Resigned as Chair effective 10 September 2021.

Background and career
David is a Founding Partner and Senior Partner of Generation Investment Management. Previously, David spent 18 years at Goldman Sachs including serving as CEO of Goldman Sachs Asset Management.

David received a BA from Hamilton College and an MBA from Harvard Business School.

Current external appointments
David is the Senior Partner of Generation Investment Management. He is Chair of Social Finance UK and co-Chair of the World Resources Institute, and on the board of On the Edge Conservation. He also serves as Chairperson of Just Climate. David is a life Trustee of Hamilton College.

Gotthard Haug
Non-Executive Director
(Independent)

A N

Appointed
1 April 2020. Appointed to the Nominations Committee on 30 July 2020.

Background and career
Among his many senior roles in the manufacturing industry, Gotthard was previously CEO and CFO of Teleplan International and a Non-Executive Director of Psion. He was also the Chairman of Ultratec Ltd.

Gotthard holds an MBA and a BA from Ludwig-Maximilians Universität München.

Current external appointments
Gotthard is the Executive Chair of Ivy Technology, a leading global electronics repair and service provider to many of the world's largest tech, med-tech and telecommunications companies. He is also a Partner of "taskforce – Management on Demand GmbH", an Advisory Board Member of iGlobe Partners and an Independent Consultant and Interim Executive of Minerva Management Partners.

Board departures in the year

1. Stephen Bird
2. Wai Kuen Chiang

GOVERNANCE STRUCTURE AND DIVISION OF RESPONSIBILITIES

The Board of Directors is the principal decision making body of the Company. The Company's governance framework is structured to maintain good oversight and control over: finance and management reporting; compliance/regulatory matters; risk management; and approval of material decisions. Except for those Matters Reserved to the Board, it operates through delegating much of its detailed review work to sub-committees and other committees incorporating a wide spectrum of senior Dialight management. The schematic on the next page summarises the Company's governance structure and division of delegated responsibilities. Within the operations of the Board itself, responsibilities are allocated to individual roles as shown below.

NON-EXECUTIVE

Chair

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's and its Committees' performance is evaluated on a regular basis
- Ensuring adequate time is available for all agenda items and that the Board receives accurate, clear and timely information
- Ensuring that there is effective communication with major 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 Chief Executive Officer
- Ensuring that the Board manages risk effectively
- Consulting, where appropriate, with the Senior Independent Director ("SID") 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 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 that will support its long-term sustainable success
- Ensuring effective relationships are maintained with all key stakeholders in the business

SID
- Acting as a sounding board for the Chair
- Serving as a trusted intermediary for the other Directors
- Providing an alternative channel for shareholders to raise concerns, independent of Executive management and the Chair

Independent NEDs
- 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
- Monitoring the reporting of performance and ensuring that the Company is operating within the governance and risk framework approved by the Board

Workforce Engagement NED ("WENED")
- Direct engagement with workforce through site visits, one-on-one discussions with managers and other employees selected by the WENED, and larger engagements with selected groups of employees from different Company locations without management present

EXECUTIVE

CEO
- With the Chair, 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
- Ensuring the health and safety, and general wellness of the Group's workforce
- Providing effective leadership of the Executive Committee to achieve the agreed strategies and objectives
- Securing an Executive Committee of the right calibre, with specific responsibility for its composition, and ensuring that its succession plan is reviewed annually with the Chair and the Non-Executive Directors
- Monitoring, reviewing and managing emerging and principal 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
- 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
- Promoting talent management, and encouraging diversity and inclusion

Company Secretary
- Acting as a sounding board for the Chair and other Directors
- Ensuring clear and timely information flow to the Board and its Committees
- Providing advice and support to the Board on matters of corporate governance and risk

GOVERNANCE STRUCTURE AND DIVISION OF RESPONSIBILITIES

The role of the Board and its Committees during the year

The Board retains control over all matters formally reserved to the Board (see page 57), but delegates certain decision making and monitoring activities to formal Board Committees and committees at an executive level. The Chair of each Board Committee reports to the Board on its decision making.
The Board also appoints ad hoc sub-committees from time to time as required.

BOARD

- Principal role is to provide effective leadership, within a framework of controls, to promote the interests of the Company sustainably over the long term – generating value for its shareholders as well as benefiting other stakeholders
- Sets the Group's purpose, values and strategy and has ultimate responsibility for the Group's management, direction and performance
- Governed by the Company's Articles of Association and accountable to shareholders at least annually at shareholder general meetings

Board activities - see pages 57 to 58, Director biographies – see page 54

DELEGATED AUTHORITIES

- The Board delegates certain decision making and compliance monitoring through formal delegated authorities
- Each Board Committee operates under written terms of reference – approved by the Board and published at www.dialight.com
- Powers delegated to management are managed by a clearly defined Group delegated authorities matrix

BOARD COMMITTEES

AUDIT COMMITTEE

- Monitors the integrity of financial statements, formal announcements relating to the Company's financial performance and the Company's narrative reporting
- Oversees risk management and internal controls
- Considers the requirement for an internal audit function
- Reviews external auditor independence and leads the audit tender process

Audit Committee report on page 62

NOMINATIONS COMMITTEE

- Reviews the structure, size and composition of the Board
- Oversees the Board's succession planning
- Keeps under review the leadership needs of, and succession planning for, the Company

Nominations Committee report on page 61

REMUNERATION COMMITTEE

- Sets and keeps under review the framework and policy on Executive Director and senior management remuneration (including pension arrangements)
- Evaluates the advice of external remuneration consultants when reviewing remuneration structures for Executive Directors and senior management
- Approves the design and targets framework for share incentive plans

Remuneration Committee report on pages 65 to 79

DISCLOSURE COMMITTEE

- Manages compliance with public reporting and announcement requirements

MANAGEMENT COMMITTEES

RISK COMMITTEE

- Management committee chaired by the Group General Counsel
- Manages the periodic review of Group risks
- Maintains the Group risk register

See Risk Management on pages 40 to 44

EXECUTIVE COMMITTEE

- Management committee (with senior functional heads from across the Group), chaired by the CEO, which meets weekly and reviews operational matters and business performance
- Reinforces the operational and governance structures in place across the Group
- Acts as a forum for management decision making

DIALIGHT FOUNDATION

- Chaired by the CEO, with the remainder of the Board comprised of employee representatives from across the Group
- Dispenses central funds, and engages in fund raising, for charitable purposes in the communities where we are based
- Maintains an employee hardship fund.

See page 27

ESG COMMITTEE

- Chaired by CEO
- Acts as a cross-functional forum for ESG matters

See pages 28 and 29

GOVERNANCE STRUCTURE AND DIVISION OF RESPONSIBILITIES CONTINUED

The Board currently comprises seven Directors, who bring a wide variety of skills and experience to the Boardroom. With two Executive Directors and five Non-Executive Directors (including the Chair) of whom three (excluding the Chair) have been judged by the Board under Provision 10 of the 2018 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 Board composition to be appropriate in terms of size, diversity and the balance of skills and experience. Further details of planned further independent Non-Executive Director recruitment is provided on page 61.

STANDING BOARD AGENDA ITEMS

- 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
- Health and safety review
- Report from the Group Chief Executive
- Report from the Chief Finance Officer
- Report from the Group General Counsel & Company Secretary
- Investor relations report

MATTERS RESERVED TO 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, 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)

INDEPENDENCE

- The Board has reviewed the independence of the Chair and each Non-Executive Director and considers all of the Non-Executive Directors to be independent of management and free from business or other relationships that could interfere with the exercise of independent judgement
- The Company meets the requirement under Provision 11 of the 2018 Code that at least half of the Board has been determined by the Board to be independent
- The Board believes that any shares in the Company held personally by a member of the Board aligns their interests with those of the shareholders
- Former Chair, David Blood (deemed non independent under Provisions 9 and 10 of the 2018 Code), is considered to be independent in character and judgement in performing his duties as a Director

Board meeting attendance

Board member	Scheduled meeting	Ad hoc meeting	Total
Karen Oliver	8/8	3/3	11/11
David Blood	8/8	3/3	11/11
David Thomas	8/8	3/3	11/11
Fariyal Khanbabi	8/8	3/3	11/11
Gaëlle Hotellier	8/8	3/3	11/11
Gotthard Haug	8/8	3/3	11/11
Stephen Bird[1]	5/5	2/2	7/7
Wai Kuen Chiang[2]	2/2	1/1	3/3
Clive Jennings[3]	6/6	1/1	7/7

1. Stephen Bird retired from the Board as a Director on 10 September 2021.
2. Wai Kuen Chiang stepped down from the Board as a Director prior to the 2021 AGM on 18 May 2021.
3. Clive Jennings attended Board meetings from his appointment as interim CFO on 4 May 2021 but was not appointed as a Director until 18 January 2022.

GOVERNANCE STRUCTURE AND DIVISION OF RESPONSIBILITIES CONTINUED

Board activities during 2021

STRATEGIC REVIEWS

- Strategy, investor relations and communications
- Review of IT and digitisation strategy
- Strategic reviews including the three-year strategic plan
- Review of organisational structure
- Strategic growth opportunities
- Communications strategy
- Review of regional sales strategy

ALIGNMENT OF GROUP OBJECTIVES WITH SHAREHOLDERS

- Review of feedback from, and engagement with, shareholders
- Annual review of Group strategy
- Review of capital allocation decisions
- Annual Board evaluation

EMPLOYEE HEALTH, SAFETY AND WELFARE

- COVID-19 reporting and responses
- Reviewing accident frequency rates
- Reviewing any reports of near misses
- General employee wellness in light of the pandemic
- Ensuring safe and comfortable working environments

FINANCIAL AND OPERATIONAL

- 2022 Group budget
- Half year results, full year results and trading updates
- Review of Group cash position and forecasting
- Review of global taxation landscape
- Monthly performance reporting and review

PEOPLE, TALENT AND CULTURE

- Succession planning and talent development for all senior roles
- Review of strengthening operations and sales teams
- WENED reports direct to Board on people issues

GOVERNANCE, COMPLIANCE AND ETHICS

- Review and discussion of the external Board and committee evaluations
- Review of Chair and Non-Executive Director fees
- AGM business, review of Annual Report, and review of compliance reports
- Review of cyber security
- Modern Slavery Act 2015 Statement approval

RISK MANAGEMENT AND ASSURANCE

- Ensuring adequacy of the risk management framework
- Overseeing the findings of the Risk Committee
- Reviewing the output of internal audit
- Reviewing any whistleblowing instances

ENVIRONMENT AND SOCIAL

- Review of Dialight Foundation activities
- ESG strategy approval and overview
- ESG reporting approvals

BOARD: LEADERSHIP AND ENGAGEMENT

How the Board engages

The Board engages with its various stakeholders in a number of different ways and with responsibilities spread across the Executive and Non-Executive teams. The Executive members of the Board have contact with all Executive Committee members and make regular visits to Group sites. All new Non-Executive members of the Board will carry out Company visits as part of their induction (subject to the restrictions imposed by the COVID-19 pandemic) and routinely thereafter – with at least one meeting a year normally taking place at a Group location outside the UK. The Board members also engage with our current and future business leaders working within the Group on strategic and other matters. 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.

Shareholder engagement

Fariyal Khanbabi
CEO

Clive Jennings
CFO

Karen Oliver
Board Chair

David Thomas
SID

General engagement with investors
- Engagement with investors is led by the CEO but is a collective responsibility of the Board.
- Board is committed to strengthening communications with investors.
- Primary contact with shareholders, on a day-to-day basis, is through the Executive Directors.
- Overall responsibility for ensuring the effectiveness of communication with shareholders lies with the Chair.

Company announcements and website
- The Company releases announcements via the Regulatory News Service – all of which are publicly available and can be accessed through the Company's website (www.dialight.com).
- Copies of formal reports are released on the Company website (and deposited with Companies House and the FCA's National Storage Mechanism – both of which are publicly accessible).
- Recordings of annual and interim results can be accessed through the Company's website (www.dialight.com).
- Shareholders can register on the website to receive email alerts.

Annual and interim results
- The Company is required to make half year and full year formal announcements. These are released via the Regulatory News Service and can be accessed through the Company's website (www.dialight.com).
- The COVID-19 pandemic has meant the suspension of the previous standard practice of face-to-face briefings for large investors and research analysts and other interested parties in relation to half year and full year results. This practice has been replaced with pre-recorded video presentations (which can be accessed through the Company's website – www.dialight.com) followed by one-on-one meetings with investors and others wishing to meet the management team.

Meetings with large investors
- In addition to scheduled meetings with the Executive Directors (led by the CEO), Non-Executive members of the Board are available to meet with investors.
- The Chair is generally available to shareholders and meets with institutional and other large investors as requested.
- The Senior Independent Director and the Chair of the Remuneration Committee are also available to shareholders as required.

Annual General Meetings
- Our AGMs for Dialight shareholders in 2020 and 2021 were impacted by COVID-19 pandemic.
- We hope that in 2022 we can revert to the more open format of a public meeting, with increased accessibility with a remote video facility alongside. The shareholders approved an amendment to the Company Articles of Association in 2020 permitting hybrid meetings and we hope that this will result in a wider range of investors participating. The hybrid meetings arrangements will enable remote voting/participation during the meeting.
- Typically, the full Board will attend the AGM, and be available to answer questions, and the CEO will give a presentation.
- Each substantially separate issue is proposed as a separate resolution and voted on by way of a poll.
- Details of the resolutions to be proposed, and shareholders options for voting, at the forthcoming AGM are to be found in the notice of the AGM (which will be despatched in April 2022). The 2022 AGM will take place on 19 May 2022.

Commercial engagement (customers, suppliers and partners)

Fariyal Khanbabi
CEO

Clive Jennings
CFO

Executive Directors
Commercial engagement is an Executive Director responsibility and led by the CEO. Whist direct in-person and on-site visits with customers, distributors and other partners has necessarily been restricted during the COVID-19 pandemic, the Executive Directors have in the past prioritised proximity with customers and distributors for themselves and product development teams, facilitated by the direct sales force.

Commercial engagement
- Customers. The Executive Directors engage with customers directly through site visits and assisting strategic sales activity, and indirectly through monthly reporting by the direct sales teams (both territorially-based and with the strategic accounts team).
- Distributors. Our indirect sales model (using distributors) places great importance on maintaining good relations with our distribution networks: attending distributor conferences; attending meetings of purchasing groups and other distributor bodies; and pursuing other opportunities to support our indirect sales team.
- Suppliers. Relations with key suppliers are generally managed indirectly through Executive Committee level direct reports of the Executive Directors with operational and supply chain responsibilities – i.e. through weekly and monthly review meetings and formal reporting.
- Other commercial partners. The Group has a range of other partners who are managed, on a case-by-case basis, by the Executive Directors or other members of the Executive Committee team.

Reporting to Board.
The executive team reports monthly to the Board on a range of corporate, financial and commercial issues including feedback from customers, suppliers and other partners.

Engagement with employees and our local communities

Fariyal Khanbabi
CEO

Gaëlle Hotellier
Workforce Engagement NED

Workforce Engagement NED
- Direct engagement with workforce through site visits, one-on-one discussions with managers and other employees selected by the WENED.
- Larger engagements with selected groups of employees from different Company locations without management present.

Executive Directors
- Engagement with the Dialight workforce is an Executive Director responsibility and led by the CEO – but viewed as a fundamental task of the entire executive team.
- Board-level engagement is facilitated by monthly Group all-employee calls, frequent visits to manufacturing and other Group sites by the Executive Directors (COVID-19 permitting) and through reporting by Executive Committee members and the HR function.

Dialight Foundation
- The Dialight Foundation is the primary conduit for engagement with local communities. Its membership is drawn from all levels and localities of the Group – ensuring a direct voice for all employees in decision making.
- The Foundation is chaired by the CEO, enabling the CEO to directly represent the voice and needs of our local communities in Board discussions.

Whistleblower helpline
- The Group operates a confidential whistleblower helpline, facilitated by an independent third party.
- Reports are reviewed confidentially by the Group General Counsel and reported to the Chair of the Audit Committee (for control/ethics and integrity issues) and to the CEO and Head of HR in respect of personnel issues/ HR-related complaints.

Reporting to Board
The executive team reports monthly to the Board on people, and health and safety issues as well as the activities of the Dialight Foundation and other community engagement. The WENED reports to the Board periodically on the employee engagement programme and on feedback received from employees.

BOARD: COMPOSITION, SUCCESSION AND EVALUATION

2021 Board performance evaluation

In compliance with the 2018 Code, the Board undertakes a formal evaluation of its performance, and that of each Director, on an annual basis. The principal Committees of the Board also undertake an annual evaluation of their effectiveness, in accordance with their terms of reference. The outcomes of the 2020 review, (concluded in March 2021) fed directly into the Board agenda for the reporting year and in the execution of the 2021 succession planning. The outcomes of the 2021 review will similarly inform Board administration, agenda planning, strategy and succession planning. The Board was facilitated by Lintstock, an independent external adviser (i.e. a third-party adviser with no connection to the Company or any Director other than in respect of these Board evaluation services).

STAGE 1
Questionnaire (November)

- Detailed questionnaire circulated to each member of the Board using themes provided by Board members.
- Covered all key Board, Committee and support responsibilities/ functions.
- Facilitated by independent third-party adviser.
- Responses all confidential/ anonymised.
- Report collated by third-party adviser.

STAGE 2
Board review (December)

- Each Committee met to review the circulated report and discussed key issues/ themes
- Board considered feedback from Committees and reviews, circulated report and discussed key issues/themes
- Board considered any necessary changes to Committee/Board structure and/or operations

STAGE 3
Director reviews (January)

- One-on-one confidential discussions between Chair and each Director on: other Board members; individual Director performance; Committee issues; Board issues
- Chair compiled report for the Board
- One-on-one confidential discussions between SID and each Director on the performance of the Chair
- SID compiled report for the Board

STAGE 4
Final Board reviews (March)

- Nominations Committee discussed Board review and individual Director reviews
- Board considered Board review and individual Director reviews and feedback from the Nominations Committee
- Each Director reviewed in turn for independence, performance and potential re-election
- Board's final recommendation on Director independence and re-election

Directors: independence and conflicts of interests

- The Chair, Karen Oliver, was independent on appointment (10 September 2021) and the Board has reviewed and agreed that each of David Thomas, Gaëlle Hotellier and Gotthard Haug remain independent.
- David Blood is not, on a strict interpretation of the examples that could potentially impair independence set out in Provision 10 of the 2018 Code, considered to be independent as a consequence of his connection with Generation Management LLP (currently the Company's second largest shareholder). This was the position on the date on which he was appointed Chair of the Board on 5 August 2019. However, the Board has always considered, and continues to consider, David to be independent in character and judgement in performing his duties as a Director, and is fully confident that David would absent himself from any Board discussions at which any conflict might arise (and would ensure that he did so).
- As David served as Chair until 10 September 2021, it should be noted that, notwithstanding the non-independent status of David on appointment (as deemed under Provisions 9 and 10 of the 2018 Code), the Board, when considering his potential appointment as Chair, came to the view that on balance the very considerable corporate experience and specific knowledge of the Group that David brought to the role outweighed any technical non-compliance and was in the best interests of the Group and of its shareholders generally.
- The Board remains particularly conscious of its duties under Provision 7 of the 2018 Code to actively manage general potential conflicts of interest arising from significant shareholdings and accordingly, David's letter of appointment contains additional clauses covering confidentiality, insider dealings and conflicts of interest and the Board considers potential conflicts arising at each and every meeting.

Directors: time allocation

- The Board benefits from the wide variety of skills, experience and knowledge that each of the Directors brings to their 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 Chair. 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, in turn, benefit the Company).
- In addition to the scheduled Board meetings, 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 and this was exceeded in 2021 (taking into account Committee and other responsibilities). Confirmation is obtained on appointment from each Non-Executive Director that they can allocate sufficient time to the role.
- The Chair 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 Chair present, at least once per year, to evaluate the Chair's performance.

Directors: re-election

- In compliance with the 2018 Code, all of the Directors in place at the end of the 2021 financial year will stand for re-election at the forthcoming AGM. In addition, Clive Jennings will stand for first election at the AGM. Following the annual evaluation of the Board and its Committees, and the recruitment process for Clive Jennings, 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 in the Notice of AGM.

Directors: succession planning and recruitment

- In addition to having responsibility for succession planning of senior executive roles below Board level, the Nominations Committee (and the Board generally) are responsible for succession planning of Board Directors and the key Board roles. Board succession plans have been in place across 2021 and resulted in the smooth transition of Board roles in September 2021.
- The SID (at the time, Stephen Bird) was responsible for the process of selection of the Chair to replace David Blood and sought advice and assistance from an external agency (Hedley May). Similarly, an external search agency (Egon Zehnder) was engaged in respect of the CFO role. Egon Zehnder is an independent third-party adviser with no connection to the Company or any Director other than in respect of these recruitment services.
- As outlined on page 53, the Board's recent approach to succession planning and recruitment has achieved a broad balance in terms of cognitive approach, diversity, skills, knowledge and experience, and length of service. This is maintained through a combination of an open-minded approach to recruitment, use of external advisers, a thorough recruitment process for all potential appointees to the Board and active management of succession planning.

Directors: induction

- Newly appointed Non-Executive Directors follow a tailored induction programme, which generally includes dedicated time with Group Executives, time with Board advisers (including legal briefings), inductions on Group products and technologies, 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.

Directors: 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.

NOMINATIONS COMMITTEE REPORT

Karen Oliver
Chair of the Nominations Committee

FY2021 highlights
- Implementation of Board Chair/NED succession planning
- Stabilisation of CFO role
- Diversity – Board composition greater than 40% female
- Enhanced workforce engagement NED role

FY2022 priorities
- Strengthen senior executive succession planning
- Review of recruitment of additional NED

Main responsibilities of the Committee
- Review size, balance and composition of the Board and Committees
- Lead process for Board appointments
- Oversee senior executive succession planning (including diversity)
- Review senior executive leadership requirements for the Group
- Make recommendations to the Board on the above

Composition of the Committee

Committee member	Member from/until	Attendance
Karen Oliver	Member from 30 July 2020 – Chair from 10 September 2021	3/3
David Blood	Member from 23 July 2015 – Chair to 10 September 2021	3/3
David Thomas	From 26 April 2016	3/3
Gaëlle Hotellier	From 3 October 2016	3/3
Gotthard Haug	From 30 July 2020	3/3
Stephen Bird	From 10 January 2013 to 10 September 2021	3/3

Dear shareholders

Both the Nominations Committee and the Board as a whole recognise their crucial roles in nurturing talent and diversity at management and executive levels at Dialight; and whilst 2021 saw further changes at Board level; this was driven by the previous planning work of the Committee with regards to Board succession.

Board changes

In particular, I would like to thank Stephen Bird who stepped down from the Board in September 2021, following over eight years with the Board, and to David Blood who stepped down as Chair of the Board on 10 September 2021, but remains on the Board as a Non-Executive Director.

Stephen provided invaluable experience as the Board transitioned during a challenging time, and we are all sorry to see him go and wish him all the very best with his future appointments. David stepped into the Chair role at a challenging time for the Company and his wise counsel and strong leadership have helped guide the Group as it re-established its in-house manufacturing capacity and to navigate the challenges of COVID-19. David will stand for re-election at the 2022 AGM.

At the same time as the changes to the Chair role and Stephen's retirement from the Board, the Committee reviewed a number of Board roles within the wider context of its succession planning: David Thomas became the Senior Independent Director; Gaëlle Hotellier assumed the Workforce Engagement NED role; and, Gotthard Haug was appointed as a member of the Audit Committee.

Following the departure of Wai Kuen Chiang, the Board received advice from independent external search firms in 2021 on the search for the CFO and the appointment of the Chair from Egon Zehnder and Hedley May (neither of which had any disclosable connections with any Board Directors or with the Group).

Diversity

The Board recognises the benefits of Board cognitive diversity (and we report elsewhere in this Annual Report on pages 25 to 26 and on page 53 on workforce diversity) so I am particularly pleased to see the level of diversity maintained on the Board (and indeed across the Group) in terms of experience, gender, qualifications and background. The fact that we are one of the few listed companies with two of the most senior Board roles filled by women illustrates well that Dialight is a place where any person, regardless of their background, can thrive. The Board is currently comprised of seven Directors, three of whom are women (43%). The spread of nationalities is: three British, one American, one German, one South African and one French. The Board remains strongly committed to enhancing cognitive and other forms of diversity in its future appointments.

Activities during 2021

As the work of the Committee stabilised across 2021, it met less frequently than in the prior year. The activities of the Committee are summarised on these pages and have included discussions on the need to develop greater strength in depth in senior management and ongoing succession planning.

Priorities for the coming year

The Committee's priority for 2022 will be to focus on succession planning and talent development at Executive and Board level.

On behalf of the Nominations Committee.

Karen Oliver
Chair of the Nominations Committee
27 March 2022

Committee activities

2021

MARCH
- Annual review of Directors & Board
- Re-election of Directors at AGM

MAY
- CFO renewal process

JULY
- Board Chair succession
- Board SID renewal
- Board WENED role enhancement
- Audit Committee member appointment

DECEMBER
- Annual governance review
- Executive Director succession planning

Terms of reference

A copy of the terms of reference ("ToR") for the Nominations Committee is available on the Company's website or on request from the Company Secretary at the registered office. The ToR are reviewed annually by the Committee.

AUDIT COMMITTEE REPORT

David Thomas
Audit Committee Chair

Key activities during the year

- Consideration of the business forecasts against available banking facilities as part of going concern and viability reviews
- Review of the valuation of inventory, focusing on the provisions for excess and obsolete items
- Assessment of whether internal controls are effective and functioning as intended
- Review the effectiveness of the risk management systems to ensure compliance with the responsibilities of the Board for internal controls and risk management
- Maintain oversight of the risk register, assess the principal risks and mitigating actions
- Review the Group's whistleblowing arrangements
- Consider and report on the significant risks and issues in relation to the financial statements and how these should be addressed

Main responsibilities of the Committee

The role of the Committee is primarily to support the Board in fulfilling its corporate governance obligations in so far as they relate to the effectiveness of the Group's risk management systems, internal control processes and financial reporting. Its key responsibilities include:

- reviewing the integrity of financial statements and any announcements relating to financial performance
- reviewing and challenging key accounting judgements and narrative disclosures
- monitoring internal control and risk management processes
- performing a robust assessment of the Company's principal and emerging risks
- monitoring and reviewing the effectiveness of internal audit activity
- considering the appointment of the external auditor, their reports, performance, effectiveness and independence
- agreeing the external auditor's terms of engagement and the appropriateness of the audit fee

Dear shareholders

I am pleased to present the Audit Committee report for the year ended 31 December 2021. This report provides an insight into the activities undertaken or overseen by the Audit Committee ('Committee') in what has been another unprecedented year.

COVID-19 continues to cause substantial ongoing disruption to the Company and, whilst the role and responsibilities of the Committee during the year have not changed, we have adjusted the ways that we work and provide oversight, adopting a more flexible approach to reflect changes in risks and priorities throughout the year.

Composition of the Committee

The Committee met three times during 2021 and has a programme of business reflecting the Committee's terms of reference.

Committee member	Member from/until	Attendance
David Thomas (chair)	26 April 2016	3/3
Stephen Bird	Resigned 10 September 2021	2/2
Gaëlle Hotellier	3 October 2016	2/3
Gotthard Haug	10 September 2021	1/1

Other attendees:

- Chief Executive
- Chief Financial Officer
- Group General Counsel & Company Secretary
- Group Financial Controller
- External auditor

The Committee met separately during the year to discuss matters without management present. In addition, KPMG was provided with the opportunity at each meeting to discuss any issues without the presence of management.

The Chair meets with members of the executive and management teams as well as KPMG outside of formal Committee meetings to discuss matters which fall within the Committee's terms of reference.

Committee activities

2021

MARCH

- Risk management review
- Going concern and viability review
- Review of 2020 annual accounts and preliminary announcement
- Receiving and discussing KPMG presentation on audit and control matters
- Review and re-appointment of KPMG as auditor

JULY

- Review of interim results
- Going concern review
- Approval of key accounting judgements for interim results
- Audit tender discussion
- Approval of KPMG audit plan for 2021

DECEMBER

- Audit Committee evaluation
- Approval of 2021 audit fees
- Approval of tender process for 2023 audit
- Review of key year-end accounting judgements
- Review of internal control framework and effectiveness
- Approval of 2022 internal audit work plan
- Approval of non-audit services
- Review of risk register and climate change risks ahead of TCFD disclosure in 2021 Annual Report

Despite a challenging year, the Committee has continued to discuss and challenge the assumptions and judgements made by management in the preparation of the published financial information, provided input and oversight of the internal controls processes and risk management and managed the relationship with the Group's external auditor, KPMG LLP ("KPMG").

The Committee has an annual work plan linked to the Group's financial reporting cycle, which ensured that it has considered all matters delegated to it by the Board and ensured that the interests of shareholders are properly protected. Additionally, the Committee has considered the ongoing impact of COVID-19 on our business along with the global supply chain and logistics challenges, and you will find important detail on this in other sections of the Annual Report (see pages 5 to 13 and 45 to 48).

2022 priorities

During 2022 the Committee intends to focus on the following additional areas:

- inventory valuation and provisioning
- impact of BEIS reforms
- reporting of ESG related activity and data
- auditor succession
- internal audit

Governance

All members of the Committee are independent Non-Executive Directors whose qualifications are outlined in the Directors' biographies on page 54. Each member of the Committee has a detailed understanding of Dialight's strategy, business model and the Group's culture and core values together with significant knowledge and business experience in financial reporting, risk management, internal control and strategic management. In addition, I meet the requirement to bring recent and relevant financial experience to the Committee and further information about my experience can be found on page 54. I can confirm that the Board is satisfied that the Committee has the resources and expertise to fulfil its responsibilities and has competence relevant to the sector in which the Company operates.

AUDIT COMMITTEE REPORT CONTINUED

Internal control and risk management processes

The Board has overall responsibility for the risk management framework, as explained on page 41. It delegates responsibility for reviewing the effectiveness of the Group's systems of internal control to the Committee. This covers all material controls including financial, operational and compliance controls and risk management systems. During the year, we received detailed reports that enabled us to maintain oversight and discuss the risks and challenges to the Group. The structures within the Group that track and report on controls include:

- a formally constituted Risk Committee that meets periodically, made up of members of the Group Executive Committee and representing each function;
- allocation of identified risk to a specific risk owner with responsibility for monitoring and mitigating that risk;
- periodic, externally facilitated briefings on new and emerging risk themes across our sector and generally;
- the Board of Directors and Audit Committee oversight on risk register and risk review process;
- monthly operational reporting;
- the control structure for delegated authorities; and
- external and outsourced "internal" auditors.

The Committee also reviews the Group's internal control systems and their effectiveness prior to reporting any significant matters to the Board. Internal controls are the responsibility of the Chief Financial Officer. Confirmation that the controls and processes are being adhered to throughout the business is the responsibility of the relevant managers and is continually tested by the work of Group Finance.

Dialight traditionally outsources the internal audit function. Restrictions during the COVID-19 pandemic unfortunately resulted in no internal audit activity being carried out in 2021. A detailed audit plan for activity in 2022 has been approved by the Committee and combines outsourced activity with reviews by Group Finance. Outsourced activity will focus on inventory, payroll and cyber security controls.

Fair, balanced and understandable

One of the key compliance requirements of a group's financial statements is for the Annual Report to be fair, balanced and understandable. The coordination and review of Group-wide contributions to the Annual Report follows a well-established process, which is performed in parallel with the formal process undertaken by the external auditor. A summary of the process is as follows:

- The Annual Report and Accounts is drafted by the appropriate senior management with overall coordination by a team comprising the Group General Counsel & Company Secretary, the Chief Financial Officer, and the Group Financial Controller to ensure consistency;
- Comprehensive reviews of the drafts of the Annual Report and Accounts are undertaken by management, the Board Chair and respective Chair of each Committee to ensure that (i) all key events and issues which had been reported to the Board in the Executive Board reports during the year had been appropriately referenced or reflected within the Annual Report; and (ii) the completeness and accuracy of definitions of alternative performance measures used in the Annual Report and Accounts, their consistency of use, relevance to users of the Annual Report and Accounts and balance with statutory metrics;
- A near-final draft is reviewed by the Committee;
- A final draft is reviewed by the Board; and
- Formal approval of the Annual Report and Accounts is given by a committee of the Board.

This approach enabled the Committee, and then the Board, to confirm that the Company's 2021 Annual Report taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Key judgements and financial reporting matters

The Committee assesses and challenges whether during the year suitable accounting policies have been adopted and whether management has made appropriate estimates and judgements. Key accounting judgements considered, conclusions reached and their financial impacts during the year under review are set out in the table below. Additionally, we discussed with the external auditor the significant issues addressed by the Committee during the year and the areas of particular focus, as described in the independent auditor's report on pages 83 to 89.

Key judgements and financial reporting matters 2021	Audit Committee review and conclusions
Going concern and viability statement The Directors must determine that the business is a going concern for the 12-month period from the date of signing the accounts. Furthermore, the Directors are required to make a statement in the Annual Report as to the longer-term viability of the Group. This has been analysed in detail, particularly the downside scenarios modelled in the viability statement, in light of the COVID-19 pandemic and worldwide commodity and logistics challenges.	The Committee conducted an annual assessment pursuant to which the Directors were able to conclude that it is appropriate to prepare the financial statements on a going concern basis, as set out in more detail on page 48. Furthermore, the Committee evaluated management's work in conducting a robust assessment of the Group's longer-term viability, affirmed the reasonableness of the assumptions, considered whether a viability period of three financial years remained most appropriate, and confirmed that it was as part of a recommendation to the Board. Further detail can be found on page 48.
Valuation of inventory The Committee reviewed the nature of the costs absorbed into inventory, the level of production over which these costs were absorbed, the variances, including in respect of material usage and purchase price, 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 for aged, and obsolete product which are judgmental or require a high degree of estimation, were presented to the Committee by management.	The Committee and the auditors discussed and assessed the information provided by management and concluded, after appropriate challenge, that the valuation of inventory and level of provisioning were reasonable. The Committee has tasked management with proposing a simpler approach to inventory provisioning.
Capitalised development costs Data in relation to historical and current year development cost capitalisation was reviewed and the appropriate application of the development costs capitalisation policy in line with accounting standards was considered. The adequacy of Dialight's disclosures was reviewed with management, including the judgement involved in assessing the carrying amount and degree of estimation involved in assessing the recoverable amount of capitalised development costs.	The Committee concluded that current year development department capitalisation was appropriate and that the carrying values at 31 December 2021 were supported by forecast cash flows.

AUDIT COMMITTEE REPORT CONTINUED

Key judgements and financial reporting matters 2021	Audit Committee review and conclusions
Impairment review For goodwill and indefinite-life assets, the Group performs an annual impairment review. In addition, the Group reviews assets that are subject to amortisation or depreciation for events or changes in circumstances that indicate that the carrying amount of an asset or cash-generating unit may not be recoverable. If an asset has previously been impaired the Group considers whether there has been a change in circumstances or event that may indicate the impairment is no longer required.	The Committee reviewed management's impairment review process including, where applicable, the potential indicators of impairment and/or reversal, cash flow projections, post COVID-19 revenue recovery, growth margin and discount rates used to derive a value in use as well as the sensitivity to assumptions made and consistency with the prior year. The Committee concluded that no impairment charge be recognised. Further details are disclosed in note 14.
Non-underlying items The Group separately discloses certain costs and income that impair the visibility of the underlying performance and trends between periods. The separately disclosed items are material and infrequent in nature and/or do not relate to underlying business performance. Judgement is required in determining whether an item should be classified as non-underlying or included within the underlying results.	The Committee reviewed the presentation and treatment of non-underlying items and agreed that the items listed in note 6 are appropriately classified and disclosed.
On-going litigation with Sanmina Corporation The Committee considered the disclosures of the ongoing legal proceedings with its former manufacturing partner, Sanmina Corporation, and the possible impact it has when assessing the going concern and long-term viability statement of the Group as disclosed in note 27.	The Committee concluded that the disclosure in the accounts was appropriate, and that management had considered the downside range of potential outcomes in assessing the Group's going concern and longer-term viability.

External audit effectiveness and independence

KPMG has been the Company's external auditor since 2001 and the Committee has recommended to the Board that KPMG be proposed for re-appointment at the forthcoming AGM on 19 May 2022.

Under the Statutory Auditors and Third Country Auditors Regulations 2016, the Company is required to re-tender its external auditor by 31 December 2023. Our current auditor, KPMG, is therefore eligible to continue as auditor until 31 December 2023. The Committee has commenced the audit re-tender process with a view to appointing a new audit firm for the 2023 audit by the end of 2022. Invitations to tender have been sent out to a combination of "Big Four" and non "Big Four" audit firms.

There are no contractual obligations that restrict the Company's choice of external audit firm, but the restrictions on audit rotation set out in the 2016 Regulations preclude KPMG from being considered in the tender process.

KPMG is engaged to express an opinion on the financial statements. It reviews the data contained in the financial statements to the extent necessary to express its opinion. It discusses with management the reporting of operational results and the financial position of the Group and presents findings to the Committee. The Directors in office at the date of this report are not aware of any relevant information that has not been made available to KPMG and each Director has taken steps to be aware of all such information and to ensure it is available to KPMG. KPMG's audit report is published on pages 83 to 89.

In order to assess the effectiveness and independence of the external auditor, the Committee carried out a structured review of the external audit process, including the planning, execution and quality of the audit. This included:

- discussing and agreeing at the planning stage the draft list of specific risks to audit effectiveness and quality (specific audit quality risks)
- KPMG reporting against audit scope and subsequent meetings providing the Committee with an opportunity to monitor progress and raise questions
- KPMG report on specific audit quality risks applicable to Dialight and how these have been addressed at the planning and final stages of the audit
- obtaining written assurance from KPMG that all partners and staff complied with their ethics and independence policies and procedures
- ensuring regular rotation of lead audit partner and other senior audit staff

Feedback was sought from members of the Committee and senior management of the business areas subject to the audit. The feedback was considered, discussed and summarised by management and reported to the Committee and Board. Having conducted such review, and reviewed overall performance, we have concluded that KPMG has demonstrated appropriate qualifications and expertise throughout the period under review, and that the audit process was effective and independent.

Non-audit services

The Committee oversees the nature and amount of all non-audit work undertaken by the external auditor to ensure that it remains independent. When seeking external accountancy advice in relation to non-audit matters, the Group's policy is to invite competitive tenders where appropriate. It is also the Group's policy to balance the need to maintain audit independence with the desirability of taking advice from the leading firm in relation to the matter concerned and being efficient. No non-audit fees were incurred for the year ended 31 December 2021.

Audit Committee evaluation

It is incumbent on the Board to ensure that a formal and rigorous review of the effectiveness of the Committee is conducted each year. This was accomplished through a self-assessment process at the December 2021 meeting, which included a review of the Committee terms of reference and was reported to the Board in December. No issues or recommendations for change were identified.

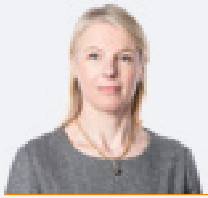
We are also mindful of the proposed audit market reforms, including the Government's consultation "Restoring trust in audit and corporate governance". The current audit tender process takes account of issues raised in the consultation. We will continue to monitor events during the forthcoming year and will act as may be required and appropriate, following the outcome of the consultation.

In concluding this report, and particularly bearing in mind the disruption caused by COVID-19, on behalf of the Committee I would like to recognise and thank the Dialight management and finance team, and KPMG for their commitment and valuable contributions during what has been an extremely challenging year for the business.

I will be available to answer any questions in relation to this Audit Committee report before the Annual General Meeting. Please email your queries to the contact details in the AGM notice.

David Thomas
Chair of the Audit Committee
27 March 2022

REMUNERATION COMMITTEE REPORT



Gaëlle Hotellier
Chair of the Remuneration Committee

Roles and responsibilities of the Remuneration Committee

The primary responsibilities of the Remuneration Committee are to:

- set the Remuneration Policy for all Executive Directors (including interim roles), the Company's Chair 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 (including interim roles), the Company's Chair 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 and share-based incentive schemes operated by the Company and approve the total annual payments made under such schemes (in accordance with the Provisions of the UK Corporate Governance Code 2018); 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 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 as nominated by the Chief Executive Officer, and any performance targets to be used).

Dear shareholders

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2021. As in previous years, this report is split into three sections: this Annual Statement (pages 65 to 66); the Remuneration Policy (pages 67 to 73); and the annual report on the implementation of the Remuneration Policy during 2021 (pages 74 to 79). We have also included "at a glance" summaries on pages 67 and 74 to aid the reader.

COVID-19 and its impact on remuneration

In this section we outline how the Group and the Remuneration Committee have sought to mitigate the effects on our workforce and business of COVID-19 throughout the pandemic period, not just during 2021. It has been a challenging period for all our employees, but we believe that the way in which we sensitively implemented mitigations has contributed to the Group emerging from the pandemic with a highly motivated workforce. The Group introduced a progressive reduction in base salary across the majority of employees during the most challenging months of May to September 2020 (inclusive). At an Executive Director and Executive Committee level, this resulted in a voluntary reduction of 20% of base salary for the five-month period. Below this level, pay reductions were implemented at 15% for senior managers, 10% for their direct reports and 0% for the lower paid (many of whom work in our manufacturing operations). Similarly, fees paid to the Non-executive Directors were voluntarily reduced by 20% for the period from May to September 2020 inclusive and the then Chair waived his fee completely for the same period. At all levels, pay reductions were effected on a voluntary basis. There have been no "make good" payments to reimburse these pay/fee reductions but, as the effects of the pandemic have receded, the Group has taken steps, again in a progressive manner, to make sustainable improvements in remuneration structures across the Group including substantial base payment increases in our manufacturing facilities and annual "cost-of-living" increases across the Group's workforce. These salary increases were progressively phased – meaning that increases for our manufacturing staff were implemented in May 2021 whilst at the other end of the spectrum, the final employees to receive increases (in October 2021) were at Executive Committee and Board level. The COVID-19 pandemic also impacted the payment of bonuses in 2020 – with pre-pandemic bonus targets for EBIT and cash not being met. In addition, in consultation with management, it was agreed that the personal objective element of bonuses, though met, should not be paid in light of the impacts of the limited furloughs and salary reductions during 2020. As outlined below, the Group's performance across 2021 has improved significantly and the Remuneration Committee is pleased to confirm that a significant proportion of bonus objectives were met in respect of the reporting year.

The Remuneration Committee wishes to record its thanks to all the Group's employees impacted by salary sacrifice and furlough arrangements during 2020 and by the phased introduction of "cost-of-living" increases during 2021.

Statement of shareholder voting (2021 AGM)

	% votes for	% votes against	Votes withheld
Directors' Remuneration Report FY2020	99.85	0.15	1,115 (out of 19,070,322 votes cast)
2021 Remuneration Policy	96.30	3.70	205,478 (out of 18,865,959 votes cast)

Board changes in 2021

On 1 October 2020, Wai Kuen Chiang assumed the role of Chief Finance Officer and she remained with the Company until 14 June 2021. The Remuneration Committee was actively involved in the discussions around her departure and whilst she was paid her full pay, benefit and pension entitlements through to her departure date; no additional payments were made. Clive Jennings joined the Company as Interim CFO on 4 May 2021. He was not a Director during the reporting period and his remuneration therefore falls outside of the statutory reporting

Composition of the Committee

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	Attendance
Gaëlle Hotellier (Committee Chair)	From 8 January 2018 (Chair from 1 June 2018)	7/7
David Thomas	From 26 April 2018	7/7
Karen Oliver	From 30 July 2020	7/7

All members of the Remuneration Committee are considered independent within the definition set out in the 2018 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 seven times. Of these, three meetings were formal scheduled meetings and the other four were meetings held to deal with the review and approval of specific technical remuneration matters. Attendance by individual members of the Remuneration Committee is disclosed in the table above.

Only members of the Remuneration Committee have the right to attend Remuneration Committee meetings. The Chief Executive Officer and the Company Secretary 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.

Terms of reference

A copy of the terms of reference ("ToR") for the Remuneration Committee is available on the Company's website or on request from the Company Secretary at the registered office. The ToR are reviewed annually by the Committee.

REMUNERATION COMMITTEE REPORT CONTINUED

Committee activities

2021

FEBRUARY
– Reviewing feedback from major shareholders on draft 2021 Remuneration Policy and finalising policy

MARCH
– Review of annual pay increment policy and application (for Chair, Executive Director roles and general policy across Group); review and approval of outcomes for 2020 bonus plan and 2018 PSP plan; review and approval of 2021 bonus plan structures; drafting and approval of Annual Remuneration Report; and review and approval of 2021 RSP grants (excluding Directors)

APRIL
– Approving phased introductions across Group for annual pay increases – starting with lowest-paid employees

MAY
– Reviewing proposed remuneration for Interim CFO role; and reviewing outcome of AGM vote on the new Remuneration Policy and awarding RSPs to Fariyal Khanbabi under the new Remuneration Policy

JUNE
– Approval of remuneration arrangements on the departure of Wai Kuen Chiang

SEPTEMBER
– Approval of final phase of annual pay increases; shareholder consultation on implementation of 2021 Remuneration Policy

DECEMBER
– Review of outcome of shareholder consultation; and annual Committee governance review

regime. However, details of his remuneration as Interim CFO is included to aid year on year analysis for the CFO role and can be found on pages 74 and 75. Further details of Wai Kuen Chiang's remuneration are set out on pages 74, 75 and 78.

David Blood stepped down as Chair of the Company on 10 September 2021 and was replaced by Karen Oliver. David has remained on the Board and reverted to the standard NED engagement fee rate. Karen is paid at the same rate as Chair as was David and, as she was new to the role in 2021, voluntarily waived any 2021 "cost-of-living" fee increase. Annual increases for Non-Executive Directors and role-specific Director fee uplifts are a matter for the Board, but it should be noted that these increases were aligned with other employees (at 3%) and, for NEDs, delayed until October 2021 so as to ensure equal treatment with senior Group executives.

2021 AGM result and the implementation of the 2021 Remuneration Policy

Following extensive consultation with major shareholders, the Remuneration Committee proposed a strengthened Remuneration Policy at the 2021 AGM. This policy was passed with the support of 96.30% of voting shareholders. The key improvements in the 2021 Remuneration Policy were: (a) replacement of the non-performing Performance Share Plan ("PSP") policy with the DRSP – granting restricted shares (at a 50% reduction in value) free of performance criteria other than retention in role and Remuneration Committee discretion as to Group performance being in line with strategy; (b) an increase in the Executive Director shareholder guidelines to 200% of base salary; (c) retention of all bonus and DRSP shares to meet shareholding guidelines; and (d) post-employment retention of shares for a two-year period. The introduction of the 2021 Remuneration Policy concludes a rolling programme of improvements to the Group remuneration policy across the preceding two years and the Remuneration Committee is now confident that there is a robust but fair remuneration structure for Executive Directors and their direct reports which achieves a much closer alignment with the interests of shareholders.

Ongoing shareholder consultation on remuneration issues

The Committee is committed to maintaining an ongoing dialogue with major shareholders on remuneration matters and has already consulted with shareholders in Autumn 2021 in respect of the DRSP awards made to Executive Directors in May 2021 and on remuneration matters generally. The Committee welcomes any direct correspondence from shareholders on remuneration matters.

Exercise of discretion

The Committee has not exercised any discretion during the reporting year in respect of approving awards under schemes that, without the exercise of such discretion, would not have vested. In the previous reporting year (2020) the Remuneration Committee exercised discretion in reducing PSP awards in line with the decline in the share price (in respect of the 12-month period prior to grant of the 2020 PSPs), and in agreeing with Fariyal Khanbabi not to make any payment under the individual objective element of the Annual Performance Bonus Plan ("APBP") (payment which was otherwise due) in light of the impact during 2020 of the COVID-19 pandemic on Group employees and performance.

Looking forward

With the 2021 Remuneration Policy in place and implemented, the Committee believes that Dialight's remuneration policies are now very well placed to incentivise high performance by the Executive Directors and fully and fairly align Executive Director and shareholder interests, as well as meeting the requirements of shareholders' and general governance best practice. On behalf of all of my colleagues on the Committee, I hope that you will support the resolutions at the 2022 AGM.

Gaëlle Hotellier
Chair of the Remuneration Committee
27 March 2022

External advice to the Remuneration Committee

The Remuneration Committee has access to the advice of the Chief Executive Officer, Company Secretary and the Group HR Director as well as external advisers as required. During the year ended 31 December 2021, the Remuneration Committee consulted Mercer Limited, a business of Marsh McLennan, which provided independent advice (for a total fee of £15,205 excluding VAT) on: the new 2021 Remuneration Policy and shareholder consultations; remuneration arrangements on the departure of Wai Kuen Chiang; updates on the external remuneration environment; performance testing for long-term incentive plan; remuneration arrangements for Non-Executive Directors in Workforce Engagement roles (advice to the Board); and the drafting of this report. 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.

Compliance statement

This Remuneration Report (inclusive of this introduction and report by Gaëlle Hotellier, the policy outlined on pages 67 to 73 and the report on the implementation of the policy on pages 74 to 79) 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. It also meets the requirements of the FCA Listing Authority's Listing Rules and the Disclosure Guidance 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.

2021 REMUNERATION POLICY OVERVIEW

A new Remuneration Policy was introduced in 2021 as the final stage of a 2-year review and change process. The process involved a series of consultations with key shareholders in 2020 and 2021 – with a follow-up correspondence in Autumn 2021. The Committee is confident that the Company's Remuneration Policy now delivers an optimal degree of shareholder alignment for Executive Directors' remuneration structures. This page provides an "at a glance" summary of the 2021 Remuneration Policy. The policy is set out in detail on pages 67 to 73.

Extended consultation
% of shareholders consulted in 2020 and 2021 on new Remuneration Policy.

72.4%+
As a % of total issued share capital

New in 2021
% reduction in maximum CEO share awards.

50%
(from 150% of salary for PSPs to 62.5% of salary for RSPs)

New in 2021
% increase in shareholding requirement for Executive Directors under new Remuneration Policy.

100%
(to 200% of salary)

New in 2021
Maximum pension payable to Executive Directors (% of base salary).

5%

New in 2021
Post-employment share-holding period introduced.

2 years

Policy adoption
% of voting shareholders voting in favour of new 2021 Remuneration Policy.

96.3%

Executive Director remuneration under the new 2021 policy

Total executive director remuneration is made up of the following five components:

BASE SALARY	BENEFITS	PENSION	BONUS (CASH AND SHARES)	SHARE PLAN AND HOLDINGS
Benchmarked alignment Competitive salary aligned to market and individual factors. **Annual review** Within context of wider workforce conditions and Company performance.	**Benchmarked alignment** Market competitive, but cost effective, to attract and retain high calibre Executives. **Aligned with employees** CEO and CFO aligned with standard UK employee benefits: car allowance; medical; life assurance.	**Aligned with employees** Aligned to majority of employees in applicable jurisdiction. CEO and CFO roles both at 5%.	**Maximum bonus** CEO: 150% of base salary CFO: 125% of base salary **Financial metrics** Minimum of 75% of bonus pot against financial targets. **Shareholder alignment** Up to on-target pay-out (50%) paid in cash. Any payment over on-target paid in Dialight shares (50% vest in 2 years, 50% vest in 3 years).	**Restricted Share Plan maximum award** – CEO: 62.5% of base salary – CFO: 50% of base salary – 3-year DRSP vesting period – 2-year post-vesting holding period. **In-role shareholding guidelines** 200% of base salary. **Post-employment shareholding guidelines** 2-year post-employment holding period.

REMUNERATION: DIRECTORS' REMUNERATION POLICY (2021)

Policy approval

This section of the report details the Remuneration Policy for Executive and Non-Executive Directors. The Remuneration Policy was approved at the 2021 AGM and is effective for up to three years. 96.3% of voting shareholders voted in favour of this policy. Following the approval of the policy, major shareholders were again consulted, in Autumn 2021, on its implementation and as part of an ongoing dialogue between the Remuneration Committee and major shareholders. The Remuneration Committee welcomes input from all the Group's stakeholders on remuneration matters.

Background and overview of the policy

The Committee has a clear policy on remuneration: that base salary and benefits for Executive Directors should represent a fair and incentivising return for employment but that the majority of remuneration should be dependent on the continued success of the Company and be aligned with delivery of Dialight's strategic plan and the creation of shareholder value. The policy has been designed, consulted on and reviewed so that it reinforces these principles. The 2021 policy implemented certain key improvements to the policy that brought it fully into line with best practice and the Remuneration Committee is now confident that it delivers on the key principles of fair return, alignment with shareholder interests, and alignment with the level of remuneration and pay awards made generally to employees of the Group.

REMUNERATION POLICY TABLE

Link to strategy	Operation	Opportunity	Performance metrics
BASE SALARY			
To recruit, retain and motivate individuals of high calibre, and reflect the skills, experience and contribution of the relevant Director; 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 generally 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. The Remuneration Committee may also undertake periodic benchmarking for similar roles in comparable organisations.	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, material increases in role size or complexity), the Remuneration 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 74.	None
BENEFITS			
To provide market competitive, yet cost effective, benefits to attract and retain high-calibre Executives.	Executive Directors receive benefits which consist primarily of the provision of a car allowance, life insurance and medical insurance, although they may include such other benefits as the Remuneration Committee deems appropriate including in circumstances where new benefits are introduced for other employees in the location where an Executive Director is based.	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 75.	None

REMUNERATION POLICY TABLE CONTINUED

Link to strategy	Operation	Opportunity	Performance metrics
PENSION			
To provide market competitive, yet cost effective, benefits to attract and retain high-calibre Executives.	A Company contribution to a defined contribution pension scheme or provision of a cash payment in lieu of a pension contribution (or combination of such) for UK-based Directors. In the US, Dialight operates a 401(k) and SERP (or cash equivalent payment in lieu in respect of the latter). Salary is the only element of remuneration that is pensionable.	Executive Directors will receive pension arrangements consistent with the majority of employees in the relevant jurisdiction: – UK-based Executive Directors will be entitled to join the existing defined contribution scheme offering employer contributions of up to 5% of salary, or to receive an equivalent cash payment in lieu. – US-based Executive Directors will be entitled to participate in the 401(k) and the SERP (or to receive a cash equivalent payment in lieu of employer contribution in respect of the latter) on terms consistent with the majority of US employees.	None
ANNUAL PERFORMANCE BONUS PLAN ("APBP")			
The APBP incentivises the achievement of annual objectives which support the short-term performance goals 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 pay-outs 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. Awards under the APBP are subject to malus and clawback provisions, further details of which are included as a note to the policy table.	The maximum bonus opportunity is 150% of salary. Threshold performance will deliver pay-outs of up to 20% of maximum, while pay-outs for target performance will be up to 50% of maximum.	Performance is assessed on an annual basis, as measured against specific objectives set at the start of each year. Financial measures will make up at least 75% of the total annual bonus opportunity in any given year, with up to 25% based on individual objectives linked to Dialight's strategy. The Committee has discretion to adjust the formulaic bonus outcomes both upwards (within the plan limits) and downwards (including to zero) to ensure alignment of pay with performance, e.g. in the event of one of the targets under the bonus being significantly missed or if there are unforeseen circumstances outside management control. The Committee also considers measures outside the bonus framework (including ESG factors) to ensure there is no reward for failure and that outcomes are fair in the context of overall performance and the Group's wider environmental and societal impact.

REMUNERATION POLICY TABLE CONTINUED

Link to strategy	Operation	Opportunity	Performance metrics
RESTRICTED SHARE PLAN ("DRSP")			
The DRSP replaced the PSP for awards to Executive Directors in 2021 and thereafter. No new PSP awards will be granted to Executive Directors (except, potentially, in the case of "buy-outs" under the Recruitment Policy shown on page 72). PSP awards made in 2020 or earlier will continue to operate under the terms of the shareholder approved PSP. The DRSP provides a simple and transparent long-term incentive award to help ensure alignment between the interests of shareholders and those of the Executive Directors, and is aligned to the plans operated below Board level.	DRSP 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. The Committee's intention is that 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 DRSP. Awards under the DRSP are subject to malus and clawback provisions, further details of which are included as a note to the policy table.	The DRSP provides for an award up to a normal limit of 62.5% of salary for Executive Directors, with an overall limit of 75% of salary for use in exceptional circumstances. These maximum opportunities under the DRSP represents a 50% reduction against the maximum opportunity that was available under the legacy PSP scheme. The Committee has discretion to reduce awards in the event that there has been a significant fall in the share price.	**Vesting of awards will require:** (a) that the recipient remains in role as at the date of vesting (subject to the "leaver" provisions of the shareholder approved share plan); and, (b) that the Committee is satisfied that Dialight's underlying performance and delivery against strategy are sufficient to justify the level of pay-out, taking into consideration factors such as absolute total shareholder return ("TSR"), relative TSR, environmental impact and operational performance over the period, as well as individual contribution and the workforce and wider stakeholder experience. The Committee will have discretion to reduce the vesting of awards (including to zero) in the event that it considers that the outcome would be otherwise misaligned with the experience of shareholders and other stakeholders.
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 Chair 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 pages 74 and 75.	None

NOTES TO THE REMUNERATION POLICY TABLE

Explanatory detail for future Remuneration Policy table

For the avoidance of doubt, in approving this Directors' Remuneration Policy, authority was given to the Company to honour any commitments previously entered into with current or former Directors (such as the vesting or exercise of past share awards).

Performance measures and targets

Measures used under the APBP are selected annually to reflect Dialight's main short-term objectives and reflect both financial and non-financial priorities, as appropriate. The performance underpins attached to DRSP awards will be based on those which best reflect the overall performance of the business. These might include, but not be limited to, absolute TSR, relative TSR, ESG metrics and operational performance over the period, as well as individual contribution and broader stakeholder experience. For the APBP, EBIT continues to be used as the primary measure to provide a direct link to one of our KPIs.
The Committee introduced a net debt measure for the 2021 APBP, reflecting the importance of careful cash management in ensuring we are able to fund the Company's strategic objectives over the short and longer term. Up to 25% of the APBP may be based on individual strategic goals in order to reflect the importance of incentivising non-financial objectives linked to Dialight's strategy. Targets are set on an annual basis taking into account the Company's budget as well as external expectations for Dialight and the sector. If an event occurs which causes the Remuneration Committee to consider that an outstanding DRSP, PSP award or bonus award 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 and would be disclosed in the relevant Remuneration Report.

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.

DRSP awards at senior management level and to other key employees also take the form of restricted share units with vesting subject only to continued employment over a number of years. This 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 to participants below Executive Director level are not subject to a holding period.

Shareholding guidelines

Executive Directors will now be required to accumulate and maintain a holding of Dialight shares equivalent in value to 200% of their base salary, an increase from the 100-125% of salary requirement in the previous policy. The net of tax number of vested shares under the Company's DRSP (and awards that vest under the legacy PSP) will normally be required to be retained until the guideline has been met. Current shareholding levels are set out on page 79. The Committee is also introducing post-employment guidelines for Executive Directors. From 2021, Executive Directors will be required to retain shares equivalent to the in-post shareholding guideline (or actual shareholding, if lower) for a period of 24 months following the cessation of their employment.

Committee discretion

As it is not possible for any Remuneration Policy to anticipate every possible scenario, the Remuneration Committee retains the ability to apply various discretions and judgements in order to ensure the achievement of fair outcomes and to maintain the flexibility required to balance the interests of individuals and those of the Company. For example, the Committee may be required to exercise discretion when determining whether or not the outcomes of performance measures and targets applicable to variable incentives are fair in context, or if realities encourage the use of upward or downward adjustments (within scheme limits).

Accordingly, the Committee retains a number of discretions including the ability to determine the following: (a) scheme participants; (b) the timing of grant and size of awards, subject to the maximum levels set out above; (c) appropriate treatment of vesting of awards in the context of a change of control; (d) appropriate adjustments to awards in the event of variations to the Company's share capital; (e) treatment, size and grant of awards in a recruitment context; and (f) the application, scope, weighting and targets for performance measures and performance conditions. Although it is not possible to give an exhaustive list of Remuneration Committee discretions, the exercise of any such discretion and the rationale underpinning their use, would be provided in context, as part of the Annual Report on Remuneration.

Malus and clawback

Payments and awards under the APBP bonus and DRSP (as well as awards already made under the legacy PSP scheme) are subject to malus and clawback provisions which can be applied to both vested and unvested awards. Circumstances in which malus and clawback may be applied include a material misstatement of the Company's financial accounts, fraud or gross misconduct on the part of the award-holder, an error in calculating the award vesting outcome, material reputational damage and corporate failure. In respect of the APBP, the provisions apply for up to two years following payment. In respect of DRSP and PSP awards, the provisions applied remain subject to the provisions throughout the vesting and holding periods (where applicable). Participants in both schemes will be required to acknowledge their understanding of the withholding and recovery provisions as a pre-condition to participation in order to help ensure that the provisions would be enforceable should the circumstances arise.

Pay for performance

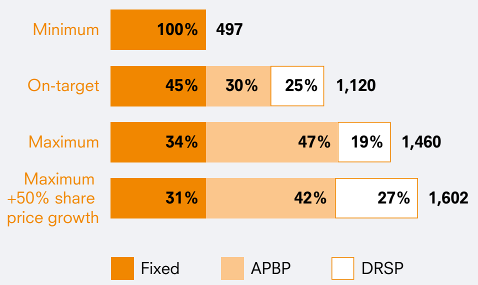
The following charts provide an estimate of the potential future rewards for the Group Chief Executive and Chief Finance Officer, and the potential split between different elements of pay, under four different performance scenarios: "Fixed", "On-target", "Maximum" and "Maximum including share price appreciation" using the following assumptions:

- the "Minimum" scenario reflects base salary, pension and benefits (i.e. fixed remuneration) which are the only elements of the remuneration package not linked to performance;
- the "Target" scenario reflects fixed remuneration as above, plus APBP pay-out of 50% of maximum and DRSP vesting at 100% of the award; and
- the "Maximum" scenario is shown on two bases: excluding and including the impact of share price appreciation on the value of DRSP outcomes. In both cases, the scenario includes fixed remuneration and full pay-out of all incentives, with the final scenario also including the impact of a 50% increase in Dialight's share price on the value of the DRSP.

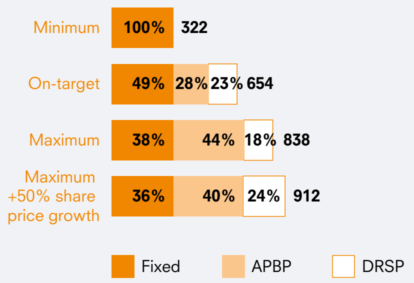
NOTES TO THE REMUNERATION POLICY TABLE CONTINUED

Forward-looking Pay Scenario Chart

CEO



CFO



Note that any DRSP awards granted will not normally vest until the third anniversary of the date of grant, and the projected value is based on the face value at award rather than vesting (i.e. the scenarios exclude the impact of any share price movement over the period). The exception to this is the last scenario which, in line with the relevant reporting requirements, illustrates the maximum outcome assuming 50% share price appreciation for the purpose of DRSP value.

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:	Salary	Benefits	Pension	APBP	DRSP
Approach:	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.	New appointees will be eligible to receive benefits in line with the current policy, as well as expatriation allowances or benefits and any necessary expenses relating to an Executive's relocation on appointment.	New appointees will be eligible to participate in one of the Company's defined contribution plans, or receive a cash supplement or local equivalent on the same basis as the majority of employees in the relevant jurisdiction.	The scheme as described in the policy table will apply to new appointees, with the relevant maximum typically being pro-rated to reflect the proportion of employment over the year. Where applicable, targets for the individual strategic element will be tailored to each Executive.	New appointees will be granted restricted share awards under the DRSP on the same terms as other Executives, as described in the policy table. The normal limit of 62.5% of salary will apply, save in exceptional circumstances where up to 75% of salary may be awarded.
Maximum:	n/a	n/a	n/a	150% of salary	62.5% of salary

In determining appropriate remuneration, the Remuneration Committee will take into consideration all relevant factors (including quantum, nature of remuneration and the jurisdiction from which the candidate was recruited) to ensure that arrangements are in the best interests of both Dialight and shareholders.

In addition to the remuneration structure outlined above, the Committee may, in certain circumstances, choose to make an award in respect of a new appointment to "buy out" incentive arrangements forfeited on leaving a previous employer on a like-for-like basis. If the Remuneration Committee determines that it is appropriate to do so it will apply the following approach:

- The fair value of these incentives will be calculated taking into account: the proportion of the performance period completed on the date of the Executive's cessation of employment; the performance conditions attached to the vesting of these incentives; the likelihood of them being satisfied; and any other terms and conditions having a material effect on their value ("Lapsed Fair Value").
- The Remuneration Committee may then grant up to the same fair value as the Lapsed Fair Value where possible under the Company's incentive plans (subject to the limits under these plans) – the Remuneration Committee, however, also retains the discretion to provide the Lapsed Fair Value under specific arrangements in relation to the recruitment of the particular individual within the constraints set out in the Listing Rules.

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 the avoidance of doubt, this would not extend to pension arrangements which, as above, would be aligned with the majority of employees in the relevant jurisdiction.

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.

NOTES TO THE REMUNERATION POLICY TABLE CONTINUED

Notice periods

Executive Directors' service contracts require up to 12 months' notice to be given by Dialight in the event of termination. Fariyal Khanbabi's contract can be terminated with and without cause and requires up to 12 months' notice from either party and provides for pay in lieu of notice but does not contain any additional compensation provisions, nor does it 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 UK Corporate Governance 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 an Executive Director's contract 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 departing Executive Directors

The below summarises how the awards under the APBP, DRSP and PSP are typically treated in specific circumstances, with the final treatment remaining subject to the Committee's discretion

- Annual bonus: 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 – specifically, payment would only be made if they are classified as a "good leaver" pursuant to the rules of the APBP as well as business performance. For good leavers, deferred bonus shares will normally be retained by the participant and will be released in full following completion of the applicable deferral period. For other leavers, deferred bonus shares will lapse.
- DRSP/PSP Leavers before the end of the performance or vesting period: In most circumstances, awards will lapse. If the Executive Director is classed as a 'good leaver', outstanding DRSP/PSP shares would typically be pro-rated for the proportion of the vesting or performance period served and released, subject to applicable performance conditions for PSP awards, 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 except in compassionate circumstances.
- DRSP/PSP leavers after the end of the performance or vesting period: Any awards in a holding period will normally be released following completion of the holding period.

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. As noted above, 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 DRSP and/or 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 Group

The Remuneration Committee takes into account what the general rise in employee salaries was across the Group at the review date when considering changes to the remuneration of the Executive Directors. The Remuneration Committee 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, and the Board and Remuneration Committee are regularly updated on employee matters.

Shareholder views

The Remuneration Committee maintains a regular dialogue with its major shareholders and monitors trends and developments in corporate governance and market practice to ensure that the structure of Executive Director remuneration under the prevailing Remuneration Policy is appropriate. As outlined in 2020, the Remuneration Committee reviewed aspects of the Remuneration Policy in 2020 and consulted with its major shareholders as part of this process. During the 2020 shareholder consultation process the Remuneration Committee had responses from investors representing 72.4% of Dialight's issued share capital. The feedback was positive, with comments received being taken into account in the drafting of this policy. Following the consultation, and as noted in the Annual Statement, the Remuneration Committee proposed a new Remuneration Policy at the Company's 2021 AGM and this revised Remuneration Policy was supported by 96.3% of voting shareholders.

REMUNERATION: POLICY IMPLEMENTATION IN 2021 AND 2022

The Remuneration Committee is responsible for implementation of the Remuneration Policy. This page provides an "at a glance" summary of the implementation of the Remuneration Policy in 2021. The details of that policy implementation and details on how the policy will be implemented in 2022 is set out on pages 78 to 79.

2021 Remuneration outcomes

CEO (Fariyal Khanbabi)

Fixed components:

Base salary*:	£440,000
Pension:	5%
Benefits:	Car, health insurance, life assurance

Variable components (CEO):

Bonus metrics:	150% of salary (50% EBIT, 25% cash, 25% strategic goals)
Bonus outcome:	£424,875
PSP vesting:	Nil (2018 grant)
DRSP awards:**	89,547 (2021 grant)

* Annual increment of 3% effective from 1 October 2021.

** Restricted share awards made under the 2021 Remuneration Policy and awarded on 19 May 2021.

CFO* (see below)

Fixed components:

Base salary*:	£314,000
Pension:	5%
Benefits:	Car, health insurance, life assurance

Variable components (CFO):

Bonus metrics:	125% of salary (50% EBIT, 25% cash, 25% strategic goals)
Bonus outcome:	£0
PSP vesting:	n/a
DRSP awards:	Nil (2021 grant)

* This is a role-specific outcome combining total remuneration for Wai Kuen Chiang (CFO: 1 January 2021 – 14 June 2021) and Clive Jennings (Interim CFO: 4 May 2021 – 31 December 2021). Note – Clive Jennings was not a Director during the reporting year.

Non-Executive Directors

Chair fee:	£120,000
NED base fee*:	£42,000
SID uplift fee*:	£5,100
AuditCo chair uplift fee*:	£5,100
RemCo chair uplift fee*:	€7,000
Workforce Engagement NED:**	£5,000

Variable components (NEDs):

Nil

* Annual increment of 3% effective from 1 October 2021 on these roles.

** New appointee to role (Gaëlle Hotellier) – with remuneration effective from 1 August 2021.

2022 Implementation of Remuneration Policy

CEO (Fariyal Khanbabi)

Fixed components:

Base salary*:	£453,200
Pension:	5%
Benefits:	Car, health insurance, life assurance

Variable components (CEO):

Bonus metrics:	150% of salary (50% EBIT, 25% cash, 25% strategic goals)
DRSP awards:	Up to 62.5% of base salary

* Annual increment to be reviewed in March 2022.

CFO (Clive Jennings)

Fixed components:

Base salary*:	£295,000
Pension:	5%
Benefits:	Car, health insurance, life assurance

Variable components (CFO):

Bonus metrics:	125% of salary (50% EBIT, 25% cash, 25% strategic goals)
DRSP awards:	Up to 50% of base salary

* Annual increment to be reviewed in 2023.

Non-Executive Directors

Chair fee:	£120,000
NED base fee*:	£43,260
SID uplift fee*:	£5,253
AuditCo chair uplift fee*:	£5,253
RemCo chair uplift fee*:	€7,210
Workforce Engagement NED*:	£5,000

Variable components (NEDs):

Nil

* Annual increment to be reviewed in March 2022.

COVID-19 remuneration mitigations

2020 salary reductions: Executive and Non-Executive Directors took salary reductions of 20% of base salary for a five-month period in 2020 and the Chair took a 100% reduction for a six-month period in 2020. There have been no additional payments in 2021 to reimburse these salary reductions.

2021 annual salary review: Annual salary reviews across the Group were phased to reflect the gradual reduction in COVID-19 impacts. Annual increments were paid to manufacturing plant staff in May 2021, with the increment to the remainder of non-executive staff delayed until August 2021. Annual increments for Executive Committee members, Executive Directors and Non-Executive Directors were delayed until October 2021.

2021 OUTCOMES

Single figure of total remuneration (audited information)

The following tables provide details of the Directors' remuneration for the 2021 financial year, together with their remuneration for the 2020 financial year, in each case before deductions for income tax and national insurance contributions (where relevant):

2021 Directors' pay (£'000s)	Salary/fees	Benefits	Pension	Sub-total fixed	Bonus	PSP	Sub-total variable	Total Remuneration
Executive Directors								
Fariyal Khanbabi	443	21	22	486	425	–	–	911
Clive Jennings	187	–	9	196	–	–	–	196
Past Executive Directors								
Wai Kuen Chiang	127	5	6	138	–	–	–	138
Non-Executive Directors								
David Blood	97	–	–	97	–	–	–	97
Gotthard Haug	42	–	–	42	–	–	–	42
Gaëlle Hotellier	€67	–	–	€67	–	–	–	€67
Karen Oliver	66	–	–	66	–	–	–	66
David Thomas	49	–	–	49	–	–	–	49
Past Non-Executive Directors								
Stephen Bird	33	–	–	33	–	–	–	33

1 Fariyal Khanbabi received an annual salary increment of 3% with effect from 1 October 2021 (see pages 65 and 77).

2 Clive Jennings was not a Director. From 4 May 2021 to 31 December 2021 he was engaged as Interim CFO and attended Board meetings. Financial data in respect of Clive Jennings is disclosed in the interests of transparency and to facilitate year on year comparison.

3 Wai Kuen Chiang's appointment was terminated on 14 June 2021. No payments were made to Wai Kuen Chiang over and above contractual salary, pension and benefits through to the date of termination.

4 David Blood stepped down as Chair with effect from 10 September 2021 but remained as a Non-Executive Director. He received an annual fee increment of 3% with effect from 1 October 2021.

5 Gotthard Haug received an annual fee increment of 3% with effect from 1 October 2021.

6 Gaëlle Hotellier was appointed as Workforce Engagement NED (succeeding David Thomas) with effect from 1 September 2021. She receives a fee uplift of £5,000 per annum in respect of this role. She also received an annual fee increment of 3% with effect from 1 October 2021 in respect of her basic NED fee and her uplift fee for chairing the Remuneration Committee.

7 Karen Oliver was appointed as Chair with effect from 10 September 2021 on an annualised fee of £120,000.

8 Stephen Bird stepped down from the Board with effect from 10 September 2021 and received a pro-rated amount of his annual fee of £42,000 and his SID uplift.

9 Fariyal Khanbabi's bonus will be paid as £340,000 cash (cash element is capped at 50% of the maximum bonus opportunity) and the balance will be deferred into shares under the APBP.

2020 Directors' pay (£'000s)	Salary/fees	Benefits	Pension	Sub-total fixed	Bonus	PSP	Sub-total variable	Total remuneration
Executive Directors								
Fariyal Khanbabi	404	19	24	447	–	–	–	447
Wai Kuen Chiang	70	3	4	77	–	–	–	77
Non-Executive Directors								
Stephen Bird	43	–	–	43	–	–	–	43
David Blood	60	–	–	60	–	–	–	60
Gotthard Haug	28	–	–	28	–	–	–	28
Gaëlle Hotellier	€59	–	–	€59	–	–	–	€59
Karen Oliver	28	–	–	28	–	–	–	28
David Thomas	43	–	–	43	–	–	–	43
Past Non-Executive Directors								
Steve Good	11	–	–	11	–	–	–	11

1 Fariyal Khanbabi was awarded an uplift of £12,292 pcm (disregarded for the purposes of calculating pension payments, and bonus and PSP awards) with effect from 10 August 2019 and for the duration of, her appointment as Interim CEO of the Company. This period ended on 4 March 2020. From 5 March 2020, upon her appointment as CEO, she was remunerated on the basis of a permanent CEO salary at the annualised rate of £440,000. From May to September 2020, Fariyal Khanbabi voluntarily sacrificed 20% of her base salary.

2 Wai Kuen Chiang was appointed as a Director on 1 October 2020.

3 The Non-Executive Directors voluntarily sacrificed 20% of their fees from May to September 2020 inclusive. There were no increases in Non-Executive Director fee rates in 2020.

4 Stephen Bird continued to receive a fixed uplift in recognition of his role as SID. This fee was not increased in 2020.

5 David Blood voluntarily sacrificed 100% of his fees as Board Chair from April to September 2020 inclusive. There were no increases in fee rates in 2020.

6 Gotthard Haug and Karen Oliver were appointed as non-executive directors on 1 April 2020 and received a pro-rated amount of their annual fees of £42,000.

7 Steve Good stepped down as an non-executive director on 31 March 2020 and received a pro-rated amount of his annual fee of £42,000.

2021 OUTCOMES CONTINUED

Additional disclosures (audited information)

Executive Directors' benefits
Executive Directors receive benefits comprising life insurance, healthcare and car allowances.

Pensions
The figure includes the amount of Company contributions to Fariyal Khanbabi's and Wai Kuen Chiang's pensions during the year. Fariyal Khanbabi received Company contributions of 5% of her base salary (electing, mid-year, to receive a cash payment in lieu of the employer contribution). Wai Kuen Chiang received Company contributions of 5% of her base salary for the period until her departure on 14 June 2021. The Company is fully compliant with the requirement that Executive Directors' (both UK-based) pension contributions are aligned with the average pension contribution to the Group's UK workforce (a rate of 5%).

APBP: structure
Following adoption of the 2020 Remuneration Policy, the APBP for Executive Directors operates on the basis that is set out in the Remuneration Policy report on pages 69 and 71. Maximum bonus potential, paid in a mixture of cash and, in respect of performance above target, shares, is 150% of salary for the CEO and 125% of salary for the CFO. Anticipating, and applying, the 2021 Remuneration Policy, the 2021 Executive Director APBP was based on three elements: 50% of the available bonus pot being payable against an EBIT metric; 25% against Absolute Net Debt; and 25% against individual objectives set personally for the Executive Director.

APBP: personal objective element
The personal objectives were structured around objectives of a largely quantifiable nature as follows:

CEO role	CFO role
Securing value (10% of available bonus pot). Measured against quantified performance in securing new business for: new customers; winning strategic accounts; production efficiencies; and supply chain optimisation.	**Production efficiency (10% of available bonus pot)**. Measured against binary production efficiency targets for: operational costs analysis; capital costs and product margins.
Transformation (10% of available bonus pot). Measured against binary sustainability targets: development of "net-zero" strategy and finalisation of environmental product declarations on named product families.	**Transformation (10% of available bonus pot)**. Measured against delivery plan targets for: finance team building; and finance team leadership.
Culture (5% of available bonus pot). Measured against binary objectives and targeted to improve the culture of engagement, leadership and actively sponsoring diversity and inclusiveness – focused on: Dialight foundation; internal communications; and employee welfare.	**Controls (5% of available bonus pot)**. Measured against binary control-related targets relating to: internal controls framework; 1st level of defence controls; and 2nd level of defence controls.

ABPB: financial element
The performance range in respect of quantitative elements of the 2021 EBIT and Absolute Net Debt performance (collectively comprising 75% of the applicable bonus pot) were as follows:

	Threshold	Target	Maximum	Actual
EBIT element (after provision for bonus)	£3.0m	£4.0m	£5.0m	£4.5m
Absolute Net Debt	£11.0m	£10.0m	£9.0m	£15.7m

APBP: 2021 outcomes
As set out above, net debt performance did not meet the threshold target and therefore 0% of the net debt element of the available bonus pot was payable. 75% of the EBIT element of was achieved.
The Remuneration Committee considered the appropriateness of the formulaic levels of the vesting of the financial-target elements of the bonus scheme within the wider context of the Group performance and third-party impacts, and determined that, on balance, the level of pay-out on the financial-target elements of the bonus scheme was appropriate. The Remuneration Committee also reviewed performance against the personal objective elements of the bonus scheme – determining that each of the personal objectives had been met, notwithstanding the very considerable challenges that the business faced with the impact of COVID-19 and disrupted supply chains. The Remuneration Committee also considered the appropriateness of a 100% vesting of the personal objective element of the bonus scheme and determined that, as the performance objectives had in fact been exceeded, the personal objective element should be paid in full.

PSPs and RSPs (audited information)
Under the 2021 Remuneration Policy the Company's PSP scheme was replaced by a DRSP scheme (see pages 70 and 71). However, whilst Group Executives below Board Director level have received DRSPs for several years now, PSPs were still granted to Executive Directors up to and including the 2020 grant (which will vest in 2023). The following PSP awards to Executive Directors lapsed in their entirety as the relevant performance conditions were not achieved:

- awards made in 2017 (with the applicable three-year performance testing period ended on 31 December 2019:
- awards made in 2018 (with the applicable three-year performance testing period ended on 31 December 2020; and
- awards made in 2019 (with the applicable three-year performance testing period ended on 31 December 2021.

CEO pay: pay ratio methodology
The table on page 77 discloses the ratio of the CEO's pay against the remuneration of the Group's UK workforce in 2021. The ratios have been calculated in accordance with "Option A" of the three methodologies provided under the applicable regulations, which we believe to be the most statistically appropriate approach. This data is presented against the comparable, indicative, full-time equivalent total remuneration of those employees whose pay is ranked at the 25th percentile, median and 75th percentile in the Group's UK workforce. Where possible, employee pay was calculated based on actual pay and benefits for the 12-monthly payrolls within the full financial year. Given the small size of the Group's UK workforce, we have adopted the following protocols to avoid skewing the figures: if a role was maintained but the individual(s) in such role changed, the figure provided in respect of such role has been calculated on a pro rata basis for the two or more relevant individuals; and if there was a new role or a role was eliminated, the figure provided was calculated as an annualised rate for such role. It should be noted that all the Group's manufacturing operations and most of its employees are located outside of the UK and therefore do not fall within the reporting requirements.

CEO pay – pay ratio distorting events in 2020 and 2021.
The 2020 and 2021 ratios were impacted by the COVID-19 pandemic and resulted in adjustments in Group Remuneration Policy to achieve a more equitable outcome for all employees across the Group at a challenging time for our employees, supply chain and markets. In 2020 the impact was primarily the non-payment of any variable remuneration and by the voluntary reduction in CEO base pay across five months of the year by 20% (a progressive COVID-19 salary reduction policy under which the most highly

2021 OUTCOMES CONTINUED

paid executives in the Group voluntarily surrendered a higher percentage of their salary), and by layered salary reductions (with the reductions for employees declining in percentage terms at lower pay thresholds). It should be noted that no balancing payment has been made in respect of any salary reductions in 2020. In 2021 the impact was less marked (as all elements of variable remuneration were paid), but the annual incremental pay review was deferred for those Executives on the highest salaries until 1 October 2021 (for employees in our manufacturing operations the equivalent date was 1 May 2021). The pay ratio for the FY2019 is also included to aid analysis, but it should be noted that no variable remuneration was paid in FY2019. This ratio is therefore difficult to compare to prior years and can be expected to rise in future years as the impact of COVID-19 recedes and as variable elements of remuneration become payable.

Year	25th percentile ratio	50th percentile ratio	75th percentile ratio
2021	**8.3:1**	**6.0:1**	**3.6:1**
2020	11.7:1	7.7:1	5.6:1
2019	10.8: 1	8.4:1	5.3:1

CEO pay – Percentage change in the remuneration of the CEO.

The following table sets out the change in remuneration paid to the Chief Executive Officer from 2020 to 2021 compared with the average percentage change for employees as a whole. The above notes in respect of comparison of pay ratio calculations apply. The 2020 baseline amounts for CEO salary and benefits were impacted by the CEO COVID-19 salary reduction and it should also be noted that no APBP was paid in 2020 and that no CEO PSPs vested in 2020 or 2021. 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. Please note that the above disclosures are statutory disclosures, and the Committee welcomes this level of disclosure in principle. However, in light of the impact on remuneration levels of the pandemic, the Committee believes that: (a) the ratios set out are unlikely to reflect the long-term ratios; and (b) the movement in values year on year is not necessarily indicative of any likely movement in future years.

	% change 2020-2021	
	CEO	Group employees
Salary	3%*	3%
Bonus	100%	100%
Benefits	0%	0%

* Calculated using the contractual entitlement for 2020 in respect of Fariyal Khanbabi, after add back of her voluntary COVID-19 salary sacrifice (£36k) calculated at the rate of 20% of base salary for the months of May-September 2020 inclusive. It should also be noted that her 2021 pay increment was made effective only from October 2021 (the last quarter of the year).

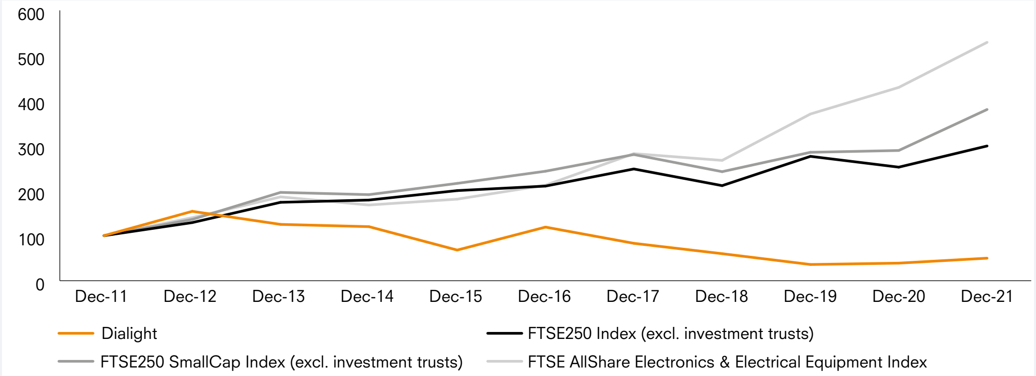
Relative importance of spend on pay

The table below shows the total amount paid by the Company to its employees (excluding severance costs) for each of 2020 and 2021 relative to the total amount of distributions in each year:

	Spend on pay	Distributions
2021	**£29.1m**	**£0m**
2020	£27.2m	£0m

Performance graph and table

The graph below sets out the Company's TSR performance over the past 10 years relative to the FTSE 250 Mid Index (excluding investment trusts), the FTSE SmallCap Index (excluding investment trusts) and the FTSE All-Share Electronic & Electrical Equipment Index, indices of which Dialight has been a constituent during the period:



Source: Datastream

Total CEO remuneration

The table below sets out the "single figure" of total remuneration of the CEO over the past nine years:

	2013	2014	2015[1]	2016	2017	2018	2019[2]	2020[3]	2021
	R Burton	R Burton	R Burton R Stuckes M Sutsko	M Sutsko	M Sutsko	M Rapp	M Rapp F Khanbabi	F Khanbabi	F Khanbabi
Total remuneration (£'000s)[4]	1,222	901	681	1,145	583	586	562	447	911
Bonus outcome (% of max)	-	29	-	74	-	-	-	-	62.5
PSP vesting outcome (% of max)	100	-	-	-	-	n/a	-	-	-

1 R Burton (January and February); R Stuckes (March to June); and M Sutsko (July to December).

2 M Rapp (January to 9 August); and F Khanbabi, as Interim CEO (from 10 August to December).

3 F Khanbabi as Interim CEO to 4 March, and as permanent CEO from 5 March. F Khanbabi also sacrificed £36k base salary for the months May–September inclusive, related to COVID-19 reduction.

4 All historical USD figures translated using the average 2021 GBP:USD rate of 1.38 to avoid currency impacts.

2021 OUTCOMES CONTINUED

RSP awards made in 2021 (audited information)

Following approval of the 2021 Remuneration Policy (see pages 65, 67 to 73) at the 2021 AGM, RSPs were granted to Fariyal Khanbabi as set out below. In accordance with the Remuneration Policy, awards will vest so long as: (a) the recipient remains in role as at the vesting date; and (b) the Remuneration Committee is satisfied that Dialight's underlying performance and delivery against strategy are sufficient to justify the level of pay-out. A mandatory two-year post-vesting holding period will apply to any shares received by Fariyal Khanbabi on the vesting or exercise of these awards (as well as any other applicable restrictions – see pages 71 to 73). In 2020 the total amount of nil cost options under the PSP schemes awarded to Fariyal Khanbabi was reduced by 25% to reflect a significant fall in the Company's share price between March 2019 and March 2020 – a total fall in the share price of 48.7%. A similar analysis was conducted prior to the award of RSPs to Fariyal Khanbabi in May 2021. Across the previous 12 months, the share price had risen by 81% and accordingly no reduction was made against the RSPs awarded to her.

	Director	
	Fariyal Khanbabi	**Wai Kuen Chiang**[2]
Plan	RSP	–
% of salary awarded	62.5%	–
Nature of interest	Nil-cost option	–
Exercise price per share	n/a	–
Number of shares subject to an award[1]	89,547	–
Face value of an award[1]	£275,000	–
Performance conditions	Recipient remains in role as at the date of vesting, and the Remuneration Committee is satisfied that the Company's underlying performance and delivery against strategy is sufficient to justify the level of pay-out	–
Date of grant of award	19.05.21	–
Date of end of performance period	19.05.24	–

1 Based on five-day average share price on date of award of £3.0710.

2 Wai Kuen Chiang left her role on 14 June 2021 and accordingly no RSPs were awarded to her.

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

Wai Kuen Chiang entered into an agreement to terminate her employment as CFO and her appointment as an Executive Director on 9 April 2021. She left the Group on 14 June 2021. She was paid salary and benefits pro rata up to her leave date on 14 June 2021. No exit or other termination payments were made to her with the exception of £3,500 in respect of legal fees. She was not entitled to any further payments and did not receive any bonus payment nor was any award of RSPs made, retained or vested on her departure. No past Director became entitled to any vesting of awards under prior APBP and/or PSP schemes.

IMPLEMENTATION OF THE REMUNERATION POLICY FOR 2022

2022: Executive Director salaries, pensions and benefits

Where there are any new appointments of Executive Directors in 2022, remuneration packages (including base pay) will be compliant with the 2021 Remuneration Policy. The Committee has adopted a clear and principled approach to the setting of Executive Director pension contributions, and this is set out in the 2021 Remuneration Policy. All Executive Director pension contributions will be capped at the amount offered in the applicable jurisdiction to the majority of employees. At the present time, in the case of UK-based Executive Directors, this means pension contributions being limited to 5% of base salary.

2022: APBP

The 2022 APBP bonus scheme for Executive Directors will be in line with that set out in the 2021 Remuneration Policy. Specifically: 25% of the available bonus opportunity will be tested against personal objectives; 25% against a cash conversion metric (for which a net debt target is used); and 50% against an EBIT metric. Details of the personal objectives and the other performance metrics will be released in the Company's 2023 Annual Report, but in outline they include: business growth (measured through new customers and strategic account metrics; sustainability (using appropriate ESG objectives); and talent and people focused objectives. Any bonus payable in excess of target performance (50% of the bonus opportunity) will be paid in shares. 50% of such shares will vest after two years of award date and 50% after three years of award date. Any shares vesting will have to be retained until such time as the recipient meets the applicable shareholding guidelines (which, under the 2021 Remuneration Policy, has increased to 200% of base salary).

2022: RSP

The 2022 share scheme awards for Executive Directors will be made in the awards window following release of the Group's preliminary announcement (27 March 2022). Any awards made will comply with the structure set out in the 2021 Remuneration Policy (as set out on pages 67 to 73) – i.e. to a maximum of 62.5% of base salary and with vesting based on continuation in role. Any shares that vest after the three-year performance period will have to be retained until such time as the recipient meets the applicable shareholding guidelines (which, under the 2021 Remuneration Policy, has increased to 200% of base salary).

IMPLEMENTATION OF THE REMUNERATION POLICY FOR 2022 CONTINUED

Outstanding awards under the PSP and APBP (audited information)

	Type of award	Award date	Number at 01.01.21	Awarded in year	Vested in year	Exercised in year	Lapsed in year	Number at 31.12.21	Exercise price	Earliest vesting/ exercise date	Expiry date
Fariyal Khanbabi											
PSP	NCO	16.03.18	50,862	–	–	–	(50,862)	-	–	16.03.21	16.03.23
PSP	NCO	05.03.19	68,803	–	–	–	–	68,803	–	05.03.22	05.03.24
PSP	NCO	27.03.20	201,367	–	–	–	–	201,367		27.03.23	27.03.25
RSP	NCO	19.05.21	–	89,547	–	–	–	89,547	–	19.05.24	19.05.26
Total			321,032	89,547	-	-	(50,862)	359,717			

Notes:

NCO denotes nil-cost options. These are subject to applicable performance conditions.

The average closing market price of a share over the five trading days of 12 May 2021 to 18 May 2021, which was used for the purpose of calculating award values on 19 May 2021 (the date of the awards recorded in the tables above as made during the year) was 307.10 pence.

Options under the PSP scheme 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 230 pence to 380 pence, with the price on 31 December 2021 being 330 pence.

Executive Directors' shareholding guidelines

Executive Directors are required (under the 2021 Remuneration Policy) to accumulate and maintain a holding of Dialight shares equivalent in value to 200% of base salary and are required to retain all net of tax APBP and PSP/RSP share vestings until the guidelines have been met. All Dialight shares, whether purchased on the open market or received through vestings and/or exercises under the various Dialight share plans, are included in the relevant calculation. The Dialight share price used to value a holding for the purposes of the guidelines will be the higher of: (a) the prevailing price on the date that the holding is valued (on the last working day of the relevant financial year); and (b) the acquisition price (i.e. the price on the date on which the shares were acquired/awards vested).

The Remuneration Committee is aware of the significance of Executive Directors having a personal holding of shares in Dialight (to align management's interests with those of the shareholders) and acted to further strengthen the shareholding guidelines under the terms of the 2021 Remuneration Policy. Fariyal Khanbabi's current shareholding position reflects the fact that neither her APBP or PSP awards have vested in recent years. Although the Committee recognises that Fariyal Khanbabi has not yet acquired the shareholding required, the Remuneration Committee acknowledges the mitigating circumstances surrounding this issue. The holdings of ordinary shares in the Company as at 31 December 2021 by the Executive Directors are shown below.

Total shareholding of Directors (audited information)

The table below shows the holdings of ordinary shares in the Company as at 31 December 2021 by each of the Directors:

	Beneficially-held shares[1]		
Year	Ordinary shares at 1 January 2021	Ordinary shares at 31 December 2021	Unvested and/or subject to performance conditions[2]
Fariyal Khanbabi	12,389	12,389	359,717
David Blood	–	–	–
Gotthard Haug	–	2,500	–
Gaëlle Hotellier	882	882	–
Karen Oliver	–	2,698	–
David Thomas	5,994	5,994	–

1 Some of these shares may be held through nominees.

2 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 2021 are as follows:

Directors	Commencement date	Expiry date of current employment/service agreement or letter of appointment
David Blood	1 July 2015	Following his resumption of an NED role (on stepping down as Chair on 10 September 2021), David's engagement has reverted to his previous appointment terms with a term of up to three years.
Gotthard Haug	1 April 2020	Letter of appointment was for an initial term of three years (ending on 31 March 2023).
Gaëlle Hotellier	3 October 2016	Letter of appointment was for an initial term of three years. A further three-year extension was agreed in 2019 (ending 2 October 2022).
Clive Jennings	18 January 2022	The contract is terminable by the Company or the Director on 6 months' notice.
Fariyal Khanbabi	8 September 2014	The contract is terminable by the Company or the Director on 12 months' notice. Fariyal entered into a new service agreement on 4 March 2020 upon assuming the CEO role. She retains continuity of service from her earlier agreement entered into on 8 September 2014 (in respect of her CFO role) and supersedes both the arrangements put in place upon her assuming the interim CEO role and her previous contractual entitlement to a higher pension contribution.
Karen Oliver	1 April 2020	Letter of appointment was for an initial term of three years (ending 31 March 2023). Karen entered into a further letter of appointment on assuming the Chair role extending the term expiry date to the date of the Company's AGM in 2024.
David Thomas	26 April 2016	Letter of appointment was for an initial term of three years. A further three-year extension was agreed in 2019 (ending 25 April 2022).

OTHER STATUTORY INFORMATION

Activities
Dialight plc is a holding company. A list of its subsidiary companies, including its overseas branches, is set out on pages 121 and 122. Our businesses by sector and their activities are set out on page 4.

Ordinary dividends
Under the terms of the COVID-19 CLBILS (£8m) and associated additional commercial loan (£2m) facilities, distributions are not permitted where there is an outstanding amount under either facility. The Board is therefore not proposing any final dividend payment for 2021 (2020: nil). The Group has a clear capital allocation discipline and is committed to returning future excess funds to shareholders via future dividend or share repurchase, subject to any restrictions under these facilities.

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 205,026 shares in the Company as at 31 December 2021 (2020: nil) and it is likely that it will acquire further shares in the Company in 2022 in anticipation of future vestings under the DRSP. It is anticipated that the ESOT will waive any right to dividends payable in respect of any Dialight shares held by the ESOT.

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 20 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 2021 under the authority granted at the 2021 Annual General Meeting ("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.

Substantial interests in shares
As at 9 March 2022, the Company had been notified, in accordance with DTR chapter 5, of the following voting rights as a shareholder of the Company.

Shareholder	Holding	% Voting rights
Aberforth Partners LLP	7,637,198	23.42
Generation Investment Management LLP	6,532,248	20.03
Schroder Investment Management	3,948,928	12.11
Sterling Strategic Value Fund S.A., SICAV-RAIF	3,279,940	10.06
Impax Asset Management	2,295,552	7.04
Odyssean Capital	2,277,700	6.98
Blackmoor Investment Partners	1,212,440	3.72
Tee Family	541,507	1.66

Employee share plans
Details of employee share plans are set out in note 16 to the financial statements. The Company currently has in place two share plans: the Restricted Share Plan ("DRSP") (which under the 2021 Remuneration Policy succeeded the Dialight Performance Share Plan ("PSP")) and the Annual Performance Bonus Plan ("APBP"). It also has a Sharesave Plan, but this was not used for subscriptions in 2021 as it is a UK-orientated scheme and was considered insufficiently responsive to the Group's international employee footprint. There are currently no active savers under the Sharesave Plan. Further details of these share plans are provided in the report of the Remuneration Committee.

The rules of the DRSP (and the preceding 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 DRSP (and the preceding 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 ESOT held 205,026 shares as at 31 December 2021 (2020: nil)) and it is likely that it will acquire further shares in the Company in 2022 in anticipation of future vestings under the DRSP (and the preceding PSP). 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, the UK Corporate Governance Code (the "2018 Code"), the Companies Act 2006 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 AGM and shall then be eligible subject to Board recommendation, for election at that meeting. In accordance with Provision 18 of the 2018 Code each of the Directors, being eligible, will offer themselves for election or re-election at the 2022 AGM (subject to any retirements). 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.

OTHER STATUTORY INFORMATION CONTINUED

Powers of Directors
The powers of Directors are described in the Articles and in the Matters Reserved to the Board, copies of which are available on the Company's website at www.ir.dialight.com, and are summarised in the Corporate Governance report on page 57.

Directors' indemnities
Qualifying third party indemnity provisions (as defined by s234 of the Companies Act 2006) were in force in the reporting period for the benefit of the then Directors of the Company and the then Directors of certain subsidiaries of the Company in relation to certain losses and liabilities which they may incur (or have incurred) in connection with their duties, powers and/or office. The Group also maintains Directors' & Officers' liability insurance which gives appropriate cover for legal action brought against any Directors of the Company and/or its subsidiaries.

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 entered into on 25 February 2020 for an initial duration of three years expiring on February 2023. A £10m CLBILS facility and commercial loan facility was completed on 15 June 2020. Under the terms of both facilities, 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 20 business days of the change.

Allotment authority
Under the Companies Act 2006, the Directors may only allot shares if authorised by shareholders to do so. At the 2022 AGM, 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, an authority granted at the 2022 AGM will expire at the conclusion of the AGM of the Company in 2023. 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 2022 AGM, 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 the relevant date set out in the notice of the 2022 AGM, of which 5% of the issued share capital can only be issued for the purposes of financing an acquisition or other capital investment. Whilst it believes that it is entirely appropriate (not least for administrative purposes), and in line with good corporate practice, to seek the allotments that will be set out in the notes accompanying the resolutions to be considered at the 2022 AGM (the "Notes"), it has again provided additional assurance, in the Notes, for shareholders with regard to the circumstances under which such powers may be exercised. In particular, the Company notes that in excess of 99% of voting shareholders supported the allotment resolutions at the 2021 AGM.

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 AGM. However, shareholders' attention is drawn to the matters set out on page 64 in respect of the audit re-tender.

AGM
The Company's AGM will be held on Thursday 19 May 2022. 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.

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 2021.

The Corporate Governance report set out on pages 49 to 81, 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 14 to 16. Details related to employee matters are in the "Our people" section on pages 24 to 26. Environmental matters, including greenhouse gas emissions reporting, are included within the ESG Report on pages 19 to 39. Information about the use of financial instruments by the Company and its subsidiaries is given in note 24 to the financial statements. Information on the Company's political and charitable contributions during the year is set out on page 27.

For the purposes of compliance with DTR 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.

Richard Allan
Company Secretary
27 March 2022

DIRECTORS' RESPONSIBILITY STATEMENT

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

UK company law requires the Directors to prepare Group and parent company financial statements for each financial year. They are required to prepare the Group financial statements in accordance with UK-adopted international accounting standards and applicable law and have elected to prepare the parent company financial statements in accordance with UK accounting standards and applicable law, including FRS 102 (the Financial Reporting Standard applicable in the UK and Republic of Ireland). 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 the Group's 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 to 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 UK-adopted international accounting standards;
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed (subject to any material departures being disclosed and explained in the parent company financial statements);
- 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 regulations, the Directors are also responsible for preparing a Strategic Report, a Directors' report, a Directors' Remuneration Report and a Corporate Governance Statement that complies with that law and those regulations. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

We confirm that to the best of our knowledge:

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

We consider the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide 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.

Fariyal Khanbabi
Group Chief Executive
27 March 2022

Independent auditor's report to the members of Dialight plc

1. Our opinion is unmodified

We have audited the financial statements of Dialight plc ("the Company") for the year ended 31 December 2021 which comprise the Consolidated income statement, Consolidated statement of comprehensive income, Consolidated statement of changes in equity, Consolidated statement of 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 4.

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 2021 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the parent Company financial statements have been properly prepared in accordance with 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.

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 20 financial years ended 31 December 2021. 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	£0.67m (2020: £0.55m) 0.5% (2020: 0.5%) of group revenue	
Coverage	97.9% (2020: 99%) of group profit before tax	
Key audit matters		**vs 2020**
Recurring risk	Inventory valuation	↔
	Termination of outsourced manufacturing supply agreement	↔

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

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Independent auditor's report to the members of Dialight plc continued

Recurring risk	The risk	Our response
Inventory Valuation (£42.4 million; 2020: £32.5 million) Refer to page 62 (Audit Committee Report), pages 95 and 99 (accounting policy) and page 114 (financial disclosures).	**Subjective estimate: Inventory Provision** The group has significant inventory balance representing 34% (2020: 30%) of the total assets. – The group operates in industry whereby development in product technology may result in inventory becoming slow moving or obsolete. This factor, in turn means that certain finished goods items cannot be sold for at least the carrying amounts and raw materials and sub–assembly inventory cannot be used in the manufacture of products. – Significant levels of longer dated inventory may indicate an element of slow moving or obsolete inventory that requires provision. – Furthermore, we consider there is a fraud risk relating to inventory provisioning as management could alter the provision in order to create an artificial improvement in the Group's trading performance. – The effect of these matters is that, as part of our risk assessment, we determined that the provision for 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. Further details are set out in note 2 and note 17.	Our procedures included: – **Methodology implementation:** We assessed the methodology behind the provision calculation to consider whether judgments applied in the methodology are reasonable and incorporates the accounting standards appropriately. – **Reperformance:** we independently recalculated the provision for raw materials and sub-assemblies based on the methodology provided by the directors, using inventory aging and usage data. For variances noted for slow moving inventory, we challenged the directors on their judgment for not recognising a provision in respect of such items. – **Reperformance:** we independently recalculated the finished goods provisions based on the methodology provided by directors, using historic sales, backlog and pipeline data. – **Tests of detail:** we sampled finished good products with significant excess stock that had not been either partially or fully provided for. For each inventory product selected we challenged the directors on their category allocation by developing our own expectation of what might be considered slow moving and seeking specific corroboration from the Group's engineering team on the continuing value and utility of such inventory. – **Tests of detail:** we verified data elements in the provision calculation such as historic usage of raw materials and subassemblies, backlog and pipeline data for finished goods to supporting documentation. – **Test of detail:** We tested that finished goods on hand at the end of the year were recorded at the lower of cost and net realisable value by testing a sample of inventory items to the most recent sales price or prices in backlog and pipeline data. – **Sensitivity analysis:** We performed sensitivity analysis on judgemental assumptions such as determination of the excess stock that bears a risk of not being recoverable. – **Assessing transparency:** We assessed the adequacy of the group's disclosures about the degree of estimation involved in arriving at the provision. We performed the detailed tests above rather than seeking to rely on any of the Group's controls because our knowledge of the design of these controls indicated that we would be unlikely to obtain the required evidence to support reliance on controls. **Our results:** We found the resulting estimate of the inventory provision to be acceptable (2020: acceptable) Having found the estimate to be at the low end of the range we consider to be acceptable, we exercised judgement to determine the acceptability of the amount recognised, taking into account the clarity of the associated disclosure of the provision as a percentage of inventory.

Independent auditor's report to the members of Dialight plc continued

2. Key audit matters: our assessment of risks of material misstatement (continued)

Recurring risk	The risk	Our response
Termination of outsourced manufacturing supply arrangement: Group and Parent Refer to page 62 (Audit Committee Report), page 102 (accounting policy) and page 120 (financial disclosures).	**Dispute outcome** On 20 December 2019 a claim was brought against the parent company by its former outsourced manufacturing partner relating to excess and obsolete inventory and unpaid trade payables balances netted off with an amount held in Escrow. Following the termination of the group's manufacturing outsourcing agreement, the claimant has alleged it should be reimbursed for this excess and obsolete inventory. This has been disclosed as a contingent liability (£0-£8.9m) and has not been recognised as a provision in the Group's financial statements. There is a significant judgement involved in determining the likelihood of success of the claim, and if the claimant is successful, the potential range of reasonable financial outflows in the settlement could be greater than our materiality for the financial statements as a whole, and possibly many times that amount.	Our procedures included: – **Enquiry of lawyers:** we assessed the status and likely outcome of the claim through enquiries of the Group's internal legal counsel, and inspection of internal notes and reports, as well as discussions with the Group's external counsel, review of summary judgement requests, and formal legal confirmations from the Group's external counsel as to the status of proceedings. – **Accounting analysis:** we evaluated the treatment of outstanding balances with Sanmina, and the assessment performed by the Directors in determining whether the criteria for recognising a provision or a contingent liability was met at year end. – **Assessing transparency:** we assessed whether the Group's and parent company's disclosures relating to the contingent liability and related balances adequately disclose the circumstances and judgement applied. We performed the tests above rather than seeking to rely on any of the group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. **Our results:** – We found the treatment and disclosure of this contingent liability to be acceptable. (2020: acceptable).

We continue to perform procedures over Inventory Cost. However, as there has been no further change in the accounting policy or methodology, no material issues were identified within the prior period, and the materiality threshold has increased, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

We continue to perform procedures over Going Concern and recoverability of goodwill and other intangible assets. However, following improvement in the group's results, we have not assessed either of these as one of the most significant risks in our current year audit and, therefore, these are not separately identified in our report this year.

We continue to perform procedures over capitalization of development costs. However, as there has been no further change in the accounting policy or methodology, no material issues were identified in the prior period, and the materiality threshold has increased, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

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 £0.67 million (2020: £0.55m), determined with reference to a benchmark of total revenue, of £131m, of which it represents 0.5% (2020: 0.5% of Group revenue).

We consider total revenue to be the most appropriate benchmark given the recent volatility in the Group's profitability benchmarks.

Materiality for the parent company financial statements as a whole was set at £0.37m (2020: £0.3m), determined with reference to a benchmark of gross assets, of which it represents 0.6% (2020: 0.5%).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

Performance materiality was set at 65% (2020: 65%) of materiality for the financial statements as a whole, which equates to £0.44m (2020: £0.3m) for the Group and £0.24m (2020: £0.2m) for the parent company. We applied this percentage in our determination of performance materiality based on the level of identified control deficiencies and entity level control deficiencies identified during the prior period.

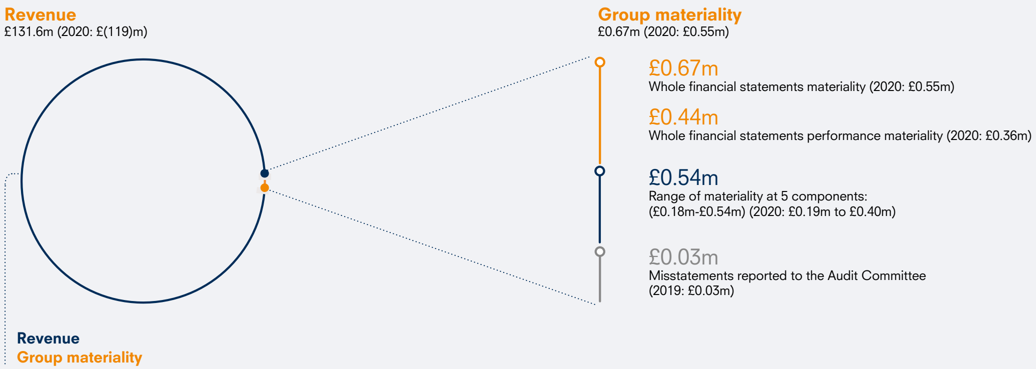
We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £33,500 (2020: £27,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

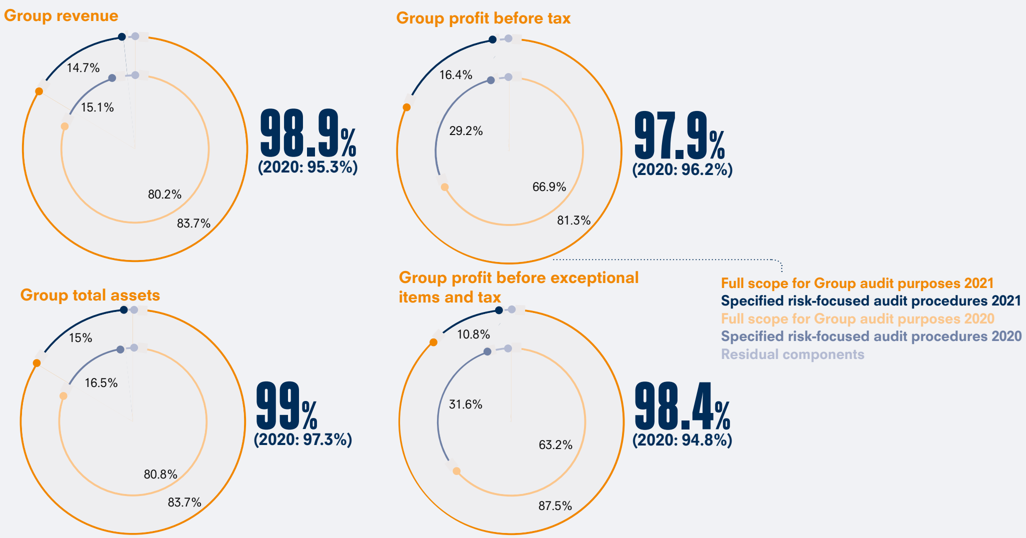
Of the Group's eight (2020: eight) reporting components, we subjected three (2020: three) to full scope audits for Group purposes and two (2020: two) to specified risk-focused audit procedures. The latter were not individually financially significant enough to require a full scope audits for Group purposes, but did present specific individual risks that needed to be addressed.

Independent auditor's report to the members of Dialight plc continued

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

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





The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the component materialities, which ranged from £0.18m to £0.54m (2020: £0.19m -£0.4m), having regard to the mix of size and risk profile of the Group across the components. The work on two of the five components (2020: two of the five components) was performed by component auditors and the rest, including the audit of the parent company, was performed by the Group team.

The scope of the audit work performed was predominately substantive as we placed limited reliance upon the Group's internal control over financial reporting.

Telephone conference meetings were held with the two component auditors that were not physically visited due to travel restrictions imposed as a result of the COVID 19 pandemic. 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. Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group's and the Company'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").

We used our knowledge of the Group, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Company's available financial resources and metrics relevant to debt covenants over this period were:

– The uncertainty of the ongoing impact of supply chain disruption, COVID-19, and inflationary cost pressures on the Group's revenue growth and gross margin.

We considered whether these risks could plausibly affect the liquidity in the going concern period by comparing severe, but plausible downside scenarios that could arise from these risks individually and collectively against the level of available financial resources and covenants indicated by the Group's financial forecasts.

We considered whether these risks could plausibly affect the liquidity and covenant compliance in the going concern period by comparing severe, but plausible downside scenarios that could arise from these risks individually and collectively against the level of available financial resources and covenants indicated by the Group's financial forecasts.

Independent auditor's report to the members of Dialight plc continued

4. Going concern (continued)
Our procedures included:

- Critically assessing assumptions in the Directors' initial downside scenarios relevant to liquidity and covenant metrics, in particular in relation to profitability by comparing to historical trends, investor market analysis and assessing whether downside scenarios applied mutually consistent assumptions in aggregate, taking into account all reasonably possible downsides. As a result of this comparison we requested the Directors to apply more severe downside assumptions for some sensitivities. We also compared past budgets to actual results to assess the directors' track record of budgeting accurately.
- We inspected the confirmation from the lender of the level of committed financing, and the associated covenant requirements, including their approval of the refinancing of the £25m facility until March 2025.

We considered whether the going concern disclosure in note 2 to the financial statements gives a full and accurate description of the Directors' assessment of going concern, including the identified risks, dependencies and related sensitivities.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Company's ability to continue as a going concern for the going concern period;
- we have nothing 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 the going concern period, and we found the going concern disclosure in note 2 to be acceptable; and
- the related statement under the Listing Rules set out on page 50 is materially consistent with the financial statements and our audit knowledge.

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 above conclusions are not a guarantee that the Group or the Company will continue in operation.

5. Fraud and breaches of laws and regulations – ability to detect
Identifying and responding to risks of material misstatement due to fraud
To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors and the Audit Committee as to the Group's high level policies and procedures to prevent and detect fraud, and the Group's channel for "whistleblowing" as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board and Audit Committee minutes.
- Considering remuneration incentive schemes and performance targets for management and directors.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

This included communications from the Group to component audit teams of relevant fraud risks identified at the Group level and request component audit teams to report to the Group audit team any instances of fraud that could give rise to a material misstatement at Group.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that Group and component management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition as the calculation of revenue recognition is non-complex with limited opportunity for manipulation of recognition under IFRS 15.

We also identified fraud risks in relation to inappropriate capitalisation of development costs, allocation of overhead and labour costs to inventory cost, and inventory provision manipulation, in response to possible pressures to meet profit targets and identified opportunities to manipulate results.

Further details in respect of inventory provision manipulation are set out in the key audit matter disclosure in section 2 of this report.

We also performed procedures including:

- Identifying journal entries to test for all full scope components based on a risk criteria and comparing the identified entries to supporting documentation. Those included journals with unusual account pairings to cash, revenue and accounts associated with a significant risk, journals to seldom used accounts, journals with missing descriptions or journals containing selected risk terms.
- Agree a sample of capitalised development cost to underlying support, including direct confirmation of timesheets with personnel.
- Assess a sample of projects against the IAS 38 capitalised criteria, through review of the business case and challenge of management.
- Agree a sample of capitalised inventory costs to underlying support, and re-calculate the allocation of overheads.
- Assess the appropriateness of the overhead allocation methodology and perform sensitivities over the underlying assumptions.

Independent auditor's report to the members of Dialight plc continued

5. Fraud and breaches of laws and regulations – ability to detect (continued)

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

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 (as required by the audit standards), and discussed with the directors 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 full-scope component audit teams of relevant laws and regulations identified at the Group level, and a request for full scope component auditors to report to the Group team and any instances of non-compliance with laws and regulations that could give rise to a material misstatement at Group.

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), distributable profits legislation and taxation legislation and we assessed the extend 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. We identified the following areas as those most likely to have such an effect: health and safety, data protection laws, anti-bribery, employment law, and certain aspects of company legislation recognising the 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. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

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 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 fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

6. 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 emerging and principal risks and longer-term viability

We are required to perform procedures to identify whether there is a material inconsistency between the directors' disclosures in respect of emerging and principal risks and the viability statement, and the financial statements and our audit knowledge.

Based on those procedures, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within the viability statement on page 48 that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Emerging and Principal Risks disclosures describing these risks and how emerging risks are identified, 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.

Independent auditor's report to the members of Dialight plc continued

6. We have nothing to report on the other information in the Annual report (continued)

We are also required to review the viability statement, set out on page 48 under the Listing Rules. Based on the above procedures, we have concluded that the above disclosures are materially consistent with the financial statements and our audit knowledge.

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 judgements 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 perform procedures to identify whether there is a material inconsistency between the directors' corporate governance disclosures and the financial statements and our audit knowledge.

Based on those procedures, we have concluded that each of the following is materially consistent with the financial statements and our audit knowledge:

- 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;
- the section of the annual report describing the work of the Audit Committee, including the significant issues that the audit committee considered in relation to the financial statements, and how these issues were addressed; and
- the section of the annual report that describes the review of the effectiveness of the Group's risk management and internal control systems.

We are required to review the compliance statements relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review. We have nothing to report in respect this respect.

7. 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.

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 82, 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 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 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.

9. 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.

Lynton Richmond (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

27 March 2022

Consolidated income statement

for the year ended 31 December 2021

	Note	2021 £m	2020 £m
Revenue	5	**131.6**	119.0
Cost of sales	6	**(84.6)**	(85.0)
Gross profit		**47.0**	34.0
Distribution costs		**(21.3)**	(20.8)
Administrative expenses	6	**(23.6)**	(22.0)
Profit/(loss) from operating activities	5	**2.1**	(8.8)
Underlying profit/(loss) from operating activities		**4.5**	(6.4)
Non underlying items	6	**(2.4)**	(2.4)
Profit/(loss) from operating activities	5	**2.1**	(8.8)
Financial expense	8	**(1.4)**	(1.3)
Profit/(loss) before tax	5	**0.7**	(10.1)
Taxation	9	**(0.4)**	2.3
Profit/(loss) for the year	10	**0.3**	(7.8)
Profit/(loss) for the year attributable to:			
Equity owners of the Company		**0.1**	(7.9)
Non-controlling interests		**0.2**	0.1
Profit/(loss) for the year		**0.3**	(7.8)
Profit/(loss) per share			
Basic	11	**0.9p**	(24.0)p
Diluted	11	**0.9p**	(24.0)p

These results are all from continuing operations.

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

Consolidated statement of comprehensive income

for the year ended 31 December 2021

	Note	2021 £m	2020 £m
Other comprehensive income/(expense)			
Items that may be reclassified subsequently to profit and loss			
Exchange differences on translation of foreign operations		**0.7**	(1.8)
Income tax on exchange differences on translation of foreign operations		**–**	(0.3)
		0.7	(2.1)
Items that will not be reclassified subsequently to profit and loss			
Remeasurement of defined benefit pension liability	16	**2.5**	(1.3)
Income tax on remeasurement of defined benefit pension liability	9	**(0.5)**	0.3
		2.0	(1.0)
Other comprehensive income/(expense) for the year, net of tax		**2.7**	(3.1)
Profit/(loss) for the year		**0.3**	(7.8)
Total comprehensive income/(expense) for the year		**3.0**	(10.9)
Attributable to:			
Owners of the parent		**2.8**	(11.0)
Non-controlling interests		**0.2**	0.1
Total comprehensive income/(expense) for the year		**3.0**	(10.9)

Consolidated statement of changes in equity

for the year ended 31 December 2021

	Note	Share capital £m	Merger reserve £m	Translation reserve £m	Capital redemption reserve £m	Own Shares £m	Retained earnings £m	**Total £m**	Non-controlling interests £m	**Total equity £m**
Balance at 1 January 2021		0.6	0.5	9.3	2.2	–	44.3	**56.9**	0.4	**57.3**
Profit for the year		–	–	–	–	–	0.1	**0.1**	0.2	**0.3**
Other comprehensive income:										
Foreign exchange translation differences, net of tax		–	–	0.7	–	–	–	**0.7**	–	**0.7**
Remeasurement of defined benefit pension liability, net of tax	16	–	–	–	–	–	2.0	**2.0**	–	**2.0**
Total other comprehensive income		–	–	0.7	–	–	2.0	**2.7**	–	**2.7**
Total comprehensive income for the year		–	–	0.7	–	–	2.1	**2.8**	0.2	**3.0**
Transactions with owners, recorded directly in equity:										
Share-based payments	7	–	–	–	–	–	0.6	**0.6**	–	**0.6**
Re-purchase of own shares	20	–	–	–	–	(0.7)	–	**(0.7)**	–	**(0.7)**
Total transactions with owners		–	–	–	–	(0.7)	0.6	**(0.1)**	–	**(0.1)**
Balance at 31 December 2021		0.6	0.5	10.0	2.2	(0.7)	47.0	**59.6**	0.6	**60.2**

	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 2020		0.6	0.5	11.6	2.2	52.6	**67.5**	0.3	**67.8**
Loss for the year		–	–	–	–	(7.9)	**(7.9)**	0.1	**(7.8)**
Other comprehensive (expense)/income:									
Foreign exchange translation differences, net of tax		–	–	(2.1)	–	–	**(2.1)**	–	**(2.1)**
Disposal of subsidiary		–	–	(0.2)	–	0.2	**–**	–	**–**
Remeasurement of defined benefit pension liability, net of tax	16	–	–	–	–	(1.0)	**(1.0)**	–	**(1.0)**
Total other comprehensive expense		–	–	(2.3)	–	(0.8)	**(3.1)**	–	**(3.1)**
Total comprehensive (expense)/income for the year		–	–	(2.3)	–	(8.7)	**(11.0)**	0.1	**(10.9)**
Transactions with owners, recorded directly in equity:									
Share-based payments	7	–	–	–	–	0.4	**0.4**	–	**0.4**
Total transactions with owners		–	–	–	–	0.4	**0.4**	–	**0.4**
Balance at 31 December 2020		0.6	0.5	9.3	2.2	44.3	**56.9**	0.4	**57.3**

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

Consolidated statement of total financial position

at 31 December 2021

	Note	2021 £m	2020 £m
Assets			
Property, plant and equipment	12	**12.0**	12.8
Right of use assets	13	**11.3**	9.8
Intangible assets	14	**21.4**	21.2
Deferred tax assets	15	**1.3**	1.4
Employee benefits	16	**3.9**	1.1
Other receivables	18	**4.7**	5.0
Total non-current assets		**54.6**	51.3
Inventories	17	**42.4**	32.5
Trade and other receivables	18	**26.2**	19.9
Income tax recoverable		**1.2**	1.0
Cash and cash equivalents	19	**1.2**	5.3
Total current assets		**71.0**	58.7
Total assets		**125.6**	110.0
Liabilities			
Trade and other payables	21	**(32.9)**	(21.5)
Provisions	22	**(0.6)**	(1.5)
Tax liabilities		**(1.7)**	(1.5)
Lease liabilities	13	**(1.2)**	(1.4)
Borrowings	23	**(4.0)**	(4.0)
Total current liabilities		**(40.4)**	(29.9)
Provisions	22	**(1.3)**	(1.2)
Borrowings	23	**(12.9)**	(12.7)
Lease liabilities	13	**(10.8)**	(8.9)
Total non-current liabilities		**(25.0)**	(22.8)
Total liabilities		**(65.4)**	(52.7)
Net assets		**60.2**	57.3

	Note	2021 £m	2020 £m
Equity			
Issued share capital	20	**0.6**	0.6
Merger reserve	20	**0.5**	0.5
Other reserves		**11.5**	11.5
Retained earnings		**47.0**	44.3
		59.6	56.9
Non-controlling interests		**0.6**	0.4
Total equity		**60.2**	57.3

The accompanying notes form part of these financial statements. These financial statements were approved by the Board of Directors on 27 March 2022 and were signed on its behalf by:

Fariyal Khanbabi
Group Chief Executive

Clive Jennings
Chief Finance Officer

Company number: 2486024

Consolidated statement of cash flows

for the year ended 31 December 2021

	Note	2021 £m	2020 £m
Operating activities			
Profit/(loss) for the year		**0.3**	(7.8)
Adjustments for:			
Financial expense	8	**1.4**	1.3
Income tax expense/(credit)	9	**0.4**	(2.3)
Share-based payments		**0.6**	0.4
Depreciation of property, plant and equipment	12	**3.1**	3.1
Depreciation of right of use assets	13	**2.2**	2.0
Amortisation of intangible assets	14	**3.5**	3.0
Impairment losses on intangible assets	14	**–**	0.3
Loss on disposal of business	6	**–**	1.1
Operating cash flow before movements in working capital		**11.5**	1.1
(Increase)/decrease in inventories		**(9.6)**	12.6
(Increase)/decrease in trade and other receivables		**(5.8)**	2.7
Increase/(decrease) in trade and other payables		**11.1**	(6.3)
(Decrease)/increase in provisions	22	**(0.8)**	0.5
Pension contributions in excess of the income statement charge	16	**(0.4)**	(0.1)
Cash generated by operations		**6.0**	10.5
Income taxes (paid)/received		**(0.6)**	2.9
Interest paid[2]	8,13	**(1.4)**	(1.3)
Net cash generated by operations		**4.0**	12.1
Investing activities			
Capital expenditure	12	**(2.1)**	(0.8)
Capitalised expenditure on development costs	14	**(3.2)**	(3.4)
Purchase of software and licences	14	**(0.3)**	(0.3)
Net cash used in investing activities		**(5.6)**	(4.5)

	Note	2021 £m	2020 £m
Financing activities			
Drawdown of bank facility	23	**4.2**	10.0
Repayment of bank facility	23	**(4.0)**	(10.3)
Re-purchase of own shares	20	**(0.7)**	–
Repayment of lease liabilities[1]	13	**(1.7)**	(1.7)
Net outflow from financing activities		**(2.2)**	(2.0)
Net (decrease)/increase in cash and cash equivalents		**(3.8)**	5.6
Cash and cash equivalents at beginning of year		**5.3**	0.5
Effect of exchange rates		**(0.3)**	(0.8)
Cash and cash equivalents at end of year	19	**1.2**	5.3

The Group has classified:

1 cash payments for the principal portion of lease payments as financing activities;
2 cash payments for the interest portion as operating activities consistent with the presentation of interest payments chosen by the Group.

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

Notes to the consolidated financial statements

for the year ended 31 December 2021

1. Reporting entity

Dialight plc is a public listed company which is listed on the London Stock Exchange and is incorporated and domiciled in England and Wales under registration number 2486024. Details of the Company's registered office are set out on page 132 under the "Directory and shareholder Information" section. The consolidated financial statements of the Company for the year ended 31 December 2021 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 in accordance with UK-adopted International Accounting Standards in conformity with the requirements of the Companies Act 2006. 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 Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 4 to 48. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are discussed in the Group Chief Financial Officer's Review on pages 45 to 47.

The uncertainty as to the future impact on the financial performance and cash flows of the Group from the ongoing COVID-19 pandemic and worldwide supply chain issues have been considered as part of the Group's adoption of the going concern basis in the preparation of the consolidated financial statements. The consolidated financial statements are prepared on a going concern basis which the Directors believe to be appropriate for the reasons stated below.

The Group's multicurrency revolving credit facility with HSBC of £25m was due to expire in February 2023 but has been re-negotiated until March 2025. The new £25m multi-currency three-year loan has been fully approved and contains normal covenants, covering maximum net leverage and minimum interest cover levels. Documentation is ongoing and formal signing is expected in April. In accordance with the Group's strong ESG commitment, the new facility is a sustainability linked loan.

The Group increased its banking facility with HSBC on 15 June 2020 by adding a further £10m facility on a three year basis, utilising a combination of £8m under the COVID-19 Large Business Interruption Scheme (CLBILS) and a £2m commercial loan. The £10m additional facilities are repayable over 30 months, in equal instalments, from January 2021. £4m was repaid in the year, with a further £4m payable in 2022 and the facilities fully repaid by June 2023 at the latest. At 31 December the Group had £31m of available funds across both facilities and £1.2m of cash on hand.

Further details, including the relevant covenant tests, are included in note 23.

In assessing the going concern assumptions, the Directors have prepared various scenarios that reflect the continuing impact of COVID-19, worldwide commodity shortages, extended logistics delays, government enforced restrictions in the countries we operate in, the extent to which performance is recovering as these restrictions lift and the associated forecast outturns alongside identified downside risks and mitigating actions. The Group has modelled two main scenarios in its assessment of going concern, being the base case and a downside scenario. We have modelled future financial performance taking into account these restrictions, mitigations, expected inventory unwind not materialising and a negative outcome from ongoing litigation as per note 27.

Base case

The base case is derived from the Board approved 2022 budget and strategic plan, which assume, consistent with current trading patterns, that our factories continue to have "essential business" status and operate as normal. In this scenario, the Directors consider that the Group will continue to operate within its available committed facilities with sufficient headroom and meet its financial covenant obligations.

The key assumptions in the base case include:

- Lighting growth consistent with 2021 driven by a strong level of project-based activity
- gross margin reflects levels consistent with the final quarter of 2021; and
- operating costs flexed in line with the incremental revenue

Downside case

In a severe but plausible downside scenario, the Directors have assumed continuing adverse impacts from a prolonged global pandemic with severe impact to our customers, suppliers and operations. The associated forecast has considered the following identified downside risks:

- Significantly lower revenue growth in 2022 as compared to 2021, with lower growth in 2023 and 2024 reverting to normal levels but from a lower base
- Gross margin reductions ranging from 1.9% to 2.9% over the three years
- Only 75% of the targeted inventory unwind is achieved in 2022
- Litigation by the former manufacturing partner is settled at the maximum liability of their claim and the Dialight claim for damages in excess of £190m is unsuccessful

In all these scenarios, the Group assumes a series of mitigating actions can be put in place swiftly, including various temporary and permanent cost and cash reductions.

In this severe but plausible downside scenario, the Group continues to retain sufficient committed headroom on liquidity and is able to meet its financial covenant obligations within the going concern assessment period. It has also been assumed that no additional debt is raised during the assessment period.

Consequently, the Directors are confident that the Group and Company will have sufficient funds to continue to meet their liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Notes to the consolidated financial statements continued

for the year ended 31 December 2021

2. Basis of preparation (continued)

(c) Use of estimates, judgements and assumptions

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These estimates, judgements and assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The areas which require the most use of management estimation and judgement are set out below.

Significant judgements

Termination of outsourced manufacturing agreement

Significant judgement is applied in determining whether to recognise a provision or a contingent liability in respect of the claims from the Group's former manufacturing partner Sanmina. In the view of management, it is not probable that the Group will have to make a payment, therefore no provision is required and the matter is disclosed as a contingent liability in note 27, which contains further details on the matter.

Development and patent costs

The Group capitalises development costs and patent costs provided they meet all criteria in the respective accounting policy. Costs are only capitalised when management applies judgement that is satisfied as to the ultimate commercial viability of the projects based on review of the relevant business case. The capitalised costs are amortised over the expected useful economic life, which is determined based on the reasonable commercial prospects of the product and a comparison to similar products being sold by the Group.

The Group has £12.0m (2020: £11.9m) of development and patent costs that relate to the current product portfolio and new products expected to launch over the next one to two years. Within this cost, there is £1.1m relating to development projects which have been paused during COVID-19 where the Engineering team were redeployed to focus on inventory projects to consume raw materials on hand to help the business mitigate the global supply chain challenges. This project will recommence in the current financial year with the objective of concluding it in 2023 with product launch. All of the development projects are within the Lighting CGU and are tested for impairment at the CGU level as part of the goodwill testing. However, management also performs a review of each individual project to see if there are any indications of specific impairment by comparing the carrying amount of the asset with the net present value derived from the Board approved three-year strategic plan.

Significant estimates

Inventory reserve - Raw Materials and Sub-Assemblies

Consistent with last year, the Group adopts a usage-based approach in calculating its inventory provision. COVID-19 and global commodity shortages have significantly impacted our operations, logistics and supply chains over the past year and therefore the approach to identify inventory at risk has been flexed to consider the impact from these factors. Management's focus has been on inventory that is over 365 days old.

Raw materials and sub-assemblies are reserved if the quantity on hand, that is greater than 365 days old, exceeds three year's historical usage and, following review by engineering and supply chain personnel, there is no reasonable prospect of the components being used or their shelf life not being exceeded. Three years is felt to be appropriate at this time as: recent usage has been depressed following the economic impacts from COVID-19; the majority of components have a long shelf life; product demand mix between project and MRO business has been skewed; and new products or upgrades have been delayed.

Raw material and sub-assembly inventory consists of a large number of Stock Keeping Units ("SKUs") of varying value. Assessment of every at-risk SKU would be impractical, and the reserve has therefore been determined by assessing the nature, usability and condition for a range of at-risk SKUs that represent a significant population of the inventory at risk. The result from this assessment was then used to determine a reserve percentage that was applied to the remaining population, with the combination of these calculations determining the total reserve required.

The provision element that relates to raw material and sub-assembly items greater than 365 days old is £2.2m and represents 43% of that specific aged category of Inventory.

Inventory reserve -Finished goods

The review of finished goods inventory was based on all inventory over 365 days old. Inventory on hand was compared to historical sales, current orders, sales pipeline and whether the product had been recently launched. Management judgement was then applied to determine whether there was a reasonable probability that the inventory would be sold, with a provision being required for any inventory that failed this assessment.

Management believes that any reasonably possible change in the assumption would not cause any significant change in the provision estimate for finished goods.

The value of provision for all categories of inventory over which judgement has been exercised was £3.0m (2020: £2.4m) and this represents 7% (2020: 7%) of the gross inventory value.

Details of the inventory reserve are set out in note 17.

Notes to the consolidated financial statements continued

for the year ended 31 December 2021

2. Basis of preparation (continued)

Inventory–absorbed overhead costs

The valuation of inventory, detailed in note 17, requires the use of estimates in the amount of costs to be absorbed into inventory valuation. There are two elements of cost over which estimates are applied.

Firstly, in relation to the amount of production overheads that are included in the inventory valuation. The pools of cost related to production comprise labour and direct overheads attributable to the production process. They are assessed to ensure that costs not related to production are excluded. Consistent with last year, the Group uses the weighted average inventory turns calculated by comparing the level of inventory on hand with the amount of production by month. This gives the number of days of overhead that should be absorbed in inventory (2021: 162 days, 2020: 169 days). The value of directly attributable costs over which judgement was exercised was £5.0m (2020: £4.3m) and this represents 12% (2020: 13%) of the inventory value. For every day that the estimate of the days used for the overheads absorbed changes, it changes the calculation by £14k.

Secondly, in relation to the amount of freight costs that are included in the inventory valuation. The costs represent transportation costs for raw materials and the labour cost of the buyers placing the orders. The cost is absorbed into inventory by comparing the level of inventory on hand with the amount of material costs in the cost of sales. This gives the number of days of freight costs that are capitalised (2021: 64 days, 2020: 62 days). Costs of transporting finished goods to distribution centres on a global basis are included in the inventory valuation until the associated finished goods have been sold outside the Group.

The value of freight costs over which judgement was exercised was £3.1m (2020: £2.2m) and this represents 7% (2020: 7%) of the inventory value. For every day that the estimate of the days used for the overhead absorbed changes, it changes the calculation by £62k.

Goodwill and other intangible assets

The Group tests at least annually whether goodwill has suffered any impairment in accordance with the accounting policy set out in note 4(h). The recoverable amounts of the Group's CGU's have been determined based on value in use calculations, which involve a high level of estimation due to the uncertainty caused by COVID-19 and potential material shortages due to delays in the supply chain. These calculations require the use of estimates and assumptions consistent with the Board approved 2022 budget and the strategic plan for the following two years.

In undertaking the assessment, the potential net impact of climate change on the forecasts has been considered. Considering the Group's business model, strategy and exposure, the opportunities overcome the risk and the majority of the risk relates to ability to cope with accelerated product demand and has been reflected in our forecast.

3. Changes in significant accounting policies

The following accounting standards, interpretations, improvements and amendments have become applicable for the current period and although the Group has adopted them, they have had no material impact on the Group. These comprise:

- Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16).

The following amendments to standards and interpretations have also been issued, but are not yet effective and have not been early adopted for the financial year ended 31 December 2021:

- IFRS 17 Insurance Contracts (Effective day 1 January 2023);
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendment to IAS 12) (Effective from 1 January 2023);
- Onerous Contracts – Cost of Fulfilling a Contract (Amendment to IAS 37). The current effective day is 1 January 2021. This is not expected to be applicable to the Group. (Effective from 1 January 2023);
- Annual Improvements to IFRS Standards 2018-2020 (Effective from 1 January 2023);
- Property, Plant and Equipment: Proceeds Before Intended Use (Amendments to IAS 16) (Effective from 1 January 2023);
- Reference to the Conceptual Framework (Amendments to IFRS 3) (Effective from 1 January 2023);
- Classification of Liabilities as Current and Non-current (Amendment to IAS 1) (Deferred until not earlier than 1 January 2024);
- Accounting Policies, Changes in Accounting Estimates and Errors: definition (Amendments to AIS 8) (Effective from 1 January 2023);
- Amendments to IAS1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements (Effective from 1 January 2023);
- Sale or Contribution of Assets between an Investor and its Associate or Joint venture (Amendments to IFRS 10 and IAS 28).

The adoption of these amendments is not expected to have a material impact on the Group.

Notes to the consolidated financial statements continued

for the year ended 31 December 2021

4. 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

The consolidated financial statements comprise the financial statements of the parent and its subsidiaries as at 31 December 2021. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has (a) power over the investee, (b) exposure, or rights, to variable returns from the investee, and (c) ability to use its power to affect those returns. The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary. If the Group loses control of a subsidiary, it derecognises the related assets (including goodwill), liabilities and other components of equity, while any resultant gain or loss is recognised in the income statement.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies as applied to subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Business combinations and goodwill

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 were then 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 gain is recognised immediately in profit or loss. Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Acquisitions between 1 January 2004 and 1 January 2010

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

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

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

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

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

(c) Non-underlying items

The Group incurs costs and earns income that is non-underlying in nature or that, in the Directors' judgement, needs to be disclosed separately by virtue of its size and incidence in order for users of the consolidated financial statements to obtain a proper understanding of the financial information and the underlying performance of the business.

These items could include (but are not limited to):

– the costs related to transferring production back from an outsourced manufacturer
– the impairment of tangible or intangible assets which relate to the closure of part of a business or removal of a product line
– the impairment of inventory as a result of a significant change in product design
– Individual restructuring projects which are material or relate to the closure of a part of the business and are not expected to recur;
– gains or losses on disposal of businesses;
– gains or losses arising on significant changes to closed defined benefit pension plans; and
– costs arising from the dispute with Sanmina Corporation (see note 6).

Determining whether an item is part of specific non-underlying items requires judgement to determine the nature and the intention of the transaction.

Notes to the consolidated financial statements continued

for the year ended 31 December 2021

4. Significant accounting policies (continued)

(d) 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.

The 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.

(e) 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.

(f) Property, plant and equipment

All items of property, plant and equipment are stated at cost less accumulated depreciation and provision for impairment. Subsequent costs are included in the asset carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost can be measured reliably. All other repair and maintenance costs are charged to the income statement in the financial period they are incurred.

(g) 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.

(h) 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, except for right of use assets which are depreciated over the shorter of the lease contract period and their useful lives. Land is not depreciated.

The estimated useful lives are as follows:

Plant, equipment and vehicles	3–10 years
Right of use assets	2–10 years

Amortisation

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

The estimated useful lives are as follows:

Patents and trademarks	3–5 years
Development costs	
Product upgrades	3 years
New product	4 years
Control and technology related products	5 years

Goodwill that arises upon acquisition of subsidiaries is included in intangible assets. For the measurement of goodwill at initial recognition, see note 4(b).

Subsequent measurement

After initial recognition, goodwill is measured at cost less any accumulated impairment losses until disposal or termination of the CGU. 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.

(i) Research and development costs

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

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. Costs are only capitalised once the initial research phase has been completed and the business case for development has been approved by management. 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.

Notes to the consolidated financial statements continued

for the year ended 31 December 2021

4. Significant accounting policies (continued)

(j) 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 the income statement. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Any impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

A financial asset, in particular the carrying value of trade receivables, is considered to be impaired if one or more events have had a negative effect on the estimated future cash flows expected to arise from that asset. Any impairment losses are recognised through the income statement.

(k) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventory comprises all costs of purchase, costs of conversion and other costs to bring the inventory to its existing location and condition, including an appropriate share of production overheads based on normal operating capacity. Inventory is accounted for on a first-in, first-out basis. When calculating any reserve, management considers the nature and condition of the inventory on an item by item and category basis, as well as basing on an assessment of market developments; change in strategy or business model; regulatory and technology evolvement; and analysis of historical and projected usage with regard to quantities on hand for all raw materials, sub-assemblies and finished goods.

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

(m) 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.

(n) 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, 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 the income statement.

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 the income statement. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

Notes to the consolidated financial statements continued

for the year ended 31 December 2021

4. 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 grants is measured using the five-day weighted average prior the grant, 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.

All of the share awards are based on three-year continued service conditions.

(iv) Bonus plan

The Group recognizes a liability in respect of the best estimate of bonus payable where contractually obliged to or where past practice has created a constructive obligation.

(o) 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. Warranty 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 terms, internal knowledge of product performance characteristics and the expected costs of remedying warranty-returned products. All other provisions are based on management's best estimate of a probable expected outcome.

(p) Trade and other receivables

Trade and other receivables are recognised at fair value (which ordinarily reflects the invoice amount) and carried at amortised cost, less an allowance for expected lifetime losses as permitted under the simplified approach in IFRS 9. Fully provided balances are not written off from the balance sheet until the Group has decided to cease enforcement activity.

The Group has applied the simplified approach as permitted by IFRS 9. The expected credit loss (ECL) model considers the Group's historical credit loss, factors specific to each receivable, the current economic environment and expected changes in future forecasts (see note 24).

(q) Trade and other payables

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

(r) 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. An allowance is made for expected returns, discounts and rebates based on distributor agreements and historical trends. 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. The majority of our sales are on an ex works basis with revenue recognised on despatch of finished goods. Warranty is not a separable performance obligation so has no impact on revenue recognition.

(s) Net financing costs

Net financing costs comprise interest receivable, interest payable on borrowings, interest payable on lease liabilities, interest on pension assets and liabilities, foreign exchange gains and losses.

(t) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement 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 not taxable or deductible. The tax rate and laws used to compute the amount are those that are enacted or substantially enacted, by the reporting date.

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 is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the deferred tax assets is released or the deferred tax liability is settled.

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.

Notes to the consolidated financial statements continued

for the year ended 31 December 2021

4. Significant accounting policies (continued)

(u) Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

(i) As a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Group has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component.

The Group recognises a right of use asset and a lease liability at the lease commencement date. The right of use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right of use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right of use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right of use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. The Group operates in multiple economic environments so the incremental borrowing rate (IBR) that applies will vary from lease to lease.

Discount rates applied for different jurisdictions

IFRS 16 allows the use of two possible discount rates, namely the interest rate implicit in the lease from the perspective of the lessor (implicit rate) or the Group's IBR.

The IBR is the rate of interest that Dialight pays to borrow (a) over a similar term (b) with a similar security, (c) the funds necessary to obtain an asset of a similar value to the right of use asset (d) in a similar economic environment. The rate reflects the amount that the Group could borrow over the term of the lease.

The Group operates in multiple jurisdictions and the economic environment in those jurisdictions would also influence the IBR. This is expected to lead to a different IBR for every lease in a different territory. Key information that the Group considered while determining the IBR relates to the region where the lease is domiciled, the functional currency and the currency of the lease, the asset being leased and the remaining years left on the lease.

The Group has property leases in the USA, Mexico, UK, Australia and Malaysia. The Mexican and Malaysian leases are for industrial premises with the remaining leases being for office buildings.

The IBR is determined based on the interest rates available to the Group entities in which the underlying leases are held, based on the credit rating of each of these entities. Certain adjustments are made to these interest rates to reflect the terms of the individual leases and the types of assets leased.

The IBRs calculated for use by the Group vary between 2% and 5% for the UK, USA and Australia jurisdictions and between 5% and 7% for the Mexico and Malaysia jurisdictions.

Lease payments included in the measurement of the lease liability comprise the following:

Fixed payments, including in-substance fixed payments; variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date; amounts expected to be payable under a residual value guarantee; and the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right of use asset, or is recorded in profit or loss if the carrying amount of the right of use asset has been reduced to zero.

The Group presents right of use assets that do not meet the definition of investment property in right of use assets and lease liabilities separately in the statement of financial position.

The Group has elected not to recognise right of use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Notes to the consolidated financial statements continued

for the year ended 31 December 2021

4. Significant accounting policies (continued)

(ii) As a lessor

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right of use asset arising from the head lease, not with reference to the underlying asset. The Group classifies the sub-lease as an operating lease as the lease does not transfer substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease. The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of "other revenue".

(v) 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.

(w) Contingent liabilities

A contingent liability arises from past events and includes possible obligations (50% certain or less) whose existence will be confirmed only by the occurrence of uncertain future events not wholly within the entity's control and present obligations which are not recognised because it is not probable that a transfer of economic benefits will be required to settle the obligation or the obligations cannot be measured reliably. It includes guarantees to third parties and certain lawsuits.

5. 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 & 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 there are no individual customers that represent more than 10% of revenue.

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

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

Reportable segments

2021	Lighting £m	Signals & Components £m	Unallocated £m	Total £m
Revenue	90.5	41.1	–	131.6
Gross profit	33.7	13.3	–	47.0
Overheads	(28.4)	(7.8)	(6.3)	(42.5)
Underlying profit/(loss) from operating activities	5.3	5.5	(6.3)	4.5
Non-underlying items	(2.4)	–	–	(2.4)
Profit/(loss) from operating activities	2.9	5.5	(6.3)	2.1
Financial expense				(1.4)
Profit before tax				0.7
Taxation				(0.4)
Profit after tax				0.3

Notes to the consolidated financial statements continued

for the year ended 31 December 2021

5. Operating segments (continued)

2020	Lighting £m	Signals & Components £m	Unallocated £m	Total £m
Revenue	81.7	37.3	–	119.0
Gross profit	23.7	10.3	–	34.0
Overheads	(26.8)	(7.7)	(5.9)	(40.4)
Underlying (loss)/profit from operating activities	(3.1)	2.6	(5.9)	(6.4)
Non-underlying items	(2.4)	–	–	(2.4)
(Loss)/profit from operating activities	(5.5)	2.6	(5.9)	(8.8)
Financial expense				(1.3)
Loss before tax				(10.1)
Taxation				2.3
Loss after tax				(7.8)

Other segmental data

	2021			2020		
	Lighting £m	**Signals & Components £m**	**Total £m**	Lighting £m	Signals & Components £m	Total £m
Depreciation of property, plant and equipment	**2.1**	**1.0**	**3.1**	2.1	1.0	3.1
Depreciation of right of use assets	**1.5**	**0.7**	**2.2**	1.4	0.6	2.0
Amortisation	**2.4**	**1.1**	**3.5**	2.1	0.9	3.0
Impairment of intangible assets	**–**	**–**	**–**	0.3	–	0.3

Geographical segments

The Lighting and Signals & Components segments are managed on a worldwide basis, but operate in three principal geographic 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

	2021 £m	2020 £m
North America	**101.0**	89.8
EMEA	**10.2**	9.9
Rest of World	**20.4**	19.3
Total sales revenue	**131.6**	119.0

6. Non-underlying items

Statutory operating profit includes the following non-underlying costs which are separately disclosed to allow the reader to obtain a full understanding of the financial information and the best indication of the underlying performance of the Group. The table below presents the components of non-underlying profit or loss recorded within cost of sales and administrative expenses.

	2021 £m	2020 £m
Non-underlying items		
Redundancy costs	**–**	0.9
Loss on disposal of subsidiary	**–**	0.8
Costs related to manufacturing partner	**2.9**	0.3
Release of warranty provision	**(0.3)**	–
Release of litigation provision	**(0.2)**	0.4
Non-underlying items recorded in administrative expenses	**2.4**	2.4

The Group has continued to progress its legal claim against its former manufacturing partner, Sanmina Corporation, following the termination in September 2018 of the manufacturing services agreement. During the year, costs of £2.9m have been expensed, comprising £2.4m of legal costs in preparing for litigation and a £0.5m provision against slow-moving inventory. This inventory was acquired at transition and was expected to be used within two years. This has not proved to be the case and with the cost having been added to the legal counterclaim against Sanmina during 2021, the Directors have determined that provision is now appropriate. Further details on the litigation and contingent liability are provided in note 27.

Release of warranty provision of £0.3m relates to unclaimed warranty related to the disposal of the Group's Wind business in 2019. The Group has already received and paid all claims related to this disposal and the remaining balance of the provision was therefore released.

Other litigation credit related to employment litigation cases; a provision of £0.4m (see note 22) was released as it was not probable that Group would have to pay for the claims which was netted off with £0.2m legal cost incurred in the year relating to the cases.

Notes to the consolidated financial statements continued

for the year ended 31 December 2021

6. Non-underlying items (continued)

Prior year redundancy costs of £0.9m related to severance payments for the various initiatives during the year to right-size the cost base. Costs of £0.7m relate to legal fees for defending against employment litigation (£0.4m) and legal costs relating to the legal claim with the former manufacturing partner (£0.3m).

The loss on disposal of subsidiary related to the sale of the Group's Brazil business in November 2020.

In 2020, the net assets and the net loss on disposal of Dialight Do Brasil Technologia Led Ltda were as follows:

	2020 £m
Current assets	1.4
Current liabilities	(0.6)
Net assets of the business disposed of	0.8
Loss on disposal of the business	(1.1)
Total consideration paid	(0.3)

Satisfied by:

Foreign translation	(0.2)
Other disposal costs	(0.1)
Total	(0.3)

7. Personnel expenses

	2021 £m	2020 £m
Wages and salaries	**29.1**	27.2
Social security contributions	**3.4**	3.3
Equity-settled share-based payment transactions	**0.6**	0.4
Contributions to defined contribution plans	**0.8**	0.8
Total charge for defined benefit plans	**0.1**	0.1
Total personnel expense	**34.0**	31.8

The increase in personnel costs is driven by increases in national minimum wage levels in Mexico, reversal of temporary salary reductions in 2020 due to COVID-19, cost of annual pay reviews and bonus accruals for 2021 performance.

The average number of employees by geographical location was:

	2021 Number	2020 Number
US and Mexico	**1,445**	1,360
Rest of World	**234**	254
Total average number of employees	**1,679**	1,614

In 2021, the Group employed an average of 1,118 direct staff (2020: 1,022) and 561 indirect staff (2020: 592).

The main Board Directors are considered to be the Group's key management personnel.

Key management personnel compensation comprised the following:

	2021 £m	2020 £m
Short-term employee benefits	**1.2**	1.0
Share-based payments	**0.6**	0.4
Total compensation for key management personnel	**1.8**	1.4

The aggregate of remuneration and amounts receivable under long-term incentive schemes of the highest paid Director was £0.5m (2020: £0.4m), and pension contributions of £nil (2020: £nil) were made to a money purchase scheme on their behalf. During the year, the highest paid Director received 89,547 shares under a long-term incentive scheme.

	2021	2020
Number of Directors accruing benefits under money purchase schemes	**1**	1
Number of Directors in respect of whose qualifying services shares were received or receivable under long term incentive schemes	**1**	1

Notes to the consolidated financial statements continued

for the year ended 31 December 2021

8. Financial expenses

	2021 £m	2020 £m
Net interest on defined benefit liability	**0.1**	0.1
Interest expense on financial liabilities, except lease liabilities	**0.8**	0.6
Interest expense on lease liabilities	**0.5**	0.6
Net financing expense recognised in the consolidated income statement	**1.4**	1.3

9. Taxation

Recognised in the income statement

	2021 £m	2020 £m
Current tax expense		
Current year	**1.3**	0.3
Adjustment for prior years	**(0.6)**	(2.9)
Total current tax expense/(credit)	**0.7**	(2.6)
Deferred tax expense		
Origination and reversal of temporary differences	**0.1**	(0.9)
Adjustment for prior years	**(0.4)**	1.2
Total deferred tax	**(0.3)**	0.3
Total tax expense/(credit)	**0.4**	(2.3)

Reconciliation of effective tax rate

	2021 %	2021 £m	2020 %	2020 £m
Profit/(loss) for the year		**0.3**		(7.8)
Total tax charge/(credit)		**0.4**		(2.3)
Profit/(loss) before tax		**0.7**		(10.1)
Income tax using the UK corporation tax rate	**19.0**	**0.1**	(19.0)	(1.9)
Non-deductible loss on disposal of a business	**–**	**–**	1.0	0.1
Effect of higher taxes on overseas earnings	**43.0**	**0.3**	–	–
Reduction in tax rate	**–**	**–**	(1.0)	(0.1)
Non-deductible expenses	**28.6**	**0.2**	1.9	0.2
Current year losses for which no deferred tax is recognised	**57.1**	**0.4**	9.9	1.0
US carry back claim	**(43.0)**	**(0.3)**	(12.5)	(1.3)
Adjustment for prior years	**(88.3)**	**(0.6)**	(4.0)	(0.4)
Research and development credits	**(28.6)**	**(0.2)**	(1.0)	(0.1)
Foreign taxes incurred	**69.3**	**0.5**	1.9	0.2
	57.1	**0.4**	(22.8)	(2.3)

The effective tax rate for the year is 57.1% compared with 22.8% in the prior year and the standard rate of 19% (2020: 19.0%) in the UK.

The normalised tax rate for the Group in the year is 28.6% (tax rate before adjustments), and based on a pre-tax profit of £0.7m this would generate a tax charge of £0.2m. However, in the year there is a tax charge of £0.4m (57.1%). The difference of 28.5% is due to the following major factors:

- The current losses in the European Lighting business not recognised as a deferred tax asset, resulting in £0.4m of tax credit not being recognised in the year. We do not anticipate this business making sufficient taxable profits in the short term to utilise the losses.
- The Group has benefited from the stimulus package under the Cares Act in the US which allows us to get tax relief by carrying back losses made in 2020 for five years. This allows the Group to benefit from tax recovery at 35% rather than the current rate of 21% that was used to calculate the recoverable amount in 2020 and this gives rise to a one-off tax credit of £0.3m.
- A prior year adjustment of £0.6m relating to additional research and development credit in the US.
- A non-deductible expense of £0.2m on non-underlying expenses relating to the Sanmina litigation which is not allowed as a taxable expense.
- The foreign tax incurred of £0.5m relates to taxes payable in Mexico on profits by a Mexican subsidiary of Dialight Corporation

Notes to the consolidated financial statements continued

for the year ended 31 December 2021

9. Taxation (continued)

Tax charge/(credit) recognised directly in equity

	2021 £m	2020 £m
Employee benefits	**0.5**	(0.3)
Other	**(0.1)**	0.3

Current tax

Current tax is calculated with reference to the profit or loss 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% (2020: 19.0%). There are no UK timing differences recognised at 31 December 2021. In the March 2021 Budget, the UK Government announced that legislation will be introduced in the Finance Bill 2021 to increase the main rate of UK corporation tax from 19% to 25%, effective 1 April 2023.

US

The majority of the Group's profits arise in the US where the corporation tax rate is 24%, including 21% federal tax and 3% state tax (2020: 24%, including 21% federal tax and 3% state tax).

Group

The majority of the Group's profits are driven by the US entity where the tax rate is 24% underpinning the Group's tax rate, which has increased as a result of the higher mix of profits coming from high tax jurisdictions.

10. Profit/(loss) for the year

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

	2021 £m	2020 £m
Research and development costs:		
Expensed as incurred	**4.9**	4.6
Amortisation charge	**2.5**	2.1
Total research and development costs	**7.4**	6.7
Depreciation of fixed assets, excluding right of use assets	**3.1**	3.1
Depreciation of right of use assets	**2.2**	2.0
Impairment of intangible assets	**–**	0.3
Lease expense – low value leases and leases with a remaining term of less than one year	**0.1**	0.3

There is lower capitalisation of, and a higher profit and loss charge for research and development costs in 2021 compared with the prior year. During 2021 the Engineering team focused on inventory projects to consume raw materials on hand to help alleviate with the global supply shortages. These factors resulted in less time being capitalised, and consequently a higher profit and loss charge. The amortisation charge increased as new products became available for use in 2021 as well as a full amortisation charge for the projects launched in 2020.

Auditor's remuneration

	2021 £m	2020 £m
Audit of these financial statements	**0.5**	0.4
Amounts receivable by auditor in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	**0.2**	0.2
	0.7	0.6

Notes to the consolidated financial statements continued

for the year ended 31 December 2021

11. Earnings/(loss) per share

Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share ("EPS") at 31 December 2021 was based on a profit for the year of £0.3m (2020: £7.8m loss) and the weighted average number of ordinary shares outstanding during the year of 32,393,109 (2020: 32,555,137).

Weighted average number of ordinary shares

	2021 £m	2020 £m
Weighted average number of ordinary shares	**32,393**	32,555

	2021	2020
Basic earnings/(loss) per share	**0.9p**	(24.0)p

Diluted earnings/(loss) per share

The calculation of diluted EPS at 31 December 2021 was based on a profit for the year of £0.3m and the weighted average number of dilluted ordinary shares during the year of 32,803,606 (2020: 32,555,137), excluding the purchase of 205,026 own shares by the Group during the year.

Weighted average number of ordinary shares

	2021 £m	2020 £m
Weighted average number of ordinary shares	**32,804**	32,555

	2021	2020
Diluted earnings/(loss) per share	**0.9p**	(24.0)p

12. Property, plant and equipment

	Land and buildings £m	Plant, equipment and vehicles £m	Total £m
Cost			
At 1 January 2020	3.0	48.1	51.1
Exchange adjustments	(0.1)	(1.4)	(1.5)
Additions	–	0.8	0.8
Disposal of business	–	(0.1)	(0.1)
Other disposals	–	(2.9)	(2.9)
At 31 December 2020	2.9	44.5	47.4
Exchange adjustments	–	0.5	0.5
Additions	–	2.1	2.1
Balance at 31 December 2021	**2.9**	**47.1**	**50.0**
Accumulated depreciation			
At 1 January 2020	(3.0)	(32.5)	(35.5)
Exchange adjustments	0.1	1.0	1.1
Charge for the year	–	(3.1)	(3.1)
Disposals	–	2.9	2.9
At 31 December 2020	(2.9)	(31.7)	(34.6)
Exchange adjustments	–	(0.3)	(0.3)
Charge for the year	–	(3.1)	(3.1)
Balance at 31 December 2021	**(2.9)**	**(35.1)**	**(38.0)**
Carrying amount at 31 December 2021	**–**	**12.0**	**12.0**
Carrying amount at 31 December 2020	–	12.8	12.8

Notes to the consolidated financial statements continued

for the year ended 31 December 2021

13. Leases

Right of use assets

	Buildings £m	Non-property leases £m	Total £m
Cost			
Balance at 1 January 2020	13.9	–	13.9
Exchange adjustments	(0.3)	–	(0.3)
Modifications	(0.1)	–	(0.1)
Balance at 31 December 2020	13.5	–	13.5
Exchange adjustments	0.1	–	0.1
Modifications	0.1	–	0.1
Additions	3.0	0.5	3.5
Balance at 31 December 2021	**16.7**	**0.5**	**17.2**
Accumulated depreciation			
Balance at 1 January 2020	(1.7)	–	(1.7)
Charge for the year	(2.0)	–	(2.0)
Balance at 31 December 2020	(3.7)	–	(3.7)
Charge for the year	**(1.9)**	**(0.3)**	**(2.2)**
Balance at 31 December 2021	**(5.6)**	**(0.3)**	**(5.9)**
Carrying amount at 31 December 2021	**11.1**	**0.2**	**11.3**
Carrying amount at 31 December 2020	9.8	–	9.8

The Group leases various industrial premises and office buildings. Rental contracts are typically for fixed periods of 1.5 to 10 years, but may have extension options as described in note 13(ii). Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

From 2021, we have included non-property leases related to vehicles and software. The impact on both right of use assets and liabilities value in the previous year was immaterial.

See accounting policy in note 4(u).

Lease liabilities

	Buildings £m	Non-property leases £m	Total £m
Lease liabilities recognised at 1 January 2020	(12.3)	–	(12.3)
Interest expense	(0.6)	–	(0.6)
Modifications	0.1	–	0.1
Repayment of liabilities	2.3	–	2.3
Exchange adjustments	0.2	–	0.2
Lease liabilities recognised at 31 December 2020	(10.3)	–	(10.3)
Interest expense	(0.5)	–	(0.5)
Lease liabilities variations	(0.1)	–	(0.1)
Additions	(3.0)	(0.5)	(3.5)
Repayment of liabilities	2.0	0.2	2.2
Exchange adjustments	0.1	0.1	0.2
Lease liabilities recognised at 31 December 2021	**(11.8)**	**(0.2)**	**(12.0)**

Leases as lessee

The Group leases industrial premises, office buildings, IT and other equipment. The leases typically run for a period of 2–10 years, with various options to renew the leases after that date. Lease payments are renegotiated dependent on the lease terms to reflect market rentals. Some leases provide for additional rent payments that are based on fixed percentage changes and/or changes in local price indices.

The Group leases IT and other equipment with contract terms of 1 to 4 years. These leases are short term and/or leases of low-value items. The Group has elected not to recognise right of use assets and lease liabilities for these leases.

Information about leases for which the Group is a lessee is presented below.

Notes to the consolidated financial statements continued

for the year ended 31 December 2021

13. Leases (continued)

Leases as lessee (continued)

	2021 £m	2020 £m
Interest on lease liabilities	**(0.5)**	(0.6)
Expenses relating to short-term leases	**(0.1)**	(0.1)
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	**(0.1)**	(0.3)
Total recognised in profit and loss	**(0.7)**	**(1.0)**

(i) Amounts recognised in statement of cash flows

	2021 £m	2020 £m
Total cash outflow for leases	**(2.2)**	(2.3)

Of the total £2.2m cash outflow in 2021 (2020: £2.3m), £1.7m was for the principal portion of lease liabilities and £0.5m was for interest on lease liabilities (2020: £1.7m and £0.6m respectively).

(ii) Extension options

Extension options are included in a number of property and equipment leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension options held are exercisable only by the Group and not by the respective lessor.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option. Extension options are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and is within the control of the Group as a lessee. The Group has estimated that the potential future lease payments, should it exercise all the extension options, would result in an increase in lease liabilities of £12.6m (2020: £9.7m).

Leases as lessor

The Group has a lease on an office that was entered into during 2019 and which it is also sub-letting.

(i) Operating lease

The Group has classified this sub-lease as an operating lease, because it does not transfer substantially all of the risks and rewards incidental to the ownership of the asset. Note 4(u)(ii) sets out information about the operating lease for the sub-leased property. The head lease expires in 2029 and the sub-lease expires in 2026. The sub-lessor has the option to renew the lease at its sole discretion.

Rental income recognised by the Group during 2021 was £nil (2020: £nil). The following table sets out a maturity analysis of the lease rentals receivable relating to the sub-lease, showing the undiscounted lease payments to be received after the reporting date:

Operating leases minimum rentals receivable under IFRS16	2021 £m	2020 £m
Less than one year	**0.2**	0.2
One to two years	**0.2**	0.2
Two to three years	**0.2**	0.2
Three to four years	**0.3**	0.2
Four to five years	**0.3**	0.3
More than five years	**–**	0.3
Total	**1.2**	1.4

Notes to the consolidated financial statements continued

for the year ended 31 December 2021

14. Intangible assets

	Concessions, patents, licences and trademarks £m	Goodwill £m	Software and licences £m	Development costs £m	Total £m
Cost					
Balance at 1 January 2020	8.8	12.9	5.6	28.1	55.4
Additions	0.8	–	0.3	2.6	3.7
Effects of foreign exchange movement	(0.3)	(0.2)	(0.2)	(0.8)	(1.5)
Balance at 31 December 2020	9.3	12.7	5.7	29.9	57.6
Additions	0.8	–	0.3	2.4	3.5
Effects of foreign exchange movement	0.1	0.1	0.1	0.1	0.4
Balance at 31 December 2021	**10.2**	**12.8**	**6.1**	**32.4**	**61.5**
Amortisation and impairment losses					
Balance at 1 January 2020	(7.3)	(4.2)	(4.8)	(17.8)	(34.1)
Amortisation for the year	(0.6)	–	(0.3)	(2.1)	(3.0)
Impairment	–	–	–	(0.3)	(0.3)
Effects of foreign exchange movement	0.2	–	0.2	0.6	1.0
Balance at 31 December 2020	(7.7)	(4.2)	(4.9)	(19.6)	(36.4)
Amortisation	(0.6)	–	(0.4)	(2.5)	(3.5)
Effects of foreign exchange movement	(0.2)	–	–	–	(0.2)
Balance at 31 December 2021	**(8.5)**	**(4.2)**	**(5.3)**	**(22.1)**	**(40.1)**
Carrying amount at 31 December 2021	**1.7**	**8.6**	**0.8**	**10.3**	**21.4**
At 31 December 2020	1.6	8.5	0.8	10.3	21.2

The amortisation charge for the year is included within administrative expenses in the income statement.

Goodwill and other intangible assets (development costs, patents)

The Group has two CGUs, 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 CGUs a reasonable apportionment of these is made for the purpose of the impairment calculation.

Goodwill of £8.6m (2020: £8.5m) is recognised in the Group's balance sheet and is attributable to Lighting. The goodwill balance arose from a number of acquisitions in the Lighting segment in prior years.

Impairment testing

The Group tests goodwill and capitalised development costs (at the CGU level) annually for impairment or more frequently if there are indications of impairment. The recoverable amounts of the CGU are determined from value in use calculations. The key assumptions for the value in use calculations are externally derived long term growth rate; pre-tax discount rate and operating cash flow forecasts derived from the Board approved 2022 budget and the strategic plan for the following two years (2023 to 2024). The plans take into account the continuing impact of COVID-19 and supply chain issues based disruptions on recent trading and impact of climate risk.

	2021
Discount rate	**15.1%**
Terminal growth rate	**3.0%**
Revenue three-year growth rate range for lighting segment	**20–29%**
Gross margin three-years average growth rate	**3%**
Stewardship cost allocation	**80%**

The risk-adjusted pre-tax discount rate used to discount the forecast cash flows for the Lighting CGU was 15.1% (2020: 18.2%). The impairment tests showed a recoverable amount of £58.7m against all of the assets associated with the goodwill, giving rise to a headroom of £46.5m (2020: £4m).

The pre-tax discount rate is based on the Group's weighted average cost of capital which reflects current market assessments of a number of factors that impact on the time value of money and any risk specific to the Group. The rate includes management's assessment of a normal level of debt-to-equity ratio within similar companies in the Group's sector. The costs of the ultimate holding company (stewardship costs) have been allocated to each CGU as they provide necessary support to the CGUs to generate cash inflows. These costs have been allocated on the same allocation basis as the administration costs. The long-term growth rate into perpetuity has been determined as the average of Consumer Price Index (CPI) rates for the countries in which the CGU operates predicted for the next three years.

Management has arrived at the three-year strategic plan based upon certain assumptions derived from a combination of an internal assessment of the market size, customer product requirements, production capacity requirements, the operational costs of the organisation and external economic factors, including the impact of COVID-19, supplier chain issues and climate change. The key assumptions within the plan are revenue growth and gross profit, which are based on management's best estimate of material, labour and production cost trends, material availability and manufacturing efficiencies.

Notes to the consolidated financial statements continued

for the year ended 31 December 2021

14. Intangible assets (continued)

In undertaking the assessment, the positive impact from climate change on demand for the Group's products and its impact on financial performance has been carefully considered. Considering the Group's business model, strategy and limited exposure to adverse climate change impacts, management believes that the opportunities outweigh any risk and that the major challenge will be our ability to cope with accelerated product demand which has been reflected in the impairment testing models.

Sensitivity to changes in key assumptions:

Management believes that any reasonably possible change in the assumptions would not cause the carrying amount to exceed the recoverable amount. The following table shows the amount which these five assumptions would need to change to individually for the estimated recoverable amount to be equal to the carrying amount.

In percentage	Amount required for amount to equal recoverable amount
Discount rate	23.7%
Terminal growth rate	n/a
Revenue three-year growth rate range	2%
Gross margin three-year reduction rate	2.9%
Stewardship cost allocation	n/a

The impairment assessment is not highly sensitive to climate change scenarios.

The recoverable amount incorporates management's view of the impact of COVID-19 and supply chain issues on the near-term trading. During this time it is assumed that the Group's factories would remain open as their "essential business" status has been maintained and global supply chain issues will reduce during 2022. The Group continues to operate within its available committed facilities with sufficient headroom and meet its financial covenant obligations and no impairment is required.

15. Deferred tax

(i) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2021 £m	2020 £m	**2021 £m**	2020 £m	**2021 £m**	2020 £m
Property, plant and equipment	**–**	–	**(1.3)**	(1.3)	**(1.3)**	(1.3)
Right of use assets	**0.3**	0.2	**–**	–	**0.3**	0.2
Intangible assets	**–**	–	**(1.7)**	(1.8)	**(1.7)**	(1.8)
Employee benefits	**–**	–	**(0.8)**	(0.1)	**(0.8)**	(0.1)
Provisions	**2.2**	2.7	**–**	–	**2.2**	2.7
Losses and other items	**2.6**	1.7	**–**	–	**2.6**	1.7
Tax assets/(liabilities)	**5.1**	4.6	**(3.8)**	(3.2)	**1.3**	1.4

Deferred tax assets have been recognised in respect of all tax losses in entities expected to generate sufficient future taxable profits. As mentioned in note 9, losses relating to the European businesses have not been recognised in the year as they are not expected to generate sufficient short-term taxable profits to justify recognising the associated deferred tax assets. The Group expects to generate sufficient taxable profits to recover the remaining deferred tax assets within two to three years. The geographic split of the deferred tax asset in relation to trading losses and other items is US £1.5m 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 (2020: £nil).

(ii) 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	Right of use asset £m	Total £m
Balance at 1 January 2020	(1.4)	(1.9)	(0.1)	2.3	2.7	0.1	1.7
Recognised in income	0.1	0.2	(0.1)	0.4	(1.0)	0.1	(0.3)
Recognised in equity	–	–	0.3	–	–	–	0.3
FX translation reserve	–	(0.1)	(0.2)	–	–	–	(0.3)
Balance at 31 December 2020	(1.3)	(1.8)	(0.1)	2.7	1.7	0.2	1.4
Recognised in income	(0.1)	0.1	(0.2)	(0.5)	0.9	0.1	0..3
Recognised in equity	–	–	(0.5)	–	–	–	(0.5)
FX translation reserve	0.1	–	–	–	–	–	0.1
Balance at 31 December 2021	**(1.3)**	**(1.7)**	**(0.8)**	**2.2**	**2.6**	**0.3**	**1.3**

Notes to the consolidated financial statements continued

for the year ended 31 December 2021

15. Deferred tax (continued)

(iii) Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items, because it is not probable that future taxable profit will be available against which the Group can use the benefits.

	2021 £m		2020 £m	
	Gross amount	Tax effect	Gross amount	Tax effect
Deductible temporary differences	–	–	0.2	–
Tax losses	37.8	9.8	35.1	7.0
	37.8	9.8	35.3	7.0

(iv) Tax losses carried forward

Tax losses for which no deferred tax assets were recognised expire as follows:

	2021 £m	Expiry date	2020 £m	Expiry date
Expire	–	–	–	–
Never expire	37.8	–	35.1	–

16. 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.

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 2020. The Company expects to pay contributions of £0.4m in respect of the Funds in the year to 31 December 2022. The weighted average duration of the defined benefit obligation is 14 years. There is no effect on recognition of the net defined benefit surplus as a result of the asset ceiling.

For the principal defined benefit plan, the Group considers that it has the right to a refund of a surplus, assuming the gradual settlement of the plan liabilities over time until all members have left the plan. The plan Trustees can purchase annuities to ensure member benefits and can, for the majority of benefits, transfer these annuities to members. The Trustees cannot unconditionally wind up the plan or use the surplus to enhance member benefits without employer consent. Our judgement is that these Trustee rights do not prevent us from recognising an unconditional right to a refund and therefore a surplus.

The following table shows a reconciliation from the opening balances to the closing balances for the net defined benefit asset and its components:

	Defined benefit obligation		Fair value of plan assets		Net defined benefit liability/(asset)	
	2021 £m	2020 £m	2021 £m	2020 £m	2021 £m	2020 £m
Balance at 1 January	26.2	24.6	(27.3)	(26.9)	(1.1)	(2.3)
Included in profit or loss						
Current service cost	–	–	0.1	0.1	0.1	0.1
Interest cost/(income)	0.3	0.5	(0.3)	(0.5)	–	–
	0.3	0.5	(0.2)	(0.4)	0.1	0.1
Included in other comprehensive income						
Remeasurements (gain)/loss						
Actuarial (gain)/loss arising from:						
– changes in demographic assumptions	(0.4)	–	–	–	(0.4)	–
– changes in financial assumptions	(1.1)	0.2	–	–	(1.1)	0.2
– past service cost	(0.4)	–	–	–	(0.4)	–
– return on plan assets excluding interest income	–	2.1	(0.6)	(1.0)	(0.6)	1.1
	(1.9)	2.3	(0.6)	(1.0)	(2.5)	1.3
Other						
Contributions paid by the employer	–	–	(0.4)	(0.1)	(0.4)	(0.1)
Benefits paid	(1.2)	(1.2)	1.2	1.1	–	(0.1)
	(1.2)	(1.2)	0.8	1.0	(0.4)	(0.2)
Balance at 31 December	23.4	26.2	(27.3)	(27.3)	(3.9)	(1.1)

Represented by:	2021 £m	2020 £m
Net defined benefit asset (Plan A)	(0.2)	(0.2)
Net defined benefit asset (Plan B)	(3.7)	(0.9)
	(3.9)	(1.1)

Notes to the consolidated financial statements continued

for the year ended 31 December 2021

16. Employee benefits (continued)

Plan assets consist of the following:

	2021 £m	2020 £m
Equities (class 2)	**7.3**	9.8
Bonds and gilts (class 2)	**19.6**	17.4
Cash	**0.4**	0.1
	27.3	27.3

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	
	2021	2020
Discount rate at 31 December	**1.8**	1.1
Future salary increases	**n/a**	n/a
Future pension increases	**3.5**	3.0
Inflation – RPI	**3.6**	3.1
Inflation – CPI	**2.9**	2.3

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:

	2021		2020	
	Plan A	**Plan B**	Plan A	Plan B
Longevity at age 65 for current pensioners				
Males	**20.5**	**20.5**	23.5	20.5
Females	**23.7**	**23.7**	25.1	23.6
Longevity at age 65 for current members aged 45				
Males	**21.5**	**21.5**	24.5	21.5
Females	**24.8**	**24.8**	26.2	24.7

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)	**(1.2)**	1.3
Inflation (0.5% movement)	**0.8**	(0.7)
Life expectancy (+/–1 year)	**1.2**	(1.2)

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.

Notes to the consolidated financial statements continued

for the year ended 31 December 2021

16. Employee benefits (continued)

Share-based payments

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.

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
March 2018 (EPS)	72,907	–	–	(72,907)	**–**	550	3 years	Mar 2021
March 2018 (TSR)	24,303	–	–	(24,303)	**–**	272	3 years	Mar 2021
March 2018 (service condition)	45,251	–	(45,251)	–	**–**	522	3 years	Mar 2021
March 2018 (service condition)	2,307	–	(2,307)	–	**–**	536	3 years	Mar 2021
March 2019 (EPS)	66,707	–	–	–	**66,707**	453	3 years	Mar 2022
March 2019 (TSR)	22,236	–	–	–	**22,236**	314	3 years	Mar 2022
March 2019 (service condition)	81,891	–	–	–	**81,891**	453	3 years	Mar 2022
March 2020 (EPS)	100,684	–	–	–	**100,684**	205	3 years	Mar 2023
March 2020 (TSR)	100,684	–	–	–	**100,684**	130	3 years	Mar 2023
March 2020 (service condition)	296,309	–	–	–	**296,309**	205	3 years	Mar 2023
April 2021 (service conditions)		316,060	–	–	**316,060**	257	3 years	Apr 2024
May 2021 (service conditions)		89,547	–	–	**89,547**	307	3 years	May 2024
	813,279	405,607	(47,558)	(97,210)	**1,074,118**			

Further details of the PSP are included in the Directors' Remuneration Report on pages 65 to 79.

The 2021 awards linked to service conditions have been valued using the five-day weighted average share price prior to award date.

	2021 service condition awards
Share price (April)	**2.57**
Share price (May)	**3.07**

The employee expense in 2021 was £0.6m (2020: £0.4m) (see note 7).

17. Inventories

	2021 £m	2020 £m
Raw materials and consumables	**22.2**	13.5
Work in progress	**8.7**	6.1
Finished goods	**11.2**	12.6
	42.1	32.2
Spare parts	**0.3**	0.3
	42.4	32.5

Inventories to the value of £55.8m (2020: £56.3m) were recognised as expenses in the year. The inventory reserve at the balance sheet date was £3.0m, which represents 7.0% of inventory (2020: £2.4m representing 7.0% of inventory). The reserve was increased by £1.5m in the year with utilisation of £0.9m, resulting in a net movement in the reserve of £0.6m.

As at 31 December 2021, management's best estimate of the amount of inventory that will not be used within the next 12 months is c.£3.4m (2020: £4.0m).

Last year, the Group changed from an age-based reserve calculation to a usage-based calculation. A similar approach has been followed this year, that considers the significant impact that global commodity shortages have had on our operations and the logistics and supply chain. The approach revised the basis of calculation for the inventory reserve to focus on usage (historical) for raw materials and sub-assemblies plus any finished goods over 365 days.

The level of inventory was increased by £9.9m in 2021 driven by management decisions to increase raw material holdings. The Group has been impacted by the well-publicised global commodity shortages as well as increased shipping times for inbound raw materials and outbound finished goods to its subsidiaries in EMEA and Australia. Supplier lead times have increased, and market availability reduced for a number of key components, including semiconductors, LEDs, and metals. Availability and lead time uncertainty, compounded by supplier de-commits, led to the decision to increase the level of raw material holdings in order to safeguard future production and fulfil the high levels of customer orders being placed.

Notes to the consolidated financial statements continued

for the year ended 31 December 2021

18. Trade and other receivables

Amounts falling due within one year

	2021 £m	2020 £m
Trade receivables	**23.7**	18.1
Other non-trade receivables	**1.1**	0.4
Prepayments and accrued income	**1.4**	1.4
	26.2	19.9

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables is disclosed in note 24. The increase in trade receivables resulted from the growth in revenue, that is traditionally weighted towards the end of quarter four.

Amounts falling due in more than one year

	2021 £m	2020 £m
Other receivables	**4.7**	5.0

These relate to deposits on leasehold properties and amounts held in an escrow account by Sanmina Corporation, former manufacturing partner, relating to potential excess inventory claims calculated using the terms of the manufacturing services agreement, pre-contract termination. This calculation has been superseded due to the significant level of inventory purchased post contract which negates the requirement for this to be held by Sanmina Corporation and Dialight expects it to be returned in full. See note 27.

19. Cash and cash equivalents

	2021 £m	2020 £m
Cash and cash equivalents	**1.2**	5.3

20. Capital and reserves

Share capital

	2021 Number	2021 £m	2020 Number	2020 £m
Allotted and fully paid				
Ordinary shares of 1.89 pence each	**32,610,025**	**0.6**	32,562,466	0.6

During the year, 47,559 shares were issued (2020: 23,301) in order to satisfy the requirement for shares that vested as part of the PSP scheme (note 16). There were notional considerations but no proceeds in 2021 (2020: nil). The ordinary shares issued in the year have the same rights as the other shares in issue.

During the year, the Company purchased 0.2 million shares on the open market for £0.7m, which are being held in an employee benefit trust to settle share options in the future. This transaction decreased the amount of shares in issue and has an impact on diluted earnings per share (note 11).

	Ordinary shares	
Issued share capital	2021 Number	2020 Number
In issue at 1 January	32,562,466	32,539,165
Shares issued	47,559	23,301
Issued and fully paid at 31 December	**32,610,025**	32,562,466

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.

Translation reserve

The translation reserve comprises all foreign exchange differences from 1 January 2004 arising from the translation of the financial statements of the Company's overseas subsidiaries.

Capital redemption reserve

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

Other distributable reserve

During the year, the Company purchased 0.2 million shares on the open market for £0.7m, which are being held in an employee benefit trust to settle share options in the future.

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.

Notes to the consolidated financial statements continued

for the year ended 31 December 2021

21. Trade and other payables

	2021 £m	2020 £m
Trade payables	**21.7**	12.2
Other taxes and social security	**0.8**	1.4
Non-trade payables and accrued expenses	**10.4**	7.9
	32.9	21.5

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 24.

22. Provisions

	Warranty and claims £m	Lease-restoration £m	Total £m
Balance at 1 January 2021	2.5	0.2	2.7
Provisions made during the year	1.1	–	1.1
Provisions used during the year	(1.2)	–	(1.2)
Provisions released during the year	(0.7)	–	(0.7)
Effects of foreign exchange movement	–	–	–
Balance at 31 December 2021	**1.7**	**0.2**	**1.9**

The warranty provision relates to sales made over the past eight years. In the previous year, the provision also included other claims across the Group, which were either utilised or released (see note 6). The warranty provision has been estimated based on historical warranty data with similar products. The Group expects to settle the majority of the liability over the next two to three years.

The table below provides a breakdown of the provisions into their short-term and long-term portions:

	Total 2021 £m	Total 2020 £m
Due within one year	**0.6**	1.5
Due between one and five years	**1.1**	1.1
Due after five years	**0.2**	0.1
	1.9	2.7

23. Borrowings

The Group's multicurrency revolving credit facility with HSBC of £25m was due to expire in February 2023 but has been re-negotiated until March 2025. The new £25m multi-currency three-year loan has been fully approved and contains normal covenants, covering maximum net leverage and minimum interest cover levels. Documentation is ongoing and formal signing is expected in April. In accordance with the Group's strong ESG commitment, the new facility is a sustainability linked loan.

The Group increased its banking facility with HSBC on 15 June 2020 by adding a further £10m facility on a three-year basis, utilising a combination of £8m under the COVID-19 Large Business Interruption Scheme (CLBILS) and a £2m commercial loan. The £10m additional facilities are repayable over 30 months, in equal instalments, from January 2021. £4m was repaid in the year, with a further £4m payable in 2022 and the facilities fully repaid by June 2023 at the latest. At 31 December the Group had £31m of available funds across both facilities and £1.2m of cash on hand.

	Loans £m
At 1 January 2020	17.0
Facility drawdown (CBILS)	10.0
Facility repayment (RCF)	(10.3)
At 31 December 2020	16.7
Facility drawdown (RCF)	4.2
Facility repayment (CBILS)	(4.0)
At 31 December 2021	**16.9**

Details of the facilities	Tenure	Interest rate per annum*	Maturity date	Amount drawn down as at 31 December 2021 £m	Amount drawn down as at 31 December 2020 £m
£25m revolving credit facility	3 years	2.37%	March 2025	**10.9**	6.7
£8m CLBILS	3 years	2.13%	June 2023†	**4.8**	8.0
£2m commercial loan	3 years	2.30%	June 2023†	**1.2**	2.0

† This loan will be repaid in equal instalments over three year; repayment started on 15th January 2021.
* This is an indicative rate as at December 2021.

As part of the facility, the original banking covenants of net debt to EBITDA ratio and interest cover were replaced by a new test based on exceeding a 12-month rolling EBITDA level that was derived from a COVID impacted business plan as agreed with HSBC, for the testing periods of June 2020 to June 2021.

Notes to the consolidated financial statements continued

for the year ended 31 December 2021

23. Borrowings (continued)

Covenant test		For Q1-21	For Q2-21	For Q3-21 onwards
Ratio	**Calculation**			
Leverage ratio	Net debt/Adjusted EBITDA	n/a	n/a	<3.0x
EBITDA level	Rolling 12 month EBITDA	(1.1)	(3.8)	n/a
Interest cover	Adjusted EBITDA/Interest expense	n/a	n/a	>4.0x
Debt service ratio[1]	Net operating income/Total debt service	n/a	n/a	>1.2

1 The debt service ratio does not apply to the revolving credit facility and the Group was fully compliant with its banking covenants at 31 December and throughout 2021.

24. 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 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.

IFRS 9 introduced an expected credit loss model for calculating impairment of financial assets and the Group has applied the simplified approach as permitted by IFRS 9. The ECL model considers the Group's historical credit loss, factors specific to each receivable, the current economic environment and expected changes in future forecasts. The trade receivables balance below is shown net of the provision for bad debts. The Group provides against trade receivables based on an ECL model, calculated from the probability of default for the remaining life of the asset.

Exposure to credit risk

The ageing of trade receivables at the reporting date was:

	Gross 2021 £m	**Specific Impairment 2021 £m**	Gross 2020 £m	Specific Impairment 2020 £m
Not past due	**20.2**	**–**	15.3	–
Past due 0–30 days	**3.0**	**–**	2.3	–
Past due 31–120 days	**0.5**	**–**	0.2	–
Past due 121–365 days	**–**	**–**	0.3	–
More than one year	**–**	**–**	–	–
Total	**23.7**	**–**	18.1	–

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 which point the amount considered irrecoverable is written off against the financial asset directly. Other non-trade receivables of £5.7m (2020: £5.4m) are not past due and have no impairment. The ECL provision for the current year is not material and was not material in the prior year.

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, whilst optimising the return.

Notes to the consolidated financial statements continued

for the year ended 31 December 2021

24. Financial risk management (continued)

Interest rate risk

The Group's policy is to manage exposure to interest rate risk by utilising borrowings at LIBOR plus applicable margins. Following the withdrawal of LIBOR, the interest rate for the Group's bank facilities has moved to a forward risk free rate plus spread adjustment and the applicable margin based on EBITDA leverage levels. At 31 December 2021, the Group had total borrowing of £16.9m (2020: £16.7m).

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, Canadian Dollar and the US Dollar.

Where possible the Group uses natural hedging within the Group to hedge the majority of its foreign currency risk. Natural hedging is the mechanism whereby the cash inflows in a particular currency are matched to the cash outflows in that currency at the same business or a different Group company. The Group has borrowing facilities in US Dollars in order to match the currency of the Group's major market. Foreign exchange contracts may be taken out to manage exposures that are not mitigated through natural hedging but the Group had no foreign exchange contracts at the balance sheet date.

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

The Group's exposure to foreign currency risk was as follows:

	2021 $m	2021 CAD'm	2021 €m	2020 $m	2020 CAD'm	2020 €m
Trade receivables	**0.1**	**4.5**	**0.7**	0.1	2.1	0.7
Currency cash	**(11.8)**	**0.1**	**–**	(9.2)	0.2	0.1
Trade payables	**–**	**–**	**(0.3)**	–	–	–
Gross balance sheet exposure	**(11.7)**	**4.6**	**0.4**	(9.1)	2.3	0.8

The following significant exchange rates applied during the year:

	2021 Average rate	2021 At balance sheet date	2020 Average rate	2020 At balance sheet date
US Dollar	**1.38**	**1.35**	1.28	1.36
Euro	**1.16**	**1.19**	1.12	1.11
Canadian Dollar	**1.72**	**1.72**	1.72	1.74
Mexican Peso	**27.88**	**27.64**	27.51	27.14

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Exposure to liquidity risk

For non-derivative financial liabilities, the Group's exposure relates principally to trade and other payables and borrowings. Trade and other payables arise in the normal course of business and there are no unusual or onerous terms and conditions.

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

31 December 2021	Carrying amount £m	Contractual cash flow £m	2 months or less £m	2–12 months £m	1–2 years £m	2–5 years £m	More than 5 years £m
Non-derivative financial liabilities							
Trade and other payables	**(21.7)**	**(21.7)**	**(17.7)**	**(0.8)**	**(0.3)**	**(2.9)**	**–**
Borrowings	**(16.9)**	**(16.9)**	**(0.7)**	**(3.3)**	**(2.0)**	**(10.9)**	**–**
Lease liabilities	**(12.0)**	**(12.0)**	**(0.1)**	**(1.7)**	**(1.8)**	**(5.0)**	**(3.4)**
	(50.6)	**(50.6)**	**(18.5)**	**(5.8)**	**(4.1)**	**(18.8)**	**(3.4)**

* Prepayments of £1.5m (2020: £1.4m) and other debtors of £0.1m (2020: 0.4m) do not meet the definition of a financial instrument.
** Other taxation and social security payables of £0.8m (2020: £1.4m), and other creditors of £10.4m (2020: £7.9m) do not meet the definition of a financial instrument.

Notes to the consolidated financial statements continued

for the year ended 31 December 2021

24. Financial risk management (continued)

31 December 2020	Carrying amount £m	Contractual cash flow £m	2 months or less £m	2–12 months £m	1–2 years £m	2–5 years £m	More than 5 years £m
Non-derivative financial liabilities							
Trade and other payables	(21.5)	(21.5)	(17.7)	(0.5)	(3.3)	–	–
Borrowings	(16.7)	(16.7)	(0.7)	(3.3)	(4.0)	(8.7)	–
Lease liabilities	(10.3)	(10.3)	(0.2)	(1.3)	(1.1)	(3.6)	(4.0)
	(48.5)	(48.5)	(18.6)	(5.1)	(8.4)	(12.3)	(4.0)

* The Group has disclosed a contractual maturity analysis for its financial liabilities, which is the minimum disclosure under IFRS 7 in respect of liquidity risk. IFRS 7 does not mandate the number of time bands to be used in the analysis so the Group has applied judgement to determine an appropriate number of time bands. The Group has included both interest and principal cash flows in the analysis.

The Group has a three-year unsecured £25m multi-currency revolving credit facility and £6.0m CLBILS, of which £16.9m is drawn at 31 December 2021 (2020: £16.7m); see note 23.

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 2021, this totalled £60.2m (2020: £57.3m).

The Board is not proposing a final dividend for 2021. 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 re-purchase, subject to the restrictions imposed by the CLBILS borrowing.

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 2021, it is estimated that a general increase of 1% in the value of the Euro and the US Dollar against UK Sterling would have £0.1m impact on the Group's profit before tax for the year ended 31 December 2021 (2020: no impact), and would have increased the Group's equity for the year ended 31 December 2021 by £0.7m (2020: £0.4m).

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 2021 £m	**Fair value 2021 £m**	Carrying amount 2020 £m	Fair value 2020 £m
Financial assets				
Cash and cash equivalents	**1.2**	**1.2**	5.3	5.3
Loans and receivables				
Trade and other receivables	**24.7**	**24.7**	18.5	18.5
Total financial assets	**25.9**	**25.9**	23.8	23.8
Financial liabilities				
Lease liabilities	**(12.0)**	**(12.0)**	(10.3)	(10.3)
Trade and other payables	**(32.1)**	**(32.1)**	(20.1)	(20.1)
Borrowings	**(16.9)**	**(16.9)**	(16.7)	(16.7)
Total financial liabilities	**(61.0)**	**(61.0)**	(47.1)	(47.1)
Net financial liabilities	**(35.1)**	**(35.1)**	(23.3)	(23.3)

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 4(v).

25. Capital commitments

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

	2021 £m	2020 £m
Contracted	**2.8**	0.4

The increase in capital commitments reflects planned capacity improvements, factory improvements and end of life asset replacement, mainly at our Mexico facilities.

Notes to the consolidated financial statements continued

for the year ended 31 December 2021

26. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2021 £m	2020 £m
Less than one year	**0.1**	0.3
Between one and five years	**0.1**	0.3
	0.2	0.6

Of the £0.2m (2020: £0.6m), £nil (£2019: £nil) relates to property plant and equipment.

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

27. Contingencies

Sanmina litigation

As previously reported, we have sought to reach a negotiated conclusion of various outstanding matters following the termination of the manufacturing services agreement with our former manufacturing partner, Sanmina Corporation. On 20 December 2019, both parties issued legal proceedings against the other. The parties are therefore in formal litigation, with no conclusion expected before the end of 2022 at the earliest. The basis of the claim filed by Sanmina Corporation relates to outstanding invoices and to residual inventory, which they allege that they purchased for Dialight. The claim filed by Dialight is more complex in nature and relates to significant costs and losses suffered as a direct consequence of Sanmina Corporation not performing in accordance with the terms of the manufacturing services agreement. The Group has sought external legal advice and is paying for the legal costs as incurred. As at 31 December 2021, the Group has not made any provision for future legal costs.

The claim filed by Dialight alleges that Dialight suffered significant costs and losses with total damages exceeding £190m suffered as a result of: (a) Sanmina's fraudulent inducement of Dialight to enter into a manufacturing services agreement (MSA); (b) Sanmina breaching the terms of the MSA in a wilful and/or grossly negligent manner (for example in respect of their failure to appropriately manage supply chain and inventory levels and to deliver product on time and free of workmanship defects); and, (c) Sanmina's gross negligence and/or wilful misconduct. In the event that Sanmina's claim is successful, the range of outcomes could be £0 – £8.9m, excluding legal costs.

Defined benefit pension schemes

During 2011, the Roxboro UK Pension Fund (the "Scheme") was closed to future accrual. This Scheme is included within pension assets. 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.

Uncertainties under income tax treatment

The Group operates in certain jurisdictions that are unstable or have changing political conditions, giving rise to occasional uncertainty over the tax treatment of items of income and expense.
In addition, from time to time certain tax positions taken by the Group are challenged by the relevant tax authorities, which carry a financial risk as to the final outcome. The Directors have considered the potential impact arising from these uncertainties and risks on the Group's tax assets and liabilities, both recognised and unrecognised, and believe that they are not material to the Financial Statements.

Employee claims

The Group has received two claims from former employees in France and, whilst recognising the inherent risks of employee-related litigation in France, the Directors believe that these two claims are without merit and will be robustly defended, and are not considered likely to result in any material outflow of funds from the Group.

Notes to the consolidated financial statements continued

for the year ended 31 December 2021

28. Reconciliation to non-GAAP performance measures

As explained in note 6, the Group incurs costs and earns income that is not considered to 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.

	2021 £m	2020 £m
Profit/(loss) from operating activities	**2.1**	(8.8)
Non-underlying items (see note 6)	**2.4**	2.4
Underlying profit/(loss) from operating activities	**4.5**	(6.4)
Profit/(loss) from operating activities	**2.1**	(8.8)
Non-underlying items (see note 6)	**2.4**	2.4
Depreciation of property, plant and equipment (see note 12)	**3.1**	3.1
Amortisation of intangible assets (see note 14)	**3.5**	3.0
Underlying EBITDA	**11.1**	(0.3)
Profit/(loss) from operating activities	**2.1**	(8.8)
Non-underlying items (see note 6)	**2.4**	2.4
Depreciation of property, plant and equipment (see note 12)	**3.1**	3.1
Amortisation of intangible assets (see note 14)	**3.5**	3.0
Share-based payments	**0.6**	0.4
Net movement on working capital (Inventories, trade and other receivables, trade and other payables) as per Consolidated statement of cash flows	**(4.3)**	9.0
Underlying operating cash flow	**7.4**	9.1

Underlying profit from operating activities and underlying EBIT referred to in the earlier sections of the Annual Report are the same measures. Underlying operating cash flow and adjusted operating cash flow referred to in the earlier sections of the Annual Report are the same measures.

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 Group uses GBP based constant currency models to measure performance. These are calculated by restating the results of the Group for the comparable year at the same average exchange rates as those used in reported results for the current year.

This gives a GBP denominated income statement, which excludes any variances attributable to foreign exchange rate movements. The most important foreign currencies for the Group are: Pounds Sterling, Euro, Canadian Dollar and Mexican Peso. The exchange rates used are in note 24 page 118.

Net debt

Net debt is defined as total Group borrowings less cash. Net debt of £15.7m at the year end (2020: £11.4m) consisted of borrowings of £16.9m (2020: £16.7m) less cash of £1.2m (2020: £5.3m).

29. Related parties

The ultimate controlling party of the Group is Dialight plc. Transactions between the Company and its subsidiaries have been eliminated on consolidation.

Transactions with key management personnel

Only Directors are considered to be key management personnel and transactions with them are disclosed in note 16. Directors of the Company and their immediate relatives control less than 1% of the Company.

30. Subsidiaries

In accordance with Section 409 of the Companies Act 2006, a full list of subsidiaries as at 31 December 2021 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. These did not change during 2021. 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 & 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

Notes to the consolidated financial statements continued

for the year ended 31 December 2021

30. Subsidiaries continued

Name	Percentage owned	Registered office	Principal activity
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 & Components products
Dialight de Mexico, S. de R.L. de C.V.*	100%	Calle Lirios S/N Colona Pacheco Ensenada Baja California Mexico	Assembly of Lighting, Signals & Components products
Dialight Latin America, S. de R.L. de C.V.*	100%	Calle Lirios S/N Colona Pacheco Ensenada Baja California Mexico	Sale of Lighting and Signals & Components products

There is only one class of share, and all shares held are considered to be ordinary shares. There have been no changes in the class of shares held during the year.

Dialight ILS Australia Pty Limited and Dialight Asia Pte. Ltd are owned 75% by the Group and there are non-controlling interests of 25%. The total profit for the year attributable to non-controlling interests is £0.2m (2020: profit £0.1m) and their share of equity is £0.6m (2020: £0.4m).

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

(b) Other companies

Unless otherwise stated, the registered office for the subsidiaries listed below is the same as the Company's registered offices set out on page 132 under the "Directory and shareholder information" section.

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
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

** These companies are exempt from the requirement to prepare individual audited financial statements in respect of the year ended 31 December 2021, by virtue of Sections 479A and 479C of the Companies Act 2006.

31. Post balance sheet events

There are no material post balance sheet events requiring adjustment or disclosure.

Company balance sheet (prepared under FRS 102)

at 31 December 2021

	Note	2021 £m	2020 £m
Fixed assets			
Intangible assets	4	**0.2**	–
Investments	5	**10.4**	9.8
Pension fund asset	14	**0.2**	0.2
		10.8	10.0
Current assets			
Debtors (of which £25.9m due after 1 year (2020: £25.6m)	8	**46.5**	49.9
Bank and cash balances		**–**	2.0
		46.5	51.9
Total assets		**57.3**	61.9
Creditors			
Amounts falling due within one year:			
Creditors	9	**(1.6)**	(1.7)
Provisions	10	**–**	(0.4)
Borrowings	11	**(17.0)**	(16.7)
Total liabilities		**(18.6)**	(18.8)
Net current assets		**27.9**	33.1
Net assets		**38.7**	43.1
Capital and reserves			
Called up share capital	12,13	**0.6**	0.6
Capital redemption reserve		**2.2**	2.2
Other reserves		**4.3**	4.4
Profit and loss account		**31.6**	35.9
Equity shareholders' funds		**38.7**	43.1

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 £4.3m (2020: loss of £2.7m).

The accompanying notes form part of these financial statements.

These financial statements were approved by the Board of Directors on 27 March 2022 and were signed on its behalf by:

Fariyal Khanbabi
Group Chief Executive

Clive Jennings
Chief Finance Officer

Company statement of changes in equity

for the year ended 31 December 2021

	Share capital £m	Other reserve capital contribution £m	Capital redemption £m	Own Shares £m	Retained earnings £m	**Total equity £m**
Balance at 1 January 2021	0.6	4.4	2.2	–	35.9	**43.1**
Loss	–	–	–	–	(4.3)	**(4.3)**
Total other comprehensive income	–	–	–	–	–	**–**
Total comprehensive expense for the year	–	–	–	–	(4.3)	**(4.3)**
Transactions with owners, recorded directly in equity						
Share-based payments, net of tax	–	0.6	–	–	–	**0.6**
Purchase of own shares	–	–	–	(0.7)	–	**(0.7)**
Total contribution by and distribution to owners	–	0.6	–	(0.7)	–	**(0.1)**
Balance at 31 December 2021	**0.6**	**5.0**	**2.2**	**(0.7)**	**31.6**	**38.7**

At 31 December 2021 the number of shares held by the Group through the ESOT was 0.2 million ordinary shares (2020: nil). The market value of these shares at 31 December 2021 was £0.7m (2020: £nil).

During the year, the Company purchased 0.2 million shares on the open market for £0.7m, which are being held in an employee benefit trust to settle share options in the future.

	Share capital £m	Other reserve capital contribution £m	Capital redemption £m	Retained earnings £m	**Total equity £m**
Balance at 1 January 2020	0.6	4.0	2.2	38.6	**45.4**
Loss	–	–	–	(2.7)	**(2.7)**
Total other comprehensive income	–	–	–	–	**–**
Total comprehensive expense for the year	–	–	–	(2.7)	**(2.7)**
Transactions with owners, recorded directly in equity					
Share-based payments, net of tax	–	0.4	–	–	**0.4**
Total contribution by and distribution to owners	–	0.4	–	–	**0.4**
Balance at 31 December 2020	**0.6**	**4.4**	**2.2**	**35.9**	**43.1**

Notes to the Company financial statements

for the year ended 31 December 2021

1. General information

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 132 of this Annual Report and Accounts. The Company is a holding company that manages the other trading subsidiaries of the Dialight Group. 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.

2. Basis of preparation

These financial statements have been prepared in accordance with Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102").

Under Section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account.

In these financial statements, the Company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Cash flow statement and related notes; and
- Key management personnel compensation.

As the consolidated financial statements of the Group include the equivalent disclosures, the Company has also taken the exemptions under FRS 102 available in respect of the following disclosures:

- Certain disclosures required by FRS 102.26 Share Based Payments; and
- Certain disclosures required by FRS 102.11 Basic Financial Instruments and FRS 102.12 Other Financial Instrument Issues in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements:

(a) Going concern

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for a period of no less 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 (see note 1(b) in the consolidated financial statements).

(b) Intangible fixed assets

Intangible assets that have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised in profit and loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use.

(c) 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 the 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.

Notes to the Company financial statements continued

for the year ended 31 December 2021

2. Basis of preparation (continued)

(d) 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.

(e) 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.

(f) 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, discounted at the current rate of return of a high quality corporate bond appropriate to the term and currency of 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.

The Group recognizes a liability in respect of the best estimate of bonus payable where contractually obliged to or where past practice has created a constructive obligation.

(g) 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.

(h) 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.

(i) Share-based payment

The Company grants to its employees rights to the 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 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.

(j) 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.

(k) Provisions

A provision is recognised in the balance sheet when the Company 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.

Notes to the Company financial statements continued

for the year ended 31 December 2021

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 2, 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.

4. Intangible assets

	Software £m
Cost	
At 1 January 2021	–
Additions	0.2
At 31 December 2021	**0.2**
Depreciation	–
At 1 January 2021	–
Charge for the year	–
At 31 December 2021	**–**
Net book value at 31 December 2021	**0.2**
Net book value at 31 December 2020	–

Additions in the year relate to capitalisation of expenses for software.

5. Investments in subsidiary undertakings

	£m
Cost	
At 1 January 2021	21.2
Share-based payments	0.6
At 31 December 2021	**21.8**
Provisions	
At 1 January 2021 and 31 December 2021	**(11.4)**
Net book value at 31 December 2021	**10.4**
Net book value at 31 December 2020	9.8

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

A full list of subsidiaries of the Company is provided in note 30 to the consolidated financial statements on pages 121 and 122.

Notes to the Company financial statements continued

for the year ended 31 December 2021

6. 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 24 to the consolidated financial statements.

All carrying values are considered to be fair values.

A sensitivity analysis has been carried out in note 24 to the consolidated financial statements, and is considered to not be materially different for the results of 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:

	2021 $m	2020 $m
Currency cash	**(17.0)**	(9.2)
Gross balance sheet exposure	**(17.0)**	(9.2)

The exchange rates applied during the year are disclosed in note 24 to the consolidated financial statements.

Liquidity risk

The Company's exposure to liquidity risk relates to its borrowings. This is discussed in note 24 to the consolidated financial statements.

7. Share-based payments

Share-based payments are described in full in note 16 to the consolidated financial statements.

PSP

The PSP relating to employees and Directors of the Company is disclosed on page 79 in the Directors' Remuneration Report and in note 16 to the consolidated financial statements.

Details on assumptions and inputs used in the calculation of share-based payment amounts are disclosed in note 16 to the consolidated financial statements.

8. Debtors

	2021 £m	2020 £m
Amounts owed by subsidiary undertakings <1 year	**20.3**	24.0
Amounts owed by subsidiary undertakings >1 year	**25.9**	25.6
Other debtors	**0.3**	0.3
	46.5	49.9

9. Creditors

	2021 £m	2020 £m
Amounts falling due within one year:		
Amounts owed to subsidiary undertakings	**0.4**	0.4
Accruals and deferred income	**0.7**	0.8
Other creditors	**0.5**	0.5
	1.6	1.7

10. Provisions

	2021 £m	2020 £m
At 1 January	**0.4**	0.4
Usage	**(0.2)**	–
Release	**(0.2)**	–
At 31 December	**–**	0.4

Following the disposal of the Dialight A/S business in September 2019, a provision was established for the maximum amount that may be payable by the Company in respect of future warranty claims relating to historical sales by the business sold, in accordance with the Sale and Purchase Agreement. A claim for £0.2m was received in accordance with the sale contract and paid in 2021. The date for further claims has expired and the remaining provision has been released.

The contingent liability for the Company in relation to litigation by Sanmina Corporation is disclosed in note 27 to the consolidated financial statements.

Notes to the Company financial statements continued

for the year ended 31 December 2021

11. Borrowings

Borrowings are described in full in note 23 to the consolidated financial statements.

12. Called up share capital

	2021 Number	2021 £m	2020 Number	2020 £m
Allotted and fully paid				
Ordinary shares of 1.89 pence each	**32,610,025**	**0.6**	32,562,466	0.6
Shares classified as liabilities				–
Shares classified in shareholder funds		**0.6**		0.6
		0.6		0.6

During the year, 47,559 shares were issued (2020: 23,301) in order to satisfy the requirement for shares that vested as part of the PSP scheme (note 16 to the consolidated financial statements). There were no proceeds in 2021 (2020: nil). The ordinary shares issued in the year have the same rights as the other shares in issue.

During the year, the Company purchased 0.2 million shares on the open market for £0.7m, which are being held in an employee benefit trust to settle share options in the future. This decreased the amount of shares in issue and has no impact on diluted earning per share (see note 11 to the consolidated financial statements.)

13. 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.

Other distributable reserve

During the year, the Company purchased 0.2 million shares on the open market for £0.7m, which are being held in an employee benefit trust to settle share options in the future.

14. 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 Company is required to agree a Schedule of Contributions with the Trustees of the Executive Fund following a valuation which must be carried out at least once every three years with the latest valuation in 2020. For the full detail refer to note 16 of the consolidated financial statements.

Recognised assets for defined benefit arrangements

	2021 £m	2020 £m
Present value of funded obligations	**(2.9)**	(3.1)
Fair value of plan assets	**3.1**	3.3
Recognised asset for defined benefit arrangements	**0.2**	0.2

Plan assets consist of the following:

	2021 £m	2020 £m
Bonds	**3.1**	3.3

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

Notes to the Company financial statements continued

for the year ended 31 December 2021

14. Pensions (continued)

Movements in the present value of defined benefit obligations

	2021 £m	2020 £m
Liabilities at 1 January	**3.1**	2.9
Interest cost	**–**	0.1
Benefits paid	**(0.1)**	(0.1)
Changes in financial assumptions	**(0.1)**	0.2
Liabilities at 31 December	**2.9**	3.1

Movements in fair value of plan assets

	2021 £m	2020 £m
Assets at 1 January	**3.3**	3.1
Interest on assets	**–**	0.1
Employer contributions	**0.1**	–
Benefits paid	**(0.1)**	(0.1)
Return on plan assets less interest	**(0.2)**	0.2
Assets at 31 December	**3.1**	3.3

Expense recognised in the profit and loss account

	2021 £m	2020 £m
Interest on obligation	**–**	0.1
Interest on plan assets	**–**	(0.1)
	–	–

Liability for defined benefit obligations

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

	UK scheme (% per annum)	
	2021	2020
Discount rate at 31 December	**1.8**	1.1
Future pension increases	**3.5**	3.0
Inflation – RPI	**3.6**	3.1
Inflation – CPI	**2.9**	2.3

For its UK pension arrangements, the Group has for the purpose of calculating its liabilities as at 31 December 2021, 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 21.5 years for males and 24.8 years for females. For individuals currently aged 65 years the average life expectancy is 20.5 years for males and 23.7 years for females.

15. Related party transactions

During the period, the Company received no management fees or interest on intercompany loans (2020: £nil) from subsidiaries that are not wholly owned. At 31 December 2021 a total of £nil was owed to the Company by those subsidiaries (2020: £0.1m).

Five-year summary (unaudited)

	Prepared under IFRS				
	2021 £m	2020 £m	2019 £m	2018 £m	2017 £m
Revenue	**131.6**	119.0	151.0	169.6	181.0
Research and development cash expenditure	**4.9**	4.6	8.1	7.3	6.9
Underlying profit/(loss) from operating activities	**4.5**	(6.4)	5.2*	8.0	9.7
Non-underlying items	**(2.4)**	(2.4)	(6.3)	(0.4)	(6.4)
Profit/(loss) from operating activities	**2.1**	(8.8)	(11.3)	7.6	3.3
Finance charges	**(1.4)**	(1.3)	(1.2)	(0.2)	(0.3)
Profit/(loss) before taxation	**0.7**	(10.1)	(12.5)	7.4	3.0
Cash generated by/(used in) operations	**6.0**	10.5	3.5	(7.4)	13.1
Net (debt)/cash	**(15.7)**	(11.4)	(16.5)	(2.9)	12.8
Shareholders' funds	**60.2**	57.3	67.8	85.1	76.1

* after adding back £10.2m of unaudited costs related to insourcing

Statistical information

Basic earnings/(loss) per ordinary share – pence	**9.0**	(24.0)	(49.8)	16.4	4.8
Dividends per share – pence	**n/a**	n/a	n/a	n/a	n/a
Underlying operating margin	**3.4%**	(5.4)%	3.3%	4.7%	5.4%

Directory and shareholder information

Registered office, contact details and communications

Company Secretary and Registered Office.
Registered in England and Wales
Company number: 2486024

Company Secretary: Richard Allan

Registered office
Leaf C, Level 36, Tower 42,
25 Old Broad Street
London EC2N 1HQ

Contact details:
Email (Company Secretary):
dsecretary@dialight.com

Email (investor relations): ir@dialight.com
Web: www.dialight.com

Website
Shareholders are encouraged to visit our website, www.dialight.com, which contains information about Dialight. Any information on or linked from the website is not incorporated by reference into the Annual Report and Accounts unless expressly stated in this Annual Report. 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, historical reporting, announcements and other governance information. Investors can register for news alerts by email at www.ir.dialight.com/news-and-media/emailalerts/. 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.

Electronic communications
The carbon footprint and cost saving from electronic communications rather than hard copy printing can be very considerable. We strongly encourage all Dialight shareholders to move to electronic communications. The process to elect for electronic communications is very simple. To receive notification to your email address or in hard copy, whenever shareholder documents are available on the Company's website, please register online by visiting our Registrar's website, www.shareview.co.uk and complete your details.

Registrars and shares

Address
Equiniti, Aspect House
Spencer Road Lancing
West Sussex BN99 6DA

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

Web
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.

Advisers

Financial advisers
Investec Bank plc
30 Gresham Street
London EC2V 7QP

Auditors
KPMG LLP
15 Canada Square
London E14 5GL

Legal advisers
Ashurst
London Fruit & Wool Exchange
London E1 6PW

Osborne Clarke,
One London Wall
Barbican
London EC2Y 5EB

Principal bankers
HSBC Bank PLC
West London Corporate Centre
1 Beadon Road
London W6 0EA

2022 Financial calendar

Annual General Meeting: Thursday 19 May 2022

Half Yearly Financial Report: Monday 1 August 2022

Any amendments to these dates will be notified on the Company's website (www.dialight.com).

Trademarks

The following registered trademarks of the Dialight Group appear in this document: "DIALIGHT", "VIGILANT", "PROSITE" and "DUROSITE".

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.

Leaf C, Level 36
Tower 42
25 Old Broad Street
London EC2N 1HQ
+44 (0)20 3058 3541

info@dialight.com
www.dialight.com

Registered in England and Wales
Company number: 2486024

Dialight