Dialight

ANNUAL REPORT AND ACCOUNTS 2019

2019 RESULTS

Our purpose is to improve the world we live in through sustainable, energy efficient and intelligent LED lighting technologies. We enable our customers to reduce their carbon footprint.

Dialight is a pioneer of change for the industrial world; advancing the performance standards of industrial LED technology; using light fixtures in new and connected ways; and creating networks that deliver data-driven insights.

Our next generation of lighting solutions provide superior operational performance, reliability and durability, reducing energy consumption and maintenance costs while creating a safer working environment.

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

STATUTORY MEASURES

	2019	2018	2017
Gross profit (£'m)	**43.9**	60.3	66.7
(Loss)/profit from operating activities (£'m)	**(11.3)**	7.6	3.3
(Loss)/profit for the year (£'m)	**(16.2)**	5.3	1.7
(Loss)/earnings per share (p)	**(49.8)**	16.4	4.8

FINANCIAL HIGHLIGHTS

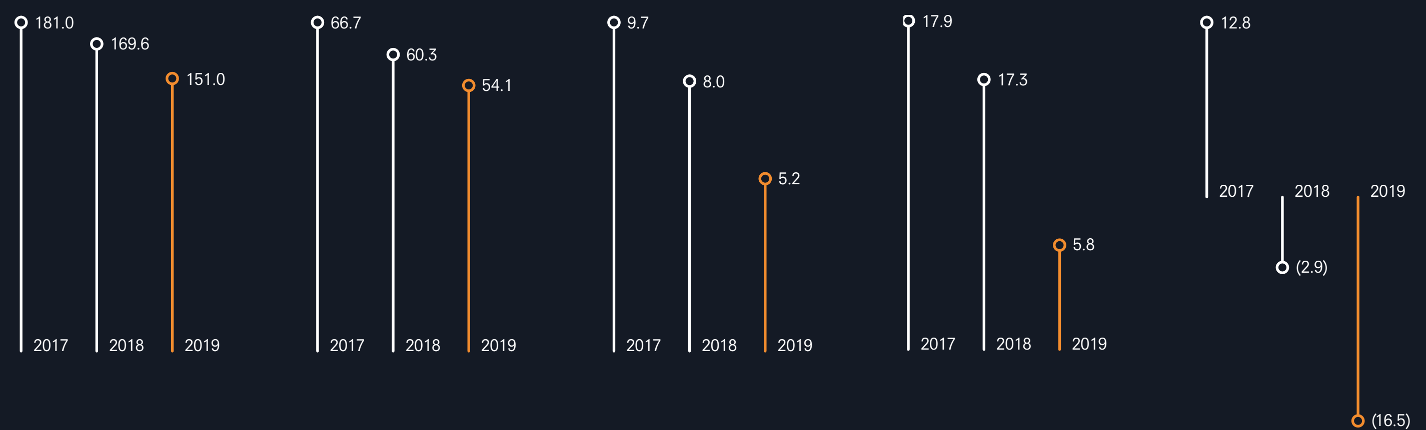
Revenue
£m

Proforma unaudited gross profit*
£m

Proforma unaudited operating profit*
£m

Proforma unaudited basic EPS**
p

Net cash (debt)
£m



* See page 139
** See page 127

What’s inside this report

STRATEGIC REPORT

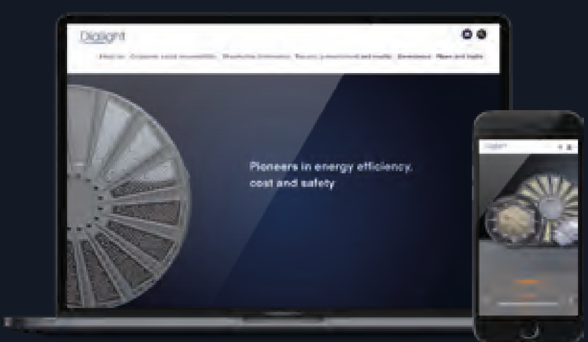
GOVERNANCE

FINANCIAL STATEMENTS

To find out more

Additional information can be found within this report

More information is available online



Our business at a glance

Product Management

Globally coordinated
- Regionally focused
- Regionally specified products

Engineering

Global technology leadership deployed regionally
- Dialight design rules
- Increase speed to market
- R&D London
- R&D New Jersey

Operations

Regional assembly facilities
- Global purchasing with local delivery
- Fulfilment from regional hubs
- Regional customer service

Sales

Outstanding customer experience
- Global coordination for global customers
- Regional teams

Operational footprint

Americas

Roxboro, NC, US
Injection molding
- 79,000 sq ft
- All products

Tijuana, Mexico
New facility for distribution, CNC, painting & machining
- 100,000 sq ft
- All products

Ensenada, Mexico
Final assembly
- 162,000 sq ft
- All products

Europe

London, UK
Distribution
- R&D

Australia I Asia

Penang, Malaysia
New facility for final assembly, moulding
- 90,000 sq ft
- All products

Perth, Australia
Distribution
- 14,000 sq ft
- All products

Business type	Lighting	Signals & Components
An overview	Dialight's LED lighting for industrial applications is providing the next generation of lighting solutions that deliver reduced energy consumption and create a safer working environment. Our products are specifically designed to provide superior operational performance, reliability and durability, reducing energy consumption and ongoing maintenance and achieving a rapid return on investment. Competing in this segment requires significant development costs and regulatory certifications which create barriers to entry.	The Signals and Components division consists of the Traffic and Transportation and Components businesses. Traffic and Transportation is focused on supplying traffic lights plus niche lights for specialist vehicles. The Components business sells status indicators to electronic original equipment manufacturers ("OEMs"). This is a mature market with low barriers to entry.
What's driving demand	• Industrial LED market penetration is only single digit with significant opportunity for growth • Customer sustainability targets to reduce CO_2 • Productivity and safety benefits of better quality lights • Reliability of our fixtures in the harshest environments, at both extremes of the temperature scales • Long-term cost savings of LED through lower energy use and reduced maintenance demands • Industrial Internet of Things/connectivity in the industrial environment	• Our brand reputation and consequent repeat business help us maintain sales volumes in this mature and competitive market.
Industries we work in	• **Heavy industry** – steel processing, pulp and paper, automotive plants • **Oil and gas** – upstream, midstream and downstream • **Mining** – surface and underground • **Chemical and pharmaceutical** • **Power generation** – from oil and coal to nuclear and wind powered • **Collision avoidance lighting** – for towers, chimneys and wind farms • **Food and beverage** – processing, grain storage, flour milling and cold storage areas	• **Traffic management**, typically for municipalities • **Vehicle manufacturing**, supply of niche lights • **Electronic equipment manufacturing**, supply of status indicators
Our performance	**Revenue** **£111.5m** (2018: £125.0m) **Proforma unaudited operating profit** **£7.0m** (2018: £8.5m) Statutory operating loss £9.5m (2018: profit of £8.5m) **Proforma unaudited gross profit.** **£41.5m** (2018: £47.1m) Statutory gross profit £31.3m (2018: £47.1m)	**Revenue** **£39.5m** (2018: £44.6m) **Operating profit** **£4.3m** (2018: £4.5m) **Gross profit** **£12.6m** (2018: £13.2m)
	Additional information can be found on page 114 of this report	Additional information can be found on page 114 of this report

Chairman's letter

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

An important corporate purpose, however, does not give us a pass on financial performance. In 2019, we again delivered deeply disappointing financial results. This must change. Indeed, our corporate purpose depends upon it.

In 2019, we took control of our operations after many years of flux. We invested significantly in opening two new facilities in Mexico and Malaysia. The level of on-time delivery performance is industry leading. With the new facilities we have significant capacity to support our longer-term growth plans.

We continue to focus on product development with three new products launched during 2019. Our new products are designed to expand our potential market size by serving a wider offering for our existing customers. In addition, we are concentrating on product enhancements to improve performance and reduce costs in our existing product lines.

One of the core strengths of the Group is the sales team who are extremely well respected by customers and distributors. We are heavily focused on rebuilding customer and distributor confidence. A key initiative is to hold finished goods inventory in our plant in Mexico which can be shipped within 24 hours.

Our brand remains strong and well respected despite the operational issues of the past and this has been evident in the strong win rates for projects in the US. The most telling sign has been former customers returning to Dialight and requesting retrofits of competitors equipment showing our value proposition remains strong.

Dividend
In 2019, we invested £12.8m to support future growth. The Board is not proposing any final dividend payment for 2019.

Board changes
There have been important changes to the composition of the Board over the past 12 months. In August 2019, Wayne Edmunds stepped down as Chair and I was appointed as his successor. Also, in August, Marty Rapp stepped down as CEO and Fariyal Khanbabi, formerly CFO, was appointed as interim CEO. On 5 March 2020, we announced Fariyal as our Chief Executive Officer. We would like to thank Wayne and Marty for their contributions. A search for a new CFO is currently underway.

In February this year, we appointed two new Board members, Karen Oliver and Gotthard Haug. Both have international experience in diverse industrial markets which will help the Group in its next phase of development. Steve Good has indicated that he will step down from the Board at the end of March 2020 and we thank him for his contribution.

People
We would like to thank all our employees for their hard work and efforts in 2019. The business enters 2020 in a much better place due to their resilience and commitment.

Outlook
The past few years of operational issues should not distract from the compelling market proposition that Dialight has to offer.

The investment in our manufacturing footprint and strong focus on product development and expansion of the available market positions the Company to grow and recapture lost market share.

Our market proposition remains compelling and we are confident of the Group's ability to deliver future growth in the medium term (subject to the impact of COVID-19).

David Blood
Chair

31 March 2020

Investment proposition

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

Trusted
Significant expertise exclusively in LED and a decade of experience as a lighting partner to many of the world's leading organisations has helped us achieve the largest installed base with over 2.0 million industrial LED fixtures around the world.

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

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

Intelligent
Controlled lighting solutions that seamlessly integrate with existing factory automation and building management systems to conveniently optimise site safety and productivity. In 2020, we launched the next generation of our controls offering.

Scalable
Increased manufacturing capacity with our new facility in Tijuana, Mexico and enlarged facility in Penang, Malaysia in order to provide scalable production. We now have sufficient capacity in the Group to support significant growth without needing to add any new facilities.

Section 172
The Board considers the interests of the Group's employees and other stakeholders, including the impact of its activities on the community, environment and the Group's reputation, when making decisions. The Board, acting fairly between members, and acting in good faith, considers what is most likely to promote the success of the Group for its shareholders in the long term.

Read more about:

- how the views and interests of all our stakeholders were represented in the Boardroom during the year together with the key topics raised and how we responded on pages 54 to 55
- the Group's goals, strategy and business model in the Strategic report on pages 20 to 23
- how we manage risks on pages 32 to 36
- corporate governance on pages 42 to 55 including how governance supported the delivery of our strategic objectives in 2019 and how we are responding to the UK Corporate Governance Code 2018

Group Chief Executive's review

Overview

Climate change poses a significant challenge for business. Investing in sustainability initiatives is a critical imperative for key stakeholders, including employees. Dialight is in a privileged position to be able to help its customers in this regard. The company's LED products provide lighting solutions that deliver reduced energy consumption and create a safer working environment. Our products are specifically designed to provide superior operational performance, reliability and durability, reducing energy consumption and ongoing maintenance. In addition, our new products are designed with field replaceable parts, which continues to solidify our commitment to sustainability.

Our technology remains best in class, stemming from designing our own power supplies. Dialight is the only pure play LED lighting company in the hazardous industrial market, with many years of experience. We have been the pioneer within this market and continue to be the technological leader. The Group is built on a very strong US sales team with a strong channel to market and long-term relationships with our distributors and end customers that span the last decade.

The financial performance of the Group was adversely impacted by the significant costs (£10.2m) associated with exiting from our former outsource manufacturer. These were short term and were incurred whilst our own facilities became fully operational. We have upgraded, expanded and geographically diversified our operational footprint. Our operations are fully recovered and we have sufficient capacity to support our long-term growth plans. One of the key actions to demonstrate to the market that we have recovered has been to hold finished goods inventory in our plant in Tijuana. These are high running items that we are able to ship within 24 hours, improving our service levels to our customers.

In the second half of the year, we focused on rebuilding customer and distributor confidence from this stronger operational base. The sales team have good visibility of the potential sales pipeline but predicting the timing of orders remains challenging as the typical order cycle is between four to eight weeks with no long-term contracts. We are achieving strong win rates for projects in the US, which demonstrates we are recovering our lost market share. In addition, former customers are returning to Dialight and requesting retrofits of competitor equipment showing our quality proposition remains strong.

More information and an interview with Fariyal Khanbabi is available online **http://ir.dialight.com/reports-presentations-and-results**

Our focus on product development continues with developing new products to fill the gaps in our product portfolio with a specific focus on meeting regional differences. The technologies that we have developed in 2019 such as our new power supply are being used to upgrade parts of our existing product range and, which will result in significant cost reductions.

Business performance

Our 2019 financial results were disappointing due in large part to the significant costs (£10.2m) associated with exiting from our outsource manufacturer. The Group achieved revenues of £151.0m and a proforma unaudited operating profit of £5.2m for the year ended 31 December 2019, within our previously disclosed guidance. Our proforma unaudited gross margin was in line with the previous year. We incurred additional costs for machining and painting while our own facility in Tijuana, Mexico ramped up which have been classified as non-recurring. We have also taken steps to right size the group so we have a leaner cost structure, which resulted in severance charges of £1.1m in H2 2019. After the one-off costs of in-sourcing and other non-recurring costs, the Group made an operating loss of £11.3m.

Dialight finished the year with net debt of £16.5m, an increase of £13.6m in the year reflecting the capital expenditure on our new facilities (£6.8m) and third-party costs for producing sub-assemblies and internal ramp costs (£6.1m), which position us well for the future.

The hybrid model was successful as a tool for exiting Sanmina and getting the new Penang facility operational faster. As our operational performance improved on a sustainable basis, we have eliminated the use of third-party vendors and have in-sourced all painting and machining in Mexico. With more of our processes vertically integrated, this has given us flexibility and ultimately will drive costs down. We have deferred in-sourcing in Penang; it will require further investment, which we will make once we see volumes increase in EMEA and APAC.

Our US orders were down 7% compared to 2018. The operations of the Group were not fully recovered until the start of Q4 2019 which impacted revenue in the US. This region has a very solid foundation, with a well-established channel strategy and a strong sales team. It is important as we grow regionally to continue to invest in our largest market, where there remains a significant amount of growth opportunity.

Above: Dialight's next generation Glass Reinforced Plastic (GRP) LED Linear expands our current Linear options. It is very easy to install and has a lumen output of 2,785 to 5,750. We have launched the version for hazardous markets and the non-hazardous version will be launched shortly.

Orders in EMEA were 21% lower than 2018. We have specific products being developed for this region that will support growth. However, the key to success in this region is developing a better route to market and emulating the channel strategy we have in the US. We have deployed additional resources from our US team to help execute these initiatives.

Asia achieved 2% order growth at constant currency (see note 32). The Australian market is heavily driven by mining and the downturn in their end markets had a significant impact on orders for the year. Australia was down 11% year on year.

Our Obstruction business consists of lighting systems for cell phone towers in the US. We are currently in the process of upgrading our beacons and our integrated obstruction software system, which is scheduled to launch in Q2 2020. These are necessary steps to rejuvenate the Obstruction business after insufficient investment in prior years. This is in conjunction with a sales strategy aimed at widening the customer base as we have a high customer concentration with two key accounts. Orders were 10% below 2018 at constant currency.

The Signals and Components business was impacted by a downturn in the component product lines. This business sells exclusively through distribution channels, and the distributors have cited excess inventory as the reason for reduced order intake. The decline stabilised in Q4 but we are not expecting any recovery until the second half of 2020. This business had an order decline of 19% at constant currency compared to 2018 but was able to largely maintain the EBIT levels of last year.

Strategy

The industrial lighting market is still estimated to be at low levels of conversion to LED. Cost savings from high- energy efficiency and maintenance along with safety, health, and environmental benefits and regulations are the main drivers of positive adoption. There are still some growth inhibiting factors such as initial cost of investment and industrial technical standards that are slowing full-fledged adoption.

Some of the significant industry trends that will continue to shape the LED lighting industry in the next generation of products are:

- Smaller and denser form factors
- Easier installation methods
- Connected lighting
- Lighting type and quality as an influencer on health and safety

Last year our product roadmap was focused on the EMEA and APAC region. The three products we developed in 2019 represent 40% of the expanded market we have targeted. This year we are ensuring that we have sufficient product development time dedicated to the US market. We are also concentrating on minor product enhancements to improve performance and reduce costs in our existing product lines. These product modifications will help us regain our lost market share in our core market and, by providing enough differentiation between the products, protect against cannibalisation as we enter adjacent markets.

The technology and engineering functions have been merged within Dialight and we have shifted the focus to develop a portfolio of next generation technologies in advance of the next generation of luminaire design. As the market moves to high-energy efficient, lower cost, smaller weight/size and easier to install fixtures, we have centered our technology around achieving these market drivers. The two areas to highlight here relate to power supplies and integrated controls. We are moving our technology to reduce the size of the power supply and enable it to be field programmable, hence reducing the overall size of the luminaire and SKU count of the modules.

We still believe that controls will be a major driver in accelerating market adoption. However, the cost of adding connectivity remains a barrier to adoption. If we can offer a fixture with controls capability that is at a similar price to one without, whilst maintaining our gross margin, then it makes the controls buying decision for the customer irrelevant. They will purchase a fixture that has controls even if they choose not to adopt them immediately. By making our controls field programmable, we can offer that functionality after the installation.

The key to success within the Group's operations is a sustainable supply chain. Our products are complex with a large variety of SKUs and therefore managing the supply chain is not straightforward. The strategic imperative for our supply chain team has been integrated into the New Product Development process so they are able to influence the components used in new products. They are also focused on negotiating key supplier agreements and more actively managing those relationships while ensuring we have no single-sourced components. In terms of execution, the supply chain will be locally sourced around the manufacturing plants with supply chain teams embedded into the factories.

Full year guidance for 2020

Most of our end markets are likely to remain challenging short-term, exacerbated by the possible impacts of the COVID-19 virus. Nonetheless, in 2020 we continue to target a materially improved trading performance, with a strong focus on sales and new product development, and again with an H2 weighting and we expect a significant reduction in our year-end net debt.

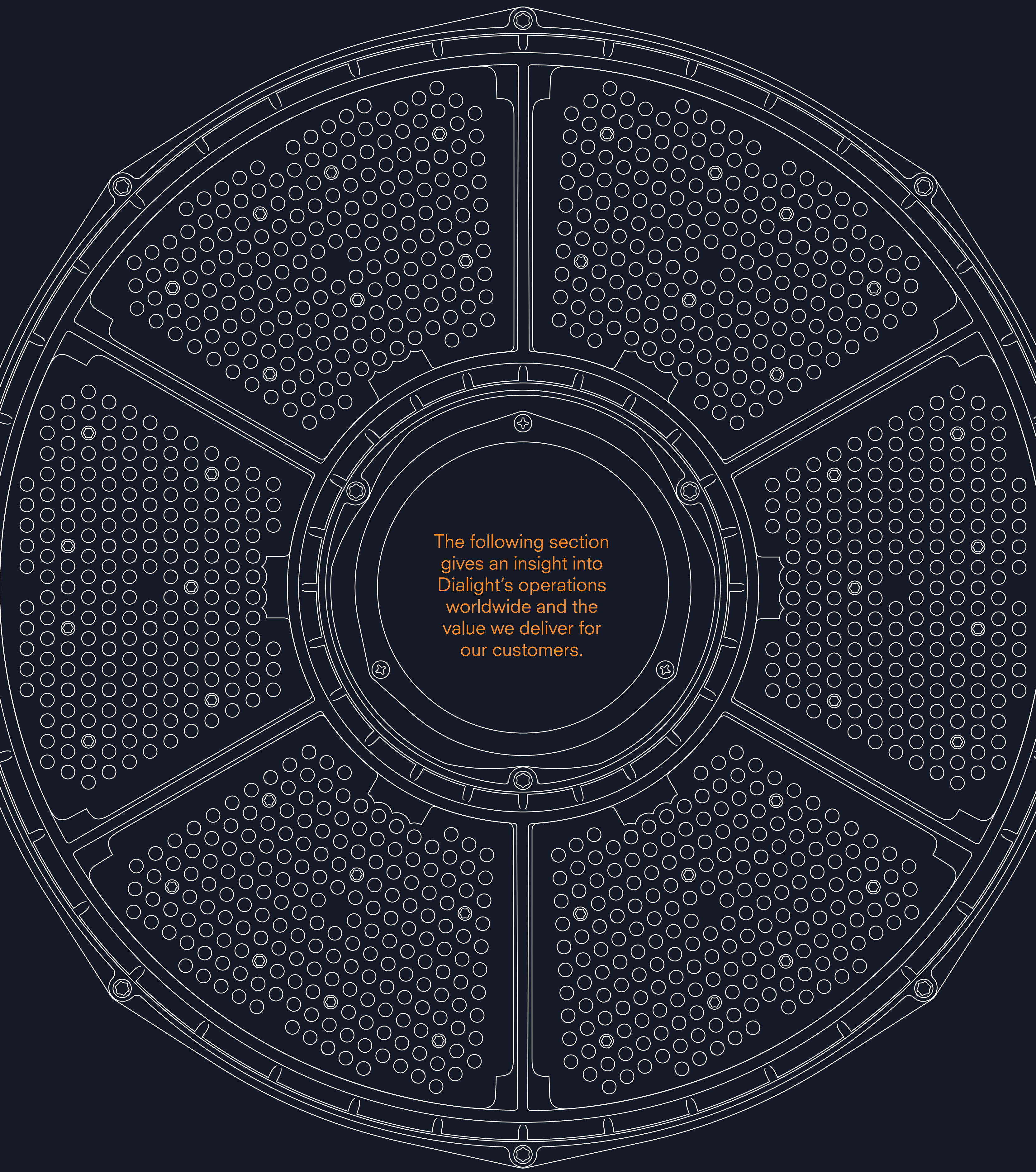
Subject to the impact of COVID-19, our focus remains on rebuilding customer and distributor confidence and, with our new products, we are confident that we have the foundations in place for modest levels of revenue growth this year. We expect gross margin recovery in 2020 and we are targeting exiting the year at 40% Lighting gross margins. Our target inventory levels for year-end 2020 are £38-£40m, which includes finished goods inventory in the US of £4.0m.

We expect our capital expenditure to be in the region of c£2m together with c£5m of capitalised development costs. We expect net debt to reduce during 2020. The tax rate for the year is expected to be c.26%.

The COVID-19 outbreak is an evolving situation and its potential impacts on supply and demand are hard to assess. However, there can be no certainty on the outbreak's future impact on our activities; hence, we are taking measures to ensure that we are prepared for all possible eventualities. Should conditions relating to COVID-19 worsen, we have measures at our disposal to reduce the impact on our business including, but not limited to, capex postponement and cost reductions. The potential impact of these have been highlighted in our going concern statement.

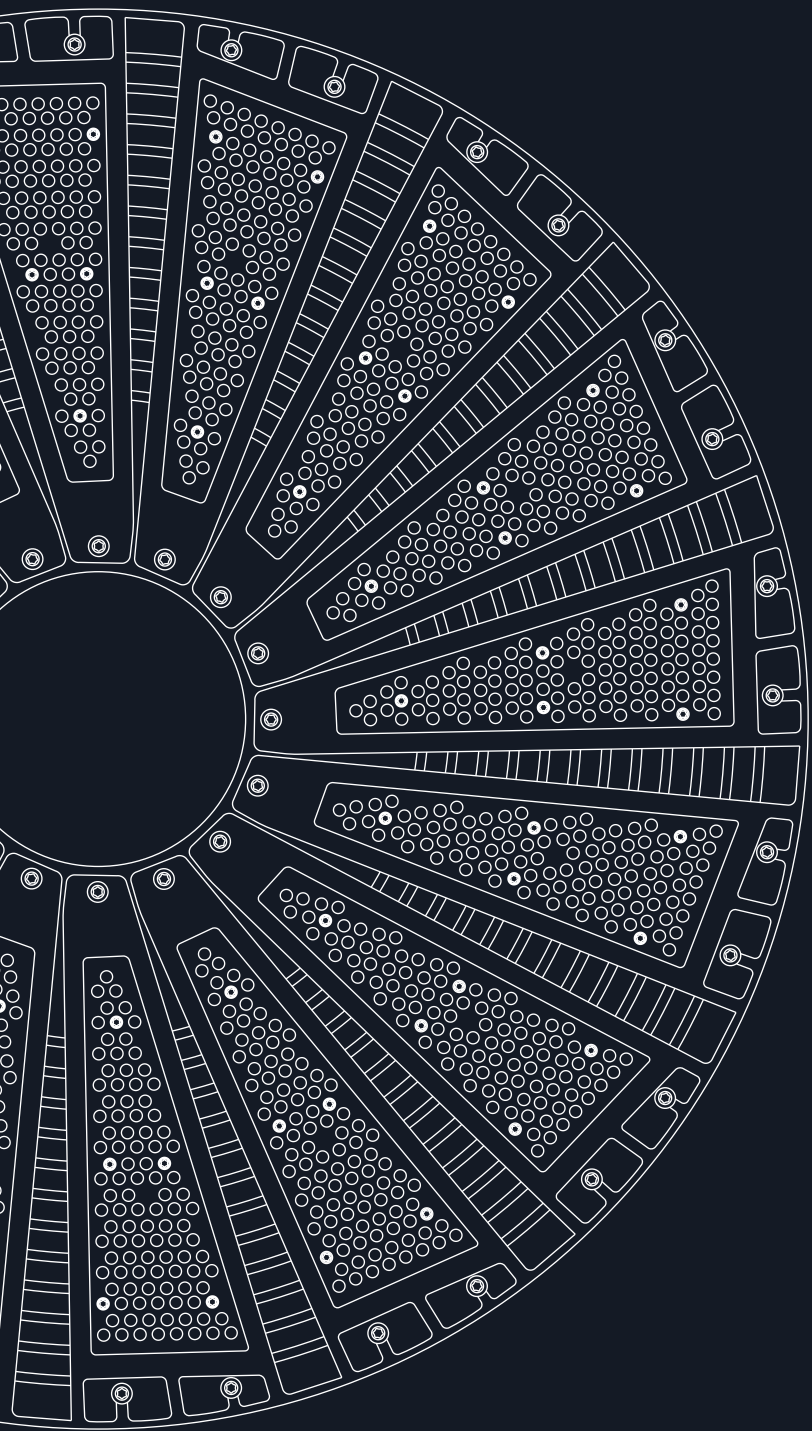
The longer-term prospects from the ongoing conversion to industrial LED lighting remain strong and the sustainability benefits to our customers are even more relevant. We remain excited by the Group's prospects over the medium to long term and are confident of delivering further progress.

Fariyal Khanbabi
Group Chief Executive



The following section gives an insight into Dialight's operations worldwide and the value we deliver for our customers.

OPERATIONAL IMPROVEMENTS



Average weekly production 6,500+ units up from 3,500 units at start of year

New distribution centre serving US market

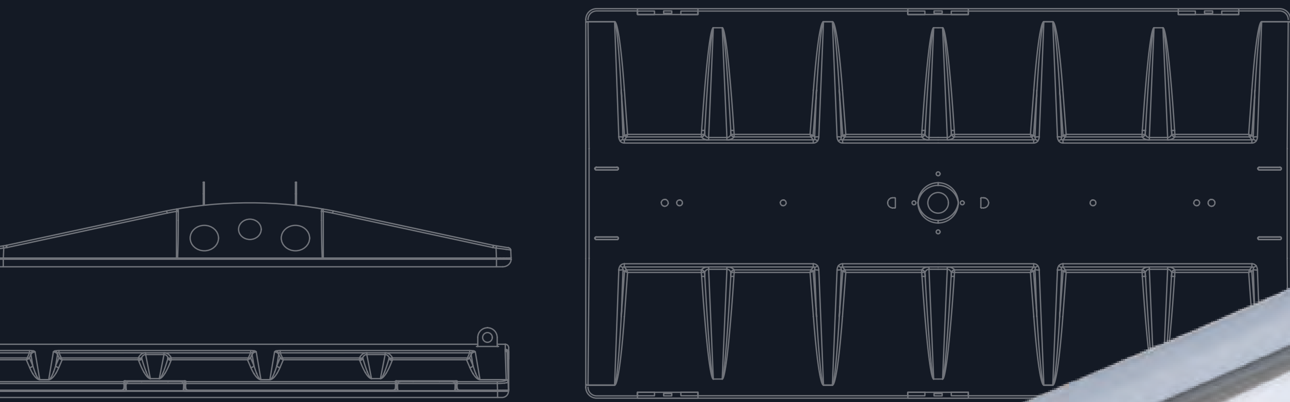
Late order reduction 89%

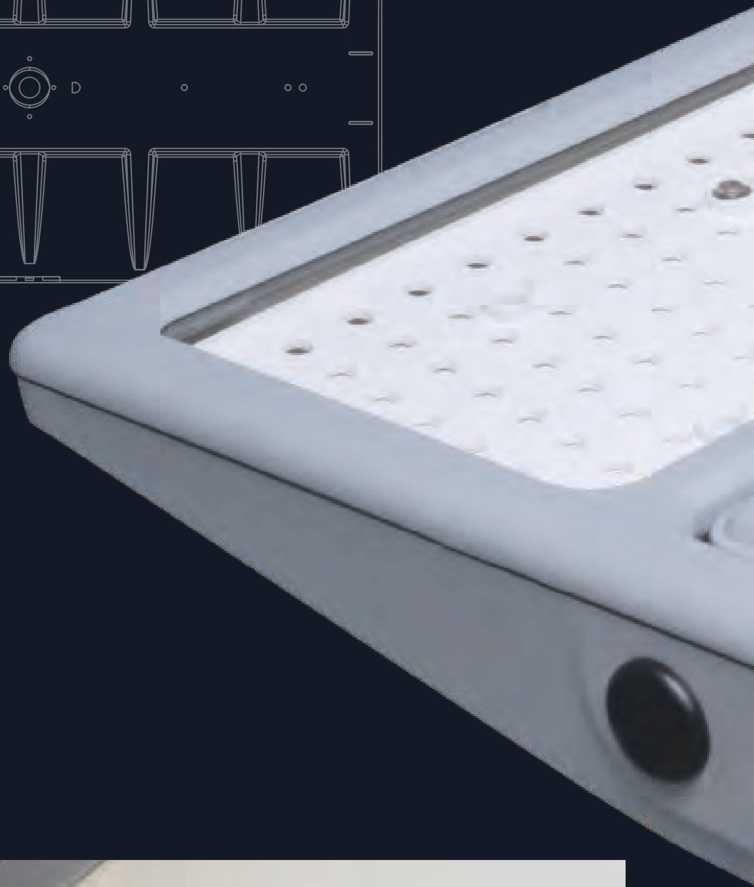
190,000 sq ft of new production facilities fully operational

Average lead time reduced to 22 days from 51 days in regional markets

OPERATIONAL CHANGES AND IMPROVEMENTS

2019 saw significant changes in Dialight operations with the business achieving a full exit from our outsource manufacturer and the opening of two new facilities, our distribution and production facility in Tijuana, Mexico, and our enlarged facility in Penang, Malaysia. Lighting order fulfilment is now carried out from our four distribution hubs around the world. Previously no finished goods inventory was held for the US markets; as part of the recovery our Tijuana facility is holding c£6m of high-running products (at the end of the year sales value), ready for immediate shipment.





RESEARCH

We have two research facilities, one in New Jersey, US and the other in London, UK. We have c.60 engineers who review the latest available technologies and design product applications based on guidance from product managers, customer feedback, changes in the market and any gaps in our portfolio.

They have the facilities to make working prototypes and to test them in-house before proceeding to the development phase.

DEVELOPMENT

We have a pipeline of product development that will enhance existing products and fill portfolio gaps. After the research phase, we complete a business case to assess the commercial viability of the product, prior to development.

During development, the engineers liaise with supply chain in relation to material choices and operational engineers at the factory to ensure that products are designed for manufacture.

DESIGN FOR MANUFACTURE

The complexity of our product offering and high number of SKUs has made it challenging for the business to effectively manage inventory and respond to changes in demand.

As we develop future technologies and products, we are adopting a design for manufacture approach to build on the work we undertook to platform engineer our product lines in 2016. This will ensure that we move towards commonality of parts, reducing the complexity for operations, improving efficiency on the production lines and allowing greater flexibility to respond to changing customer demands.

The operations function will be working closely with the engineering team on all developments, ensuring that the group can achieve significant efficiencies.


Dialight

MEXICO

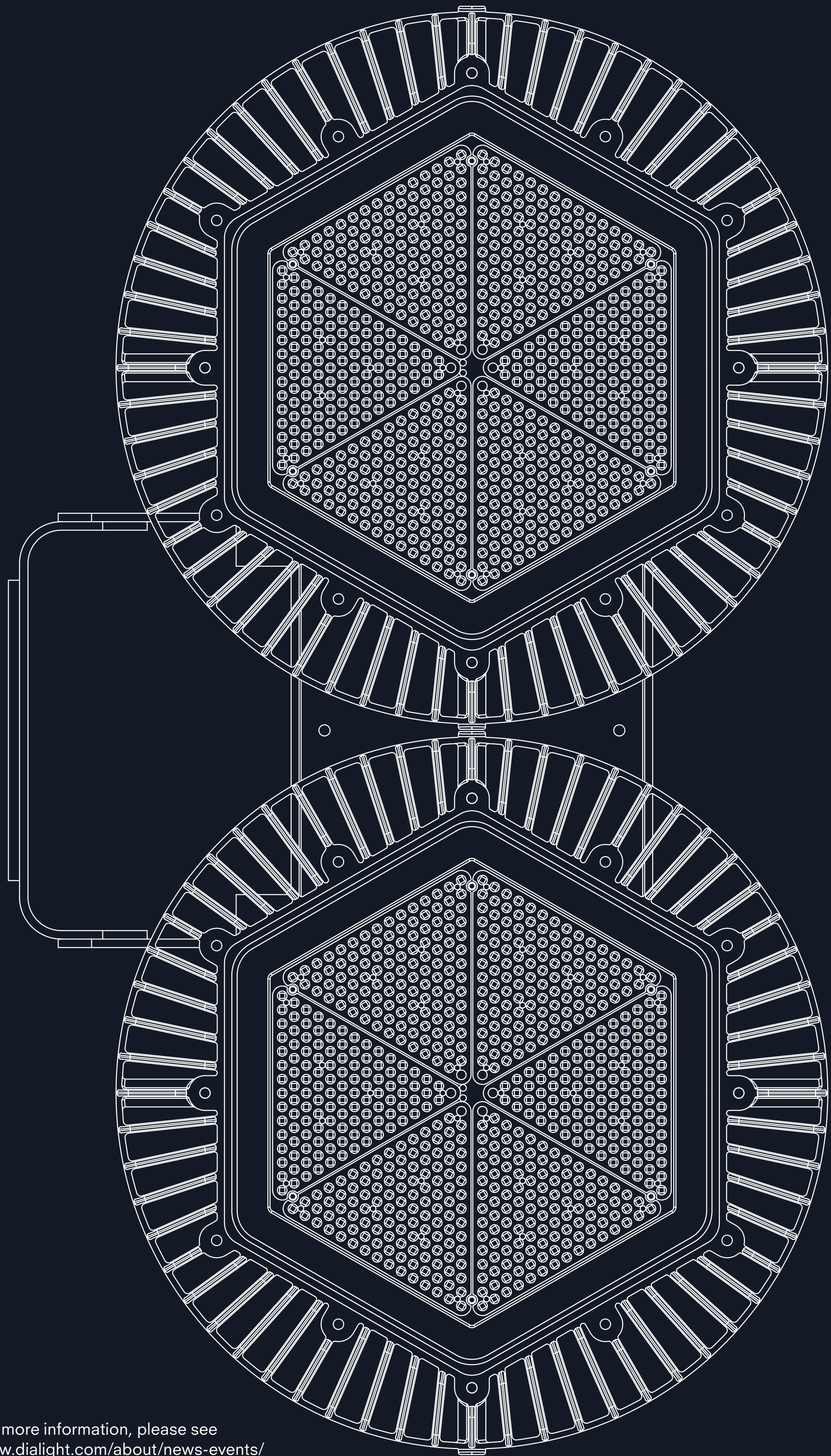
Performance at our facilities in Mexico exceeded expectations in 2019, with late orders reducing by 89% from the start of the year and Group production volumes exceeding 6,500 units per week, from 3,500 at the start of the year.

We now have a fully operational paint line installed in the Tijuana site alongside our CNC machining processes, all of which were relocated from our former outsource manufacturer during the year. The Mexican facilities provided 83% of Group production in the year.

MALAYSIA

Our facility in Penang, Malaysia was previously a small and highly efficient facility that only made products for Signals and Components.

Following a move to a new and larger facility, they now produce four lighting product lines serving the EMEA and APAC regions. This has reduced shipping times to these markets and improved lead times to customers. Production of Lighting products are now running at acceptable levels and we have made significant improvements to the supply chain.



For more information, please see
www.dialight.com/about/news-events/

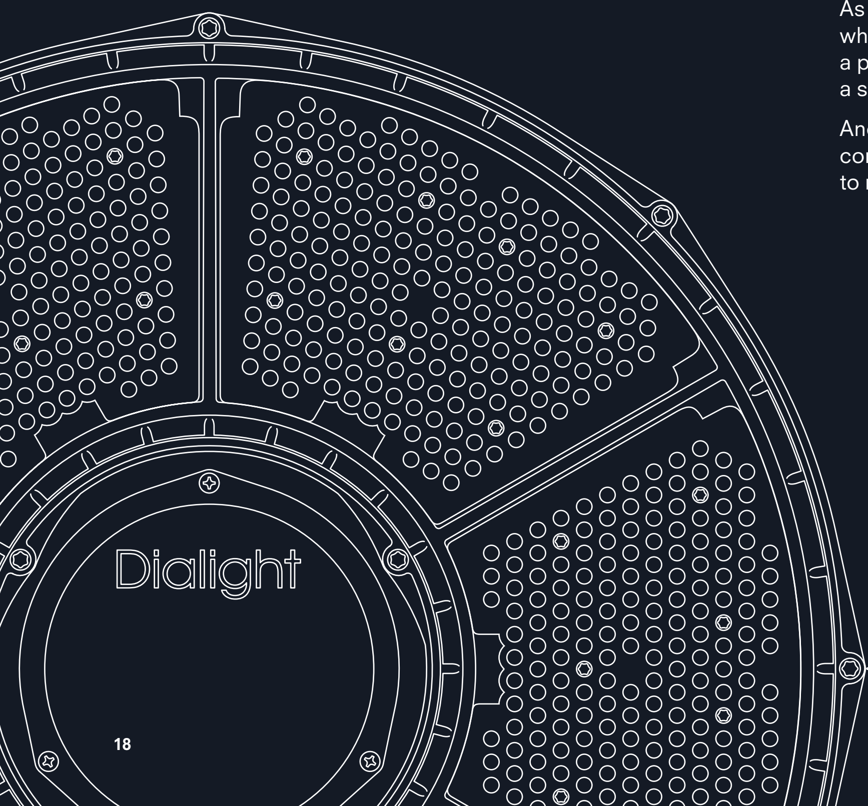
WHY LED?

The industrial market is dominated by High Intensity discharge (HID) lamps that are relatively rudimentary devices, incorporating either mercury, metal halide (a combination of mercury and halogen) or SON (sodium) gases that facilitate the creation of an electric arc between two electrodes. HID lamps suffer from shortcomings that limit their efficacy, lifespan and safety.

Replacement of such lamps with LED luminaires is enormously beneficial for organisations aiming to maximise productivity by creating a comfortable and correctly lit working environment, while also achieving energy and maintenance cost savings. An LED luminaire typically uses 50-60% less energy than a traditional light source, such as a fluorescent or HID lamp.

A properly illuminated working environment enhances physical safety, particularly in hazardous industrial facilities where good visibility can reduce the likelihood of accidents involving heavy plant and machinery.

Energy efficiency today is a major factor in the decision-making process for industrial, warehousing and manufacturing operations, as a result of rising energy costs, regulatory pressures and widespread expectations of environmental performance. In large facilities such as factories and warehouses, lighting can consume as much as 50% of the total electricity bill. Where lighting systems are 15 to 20 years old, the adoption of newer technology can bring the running cost of lights down by 90%. This is one of the major reasons why LED lighting has risen up the purchasing agenda in recent years.



The appeal of LED lighting lies in its highly efficient ability to generate more light per unit of electricity than almost any other available technology. In terms of their lifespan, they last up to 50 times longer than a conventional incandescent lamp and around five times longer than a compact fluorescent energy-saving light bulb.

Industrial operations are often characterised by harsh conditions, which require luminaires that are robust enough to withstand environmental factors and impacts. Alongside the IP rating of a luminaire, buyers give consideration to the IK rating, which denotes impact protection.

Impact protection is not only a concern in rough or heavy industrial workplaces but also in others such as food manufacturing, where any breakage that causes loose debris could create a risk of contamination. The glass used in conventional lamps has been a particular concern for the food industry, since glass cannot be detected by the x-ray equipment that may be used to detect contaminants in the end product.

This is one major benefit of installing LED luminaires, which do not contain glass but are nevertheless protected by a polycarbonate front plate. Another consideration in some applications might be the presence of corrosive substances such as fatty acids, which may damage plastic parts of luminaires.

Ambient temperatures in industrial and manufacturing buildings can vary wildly from freezing temperatures in cold stores to extremely high temperatures in boiler rooms or furnaces. One of the characteristics of LED lamps is that they emit far less heat into the working space than their incandescent counterparts. The actual heat produced (approximately half that of HID lamps) is generally dissipated through the back of the unit rather than being projected through the front.

As a result, LED luminaires are well suited to cold storage rooms, where conventional lamps may raise the ambient temperature to a point where refrigeration equipment must work harder to maintain a sufficiently low temperature.

Another distinctive benefit of LEDs is their ability to switch on instantly compared to conventional lamps, which can take up to several minutes to reach full luminance and therefore is an aid to productive working.

ADOPTION

Cost savings from high energy efficiency and maintenance along with safety, health, and environmental benefits and regulation compliance are the main drivers of this positive adoption. There are still some growth inhibiting factors such as initial cost of investment, industrial technical standards and low corporate priority that are slowing full-fledged adoption.

Some of the significant industry trends that will continue to shape the LED lighting industry in the next generation of products are:

- Smaller and denser form factors
- Easier installation methods
- Connected lighting
- Lighting type and quality as an influencer on health and safety

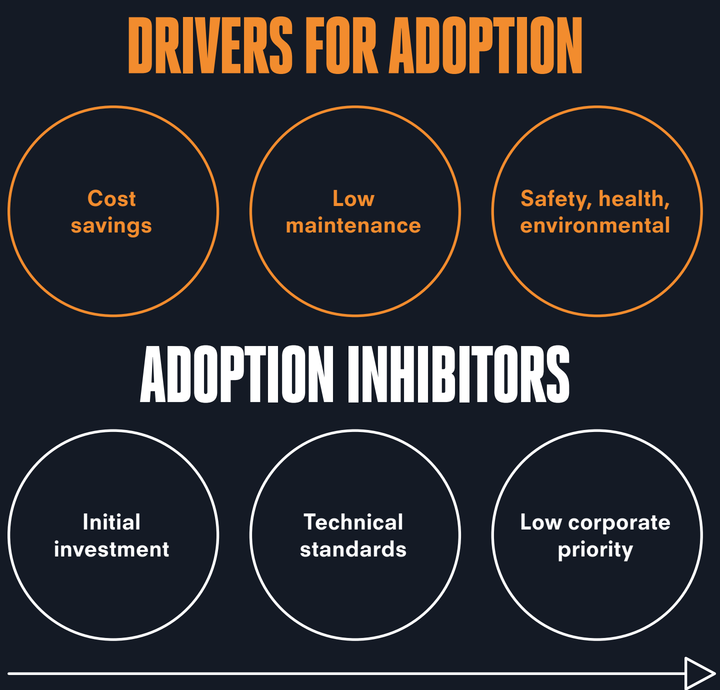
Industrial LED lighting fixtures can be broadly categorised by the type of environmental protection they provide and their performance level. Dialight's key differentiators are its high performing, reliable products backed by industry leading warranty terms. This differentiation is achieved through rugged designs, higher lumen maintenance, in-house designed power supplies, higher operating temperatures, low T-rating, and efficient optics.

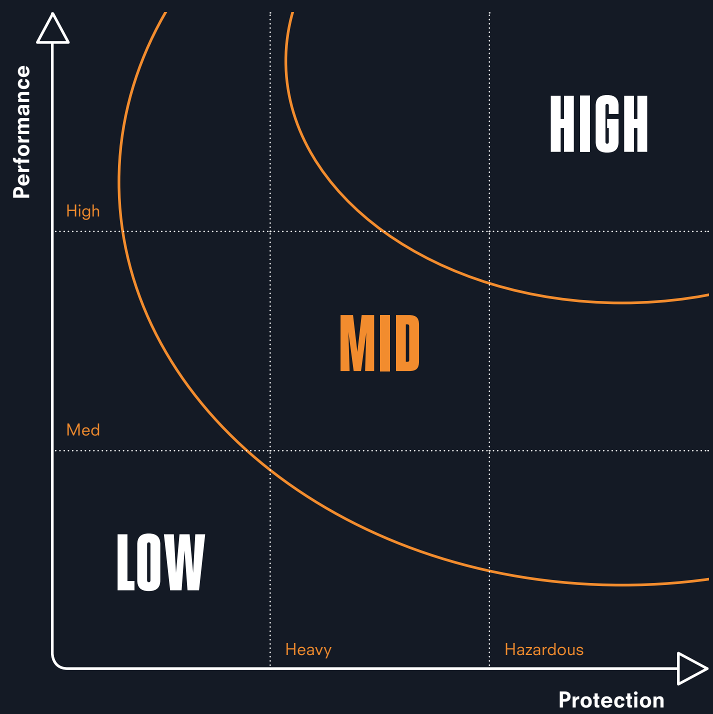
DIALIGHT'S FOCUS

Dialight has traditionally focused on the "high tier" segment. This segment values high performance, durability, and environmental protection. While this segment differentiates on design and demands a higher premium on price, it has limitations on market size and lower volume growth rates. Price erosion is lower in this segment due to the inherent differentiation and hence in spite of lower volume growth, it is characterised by higher revenue growth.

In contrast, the "low-tier" market segment caters to light industrial areas with low to medium performance products. This "low-tier" segment is characterised by low performance, short life, and mostly serves low economic regions of the world. Inherently this segment has the lowest price points. Even though the volume growth is highest due to favourable adoption factors, it has the lowest revenue growth due to higher price erosion. Due to these highly competitive conditions, low differentiation, and Dialight's lack of market access, this segment will not be the area of interest for us.

In between these two tiers lies the "mid-tier" segment. Dialight has competed in this space using its "high tier" product portfolio at the expense of lower margins due to a lack of specific products that fulfill this tier. Industrial customers require different luminaire types and multiple product tiers to serve different areas of their site. The three products developed in 2019 were focused on fulfilling this segment.





Our business model

Our purpose is to improve the world we live in through sustainable, energy efficient and intelligent LED lighting technologies.

We enable industrial customers operating in demanding environments to reduce their energy costs, maintenance costs and carbon footprint while maximising the safety and productivity of their facilities.

Our inputs

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

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

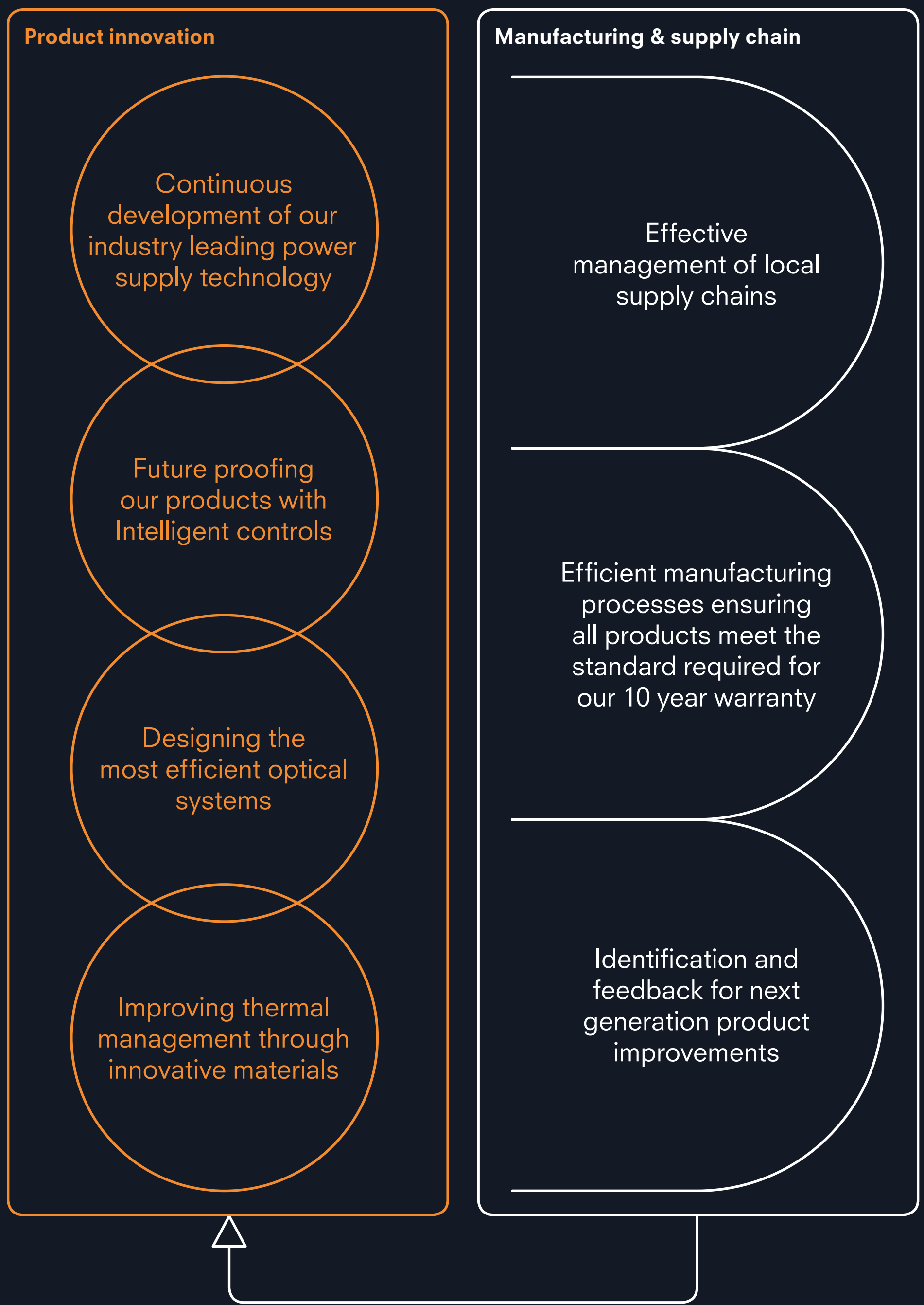
Product innovation
Developing market-leading products at the forefront of technology within industrial markets. In 2019 we invested £8.1m in research and development to extend our product portfolio.

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

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

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

What we do



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

Potential reduction in lighting energy costs for our customers

60%

Multi-channel distribution

Nurturing strong relationships within our distribution network

Developing strategic partnerships in new regions

Utilising our global distribution centres to ensure the shortest lead times

Our outputs

Revenue
Our revenue is mainly derived from the sale of lighting fixtures (74%). We sell via distribution channels and direct to the customer using our own sales force. Fixtures are installed by the customer or by third-party contractors.

Cash flow
Revenue is turned into cash flow, with a very small amount of bad debt, reflecting the quality of the customer base. This is used to fund the operating costs of the business, working capital requirements and re-investment.

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

The value we share

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

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

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

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

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

OUR STRATEGY TO ADDRESS AN EXPANDED LED MARKET

Our goal

Our goal is to deliver the most energy efficient, reliable LED lighting solutions available – leading the way in the energy efficient LED lighting revolution for industrial and hazardous applications.

We improve safety while integrating lighting as a key information node within our customers' operations.

Our values

Our values are at the core of our business. Our culture is one of openness, honesty and accountability. We believe that businesses thrive by sharing knowledge and experiences.

In order to capitalise on the cross fertilisation of ideas, we employ people from a diverse range of backgrounds and industries.

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

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

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

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

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

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

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

Our strategy

Continued operational improvements

The business will focus on the supply chain to ensure it is sustainable and is able to respond quickly to customer demand.

Next generation product development

We are focused on developing next generation technology to utilise in our new products that respond to customer needs.

Sales driven

The primary focus will be to increase market adoption and generate significant growth in the Lighting business

See our KPIs on pages 24 and 25
See our Risks on pages 34 to 36
See our Market drivers on page 19

Our priorities

1

The focus on creating a robust and sustainable supply chain will ensure that we can continue to respond quickly to customer demands

2

Product development will be focused on customer requirements and will use the latest technology to produce next generation fixtures

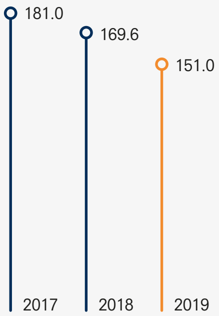
3

A sales driven organisation that utilises our well respected sales teams to increase conversion to LED through the use of our high quality fixtures.

Key performance indicators

Financial

Revenue
£m



Description

Revenue from sales.

Definition

Revenue from continuing operations.

Link to strategy

Revenue growth in territories and segments is part of capturing value, enabled by reinforcing our foundations and strengthening our capabilities.

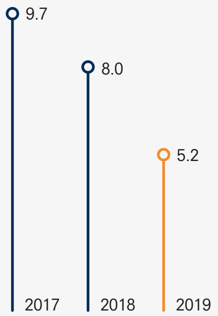
Remuneration linkage

Revenue growth is a key element in achieving short-term and long-term incentive targets. Due to revenue reduction year on year, there were no management bonus payments in 2019.

Target

Year-on-year revenue growth (at constant currency). We did not achieve this in 2019 as there was a 14% decline.

Proforma unaudited operating profit
£m



Description

The proforma unaudited operating profit (EBIT) related to the performance of the underlying business.

Definition

Operating profit of the business excluding items that are considered as non-recurring or not reflective of the underlying performance of the business (see page 139).

Link to strategy

The key measure of the success of our near-term strategic goals is EBIT.

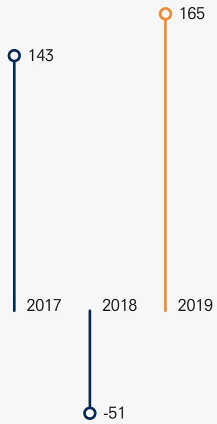
Remuneration linkage

EBIT is one of the main measures used in short-term and long-term incentive targets. The target for 2019 was not achieved and therefore there were no management bonus payments.

Target

For 2019 the target was consensus EBIT at the start of the year, which was £13.3m.

Cash conversion
(%)



Description

The ability to turn profits into cash.

Definition

Proforma adjusted operating cash flow divided by proforms adjusted underlying EBITDA. See calculation on page 139.

Link to strategy

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

Remuneration linkage

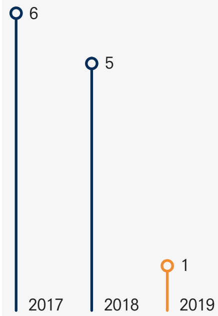
Cash conversion does not directly link to remuneration but is an enabler to achieving our EBIT target.

Target

The target was 80% and we achieved 165%.

Non-financial

Health and safety
(number)



Description

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

Definition

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

Link to strategy

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

Remuneration linkage

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

Target

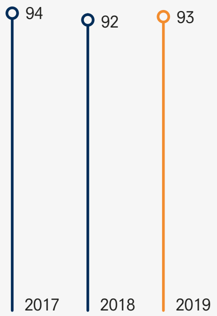
Zero recordable incidents.

Link to strategy

- Continued operational improvements
- Next generation product development
- Sales driven

Operational

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.

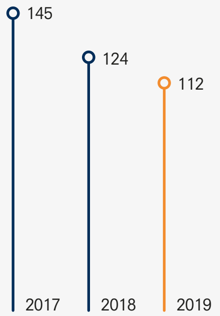
Remuneration linkage

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

Target

At least 90% retention.

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 and in resolving the current operational issues.

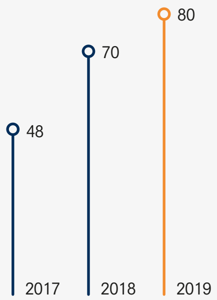
Remuneration linkage

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

Target

Year on year order growth. Due to some disruption in operations during insourcing and market slow-down in Q4, orders were 10% lower than prior year.

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.

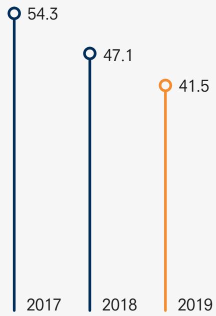
Remuneration linkage

A low level of on-time delivery will impact revenue and hence EBIT and EPS. Our on-time delivery improved again in 2019 and closed at 80% with the distribution centre in Mexico improving performance in H2.

Target

The target level was exceeded.

Proforma unaudited 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 as non-recurring or not reflective of the underlying performance of the business (see page 139).

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

Year on year expansion of gross profit. This is impacted by two factors, revenue which was lower than last year and gross margin which was marginally lower than last year so the target was not achieved.

Dialight enable our customers to improve safety, working environments and achieve their sustainability goals through the use of technology. We innovate to provide new products that further reduce power consumption while often improving lumen efficiency.

Our product pipeline will broaden the range of our products and expand our sustainability offering to our customers.

ESG

The Dialight business is based on providing products that

- Enable our customers to reduce carbon emissions
- Provide better working environments and
- Enable customers to achieve their sustainability goals

We continue to innovate by producing new products that further push the boundaries of reduced power consumption. Our current product pipeline will broaden the range of our products and expand our sustainability offering to our customers.

Sustainability

Customers convert to LED lighting because doing so remains the most efficient way to reduce their carbon emissions. Our lighting solutions reduce energy usage and create a safer working environment. Our new products have been designed with field replaceable parts which continues to solidify our commitment to sustainability.

We are proud that Dialight has been recognised for this by the London Stock Exchange's award of the "Green Economy Mark" and we are also included in the FTSE4Good Index. This underlines that investing in Dialight shares meets the criteria of many professional and private investors who base their decisions on environmental, ethical and social (ESG) considerations.

The Group's non-financial KPIs are set out on pages 24 and 25.

SUSTAINABILITY HIGHLIGHTS 2019

Carbon emissions and power savings
Last year, we estimate that our products helped our customers:

- eliminate more than 213,000 tonnes of carbon emissions; and
- reduce electricity consumption by more than 300,000 MWh – this is the equivalent of taking 50,000 cars off public roads for a year.

7,000 TONNES

10,000 MWH

Carbon emissions and power consumed in our production
Carbon emissions: 7,000 tonnes
Electricity: 10,000 MWh.

540 TONNES

Recycling
We recycled over 500 tonnes of materials at our production facilities.

ISO 14001

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

1

Recordable Incident

Governance
Our goal is to have no accidents. We monitor Health & Safety daily to ensure the safety of our staff. We report recordable incidents in our KPI's.

32%

Diversity
Our goal is to increase the number of women in senior management positions. We currently have 34 senior managers, of which 11 are female.

A.B. JEWELL WATER TREATMENT

In 2013, A.B. Jewell's replaced the 350 existing lights, ranging from 70 to 400 watts, with just 259 Dialight LEDs, ranging from just 33 to 212 watts. They were able to reduce the total fixture count, and 446,576 kWh from their annual consumption whilst dramatically improving the brightness & quality of light in and around the facility.

Seven years later, they continue to reap the benefits.

446,576
kWh saved

£17K
Annual energy savings

£25K
Utility incentive

£4K-£5K
per year saved on lighting maintenance

In February 2020 Dialight was awarded the London Stock Exchange (LSE) Green Economy Mark.
The LSE classification and Green Economy Mark (the **"Mark"**) is available to equity issuers on all segments of the LSE's Main Market and AIM who earn more than half of their total annual revenues from products and services that contribute to the global green economy. The Mark facilitates visibility and investment by addressing the information gap around what constitutes commercial activity relating to environmental solutions. "Green revenue" is defined as revenues from products and services that contribute to positive environmental outcomes, for example: renewable energy helps to mitigate climate change; recycling technologies reduce waste such as plastics; zero emission vehicles contribute to improved air quality.

FTSE4Good

Dialight is a constituent member of the FTSE4Good index.
FTSE Russell (the trading name of FTSE International Limited and Frank Russell Company) recently confirmed that Dialight has been independently assessed according to the FTSE4Good criteria, and has satisfied the requirements to become a constituent of the FTSE4Good Index Series. Created by the global index provider FTSE Russell, the FTSE4Good Index Series is designed to measure the performance of companies demonstrating strong Environmental, Social and Governance (ESG) practices. The FTSE4Good indices are used by a wide variety of market participants to create and assess responsible investment funds and other products.

Health & safety

Our products must conform to minimum safety standards, based on area of utilisation, hazardous and non-hazardous areas and all products are tested by external certification agencies prior to being released in the market.

The Group manages its activities to avoid causing unnecessary or unacceptable risks to the health and safety of its employees in the workplace or to the public. Health and safety processes, procedures and reporting are closely monitored to ensure a safe working environment for our employees and visitors to our sites. At our three main production sites in Mexico, US and Malaysia, Dialight has implemented a certified, occupational health and safety management system to an internationally recognised standard, namely BS OHSAS 18001. The Board has endorsed the inclusion of the Group's accident frequency rate as one of its non-financial KPIs on page 24.

Health and safety performance is regularly reviewed throughout all levels of the Group. Each site must have an independent health and safety review every three years, with a view to ensuring a consistent approach in the quality of reporting, adherence to internal processes and procedures, adequate reporting and investigation and to further promote our health and safety culture. We thoroughly review the root cause of any accidents to ensure that we take preventative measures, including further training for, and education of, our employees.

Employee engagement

Our people

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

We have launched new communications efforts internally to foster more awareness of the challenges and opportunities across the Group, and share best practices and know-how to help grow the business. Our "people policy" reflects our commitment to our employees. It outlines the commitments we make to select and develop our people, and to establish a work environment where everyone can take an active part in reaching our strategic goals while feeling a sense of pride in their contribution.

Respond to climate change

Our business is to encourage conversion to LED in the industrial lighting sector in order to reduce the global carbon footprint. The majority of our sales are from retrofitting industrial premises that currently have much less efficient forms of lighting. Our products are continually upgraded to ensure that customers get the most energy efficient fixture.

Build trust and foster innovation

We have an anonymous whistle-blowing line that is provided by a 3rd party in order to allow staff to report any areas of concern.

We have c.60 engineers involved in R&D in two innovation centres, one in New Jersey and one in London. They design new technology and new fixtures based on customer and market requirements.

Treat their workers

We have a talented and diverse work force. We take Health & Safety very seriously, not just in our manufacturing facilities but all around the Group and the accident rate is one of our non-financial KPI's. We encourage diversity and employ people in more than 15 countries.

Manage their supply chains

We are committed to having an ethical supply chain. All suppliers and customers are screened against watch-lists. We have rolled out training on the Modern Slavery Act to all employees. We have a zero-tolerance policy on bribery and corruption.

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

Innovation
We are committed to innovation and customer satisfaction. We have two R&D facilities, one in New Jersey, US and one in London, UK that employ c. 60 engineers. Creating and developing new products gives us a competitive edge. We encourage the sharing of knowledge and the acquisition of greater technological understanding throughout the Group.

Through collaboration and sharing best practice, we continue to deliver market-leading innovations that benefit our customers. Group leaders come together to learn from one another, identify ways to collaborate, share developments in our technology or simply learn from each other's experience. We believe that empowered business leaders are a key part of our current and future success.

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

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

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

To unleash their potential, we provide employees with:

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

Human rights & ethics
Dialight's core requirements for human rights prohibit forced labour, child labour and discrimination, and respect freedom of association and the right to collective bargaining. We do not tolerate practices that contravene recognised international standards. Managers and supervisors must promote human rights alongside other business issues. All employees are responsible for ensuring that their own actions do not impair the human rights of others and are encouraged to bring forward, in confidence, any concerns they may have about disregard or abuse of human rights. Our Chief Executive Officer has overall responsibility for ensuring that human rights considerations are integral to existing operations and in how new opportunities are developed and managed.

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

Each business has performed a risk assessment as regards the potential for modern slavery and human trafficking within the business and its supply chain. All existing and new clients and suppliers are screened against negative media watch-lists and evaluated for their compliance risks.

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 were trained on anti-bribery and corruption in the year.

The Group does not make political donations.

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

Sustainability targets

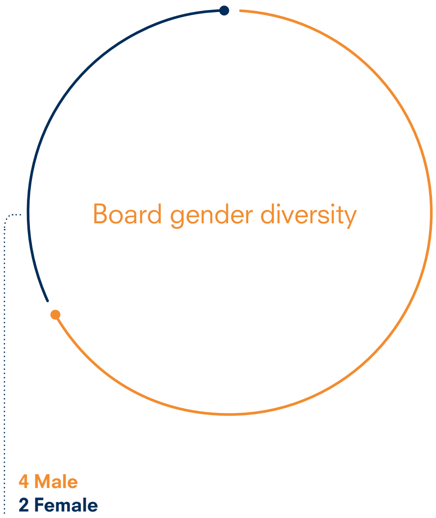
Customers
Our products eliminate more than 0.2m tonnes of carbon emissions annually for customers

Since 2006, we have eliminated 2.0m tonnes of carbon emissions for customers

Our products eliminate

300,000 MWH

annually



11 (32%)

women in senior management

42%

women overall staff

Diversity and inclusion

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

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

The result is that we have significant diversity throughout our operations across the world.

Geographical diversity

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

Diversity and inclusion policy

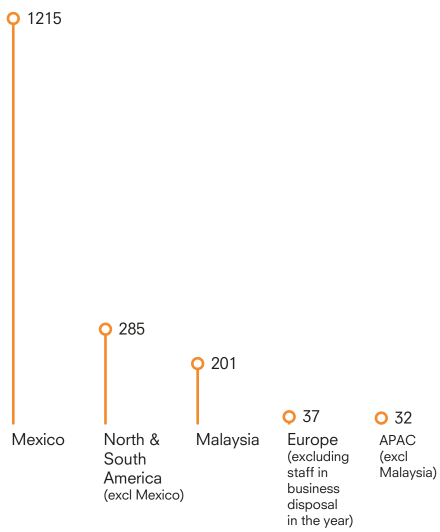
We recognise that the diversity of the people in our business and the inclusion of all enriches our products and performance, and the lives of our employees. Our approach is formalised in the Group's diversity and inclusion policy.

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

Applications for employment from disabled people and disabled employees

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

Employee location



Carbon and the environment

The environment

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

Dialight helps our customers change their emission profiles and assists countries in the attainment of their emission goals. Governments around the world have to update their emission reduction plans by 2020 as part of the Paris climate change agreement process so we and our customers play an important part by promoting and using LED lights.

Since 2006, we have sold more than 2.0m lights which have helped our customers save 2.8 million MWh of electricity and avoid 2.0m tonnes of carbon emissions.

Our impact and environmental management system "EMS"

The environmental impact of our operations is relatively low compared with manufacturers in other sectors.

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

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

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

Carbon footprint

In accordance with the Companies Act 2006 (Strategic Report and Directors' Report) Regulation 2013, the table below sets out Dialight's emissions in 2019, compared with 2018 and 2017.

Waste management

The Group has a zero-waste-to-landfill site in Australia. We work with our supply chain to identify opportunities to reduce waste at source as well as recycling opportunities. In 2019, we recycled over 540 tonnes of cardboard, plastic, wood and metals at our production facilities. All administrative offices have a recycling policy to help reduce waste going to landfill.

Consumption of resources

	2019 Tonnes CO_2	2018 Tonnes CO_2	2017 Tonnes CO_2
Emissions from combustion of fuel and operation of facilities	1,564	85	271
Emissions from purchased electricity	5,501	5,104	5,756
Total	7,065	5,189	6,027

2019 Resource	Total consumption (m's)	Unit	Consumption per £ turnover
Electricity	10.4	kWh	0.069
Water	12.1	litre	0.080

We believe that great risk management involves 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. Our risk awareness culture allows management to make better commercial decisions and helps to maximise the benefits of our business model.

Risk management approach

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

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

Embedding internal controls and risk management further into the operations of the business is an ongoing process and we will continually improve our risk management structures over the coming year.

Risk appetite and culture

The Risk Committee is responsible for overseeing the risk management processes and procedures. It is primarily comprised of 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.

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

Group internal control system

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

Each month the Group Chief Executive reports to the Board outlining the Group's operations and providing analysis of significant risks and opportunities. The paper covers progress against strategic objectives and shareholder-related issues. The Group Finance Director also submits a separate financial report to the Board each month evaluating progress against internal targets and external expectations. Quarterly re-forecast papers, an annual budget paper and an annual strategic plan paper are also submitted to the Board.

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

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

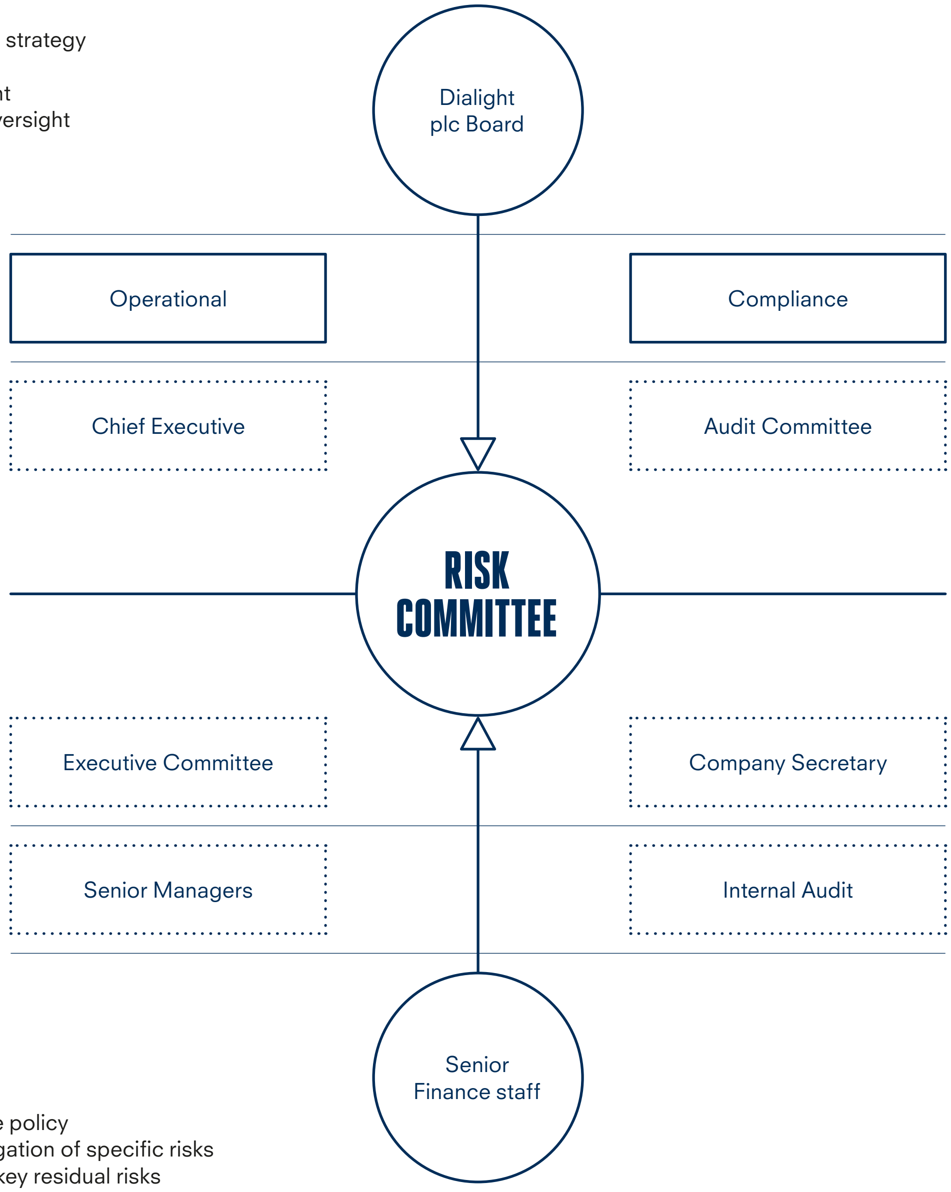
See Viability statement on page 59
See Going concern on page 59

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

Production capacity & supply chain

Description

The procurement planning process is dependent on the accuracy of sales forecasts to ensure adequacy of component supply

The Group needs to maintain a robust supply chain.

Production capacity needs to be sufficient to ensure current orders can be fulfilled in a timely manner and be scalable to support growth

Risks to production capacity by having concentration of production in a single location, for the manufacture of Lighting products

Gross risk

Medium

Impact on strategy

- Revenue
- Underlying operating profit
- On-time delivery
- Order growth

Impact on viability, reputation and health and safety

- Inability to fulfil demand due to lack of product availability
- Higher inventory obsolescence with an adverse impact on gross margin
- Loss of revenue and operating profit

Mitigation

- We continue to refine our forecasting process and review the accuracy level monthly in order to provide a continuous cycle of ownership and improvement
- Focus on design for manufacturing
- Variety of product offering reduced based on empirical analysis
- Established two new facilities in Mexico and Malaysia and now have sufficient capacity to support significant growth
- Re-located CNC and paint equipment from our former manufacturing partner to our own facility
- All final assembly is in-house
- Continued focus on a dual sourcing programme is a high-priority issue for the coming year

IT systems

Description

The Group uses IT systems to operate and control its business; any disruption to this would have an adverse impact on the business. The Group also needs to ensure the protection and integrity of its data

Gross risk

Medium

Impact on strategy

- Revenue
- Underlying operating profit
- On-time delivery
- Order growth

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
- There are back-ups built into all Group systems and the diversity of systems offers good protection from individual events
- Third-party suppliers are used to provide security and data protection software

Geo-political conditions & macro-economic impacts

Description

The Group's main manufacturing plants are in Mexico and its main market is North America. Whilst competitors may experience tariff impacts on goods imported from China to the US, there may be some impact on our supply chain for components and on the wider economic climate. The Group has limited operations in countries with unstable political climates. Raised levels of global political and economic uncertainty may impact our major markets.

Disruption to global markets and transport systems arising from geological, biological (in particular the COVID-19 emerging risk), economic and/or political events may impact the Group's ability to operate and the demand for its products.

Gross risk

High

Impact on strategy

- Revenue
- Underlying operating profit

Impact on viability, reputation and health and safety

- Reduced financial performance
- Loss of market share
- Unforeseen liabilities

Mitigation

- The Group will continue to consider the optimal siting of its production capacity to minimise cross-border tariff risk
- External tax advisers appointed in high risk areas
- The Group carries finished goods and component inventory to mitigate supply chain disruption caused by COVID-19 (in the short-term) and is able to operate across short time horizons with disruption to freight and personnel movements.

Succession planning and staff calibre

Description

The Group performance is dependent on attracting and retaining high-quality staff across all functions

Gross risk

Medium

Impact on strategy

- Revenue
- Retention

Impact on viability, reputation and health and safety

- Without good-calibre staff, the Group will find it difficult to expand and achieve its strategic goals

Mitigation

- The Group's development programmes enhance the skills of executives and middle managers
- A comprehensive recruitment process and ongoing evaluation assist high-quality hiring and development
- Considerable time is spent assessing middle and senior management in order to identify succession plans

Intellectual property

Description

Theft or violation of intellectual property ("IPR") by third parties or third parties taking legal action for IPR infringement

Gross risk

Medium

Impact on strategy

- Revenue
- Underlying operating profit

Impact on viability, reputation and health and safety

- Proprietary technology used by competitors leading to loss of market share and revenue
- Unforeseen liabilities

Mitigation

- 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 external patent advice during the production development process the risk of infringing third party IPR is minimised

Market trends & competition

Description

To continue to lead the market, the Group must be able to identify where customer demand (in terms of protection of product reputation and customer financial, functional and technical requirements) is trending and ensure that we have the products to match.

Failure to deliver technologically advanced products and to react to disruptive technologies and economic models or to execute on our sales strategy could result in loss of market share

Gross risk

Medium

Impact on strategy

- Revenue
- Order growth

Impact on viability, reputation and health and safety

- Loss of market share

Mitigation

- The Group has improved and expanded considerably the execution of its product development strategy and has a robust business case process which incorporates feedback from customers and is evaluated through market intelligence
- Establishing new regional development centres has brought additional breadth and depth of talent into the group
- Internal and external marketing resources are used to review market trends and ensure that the Group's products remain at the forefront of the market
- Group market reputation is recovering from the impact of previously outsourcing manufacturing production.

Link to strategy

Continued operational improvements

Next generation product development

Sales driven

Gross Risk – Change

Increased/ Reduced

No change

Principal and emerging risks and uncertainties continued

Product development strategy

Description

Ability to deliver new products to the market on a timely basis. Ability to originate and execute the product development strategy, ensuring integrated quality control.

Gross risk

Medium

Impact on strategy

- Revenue
- Underlying gross profit
- Order growth

Impact on viability, reputation and health and safety

- Loss of market share
- Lack of order growth

Mitigation

- We have launched 3 new products during the year that address the expanded target market
- We have a pipeline of product development that will enhance our existing products and fill portfolio gaps

Product-related reputational & financial risk (including liquidity)

Description

The Group gives a ten 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.

The Group has a net debt position and there is a risk related to liquidity.

The Group has shown a potential uncertainty in relation to going concern based on the impact of COVID-19.

Gross risk

High

Impact on strategy

- Revenue
- Underlying operating profit

Impact on viability, reputation and health and safety

- Unforeseen liabilities
- Covenant compliance

Mitigation

- We maintain a reserve against potential claims and 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
- The Group currently has sufficient headroom against its borrowing covenants and has just refinanced its banking facility with HSBC. We have run severe but plausible downside scenarios plus mitigating actions that show that in almost all scenarios, the Group remains compliant with its financial covenants.

Foreign exchange

Description

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

Gross risk

Medium

Impact on strategy

- Revenue
- Underlying operating profit

Impact on viability, reputation and health and safety

- Volatile financial performance arising from translation of profit from overseas operations
- Most of the Group's profit earned is not in the reporting currency

Mitigation

- The Group uses natural hedging to cover operational exposure as the majority of revenue and costs are in US Dollars. As the business expands geographically, the use of forward contracts will be reviewed to limit operational exposure on a selected currency basis
- Translational exposure is not currently hedged but the Group reports key financial indicators on an actual and a constant currency basis

Link to strategy

Continued operational improvements

Next generation product development

Sales driven

Gross Risk – Change

Increased/ Reduced

No change

Financial review

The Group has had a year of change following the exit from our outsourced manufacturing contract in Q4 2018, when we brought all final assembly of Lighting back in-house. We used a hybrid-manufacturing model to ensure a rapid and controlled exit from Sanmina, which came at a significant cost to the business.

Group revenue was 11% behind 2018 at £151.0m and was 14% lower on a constant currency basis. This impact was mainly a result of our operational recovery not being fully complete until Q4 2019. This was compounded by a weakening in some of our end-markets. Signals and Components had a poor year as a result of its component lines, which were down by £5.1m in the year.

Gross margin on a statutory basis was 29.0%, which is a reduction of 6.5% on 2018. The reduction in gross margin predominately relates to the additional cost for sub-assembly production at third party vendors as part of the hybrid-manufacturing model. On a proforma unaudited basis gross margins, were in line with the previous year.

The results of the Group can be summarised as follows:

Proforma unaudited operating profit (Proforma unaudited EBIT bridge)	2019 Unaudited £m
Underlying EBIT 2018*	8.0
Impact of revenue reduction	(5.3)
Lower distribution costs	2.0
Lower administrative costs	0.5
Proforma unaudited operating profit (Proforma unaudited EBIT) (see note 32)	5.2

* The equivalent measure for 2019 consists of unaudited adjustments and is referred to as proforma unaudited operating profit (see note 32)

The reduction in the Group's proforma unaudited operating profit (Proforma unaudited EBIT) from £8.0m in 2018 to £5.2m in 2019 is due to:

- £5.3m gross margin impact of the revenue reduction, offset by;
- £2.0m reduction in distribution costs due to lower sales commissions and reductions in headcount; and
- £0.5m reduction in administrative expenses due to headcount reduction

More information is available online
http://ir.dialight.com/reports-presentations-and-results

Financial review

Currency impact

Dialight reports its results in GBP. Our major trading currency is the US Dollar, which in 2019 comprised 86% of the Group's revenue (2018: 80%). The Group has both translational and transactional currency exposure. Translational exposures arise on the consolidation of overseas results into Sterling and this is the major currency exposure. Transactional exposure is where the currency of sales or purchases differ from the local functional currency. We use natural hedging on revenue and purchases to mitigate the majority of the currency risk.

The average rate for the US Dollar against Sterling strengthened by 3.8% compared to the prior year, with the rate moving from 1.33 in 2018 to 1.28 in 2019. Based on the current mix of currencies, a 1% movement of the US Dollar relative to Sterling changes revenue by £1.3m and EBIT by £0.1m.

Lighting (Fig 1)

The results for Lighting can be summarised as follows:

The Lighting segment represented 74% (2018: 74%) of the Group's revenue and 62% (2018: 65%) of the Group's proforma unaudited segmental operating profit. Revenues were 11% lower (13% lower at constant currency) compared with the prior year.

Revenue in the US was 9% lower, we did see some early signs of recovery but this has been hampered by the slowdown in the global markets. The uncertainty of the trading relationship between China and the US was a significant headwind for 2019, which resulted in a deferral of orders.

During the year, we opened a distribution centre in Tijuana, Mexico, which carries high running variants of finished goods and allows us to fulfil orders for the US within 24 hours. This has helped to recover customer confidence and is a key part of our strategy to support growth in the US market, which comprises 77% of our Lighting revenue.

Revenue in the APAC business was 1% lower with Asia being 73% higher year on year offset by Australia at 18% lower than 2018. The Australian business had a significant number of orders related to the mining sector deferred. Revenue in EMEA was 27% lower year on year and resulted in some significant personnel changes in order to address the problem. We have launched the round Reliant High Bay during the year and the new GRP Linear towards the latter end of the year. These products are aimed at the European and APAC markets and are now made in the new Malaysia facility. In addition, there is a revised sales strategy for EMEA, which is key to generating growth in the region but will take some time to be fully effective.

Proforma unaudited gross margin declined by 100 bps to 37.2%. If we exclude the prior year credit on inventory provisions, the margin was flat year on year. In 2019, we have attributed costs of £10.2m with the use of the hybrid model. Overheads were lower in 2019 with reduced sales commissions and the benefit of redundancies. The overall result was a reduction of £1.5m in the proforma unaudited operating profit (Proforma unaudited EBIT).

Signals and Components (Fig 2)

Signals and Components is a high-volume business operating within highly competitive markets. Revenue was 11% lower year on year (15% at constant currency) with the components market seeing over-supply particularly in H1. We saw some recovery in this business in H2 and there was a 200bps improvement in gross margin as more shared production costs were borne by the Lighting division in Malaysia, which resulted in an EBIT of £4.3m, 4% lower than 2018.

Lighting (Fig 1)

	2019 Unaudited £m	2018 Audited £m	Variance
Revenue	**111.5**	125.0	(11%)
Gross profit	**41.5**	47.1	
Gross profit %	**37%**	38%	-100bps
Overheads *	**(34.5)**	(38.6)	+11%
Proforma unaudited operating profit (Proforma unaudited EBIT)	**7.0**	8.5	(18%)

* Overheads excluding audited non-underlying costs of £6.3m

Signals and Components (Fig 2)

	2019 Unaudited £m	2018 Audited £m	Variance
Revenue	**39.5**	44.6	(11%)
Gross profit	**12.6**	13.2	
Gross profit %	**32%**	30%	+200bps
Overheads	**(8.3)**	(8.7)	+5%
EBIT	**4.3**	4.5	(4%)

Central overheads
Central overheads comprise of costs not directly attributable to a segment and are therefore unallocated. In 2019, these costs amounted to £6.1m, an increase of £1.1m compared to 2018. The increase relates to significantly increased audit fees, recruitment costs and other professional services.

Non recurring costs (Fig 3)
In the assessment of performance of the Group in prior periods, management removed the impact of outsourcing costs. In the current year, we have removed the impact of in-sourcing costs. In the judgement of the Directors, these items are separately disclosed due to the nature and value from the underlying results of the Group to allow the reader to obtain a proper understanding of the financial information and the best indication of 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.

Proforma unaudited costs
The costs of exiting the outsource contract of £10.2m are in line with previous market guidance. We do not expect any further costs in 2020 related to this. These costs arose directly from the decision to exit our outsource manufacturing contract in September 2018. We had to pay £0.9m for the removal of our CNC machines and paint line from the former outsource manufacturer's premises and then transported and re-installed and calibrated at our Tijuana plant. We also incurred costs of £3.2m to move inventory that we purchased from our former outsource manufacturer to our own facilities in Mexico and Malaysia. In addition, the exit resulted in the local supply chain in Malaysia not being in place for Lighting products. We incurred additional costs to airfreight materials in order to ensure production was not impacted.

The exit also resulted in the acquisition of a new facility in Tijuana, Mexico that is used primarily to carry out machining and painting functions. This took most of the year to get to full capacity as we didn't receive our equipment back from the former outsourcer until Q2 and we then had to get it all installed, tested, certified and fully staffed at a cost of £2.1m. These costs of ramping up lasted until the end of Q3. At the same time, using the hybrid model, we were paying smaller third-party vendors to make sub-assemblies. This resulted in higher prices and payments that covered their overheads and profit margin, generating £3.9m of additional costs that have been treated as non-recurring. The total costs of exit of £10.2m are management's best estimate of these costs.

Non-underlying costs
Redundancy costs of £1.1m relate to various initiatives during the year to deal with areas of the business that were not performing well and also to right-size the cost base. The loss on disposal of subsidiary relates to the sale of the Group's Wind business in Denmark in September 2019 and the exit from that operational site. The loss comprised of two elements, £0.8m loss in the year (prior to sale) and £1.7m loss at the point of sale. The business had been in decline for two years following the loss of a major customer. The revenue for this business was £4.4m in 2018 generating a profit of £nil and prior to the sale in 2019, it had revenue of £1.9m and generated a loss of £0.8m.

In the prior year, the charge within administrative expenses related to a one-off increase in pension liabilities arising from Guaranteed Minimum Pension (GMP) equalisation.

Pension costs
The company has two defined benefit pension schemes, both of which are closed to new entrants. The aggregate scheme surplus is £2.3m, an increase of £1.9m in the year. The net surplus has increased due to a combination of the return on plan assets and changes in demographic assumptions, offset by the impact of a reduction in the discount rate. The cash cost in the current year was £0.5m and this will reduce as part of the triennial funding valuation that is in currently in progress.

Non recurring costs (Fig 3)

	2019 Unaudited £m	2018 Audited £m
Costs to exit outsource contract		
Costs to move equipment from outsource manufacturer's site	**0.9**	–
Costs to move inventory from outsource manufacturer's site	**3.2**	–
Additional costs from using 3rd party vendors to make sub-assemblies and internal ramp up costs	**6.1**	–
Unaudited costs recorded in cost of sales	**10.2**	–
Non-underlying costs		
Redundancy costs	**1.1**	–
Loss on disposal of subsidiary	**2.5**	–
Write-off receivable from outsource manufacturer	**2.7**	–
Increased pension liability from GMP capitalisation	**–**	0.4
Non-underlying costs recorded in administrative expenses	**6.3**	0.4
Total non-recurring costs	**16.5**	0.4
Total cash impact	**11.8**	–

Tax

There is a tax charge of £3.7m in the year on a loss before tax of £12.5m. The normalised tax rate (tax rate before adjustments) for the Group is 21% in the year and based on a loss, this would generate a tax credit of £2.6m. The bridge from an expected tax credit of £2.6m to a tax charge of £3.7m is as follows:

- the de-recognition of the deferred tax assets on previously recognised losses in the European Lighting business due to poor performance, results in a tax charge of £4.5m. We do not anticipate this business making sufficient taxable profits in the short-term to utilise the losses
- we have not recognised any deferred tax asset on £1.0m of losses in the current year
- there is a non-deductible loss of £0.5m on the disposal of Denmark A/S, the former European Wind business which was sold in September 2019

The cash payment for tax in 2019 was £0.5m (2018: £1.7m).

Inventory

Inventory (excluding spare parts)	2019 Audited £m	2018 Audited £m
Raw materials and sub-assemblies	**28.5**	29.2
Finished goods	**17.2**	16.8
	45.7	46.0

The total movement on inventory (on an actual currency basis) was a reduction of £0.3m year on year. Raw materials and work in progress reduced by £0.7m with £0.6m sold as part of the disposal of our Danish subsidiary. There was an increase of £1.3m related to new products launched by the Group which was offset by a comparable unwind of inventory. Finished goods inventory increased by £0.4m with the main movements being the addition of a distribution centre in Tijuana, Mexico to further improve lead times to the North American market, adding £3.8m to Lighting inventory. At the same time, the new production facility in Malaysia has reduced lead times to APAC and this has lowered Lighting inventory by £2.7m. Our end of February 2020 inventory levels was £3.1m lower than the year-end position.

Cash flow

The Group's net debt position increased by £13.6m in the year from net debt of £2.9m at 31 December 2018 to net debt of £16.5m at 31 December 2019.

The roll forward of net debt is shown in Fig 4:

There were inflows of operating cash of £12.1m in the year. The most significant was from our proforma unaudited EBITDA of £10.1m from trading when we exclude all costs related to the exit of our former outsource manufacturer. In addition to this, there was a favourable net working capital movement of £2.0m.

There was a small increase in inventory year on year but this includes £3.8m of finished goods that we have added in the US as an investment in our recovery. We have undertaken a detailed review of our inventory and we are satisfied that the obsolescence risk is low. There was a net inflow from receivables and payables as we ensured collections were kept current.

There were outflows of £17.0m related to the exit from our former outsource manufacturer and investment in internal capacity. It cost £4.1m to move equipment and materials because of the exit. It cost a further £6.1m in premiums paid to 3rd party vendors to produce sub-assemblies and internal ramp up costs. In addition, we invested £6.8m in two new operating facilities as a result of the exit.

There were other outflows of £8.7m, which consisted of £6.0m on product development, £1.6m for redundancies and disposal of the loss-making subsidiary in Denmark.

Net debt roll forward (Fig 4)

Net debt roll forward	£m Unaudited	£m Unaudited
Net debt at 31 December 2018		**(2.9)**
Inflows		
Proforma unaudited EBITDA	**10.1**	
Net working capital movement	**2.0**	**12.1**
Outflows related to exit from outsource manufacturer		
Logistical cost of exit and premium from 3rd party vendors	**(10.2)**	
Investment in operating facilities	**(6.8)**	**(17.0)**
Other outflows		
Investment in new products	**(6.0)**	
Redundancy costs and disposal of subsidiary	**(1.6)**	
Other	**(1.1)**	
		(8.7)
Net debt at 31 December 2019		**(16.5)**

Banking
The Group has its banking relationships with HSBC Bank plc and Wells Fargo. The Group has a multi-currency revolving credit facility with HSBC of £25m. This has been renewed on 25 February 2020 for a further 3 years to February 2023 with the option to add on 2 further years. As part of renewing our bank facility, we have agreed with HSBC that all non-recurring items were added back for covenant calculation purposes measured on a quarterly basis. The Group had net debt of £16.5m at the balance sheet date (2018: net debt £2.9m) and remains fully compliant with its covenant requirements.

We are fully compliant with our banking covenants at 31 December 2019, see fig 5:

Capital management and dividend
The Board's policy is to maintain a strong capital base in order to maintain customer, investor and creditor confidence and to sustain future development of the business. The Board considers consolidated total equity as capital. At 31 December 2019, this equated to £67.8m (2018: £85.1m).

The Board is not proposing any final dividend payment for 2019 (2018: nil). The Group has a clear capital allocation discipline and is committed to returning excess funds to shareholders via future dividend or share repurchase.

Fariyal Khanbabi
Group Chief Executive

Ronan Sheehy
Group Finance Director (Interim)

31 March 2020

Covenant calculations (Fig 5)

Ratio	Calculation	Actual	Threshold
Leverage ratio	Net debt: proforma unaudited EBITDA	1.63x	<3.0x
Interest cover	Proforma unaudited EBITDA: interest expense	16.83x	>4.0x

COVID-19
As a result of the COVID-19 pandemic, the Group has conducted an assessment on the potential financial and operational risks to the business. While the Group is yet to experience any significant impact from the virus, there may be an impact on revenue, supply chain and operating facilities if the situation worsens. The Group continues to monitor the potential impact on the supply chain, with a particular focus on raw material supply. To date we have not seen any impact but we are aware there is the potential for shortages in materials globally.

Although we have not seen a reduction in order levels currently, there may be an impact on order intake if the situation worsens. The Group has a duty of care towards all employees, and therefore we expect some of our staff to be required to self-isolate and a lower level of sales visits to take place than anticipated. There is also the potential for some customers to prohibit contractors from entering their sites restricting installations.

The Group relies on a large direct labour force in our facilities in Mexico and Malaysia for production and inventory management. The Group has taken action to mitigate the spread of infection at our facilities through enhanced cleaning processes, staggering of shifts and the provision of hand sanitiser in common areas. As part of the 2020 strategy, the Group has increased the level of finished goods held in our regional distribution centres which will mitigate the risk in the short term against labour shortages and subsequent production delays.

BREXIT
Considerable uncertainties remain regarding the level of tariffs on goods imported to the UK following the UK's exit from the EU on 31 January 2020. A post-Brexit transition period, keeping most UK EU arrangements as they are now, is due to expire on 31 December 2020.

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

The Group will continue to supply its UK market from Malaysia or Mexico and will review the location of its UK distribution centre once the impact of Brexit on movement of goods between the UK and mainland Europe is clarified.

Chair's introduction to governance

On behalf of the Board, I am pleased to report on Dialight's Corporate Governance during 2019. The aim of this report is to explain Dialight's governance framework and how it was applied on a day-to-day basis in the year under review, with particular emphasis to how we have applied the principles and provisions of the UK Corporate Governance Code 2018 (the "2018 Code").

The Board's role in setting the Group's culture and core values is a significant one. We aim to achieve a balance between accountability, collaboration and respect, so as to enable agile decision making and constructive challenge, which in turn promote innovation and open collaboration – these are qualities that will help with Dialight's continued recovery.

The Board is very serious about its responsibilities in relation to Group strategy, including: its setting; the monitoring and reviewing of progress as that strategy is implemented; and ensuring that any risks that threaten that strategy are managed or mitigated. In September 2019, the Board held an in-depth strategy review with the full Executive team to consider and challenge the three-year strategic plan and the proposed organisational model. We have continued to monitor carefully the implementation of the strategic plan.

As a Board, we are conscious that 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 and listen to views of representatives of investors and financial institutions. We also welcome the opportunity to meet and answer shareholders' questions at our 2020 Annual General Meeting ("AGM").

Leadership

There have been important changes to the composition of the Board over the past 12 months. In August 2019, Waynes Edmunds stepped down as Chairman and I was appointed as his successor. Also, in August, Marty Rapp stepped down as CEO and Fariyal Khanbabi, formerly CFO, was appointed as interim CEO. On 5 March 2020, we announced Fariyal as our Chief Executive Officer. We would like to thank Wayne and Marty for their contributions. A search for a new CFO is currently underway.

In February this year we announced the appointment of two new board members (with effect from 1 April 2020), Karen Oliver and Gotthard Haug. Both have experience in diverse industrial markets which will help the Group in its next phase of development. Steve Good has indicated that he will step down from the Board at the end of March to focus on his other board commitments. It has been a privilege to work with Steve, who has provided the Company with invaluable service since he joined us. We are sorry to see him go and wish him all the best.

Biographies for each of the current Directors and the interim Group Finance Director are set out on pages 44 and 45. The progress in talent development and diversity can be found in the Our People section on pages 28 to 30.

Compliance statements

Throughout the year ended 31 December 2019, the Company has complied with the provisions as set out in 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 I was not deemed to be independent upon appointment as chairman (Provision 9) – an explanation of the Board's view on this matter is set out below under the section headed 'independence' on page 52. The Group's approach to risk management and internal control is set out on pages 32 and 33.

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.

Board priorities

Our priorities for 2020 are to continue to focus on the Group's wider strategic plans as well as effectiveness of our operational recovery plan, which was implemented last year and to stabilise and incentivise our senior leaders across the Group to continue to deliver on the Group's recovery after a difficult few years. We will continue to build on the strong foundations put in place over the last 12 months through investment in talent, innovation, product and process optimisation and delivering on our ambitious new product pipeline in order to build a robust operational platform for the long-term success of the Group and its stakeholders.

David Blood
Chair

31 March 2020

How the Board supported strategy

This report aims to provide shareholders and other stakeholders with an understanding of how our Group is managed and the governance and control framework within which we operate. Governance at Dialight is integral to the organisation's operating culture and the functioning of the Board of Directors. The Directors are unanimous in their aim to maintain robust but pragmatic levels of governance and risk-management, focused on delivering long-term shareholder value.

Strategy

	Streamlining operations	Next generation technology	Sales driven
Objectives	The Board has monitored the operational recovery to ensure that progress was made on a number of key issues: • reduction in late orders • review of supply chain • on-time delivery • monitoring inventory levels	The Board reviews the product strategy to evaluate progress on maintaining and increasing our technological lead. The key items reviewed were: • new product roadmap • new technology roadmap • monthly progress on all projects	The Board monitors the major levers that will recover our lost market share. The key levers are: • monthly review of orders and sales • review of major sales projects • review of end markets
Achievements	The Board approved securing two new facilities in Mexico and Malaysia. Individual board members visited the site in Mexico to ensure appropriate progress was being made.	Engineering and technology teams have been merged. The resources are focused on projects that deliver the most value in the short and medium term.	There has been progress on building sales momentum across all three regions.

See Our strategy on pages 22 and 23

Board of Directors

	Fariyal Khanbabi Chief Executive Officer	**David Blood** Chair	**Stephen Bird** Senior Independent Director
Appointed	Appointed as interim Chief Executive Officer on 10 August 2019 and appointed Group Chief Executive on 5 March 2020.	Appointed as a Non-Executive Director on 1 July 2015, and subsequently as Chair of the Board on 5 August 2019.	Senior Independent Director since February 2013. Joined Dialight as Non-Executive Director on 10 January 2013.
Committee membership	–	Nominations (Chair)	Audit, Nominations
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 ten years' experience in senior financial positions, including roles at NYSE and Nasdaq-listed companies. Fariyal joined Dialight as Group Finance Director on 8 September 2014 and was appointed, on an interim basis, as Dialight's Chief Executive Officer on 10 August 2019. On 5 March 2020, Fariyal was appointed Chief Executive Officer.	David Blood is co-founder and Senior Partner of Generation Investment Management. Since its founding in 2004, Generation has played an integral role in the development of sustainable investing and in demonstrating the long-term commercial and societal benefits of this approach. Previously, David spent 18 years at Goldman Sachs including serving as CEO of Goldman Sachs Asset Management. David received a B.A. from Hamilton College and an M.B.A. from the Harvard Graduate School of Business.	Stephen is currently Group Chief Executive of The Vitec Group plc and has previous Board experience as a Non-Executive Director of Umeco plc. Prior to joining Vitec, Stephen was Divisional Managing Director of Weir Oil & Gas, part of Weir Group plc, and has held senior roles at Danaher Corporation, Black & Decker, Unipart Group, Hepworth plc and Technicolor Group.
Current external appointments	None.	He is chair of Dialight, Social Finance UK and co-chair of The World Resources Institute and serves on the boards of On the Edge Conservation and SHINE. David is also a life trustee of Hamilton College.	Group Chief Executive of The Vitec Group plc.

David Thomas
Non-Executive Director,
Employee Liaison NED (ELNED)

Joined Dialight on 26 April 2016 as a Non-Executive Director and Chair of the Audit Committee. David also has responsibility as the Group's nominated ELNED, introduced by the Board to strengthening the representation of employees' views and issues at a Board level independently from the executive management.

Audit (Chair), Nominations, Remuneration

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.

David is a Non-Executive Director and Audit Committee Chair at Victrex plc.

Gaëlle Hotellier
Non-Executive Director

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

Audit, Nominations, Remuneration (Chair)

Gaëlle has worked for the Siemens group since 2002, during which time she has held various senior management roles. 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.

Within Siemens GmbH & Co KG, Gaëlle is Head of Global Operations for Generation Service Units.

Steve Good
Non-Executive Director

Joined Dialight on 1 June 2018 as a Non-Executive Director. Steve has notified the Company of his intent to step down as a director with effect 31 March 2020 due to the weight of his other board commitments and he will not be seeking re-election at the 2020 AGM.

Nominations, Remuneration

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

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

Steve is the non-executive chair of Zotefoams plc as well as a member of its remuneration committee. Steve is also the non-executive chair of Devro plc, and a non-executive director of Elementis plc, where he is chair of its remuneration committee.

Ronan Sheehy
Group Finance Director (Interim)

Stepped into the role of Group Finance Director while a search is underway for a permanent candidate.

Ronan currently attends Board meetings as an attendee rather than a member.

n/a

Ronan has worked in industry for all of his career. He has held senior roles in public and private companies. He joined Dialight in January 2014 and became Group Financial Controller in March 2015. Earlier in 2019, he became the finance director for the Operations division but later moved into the vacant role of Group Finance Director on an interim basis.

He is a chartered certified accountant.

None.

Role of the Board and Principal Committees

The principal role of the Board is to provide effective and entrepreneurial leadership, within a framework of controls, that promotes the interests of the Company sustainably over the long term – thereby generating value for its shareholders as well as benefiting its other stakeholders. The Board sets the Group's purpose, values and strategy, and has ultimate responsibility for its management, direction and performance. The Company's Articles of Association set out the Board's powers. The Board has adopted a formal schedule of matters reserved solely for its decision (a summary of which is set out on page 51) and certain decision-making and monitoring activities have been delegated to Board Committees or management, through formal terms of reference for Board Committees and a clearly defined Group delegated authority matrix. The Board has established three principal Committees: the Nominations Committee; the Audit Committee; and the Remuneration Committee, which review and monitor key areas on behalf of the Board and make recommendations for its approval. Each Board committee operates under written terms of reference which are approved by the Board and made available at www.dialight.com. The Chair of each Committee reports to the Board on its activities after each meeting and minutes are circulated to all Board members once they have been approved by the Committee. The Board also has a Disclosure Committee and appoints ad hoc sub-committees from time to time as required.

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

Board meeting attendance

In 2019, the Board had five scheduled face-to-face meetings, which had the option of attendance by telephone where necessary. These face-to-face meetings were supplemented by two scheduled Board calls. Additionally, the Board met to review the overall strategy of the Group and had two other calls and two meetings on an ad hoc basis.

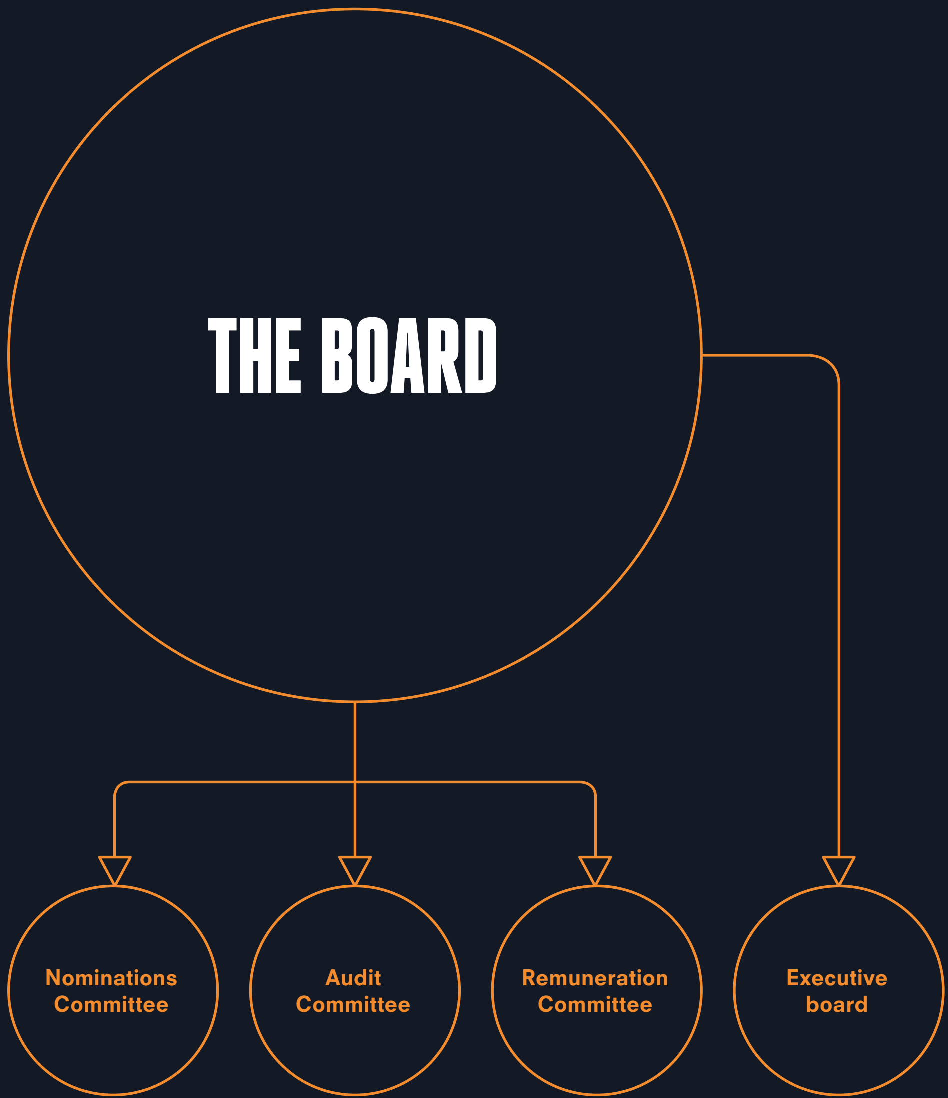
During the year, attendance by Directors at Board and Committee meetings was as follows:

	Board	Audit	Remuneration	Nominations
David Blood[1]	10/11	n/a	n/a	4/5
Wayne Edmunds[2]	6/7	n/a	n/a	3/3
Fariyal Khanbabi	11/11	n/a	n/a	n/a
Marty L. Rapp[3]	7/7	n/a	n/a	n/a
Stephen Bird	11/11	5/5	n/a	5/5
David Thomas	11/11	5/5	8/8	5/5
Gaëlle Hotellier	10/11	5/5	8/8	5/5
Steve Good	11/11	n/a	8/8	5/5

1. David Blood was appointed as Chair of the Board and the Nominations Committee on 5 August 2019.
2. Wayne Edmunds stepped down as Chair of the Board and the Nominations Committee on 5 August 2019.
3. Marty L. Rapp retired as a director and as CEO on 9 August 2019.

Our governance structure

Dialight benefits from a robust corporate governance framework, structured to maintain good oversight and control over: financial and management reporting; compliance and regulatory matters; risk management; and, the approval of significant decisions (such as material agreements). The diagram below sets out the top-level corporate governance framework of the Board and its interaction with its Committees.



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

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

Audit Committee
- monitors the integrity of financial statements, 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; and
- reviews external auditor independence and leads the audit tender process.

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 and when receiving views from executive directors and senior management; and
- approves the design and targets framework for share incentive plans.

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

Division of responsibilities of the Board

A summary of the business carried out by the Board during the year, the standing Board agenda items and a summary of the matters that are formally reserved for the Board (as set out in writing) is given on page 51.

Chairman

Governance	• Promoting high standards of corporate governance; • Leading, chairing and managing the Board; • Ensuring all Board committees are properly structured and operate with appropriate terms of reference; • Regularly considering the composition and succession planning of the Board and its committees; • Ensuring that the Board's and its committees' performance are evaluated on a regular basis; • Ensuring adequate time is available for all agenda items and that the Board receives accurate, clear and timely information; and • Ensuring that there is effective communication with 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; and • Consulting, where appropriate, with the Senior Independent Director on Board matters.
People	• Chairing the Nominations Committee; • Identifying and meeting the induction and development needs of the Board and its committees; • Developing a strong working relationship with the 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; and • Ensuring effective relationships are maintained with all key stakeholders in the business.
Chief Executive Officer	• 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; • Providing effective leadership of the Executive Board to achieve the agreed strategies and objectives; • Securing an Executive Board of the right calibre, with specific responsibility for its composition, and ensuring that its succession plan is reviewed annually with the 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; and • Ensuring the Board is aware of the view of employees on issues of relevance to Dialight.
Executive Directors	• Implementing and delivering the strategy and operational decisions agreed by the Board; • Making operational and financial decisions required in the day-to-day management of the Company; • Providing executive leadership to senior management across the business; • Championing the Group's values and reinforcing the governance and control procedures; and • Promoting talent management, encouraging diversity and inclusion.
Senior Independent Director	• Acting as a sounding board for the Chair; • Serving as a trusted intermediary for the other Directors; and • Providing an alternative channel for shareholders to raise concerns, independent of executive management and the Chair.
Independent Non-Executive Directors	• Contributing independent thinking and judgement, and providing external experience and knowledge, to the Board agenda; • Scrutinising the performance of management in delivering the Company's strategy and objectives; • Providing constructive challenge to the Executive Directors; and • Monitoring the reporting of performance and ensuring that the Company is operating within the governance and risk framework approved by the Board.
Company Secretary	• Acting as a sounding board for the Chair and other Directors; • Ensuring clear and timely information flow to the Board and its Committees; and • Providing advice and support to the Board on matters of corporate governance and risk.

Principal Committees of the Board

The Board has established three principal Committees: the Nominations Committee, the Audit Committee and the Remuneration Committee. Details of their constitution, their roles and responsibilities, and the activities of each Committee during the year are set out in their respective reports, which follow this corporate governance report.

Each Committee operates under its own terms of reference, which have been approved by the Board and are reviewed annually. In addition, the Board has approved the establishment of: an informal management committee, the Executive Board, which is chaired by the Group Chief Executive; a Disclosure Committee comprised of the Group Chief Executive, the Group Finance Director and the Company Secretary; a Risk Committee, chaired by the Company Secretary, which is responsible for oversight of the Group's risk and risk evaluation; and, various ad hoc sub-committees as required from time to time. The Executive Board provides a forum in which the Executives, representing their sector or functional area, can review and take decisions on operational and financial matters that arise in day-to-day business operations. The Executive Board is also an effective means for implementing actions from the Company Board and providing oversight of operational matters.

Reporting requirement	Location
Description of the business model and strategy.	Strategic Report See pages 20 to 23
Description of the significant issues that the Audit Committee considered in relation to the financial statements and how these issues were addressed, having regard to the matters communicated to it by the external audit team.	Audit Committee report See pages 63 and 64
Explanation of how the Audit Committee has assessed the effectiveness of the external audit process.	Audit Committee report See page 62
Explanation of how internal assurance is achieved despite the absence of an internal audit function and how this affects the work of external audit.	Audit Committee report See page 61
Description of the Nomination Committee's work, including an explanation of its choice on the use of external search consultancies.	Nominations Committee report See page 56
Description of the Company's succession plans, the Board's policy on diversity and inclusion and their links to company strategy.	Nominations Committee report See page 56
Statement that the Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides information necessary for shareholders to assess the Company's financial position and performance.	Directors' Responsibilities See page 88
Future policy table and notes, performance scenario charts, remuneration obligations in service contracts.	Remuneration Committee report See page 73
Policy implementation, remuneration paid to service advisers, single total figure tables, Chief Executive Officer pay comparison to Company performance, alignment of directors' remuneration (including pension contributions) with the workforce's and relative importance of spend on pay.	Remuneration Committee report See pages 77 to 79
Directors' shareholdings and variable pay awarded in the year.	Remuneration Committee report See pages 77 to 84

Board activities

Strategy, Investor Relations & Communications
- Strategic reviews
- Review of organisational structure
- Strategic growth opportunities
- Communications strategy
- Review of regional sales strategy

Ensuring Group objectives are aligned with shareholders
- Review of feedback from shareholders and engagement with shareholders
- Review of Group strategy annually
- Review of capital allocation decisions
- Review of the Board evaluation

Financial & Operational
- Budget for 2019/20
- Half-year results, full-year results and trading updates
- Review of Group cash position and forecasting
- Review of changing global taxation landscape
- Approval of the Group's tax strategy

Ensuring robustness and integrity of financial statements
- Review areas of judgement within the financial statements
- Review external auditor independence
- Review investor relations materials

Talent & Culture
- Succession planning and talent development for all senior roles
- Review of implementing engagement surveys
- Review of strengthening operations and sales teams

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

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

Review and discussion of external Board and Committee evaluations
- Ensuring adequacy of risk management framework
- Overseeing the findings of the Risk Committee
- Reviewing the output of internal audit
- Reviewing any whistleblowing instances

Standing Board agenda items

At each meeting the Board considers the following standing items, which include:

Review and approval of the previous minutes
Status update on any matters outstanding from previous meetings
Updates from each Board Committee on the activities since the last Board meeting
Report from the Group Chief Executive
Report from the Group Finance Director
Report from the Group General Counsel
Investor Relations report
Health & Safety review
Risk review
Corporate governance update
Updates from the Company Secretary on administrative matters

Matters reserved for the Board

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

Ensuring succession planning

Succession plans have been introduced for all senior managers
Board succession plans have also been put in place
Ensuring the Board interacts with senior managers as much as possible to judge the depth of the management team

Effectiveness

Composition of the Board

The Board currently comprises six directors, who bring a wide variety of skills and experience to the Boardroom. The Interim Group Finance Director is an attendee at Board meetings. With one current Executive Director and five Non-Executive Directors (including the Chair) of whom four 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. With the changes announced on 27 February 2020 in Board composition, the Board will be further strengthened by the net addition of one more independent NED. The Board considers both the current Board structure, and the Board structure following the new appointments on 1 April 2020, to be appropriate in terms of both size and the balance of skills. The search will continue in respect of the appointment of a permanent Group Finance Director.

The biographies of each Director, including an overview of their skills and experience, are set out on pages 44 and 45. The Board has established a formal process for the search, appointment and induction of new Directors, details of which are set out in the Nomination Committee report on page 56.

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 Board also considers that Karen Oliver and Gotthard Haug (to join the Board on 1 April 2020) will be independent of management and free from business and other relationships that could interfere with the exercise of independent judgment. 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 serves to align their interests with those of the shareholders.

The Chair, 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 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 as Chair, 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). In the event that David absented himself from any specific discussions, the SID would ordinarily assume the chairship of the relevant meeting. Notwithstanding the non-independent status of David on appointment (as deemed under Provision 9 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 of the specific matters relating to David's role as Chair, 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. No external search consultancy was used in the search process for the chair (at the time of David's appointment) as the Board considered that David was best placed to step into the role, following Wayne Edmund's decision to retire from the Board, and that he alone provided the continuity and knowledge of the business and its senior management team that the Group required as it executed its strategy for revitalising the Group following the reversion to the in-sourced manufacturing model.

Time allocation

The Board benefits from the wide variety of skills, experience and knowledge that each of the Directors bring to their roles. 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 six scheduled Board meetings and five Board calls, Non-Executive Directors are expected to attend the AGM, the annual strategy meeting and certain other Company events and site visits throughout the year. A time commitment of at least 20 days per annum is the anticipated requirement for each Non-Executive Director. Confirmation is obtained on appointment from each Non-Executive Director that they can allocate sufficient time to the role.

The Chair and Non-Executive Directors (NED) 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.

Re-election of Directors

In compliance with the 2018 Code, all of the current Directors, with the exception of Steve Good, will stand for re-election at the forthcoming AGM. In addition, both Karen Oliver and Gotthard Haug will stand for first election at the AGM. Following the annual evaluation of the Board and its committees, and the recruitment process for the two new NEDs, 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.

Liability insurance

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

Induction of new Directors

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

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

Performance evaluation

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

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

Board evaluation

The Board evaluation is performed annually and meets the requirements under Provision 21 of the 2018 Code that the review of Board performance is externally moderated every three years.

The last Board review was conducted in autumn 2019 with the help of the leading advisory firm Lintstock and, based on the feedback received, the Board determined that the Board and its Committees continue to operate effectively.

Board, Committee and Directors' performance evaluation cycle

Questionnaire
A comprehensive questionnaire sent

Evaluation
The external evaluator or the Company Secretary compiles the results

Action Plan
The collated results are discussed by the Board and an action plan is formulated

Feedback
Individual feedback plans are provided to Directors

Relations with shareholders and stakeholders

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

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

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

The Chief Executive Officer gives a presentation on operational matters before the Chair deals with the formal business of the meeting. Each substantially separate issue is proposed as a separate resolution. Details of resolutions to be proposed, and shareholders' options for voting, at the forthcoming AGM are to be found in the separate circular to shareholders. All shareholders present can question the Board during the meeting as well as informally afterwards. The Company's forthcoming AGM will take place at 11.30am on Wednesday, 13 May 2020.

At the Company's 2019 AGM, three resolutions received votes against in excess of 20%. As announced on 2 October 2019, the Board and RemCo have undertaken a consultation with principal shareholders so as to better understand the significant votes against resolution 2 (remuneration report) and resolutions 15 and 16 (pre-emption rights). Of the issues identified in the consultation process: one issue, relating to a former CEO, will be non-recurring; issues concerning CEO and Chair remuneration levels have been addressed (see remuneration report); and the remaining issues (primarily concerned with the operation of the PSP scheme) are addressed in either the draft 2020 Remuneration Policy and the accompanying notes or by the Company's Remuneration Committee in setting performance targets for future PSP awards. In respect of pre-emption rights, the votes against were principally from three shareholders, one of whom no longer holds shares in the Company. The Company has sought to engage with these shareholders and believes that the drafting of the explanatory notes to the 2020 AGM resolutions provides greater clarity in relation to the potential use by the Company of any pre-emption powers granted.

	Why we engage	How the Board engages	Read more
Our employees	Employees are critical to the Group, demonstrate its culture and embody its values.	Review and develop plans that promote safety, transparency, diversity and inclusion, innovation and high-achieving teams.	Page 28
Our communities	What we do impacts on the communities we work with all around the world.	Site visits; the local media; and community outreach programmes.	Page 26 to 31
Our customers and distributors	It is our pleasure to serve our customers and distributors, who are responsible for our success. We aim to understand our customers' and distributors' requirements and behaviours to enable us to deliver the products that they need and want.	Regular visits; reports from dedicated client account teams that obtain feedback on existing products and receive requests for new product designs or for specific solutions; and joint value-creation initiatives.	Page 12
Our authorities and regulators	The products that we produce must meet stringent regulatory requirements.	Attending governmental roundtables and seminars; and providing feedback to regulators on future product developments.	Page 19
Our partners	We believe in establishing honest and fair long term relationships with our suppliers and advisors that are consistent with the Group's ethos, and based on value and quality.	Continual dialogue with our suppliers and advisors.	Page 29
Our investors	As a publicly-listed company, we need to provide fair, balanced and understandable information to instil confidence in our providers of finance. We take care to consider shareholder feedback on the business and management performance.	Annual General Meetings; investor roadshows and results briefings; updates to the investor relations section of our website; and ongoing dialogue with analysts and shareholders.	Page 68

How stakeholders are considered by the Board in decision-making

The Board considers the impact on stakeholders when taking a number of key decisions. Following shareholder feedback at our 2019 AGM, we proactively engaged with shareholders to ensure the alignment of our new remuneration policy with their expectations and interests as well as with our employees.

Nominations Committee report

Dear Shareholder,

Both the Nominations Committee and the Board as a whole recognise their crucial roles in nurturing talent at management and executive levels. I am pleased, therefore, to report that the Nomination Committee's work continued in 2019 as it selected a new chair on Wayne Edmund's departure, and a new CEO upon Marty Rapp's retirement. Marty stepped down in August 2019 and Fariyal, formerly CFO, was appointed as interim CEO. On 5 March 2020, we announced Fariyal as our Chief Executive Officer. We would like to thank Wayne and Marty for their contribution. A search for a new CFO is currently underway. As reported elsewhere and since the year-end, we have also strengthened the Board through the appointment of two new non-executive directors.

When Wayne Edmunds indicated that he wished to step down form the Board, there was a need to identify a successor. During that process, the Committee was chaired by Stephen Bird acting in his capacity as SID and, as a potential candidate for the role of Chair, I absented myself for all relevant discussions.

With Fariyal stepping up into the CEO role, a vacancy was created for a new Group Finance Director. The Committee and the Board is very grateful to Ronan Sheehy, the former Group Financial Controller, for agreeing to move from an operational role into the CFO role on an interim basis. Ronan has attended Board meetings since he accepted the role but is not a director of the Company. Ronan has indicated that he does not wish to be considered for the full-time role and will return to his operational role once a successor has been appointed. The search for a replacement CFO was initiated in Autumn 2019 with the assistance of the external search firm Egon Zehnder. There are no disclosable connections between Egon Zehnder and any directors of the Company, or with the Group (other than in respect of the provision of search services).

As detailed above, the Committee has conducted a search process for two additional non-executive directors to further strengthen the Board. The Committee and the Board were mindful of the need to further broaden the diversity of the Board in making these appointments whilst at the same time ensuring that appointees bring relevant and complementary experience. The search for the additional non-executive directors was initiated in Autumn 2019 with the assistance of the external search firm Heidrick & Struggles. There are no disclosable connections between Heidrick & Struggles and any directors of the Company, or with the Group (other than in respect of the provision of search services).

Role of the Committee

The Board has delegated responsibility to the Committee under written terms of reference, which are available on the Group's website. The Committee's primary responsibilities are to:

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

The Committee ensures all Board appointments are made in line with the Group's employment policies and practices, which aim to ensure that an individual's skills, experience and talents are the sole determinants in recruitment and career development, by eschewing discriminatory practices and providing equal opportunities.

Composition of the Committee

The Committee currently comprises David Blood (who was appointed chair of the Committee as of 5 August 2019) and four Non-Executive Directors. David Blood would not chair a meeting of the Committee which was dealing with the appointment of a successor to the Chair.

The members of the Committee during the year were:

Committee member	Member from
Wayne Edmunds	25 January 2016 to 5 August 2019
Stephen Bird	10 January 2013
David Thomas	26 April 2016
David Blood	23 July 2015
Gaëlle Hotellier	3 October 2016
Steve Good	1 June 2018

Activities during 2019

The Committee's role has strengthened over the last year and, in response to the increased workload required of it, the Committee met four times during the year. Two scheduled meetings were held to consider the Committee's ongoing responsibilities of Board and senior management succession planning, and the appointment and reappointment of Directors based on the Board evaluation. The additional meetings were held in relation to the Chief Executive Officer, non-executive director and Group Finance Director recruitment process.
During the year, the Committee has also undertaken the following activities:

- Reviewed talent and development at sector and company managing director level; and
- Carried out the annual self-evaluation and review of Director independence in accordance with the terms of reference.

Board appointments and process

The role of the Committee in facilitating board changes during the year is summarised above.

Diversity

The Board recognises the benefits of greater cognitive diversity on the Board and in management positions throughout the Group. The Board is currently comprised of six Directors, of whom two are women (33%). The spread of nationalities is: four British, one American and one French, with three members of the Board having accountancy backgrounds and three with listed plc CEO experience. With effect from 1st April 2020 the Board will be comprised of seven directors, three of whom will be women (43%). Whilst the Board does not have a parity of gender balance, it believes that gender is one, but not the only, indicator of the Board's cognitive diversity and diversity of experience, and is mindful of the need to further strengthen such diversity in any future Board appointments.

Further details on diversity are set out in the "Our People" section on page 28.

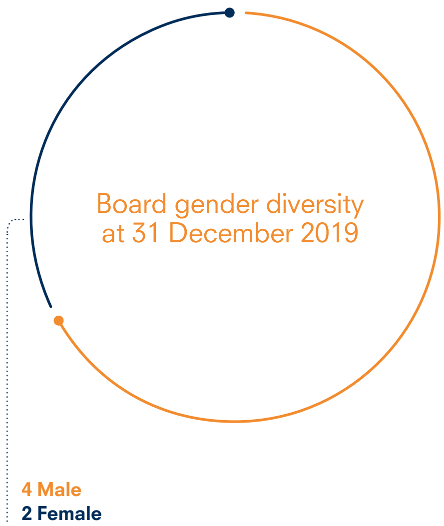
Priorities for the coming year

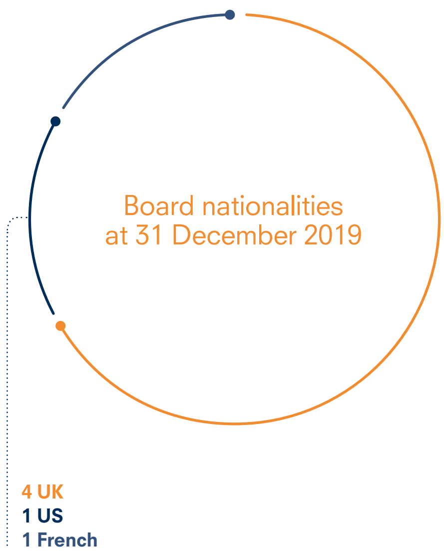
The Committee's priority for 2020 will be to focus on succession planning and talent development at executive and Board level.

On behalf of the Nominations Committee.

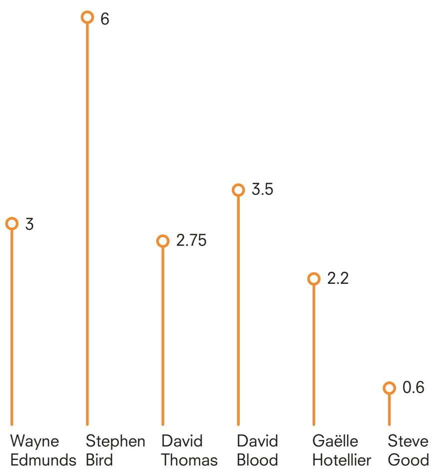
David Blood
Chair of the Nominations Committee

31 March 2020





Non-Executive Director tenure (number of years)



Internal control statement

The Board's responsibilities
The Board has overall responsibility to the shareholders for the Group's systems of internal control and risk management, and the review of the system's effectiveness is carried out with the assistance of the Audit Committee. Whilst not providing absolute assurance against material misstatements or loss, this system is designed to identify and manage those risks that could adversely impact the achievement of the Group's objectives. The Group's risk management structure and process is detailed on pages 32 and 33.

There is a Risk Committee at a sub-Board level that periodically reviews strategic and tactical risks facing the Group, and comprises members of the Executive Committee. The Risk Committee is responsible for maintaining the Group's risk register which is then periodically reported to, and reviewed by, the Board. The Group's principal risks and uncertainties, extracted from the Group's risk register, are detailed on pages 34 to 36.

The Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group, and for determining the nature and extent of the significant risks which it is willing to take in achieving its strategic objectives. The Board, advised by the Audit Committee, regularly reviews the process, which has been in place for the year under review and up to the date of approval of the Annual Report and Accounts. This process is in accordance with the Financial Reporting Council's ("FRC") 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting'. The Board has continued to improve and embed controls throughout the Group, and will continue to keep the process under review to ensure that the internal control and risk management framework remains fit for purpose.

Review of internal control effectiveness
The Board regularly reviews the effectiveness of the Group's risk management and internal control systems, including financial, operational and compliance controls. This is principally achieved through reviewing reports prepared by management, to determine whether significant risks have been identified, evaluated, managed and controlled.

Going concern

The Board has undertaken a rigorous assessment of the going concern assumptions using the base case financial forecasts and considering a wide range of downside scenarios. The business has had a number of challenging years with outsourcing production and subsequently insourcing. These operational issues have been resolved with significant investment made in the Group during 2019.

The base case projections prepared for the going concern and viability assessment are derived from the business plan but are based on a cautious approach with muted levels of growth despite the new products already launched in 2019 and the significant pipeline of new products over the viability period.

For the going concern assessment, the Board have considered the base case projections for the period to 30 September 2021. In accordance with the UK Corporate Governance Code, the Board has considered the Company's longer-term viability and sets out its Viability Statement in the panel on the right.

In assessing the going concern assumptions, the Board has undertaken a rigorous assessment of the forecast outturns and assessed identified downside risks and mitigating actions. The downside risks include a number of severe but plausible scenarios incorporating underperformance against the business plan, execution risk, unexpected cash outflows and customer attrition.

The broader political and economic uncertainty coupled with the potential future impact on the Group of the recent COVID-19 outbreak has been factored into the scenarios considered as part of the Group's adoption of the going concern basis. The Group has also considered what mitigating actions are available to it in the event that such downside scenarios arise. The Group believes that it has sufficient mitigating actions available to it that it could address almost all such downside scenarios. Under these severe but plausible scenarios there is a risk of breaching the Group's financial covenants, unless a waiver agreement is reached with the lender within the going concern period.

The above situation gives rise to a material uncertainty, as defined in auditing and accounting standards, related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and in such circumstances, it may therefore be unable to realise its assets and discharge its liabilities in the normal course of business. Reflecting the Board's confidence, the Group continues to adopt the going concern basis in preparing its financial statements as the Group has sufficient headroom under its recently renewed banking facility and sufficient liquidity to operate.

Viability statement

During the year, the Board carried out a robust assessment of the principal risks affecting the Group, including those that would threaten its business model, future performance, solvency or liquidity. The principal risks and uncertainties, including an analysis of the potential impact and mitigating actions, are set out on pages 34 to 36 of the Strategic Report.

The Board has assessed the Group's viability across a three-year period, taking into account the Group's current position and the potential impact of the principal risks and uncertainties. Whilst the Board has no reason to believe that the Group will not be viable over a longer period, it has determined that three years is an appropriate period. In drawing its conclusion, the Board has aligned the period of viability assessment with the Group's rolling three-year strategic planning period. The Board believes that this approach also provides an appropriate alignment with annual awards under the share-based incentive plan.

In assessing the viability of the Group, sensitivities have been performed on the key assumptions below:

- revenue growth;
- gross margin;
- inventory levels
- mitigations; and
- the outcome of litigation.

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

- the market drivers for LED adoption remain strong due to the increasing importance of sustainability
- the Group operates in diverse end markets, with no material individual customer concentration;
- the impact of operational issues on the cost base and the ability to fulfil customer orders is largely dissipated;
- positive customer and distributor feedback and invitations to bid on large projects;
- product development partly focused on cost reduction through technological advances;
- financial capacity under the current banking facilities that are in place until February 2023;
- there is a framework of accountability within a robust governance and control framework; and
- there is an ethical approach to business throughout the Group.

The Board reviewed and challenged a comprehensive exercise of financial modelling carried out by management and stress-tested for the impact of numerous potential risk scenarios. They also considered the mitigations presented by management, the potential impact, the time required to implement the mitigating actions and the financial benefit.

The scenarios chosen are plausible downside scenarios and on a combined basis, modelled the impact of a severe downturn in performance. Each scenario tested the impact on the Group's banking covenants to ensure compliance. The downside sensitivities relating to the cash outflows from changes in key assumptions, both in isolation and in aggregate, demonstrate that, the Group has sufficient mitigating actions available to it that it could address almost all such downside scenarios. Based on this 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 2022.

50% Financial statements and business report
12% Internal audit
10% External audit
25% Risk management
3% Other

We have continued to focus our efforts on the Committee's core areas of responsibility of maintaining integrity across all aspects of corporate reporting, internal control, risk management and audit quality.

I am committed to delivering strong leadership of the Committee throughout my tenure and to actively encourage the Committee to challenge management assumptions. Each member of the Committee has a detailed understanding of Dialight's strategy and business model and of the Group's culture and core values.

The difficulties experienced in the business in recent years were primarily operational and in the current year there was a significant financial impact of completing the separation from our outsource manufacturer. Now that this separation is substantially complete the monitoring of the operational performance of the Group is being refocused on sales and production forecasts, inventory levels and the effectiveness of supply chain. The Group's bank facilities were renewed and now extend to February 2023.

Role and responsibilities

The Committee is appointed by the Board and operates under written terms of reference, which were updated in December 2016 and reviewed again in December 2018. These are available to view at www.ir.dialight.com. The Committee's primary duties are summarised within each of the five sub-headings set out below:

1. Financial reporting

- Review and challenge significant financial reporting judgements and the application of accounting policies, including compliance with International Financial Reporting Standards (IFRS);
- Ensure the integrity of the financial statements and their compliance with UK company law and accounting regulations;
- Ensure the Annual Report and Accounts are fair, balanced and understandable, and recommend their approval to the Board; and
- Monitor the integrity of announcements containing financial information.

2. Internal controls and risk management

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

3.Internal audit

- Manage the relationship with the internal audit function that was previously provided by a 3rd party;
- Review the role, composition and effectiveness of the internal audit function. Internal audit and the requirements of the business will be reviewed fully in 2020.

4. External audit

- Manage the relationship with the Group's external auditor;
- Monitor and review the independence and performance of the external auditor and formally evaluate their effectiveness. The external auditor is not to carry out non-audit services;
- Negotiate and approve the external auditor's fee, the scope of the audit and the terms of their engagement; and
- Make recommendations to the Board for the appointment or reappointment of the external auditor.

5. Compliance, whistleblowing and fraud

- Monitoring the processes in place throughout the Group to prevent and detect fraud and to enable employees to raise concerns in confidence; and
- Reviewed the Group's whistleblowing policy and procedures

Composition of the Committee

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

- David Thomas (appointed 26 April 2016)
- Stephen Bird (appointed 10 January 2013)
- Gaëlle Hotellier (appointed 3 October 2016)

Their attendance can be seen on page 46.

The Chairman, Group Chief Executive and Group Finance Director also attend Committee meetings, together, where appropriate with the Group Financial Controller. Representatives from the external auditor also attend key Committee meetings.

The Committee's activities during the period are set out below

Financial reporting

- Reviewed the Annual Report and Accounts, the Half Year Report and trading updates issued. As part of these reviews, the Committee received a report from the external auditor on the audit of the Annual Report and Accounts;
- Reviewed the disclosures made in the Annual Report and Accounts relating to risk management and internal controls;
- Reviewed the process and stress testing undertaken to support the Group's viability and going concern statements;
- Reviewed the Group's compliance with borrowing covenants;
- Considered the adequacy and appropriateness of the Group's policies and disclosures in respect of those new IFRS adopted in the year and those assessed for their likely impact on adoption in future periods;
- Considered the ongoing accounting and commercial implications of the Group's separation from its former outsource manufacturer; and
- Considered the Group's judgments, policies and disclosures in respect of "non-recurring" items.

Internal controls and risk management

- Considered the output from the Group-wide risk review process to identify, evaluate and mitigate risks, the Group's changing risk profile and future risk reports;
- Reviewed the resource and requirements for risk management and internal control in the Group; and
- Reviewed the effectiveness of the Group's risk management and internal controls.

Internal audit

- Given the significant changes associated with the insourcing of production and the management changes it was concluded that the existing internal audit arrangements were no longer appropriate. Internal audit will be fully evaluated in 2020.

External auditor and non-audit work

- Agreed the scope and methodology of the audit work to be undertaken by the external auditor;
- Evaluated the independence and objectivity of the external auditor; and
- Agreed the terms of engagement and fees to be paid to the external auditor for the audit of the 31 December 2019 financial statements.

Whistleblowing

The Committee has responsibility for ensuring that adequate arrangements are in place for employees to raise concerns or suspicions which they may have about possible wrongdoing in financial reporting or other matters.

An external organisation, Safecall, operates a 24-hour confidential reporting service for the Group, which provides employees with the choice of making a report via a multilingual telephone line or via the internet.

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

Confidential reports from this service are provided to the Company Secretary, as well as to the Committee Chair, for investigation and to report any significant cases to the Committee.

Governance

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

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

Engagement of the external auditor and tenure

KPMG was first appointed as external auditor in 2001. KPMG is required to rotate the audit partner responsible for the Group every five years. The previous audit partner's term ended in 2018, with the current audit partner being responsible with effect from the 2018 audit.

During 2019, the Committee continued to monitor legislative and best practice changes in this area. Under the Statutory Auditors and Third Country Auditors Regulations 2016, the Company is required to retender its external auditor by 31 December 2023. At that point, KPMG would not be eligible to be re-appointed.

Whilst KPMG would be eligible to continue as auditor until 31 December 2023, the Group intends to commence a tender process for the external audit as soon as practical.

Auditor independence

At each meeting, the Committee receives a summary of all fees, audit and non-audit, payable to the external auditor. A summary of fees paid to the external auditor is set out in note 10 to the financial statements.

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

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

External audit effectiveness

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

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

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

- subsidiary financial controllers;
- the Group finance team; and
- Audit Committee members and attendees.

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

In addition to assessing the effectiveness of the external auditor, the Committee recognises that Group management has an important role to play in the overall effectiveness of the external audit process. This survey addresses items such as the timeliness, quality and reliability of data provided to the external auditor.

Taken together, the Committee believes that sufficient and appropriate information is obtained to form an overall judgement of the effectiveness of the external audit process.

The external audit effectiveness process findings from last year's review were also incorporated into our audit processes this year.

Risk management and internal controls

Further details of risk management and internal controls are set out on pages 32 and 33. Through monitoring of the effectiveness of the Group's internal controls and risk management, the Committee is able to further its understanding of business performance, key areas of judgement, and decision-making processes within the Group.

Fair, balanced and understandable

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

These focused exercises can be summarised as:

- reviewing how alternative performance measures were used in the Annual Report and Accounts ensuring completeness and accuracy of definitions, consistency of use, relevance to the user of the Annual Report and Accounts and balance with statutory metrics.
- risk comparison review, which assesses the consistency of the presentation of risks and significant judgements throughout the main areas of risk disclosure in the Annual Report and Accounts;
- formal review of all Board and Committee meeting minutes by the Company Secretary to ensure that all significant issues are appropriately reflected and given due prominence in narrative reporting; and
- preparation and issue to the Audit Committee of the key working papers and results for each of the significant issues and judgements considered by the Audit Committee in the period.

The Directors' statement on a fair, balanced and understandable Annual Report and Accounts is set out on page 88.

Conflicts of interest

The Company has arrangements in place to consider and deal with Directors' conflicts of interest. An annual review is undertaken, facilitated by the Company Secretary, with all identified conflicts recorded on a register that is adopted by the Board. Conflicted Directors are not able to attend meetings where the conflicted matter is discussed and at which decisions are made. None of the Directors has had or has an interest in any material contract relating to the business of the Company or any of its subsidiary undertakings.

Significant issues

Significant issues and accounting judgements are identified by the finance team, or through the external audit process, and are reviewed by the Audit Committee. The significant issues considered by the Committee in respect of the year ended 31 December 2019 are set out in the following table:

Risk area	Significant issues and judgements	How the issues were addressed
Going concern	The Group has considered the impact of COVID-19 on the adoption of the going concern.	The Group has conducted stress tests against a number of scenarios to test the resilience of the business (see page 105), taking into account possible mitigating actions. In addition to testing individual scenarios, the Committee also considered the impact of a combination of scenarios over the assessment period. This was to stress test an aggregation of the severe risk occurring that would represent the greatest potential financial impact in the short term and long term viability period.
Revenue recognition	The Group's revenue recognition policies are not complex and are based largely on the contractual terms for transfer of ownership. The maintenance of an effective control environment within the production sites is fundamental to ensuring appropriate revenue recognition especially in the final month of the year which is the peak revenue month due to the seasonality of our markets.	Controls relevant to the production sites are formally documented within those sites. The accounting policies for revenue recognition are set out in note 3 to the financial statements and are unchanged from previous periods. The Audit Committee considered existing controls over revenue recognition and noted no significant issues with respect to the operation of those controls.
Non-recurring costs	Following the exit of the outsource manufacturer in Q4-2018, the Group incurred significant costs in removing and transporting equipment and materials from the outsourcer's premises and ramping up production at our in-house facilities. Consistent with the Group's existing policy, the costs of exiting the contract have been presented as non-recurring costs on the face of the Consolidated Income Statement. The Group also incurred costs relating to the closure of the European Obstruction business based in Denmark and also a program of redundancies to right size the business.	The Audit Committee has reviewed and discussed with management the constituent items of the charge presented within non-recurring costs for 2019. They were satisfied with the classification of costs and that they should be separately disclosed due to their nature and value and they allowed the reader to obtain a proper understanding of the underlying business performance. Further disclosure on the exit from our outsource manufacturing contract is provided in the contingencies note on page 136.
Inventory	As part of the exit from the outsource manufacturer, we purchased an excess of materials that has been unwinding during 2019. The inventory purchased was selective and based on materials that we believed were usable and were all inspected when received, to ensure they were in good condition. Inventory is reviewed regularly by operational and financial management to ensure that it is usable. In previous years, the inventory reserve was calculated based on an expected period of usage of 12 months. As a result of the strategic decision to purchase additional inventory, during H2-2018 and H1- 2019, during 2019 the Group revised the basis of estimate of the reserve for raw materials and sub- components to a usage period of up to 24 months. Parts known to be redundant are provided in full. This change did not result in a release of provisions created in prior periods. The valuation of inventory requires the use of judgements in relation to the amount of overhead costs to be absorbed. The attributable costs over which judgement was exercised was £6.3m and this represents 14% of the inventory value.	The basis for and level of stock obsolescence and valuation provisioning, including those areas that are judgemental are presented to the Committee by management. The Audit Committee discussed and assessed the information provided by management and concluded that the value of Inventory and provisions held by the Group are appropriate.

Risk area	Significant issues and judgements	How the issues were addressed
Termination of outsource manufacturing agreement	On 20th December 2019, Sanmina Corporation issued legal proceedings against the Group with a range of possible outcomes of £0 - £8m.	The Committee assessed the claim in conjunction with external legal advice and the judgement was that the Group's was confident in the merits of its legal position. Therefore this is disclosed as a contingent liability.
Use of judgements	The use of judgements and estimates is required in a number of areas, primarily in assessing the amount of development costs capitalised and the level of warranty reserve.	The Audit Committee reviewed the value in use calculation for capitalised development costs and concluded that no projects needed to be impaired. They also reviewed the warranty reserve calculation for adequateness. Following review, the Audit Committee concluded that the judgements applied were appropriate in preparing the financial statements for the year.

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

David Thomas
Chair of the Audit Committee

31 March 2020

Remuneration Committee Chair Annual Statement

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2019.

As in previous years, this report is split into three sections: this Annual Statement; the Remuneration Policy; and the Annual Report on Remuneration. This year, we will be asking our shareholders to approve a new Remuneration Policy at our Annual General Meeting. The background to, and the reasons for, the proposed changes are set out later in this Annual Statement.

Key remuneration outcomes for 2019

Following a review of Dialight's performance against the EBIT targets set for the Annual Performance Bonus Plan (APBP), the Remuneration Committee determined that no bonuses would be payable to in respect of 2019 performance. The Committee noted that Fariyal Khanbabi had performed well against her individual strategic objectives and in stepping up to the role of Interim Chief Executive, with notable achievements including: the refocusing of the corporate strategy and operating plan; the stabilisation of the management teams and the business generally; the successful completion of the insourcing process for all the Group's manufacturing operations; and, the implementation of supply chain and inventory management improvements. However, the Committee concluded that, as the primary financial target (ie the EBIT under-pin) had not been achieved, no bonus could be paid.

Both Marty Rapp and Fariyal Khanbabi were granted an award under the PSP during the year, the vesting outcome of which will be based on performance over the three financial years to 31 December 2021. These awards will vest to the extent that the EPS and TSR targets are achieved over the three-year period (and subject to a pro rata reduction in Marty Rapp's award to reflect his retirement in August 2019). Further details of awards made to Executive Directors during 2019, including details of the performance targets applying, are included on page 81.

In respect of the long-term incentive plan awards made in 2017, both the EPS and TSR performance of Dialight over the three-year performance period were below the performance targets set by the Remuneration Committee at the time of grant. As a result, all 2017 PSP awards to executive directors will lapse in full in 2020.

The Remuneration Committee remains committed to ensuring that rewards received by our Executive Directors reflect performance. 2019 has seen continued challenge both financially and operationally, and, whilst the Remuneration Committee strongly believes that the Company is well positioned for the future following recent operational improvements and progress on new product development, we are satisfied that the nil outcomes under the Group's variable incentive arrangements for the year ending 31 December 2019 are appropriate. No discretion has been exercised in respect of the APBP or PSP this year.

Board changes

Marty Rapp, Chief Executive since January 2018, retired from the Board with effect from 9 August 2019. Payments to Mr Rapp were made in line with Dialight's leaver policy. He continued to receive pay and benefits up to and including the day of his retirement, but did not receive any additional payment and did not participate in the 2019 APBP. As a retiree, and in accordance with the rules of the shareholder-approved PSP, Marty was accorded 'good leaver' status and retains interests under the 2018 and 2019 PSP award cycles (pro-rated for time served in-role and remaining subject to Company performance over the relevant performance testing period). Further details – including details of the consultancy agreement with Mr Rapp – are included in the relevant section on page 81 (including the payment of the limited sum of $30,000 in consultancy fees to Mr Rapp under the terms of the consultancy agreement) and were also published, in the interests of transparency, at the time of Marty's decision to retire, on the Company's website.

Following Marty's retirement, on 9 August, Fariyal Khanbabi, Chief Financial Officer, was appointed as Interim Chief Executive, a role for which she received an additional monthly payment of £12,292 (non-pensionable and not attracting additional APBP or PSP payments / awards). In the interests of transparency, details of the uplift in Fariyal's payment were published, at the time, on the Company's website.

The Committee took this opportunity to benchmark Executive remuneration levels (with advice from Mercer Kepler) and this process and the subsequent agreement with regards to Fariyal (on her assumption of the CEO role) has resulted in a material reduction in executive pension payment level; fixed remuneration for executive directors and total remuneration level for executive directors.

2019 also saw Wayne Edmunds step down as Chairman. He was succeeded by David Blood, an existing Non-Executive Director, with the fees paid for the role reduced significantly to better reflect Dialight's size, and as disclosed on page 77.

2019 AGM result and subsequent actions

The Committee recognises that there were significant votes against (28.99%) the resolution to approve the 2018 Annual Report on Remuneration. Following the vote, the Committee engaged with 16 of its top shareholders to better understand the reasons for the level of dissent, and to begin the process of reviewing the Directors' Remuneration Policy for 2020.

Of the issues identified during the outreach exercise: one issue, relating to a former Chief Executive (Michael Sutsko), will be non-recurring; issues concerning Chief Executive and Chairman remuneration levels have been addressed; and, the remaining issues (primarily concerned with the operation of the PSP scheme) will be addressed as part of the new Remuneration Policy and the Committee's implementation of that policy (if approved by shareholders).

Review of the Directors' Remuneration Policy

The 2020 AGM marks the third anniversary of the adoption of the current 2017 Remuneration Policy and in line with UK reporting regulations, Dialight is required to submit a new Policy to shareholders for approval this year.

Given the focus on the turn-around of the Group, the Committee considered that wholesale changes to the Remuneration Policy should not be a priority at this time. Accordingly, and reflecting the feedback received from shareholders as part of the outreach exercise, we are proposing, at this stage, to only make such evolutionary changes to the Policy to support the current situation and reflect prevailing market and best practice.

Element	Summary of proposed policy and approach for 2020
Annual Performance Bonus Plan (APBP)	**Proposed Policy:** • reduction in maximum APBP opportunity from 175% to 150% of salary; • reduction in pay-out for target performance from 60% to 50% of maximum; • clarification on weighting of non-financial performance measures in any given year – at least 75% of the APBP will be based on financial metrics; and, • removal of the formulaic EBIT under-pin on other performance metrics; instead, the Committee will have discretion to amend APBP outcomes to ensure a fair outcome in the context of overall business performance. **Approach for 2020:** • maximum opportunity for CEO role of 150% of salary (75% of salary for on target performance); maximum opportunity for CFO role of 125% of salary (62.5% of salary for on target performance); • 2020 APBP to be based 50% on EBIT, 25% on cash conversion and 25% on individual strategic goals which will be clearly disclosed when appropriate; and, • APBP will continue to be paid in cash up to target, with pay-outs above target deferred in Dialight shares vesting 50% after 2 years and 50% after 3 years.
PSP	**Proposed policy:** • clarification on maximum opportunities; 125% of salary will be the maximum annual award level in normal circumstances, with the existing 150% of salary limit reserved only for exceptional circumstances; • flexibility for the Committee to determine measures, weightings and targets annually to support Dialight's strategy; and, • greater Committee discretion to amend PSP outcomes to ensure a fair outcome in the context of overall business performance. **Approach for 2020:** • 2020 PSP grant to CEO of up to 125% of salary, to CFO of up to 100% of salary; • 2020 PSP to be based 50% on EPS and 50% on TSR relative to the FTSE SmallCap (excluding investment trusts). EPS targets will be set in the context of relevant reference points for internal and external expectations for Dialight over the performance period. Targets will be appropriately stretching for the award opportunity; and, • vested awards will continue (net of tax) to be subject to a 2-year holding period.
Pension	**Proposed policy:** • maximum pension contributions for newly appointed Executive Directors will be in line with the rate offered to the majority of employees in the relevant jurisdiction at the time of appointment. **Approach for 2020:** • new UK appointees to receive salary contributions equal to the % of salary offered to the majority of employees in the relevant jurisdiction. • Fariyal Khanbabi's pension, as a new CEO, has been reduced from the 15% she was contractually due (and was applicable in her role as CFO) to 5% of her CEO salary – a change that has resulted in a signficant, real-terms, reduction in her pension payment from the Company.
Shareholding guidelines	**Proposed Policy:** • new requirement for any shares earned from the PSP (net of tax) to be retained until the shareholding guideline has been met.
Salary/fees	**Approach for 2020:** • Board Chair's fee was significantly reduced on the appointment of David Blood in August 2019; and, • the new Chief Executive's salary has been set at a significantly lower level than that of the former CEO (a reduction in total cash target of c.25% and of total remuneration of c.17%).

Quantum

During the outreach exercise, a number of shareholders commented on the relatively high base salary of the former Chief Executive and questioned whether the implied total remuneration opportunity was appropriate for Dialight. It is the Board's intention that the CEO base salary level will better reflect Dialight's current size and performance.

As part of this rebasing of Chief Executive pay, we are also proposing to reduce the maximum annual bonus opportunity from 175% of salary to 150% of salary, with the pay-out for achieving on-target performance reduced from 60% to 50% of maximum. This reduction takes into account market opportunities at size and sector comparators, whilst ensuring that a significant proportion of Executive Director remuneration remains linked to Dialight's performance and payable only for the achievement of stretching targets.

Combined with a reduction in the pension contribution rate to the amount outlined above, the Committee is confident that the total remuneration offering for the new Chief Executive is appropriately positioned against market.

In respect of Non-Executive Directors, on the appointment of a new Chair in August 2019, the Committee took the opportunity to significantly reduce the annual fee paid for this role to better reflect Dialight's current size. It should also be noted that there has been no increase in Non-Executive Director fees in respect of 2019 nor 2020. The two new appointees to the Board, announced on 27 February 2020 and effective on 1 April 2020, will both be paid fees at the prevailing NED rates.

Performance measures

Annual bonus

During the outreach exercise, shareholders proposed a range of financial metrics which could be used to supplement EBIT in the annual bonus plan. Having carefully considered the various suggestions and reflected on Dialight's strategy and immediate priorities, the Committee is proposing to introduce a cash conversion metric for the 2020 APBP, weighted at 25% of total. Cash conversion is an existing financial KPI which is well understood internally, with careful cash management being important to ensure we are able to fund the Company's strategic objectives on both a short-term and long-term basis. The Committee is aware that various shareholders have their preferences as to the appropriate cash metric and/or calculation of that metric but have arrived at a proposed position that takes into account all shareholder feedback in the round.

The Committee is also proposing to increase the weighting on individual strategic goals to 25% of total for the 2020 APBP (which will no longer have an EBIT under-pin, as it is felt to be unduly restrictive and inflexible but the committee will continue to exercise discretion both upwards and downwards, as is appropriate, subject as always to the 25% cap), reflecting the increasing importance of incentivising non-financial objectives linked to Dialight's strategy. The 25% weighting on this element will be set as a cap in the policy, with at least 75% of the annual bonus based on financial metrics in any given year.

Targets for the 2020 APBP will be disclosed retrospectively in the 2020 Annual Report on Remuneration to allow shareholders to make an informed voting decision at the time.

PSP

In respect of the PSP, the Committee has taken time to consider the pros and cons of a range of additional performance measures for future awards including cash, revenue, returns and broader strategic imperatives. Mindful of the differing views expressed by shareholders during the outreach, and noting the inherent increase in complexity from introducing additional performance measures, the Committee determined that vesting of 2020 PSP awards will continue to be made with reference to EPS and relative TSR performance over a period of 3 years. The Committee is, however, proposing to increase the weighting on relative TSR to 50% of total and reduce the weighting on EPS commensurately (from 75% to 50% of total) to give equal importance to the principal internal and external measures of Dialight's long-term performance.

A number of shareholders suggested ROCE as a possible additional measure (or underpin), however on balance the Committee is mindful that this is not currently an explicit KPI of the Group. The Committee will retain overarching discretion on final PSP vesting to ensure that reward reflects the underlying performance of the Company. The Committee will also reserve flexibility in the new Policy to determine measures, weightings and targets annually to support Dialight's strategy and subject to disclosure and (if substantial) consultation where applicable.

Other changes

Other changes proposed by the Committee are intended to provide additional flexibility in the Remuneration Policy and to reflect emerging best practice.

In particular, we are proposing to set the pension contribution for new Executive Director appointees in line with the majority of employees in the relevant jurisdiction, consistent with the revised UK Corporate Governance Code. Accordingly, the pension contribution to Fariyal Khanbabi has been reduced from 15% (under the terms of her CFO engagement) to 5% of her CEO base salary (compared to 18% for her predecessor and 11% for other UK-based senior managers) upon assumption of the full-time CEO role - to align her with the majority of the UK workforce.

The Committee has considered the introduction of post-employment guidelines, but believes that the existing PSP holding period provides sufficient alignment at this time and that further work around the technicalities of applying and monitoring such guidelines (such as the need for assurance that they cannot be simply circumvented by a former-employee, rendering them ineffective) needs to be undertaken before committing to them in the Remuneration Policy.

Looking forward

Although the Remuneration Committee is not bringing forward extensive changes to the Policy this year, we do consider that there is merit in reviewing the Policy further over the next one to two years. Among other matters, such as post-employment shareholding guidelines, we would like to explore the possible introduction of restricted shares to replace the PSP in future. Dialight already grants restricted shares to senior management below Board level and this is seen as both motivational and retentive. The Committee also strongly believes that smaller, but more certain, annual awards of shares would serve to align Executive Directors with shareholders in a way that the current incentive has failed to do so for a number of years and notes the supportive reaction of shareholders, during the recent consultation, to this approach.

Implementation of the Policy in 2020

The Committee's proposed implementation of the revised Remuneration Policy is summarised in the table opposite and covered in greater detail on page 82. Of particular note, and reflecting the Company's share price performance over the year, PSP awards to be granted in March 2020 will be scaled back from normal levels, to reflect that fall in the Company's share price and in line with advice from the Company's external remuneration consultants.

On behalf of all of my colleagues on the Remuneration Committee, I hope that you will support the resolutions approving the Directors' Remuneration Policy and the Annual Report on Remuneration at the 2020 AGM.

Gaëlle Hotellier
Chair of the Remuneration Committee

31 March 2020

Directors’ Remuneration Policy

This section of the report details the Remuneration Policy for Executive and Non-Executive Directors which will be voted upon by shareholders at the 2020 AGM. The previous remuneration policy (effective for up to three years) was approved at the 2017 AGM.

Compliance Statement

This report has been prepared in accordance with the provisions of the Companies Act 2006 and Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (Regulations). It also meets the requirements of the UK Listing Authority’s Listing Rules and the Disclosure and Transparency Rules. The sections of the Remuneration Report that are subject to audit are marked as Audited Information. The remaining sections of the Remuneration Report are not subject to audit.

Background and overview of the Policy

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

The Remuneration Committee has consulted extensively with its principal shareholders over the last 12 months. While there have been some broad themes that achieved a clear consensus view from shareholders, there were other areas where the feedback received from various shareholders conflicted. The Remuneration Committee has therefore sought to steer a course that meets the concerns of the majority of our shareholders while being mindful of the critical need to incentivise executive management to drive forward the turn-around at Dialight.

The Remuneration Committee is seeking shareholder approval for a new Remuneration Policy at the 2020 AGM. A summary of the principal changes compared to the previously approved policy is provided in the Annual Statement above, and identified in the relevant sections below:

Remuneration Policy table (Note: tabulated as per 2019)

Link to strategy	Operation	Opportunity	Performance metrics	Change to policy for 2020
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, a material increase 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 77.	None.	None.

Link to strategy	Operation	Opportunity	Performance metrics	Change to policy for 2020
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 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 77.	None.	Clarification that any new benefits for other employees may be provided to Executive Directors. There are no plans for any such change at this stage.
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 appointed from 1 January 2020 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 Notwithstanding her status as an existing Executive Director (and thus her contractual entitlements), Fariyal Khanbabi has agreed to accept pension contributions at a reduced rate of 5% of base salary. In her previous CFO role, she was entitled to a contribution of 15% of her base salary and her predecessor was entitled to a contribution of up to 18% of base salary. This reduced contribution rate is consistent with the arrangements for the majority of UK-based Group employees (although certain other senior managers are entitled to a contribution rate at 11% of base salary). Further details of what has been paid during 2019 can be found on page 77.	None.	Reduction in pension contribution for Fariyal Khanbabi from 15% (under the terms of her CFO engagement) to 5% of her CEO base salary, upon assumption of the CEO role, to align with the majority of UK employees. Confirmation that Directors appointed from 1 January 2020 will have a pension contribution that is aligned with the workforce in the relevant jurisdiction.

Link to strategy	Operation	Opportunity	Performance metrics	Change to policy for 2020
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 payouts above target delivered in Dialight shares. Where the executive receives Dialight shares, half of these vest after two years with the balance vesting after three years, subject to continued employment with the Group. Dividends are accrued on these deferred shares and are paid to the participant on release of shares that are subject to the award. 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 payouts of up to 20% of maximum, while payouts 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 Remuneration 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, for example, in the event of one of the targets under the bonus being significantly missed or if there are unforeseen circumstances outside management control. The Remuneration Committee also considers measures outside the bonus framework to ensure there is no reward for failure and that outcomes are fair in the context of overall performance. Further details of the measures, weightings and targets applicable for 2019 can be found on page 78. The 2020 APBP will be based on a combination of EBIT (50%), cash conversion (25%) and individual strategic goals (25%).	Reduction in maximum APBP opportunity from 175% to 150% of salary. Reduction in maximum payout for on target performance from 60% to 50% of maximum. Clarification on weighting of non-financial performance measures in any given year – at least 75% of the APBP will be based on financial metrics. Removal of the formulaic EBIT underpin on other performance metrics; instead, the Remuneration Committee will have discretion to amend APBP outcomes to ensure a fair outcome in the context of overall business performance.
Performance Share Plan (PSP) The PSP provides direct alignment between the interests of shareholders and those of the Executive Directors by linking vesting of awards to the Company's long-term financial and share price performance.	PSP awards may be structured as conditional shares or nil-cost options with a two-year exercise window from the date of vesting. The release of awards may, at the discretion of the Remuneration Committee, be deferred in whole or in part following the end of a three-year vesting period. The Remuneration Committee's current 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 PSP. Awards under the PSP are subject to malus and clawback provisions, further details of which are included as a note to the Policy Table.	The PSP provides for an award up to a normal limit of 125% of salary for Executive Directors, with an overall limit of 150% of salary for use in exceptional circumstances.	Vesting of PSP awards is subject to continued employment and performance against relevant metrics measured over a period of at least three years. The Remuneration Committee will select performance measures ahead of each cycle to ensure that they continue to be linked to the delivery of the Company strategy. Under each measure, threshold performance will result in up to 25% of maximum vesting for that element, rising on a straight-line to full vesting. As under the APBP, the Remuneration Committee has discretion to adjust the formulaic PSP outcomes to ensure alignment of pay with performance, i.e. to ensure the outcome is a genuine reflection of the underlying performance of the Company. Further details of the measures, weightings and targets applicable for awards made during 2019 can be found on page 81. The 2020 PSP will be based 50% on EPS and 50% on TSR relative to the FTSE SmallCap (excluding investment trusts), further details of which is included on page 82.	Clarification on maximum opportunities; 125% of salary will be the maximum annual award level in normal circumstances, with the 150% of salary limit reserved only for exceptional circumstances. Introduced greater flexibility for the Remuneration Committee to determine measures, weightings and targets annually to support Dialight's strategy. Introduced greater Remuneration Committee discretion to amend PSP outcomes to ensure a fair outcome in the context of overall business performance.

Link to strategy	Operation	Opportunity	Performance metrics	Change to policy for 2020
Non-Executive Director fees The Company sets fee levels to attract and retain Non-Executive Directors with the necessary experience and expertise to advise and assist with establishing and monitoring the strategic objectives of the Company.	Fee levels are typically considered every year, taking into account fees paid for equivalent roles at companies of similar size, time commitment and complexity. The fees paid to the Chairman are determined by the Remuneration Committee, while fees for Non-Executive Directors are determined by the Board. Additional fees are payable for acting as Senior Independent Director and as Chair of any of the Board's committees. Non-Executive Directors do not receive any bonus, do not participate in awards under the Company's share plans and are not eligible to join the Company's pension scheme.	The Company's policy in relation to fees is to reflect the time commitment and responsibilities of the roles, normally by paying up to median level fees, compared to market, depending on the experience and background of the Non-Executive Directors. The Company also reimburses the Non-Executive Directors for expenses reasonably and properly incurred in the performance of their duties. In normal circumstances, increases to fees will be broadly in line with price inflation, subject to cases of material misalignment with the market or a change in the complexity, responsibility or time commitment required to fulfil a Non-Executive Director role. It remains important for the Board to have the necessary flexibility to step outside this general policy should the requirement be clear that a certain type of individual is required to conform with new governance requirements or legislation. Aggregate fees for all Non-Executive Directors will be within the limits set by the Company's Articles of Association. Details of current Non-Executive Director fees can be found on page 77.	None.	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 is given to the Company to honour any commitments 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 and PSP are selected annually to reflect Dialight's main short-term and long-term objectives and to reflect both financial and non-financial priorities, as appropriate.

For the APBP, EBIT continues to be used as the primary measure to provide a direct link to one of our KPIs. The Remuneration Committee has also introduced cash conversion for the 2020 APBP, reflecting the importance of careful cash management in ensuring we are able to fund the Company's strategic objectives over both the short-term and longer-term. Finally, 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.

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

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

Difference between the Directors' remuneration policy and that for other employees

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

Senior management is typically eligible to participate in the APBP, with opportunities and performance measures reflecting organisational level and business area, as appropriate. PSP awards at senior management level and to other key employees take the form of restricted share units with vesting subject only to continued employment over a number of years. This provides participants below Executive Director level greater flexibility and helps Dialight remain competitive in the main talent markets in which it operates, while also continuing to align plan participants with the interests of shareholders in growing the value of the Company over the longer term. Share awards (whether subject to performance conditions or not) to participants below Executive Director level are not subject to a holding period.

Shareholding guidelines

Executive Directors are required to accumulate and maintain a holding of Dialight shares equivalent in value to their last annual PSP award. The net of tax number of vested shares under the Company's PSP will normally be required to be retained until the guideline has been met. Current shareholding levels are included on page 84.

The Remuneration Committee has considered the introduction of post-employment guidelines, but believes that the existing APBP deferral and PSP holding period provide sufficient alignment at this time and that further work around the technicalities of applying and monitoring such guidelines needs to be undertaken before committing to them in the Remuneration Policy.

Change to Policy for 2020: Replaced specific timeframe for the achievement of shareholding guidelines with a requirement to hold 100% of vested shares (net of tax) under the PSP until the guideline has been met.

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 Remuneration 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 Remuneration Committee retains a number of discretions including the ability to determine the following:
- scheme participants; the timing of grant and size of awards;
- appropriate treatment of vesting of awards in the context of a change of control;
- appropriate adjustments to awards in the event of variations to the Company's share capital;
- treatment, size and grant of awards in a recruitment context; and,
- 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 relevant Annual Report on Remuneration.

Malus and clawback

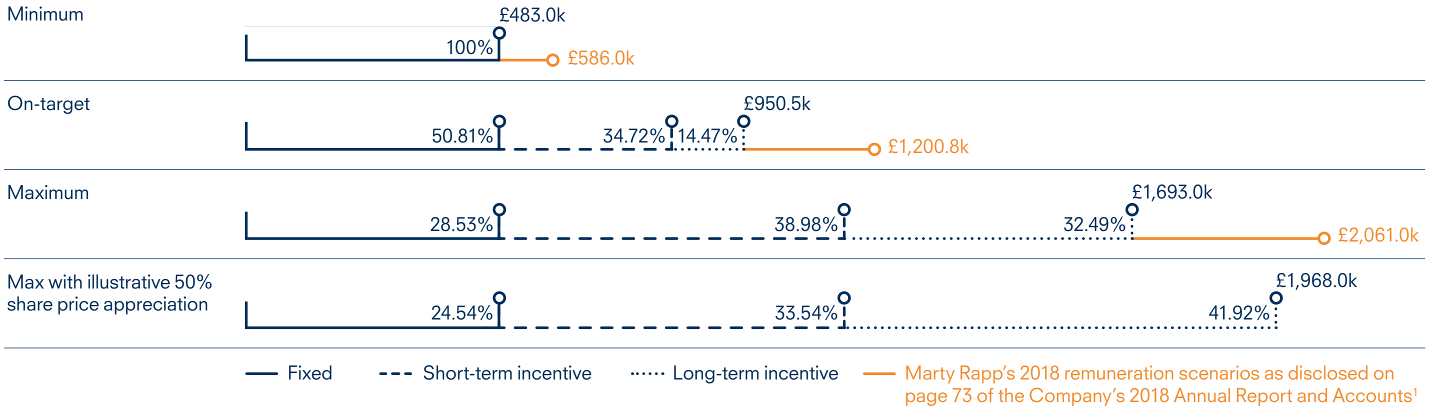
Payments and awards under the APBP bonus and PSP are subject to malus and clawback provisions which can be applied to both vested and unvested awards. Circumstances in which malus and clawback may be applied include a material misstatement of the Company's financial accounts, fraud or gross misconduct 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, whilst PSP awards remain subject to the provisions throughout the vesting and holding period (where applicable).

Participants in both schemes are 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.

Change to Policy for 2020: Clarified recovery provisions applying to APBP and PSP awards.

Pay for performance

The following chart provides an estimate of the potential future rewards for the Chief Executive, Fariyal Khanbabi, 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:



1 Marty Rapp 2018 comparatives have been translated from US$ (as presented in the 2018 ARA) to GBP, using the 2019 FX rate for comparability

Note that the PSP awards granted in a year do 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 PSP value.

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 'On-Target' scenario reflects fixed remuneration as above, plus APBP payout of 50% of maximum and PSP threshold vesting at 25% of maximum award.

The 'Maximum' scenario is shown on two bases: excluding and including the impact of share price appreciation on the value of PSP outcomes. In both cases, the scenario includes fixed remuneration and full payout 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 PSP.

Recruitment Policy

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

Component	Approach	Maximum
Salary	Executive Directors will receive a base salary which will be determined by reference to relevant market data, experience and skills of the individual, internal relativities and their current basic salary. Where new appointees have initial basic salaries set below market, any shortfall may be managed with phased increases over a period of two to three years subject to the individual's development in the role.	
Benefits	New appointees will be eligible to receive benefits in line with the current policy, as well as expatriation allowances and any necessary expenses relating to an executive's relocation on appointment.	
Pension	New appointees will be eligible to participate in 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.	
APBP	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.	150% of salary
PSP	New appointees will be granted performance awards under the PSP on the same terms as other Executives, as described in the Policy Table. The normal limit of 125% of salary will apply, save in exceptional circumstances where up to 150% of salary may be awarded.	150% 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 Remuneration 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 and 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. Listing Rules may be utilised in order to provide the flexibility to the Remuneration Committee to offer a remuneration structure outside of the Group's existing plans, as appropriate.

The approach to the recruitment of internal candidates would be similar but the Remuneration Committee would continue to honour existing contractual commitments prior to any promotion. However, for the avoidance of doubt, this would not extend to pension arrangements which, as outlined 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.

Change to Policy for 2020: Reduced maximum APBP in line with the change for existing Executive Directors. Updated approach on pensions for new appointees to be in line with the majority of employees in the relevant jurisdiction.

Service contracts

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

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

Notice periods

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

Fariyal Khanbabi's contract 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 the Executive Directors' contracts would entail in the event of early termination. There are no contractual arrangements that would guarantee a pension with limited or no abatement on severance or early retirement.

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

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

Annual bonus	
Cash	In the event of an Executive Director leaving Dialight before the end of a bonus year or prior to the payment of a bonus, the Remuneration Committee has discretion to allow them to be paid a portion of bonus relative to their point of leaving. This will be highly contingent on the manner of the Executive Director's departure and whether they are classified as a 'good leaver' pursuant to the rules of the APBP as well as business performance .
Deferred shares	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.
LTIP	
Leavers before the end of the performance period	In most circumstances, awards will lapse. If the Executive Director is classed as a 'good leaver', outstanding PSP shares would typically be pro-rated for the proportion of the performance period served and released, subject to applicable performance conditions, at the normal vesting date. The Remuneration Committee has flexibility to allow awards to vest earlier than above when an individual leaves; however, the default position will be for awards not to be released early except in compassionate circumstances.
Leavers after the end of the performance period	Any awards in a holding period will normally be released following the 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 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.

Change to Policy for 2020: Clarification of typical treatment of deferred APBP shares and PSP awards in a holding period, consistent with market practice.

External appointments

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

Employment conditions elsewhere in the Company

The Remuneration Committee takes into account what the general rise in employee salaries was across the Company at the review date when considering changes to the remuneration of the Executive Directors. The Company did not expressly seek the views of employees when drawing up the remuneration policy but does carry out an annual review of salaries across the Group.

Shareholder views

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

During 2019, the Remuneration Committee consulted with investors representing over 75% of Dialight's issued share capital to seek their views on changes to the Remuneration Policy, as well as pay more broadly. In total we heard from eleven major shareholders and while the feedback received was diverse, there were some clear overarching themes, particularly regarding quantum, performance measures and best practice features.

Following the initial outreach, and as noted in the Annual Statement, the Remuneration Committee concluded that wholesale change to the Remuneration Policy was not a priority at this important time for the Group. Accordingly, the proposed Remuneration Policy contains only evolutionary change aimed at better aligning Dialight with market and best practice.

Subject to Dialight's improved performance, the Remuneration Committee is minded to revisit the Remuneration Policy within one or two years and, as always, commits to revert to its major shareholders as part of this process.

Annual report on remuneration

The following section provides details of how the Policy was implemented during the financial year ending 31 December 2019, and how it will be implemented in 2020.

Roles and responsibilities

The primary responsibilities of the Remuneration Committee are to:

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

A copy of the terms of reference for the Remuneration Committee is available on the Company's website or on request from the Company Secretary at the registered office.

Other decisions

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

- On 10 January 2019: approving the cash payments to Fariyal Khanbabi in respect of holiday that she was entitled to take in 2017 and 2018 but unable to take due to exceptional operational circumstances;
- On 22 February 2019: setting the 2019 salary increases for Executive Directors;
- On 22 February 2019: reviewing of cash bonuses in respect of the 2018 financial year;
- On 22 February 2019: reviewing the Board Chairman's fees for 2019;
- On 22 February 2019: reviewing the performance targets outcome in relation to the 2016 PSP award;
- On 5 March 2019: setting APBP objectives for 2019;
- On 5 March 2019: approving the 2019 PSP awards and setting the associated PSP performance targets;
- On 31 July 2019: approving the Chief Executive Officer's termination arrangements and the Interim Chief Executive Officer's remuneration;
- On 31 July 2019: reviewing the results of the consultation exercise conducted following the 2019 AGM;
- On 2 August 2019: approving the Interim Group Finance Director's fees;
- On 2 August 2019: approving the termination payments to the outgoing Board Chairman and the new fee levels for the incoming Board Chairman;
- On 26 September 2019: reviewing shareholder feedback on the shareholder consultation in relation to the 2019 AGM remuneration report vote and the 2020 Remuneration Policy review; and
- On 9 December 2019: reviewing and approving the Remuneration Committee's terms of reference and the new remuneration policy.

Committee members

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

Committee member	Member from/until
Gaëlle Hotellier (Committee Chair)	from 8 January 2018 (Chair from 1 June 2018)
David Thomas	from 26 April 2016
Steve Good	from 1 June 2018

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 face-to-face three times and held four other meetings by conference call to deal with the review and approval of specific matters falling outside of the scheduled meetings. Attendance by individual members of the Remuneration Committee is disclosed in the Corporate Governance report on page 46.

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

External advice

The Remuneration Committee has access to the advice of the Chief Executive Officer and the Company Secretary as well as external advisers as required. During the year ended 31 December 2019, the Remuneration Committee consulted Mercer Kepler, a part of the Mercer Group, which provided independent advice on: long-term incentive measures and targets; updates on the external remuneration environment; performance testing for long-term incentive plan; the post-2019 AGM Remuneration Report vote review; the consultation for and drafting of the 2020 Remuneration Policy; and, the drafting of this report, for a total fee of £36,000; and

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

Statement of shareholder voting

The following table shows the results of the voting at the 2017 (policy) and 2019 (report) annual general meetings.

	% of votes for	% of votes against	Votes withheld
Directors' Remuneration report (2019)	71.01	28.99	499
Remuneration policy (2017)	99.42	0.58	3,911

Details of the shareholder consultation and outcomes following the vote are set out in the Committee chair's annual statement on page 65.

2019 outcomes

Single figure of total remuneration (audited information)

The following tables provide details of the Directors' remuneration for the 2019 financial year, together with their remuneration for the 2018 financial year, in each case before deductions for income tax and national insurance contributions (where relevant):

2019 (all figures in 000s)	Salary/Fee 2019	Benefits 2019	Pension 2019	Sub-total fixed 2019	Bonus 2019	PSP 2019	Sub-total variable 2019	Total remuneration 2019
Executive Directors								
Fariyal Khanbabi[1,2]	**£364**	**£13**	**£44**	**£421**	–	–	–	**£421**
Past Executive Director								
Marty Rapp[3]	**$404**	**$16**	**$53**	**$473**	–	–	–	**$473**
Non-Executive Directors								
Stephen Bird[4]	**£47**	–	–	**£47**	–	–	–	**£47**
David Blood[5]	**£74**	–	–	**£74**	–	–	–	**£74**
Gaëlle Hotellier[4]	**€64**	–	–	**€64**	–	–	–	**€64**
David Thomas[4]	**£47**	–	–	**£47**	–	–	–	**£47**
Steve Good[4]	**£42**	–	–	**£42**	–	–	–	**£42**
Past Non-Executive Director								
Wayne Edmunds[4,6]	**$167**	–	–	**$167**	–	–	–	**$167**

1 Following a benchmarking exercise by Mercer Kepler, the salary for Fariyal Khanbabi was increased by £20,000 pa with effect from 1 April 2019, in recognition that her assumption of certain additional responsibilities (including assuming executive responsibility for the HR and IT functions from the Chief Executive Officer) represented exceptional circumstances as envisaged under the 2017 Remuneration Policy, and was broadly in line with the Mercer Kepler benchmarking for SmallCap CFO's.
2 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, and for the duration of, her appointment as Interim CEO of Dialight plc on 10 August 2019.
3 Marty Rapp retired from his position as a Director with effect from 9 August 2019.
4 There was no increase in the fee rates paid to Wayne Edmunds (in his capacity as Board Chair) or the Non-Executive Directors' fee rates in 2019.
5 Fees payable to David Blood were increased, above those payable in his capacity as a NED, to £120,000 per annum as a result of his appointment as Board Chair with effect from 05 August 2019.
6 Wayne Edmunds stepped down as a Director of the Company with effect from 5 August 2019.

2018 (all figures in 000s)	Salary/Fee 2018	Benefits 2018	Pension 2018	Sub-total fixed 2018	Bonus 2018	PSP 2018	Sub-total variable 2018	Total remuneration 2018
Executive Directors								
Marty Rapp	$599	$28	$123	$750	–	–	–	$750
Fariyal Khanbabi	£275	£22	£31	£328	–	–	–	£328
Non-Executive Directors								
Wayne Edmunds	$197	–	–	$197	–	–	–	$197
Stephen Bird	£49	–	–	£49	–	–	–	£49
David Blood	£42	–	–	£42	–	–	–	£42
Gaëlle Hotellier	€60	–	–	€60	–	–	–	€60
Marty Rapp	$67	–	–	$67	–	–	–	$67
David Thomas	£47	–	–	£47	–	–	–	£47
Steve Good[1]	£25	–	–	£25	–	–	–	£25
Past Director								
Michael Sutsko[2]	$14	$1	$4	$19	–	–	–	$19

1 Steve Good was appointed on 1 June 2018 and received a pro-rated amount of his annual fee of £42,000.
2 Michael Sutsko resigned as a Director on 8 January 2018.

Additional disclosures (audited information)

Executive Directors' benefits

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

Pensions

The figure includes the amount of Company contributions to Fariyal Khanbabi's and Marty Rapp's pensions during the year. Fariyal Khanbabi received Company contributions of 15% of base salary and mid-year elected to receive a cash payment in lieu of the employer contribution. Marty Rapp received employer contributions under a US 401(k) plan. Marty Rapp did not participate in the SERP and instead received a cash payment in lieu of employer contribution.

APBP

The APBP operates on the basis that is set out in the remuneration policy report on page 70. Maximum bonus potential, paid in a mixture of cash and, in respect of performance above target, deferred shares, is 150% of salary for the Chief Executive Officer and 125% for the Group Finance Director.

2019 APBP

As discussed in the 2019 Remuneration Committee report, in light of the EBIT outturn for 2019 being below the objective target set, no bonuses became payable under the APBP 2019.

The 2019 APBP was based primarily on EBIT performance with up to 15% of the Executive Directors' target bonus being subject to the achievement of certain individual goals linked to Dialight's key strategic goals (but subject to EBIT exceeding a threshold amount). Whilst individual goals (including those relating to new product development capacity and execution, strategic market development, product costings, margin reporting and other operational accounting improvements) may have been met, the EBIT 'under-pin' was missed and therefore no payment was made in respect of such personal objectives. The performance range in respect of 2019 EBIT was as follows:

	Threshold	Target	Maximum	Actual
EBIT (after provision for bonus)	£11.3m	£13.3m	£15.3m	£5.2m

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

Actual EBIT performance for 2019 was £5.2m and as a result no bonuses were payable in respect of the 2019 financial year.

PSP (audited information)

Awards made in 2016

Awards made under the PSP in 2016 to Executive Directors lapsed in 2019 due to the fact that the related performance conditions were not achieved.

Awards made in 2017

Awards made under the PSP in 2017 to Executive Directors have lapsed as the related performance conditions were not achieved during the three-year performance period to 31 December 2019.

Chief Executive Officer's Pay Ratio

The table below discloses the ratio of CEO pay against the remuneration of the Group's UK workforce in 2019. The ratios have been calculated in accordance with "Option A" of the three methodologies provided under the new regulations, which we believe to be the most statistically appropriate approach. The CEO pay figure used for this calculation represents the blended total 2019 remuneration of Marty Rapp and Fariyal Khanbabi 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.

Year	25th percentile ratio	50th percentile ratio	75th percentile ratio
2019 Indicative Figures	10.8:1	8.4:1	5.3:1

Percentage change in the remuneration of the Chief Executive Officer

The following table sets out the change in remuneration paid to the Chief Executive Officer from 2018 to 2019 compared with the average percentage change for employees as a whole:

	% change 2018–2019	
	Chief Executive Officer	Group employees
Salary	(2.8)%	3%
Bonus	0%	0%
Benefits	(19.4)%	0%

Marty Rapp was Chief Executive Officer from 1 January 2019 to 9 August 2019. Fariyal Khanbabi was appointed interim Chief Executive Officer with effect from 10 August 2019 and remained in post as at 31 December 2019. Details of the payments to each of them are set out on page 77. The amounts for Chief Executive Officer salary and benefits set out in the table represent a blended rate calculated pro rata to the time spent in 2019 as Chief Executive Officer by each of Marty Rapp and Fariyal Khanbabi. This calculation is formulaic - as set out in the relevant regulations. It should be noted that the fee structure for Fariyal Khanbabi reflected the fact that she has served in an interim capacity and that accordingly the movement in values year-on-year is not necessarily indicative of the likely movement in future years.

Due to operational performance, no bonus was payable in relation to 2019 or 2018. The main benefits provided include healthcare, life insurance and car allowance. There has been no change in the level of benefits provided to Group employees.

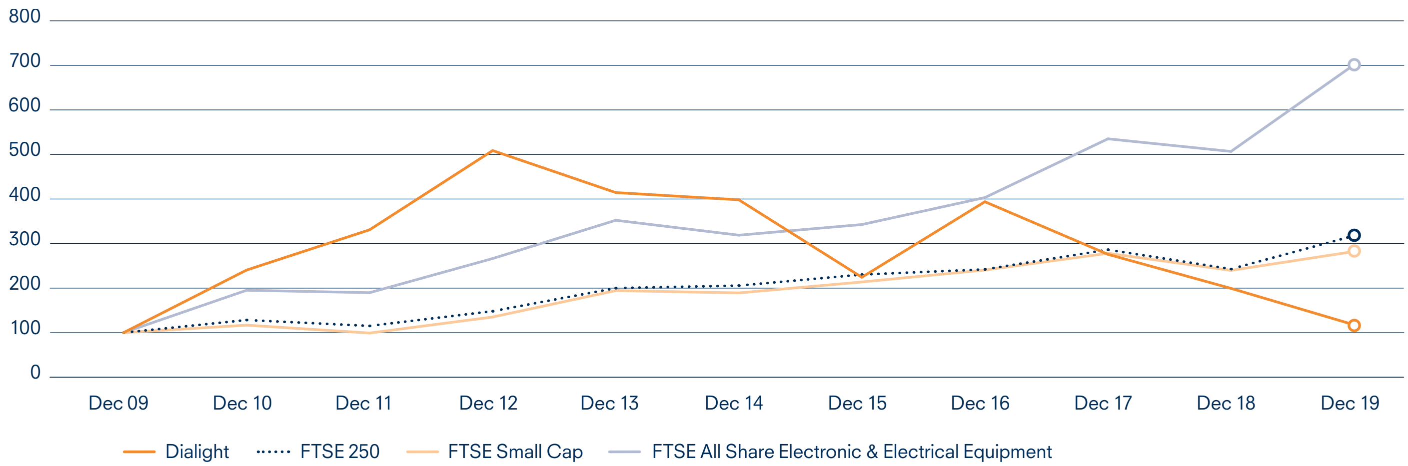
Relative importance of spend on pay

The table below shows the total amount paid by the Company to its employees (excluding severance costs) for 2019 and 2018. Details of the total amount of distributions for the same two years can also be seen.

	Spend on pay	Distributions	
2019	**£34.4m**	**2019**	**£0m**
2018	£31.9m	2018	£0m

Performance graph and table

The graph below demonstrates the Company's TSR performance over the past nine years relative to the FTSE 250 Mid Index (excluding investment trusts), the FTSE SmallCap Index (excluding investment trusts) and the FTSE All-Share Electronic and Electrical Equipment Index, indices of which Dialight has been a constituent over the period.



Source: Datastream

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

	2011	2012	2013	2014	2015	2016	2017	2018	2019
	R Burton	R Burton	R Burton	R Burton	R Burton (to Feb) R Stuckes (Mar to Jun) M Sutsko (from Jul)	M Sutsko	M Sutsko	M Rapp	M Rapp (to 9 Aug) / F Khanbabi (from 10 Aug)
Total remuneration ($'000)	$4,170	$3,843	$1,564	$1,153	$112 £185 $523	$1,466	$746	$750	$473 / £192
Bonus outcome (% of max)	100	66.6	0	29	0 n/a 0	74	0	0	0 / 0
PSP vesting outcome (% of max)	100	100	100	0	0 n/a n/a	0	0	n/a	0 / 0

PSP awards made in 2019 (audited information)

Awards granted in 2019 are measured against EPS and TSR on the following basis:

EPS

EPS was used in respect of 75% of the awards in 2019 and before. For awards made in 2019, no part of the award that is subject to the EPS condition will vest if the Company's 2021 EPS over the three-year vesting period is below 40 pence, 25% of the award that is subject to the EPS condition will vest if the Company's 2020 EPS equals 40 pence; rising on a straight-line basis to 100% vesting if it exceeds 60 pence. The performance criteria for future awards (including 2020 PSP awards) will be on the basis set out in the proposed 2020 Remuneration Policy.

TSR

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

Holding period

A mandatory two-year post-vesting holding period will apply to any shares received by Executive Directors on the vesting or exercise of the 2019 PSP awards.

The 2019 awards made to the Executive Directors are set out below:

Director	Plan	% of salary awarded	Nature of interest	Exercise price per share	Number of shares subject to an award	Face value of an award[1]	Performance conditions	Date of grant of award	Date of end of performance period
Fariyal Khanbabi	PSP	100%	Nil-cost option	n/a	68,803	£275,143	TSR/EPS	05.03.19	31.12.21
Marty Rapp	PSP	125%	Conditional share award	n/a	145,011[2]	£579,899	TSR/EPS	05.03.19	31.12.21

1 Based on five-day average share price on date of award of £3.999.
2 Note that this award was reduced pro rata to the unexpired performance period when Marty Rapp retired as CEO on 9 August 2019.

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

Exit payments

On 2 July 2019, it was announced that Marty Rapp would retire from his position as Chief Executive Officer of the Company with effect as of 9 August 2019. As is customary when a director / executive retires, and in accordance with Dialight's Remuneration Policy, Marty continued to receive pay and benefits up to and including the day of his retirement, but did not receive any additional payment and was excluded from participation in the 2019 APBP as he would not be in his role for the entirety of 2019. However, in accordance with the rules of the shareholder-approved PSP, Marty was accorded 'good leaver' status under the PSP (the rules specifically provide for 'good leaver' status on retirement).

In the interests of transparency, it is important to note that Marty's retirement did not crystallise any payments per se (i.e. there was no payment for loss of office as his stepping-down as a director was a retirement). On the contrary, it crystallised a pro rata reduction in the value of PSPs held by Marty in compliance with the scheme rules of the Company's shareholder-approved PSP scheme. Marty holds two separate awards under the PSP, made in 2018 and in 2019. Under the rules of the PSP, the amount of these awards has been reduced pro rata to the proportion of each respective performance period that falls following the date of Marty's retirement. The pro rata reduced number of awards will vest at the end of their respective 3-year performance periods to the extent only that the relevant performance criteria are met. For practical reasons of enforcement, these PSP awards, if they vest, would not be subject to the usual mandatory two-year post-vesting holding period.

Following his retirement, Marty acted as a paid adviser to Dialight, focussed on mentoring the Interim CEO and on product and general strategy. Marty's consultancy services were provided for a limited period (c. 2 months) under the terms of an arms-length, market practice, consultancy agreement (in respect of which the Company sought external legal advice). Dialight's Remuneration Committee approved the payment to Marty of a fixed $15,000 per calendar month for the duration of his consultancy agreement, which ended on 26 September 2019.

Marty was not entitled to a bonus in respect of the 2018 financial year as the 2018 bonus performance targets were not met. Up until his retirement on 9 August 2019, he was entitled to a payment equivalent to the cost to the Company of continuing healthcare benefits under the Consolidated Omnibus Budget Reconciliation Act 1985 for him and his qualified beneficiaries and the cost to the Company of his benefits under the Company's group life insurance plan.

He also benefitted from a tax equalisation programme agreed when he was appointed as Chief Executive Officer by the Company, under which the Company would pay the reasonable cost of extra-jurisdictional tax advice, in relation to any year in which tax advice was required on earnings related to his employment by the Company.

On 5 August 2019, it was announced that Wayne Edmunds had resigned as Chairman of the Board. Under the terms of his appointment, Wayne was entitled to give 3 months' notice of his intent to step down. As a successor had been identified, it was agreed with Wayne that his stepping down from the Board should be with immediate effect. After taking due account of advice received from Dialight's external legal advisers, Dialight's Remuneration Committee approved the payment to Wayne of a sum of $49,525 (equal to 3 months' fees) payable as a single lump sum.

Implementation of the remuneration policy for 2020

Executive Director salaries

Where there are any new appointments of executive directors in 2020, remuneration packages (including base pay) will be compliant with the 2020 Remuneration Policy (as set out in this report and subject to approval by shareholders at the Company's 2020 AGM). As announced on 5 March 2020, Fariyal Khanbabi has been appointed CEO of the Group. Her base pay was set in line with the proposed 2020 Remuneration Policy and benchmarking, and specific advice, provided by the Company's external remuneration consultants. In setting an appropriate level of base pay, the Committee was mindful of balancing the need to achieve a material reduction relative to her predecessor (reflecting the reduction in the market capitalisation of the Company and shareholder feedback on the level of the predecessor's base salary) against fairness (acknowledging that there has not been any reduction the complexity and demands of the role). The Committee has achieved a 7.8% reduction in base salary (compared to Fariyal's predecessor), and a 14.7% reduction in total fixed remuneration.

Pensions

The Committee has adopted a clear and principled approach to the setting of Executive Director pension contributions. Under the 2020 Remuneration Policy, all executive director pension contributions will be capped at the amount offered in the applicable jurisdiction to the majority of employees. As at the present time, in the case of UK-based executive directors, this means pension contributions being limited to 5% of base salary. The salary contributions in respect of Fariyal Khanbabi have been capped at 5%. This represents a decrease of 74.3% compared to the level of pension contribution payable to her predecessor.

APBP

The 2020 APBP bonus scheme for Fariyal Khanbabi will be in line with that set out in the proposed 2020 Remuneration Policy. In particular, 25% of the available bonus opportunity will be tested against personal objectives (without any EBIT under-pin), 25% against a cash conversion metric and 50% against an EBIT metric. Details of the personal objectives and the other performance metrics will be released in the Company's 2020 annual report. 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 2 years of award date and 50% after 3 years of award date. Any shares vesting will have to be retained until such time as the recipient meets the applicable shareholding guidelines.

PSP

The 2020 PSP scheme awards for Fariyal Khanbabi will be in line with that set out in the proposed 2020 Remuneration Policy – e.g. to a maximum of 125% of base salary and with 50% of awards tested against EPS metrics and 50% against TSR metrics. Any shares that vest after the 3-year performance period will have to be retained until such time as the recipient meets the applicable shareholding guidelines.

Outstanding awards under the PSP and APBP (audited information)

	Type of award	Award date	Number at 1 January 2019	Awarded in year	Vested in year	Exercised in year	Lapsed in year	Number at 31 December 2019	Exercise price	Earliest vesting/ exercise date	Expiry date
Fariyal Khanbabi											
PSP	NCO	16.03.16	49,240	–	–	–	(49,240)	–	–	16.03.19	16.03.21
APBP[1]	NCO	09.03.17	1,192	–	(1,192)	–	–	–	–	31.01.20	10.03.22
PSP	NCO	24.03.17	26,588	–	–	–	–	26,588	–	24.03.20	24.03.22
PSP	NCO	16.03.18	50,862	–	–	–	–	50,862	–	16.03.21	16.03.23
PSP	NCO	05.03.19	–	68,803	–	–	–	68,803	–	05.03.22	05.03.24
Total			**127,882**	**68,803**	**(1,192)**	**–**	**(49,240)**	**146,253**	**–**	**–**	**–**

1 Of the 2,384 deferred share options originally awarded to Fariyal Khanbabi, 1,192 had vested on 31 January 2019 and the balance on 31 January 2020.

	Type of award	Award date	Number at 1 January 2019	Awarded in year	Vested in year	Exercised in year	Lapsed in year	Number at 31 December 2019	Exercise price	Earliest vesting/ exercise date	Expiry date
Marty Rapp											
PSP	CSA	16.03.18	104,280	–	–	–	(57,933)	46,347	–	16.03.21	n/a
PSP	CSA	05.03.19	–	145,011	–	–	(124,870)	20,141	–	05.03.22	05.03.24
Total			**104,280**	**145,011**	**–**	**–**	**(182,803)**	**66,488**	**–**	**–**	**–**

Notes:
CSA denotes conditional share awards. These are subject to performance conditions set out on pages 81 and 82.
NCO denotes nil-cost options. These are subject to performance conditions set out on pages 81 and 82.
The average closing market price of a share over the five trading days of 26 February to 4 March 2019, which was used for the purpose of calculating award values on 05 March 2019, the date of the awards recorded in the tables above as made during the year, was 399.9 pence.
Options under the PSP granted from 2015 are exercisable for two years from the date of vesting. Awards granted since 2018 are subject to a mandatory two-year post-vesting holding period.
Options under the APBP are exercisable for five years from the date of grant.
Under the APBP scheme, awards vest 50% on or after 31 January in the second year after grant with the remaining 50% vesting on or after 31 January in the third year after grant.
During the year, the range of share prices was 224.75 pence to 573.48 pence, with the price on 31 December 2019 being 236 pence.

Executive Directors' shareholding guidelines

Executive Directors are currently required (under the 2017 Remuneration Policy) to accumulate and maintain a holding of Dialight shares equivalent in value to their last annual PSP award within 5 years. This policy will change if the proposed 2020 Remuneration Policy is adopted by shareholders in that the specific timeframe for the achievement of the shareholding guidelines will be replaced with a requirement to retain all net of tax PSP 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, shall be included to satisfy the requirements. The Dialight share price used to value a holding for the purposes of the guidelines will be the higher of: (i) the prevailing price on the date that the holding is valued; and (ii) the acquisition price (i.e. the price on the date on which the awards were acquired).

Fariyal Khanbabi's shareholding position reflects the fact that none of her PSP awards have vested in recent years. The Remuneration Committee is aware of the significance of Executive Directors having a personal holding of shares in Dialight as that creates an alignment of management's interests with those of the shareholders. Although the Committee recognises 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 2019 by the Executive Director (Fariyal Khanbabi) are shown in the table below.

Total shareholding of directors (audited information)

The table below shows the holdings of ordinary shares in the Company as at 31 December 2019 by each of the directors:

	Beneficially-held shares[1]		
	Ordinary shares at 1 January 2019	Ordinary shares at 31 December 2019[2]	Unvested and/ or subject to performance conditions[3]
Fariyal Khanbabi	6,675	7,300	146,253
Stephen Bird	41,728	41,728	–
David Blood	–	–	–
David Thomas	5,994	5,994	–
Gaëlle Hotellier	882	882	–
Steve Good	7,500	7,500	–

1 Some of these shares are held through nominees.
2 567 shares of Fariyal Khanbabi's 2016 APBP were sold on 23 May 2019 to settle the tax liability associated with the vesting of her 2016 APBP.
3 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 2019 are as follows:

	Commencement date	Expiry date of current employment/service agreement or letter of appointment
Chairman and Executive Directors		
David Blood	1 July 2015	David entered into a new letter of appointment in respect of his appointment as chair on 5 August 2019
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.
Non-Executive Directors		
Stephen Bird	10 January 2013	Letter of appointment was for an initial term of three years. During 2016, this was extended for a further three-year period. A further three-year extension was agreed in 2019.
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.
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.
Steve Good	1 June 2018	Letter of appointment was for an initial term of three years.

Other statutory information

Activities
Dialight plc is a holding company. A list of its subsidiary companies, including its overseas branches, is set out on pages 137 and 138. Our businesses by sector and their activities are set out on page 3.

Ordinary dividends
The Board is not proposing any final dividend payment for 2019 (2018: nil). The Group has a clear capital allocation discipline and is committed to returning future excess funds via future dividend or share repurchases.

Share capital and capital structure
Details of the share capital, together with details of the movements in the share capital during the year, are shown in note 19 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 2019 under the authority granted at the 2019 AGM.

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

Restrictions on transfer of shares
There are no specific restrictions on the transfer of the Company's shares, although the Articles contain provisions whereby Directors may refuse to register a transfer of a certificated share which is not fully paid.

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

Employee share plans
Details of employee share plans are set out in note 21 to the accounts.

The Company currently has in place three share plans: the Performance Share Plan (PSP), the Annual Performance Bonus Plan (APBP) and, an all-employee Sharesave Plan. The Sharesave Plan was not used for subscriptions in 2019 as it is a UK-orientated scheme and was considered insufficiently responsive to the Group's international employee footprint. Further details of these share plans are provided in the report of the Remuneration Committee on page 70. The rules of the PSP provide that, in the event of a change of control through a general offer or scheme of arrangement, shares subject to awards under the PSP could be released within one month of the date of notification of the likely change of control. The rules of the Sharesave Plan have special provisions which also allow for early exercise in the event of a change of control, reconstruction or winding up of the Company. Internal reorganisations do not automatically trigger the early exercise of options. The Company has established the Dialight Employees' Share Ownership Plan Trust ("ESOT") in respect of which all employees of the Group, including Executive Directors, are potential beneficiaries. The ESOT held no shares as at 31 December 2019 (2018: Nil). The Trustees of the ESOT retain the voting rights over the shares held in the ESOT and may exercise these rights independent of the interests of the Company.

Appointment and replacement of Directors

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the 2018 Code, the Companies Act and related legislation. Directors can be appointed by the Company by ordinary resolution at a general meeting or by the Board. If a Director is appointed by the Board, such Director will hold office until the next annual general meeting and shall then be eligible subject to Board recommendation, for election at that meeting. In accordance with Provision 18 of the 2018 Code each of the Directors, being eligible, will offer themselves for election or re-election at this year's Annual General Meeting (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.

The Company announced on 27th February 2020 that Karen Oliver and Gotthard Haug would each be appointed to the Board on 1st April 2020 and that Steve Good would step down from the Board with effect on 31st March 2020. Both Karen Oliver and Gotthard Haug are judged by the Board to be independent upon appointment. Their appointments and continuing membership of the Board are both subject to election at the Company's 2020 AGM.

Powers of Directors

The powers of Directors are described in the Articles and in the Matters Reserved for the Board, copies of which are available on the Company's website at www.ir.dialight.com, and are summarised in the Corporate Governance Report on page 51.

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 a duration of three years expiring on February 2023. Under the terms of that facility, and in the event of a change of control of the Company, HSBC can withdraw funding and all outstanding loans, accrued interests and other amounts due and owing become payable within 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 Annual General Meeting, an ordinary resolution will be proposed which, if passed, will authorise the Directors to allot and issue new shares up to an aggregate nominal value that is in line with Investment Association guidelines. In accordance with the Directors' stated intention to seek annual renewal, the authority will expire at the conclusion of the annual general meeting of the Company in 2020. Passing this resolution will give the Directors flexibility to act in the best interests of shareholders, when opportunities arise, by issuing new shares.

The Companies Act 2006 also requires that, if the Company issues new shares for cash or sells any treasury shares, it must first offer them to existing shareholders in proportion to their current holdings. At the Annual General Meeting, a special resolution will be proposed which, if passed, will authorise the Directors to issue a limited number of shares for cash and/or sell treasury shares without offering them to shareholders first. The authority is for an aggregate nominal amount of up to 10% of the issued share capital of the Company as at Annual General Meeting, of which 5% of the issued share capital can only be issued for the purposes of financing an acquisition or other capital investment.

The Company is mindful of the significant vote against the allotment authorities sought at the 2019 AGM. 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 2020 AGM (the "Notes"), it has provided additional assurance, in the Notes, for shareholders with regards to the circumstances under which such powers may be exercised.

The Company's Annual General Meeting will be held on 13 May 2020. 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.

Substantial interests in shares

As at 6 March 2020, 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
Generation Investment Management	6,532,248	20.08
Notz, Stucki Europe	4,221,296	12.97
Schroder Investment Management	4,034,179	12.40
Aberforth Partners	3,149,435	9.68
Impax Asset Management	3,035,238	9.33
Blackmoor Investment Partners	1,812,440	5.57
UBS Securities	698,045	2.15
Legal & General Investment Management	607,572	1.87
Tee Family	546,389	1.68
Hargreaves Lansdown Asset Management	512,445	1.57

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 s418 of the Companies Act 2006.

The Board is recommending to shareholders the re-appointment of KPMG as auditor of the Company and a resolution authorising the Directors to set its remuneration will be proposed at the forthcoming Annual General Meeting. However, shareholders' attention is drawn to the notes accompanying such resolution in the Notice of the AGM with regards to: the Company's intention to initiate a tender process for a new auditor as soon as practical; and, the common understanding of both the Company and KPMG, that KPMG will not participate in any such tender and will stand down as soon as a new auditor has been identified.

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 2019. The Corporate governance report set out on pages 42 to 84, 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 20 to 23. Details related to employee matters are in the "Our people" section on pages 28 and 30. Environmental matters, including greenhouse gas emissions reporting, are included within the Sustainability Report on pages 26 and 31.

Information about the use of financial instruments by the Company and its subsidiaries is given in note 25 to the financial statements.

Information on the Company's political and charitable contributions during the year is set out on page 29.

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

By order of the Board.

Fariyal Khanbabi
Group Chief Executive

31 March 2020

Directors' responsibility statement

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

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. The Group financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") (as adopted by the European Union ("EU") and applicable law) and the parent company financial statements have been prepared in accordance with UK Accounting Standards (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 their profit or loss for that period. In preparing each of the Group and parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRS as adopted by the EU;
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements;
- 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.

The Directors are also responsible for preparing a strategic report, a directors' report, a directors' remuneration report and a corporate governance statement that each comply with applicable law and regulations.

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

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

We confirm that to the best of our knowledge:

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

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

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

Fariyal Khanbabi
Group Chief Executive

31 March 2020

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 2019 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 (page 106) and note 2 (page 144).

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 2019 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

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

We were first appointed as auditor by the directors in 2001. The period of total uninterrupted engagement is for the 18 financial years ended 31 December 2019. 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	£0.54m (2018:£0.37m) 0.33% of Group revenue (2018: 4.75% of normalised profit before tax)
Coverage	91% (2018:95%) of Group loss (2018: profit) before tax
Material Uncertainty: Going Concern	

Key audit matters		**vs 2018**
New risks	↑	New: Management override of controls
	↑	New: Alternative Profit Measures (APMs)
Event driven		New: Termination of outsourced manufacturing supply arrangement
Recurring risks	↑	Inventory valuation
	↔	Valuation of capitalised development costs
	↔	Revenue recognition

2. Material uncertainty relating to Going Concern

	The risk	Our response
Going concern We draw attention to note 2 to the financial statements which indicates that under certain severe but plausible scenarios there is a risk of the Group breaching its financial covenants, unless a waiver agreement is reached with the lender within the going concern period. These events and conditions, along with the other matters explained in note 2, constitute a material uncertainty that may cast significant doubt on the group's and the parent company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.	**Disclosure quality** The financial statements explain how the Board have formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Group and Parent company. That judgement is based on an evaluation of the inherent risks to the Group's and Company's business model, including the impact of the COVID-19 outbreak, and how those risks might affect the Group's and Company's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements. The risk for our audit is whether or not those risks are such that they amount to a material uncertainty that may cast significant doubt about the ability to continue as a going concern. If so, that fact is required to be disclosed (as has been done) and, along with a description of the circumstances, is a key financial statement disclosure.	**Our procedures included:** Funding assessment: • Obtained confirmation letters for the loan and cash balances at 31 December 2019 • Obtained and inspected the new facilities agreement signed on 25 February 2020 and assessed the forecasts going forward in light of the new terms to identify any expected future covenant breaches or liquidity shortfalls. Historical comparisons: • We compared previous cash flow forecasts against actual cash flows achieved in the year and in previous years to assess historical reliability of the forecasting Sensitivity analysis: • We considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of severe but plausible downsides that could arise from these risks individually and collectively; • In conjunction with our restructuring specialists, we challenged the directors' stress testing of forecast revenue, forecast gross profit margin and forecast reduction of inventory applied in the calculation of the forecast covenant tests. We also assessed the directors' adjustments for non-underlying items included in the forecasted covenant tests and the impact on associated sensitivities. Our experience: • With the assistance of our restructuring specialists, we used our own sector experience to assess and challenge the key assumptions in the cash flow forecasts. Evaluating directors' intent: • We evaluated the intent of the Directors and the timing and achievability of the proposed cost saving actions they consider they would take to improve the position should the risks materialise, against our understanding of the business. Assessing transparency: • Assessing the completeness and accuracy of the matters covered in the going concern disclosure with reference to the outcome of the procedures detailed above. **Our results:** • We found the disclosure of the material uncertainty to be acceptable.

We are required to report to you if the directors' going concern statement under the Listing Rules set out on page 59 is materially inconsistent with our audit knowledge. We have nothing to report in this respect.

3. Other key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. Going concern is a significant key audit matter and is described in section 2 of our report. We summarise below the other 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.

We continue to perform procedures over the impact of uncertainties due to the UK exiting the European Union and recoverability of parent company's investment in subsidiaries on our audit. However, 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.

	The risk	Our response
Inventory valuation (£45.7 million; 2018: £46.0 million) Refer to page 63 (Audit Committee Report), page 110(accounting policy) and page 125 (financial disclosures).	**Subjective estimate: inventory provision** The Group operates in an industry whereby developments in product technology may result in inventory becoming slow moving or obsolete. These factors, in turn, may mean that inventory cannot be sold or sales prices are discounted to less than the inventory carrying value. During the year, the Group have changed their inventory provisioning policy in relation to certain raw materials and sub-assemblies. For these items, they now provide for any items older than two years compared to previously providing for any items older than one year. The termination of the agreement with the Group's outsourced manufacturing partner in the prior year resulted in the Group purchasing large quantities of inventory from the former partner as a result of certain contract termination clauses. At the year end there is certain inventory which, assuming the same usage and sales between 2020 and 2024 as in 2019, will not be used before 31 December 2024. There is a risk that finished goods items will be sold at amounts less than the carrying amounts and raw materials and sub-assembly inventory will not be used in the manufacture of products. Therefore there is a risk that the inventory provision for this inventory of £2.1m is inadequate. The Group have undergone operational changes in its manufacturing footprint, and have transferred inventory around the Group. During this process, the ageing of inventory has been reset in the groups' records and therefore, there is increased estimation uncertainty and increased inherent risk associated with the assessment of levels of provision in the US and Malaysian components, where the majority of inventory has been shipped to. In addition, as noted in our key audit matter Management override of control, we consider there is a fraud risk relating to inventory provisioning as management could manipulate the inventory provision in order to create an artificial improvement in the Group's trading performance.	**Our procedures included:** Inventory provision: **Tests of detail:** We formed our own expectation of the stock provision based on an alternate methodology, stock usage, and compared this to Group's provision and challenged the Group where differences arose. **Tests of detail:** We tested the carrying value of inventory by comparing the carrying value to annual average and latest sales price for each product to assess whether those items were held at the lower of cost or net realisable value. **Personnel enquiries** We identified raw materials and sub assembly products where the previous usage extrapolated over the next five years was less than the current the level of inventory held, indicating potential excess being held on these items. We enquired with the Group's senior finance executives and technical engineers about discontinued products lines and used this in assessing the provision recognised in relation to these products. **Assessing transparency:** We assessed the adequacy of the group's disclosures about the degree of estimation involved in arriving at the provision. This included assessing whether reasonably possible outcomes that could have resulted in a higher provision were made clear.

	The risk	Our response
	Subjective estimate: allocation of costs to inventory This year, the Group have invested in two new manufacturing facilities in Tijuana and Penang, and now manufacture the majority of sub-assemblies which had been outsourced in the prior year. As a result, the Group have revised their methodology for the allocation of overhead costs, freight costs and some labour costs to inventory. There is a risk that the allocation of costs to inventory is not in accordance with accounting standards. As described in our Management override of control key audit matter, we also consider there to be a fraud risk that costs are incorrectly capitalised to inventory to manipulate the results for the year to include more or fewer costs in the income statement. The effect of both of these matters in relation to inventory is that, as part of our risk assessment, we determined that the valuation of inventory has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 2) disclose the sensitivity estimated by the Group.	**Allocation of costs to inventory** Accounting analysis We assessed the appropriateness of the Group's policy relating to costs allocated to inventory and its compliance with accounting standards. We sample selected costs that were allocated to inventory and corroborated the nature and amount these costs to invoices and timesheets. Tests of detail: We assessed the inventory turns calculation methodology, including the formulas and key inputs, that was used in determining the amount of labour and overhead costs allocated to inventory. We recalculated the amount of freight costs allocated to inventory by multiplying inventory turn days against actual freight costs incurred over the corresponding time period. We evaluated the underlying allocation methodology and assumptions. Historical comparison We assessed the methodologies for allocating costs to inventory against those used in prior year and evaluated the changes against our understanding of changes in business Sensitivity analysis We assessed the overall impact of an increase or decrease in the inventory turns used on a daily basis to assess the sensitivity of the allocation to key assumptions. Assessing transparency: We assessed the adequacy of the Group's disclosures about the degree of estimation involved in determining the amounts of the overhead, freight and relevant labour costs to allocate to closing inventory. **Our results:** We found the resulting estimate of the carrying value of inventory to be acceptable (2018: acceptable).

	The risk	Our response
Termination of outsourced manufacturing supply arrangement: Group and Parent Refer to page 64 (Audit Committee Report), page 105 (accounting policy) and page 136 (financial disclosures).	**Dispute Outcome** On 20 December 2019, there was a claim brought against the Parent by its former outsourced manufacturing partner ('the claimant') of £7.5m ($9.9m) 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 they should be reimbursed for this excess and obsolete inventory which have been disclosed as a contingent liability and have not been recognised in the Group's financial statements. There is 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 settlement could be greater than our materiality for the financial statements as a whole, and possibly many times that amount As described in our Management override of control key audit matter, there is an increased incentive for results to be manipulated to achieve the targets presented to the market. There is a risk that certain balances and disclosures associated with the termination of the outsourcing arrangement are misstated.	**Our procedures included:** Enquiry of lawyers: We assessed the status and likely outcome of the claim through enquires of the Group's internal legal counsel and inspection of internal notes and reports, as well as discussions with and written correspondence from the Group's external counsel. Tests of detail: We have inspected the terms of the contract with the manufacturer to assess whether the contract supports the claim made by the outsource provider that the Group are responsible for the purchase of or reimbursement for excess and obsolete inventory. Accounting analysis: We challenged the assessment performed by the Directors to determine whether the criteria for recognising a provision or a contingent liability was met at year end. Accounting analysis: We challenged the accounting assessment performed by the Directors in relation to each of the recognised and unrecognised balances relating to the claim to determine its compliance with the accounting standards 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. **Our results:** We found the treatment and disclosure of this contingent liability and related balances to be acceptable.

	The risk	Our response
Management override of control	**Management override of control** The Group's loan facilities include financial covenants. The group have previously presented the market with an expectation of performance for the year. There is an increased incentive for results to be manipulated to achieve these targets. Moreover, during the second half of the year, there were significant changes in the senior executive team, resulting in the departure of the Chairman and CEO, with both positions being held on an interim basis for the remainder of the year. The CEO is now a permanent position, held by the former CFO. Therefore, there is a heightened risk that segregation of duties may have become limited through increased involvement by the CEO in accounting policies and key accounting judgements. There are a number of subjective balances where significant estimation and/or judgement is required, and balances susceptible to manipulation, including those covered in our key audit matters on valuation of inventory, termination of outsourced manufacturing supply arrangement, revenue recognition, valuation of capitalised development costs and alternative performance measures. There is a risk that the estimates and judgements made are inappropriate and balances are misstated.	Our procedures, alongside those outlined in our key audit matters on valuation of inventory, revenue recognition, valuation of capitalised development costs, termination of outsourced manufacturing supply arrangement and alternative performance measures, included: Test of details • We considered the changes in roles and responsibilities and the opportunity to manipulate accounting records and prepare fraudulent financial statements by overriding controls. • We assessed the changes in the year to the methods and underlying assumptions used to prepare accounting estimates, for example as described in our valuation of inventory key audit matter. • We assessed the accounting for significant transactions that are outside the Group's normal course of business, or are otherwise unusual. • We applied a risk-based approach to select a sample of manual journal entries, which we assessed against source documentation and corroborative explanation by Executive Directors **Our results:** As reported under our key audit matters on valuation of inventory, termination of outsourced manufacturing supply arrangement, revenue recognition, valuation of capitalised development costs and alternative performance measures, we found those estimates and disclosures to be acceptable and the results of our procedures to be satisfactory.

	The risk	Our response
Alternative Profit Measures (APMs)	**The risk** Presentation appropriateness The Group, in the front end and in the financial statements, presents unaudited APMs such as pro-forma unaudited gross profit and proforma unaudited operating profit. The Group also presents other APMs including adjustments for 'non-underlying items' which, where referred to in the financial statements, have been audited. These APMs are not defined by IFRSs, instead being defined by the directors in their accounting policies. As such there is a risk of management bias. In addition, the Group's key financial covenants are based on certain of these APMs. This introduces a further risk of management bias to ensure compliance is achieved. There is a risk that the adjustments made are inappropriate and the presentation of these APMs is not transparent and therefore may distort a reader's view of the financial results for the year.	**Our response** Our procedures included: Assessing principles: • We assessed the Group's accounting policies and principles for recognising costs as 'non-underlying. Assessing application: For audited non-underlying items: • We assessed the inclusion of these items as 'non-underlying', based on our knowledge of the business and the activities to which the costs relate and informed by the terms of the financing agreements explaining what items can be adjusted for the purpose of preparing the covenant calculations. • We assessed the balance between credit and debit items included within those items. • On a sample basis, we assessed the classification of the items recorded as 'non-underlying' with reference to internal and external documentation. • We assessed the consistency of application of the Group's accounting policy for the classification of items as 'non-underlying' year-on-year. Assessing transparency: • We assessed whether unaudited APMs are clearly presented as such throughout the annual report and financial statements. • We assessed the Group's disclosures of other APMs, including those adjusting for non-underlying items, in light of the ESMA guidance on the reporting of APMs, including assessing their labelling, the inclusion of a definition and reconciliation to equivalent GAAP measures, their prominence and their comparability. **Our results** We found the audited adjustments for 'non-underlying' items made to derive APMs, and the presentation of those resultant APMs, to be acceptable.

	The risk	Our response
Valuation of capitalised development costs (£10.3 million; 2018: £6.3m) Refer to page 64 (Audit Committee Report), page 106 (accounting policy) and page 122 (financial disclosures).	**Accounting treatment** The group have significant intangible assets from capitalised development costs. Judgement is applied in assessing the ultimate commercial viability of the projects and therefore whether related costs should be capitalised or should be expensed. We have identified a fraud risk that development costs are incorrectly capitalised to manipulate the results for the year. **Subjective estimate** The capitalised development costs are at significant risk of impairment due to the Group's trading performance. The effect of these matters is that, as part of our risk assessment, we determined that the valuation of capitalised development costs have a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 13) disclose the sensitivity estimated by the Group.	**Our procedures included:** Personnel interview We enquired with the Technology and Engineering Director about specific projects to understand their status. For closed projects we enquired whether they were revenue generative or included within the forecasts to be revenue generative. For open projects we enquired about and challenged the commercial viability and launch details of those projects against our understanding of the Group. **Test of details:** We assessed the Group's policy for capitalisation of development costs and its compliance with accounting standards. We sample selected costs that were capitalised and corroborated the nature and amount of these costs to invoices and timesheets. **Benchmarking assumptions:** For a sample of completed capitalised projects, we challenged the carrying value through assessing forecast sales data, with reference to external evidence (where available) and to actual sales and gross margin achieved during the year. **Sensitivity analysis:** On a product basis, we considered the sensitivity of the value in use to key inputs, such as revenue, gross profit margin and discount rate by taking account of possible downside scenarios that could arise individually and collectively. **Accessing transparency:** We assessed the adequacy of the Group's disclosures outlining the judgement involved in assessing the carrying amount and degree of estimation involved in assessing the recoverable amount of the capitalised development costs. **Our results:** We found the valuation of capitalised development costs to be acceptable (2018: acceptable).
Revenue recognition (£151.0 million; 2018: £169.6 million) Refer to page 63 (Audit Committee Report), page 111 (accounting policy) and page 114 (financial disclosures).	**Accounting application** There is a risk that transactions completed during the year or after the year end could be recorded in the incorrect period due to the high volume of transactions close to the year-end, which is typically the Group's highest revenue generating period. The Group also have a number of customers who have different contractual terms meaning that the transfer of control of the goods occurs at different timings (such as on dispatch, on receipt at port of destination and on receipt by customer) with the result that there is an increased risk that revenue may not be recognised in the correct period for such sales occurring around year end. In addition, there is a risk of fraudulent revenue recognition, both in the year and around the year end. As Dialight plc is a listed entity there are external pressures to perform and meet investors' expectations and also to meet covenant targets (as noted in the Management override of controls key audit matter). In addition, senior executives earn share-based bonuses based on EBIT and sales staff are incentivised through commissions linked to sales order targets.	**Our procedures included:** Test of detail: • Assessing the recognition of revenue for a sample of items recorded either side of the financial year by reference to the identified trigger event for revenue, when contractual performance conditions are satisfied, and tracing back to third party carrier documentation and customer agreements. • Performing a reconciliation of revenue recognised for the year to cash received. Where reconciling items were found, we obtained explanations from management and agreed to external documentation, where available. **Our results:** The results of our procedures were satisfactory (2018: satisfactory).

4. 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 £0.54 million (2018: £0.37m), determined with reference to a benchmark of total revenue, of £151.0m, of which it represents 0.33% (2018: 4.75% of Group profit before tax, normalised to exclude non-underlying items as disclosed in Note 6). 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 £0.4m (2018: £0.24m), determined with reference to a benchmark of gross assets, of which it represents 0.6% (2018: 0.4%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £27,000 (2018: £18,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

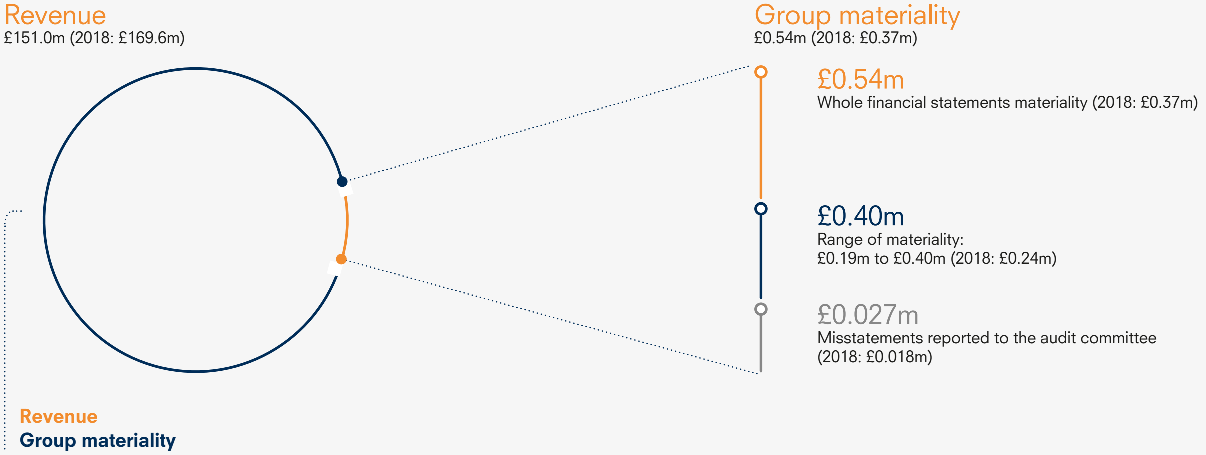
Of the group's eight (2018: nine) reporting components, we subjected four (2018: five) to full scope audits for group purposes and one (2018: one) to specified risk-focused audit procedures. The latter was not individually financially significant enough to require a full scope audit for group purposes, but did present specific individual risks that needed to be addressed.

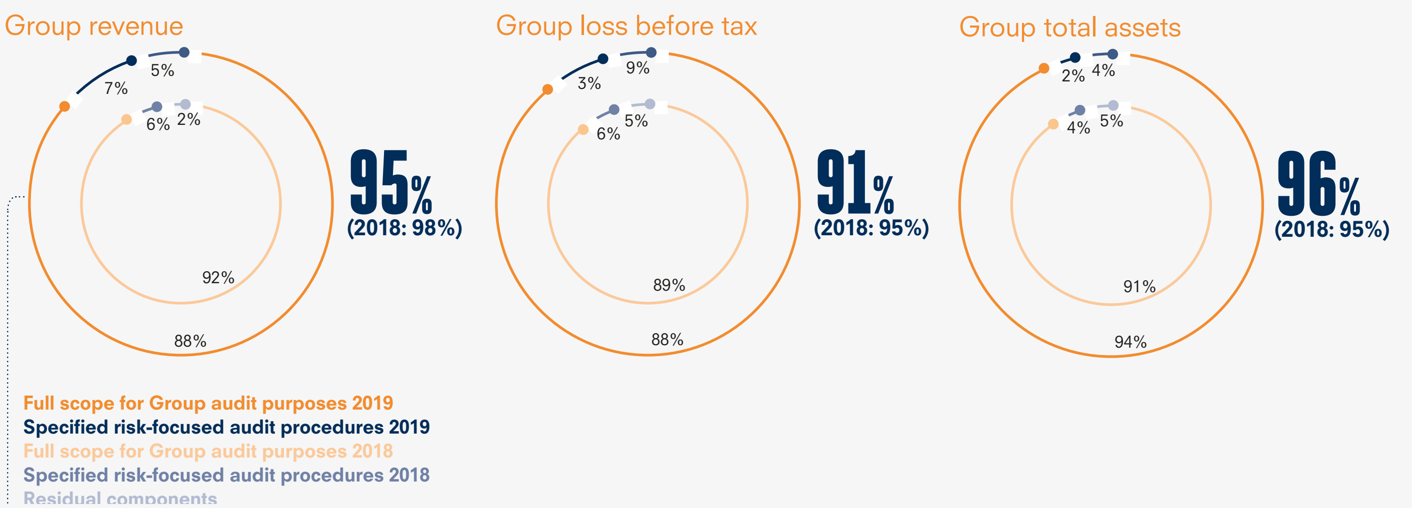
The components within the scope of our work accounted for the percentages illustrated opposite.

The remaining 5% of total group revenue (2018: 2%), 9% of the total group loss before tax (2018: 5% of Group profit before tax) and 4% of total group assets (2018: 5%) is represented by three of reporting components (2018: three), none of which individually represented more than 4% of any of total group revenue, group loss before tax or total group assets. For these residual components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the component materialities, which ranged from £0.19m to £0.40m (2018: £0.24m), having regard to the mix of size and risk profile of the Group across the components. The work on two of the eight components (2018: two of the nine components) was performed by component auditors and the rest, including the audit of the parent company, was performed by the Group team.

Telephone conference meetings were held with the two component auditors that were not physically visited. At these meetings, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.





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

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

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

Strategic report and directors' report

Based solely on our work on the other information:

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

Directors' remuneration report

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

Disclosures of emerging and principal risks and longer-term viability

Based on the knowledge we acquired during our financial statements audit, other than the material uncertainty related to going concern referred to above1, we have nothing further material to add or draw attention to in relation to:

- the directors' confirmation within the Viability statement on page 59 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 explaining how they are being managed and mitigated; and
- the directors' explanation in the Viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

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

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

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee

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

We have nothing to report in these respects.

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.

6. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 88, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

Irregularities – ability to detect

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

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

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

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

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.

Through these procedures, we became aware of actual or suspected non-compliance and considered the effect as part of our procedures on the related financial statement items. The identified actual or suspected non-compliance was not sufficiently significant to our audit to result in our response being identified as a key audit matter.

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

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

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

David Neale (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square,
London
E14 5GL
31 March 2020

Consolidated income statement

for the year ended 31 December 2019

	Note	2019 £'m	2018 £'m
Revenue	5	**151.0**	169.6
Cost of sales		**(107.1)**	(109.3)
Gross profit		**43.9**	60.3
Distribution costs		**(27.2)**	(30.4)
Administrative expenses	6	**(28.0)**	(22.3)
(Loss)/profit from operating activities	5	**(11.3)**	7.6
Financial expense	8	**(1.2)**	(0.2)
(Loss)/profit before tax	5	**(12.5)**	7.4
Income tax expense	9	**(3.7)**	(2.1)
(Loss)/profit for the year	10	**(16.2)**	5.3
(Loss)/profit for the year attributable to:			
Equity owners of the Company		**(16.1)**	5.2
Non-controlling interests		**(0.1)**	0.1
(Loss)/profit for the year		**(16.2)**	5.3
(Loss)/earnings per share			
Basic	20	**(49.8p)**	16.4p
Diluted	20	**(49.8p)**	16.1p

Alternative Performance Measures - Operating (loss)/profit and proforma unaudited operating profit			
Statutory (loss)/profit from operating activities		**(11.3)**	7.6
Non-underlying items:			
Redundancy costs	6	**1.1**	–
Loss incurred and loss on disposal of business	6	**2.5**	–
Write-off of receivables from outsource manufacturer	6	**2.7**	–
Increase in pension liability for GMP equalisation	6	**–**	0.4
Operating (loss)/profit		**(5.0)**	8.0
Proforma unaudited adjustments			
Costs to move equipment from outsource manufacturer's site	6	**0.9**	–
Costs to move inventory from outsource manufacturer's site	6	**3.2**	–
Additional costs from using 3rd party vendors to manufacture sub-assemblies and internal ramp-up costs	6	**6.1**	–
Proforma unaudited operating profit		**5.2**	8.0
Proforma unaudited earnings per share			
Basic	20	**5.8p**	17.3p
Diluted	20	**5.8p**	17.0p

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

Consolidated statement of comprehensive income

for the year ended 31 December 2019

	Note	2019 £'m	2018 £'m
Other comprehensive (expense)/income			
Items that may be reclassified subsequently to profit and loss			
Exchange differences on translation of foreign operations		**(2.6)**	4.2
Income tax on exchange differences on translation of foreign operations		**(0.1)**	(0.3)
		(2.7)	3.9
Items that will not be reclassified subsequently to profit and loss			
Remeasurement of defined benefit pension liability	21	**1.6**	(0.6)
Income tax on remeasurement of defined benefit pension liability	16	**(0.3)**	0.1
		1.3	(0.5)
Other comprehensive (expense)/income for the year, net of tax		**(1.4)**	3.4
(Loss)/profit for the year		**(16.2)**	5.3
Total comprehensive (expense)/income for the year		**(17.6)**	8.7
Attributable to:			
Owners of the parent		**(17.5)**	8.6
Non-controlling interests		**(0.1)**	0.1
Total comprehensive (expense)/income for the year		**(17.6)**	8.7

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

Consolidated statement of changes in equity

for the year ended 31 December 2019

	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 2019		0.6	1.4	14.3	2.2	66.2	**84.7**	0.4	**85.1**
Loss for the year		–	–	–	–	(16.1)	**(16.1)**	(0.1)	**(16.2)**
Other comprehensive (expense)/income:									
Foreign exchange translation differences, net of tax		–	–	(2.7)	–	–	**(2.7)**	–	**(2.7)**
Remeasurement of defined benefit pension liability, net of tax	21	–	–	–	–	1.3	**1.3**	–	**1.3**
Total other comprehensive (expense)/income		–	–	(2.7)	–	1.3	**(1.4)**	–	**(1.4)**
Total comprehensive expense for the year		–	–	(2.7)	–	(14.8)	**(17.5)**	(0.1)	**(17.6)**
Transfer of merger reserve on disposal of business	19	–	(0.9)	–	–	0.9	–	–	–
Transactions with owners, recorded directly in equity:									
Share-based payments	7	–	–	–	–	0.3	**0.3**	–	**0.3**
Total transactions with owners		–	-	–	–	0.3	**0.3**	–	**0.3**
Balance at 31 December 2019		0.6	0.5	11.6	2.2	52.6	**67.5**	0.3	**67.8**

	Note	Share capital £'m	Merger reserve £'m	Translation reserve £'m	Capital redemption reserve £'m	Retained earnings £'m	**Total £'m**	Non-controlling interests	**Total equity £'m**
Balance at 1 January 2018		0.6	1.4	10.4	2.2	61.2	**75.8**	0.3	**76.1**
Profit for the year		–	–	–	–	5.2	**5.2**	0.1	**5.3**
Other comprehensive income/(expense):									
Foreign exchange translation differences, net of tax		–	–	3.9	–	–	**3.9**	–	**3.9**
Remeasurement of defined benefit pension liability, net of tax	21	–	–	–	–	(0.5)	**(0.5)**	–	**(0.5)**
Total other comprehensive income/(expense)		–	–	3.9	–	(0.5)	**3.4**	–	**3.4**
Total comprehensive income for the year		–	–	3.9	–	4.7	**8.6**	0.1	**8.7**
Transactions with owners, recorded directly in equity:									
Share-based payments	7	–	–	–	–	0.3	**0.3**	–	**0.3**
Total transactions with owners		–	–	–	–	0.3	**0.3**	–	**0.3**
Balance at 31 December 2018		0.6	1.4	14.3	2.2	66.2	**84.7**	0.4	**85.1**

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

Consolidated statement of total financial position

at 31 December 2019

	Note	2019 £'m	2018 £'m
Assets			
Property, plant and equipment	11	**15.6**	14.7
Right of use assets	12	**12.2**	–
Intangible assets	13	**21.3**	16.5
Deferred tax assets	16	**1.7**	5.3
Employee benefits	21	**2.3**	0.4
Other receivables	31	**4.7**	0.2
Total non-current assets		**57.8**	37.1
Inventories	17	**45.7**	46.0
Inventories - spare parts		**0.4**	0.1
Trade and other receivables	18	**23.8**	36.7
Income tax recoverable		**1.1**	1.2
Cash and cash equivalents	24	**0.5**	2.2
Total current assets		**71.5**	86.2
Total assets		**129.3**	123.3
Liabilities			
Trade and other payables	23	**(28.4)**	(30.0)
Provisions	22	**(0.9)**	(1.0)
Tax liabilities		**(1.5)**	(1.6)
Lease liabilities	15,25	**(1.6)**	–
Total current liabilities		**(32.4)**	(32.6)
Provisions	22	**(1.4)**	(0.5)
Borrowings	14	**(17.0)**	(5.1)
Lease liabilities	15,25	**(10.7)**	–
Total non-current liabilities		**(29.1)**	(5.6)
Total liabilities		**(61.5)**	(38.2)
Net assets		**67.8**	85.1
Equity			
Issued share capital	19	**0.6**	0.6
Merger reserve	19	**0.5**	1.4
Other reserves		**13.8**	16.5
Retained earnings		**52.6**	66.2
		67.5	84.7
Non-controlling interests		**0.3**	0.4
Total equity		**67.8**	85.1

The accompanying notes form part of these financial statements. These financial statements were approved by the Board of Directors on 31 March 2020 and were signed on its behalf by:

Fariyal Khanbabi
Group Chief Executive

David Blood
Chairman

Company number: 2486024

Consolidated statement of cash flows

for the year ended 31 December 2019

	Note	2019 £'m	2018 £'m
Operating activities			
(Loss)/profit for the year		**(16.2)**	5.3
Adjustments for:			
Financial expense	8	**1.2**	0.2
Income tax expense	9	**3.7**	2.1
Share-based payments		**0.3**	0.3
Depreciation of property, plant and equipment	11	**2.6**	3.1
Depreciation of right of use assets	12	**1.7**	–
Amortisation of intangible assets	13	**2.0**	1.5
Loss on disposal of property, plant and equipment		**0.1**	–
Loss on disposal of business	6	**1.7**	–
Pension charge for GMP equalisation loss	21	**–**	0.4
Operating cash flow before movements in working capital		**(2.9)**	12.9
Increase in inventories		**(1.9)**	(19.6)
Decrease/(increase) in trade and other receivables		**8.8**	(1.2)
(Decrease)/increase in trade and other payables		**(0.3)**	1.8
Increase/(decrease) in provisions	22	**0.3**	(0.8)
Pension contributions in excess of the income statement charge	21	**(0.5)**	(0.5)
Cash generated by/(used in) operations		**3.5**	(7.4)
Income taxes paid		**(0.6)**	(1.7)
Interest paid[2]	8,15	**(1.1)**	(0.2)
Net cash generated by/(used in) operating activities		**1.8**	(9.3)
Investing activities			
Capital expenditure	11	**(6.8)**	(3.1)
Capitalised expenditure on development	13	**(6.0)**	(3.3)
Purchase of software and licences	13	**(0.3)**	–
Bank and cash balances in disposed business	6	**(0.5)**	–
Disposal of business	6	**(0.5)**	–
Net cash used in investing activities		**(14.1)**	(6.4)
Financing activities			
Drawdown of bank facility	14	**11.9**	5.1
Repayment of lease liabilities[1]	15	**(1.2)**	–
Net cash generated from financing activities	13	**10.7**	5.1
Net decrease in cash and cash equivalents		**(1.6)**	(10.6)
Cash and cash equivalents at beginning of year		**2.2**	12.8
Effect of exchange rates on cash held		**(0.1)**	–
Cash and cash equivalents at end of year	24	**0.5**	2.2

Following the adoption of IFRS 16 from 1 January 2019, the Group has classified:
1 cash payments for the principal portion of lease payments as financing activities;
2 cash payments for the interest portion of lease payments as operating activities consistent with the presentation of interest payments chosen by the Group. This includes £0.6m (2018: £nil) in relation to finance leases.

1. Reporting entity

Dialight plc is a company domiciled in England. The address of the Company's Registered Office is Leaf C, Level 36, Tower 42, 25 Old Broad Street, London EC2N 1HQ. The consolidated financial statements of the Company for the year ended 31 December 2019 comprise the Company and its subsidiaries (together referred to as the "Group").

2. Basis of preparation

(a) Statement of compliance

The consolidated financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ("IFRSs"). The Company has elected to present its parent company financial statements in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

(b) Consolidated basis of preparation

The financial statements have been prepared on the going concern basis.

The Group's business activities, together with the factors most likely to affect its future development, performance and position are set out in the Operating Review on pages 16 to 18. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Finance Review on pages 37 to 41. The directors' assessment of the viability of the Group is set out in the Viability Statement on page 59. In addition note 28 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk. In the year ended 31 December 2019 the Group recorded an operating loss for the year of £11.3m. This has been principally as a result of the termination of the outsourcing arrangements with Sanmina. The Group has now brought all production back in house and is focused on building sales momentum. In addition, the Group has recently renewed its banking facilities with HSBC of £25m until February 2023. As part of renewing our bank facility, we have agreed with HSBC that all non-recurring items were added back for covenant calculation purposes. The covenants are tested quarterly and are as follows:

Ratio	Calculation	Threshold
Leverage ratio	Net debt: proforma unaudited EBITDA	<3.0x
Interest cover	Proforma unaudited EBITDA: interest expense	>4.0x

In assessing the going concern assumptions, the Board has undertaken a rigorous assessment of the forecast outturns and assessed identified downside risks and mitigating actions. The downside risks include a number of severe but plausible scenarios incorporating underperformance against the business plan, execution risk, unexpected cash outflows and customer attrition.

The broader political and economic uncertainty coupled with the potential future impact on the Group of the recent COVID-19 outbreak has been factored into the scenarios considered as part of the Group's adoption of the going concern basis. The Group has also considered what mitigating actions are available to it in the event that such downside scenarios arise. The Group believes that it has sufficient mitigating actions available to it that it could address almost all such downside scenarios. Under these severe but plausible scenarios there is a risk of breaching the Group's financial covenants, unless a waiver agreement is reached with the lender within the going concern period.

The above situation gives rise to a material uncertainty, as defined in auditing and accounting standards, related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and in such circumstances, it may therefore be unable to realise its assets and discharge its liabilities in the normal course of business. Reflecting the Board's confidence, the Group therefore continues to adopt the going concern basis in preparing its financial statements.

(c) Use of estimates, judgements and assumptions

In the process of applying the Group's accounting policies, management has made a number of judgements. The process of preparing the Group's financial statements inevitably requires the Group to make estimates and assumptions concerning the future and the resulting accounting estimates will, by definition, seldom equal the related actual results. The judgements and estimates that have the most significant effect on the amounts included in these consolidated financial statements are as follows:

Significant judgements

Termination of outsourced manufacturing agreement

We have sought to reach a negotiated conclusion on various outstanding matters following the termination of the manufacturing services agreement with our former outsourced manufacturing partner, Sanmina Corporation. On Friday, 20th December 2019, both parties issued legal proceedings against the other, with Sanmina claiming up to £8m against Dialight and Dialight counter claiming up to £190m against Sanmina. The basis of the claim filed by Sanmina Corporation relates to outstanding invoices and residual inventory they allege 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. Existing GAAP precludes us from holding accounts receivable balances that relate to this claim so they have been impaired. However, this has no impact on the legal claim. In the unlikely event that Sanmina's claim is successful, the range of outcomes could be £0 - £8m. Management have assessed the claim in conjunction with external legal advice and the judgement is that we are confident of the merits of our legal position. Therefore, the matter is disclosed as a contingent liability.

Significant estimates

Inventory reserve

The overall level of inventory in the Group has remained static year on year but as part of the preparation for exit of the outsource contract, it had increased in H2-18 when we purchased an excess of Lighting raw materials and sub components that have been unwinding during 2019. We were selective in the inventory purchased and all materials were inspected when received, to ensure they were in good condition. Although we

2. Basis of preparation (continued)

have more inventory than we would like, it is all usable in current products that are being sold. In previous years, the Lighting inventory reserve was calculated based on the ageing of inventory with all items greater than 12 months being reserved. As a result of the strategic decision to purchase additional inventory, using the existing ageing policy would have resulted in a charge that not have been representative of potential obsolescence. Therefore, the Group revised the basis of estimate for reserving raw materials and sub components so that these are now only reserved after 24 months. In addition to the ageing basis, inventory is reviewed regularly by operational and financial management to ensure that it is usable. Estimation is applied to the expected usage of individual parts.

The inventory reserve at 31 December 2018 was £4.7m (9.3% of gross inventory) and £2.5m of this was utilised in 2019 when we disposed of old, fully-reserved inventory, and £0.3m was removed as part of the sale of Dialight A/S. The inventory reserve at 31 December 2019 is £2.1m, which represents 4.4% of gross inventory. If the reserve remained at 9.3% of inventory, the 2019 reserve would be £4.7m.

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 apply judgement that they are 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 £11.8m (2018: £6.5m) of development and patent costs that relate to the current product portfolio and new products expected to launch in 2020. Management have reviewed all of these for impairment using the expected revenues from the Board approved 3-year plan to complete a value in use calculation on a product-by-product basis giving a total headroom of £294m and their judgement is that there is no impairment. The total impact on headroom from the sensitivities that we have run is as follows; a 10% reduction in revenue would reduce headroom to £267m, a 10% reduction in margin would reduce headroom to £217m, an increase in WACC of 1% would reduce headroom to £287m, the combined impact of all three would be a reduction in headroom to £193m.

Inventory - absorbed overhead costs

The valuation of inventory, detailed in note 17, requires the use of judgement in the amount of costs to be absorbed into inventory valuation. There are two elements of cost over which this judgement is 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. We use 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. Management uses their judgement in the assessment of the calculation and in the current year made allowance for the in-sourcing of a significant element of sub component production by changing the weighting applied to be based on the number of sub components used. This changed the number of days from 70 days in the prior year (when 80% of sub components were made externally) to 93 days in the current year (when 90% of sub components are made internally) due to insourcing. The value of directly attributable costs over which judgement was exercised was £6.3m (2018: £5.2m) and this represents 14% (2018: 11%) of the inventory value. For every day that the estimate of the days used for the overhead absorbed changes, it changes the calculation by £63k.

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. 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 £2.4m (2018: £2.2m) and this represents 5% (2018: 4%) of the inventory value. For every day that the estimate of the days used for the freight costs absorbed changes, it changes the calculation by £17k.

3. Changes in significant accounting policies

The Group initially applied IFRS 16 Leases from 1 January 2019. A number of other new standards are also effective from 1 January 2019 but they do not have a material effect on the Group's financial statements.

IFRS 16

The Group applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and IFRIC 4. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

A. Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under *IFRIC 4 Determining whether an Arrangement contains a Lease.* The Group now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 4(u).

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

3. Changes in significant accounting policies (continued)

B. The Group as a lessee

As a lessee, the Group leases many assets including industrial premises, office buildings, IT and other equipment. The Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16, the Group recognises right of use assets and lease liabilities for many of these leases – i.e. these leases are on-balance sheet.

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 price.

However, for leases of property the Group has elected not to separate non-lease components and to account for the lease and associated non-lease components as a single lease component.

i. Leases classified as operating leases under IAS 17

Previously, the Group classified property leases as operating leases under IAS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019 (see note 15).

Right of use assets are measured at either:

– their carrying amount as if IFRS 16 had been applied since the lease commencement date, discounted using the Group's incremental borrowing rate at the date of initial application; or
– an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Group has tested its right of use assets for impairment on the date of transition and has concluded that there is no indication that any of the right of use assets are impaired.

The Group used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Group:

– did not recognise right of use assets and lease liabilities for leases for which the lease term ends within 12 months of the date of initial application;
– did not recognise right of use assets and lease liabilities for leases with an initial contract value of less than £10,000;
– excluded initial direct costs from the measurement of the right of use asset at the date of initial application for most assets; and
– used hindsight when determining the lease term.

ii. Leases classified as finance leases under IAS 17

The Group had no finance leases at 31 December 2018.

C. As a lessor

The Group is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor, other than in respect of one sub-lease.

The Group entered into a sub-lease during 2019, which has been classified as an operating lease. The Group assessed the classification of the sub-lease contract by reference to the right of use asset rather than the underlying asset, and concluded that it is an operating lease under IFRS 16.

D. Impact on financial statements

Impact on transition*

On transition to IFRS 16, the Group recognised right of use assets and lease liabilities, and the impact on transition is summarised below.

	1 January 2019 £'m
Right of use assets – see note 12	**3.8**
Lease restoration costs	**(0.1)**
Lease liabilities - see note 15	**(3.7)**

For detailed information on the impact on right of use assets and lease liabilities refer to notes 12 and 15 respectively.

There was no impact on retained earnings on adoption of IFRS 16 at 1 January 2019.

* For the impact of IFRS 16 on profit or loss for the period, see Note 33. For the impact of IFRS 16 on segment information and EBITDA, see Note 5. For the details of accounting policies under IFRS 16 and IAS 17, see Note 4(u).

3. Changes in significant accounting policies (continued)

E. 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 incremental borrowing rate (IBR). The Group has used the IBR for existing leases at the date of transition of 1 January 2019 as well as for new leases after that date.

The incremental borrowing rate 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.

Dialight 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 at the date of initial application of IFRS 16 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 lease terms varied on initial application of IFRS 16 between 1.5 and 10 years.

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 IBR's calculated for use by the Group vary between 2% to 5% for the UK, USA and Australia jurisdictions and between 5% to 7% for the Mexico and Malaysia jurisdictions.

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

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 bargain purchase gain is recognised immediately in profit or loss. Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Acquisitions between 1 January 2004 and 1 January 2010

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

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

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

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

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

4. Significant accounting policies (continued)

(b) Non-underlying and non-recurring costs

The Group incurs costs and earns income that is non-recurring in nature or that, in the Directors' judgement, need to be disclosed separately by virtue of their 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 directly arising from transferring production to an outsourced manufacturer
- 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 or closures of defined benefit pension plans.

Determining whether an item is part of specific adjusting items requires judgement to determine the nature and the intention of the transaction.

(c) Foreign currency translation

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

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

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

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

(d) 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.

(e) 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 repairs and maintenance costs are charged to the income statement in the financial period they are incurred.

(f) 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.

(g) 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	1.5–10 years

Amortisation

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

The estimated useful lives are as follows:

Patents and trademarks	4 years
Development costs	3–5 years

4. Significant accounting policies (continued)

(h) Goodwill
Goodwill that arises upon acquisition of subsidiaries is included in intangible assets. For the measurement of goodwill at initial recognition, see note 4(a).

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

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

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

(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 profit and loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro-rata basis.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Any impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

A financial asset, in particular the carrying value of trade receivables, is considered to be impaired if 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 inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their location and condition at the balance sheet date. Items are valued using the first in, first out method. When inventories are used, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. Provision for write-down to net realisable value and losses of inventories is recognised as an expense in the period in which the write-down or loss occurs.

(l) Cash and cash equivalents
Cash and cash equivalents comprise bank and cash balances, call deposits, and bank overdrafts.

(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.

4. Significant accounting policies (continued)

(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 profit or loss.

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

(iii) Share-based payments and deferred bonus transactions

The PSP allows Group employees to acquire shares of the Company. The fair value of the award granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at the grant date and spread over the performance period during which the employees become unconditionally entitled to the award.

The fair value of the grants is measured using the Monte Carlo or Black-Scholes models, taking into account the terms and conditions upon which the grants were made. The amount recognised as an expense is only adjusted to reflect forfeitures resulting from failures to meet non-market conditions. The share-based payments are equity-settled. Key Group employees are awarded shares in the Company under the Annual Performance Bonus Plan. The fair value of the award granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at the grant date and spread over the performance period during which the employees become unconditionally entitled to the award.

(o) 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. A provision is made for the expected costs of future warranty claims relating to past product sales. This provision is estimated based on historical trends for returns, product-specific warranty terms, internal knowledge of product performance characteristics and the expected costs of remedying warranty-returned products.

(p) Trade and other receivables

Trade and other receivables are initially recorded at fair value and then subsequently stated at their amortised cost less any impairment losses. The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of the money and risks specific to the asset. Receivables with a short duration are not discounted. An impairment loss in respect of trade and other receivables is reversed if there has been a change in the estimates used to determine the recoverable amount.

The Group has applied the simplified approach as permitted by IFRS 9. The expected credit loss model (ECL) considers the Group's historical credit loss, factors specific to each receivable, the current economic environment and expected changes in future forecasts (see note 25).

(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 historic 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) Expenses

(i) Operating lease payments – See note(u) below.

(ii) Net financing costs

Net financing costs comprise interest receivable, interest payable, borrowings, interest payable on lease liabilities, interest on pension assets and liabilities, foreign exchange gains and losses and unwinding of discount.

4. Significant accounting policies (continued)

(t) Tax charge
The tax charge comprises current and deferred tax, and is recognised in profit or loss except to the extent that it relates to items recognised directly in equity. The tax currently payable is based on the taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

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

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

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

(u) Leases
The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

Policy applicable from 1 January 2019
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. This policy is applied to contracts entered into on or after 1 January 2019.

(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 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, plant 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 (IBR). Generally, the Group uses its IBR as the discount rate. The Group operates in multiple economic environments so the IBR that applies will vary from lease to lease. The calculation of IBR and the different rates applied is covered in detail in note 3(E).

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; 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.

4. Significant accounting policies (continued)

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.

(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'.

Policy applicable before 1 January 2019

For contracts entered into before 1 January 2019 the Group determined whether the arrangement was or contained a lease based on the assessment contained in IFRIC 4.

(i) As a lessee

In the comparative period the Group had no finance leases. Assets held under other leases were classified as operating leases and were not recognised in the Group's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

(ii) As a lessor

In the comparative period the Group did not act as a lessor and had no sub-leases.

(v) Changes in accounting policies

As described in Note 3, the Group adopted IFRS 16 *Leases*, with effect from 1 January 2019, which materially impacted the Consolidated statement of financial position.

Adoption of new and revised standards/interpretations and amendments

A number of new standards and amendments to standards, with an effective date of 1 January 2019, have also been adopted but have no material impact on the Group. These comprise:

- *Uncertainty over Income Tax Treatments* (IFRIC 23)
- *Prepayment Features with Negative Compensation* (Amendments to IFRS 9)
- *Long-term Interests in Associates and Joint Ventures* (Amendments to IAS 28)
- *Plan Amendment, Curtailment or Settlement* (Amendments to IAS 19)
- *Annual Improvements to IFRSs 2015–2017 Cycle* (Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23)

Forthcoming requirements

The following standards and interpretations have been issued but are not mandatory for annual reporting periods ending on 31 December 2019:

- *Amendments to References to Conceptual Framework for IFRS Standards*
- *Definition of a Business* (Amendments to IFRS 3)
- *Definition of Material* (Amendments to IAS 1 and IAS 8)

The effective date for these is 1 January 2020, but they are not expected to be material to the Group.

- *IFRS 17 Insurance Contracts.* The current effective date is 1 January 2022. This is not expected to be applicable to the Group.
- *Sale or Contribution of Assets between an Investor and its Associate or Joint venture* (Amendments to IFRS 10 and IAS 28).

The effective date for these amendments was deferred indefinitely although early adoption continues to be permitted. These amendments are not expected to be material to the Group if adopted.

(w) 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.

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.

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

2019	Note	Lighting £m	Signals & Components £'m	Unallocated £'m	Total £'m
Revenue		**111.5**	**39.5**	**–**	**151.0**
Statutory gross profit		**31.3**	**12.6**	**-**	**43.9**
Unaudited non-recurring costs		**10.2**	**-**	**-**	**10.2**
Proforma unaudited gross profit		**41.5**	**12.6**	**–**	**54.1**
Overheads*		**(34.5)**	**(8.3)**	**(6.1)**	**(48.9)**
Proforma unaudited operating profit/(loss)		**7.0**	**4.3**	**(6.1)**	**5.2**
Audited non-underlying costs	6	**(6.3)**	_	_	**(6.3)**
Unaudited non-recurring costs	6	**(10.2)**	**–**	**–**	**(10.2)**
Statutory (loss)/profit from operating activities		**(9.5)**	**4.3**	**(6.1)**	**(11.3)**
Financial expense					**(1.2)**
Loss before tax					**(12.5)**
Income tax expense					**(3.7)**
Loss after tax					**(16.2)**

* Overheads excluding audited non-underlying costs of £6.3m

2018	Note	Lighting £'m	Signals & Components £'m	Unallocated £'m	Total £'m
Revenue		125.0	44.6	–	169.6
Gross profit		47.1	13.2	–	60.3
Overheads		(38.6)	(8.7)	(5.0)	(52.3)
Underlying operating profit/(loss)		8.5	4.5	(5.0)	8.0
Audited non-underlying costs	6	–	–	(0.4)	(0.4)
Statutory profit/(loss) from operating activities		8.5	4.5	(5.4)	7.6
Financial expense					(0.2)
Profit before tax					7.4
Income tax expense					(2.1)
Profit after tax					5.3

5. Operating segments (continued)

Other segmental data

	2019			2018		
	Lighting £'m	Signals & Components £'m	Total £'m	Lighting £'m	Signals & Components £'m	Total £'m
Depreciation of property, plant and equipment	**1.9**	**0.7**	**2.6**	2.3	0.8	3.1
Depreciation of right of use assets	**1.3**	**0.4**	**1.7**	–	–	–
Amortisation	**1.5**	**0.5**	**2.0**	1.1	0.4	1.5

There were no impairment losses on tangible or intangible assets or write-downs in the current or prior year.

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

	2019 £'m	2018 £'m
North America	**117.8**	124.1
EMEA	**12.6**	20.3
Rest of World	**20.6**	25.2
	151.0	169.6

6. Non-recurring costs (audited and unaudited)

In the assessment of performance of the Group in prior periods, management removed the impact of outsourcing costs. In the current year, we have removed the impact of in-sourcing costs. In the judgement of the Directors, these items are separately disclosed due to the nature and value from the underlying results of the Group to allow the reader to obtain a proper understanding of the financial information and the best indication of 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.

	2019 £'m	2018 £'m
Non-underlying costs (audited)		
Redundancy costs	**1.1**	–
Loss on disposal of subsidiary	**2.5**	–
Write-off receivable from outsource manufacturer	**2.7**	–
Increased pension liability from GMP equalisation	**–**	0.4
Non-underlying costs recorded in administrative expenses	**6.3**	0.4
Pro-forma unaudited costs		
Costs to move equipment from outsource manufacturer's site	**0.9**	–
Costs to move inventory from outsource manufacturer's site	**3.2**	–
Additional costs from using 3rd-party vendors to make sub-assemblies and internal ramp-up costs	**6.1**	–
Unaudited costs recorded in cost of sales	**10.2**	–
Total non-recurring costs	**16.5**	0.4
Total cash impact	**11.8**	–

Non-underlying costs

Redundancy costs of £1.1m relate to various initiatives during the year to deal with areas of the business that were not performing well and also to right-size the cost base. The loss on disposal of subsidiary relates to the sale of the Group's Wind business in Denmark in September 2019 and the exit from that operational site. The loss comprised of two elements, £0.8m loss in the year (prior to sale) and £1.7m loss at the point of sale. The business had been in decline for two years following the loss of a major customer. The revenue for this business was £4.4m in 2018 with a profit of £nil, and in the period of ownership in 2019, it had revenue of £1.9m and generated a loss of £0.8m.

6. Non-recurring costs (audited and unaudited) continued

The net assets and the net loss on disposal of Dialight A/S were as follows:

	2019 £'m
Property, plant and equipment	**0.1**
Current assets (including cash balances of £0.5m)	**1.3**
Current liabilities	**(0.7)**
Net assets of the business disposed of	**0.7**
Loss on disposal of the business	**(1.7)**
Total consideration paid	**(1.0)**
Satisfied by:	
Cash received	**0.1**
Disposal costs paid	**(0.6)**
Net cash paid	**(0.5)**
Provision for warranties	**(0.4)**
Accrued disposal costs	**(0.1)**
Total consideration paid	**(1.0)**

We have impaired accounts receivable with our former outsource manufacturer as existing GAAP precludes us from holding these receivables on the balance sheet. However, this has no impact on validity of these as part of our legal claim (see note 28).

In the prior year, the charge within administrative expenses related to a one-off increase in pension liabilities arising from Guaranteed Minimum Pension (GMP) equalisation (see note 21).

Proforma unaudited costs

There were costs in 2019 that arose directly from the decision to exit our outsource manufacturing contract in September 2018. We had to pay £0.9m for the removal of our CNC machines and paint line from the former outsource manufacturer's premises and then transport them and have them re-installed and calibrated at our Tijuana plant. There were no equivalent costs in the prior year.

We also incurred costs of £3.2m to move inventory that we purchased from our former outsource manufacturer and transport it to our own facilities in Mexico and Malaysia. In addition, the exit resulted in the local supply chain in Malaysia not being in place for Lighting products and we incurred additional expense to airfreight materials in order to ensure production was not impacted.

The exit also resulted in the acquisition of a new facility in Tijuana, Mexico that is used primarily to carry out machining and painting functions. It took most of the year to get this facility to full capacity as we didn't receive our equipment back from the outsourcer until Q2 and we then had to get it all installed, tested, certified and fully staffed at a cost of £2.2m. These costs of ramping up lasted until the end of Q3. Whilst we ramped up our own facility, we were paying smaller third-party vendors to make sub-assemblies. This resulted in higher prices and payments that covered their overheads and profit margin. We have calculated the additional costs relating to this at £3.9m and treated this as non-recurring.

The costs of exit of £10.2m are management's best estimate of the costs. Due to their subjective nature and their similarity to standard manufacturing processes, it is difficult to audit them so we are presenting them as proforma unaudited costs.

7. Personnel expenses

	2019 £'m	2018 £'m
Wages and salaries	**34.4**	31.9
Social security contributions	**3.9**	3.2
Equity-settled share-based payment transactions	**0.3**	0.3
Contributions to defined contribution plans	**1.3**	1.2
Total charge for defined benefit plans	**0.1**	0.5
	40.0	37.1

Wages and salary costs have increased year on year with the main driver being increased average headcount at our production facilities in Mexico and Malaysia due to insourcing production. There were no management incentives in 2019 or the prior year.

The above expenses exclude £1.1m (2018: £nil) paid in respect of redundancy costs (see "Non-underlying costs" above).

The average number of employees by geographical location was:

	2019 Number	2018 Number
US and Mexico	**1,478**	1,093
Rest of World	**323**	239
	1,801	1,332

In 2019, the Group employed an average of 1,091 direct staff (2018: 717) and 710 indirect staff (2018: 615).

The main Board Directors are considered to be the Group's key management personnel. There are no loans between the Group and key management personnel.

Key management personnel compensation comprised the following:

	2019 £'m	2018 £'m
Short-term employee benefits	**1.1**	1.2
Post-retirement benefits	**0.1**	0.1
Share-based payments	**0.3**	0.3
	1.5	1.6

The aggregate of remuneration and amounts receivable under long-term incentive schemes of the highest paid Director was £0.4m (2018: £0.6m), and pension contributions of £0.0m (2018: £0.1m) were made to a money purchase scheme on their behalf. During the year, the highest paid Director received 68,803 shares under a long-term incentive scheme.

	2019	2018
Number of Directors accruing benefits under money purchase schemes	**2**	2
Number of Directors who exercised share options	–	–
Number of Directors in respect of whose qualifying services shares were received or receivable under long term incentive schemes	**2**	2

8. Financial expense

Recognised in profit and loss

	2019 £'m	2018 £'m
Net interest on defined benefit liability	**0.1**	–
Interest expense on financial liabilities other than lease liabilities	**0.5**	0.2
Interest expense on lease liabilities	**0.6**	–
Financial expense (including £0.1m non-cash (2018: £nil))	**1.2**	0.2

9. Income tax expense

Recognised in the income statement

	2019 £'m	2018 £'m
Current tax charge:		
Current year	**0.6**	2.1
Adjustment for prior years	**(0.1)**	0.2
	0.5	2.3
Deferred tax charge:		
Origination and reversal of temporary differences	**(0.9)**	(0.4)
Adjustment for prior years	**(0.4)**	0.1
Reduction in tax rate	–	0.1
Derecognition of deferred tax assets in respect of European losses	**4.5**	–
	3.2	(0.2)
Total tax charge	**3.7**	2.1

Reconciliation of effective tax rate

	2019 %	2019 £'m	2018 %	2018 £'m
(Loss)/profit for the year		**(16.2)**		5.3
Total income tax charge		**3.7**		2.1
(Loss)/profit before income tax		**(12.5)**		7.4
Income tax using the UK corporation tax rate	**(19.0)**	**(2.4)**	19.0	1.4
Non-deductible loss on disposal of a business	**4.0**	**0.5**	–	–
Effect of tax rates in foreign jurisdictions	–	–	5.8	0.4
Increase in tax rate	–	–	0.9	0.1
Non-deductible expenses	**1.6**	**0.2**	–	–
Current year losses for which no deferred tax is recognised	**8.0**	**1.0**	–	–
De-recognition of deferred tax previously recognised	**35.9**	**4.5**	–	–
Adjustment for prior years	**(4.0)**	**(0.5)**	3.9	0.3
Research and development credits	**(0.8)**	**(0.1)**	(2.0)	(0.2)
Recovery of foreign taxes suffered	**3.9**	**0.5**	–	–
Other adjustments	–	–	0.8	0.1
	29.6	**3.7**	28.4	2.1

The effective tax rate for the year is 29.6% compared with 28.4% in the prior year and compared with the standard rate of 19.0% (2018: 19.0%) in the UK.

9. Income tax expense (continued)

The normalised tax rate for the Group in the year is 21.0% (tax rate before adjustments), and based on a pre-tax loss of £12.5m this would generate a tax credit of £2.6m. However, in the year there is a tax charge of 29.6%. The difference of 48.6% is due to the following factors:

- the de-recognition of the deferred tax assets on previously recognised losses in the European Lighting business, resulting in a tax charge of £4.5m (charge of 35.9%). We do not anticipate this business making sufficient taxable profits in the short-term to utilise the losses;
- the non-recognition of any deferred tax asset on £1.0m of losses arising in the current year (charge of 8%);
- A non-deductible loss of £0.5m (charge of 4.0%) on disposal of Denmark A/S, the former European Wind business which was sold in September 2019.

Tax recognised directly in equity

	2019 £'m	2018 £'m
Employee benefits	**0.3**	(0.3)
Other	**0.1**	0.1

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 19.0% (2018: 19.25%). No UK corporation tax rate reductions have been announced. There are no UK timing differences recognised at 31 December 2019.

US

The majority of the Group's profits arise in the US where the corporation tax rate is 21% (2018: 21%).

Group

The higher overall effective tax rate is due to the mix of profits being weighted towards higher tax jurisdictions and the deferred tax asset write-offs relating to the European businesses as mentioned above.

10. (Loss)/profit for the year

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

	2019 £'m	2018 £'m
Research and development costs:		
Expensed as incurred	**2.8**	6.3
Amortisation charge	**0.9**	0.8
Total research and development costs	**3.7**	7.1
Depreciation of fixed assets, excluding right of use assets	**2.6**	3.1
Depreciation of right of use assets	**1.7**	–
Lease expense - low value leases and leases with a remaining term of less than one year	**0.4**	–
Operating leases – property	**–**	2.0
Operating leases – other	**–**	0.1

There were no impairment charges for tangible or intangible assets in either the current or the prior year.

Auditor's remuneration

	2019 £'m	2018 £'m
Audit of these financial statements	**0.4**	0.2
Amounts receivable by auditor in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	**0.1**	0.1
	0.5	0.3

11. Property, plant and equipment

	Land and buildings £'m	Plant, equipment and vehicles £'m	Total £'m
Cost			
At 1 January 2018	3.0	47.6	50.6
Exchange adjustments	0.1	2.7	2.8
Additions	0.1	3.0	3.1
Disposals	–	(2.0)	(2.0)
At 31 December 2018	3.2	51.3	54.5
Balance at 1 January 2019	3.2	51.3	54.5
Reclassification to intangible assets	–	(5.4)	(5.4)
Exchange adjustments	(0.1)	(1.7)	(1.8)
Additions	–	6.8	6.8
Disposal of business	(0.1)	(0.2)	(0.3)
Other disposals	–	(2.7)	(2.7)
Balance at 31 December 2019	**3.0**	**48.1**	**51.1**
Accumulated depreciation			
At 1 January 2018	(2.9)	(33.8)	(36.7)
Exchange adjustments	(0.1)	(1.9)	(2.0)
Charge for the year	(0.1)	(3.0)	(3.1)
Disposals	–	2.0	2.0
At 31 December 2018	(3.1)	(36.7)	(39.8)
Balance at 1 January 2019	(3.1)	(36.7)	(39.8)
Reclassification to intangible assets	–	4.3	4.3
Exchange adjustments	0.1	1.2	1.3
Charge for the year	(0.1)	(2.5)	(2.6)
Disposal of business	0.1	0.1	0.2
Other disposals	–	1.1	1.1
Balance at 31 December 2019	**(3.0)**	**(32.5)**	**(35.5)**
Carrying amount at 31 December 2019	**–**	**15.6**	**15.6**
Carrying amount at 31 December 2018	0.1	14.6	14.7

In the year we have re-classified software and IT licences with a net book value of £1.1m to intangible assets.

12. Right of use assets

	Buildings £'m	Total £'m
Cost		
At 31 December 2018	–	–
Balance at 1 January 2019	–	–
Recognition of right of use assets on initial application of IFRS 16	3.8	3.8
Adjusted balance at 1 January 2019	3.8	3.8
Exchange adjustments	(0.3)	(0.3)
Additions	10.4	10.4
Balance at 31 December 2019	**13.9**	**13.9**
Accumulated depreciation		
At 31 December 2018	–	–
Balance at 1 January 2019	–	–
Charge for the year	(1.7)	(1.7)
Balance at 31 December 2019	**(1.7)**	**(1.7)**
Carrying amount at 31 December 2019	**12.2**	**12.2**
Carrying amount on initial application of IFRS 16	**3.8**	**3.8**

The Group leases various industrial premises, office buildings, equipment and IT equipment. Rental contracts are typically for fixed periods of 1.5 to 10 years, but may have extension options as described in note 33A.iv. 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.

The new leases added during the year relate to industrial premises and office buildings and one of the leases has been sublet as discussed in note 33B.

13. Intangible assets

	Concessions, patents, licences and trademarks £'m	Goodwill £'m	Order book, customer relationships and Technology £'m	Software and Licences £'m	Development costs £'m	Total £'m
Cost						
Balance at 1 January 2018	7.1	12.7	2.7	–	20.2	42.7
Additions	0.8	–	–	–	2.5	3.3
Disposals	–	–	(2.7)	–	–	(2.7)
Effects of foreign exchange movement	0.5	0.3	–	–	1.1	1.9
Balance at 31 December 2018	8.4	13.0	–	–	23.8	45.2
Balance at 1 January 2019	8.4	13.0	–	–	23.8	45.2
Reclassification from property, plant and equipment	–	–	–	5.4	–	5.4
Additions	0.7	–	–	0.3	5.3	6.3
Effects of foreign exchange movement	(0.3)	(0.1)	–	(0.1)	(1.0)	(1.5)
Balance at 31 December 2019	**8.8**	**12.9**	**–**	**5.6**	**28.1**	**55.4**
Amortisation and impairment losses						
Balance at 1 January 2018	(5.8)	(4.2)	(2.7)	–	(16.1)	(28.8)
Amortisation for the year	(0.7)	–	–	–	(0.8)	(1.5)
Disposals	–	–	2.7	–	–	2.7
Effects of foreign exchange movement	(0.5)	–	–	–	(0.6)	(1.1)
Balance at 31 December 2018	(7.0)	(4.2)	–	–	(17.5)	(28.7)
Balance at 1 January 2019	(7.0)	(4.2)	–	–	(17.5)	(28.7)
Reclassification from property, plant and equipment	–	–	–	(4.3)	–	(4.3)
Amortisation for the year	(0.6)	–	–	(0.5)	(0.9)	(2.0)
Effects of foreign exchange movement	0.3	–	–	–	0.6	0.9
Balance at 31 December 2019	**(7.3)**	**(4.2)**	**–**	**(4.8)**	**(17.8)**	**(34.1)**
Carrying amount at 31 December 2019	**1.5**	**8.7**	**–**	**0.8**	**10.3**	**21.3**
Carrying amount at 31 December 2018	1.4	8.8	–	–	6.3	16.5

The amortisation charge for the year is included within administrative expenses in the income statement.

Goodwill

The Group has two distinct cash-generating units (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 cash-generating units a reasonable apportionment of these are made for the purpose of the impairment calculation.

All of the £8.7m (2018:£8.8m) goodwill recognised in the Group's balance sheet is considered to be attributable to Lighting.

Impairment testing

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

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

Management has prepared a three-year plan based upon certain assumptions derived from a combination of internal assessment of the market size, an assessment of customer product requirements, production capacity requirements and the operational costs of the organisation. The key assumptions within the three-year forecasts are revenue growth and gross profit, which is based on management's best estimate of material, labour and production cost trends and manufacturing efficiencies. Cash flows in years four and five are extrapolated using similar growth rates to the first three years. Cash flows beyond the five-year period are extrapolated using estimated growth rates of between 0% and 1%.

13. Intangible assets (continued)

Sensitivity to changes in key assumptions:

The risk-adjusted pre-tax discount rate used to discount the forecast cash flows for the Lighting CGU was 15.0% (2018:13%), reflecting reduced year on year revenue in the Lighting business. Management has applied different growth rates for the value-in-use calculations of each underlying element of the CGU over the five-year period to take account of the differing nature of the individual products, and of the countries in which the CGU operates. The impairment tests showed significant headroom (greater than £70m) and we sensitised this by reducing growth rates by 25% and increasing discount rates by 25% and there was still headroom. Given the sensitivity scenarios performed, the Directors consider that no reasonable potential downside scenario would lead to an impairment.

14. Borrowings

On 25 February 2020 the Group renewed its revolving credit facility with HSBC for a further 3 years to February 2023, with the option to extend for an additional 2 years. The covenants attached to the facility relate to net debt to EBITDA ratio and interest cover. As part of renewing our bank facility, we have agreed with HSBC that all non-recurring items were added back for covenant calculation purposes. Net debt is defined for covenant purposes as excluding the impact of IFRS 16 leases. During the year and subsequently, the Group has operated within those covenants.

	Loans £'m
At 1 January 2018	–
Facility draw-down	5.1
At 31 December 2018	5.1
At 1 January 2019	5.1
Facility draw-down	11.9
At 31 December 2019	**17.0**

15. Lease liabilities

As explained in "Changes in significant accounting policies" in Note 3, the Group initially applied IFRS 16 *Leases*, with effect from 1 January 2019.

When measuring lease liabilities for leases that were previously classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied was 4.2%.

	2019 £'m
Operating lease commitments at 31 December 2018 as disclosed under IAS 17 in the Group's consolidated financial statements	**7.7**
Operating lease commitments discounted using the incremental borrowing rate at 1 January 2019	**6.9**
Recognition exemption for leases with less than 12 months of the lease term left at transition	**(0.3)**
Recognition exemption for low-value leases	**(0.4)**
Lease committed, but not yet recognised for IFRS 16	**(2.5)**
Lease liabilities recognised at 1 January 2019	**3.7**
Interest expense	**0.6**
New lease liabilities	**10.1**
Repayment of liabilities	**(1.8)**
Exchange adjustments	**(0.3)**
Lease liabilities recognised at 31 December 2019	**12.3**

16. Deferred tax assets and liabilities
Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2019 £'m	2018 £'m	**2019 £'m**	2018 £'m	**2019 £'m**	2018 £'m
Property, plant and equipment	**–**	–	**(1.4)**	(0.9)	**(1.4)**	(0.9)
Right of use assets	**0.1**	–	**–**	–	**0.1**	–
Intangible assets	**–**	–	**(1.9)**	(1.4)	**(1.9)**	(1.4)
Employee benefits	**–**	0.1	**(0.1)**	–	**(0.1)**	0.1
Provisions	**2.3**	2.4	**–**	–	**2.3**	2.4
Losses and other items	**2.7**	5.1	**–**	–	**2.7**	5.1
Tax assets/(liabilities)	**5.1**	7.6	**(3.4)**	(2.3)	**1.7**	5.3

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, deferred tax assets previously recognised for the European businesses have been written off as these businesses are now 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 3 to 4 years. The geographic split of the deferred tax asset in relation to trading losses is Australia £0.2m, Malaysia £0.2m, US £2.2m 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 (2018: £nil).

Movement in temporary differences during the year

	Property, plant and equipment £'m	Intangible assets £'m	Employee benefits £'m	Provisions £'m	Other short-term timing differences £'m	Right of use asset £m	Total £'m
Balance at 1 January 2018	(0.8)	(0.9)	0.2	2.2	4.6	–	5.3
Recognised in income	(0.1)	(0.5)	–	0.2	0.2	–	(0.2)
Recognised in equity	–	–	(0.1)	–	0.3	–	0.2
Balance at 31 December 2018	(0.9)	(1.4)	0.1	2.4	5.1	–	5.3
Balance at 1 January 2019	(0.9)	(1.4)	0.1	2.4	5.1	–	5.3
Recognised in income	(0.5)	(0.6)	0.1	(0.1)	(2.2)	0.1	(3.2)
Recognised in equity	–	0.1	(0.3)	–	(0.2)	–	(0.4)
Balance at 31 December 2019	(1.4)	(1.9)	(0.1)	2.3	2.7	0.1	1.7

i. 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:

	2019 £'m		2018 £'m	
	Gross amount	**Tax effect**	Gross amount	Tax effect
Deductible temporary differences	**1.2**	**0.2**	–	–
Tax losses	**28.1**	**5.4**	–	–
	29.3	**5.6**	–	–

ii. Tax losses carried forward

Tax losses for which no deferred tax assets were recognised expire as follows.

	2019 £'m	**Expiry date**	2018 £'m	Expiry date
Expire	**–**	**–**	–	–
Never expire	**28.1**	**–**	–	–

16. Deferred tax assets and liabilities (continued)

In 2019, the deferred tax assets for Dialight Plc, Dialight Europe Limited and Dialight GmbH were reassessed in accordance with IAS 12. Management has determined that, based on the most recent 3-year forecasts, the recoverability of deferred tax assets is not certain in the short-term and therefore these assets were impaired.

As a result, the Group has derecognised deferred tax assets of £0.3m, £3.1m and £1.4 arising in Dialight Plc, Dialight Europe and Dialight GmbH respectively, which are not expected to be utilised in the near future. The impact of the derecognition of these deferred tax assets on the deferred tax expense for the year is shown in note 9.

17. Inventories (excluding spare parts)

	2019 £'m	2018 £'m
Raw materials and consumables	**17.3**	17.4
Work in progress	**11.2**	11.8
Finished goods	**17.2**	16.8
	45.7	46.0

Raw materials and work in progress reduced by £0.7m with £0.6m sold as part of the disposal of our Danish subsidiary. There was an increase of £1.3m related to new products launched by the Group which was offset by a comparable unwind of inventory. Finished goods inventory increased by £0.4m due to the addition of a distribution centre in Tijuana, Mexico to further improve lead times to the North American market, adding £3.8m to Lighting inventory. At the same time, the new production facility in Malaysia has reduced lead times to APAC and this has lowered Lighting inventory by £2.7m due to shorter lead times.

Inventories to the value of £65.7m (2018: £76.7m) were recognised as expenses in the year, and there was a net inventory provision charge of £0.3m (2018: net inventory provision write-back £1.3m). During the year we changed the estimate used to calculate the inventory reserve for Lighting raw materials and sub components from reserving everything over 12 months to reserving everything over 24 months. There was no credit to the Income Statement as a result.

18. Trade and other receivables

	2019 £'m	2018 £'m
Trade receivables	**20.9**	28.6
Other non-trade receivables	**0.9**	6.5
Prepayments and accrued income	**2.0**	1.6
	23.8	36.7

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables is disclosed in note 25.

19. Capital and reserves

Share capital

	2019 Number	**2019 £'m**	2018 Number	2018 £'m
Allotted and fully paid				
Ordinary shares of 1.89 pence each	**32,539,165**	**0.6**	32,534,237	0.6

During the year, 4,928 shares were issued (2018: 13,058 shares) in order to satisfy the requirement for shares that vested as part of the Sharesave scheme (3,736 shares) and for deferred share options exercised (1,192 shares). The proceeds of issue were less than £0.0m (2018: £0.1m). The ordinary shares issued in the year have the same rights as the other shares in issue.

	Ordinary shares	
Issued share capital	**2019 Number**	2018 Number
In issue at 1 January	**32,534,237**	32,521,179
Shares issued	**4,928**	13,058
Issued and fully paid at 31 December	**32,539,165**	32,534,237

19. Capital and reserves (continued)

Merger reserve

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

On acquiring Dialight A/S in 2010, the Company issued ordinary shares as part of the consideration. Merger relief was taken in accordance with Section 612 of the Companies Act 2006 and hence £903,000 was credited to the merger reserve. On disposal of Dialight A/S in September 2019, the £903,000 merger reserve balance attributable to that business was transferred to retained earnings.

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.

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.

At 31 December 2019, the number of shares held by the Group through the Dialight Employees' Share Ownership Plan Trust ("ESOT") was nil (2018: nil). The market value of these shares at 31 December 2019 was £nil (2018: £nil).

20. (Loss)/earnings per share

Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share ("EPS") at 31 December 2019 is based on a loss for the year of £16.2m (2018: profit £5.3m) and the weighted average number of ordinary shares outstanding during the year of 32,536,701 (2018: 32,527,708).

Diluted (loss)/earnings per share

The calculation of diluted EPS at 31 December 2019 is based on a loss for the year of £16.2m (2018: profit £5.3m) and the weighted average number of ordinary shares outstanding during the year of 32,536,701 (2018: 33,006,459) was calculated as follows:

Weighted average number of ordinary shares (diluted)

	2019 £'m	2018 £'m
Weighted average number of ordinary shares	**32,537**	32,528
Effect of share options in issue	**–**	479
Weighted average number of ordinary shares (diluted)	**32,537**	33,007

	2019 per share	2018 per share
Basic (loss)/earnings	**(49.8)p**	16.4p
Diluted (loss)/earnings	**(49.8)p**	16.1p

Basic proforma unaudited earnings per share

The calculation of basic proforma unaudited earnings per share at 31 December 2019 is based on a profit for the year of £1.9m (2018: profit £5.7m) – see below - and the weighted average number of ordinary shares outstanding during the year of 32,536,701 (2018: 32,527,708).

Diluted proforma unaudited earnings per share

The calculation of diluted proforma unaudited earnings per share at 31 December 2019 is based on a profit for the year of £1.9m (2018: profit £5.7m) and the weighted average number of ordinary shares outstanding during the year of 32,619,806 (2018: 33,006,459).

20. (Loss)/earnings per share (continued)

Proforma unaudited earnings

	2019 £'m	2018 £'m
Proforma unaudited operating profit	**5.2**	8.0
Financial expense	**(1.2)**	(0.2)
Proforma unaudited profit before tax	**4.0**	7.8
Tax charge on proforma unaudited profit before tax	**(2.1)**	(2.1)
Proforma unaudited profit for the year	**1.9**	5.7

Weighted average number of ordinary shares (diluted)

	2019 '000	2018 '000
Weighted average number of ordinary shares	**32,537**	32,528
Effect of share options in issue	**83**	479
Weighted average number of ordinary shares (diluted)	**32,620**	33,007

	2019 per share	2018 per share
Basic proforma unaudited earnings	**5.8p**	17.3p
Diluted proforma unaudited earnings	**5.8p**	17.0p

21. Employee benefits

Defined benefit pension obligations

The Group makes contributions to two closed defined benefit plans (referred to below as Plan A and Plan B) to provide benefits for employees and former employees upon retirement. The plans expose the Group to actuarial risks, such as longevity risk, interest rate risk and investment risk. Both plans are administered by discrete funds (the "Funds") that are legally separate from the Group. Trustees include independent and Company-appointed individuals. The Trustees of the plans are required by law to act in the best interests of the plan participants and are responsible for setting certain policies (e.g. investment) of the Funds.

Part of the increase in pension liability in the prior year was to incorporate the Guaranteed Minimum Pension (GMP) equalisation (£0.4m representing 1.8% of liabilities) into the scheme liabilities. The equalisation issue was discussed in detail in the 2018 Annual Report.

The Company is required to agree a Schedule of Contributions with the Trustees of the Funds following a valuation of each Fund which must be carried out at least once every three years. The latest actuarial valuations of the Funds are being carried out as at 5 April 2019, and the liabilities at 31 December 2019 have been calculated by an independent qualified actuary, rolling forward the valuation liabilities from the preliminary 5 April 2019 valuations, which have not yet been finalised, and allowing for Fund cash flows to 31 December 2019. The Company expects to pay contributions of £0.4m in respect of the Funds in the year to 31 December 2020. The weighted average duration of the defined benefit obligation is 13 years. There is no effect on recognition of the net defined benefit surplus as a result of the asset ceiling.

The following table shows a reconciliation from the opening balances to the closing balances for the net defined benefit asset and its components:

21. Employee benefits (continued)

	Defined benefit obligation		Fair value of plan assets		Net defined benefit liability/(asset)	
	2019 £'m	2018 £'m	**2019 £'m**	2018 £'m	**2019 £'m**	2018 £'m
Balance at 1 January	**24.9**	25.8	**(25.3)**	(26.8)	**(0.4)**	(1.0)
Included in profit or loss						
Current service cost	**–**	–	**0.1**	0.1	**0.1**	0.1
Past service cost-GMP	**–**	0.4	**–**	–	**–**	0.4
Interest cost/(income)	**0.7**	0.6	**(0.6)**	(0.6)	**0.1**	–
	0.7	1.0	**(0.5)**	(0.5)	**0.2**	0.5
Included in other comprehensive income						
Remeasurements (gain)/loss						
Actuarial (gain)/loss arising from:						
– changes in demographic assumptions	**(2.0)**	(0.2)	**–**	–	**(2.0)**	(0.2)
– changes in financial assumptions	**2.3**	(0.7)	**–**	–	**2.3**	(0.7)
– return on plan assets excluding interest income	**–**	0.3	**(1.9)**	1.2	**(1.9)**	1.5
	0.3	(0.6)	**(1.9)**	1.2	**(1.6)**	0.6
Other						
Contributions paid by the employer	**–**	–	**(0.5)**	(0.5)	**(0.5)**	(0.5)
Benefits paid	**(1.3)**	(1.3)	**1.3**	1.3	**–**	–
	(1.3)	(1.3)	**0.8**	0.8	**(0.5)**	(0.5)
Balance at 31 December	**24.6**	24.9	**(26.9)**	(25.3)	**(2.3)**	(0.4)

Represented by:	**2019 £'m**	2018 £'m
Net defined benefit asset (Plan A)	**(0.1)**	(0.1)
Net defined benefit asset (Plan B)	**(2.2)**	(0.3)
	(2.3)	(0.4)

Plan assets consist of the following:

	2019 £'m	2018 £'m
Equities (class 2)	**10.1**	9.2
Bonds and gilts (class 2)	**16.7**	16.0
Cash	**0.1**	0.1
	26.9	25.3

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

21. Employee benefits (continued)

Actuarial assumptions

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

	% per annum 2019	2018
Discount rate at 31 December	**1.90**	2.70
Future salary increases	**n/a**	n/a
Future pension increases	**3.10**	3.25
Inflation – RPI	**3.20**	3.35
Inflation – CPI	**2.20**	2.35

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:

	2019		2018	
	Plan A	**Plan B**	Plan A	Plan B
Longevity at age 65 for current pensioners				
Males	**23.4**	**20.4**	22.1	22.1
Females	**24.9**	**23.4**	24.2	24.2
Longevity at age 65 for current members aged 45				
Males	**24.3**	**21.4**	23.7	23.7
Females	**26.0**	**24.6**	25.7	25.7

Sensitivity analysis

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

	Defined benefit obligation	
	Increase £'m	**Decrease £'m**
Discount rate (0.5% movement)	**(1.4)**	**1.6**
Inflation (0.5% movement)	**1.1**	**(1.0)**
Life expectancy (+/–1 year)	**1.1**	**(1.1)**

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

21. Employee benefits (continued)
Share-based payments
PSP
In September 2005, the shareholders approved the PSP.

During the year, an award under the PSP was made to the Executive Directors and senior managers, details of which are set out below. The award was split into 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 2016 (EPS)	85,470			(85,470)	**–**	570	3 years	Mar 2019
March 2016 (TSR)	85,470			(85,470)	**–**	356	3 years	Mar 2019
August 2016 (EPS)	1,919			(1,919)	**–**	710	3 years	Aug 2019
August 2016 (TSR)	1,919			(1,919)	**–**	493	3 years	Aug 2019
January 2017 (service condition)	1,192		(1,192)		**-**	1,037	2 years	Jan 2019
January 2017 (service condition)	1,192				**1,192**	1,037	3 years	Jan 2020
March 2017 (EPS)	42,040				**42,040**	990	3 years	Mar 2020
March 2017 (TSR)	14,013				**14,013**	701	3 years	Mar 2020
March 2017 (service condition)	21,006			(1,117)	**19,889**	990	3 years	Mar 2020
August 2017 (service condition)	3,608				**3,608**	832	3 years	Aug 2020
March 2018 (EPS)	116,357			(43,450)	**72,907**	550	3 years	Mar 2021
March 2018 (TSR)	38,786			(14,483)	**24,303**	272	3 years	Mar 2021
March 2018 (service condition)	51,281			(4,600)	**46,681**	522	3 years	Mar 2021
March 2018 (service condition)	5,536			(3,229)	**2,307**	536	3 years	Mar 2021
March 2019 (EPS)		160,360		(93,653)	**66,707**	453	3 years	Mar 2022
March 2019 (TSR)		53,454		(31,218)	**22,236**	314	3 years	Mar 2022
March 2019 (service condition)		115,085		(15,807)	**99,278**	453	3 years	Mar 2022
	469,789	328,899	(1,192)	(382,335)	**415,161**			

Further details of the PSP are included in the Directors' remuneration report on pages 81 to 83.

The 2019 awards linked to EPS have been valued using the Black-Scholes model and those linked to TSR have been valued using the Monte Carlo model.

The following key assumptions and inputs have been used in the calculation of the fair values:

	March 2019 EPS and TSR award
Share price	**£4.50**
Exercise price	**Nil**
Expected volatility	**44%**
Award life	**3 years**
Correlation:	
Dialight and the FTSE 250 Index (excluding investment trusts)	**32%**

The employee expense in 2019 was £0.3m (2018: £0.3m) (see note 7).

Save As You Earn ("SAYE")
In 2014, the Group initiated an all-employee UK Sharesave Plan and established equivalent arrangements in the US and Mexico. Under the terms of the SAYE scheme employees can save up to £250 per month (or local currency equivalent) per scheme and up to £500 per month for all schemes. Awards under the scheme were made at a 20% discount to the closing mid-market price on the date of invitation, vesting over a three-year period. There are no performance conditions attached to the SAYE scheme. The latest remaining scheme was rolled out in April 2017.

21. Employee benefits (continued)

	2017 scheme number	2015 scheme number
Outstanding at 1 January 2019	35,841	16,674
Granted during the year	–	–
Vested in the year	–	(3,736)
Forfeited during the year	–	(12,938)
Outstanding at 31 December 2019	35,841	–

There is a 6-month window for exercise of options at the end of each scheme. The options remaining have a weighted average remaining contractual life of five months. Options were valued using the Black-Scholes option pricing model.

22. Provisions

	Warranty £'m	Lease - restoration £'m	Total £'m
Balance at 1 January 2019	1.5	–	1.5
Lease restoration cost in respect of right of use assets recognised at 1 January 2019 on adoption of IFRS 16	–	0.1	0.1
Provisions made during the year	2.2	0.2	2.4
Provisions used during the year	(1.6)	–	(1.6)
Provision not required	(0.1)	–	(0.1)
Balance at 31 December 2019	**2.0**	**0.3**	**2.3**

The warranty provision relates to sales made over the past five years. The provision has been estimated based on historical warranty data with similar products. 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 2019 £'m	Total 2018 £'m
Due within one year	**0.9**	1.0
Due between one and five years	**1.2**	0.5
Due after five years	**0.2**	–
	2.3	1.5

23. Trade and other payables

	2019 £'m	2018 £'m
Trade payables	**18.9**	19.4
Other taxes and social security	**0.8**	0.9
Non-trade payables and accrued expenses	**8.7**	9.7
	28.4	30.0

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 25.

24. Cash and cash equivalents

	2019 £'m	2018 £'m
Cash and cash equivalents	**0.5**	2.2

25. Financial risk management

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

This note presents information about the Group's exposure to each of the above risks and the Group's objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

The Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

Credit risk

Trade and other receivables

Credit risk is the risk of financial loss if a customer fails to meet its contractual obligations by not paying the receivables due. The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Group has no significant credit risk as it does not have any major customer concentration.

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Each new customer is analysed individually for creditworthiness before the Group's standard payment conditions and terms and conditions are offered.

The Group's review includes external ratings when available and, in some cases, bank references. Purchase limits are set for customers. Customers who do not meet the benchmark creditworthiness may transact with the Group only on a prepayment basis.

The Group establishes an allowance for impairment that represents its estimate of expected future losses in respect of trade and other receivables. Impairment losses are determined having taken into account special customer circumstances and financial position, together with Group information about general payment trends. All receivables are less than 120 days, with the exception of £0.1m which is fully impaired.

Under IFRS 9, adopted in 2018, an expected credit loss model is used for calculating impairment of financial assets. The Group applies the simplified approach as permitted by IFRS 9. The expected credit loss model (ECL) considers the Group's historical credit loss, factors specific to each receivable, the current economic environment and expected changes in future forecasts, to determine the probability of default over the remaining life of the assets. The application of this model did not result in a material impact on the Group's financial performance or the financial position in the current year or prior year. The trade receivables balance below is shown net of the provision for bad debts.

Exposure to credit risk

The ageing of trade receivables at the reporting date was:

	Gross 2019 £'m	**Specific Impairment 2019 £'m**	Gross 2018 £'m	Specific Impairment 2018 £'m
Not past due	**16.9**	**–**	21.7	–
Past due 0–30 days	**3.5**	**–**	4.4	–
Past due 31–120 days	**0.5**	**–**	2.6	–
Past due 121–365 days	**–**	**–**	–	–
Past due more than one year	**0.1**	**(0.1)**	0.1	(0.1)
Total	**21.0**	**(0.1)**	28.8	(0.1)

25. Financial risk management (continued)

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

	£'m
Balance at 1 January 2019 and 31 December 2019	**0.1**

The allowance in respect of trade receivables is used to record forecast impairment losses unless the Group is satisfied that no recovery of the amount owing is possible, at which point the amount considered irrecoverable is written off against the financial asset directly. Other non-trade receivables of £5.6m (2018: £6.7m) 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.

Interest rate risk

The Group's policy is to manage exposure to interest rate risk by utilising borrowings at LIBOR plus applicable margins. At 31 December 2019, the Group had £17m (2018: £5.1m) drawn against its revolving credit facility.

Foreign currency risk

Exposure to currency risk arises in the normal course of the Group's business.

The Group is exposed to foreign currency risk on sales and purchases that are denominated in a currency other than each subsidiary's functional currency. The currencies giving rise to risk are primarily the Euro, CAD Dollar and the US Dollar.

Where possible the Group uses natural hedging within the Group to hedge the majority of its foreign currency risk. Natural hedging is the mechanism whereby the cash inflows in a particular currency are matched to the cash outflows in that currency at the same business or a different Group company. The Group has borrowing facilities in US Dollars in order to match the currency of the Group's major market. Foreign exchange contracts may be taken out to manage exposures that are not mitigated through natural hedging but the Group had no foreign exchange contracts at the balance sheet date.

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:

	2019 $'m	**2019 CAD'm**	**2019 €'m**	**2019 AUDm**	2018 $'m	2018 CAD'm	2018 €'m	2018 AUDm
Trade receivables	**0.3**	**2.0**	**0.7**	**–**	0.9	2.4	2.6	–
Currency cash	**(17.3)***	**0.1**	**–**	**–**	(3.9)	–	–	0.1
Trade payables	**–**	**–**	**–**	**–**	–	–	–	–
Gross balance sheet exposure	**(17.0)**	**2.1**	**0.7**	**–**	(3.0)	2.4	2.6	0.1

* USD element of multi-currency revolving credit facility

The following significant exchange rates applied during the year:

	2019 Average rate	**2019 At balance sheet date**	2018 Average rate	2018 At balance sheet date
US Dollar	**1.28**	**1.32**	1.33	1.27
Euro	**1.14**	**1.18**	1.13	1.11
Canadian Dollar	**1.69**	**1.72**	1.73	1.74
Mexican Peso	**24.56**	**24.93**	25.63	25.02

25. Financial risk management (continued)

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 2019	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	**(28.4)**	**(28.4)**	**(21.4)**	**(7.0)**	**–**	**–**	**–**
Borrowings	**(17.0)**	**(17.0)**	**–**	**–**	**–**	**(17.0)**	**–**
Lease liabilities	**(12.3)**	**(12.3)**	**(0.2)**	**(1.4)**	**(1.4)**	**(3.7)**	**(5.6)**
	(57.7)	**(57.7)**	**(21.6)**	**(8.4)**	**(1.4)**	**(20.7)**	**(5.6)**

31 December 2018	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	(30.0)	(30.0)	(30.0)	–	–	–	–
Borrowings	(5.1)	(5.1)	–	–	(5.1)	–	–
Lease liabilities	–	–	–	–	–	–	–
	(35.1)	(35.1)	(30.0)	–	(5.1)	–	–

* 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 five-year unsecured £25m multi-currency revolving credit facility, of which £17m was drawn at 31 December 2019 (2018: £5.1m), see note 14. In February 2020 the revolving credit facility was renewed for a further 3 years to February 2023, with the option to extend by an additional 2 years.

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 2019, this totalled £67.8m (2018: £85.1m).

The Board is not proposing a final dividend for 2019. 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.

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 2019, it is estimated that a general increase of 1% in the value of the Euro and the US Dollar against UK Sterling would have had no impact on the Group's loss before tax for the year ended 31 December 2019 (2018: increased profit before tax by £0.4m), but would have increased the Group's equity for the year ended 31 December 2019 by £0.5m (2018: £0.1m).

25. Financial risk management (continued)

Fair values versus carrying amounts

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

	Carrying amount 2019 £'m	Fair value 2019 £'m	Carrying amount 2018 £'m	Fair value 2018 £'m
Financial assets				
Cash and cash equivalents	**0.5**	**0.5**	2.2	2.2
Loans and receivables				
Trade and other receivables	**21.8**	**21.8**	31.0	31.0
Total financial assets	**22.3**	**22.3**	33.2	33.2
Financial liabilities				
Lease liabilities	**(12.3)**	**(12.3)**	–	–
Trade and other payables	**(28.4)**	**(28.4)**	(30.0)	(30.0)
Borrowings	**(17.0)**	**(17.0)**	(5.1)	(5.1)
Total financial liabilities	**(57.7)**	**(57.7)**	(35.1)	(35.1)
Net financial liabilities	**(35.4)**	**(35.4)**	(1.9)	(1.9)

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(w).

Reconciliation of movements in liabilities arising from financing activities

	2019 £'m			2018 £'m		
	Loans & Borrowings	Lease Liabilities	Total	Loans & Borrowings	Lease Liabilities	Total
At 1 January	**5.1**	**–**	**5.1**	–	–	–
Recognised on adoption of IFRS 16	**–**	**3.7**	**3.7**	–	–	–
Loans drawn down	**11.9**	**–**	**11.9**	5.1	–	5.1
New lease liabilities	**–**	**10.1**	**10.1**	–	–	–
Repayment of loans	**–**	**–**	**–**	–	–	–
Repayment of lease liabilities	**–**	**(1.8)**	**(1.8)**	–	–	–
Exchange adjustments	**–**	**(0.3)**	**(0.3)**	–	–	–
Interest expense	**–**	**0.6**	**0.6**	–	–	–
At 31 December	**17.0**	**12.3**	**29.3**	5.1	–	5.1

Interest costs on loans and borrowings of £0.5m (2018: £0.2m) were paid in the year.

26. Operating leases

Non–cancellable operating lease rentals are payable as follows:

	2019 £'m	2018 £'m
Less than one year	**0.2**	2.2
Between one and five years	**0.1**	5.5
	0.3	7.7

Of the £0.3m (2018: £7.7m), £nil (2018: £6.8m) relates to property and the balance to plant and equipment. On transition to IFRS 16 on 1 January 2019 certain exemptions were taken from applying the standard in respect of leases of low value items and leases with remaining terms of one year or less. These leases have been expensed on a straight line basis in the Consolidated income statement on the same basis as previously applied under IAS 17. Refer to the accounting policy applied for IAS 17 in note 4(u).

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. Capital commitments

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

	2019 £'m	2018 £'m
Contracted	**0.4**	1.9

28. Contingencies

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 outsource manufacturer, Sanmina Corporation. On Friday, 20th December 2019, both parties issued legal proceedings against the other. The parties are therefore in formal litigation, with no conclusion expected before 2021. 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 confident of the merits of its legal position, however in the unlikely event, that Sanmina's claim is successful, the range of outcomes could be £0 - £8m.

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 willful 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 willful misconduct.

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

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.

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.

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

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 2019 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. All investments are 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	Design and sale of Lighting products
Dialight GmbH*	100%	Maximilianstrasse 54 80538 Munchen Germany	Sale of Lighting products
Dialight ILS Australia Pty Limited*	75%	Level 2 Spectrum 100 Railway Road Subiaco WA 6008 Australia	Sale of Lighting products
Dialight Asia Pte. Ltd*	75%	33 Ubi Avenue 3 07–72 Vertex (Tower A) Singapore, 408868	Sale of Lighting products
Dialight Penang Sdn. Bhd.*	100%	Room B, 3rd Floor 309-K Perak Road 10150, Penang Malaysia	Assembly and sale of Lighting and Signals & Components products
Dialight Do Brasil Tecnologia Led Ltda*	75%	American Park Empresarial NR Indaiatuba Sao Paulo/SP 13347-662, Brazil	Assembly and sale of Lighting products
Dialight de Mexico, S. de R.L. de C.V.*	100%	Calle Lirios S/N Colona Pacheco Ensenda Baja California Mexico	Assembly of Lighting, Signals & Components products

There have been no changes in ownership of any of these subsidiaries. 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, Dialight Asia Pte. Ltd and Dialight Do Brasil Tecnologia Led Ltda are all owned 75% by the Group and there are non-controlling interests of 25%. The total loss for the year attributable to non-controlling interests is £0.1m (2018: profit £0.1m) and their share of equity is £0.3m (2018: £0.4m).

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

30. Subsidiaries (continued)

(b) Other companies

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

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

** These companies are exempt from the requirement to prepare individual audited financial statements in respect of the year ended 31 December 2019, by virtue of sections 479A and 479C of the Companies Act 2006.

31. Other receivables

	2019 £'m	2018 £'m
Other receivables	**4.7**	0.2

These relate to deposits on leasehold properties and amounts paid on account related to inventory at our former outsource manufacturer.

32. Reconciliation to non-GAAP performance measures

As explained in note 6, the Group incurs costs and earns income that is non-recurring in nature or that is otherwise considered to not be reflective of the underlying performance of the business. In the assessment of performance of the business units of the Group, management examines underlying performance, which removes the impact of non-underlying costs and income.

In addition, the results of businesses disposed of during the year are reclassified to non-underlying for the current year, as those businesses are no longer part of the Group's ongoing, underlying business.

32. Reconciliation to non-GAAP performance measures (continued)

	2019 £'m	2018 £'m
(Loss)/profit from operating activities	**(11.3)**	7.6
Non-recurring costs (see note 6)	**16.5**	0.4
Proforma unaudited operating profit (EBIT)	**5.2**	8.0

(Loss)/profit from operating activities	**(11.3)**	7.6
Non-recurring costs (see note 6)	**16.5**	0.4
Depreciation of property, plant and equipment (see note 11)	**2.6**	3.1
Amortisation of intangible assets (see note 13)	**2.0**	1.5
Share-based payments	**0.3**	0.3
Proforma unaudited EBITDA*	**10.1**	12.9

(Loss)/profit from operating activities	**(11.3)**	7.6
Non-recurring costs (see note 6)	**16.5**	0.4
Depreciation of property, plant and equipment (see note 11)	**2.6**	3.1
Amortisation of intangible assets (see note 13)	**2.0**	1.5
Share-based payments	**0.3**	0.3
Net movement on working capital (Inventories, trade and other receivables, trade and other payables) as per Consolidated statement of cash flows	**6.6**	(19.0)
Proforma unaudited operating cashflow	**16.7**	(6.1)

* All items classified as unaudited non-recurring adjustments are permitted as add-backs for covenant calculation purposes.

Lighting segment

	2019 £m	2018 £m
Revenue	**111.5**	125.0
Statutory gross profit	**31.3**	47.1
Unaudited non-recurring costs	**10.2**	–
Proforma unaudited gross profit	**41.5**	47.1
Proforma unaudited gross profit %	**37.2%**	37.7%
Overheads*	**(34.5)**	(38.6)
Proforma unaudited operating profit	**7.0**	8.5

* Overheads excluding audited non-underlying costs of £6.3m

Constant currency

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

Net debt

Net debt is defined as total Group borrowings less cash. Net debt of £16.5m at the year-end (2018: £2.9m) consisted of borrowings of £17.0m (2018: £5.1m) less cash of £0.5m (2018: £2.2m). For borrowing covenant calculation purposes, all aspects of IFRS 16 leases have been excluded.

33. Leases

See accounting policy in note 4(u).

A. Leases as lessee (IFRS 16)

The Group leases industrial premises, office buildings, IT and other equipment. The leases typically run for a period of 1.5 – 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.
Until 31 December 2018, these leases were classified as operating leases under IAS 17.

The Group leases IT and other equipment with contract terms of one to four 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.

33. Leases (continued)

Information about leases for which the Group is a lessee is presented below.

i. Right of use assets

Right of use assets related to leased properties are presented separately (in note 12) from property, plant and equipment (in note 11).

ii. Amounts recognised in profit or loss

	£'m
2019 – Leases under IFRS 16	
Interest on lease liabilities	**(0.6)**
Income from sub-leasing right of use assets presented in 'other income'	**–**
Expenses relating to short-term leases	**(0.2)**
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	**(0.2)**
	(1.0)
2018 – Operating leases under IAS 17	
Lease expense	**(2.0)**
Contingent rent expenses	**–**
Expenses relating to short-term leases	**(0.1)**
Sub-lease income presented in 'other revenue'	**–**
	(2 .1)

iii. Amounts recognised in statement of cash flows

	2019 £'m
IFRS 16 lease repayments	**(1.8)**

iv. 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 £9.7m.

B. Leases as lessor

The Group has a lease on an office that was entered into during 2019 and which it is also sub-letting. (See note 2(c))

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 2(c) 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 2019 was £nil (2018: £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:

2019 – Operating leases minimum rentals receivable under IFRS 16*	2019 £'m
Less than one year	**0.2**
One to two years	**0.2**
Two to three years	**0.2**
Three to four years	**0.2**
Four to five years	**0.2**
More than five years	**0.6**
Total	**1.6**

* There were no Operating leases under IAS 17 for sub-leases in the prior year.

34. Post balance sheet events

As a result of the COVID-19 pandemic, the Group has conducted an assessment on the potential financial and operational risks to the business. The Group has a duty of care towards all employees, and therefore we expect some of our staff to be required to self-isolate and a lower level of sales visits to take place than anticipated. There is also the potential for some customers to prohibit contractors from entering their sites restricting installations.

While the Group is yet to experience any significant impact from the virus, there may be an impact on revenue, supply chain and operating facilities if the situation worsens. As part of the 2020 strategy, the Group has increased the level of finished goods held in our regional distribution centres which will mitigate the risk in the short term against labour shortages and subsequent production delays.

Company balance sheet (prepared under FRS 102)

at 31 December 2019

	Note	2019 £'m	2018 £'m
Fixed assets			
Tangible fixed assets	4	**0.1**	0.1
Investments	5	**9.4**	16.3
Pension fund asset	15	**0.2**	0.3
		9.7	16.7
Current assets			
Debtors (of which £nil due after 1 year (2018: £28.0m))	8	**55.5**	46.0
Deferred tax asset	12	**–**	0.3
Bank and cash balances		**–**	0.3
		55.5	46.6
Total assets		**65.2**	63.3
Creditors			
Amounts falling due within one year:			
Bank overdraft		**(0.9)**	–
Other creditors	9	**(1.5)**	(3.4)
Provisions	10	**(0.4)**	–
		(2.8)	(3.4)
Amounts falling due after more than one year:			
Borrowings	11	**(17.0)**	(5.1)
Total liabilities		**(19.8)**	(8.5)
Net current assets		**52.7**	43.2
Net assets		**45.4**	54.8
Capital and reserves			
Called up share capital	13, 14	**0.6**	0.6
Capital redemption reserve		**2.2**	2.2
Other reserve		**4.0**	3.7
Profit and loss account		**38.6**	48.3
Equity shareholders' funds		**45.4**	54.8

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 £9.5m (2018: loss of £1.5m) primarily due to the write-down of investments.

The accompanying notes form part of these financial statements.

These financial statements were approved by the Board of Directors on 31 March 2020 and were signed on its behalf by:

Fariyal Khanbabi
Group Chief Executive

David Blood
Chairman

Company statement of changes in equity

for the year ended 31 December 2019

	Share capital £'m	Other reserve capital contribution £'m	Capital redemption £'m	Retained earnings £'m	**Total equity £'m**
Balance at 1 January 2019	0.6	3.7	2.2	48.3	**54.8**
Loss for the year	–	–	–	(9.5)	**(9.5)**
Other comprehensive expense:					
Remeasurement of defined benefit pension liability, net of tax	–	–	–	(0.2)	(0.2)
Total other comprehensive expense	–	–	–	(0.2)	(0.2)
Total comprehensive expense for the year	–	–	–	(9.7)	**(9.7)**
Transactions with owners, recorded directly in equity					
Share-based payments, net of tax	–	0.3	–	–	**0.3**
Total contribution by and distribution to owners	–	0.3	–	–	**0.3**
Balance at 31 December 2019	**0.6**	**4.0**	**2.2**	**38.6**	**45.4**

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

At 31 December 2019 the number of shares held by the Group through the ESOT was nil ordinary shares (2018: nil). The market value of these shares at 31 December 2019 was £nil (2018: £nil).

Notes to the Company financial statements
for the year ended 31 December 2019

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 105 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 s408 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 Company 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.

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

(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.

(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.

(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.

3. Critical accounting judgements and key sources of estimation uncertainty
In the application of the Company's accounting policies, which are described in note 1, 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. Tangible fixed assets

	Fixtures, fittings and equipment £'m
Cost	
At 1 January 2019	0.3
Additions	0.1
At 31 December 2019	**0.4**
Depreciation	
At 1 January 2019	(0.2)
Charge for the year	(0.1)
At 31 December 2019	**(0.3)**
Net book value at 31 December 2019	**0.1**
Net book value at 31 December 2018	0.1

No assets of the Company are held under finance leases.

5. Investments

Investments in subsidiary undertakings

	£'m
Cost	
At 1 January 2019	23.9
Share–based payments	0.3
Disposal	(3.4)
At 31 December 2019	**20.8**
Provisions	
At 1 January 2019	(7.6)
Impairment	(7.2)
Disposal	3.4
At 31 December 2019	**(11.4)**
Net book value at 31 December 2019	**9.4**
Net book value at 31 December 2018	16.3

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.

The disposal relates to the sale of Dialight A/S in September 2019, which comprised the European wind business, and is discussed in detail in note 6 to the Consolidated Financial Statements. In the current year the impairment review of the carrying value of parent company investments resulted in an impairment of £1.3m for Dialight A/S prior to its sale (2018: £1.9m) and £5.9m for Dialight Europe Ltd (2018: £nil).

A full list of subsidiaries of the Company is provided in note 30 to the Consolidated Financial Statements on pages 137 and 138.

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 25 to the Consolidated Financial Statements.

All carrying values are considered to be fair values.

A sensitivity analysis has been carried out in note 25 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:

	2019 $'m	**2019 €'m**	**2019 AUDm**	2018 $'m	2018 €'m	2018 AUDm
Currency cash	**(17.3)**	**–**	**–**	(3.9)	–	0.1
Other creditors	**–**	**–**	**–**	–	–	–
Gross balance sheet exposure	**(17.3)**	**–**	**–**	(3.9)	–	0.1

The exchange rates applied during the year are disclosed in note 25 to the Consolidated Financial Statements.

Liquidity risk

The Company's exposure to liquidity risk relates to its borrowings. This is discussed in note 25 to the Consolidated Financial Statements.

7. Share-based payments

Share-based payments are described in full in note 21 to the Consolidated Financial Statements.

PSP

The PSP relating to employees of the Company is disclosed on page 70 in the Directors' remuneration report.

Save As You Earn ("SAYE")

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

	2017 scheme number	2015 scheme number
Outstanding at 1 January	2,786	3,736
Vested during the year	–	(3,736)
Forfeited during the year	–	–
Outstanding at 31 December	2,786	–

Details on assumptions and inputs used in the calculation of share-based payment amounts are disclosed in note 21 to the Consolidated Financial Statements.

8. Debtors

	2019 £'m	2018 £'m
Amounts owed by subsidiary undertakings < 1 year	**55.3**	17.6
Amounts owed by subsidiary undertakings > 1 year	–	28.0
Other debtors	**0.2**	0.4
	55.5	46.0

9. Creditors

	2019 £'m	2018 £'m
Amounts falling due within one year:		
Amounts owed to subsidiary undertakings	**0.4**	1.4
Accruals and deferred income	**0.8**	2.0
Other creditors	**0.3**	–
	1.5	3.4

10. Provisions

	2019 £'m	2018 £'m
At 1 January	**–**	–
Additions	**0.4**	–
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 historic sales by the business sold, in accordance with the Sale and Purchase Agreement.

The contingent liability for the Company in relation to litigation by Sanmina Corporation is disclosed in note 28 (page 136) of the Group Accounts.

11. Borrowings

On 25 February 2020 the Group renewed its revolving credit facility with HSBC for a further 3 years to February 2023, with the option to extend by an additional 2 years. The covenants attached to the facility relate to net debt to EBITDA ratio and interest cover. During the year and subsequently, the Group has operated well within those covenants. At 31 December 2019 there were £17.0m drawings on the facility (2018: £5.1m).

12. Deferred tax assets

	2019 £'m	2018 £'m
At 1 January	**0.3**	0.3
Impairment	**(0.3)**	–
Recognised in equity	**–**	–
At 31 December	**–**	0.3
An analysis of deferred tax is as follows:		
Losses and other items	**–**	0.3

13. Called up share capital

	2019 Number	2019 €'m	2018 Number	2018 €'m
Allotted and fully paid				
Ordinary shares of 1.89 pence each	**32,539,165**	**0.6**	32,534,237	0.6
Shares classified as liabilities		**–**		–
Shares classified in shareholder funds		**0.6**		0.6
		0.6		0.6

During the year 4,928 shares were issued (2018: 13,058 shares) in order to satisfy the requirement for shares that vested as part of the Sharesave scheme and the proceeds of issue were less than £0.1m (2018: £0.1m). The ordinary shares issued in the year have the same rights as the other shares in issue.

14. 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.

15. 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 latest actuarial valuation is being carried out as at 5 April 2019, and the liabilities at 31 December 2019 have been calculated by an independent qualified actuary, rolling forward the valuation liabilities from the preliminary 5 April 2019 valuation, which has not yet been finalised, and allowing for Executive Fund cash flows to 31 December 2019 and for changes in the assumptions for FRS 102 purposes.

Recognised assets for defined benefit arrangements

	2019 £'m	2018 £'m
Present value of funded obligations	**(2.9)**	(2.5)
Fair value of plan assets	**3.1**	2.8
Recognised asset for defined benefit arrangements	**0.2**	0.3

Plan assets consist of the following:

	2019 £'m	2018 £'m
Bonds	**3.1**	2.8

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

Movements in the present value of defined benefit obligations

	2019 £'m	2018 £'m
Liabilities at 1 January	**2.5**	2.3
Interest cost	**0.1**	0.1
Benefits paid	**(0.1)**	(0.1)
Changes in financial assumptions	**0.4**	0.2
Liabilities at 31 December	**2.9**	2.5

Movements in fair value of plan assets

	2019 £'m	2018 £'m
Assets at 1 January	**2.8**	2.5
Interest on assets	**0.1**	0.1
Employer contributions	**0.1**	0.1
Benefits paid	**(0.1)**	(0.1)
Return on plan assets less interest	**0.2**	0.2
Assets at 31 December	**3.1**	2.8

Expense recognised in the profit and loss account

	2019 £'m	2018 £'m
Interest on obligation	**0.1**	0.1
Interest on plan assets	**(0.1)**	(0.1)
	–	–

15. Pensions (continued)

Liability for defined benefit obligations

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

	UK scheme (% per annum)	
	2019	2018
Discount rate at 31 December	**1.90**	2.70
Future pension increases	**3.10**	3.25
Inflation – RPI	**3.20**	3.35
Inflation – CPI	**2.20**	2.35

For its UK pension arrangements, the Company has for the purpose of calculating its liabilities as at 31 December 2019, 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 24.3 years for males and 26.0 years for females. For individuals currently aged 65 years the average life expectancy is 23.4 years for males and 24.9 years for females.

16. Related party transactions

During the period, the Company received no management fees or interest on inter-company loans (2018: £nil) from subsidiaries that are not wholly owned. At 31 December 2019 a total of £0.3m was owed to the Company by those subsidiaries (2018: £1.1m).

Five-year summary (unaudited)

	Prepared under IFRS				
	2019 £'m	2018 £'m	2017 £'m	2016 £'m	2015 £'m
Revenue	**151.0**	169.6	181.0	182.2	161.4
Research and development cash expenditure	**8.1**	7.3	6.9	6.0	5.5
Proforma unaudited operating profit	**5.2**	8.0	9.7	13.1	6.1
Proforma unaudited adjustments	**(10.2)**	–	–	–	–
Underlying operating (loss)/profit	**(5.0)**	8.0	9.7	13.1	6.1
Non-underlying items	**(6.3)**	(0.4)	–	–	–
(Loss)/profit from operating activities	**(11.3)**	7.6	9.7	13.1	6.1
Finance charges	**(1.2)**	(0.2)	(0.3)	(0.5)	(0.5)
(Loss)/profit before taxation	**(12.5)**	7.4	3.0	(3.8)	(3.9)
Cash generated by/(used in) operations	**3.5**	(7.4)	13.1	16.3	8.7
Net (debt)/cash	**(16.5)**	(2.9)	12.8	8.0	(3.8)
Shareholders' funds	**67.8**	85.1	76.1	77.1	70.1

Statistical information					
Basic (loss)/earnings per ordinary share - pence	**(49.8)**	16.4	4.8	(8.4)	(6.4)
Dividends per share - pence	**n/a**	n/a	n/a	n/a	9.8
Dividend cover (times)	**n/a**	n/a	n/a	n/a	n/a
Proforma unaudited operating margin	**3.4%**	4.7%	5.4%	7.2%	3.8%

Directory and shareholder information

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www.dialight.com

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

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

Dialight plc shareholders can elect to receive their shareholder communications such as the Annual Report and Accounts and other shareholder documents electronically by registering at

www.dialight.com/SiteServices/AlertServices

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

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

Dealing service
Equiniti offers Shareview Dealing, a service which allows you to sell your Dialight plc shares or add to your holding if you are a UK resident. You can deal in your shares on the internet or by telephone. For more information about this service and for details of their rates, log on to www.shareview.co.uk/dealing or telephone 0345 603 7037 between 8.30am and 4.30pm, Monday to Friday.

If you wish to deal, you will need your account/shareholder reference number which appears on your share certificate.

Alternatively, if you hold a share certificate, you can also use any bank, building society or stockbroker offering share dealing facilities to buy or sell shares. If you are in any doubt about buying or selling shares, you should seek professional financial advice.

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Financial calendar 2020

Annual General Meeting	13 May 2020
Half Yearly Financial Report	3 August 2020

Forward-looking statements
Certain sections of this Annual Report contain forward-looking statements that are subject to risk factors associated with, amongst other things, the economic and business circumstances occurring from time to time in the countries and sectors in which the Company and its subsidiaries and associates operate. It is believed that the expectations reflected in the Annual Report are reasonable but they may be affected by a wide range of variables which could cause actual results to differ materially from those currently anticipated.

Trademarks
The following registered trademarks of the Dialight Group appear in this document: "Dialight", "Vigilant", "Reliant" and "Safesite".

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

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