

## Tax Strategy

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

### Overview of our business

Dialight is a business that operates in multiple jurisdictions but has its operational headquarters in the United Kingdom. It has operating subsidiaries which are a combination of manufacturing and sales organisations in The Americas, EMEA and APAC with a small head office team.

### Aims

This Tax Strategy (“Strategy”) follows the principles of our Code of Conduct and aims to:

- Support Dialight’s worldwide business operations.
- Comply with the applicable tax legislation in the countries in which we operate.
- Align Tax policy with business strategy and operations
- Ensure Dialight acts with Integrity and transparency
- Control and managing risks
- Develop our people
- Enhance shareholder value

### Scope

This Strategy applies to all taxes, employment related, corporation taxes, value added taxes and any other direct or indirect tax in the countries in which we operate.

### Target(s) and commitments

Paying our fair share of local taxes aligns with the United Nations Sustainable Development Goal (UN SDG) 10 “Reduced Inequalities”.

### Approach to working with tax authorities

Dialight seeks to maintain good working relationships with all tax authorities based on compliance, transparency, co-operation and proactive engagement to minimise tax risk. In line with the code of conduct requirements to foster good relationships with tax authorities, governments and related third parties and to undertake all such dealings in a professional, courteous and in a timely manner.

### Tax compliance

Dialight is committed to comply with the tax legislation in the countries in which we operate. Compliance for us means providing the relevant tax returns and tax payments within statutory

timescales. In addition, we will promptly disclosure to the tax authorities if errors arise in relation to our tax liabilities.

The tax code of conduct requires that we comply with all laws and disclosures and act with due professional care. These requirements are never more relevant than in ensuring accuracy and completeness of the presentation of our tax position in the financial reporting of the Group.

### **Tax planning**

Dialight will execute commercial transactions which arise from its business model in a tax efficient manner. This means that it will not engage in transactions that are purely tax-motivated or put in place arrangements that are contrived or artificial. The tax code of conduct provides that we will enter into tax planning where the financial benefit is tax related but we will not engage in artificial tax arrangements. The test of artificiality is generally aligned with the existence of commercial purpose.

We discuss tax planning with external advisors to the extent that such planning is aligned with this Strategy and to support our commercial decision-making process where the tax position appears to be unclear or we do not have the expert knowledge required to fully assess the tax consequences.

The Group may make acquisitions or disposals as part of its business model in relation to trading companies in countries with low tax rates. Furthermore, when making acquisitions and disposals, the Group will consider the associated tax consequences including those relating to the appropriate legal and financing structure.

### **Transfer pricing**

The Group's principal manufacturing operations are in Mexico and Malaysia operated through locally managed operating companies. The finished goods produced are sold within the Group to operating companies using our transfer pricing policy.

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

### **Maquiladora program**

Dialight Corporation (based in the United States) participates in the maquiladora program put in place by the Mexican government. This allows Dialight Corporation to export raw materials to Mexico where they are transformed into finished goods by Dialight de Mexico and then re-import the finished goods from Mexico without any duties being payable. Dialight de Mexico is re-imbursed for its work using a cost-plus basis agreed with the Mexican tax authorities.

## Risk management

**Over-riding principle:** Tax risk is ideally managed by the prevention of unnecessary disputes. The avoidance of all tax dispute would suggest an overly prudent position that is not in line with one of our main objectives which is to enhance shareholder value.

Prevention of unnecessary dispute is desired and appropriate and best achieved:

- From strong technical positions
- Clear explanation of those positions
- Thorough documentation, particularly of facts
- Well established relationships with tax authorities
- Strong compliance procedures ensuring accurate and complete tax returns.

Assessment of risk should take due account of:

- Both short and long term considerations and risks
- The impact on corporate reputation & brand
- The impact on relationships with governments
- The consequence of disagreements with tax authorities over the application of law
- The benefit of certainty in respect to uncertain or disputed tax positions.

**Appetite for risk:** Dialight's appetite for risk is governed by its "more likely than not" principle enshrined in the code of conduct. Consistency and transparency of application across the group is essential

The Group's tax risks occur in the following areas:

- Transactional – the application of tax laws to specific transactions.
- Compliance – our tax accounting and processes for making tax payments, filing tax returns and responding to questions from tax authorities.
- Operational – arising from our routine, everyday business operations.
- Financial reporting – the process for arriving at the tax balances included in the Group's Annual Report and Accounts.

The Group seeks to operate on a low tax risk basis and will not engage in transactions that are considered to be high risk and Group wide risks are managed centrally. We have a formal tax policy which sets out the responsibilities of the local Finance Director's (FD's) and the situations when approval from Head Office is required. Compliance with this policy is monitored by the UK head office, with the FDs also certifying their compliance each quarter.

Regular meetings are held with our tax advisors to ensure that we are aware of legislative changes. Advisors will also be consulted in relation to non-routine transactions.

The Group has a zero-tolerance policy on tax evasion including the activities which facilitate it. Consequently, it is committed to ensuring that its businesses meet the compliance obligations of the UK corporate criminal offence of failure to prevent the facilitation of tax evasion.

### **Governance**

The Chief Financial Officer is ultimately responsible for this Strategy and the Strategy is overseen by the Audit Committee which provides updates to the Dialight plc board. Day to day delivery of the Strategy rests with the Group Financial Controller, who supports our worldwide business operations in their tax matters and works closely with our external advisors, HMRC, IRS and other national tax administrations.