Dialight

("Dialight" or "the Group")

Full year results 2021

Dialight plc (LSE: DIA.L), the global leader in sustainable LED lighting for industrial applications, announces its full year results for the year ended 31 December 2021.

Financial summary	2021 £m	2020 £m
Revenue	**131.6**	119.0
Underlying profit (loss) from operating activities	**4.5**	(6.4)
Profit (loss) from operating activities	**2.1**	(8.8)
Profit (loss) for the year	**0.3**	(7.8)
Statutory EPS – basic	**0.9p**	(24.0)p
Net debt	**(15.7)**	(11.4)

Key points

- Strong order growth of 24% at constant currency, closing order book higher
- Revenue up 11% (17% at constant currency) driven by robust MRO activity, project activity remains subdued although seeing more quoting activity
- Underlying operating profit of £4.5m, up £10.9m on 2020
- Ongoing robust operational performance, despite headwinds of cost, material availability and logistical constraints that are expected to continue
- Net debt at £15.7m reflecting improving EBITDA and inventory build to maintain uninterrupted supply
- 2022 has started well with a substantial order book and good pipeline

Fariyal Khanbabi, Group Chief Executive, said:

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

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

Full year results presentation
The 2021 full year results presentation can be found at:
http://ir.dialight.com/reports-presentations-and-results/results-presentation/

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About Dialight:

Dialight (LSE: DIA.L) is a global leader in sustainable LED lighting for industrial applications**.** Dialight's LED products are 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.
The company is headquartered in the UK, with operations in the USA, UK, Mexico, Malaysia, Singapore, Australia, Germany and Dubai. To find out more about Dialight, visit www.dialight.com.

Notes:

1. Net debt excludes lease liabilities under IFRS 16
2. Underlying profit from operating activities and underlying EBIT are the same measures
3. Constant currency impact is calculated by re-translating the prior year numbers at the exchange rate prevailing in the current year.
4. Cautionary Statement: This announcement contains certain statements, statistics and projections that are or may be forward-looking. The accuracy and completeness of all such statements, including, without limitation, statements regarding the future financial position, strategy, projected costs, plans and objectives for the management of future operations of Dialight plc and its subsidiaries is not warranted or guaranteed. These statements typically contain words such as 'intends', 'expects', 'anticipated', 'estimates' and words of similar import. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. Although Dialight plc believes that the expectations will prove to be correct. There are a number of factors, many of which are beyond the control of Dialight plc, which could cause actual results and developments to differ materially from those expressed or implied by such forward-looking statements. This announcement contains inside information on Dialight plc.

Overview

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

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

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

Results

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

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

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

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

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

Signals & Components is a high-volume business operating within highly competitive markets. The resurgence of this division that we saw in 2020 continued in 2021 with order growth of 27% at constant currency. Within this division, opto-electronic component sales were fueled by increased demand in the electronics market

related to home-working. In addition, demand for Traffic Lighting continued to be strong. Raw material shortages impacted conversion of orders to revenue, but the division enters 2022 with a strong order book.

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

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

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

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

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

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

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

Strategy

Dialight's core strengths centre around our products and a long history of innovation within the industrial lighting markets. Our fixtures meet the needs of our customers to enhance safety, reduce energy and maintenance costs and critically, help them achieve the objective of net zero carbon. Our products also provide the best cost of

ownership to industrial customers, with paybacks based on energy savings and maintenance cost avoidance. Our in-house custom designed power supply is the key to our market leading 10- year warranty and field reliability. Our optimised optics ensure improved light illumination, providing uniformity and quality whilst enabling our customers to use fewer lights to illuminate the target area. Their integrated design significantly reduces the burden of installation and maintenance. Our products have the ability to withstand extreme environmental conditions such as very high or low temperatures, humidity, high vibration and corrosive environments. The addition of sensors and controls brings an additional element to the value proposition for our customers.

Our overall strategy is focused on organic growth supported by product innovation. We have three key objectives:

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

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

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

Purpose and sustainability

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

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

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

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

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

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

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

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

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

Full year guidance for 2022 and longer term

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

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

FINANCIAL REVIEW

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

The underlying EBIT bridge for the year-on-year movement (in constant currency) is:

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

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

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

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

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

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

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

Currency impact

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

Transactional exposure is where the currency of sales or purchases differs from the local functional currency. We use natural hedging on revenue and purchases to mitigate the majority of the currency risk and forward

contracts on a currency specific basis. The average US Dollar rate against Sterling fell to 1.38 from 1.28, an adverse impact of 7% whereas the year-end spot rate with the US Dollar weakened by only 1%.

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

Lighting

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

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

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

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

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

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

Overheads were £1.6m higher than the prior year due to a combination of revenue related costs, increased travel costs for our large field-based sales force, bonuses and the reversal of salary reductions and furloughs made in 2020 during the peak of COVID-19.

Signals & Components

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

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

This division performed well during 2021 with revenue up 10%. High customer demand drove OE revenue up 26%, helped by increased sales of new products and expansion of our distributor footprint. Traffic improved by 13% despite significant material shortages, especially LEDs and power supplies. Vehicle grew by only 5%, with a weak bus market suffering from low ridership levels. With revenue more heavily weighted to the higher margin OE products we saw gross margin improve by 480bps. With only a marginal increase in overheads, underlying EBIT profit of £5.5m for the year was over double 2020 and we enter 2022 with a strong order book.

Central overheads

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

Non-underlying costs

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

In order to give a full understanding of the Group's performance and aid comparability between periods, the Group reports certain items as non-underlying. These are summarised above, and further details are in note 3.

The Group has continued to progress its legal claim against its former manufacturing partner, Sanmina Corporation, following the termination in September 2018 of the manufacturing services agreement. During the year, costs of £2.9m have been expensed, comprising £2.4m of legal costs in preparing for litigation and a £0.5m provision against slow-moving inventory. This inventory was acquired at transition and was expected to be used within two years. This has not proven to be the case and with the cost having been added to the legal counterclaim against Sanmina during 2021, the Directors have determined that provision is now appropriate. Further details on the litigation and contingent liability are provided in note 15.

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

Other litigation credit related to employment litigation cases, a provision of £0.4m (see note 7) was released as it was not probable that Group would have to pay for the claims which was netted off with £0.2m legal cost incurred in the year relating to the cases.

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

Inventory

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

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

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

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

Capital expenditure

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

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

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

Cash and borrowings

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

The roll forward of net debt was as follows:

Net Debt	£m	£m
Opening balance 01 January 2021		**(11.4)**
Inflows		
Underlying EBITDA	11.1	
Net working capital excluding inventory	5.4	16.5
Outflows		
Increase in inventory	(9.6)	
Investment in new products	(3.5)	
Maintenance capex/other	(2.3)	
Non underlying costs	(2.4)	
Provisions & other movements	(1.2)	
Interest Paid	(1.4)	
FX	(0.4)	(20.8)
Closing balance at 31 December 2021		**(15.7)**

The main factors behind the increase in net debt were:

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

The interest expense of £1.4m is analysed in note 4 and is expected to be at a similar level in 2022.

Banking

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

The Group increased its banking facility with HSBC on 15 June 2020 by adding a further £10m facility on a 3-year basis, utilising a combination of £8m under the COVID-19 Large Business Interruption Scheme (CLBILS) and a £2m commercial loan. The £10m additional facilities are repayable over 30 months, in equal instalments, from January 2021. £4m was repaid in the year, with a further £4m payable in 2022 and the facilities fully repaid by June 2023 at the latest. At 31 December the Group had £31m of available funds across both facilities and £1.2m of cash on hand.

Covenants

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

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

Tax

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

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

Pension costs

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

Capital management and dividend

The Board's policy is to have a strong capital base in order to maintain customer, investor, and creditor confidence and to sustain future development of the business. The Board considers consolidated total equity as capital. At 31 December 2021 this equated to £60.2m (2020: £57.3m).

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

CONDENSED CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2021

	Note	2021 £'m	2020 £'m
Revenue	2	**131.6**	119.0
Cost of sales	3	**(84.6)**	(85.0)
Gross profit		**47.0**	34.0
Distribution costs		**(21.3)**	(20.8)
Administrative expenses	3	**(23.6)**	(22.0)
Profit/(loss) from operating activities		**2.1**	(8.8)
Underlying profit/(loss) from operating activities	3	**4.5**	(6.4)
Non-underlying items	3	**(2.4)**	(2.4)
Profit/(loss) from operating activities		**2.1**	(8.8)
Financial expense	4	**(1.4)**	(1.3)
Profit/(loss) before tax		**0.7**	(10.1)
Taxation	5	**(0.4)**	2.3
Profit/(loss) for the year		**0.3**	(7.8)
Profit/(loss) for the year attributable to:			
Equity owners of the Company		**0.1**	(7.9)
Non-controlling Interests		**0.2**	0.1
Profit/(loss) for the year		**0.3**	(7.8)
Profit/(loss) per share			
Basic	6	**0.9p**	(24.0)p
Diluted	6	**0.9p**	(24.0)p

The accompanying notes are extracted from the financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2021

	Note	2021 £'m	2020 £'m
Other comprehensive income/(expense)			
Items that may be reclassified subsequently to profit and loss			
Exchange differences on translation of foreign operations		**0.7**	(1.8)
Income tax on exchange difference on translation of foreign operations		**-**	(0.3)
		0.7	(2.1)
Items that will not be reclassified subsequently to profit and loss			
Remeasurement of defined benefit pension liability		**2.5**	(1.3)
Income tax on remeasurement of defined benefit pension liability	5	**(0.5)**	0.3
		2.0	(1.0)
Other comprehensive income/(expense) for the year, net of tax		**2.7**	(3.1)
Profit/loss for the year		**0.3**	(7.8)
Total comprehensive income/(expense) for the year		**3.0**	(10.9)
Attributable to:			
- Owners of the parent		**2.8**	(11.0)
- Non-controlling interest		**0.2**	0.1
Total comprehensive income/(expense) for the year		**3.0**	(10.9)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2021

	Share capital	Merger reserve	Translation reserve	Capital redemption reserve	Own Shares	Retained earnings	**Total**	Non-controlling interests	**Total Equity**
	£'m	£'m	£'m	£'m	£'m	£'m	**£'m**	£'m	**£'m**
Balance at 1 January 2021	0.6	0.5	9.3	2.2	-	44.3	**56.9**	0.4	**57.3**
Profit for the year	-	-	-	-	-	0.1	**0.1**	0.2	**0.3**
Other comprehensive income:									
Foreign exchange translation differences, net of taxes	-	-	0.7	-	-	-	**0.7**	-	**0.7**
Remeasurement of defined benefit pension liability, net of taxes	-	-	-	-	-	2.0	**2.0**	-	**2.0**
Total other comprehensive income	-	-	0.7	-	-	2.0	**2.7**	-	**2.7**
Total comprehensive income for the year	-	-	0.7	-	-	2.1	**2.8**	0.2	**3.0**
Transactions with owners, recorded directly in equity:									
Share-based payments	-	-	-	-	-	0.6	**0.6**	-	**0.6**
Re-purchase of own shares	-	-	-	-	(0.7)	-	**(0.7)**	-	**(0.7)**
Total transactions with owners	-	-	-	-	(0.7)	0.6	**(0.1)**	-	**(0.1)**
Balance at 31 December 2021	0.6	0.5	10.0	2.2	(0.7)	47.0	**59.6**	0.6	**60.2**

	Share capital	Merger reserve	Translation reserve	Capital redemption reserve	Own Shares	Retained earnings	Total	Non-controlling interests	Total Equity
	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	**£'m**
Balance at 1 January 2020	0.6	0.5	11.6	2.2	-	52.6	**67.5**	0.3	**67.8**
Loss for the year	-	-	-	-	-	(7.9)	**(7.9)**	0.1	**(7.8)**
Other comprehensive (expense)/income:									
Foreign exchange translation differences, net of taxes	-	-	(2.1)	-	-	-	**(2.1)**	-	**(2.1)**
Remeasurement of defined benefit pension liability, net of taxes	-	-	(0.2)	-	-	0.2	**-**	-	**-**
Total other comprehensive (expense)/income	-	-	-	-	-	(1.0)	**(1.0)**	-	**(1.0)**
Total comprehensive (expense)/income for the year	-	-	(2.3)	-	-	(0.8)	**(3.1)**	-	**(3.1)**
Transfer of merger reserve on disposal of business	-	-	(2.3)	-	-	(8.7)	**(11.0)**	0.1	**(10.9)**
Transactions with owners, recorded directly in equity:									
Share–based payments	-	-	-	-	-	0.4	**0.4**	-	**0.4**
Total transactions with owners	-	-	-	-	-	0.4	**0.4**	-	**0.4**
Balance at 31 December 2020	0.6	0.5	9.3	2.2	-	44.3	**56.9**	0.4	**57.3**

CONSOLIDATED STATEMENT OF TOTAL FINANCIAL POSITION

at 31 December 2021

	Notes	2021 £'m	2020 £'m
Assets			
Property, plant and equipment		**12.0**	12.8
Right of use assets		**11.3**	9.8
Intangible assets		**21.4**	21.2
Deferred tax assets		**1.3**	1.4
Employee benefits		**3.9**	1.1
Other receivables		**4.7**	5.0
Total non-current assets		**54.6**	51.3
Inventories	8	**42.4**	32.5
Trade and other receivables		**26.2**	19.9
Income tax recoverable		**1.2**	1.0
Cash and cash equivalents	10	**1.2**	5.3
Total current assets		**71.0**	58.7
Total assets		**125.6**	110.0
Liabilities			
Trade and other payables		**(32.9)**	(21.5)
Provisions	7	**(0.6)**	(1.5)
Tax liabilities		**(1.7)**	(1.5)
Lease liabilities		**(1.2)**	(1.4)
Borrowings	11	**(4.0)**	(4.0)
Total current liabilities		**(40.4)**	(29.9)
Provisions	7	**(1.3)**	(1.2)
Borrowings	11	**(12.9)**	(12.7)
Lease liabilities		**(10.8)**	(8.9)
Total non-current liabilities		**(25.0)**	(22.8)
Total liabilities		**(65.4)**	(52.7)
Net assets		**60.2**	57.3
Equity			
Issued share capital		**0.6**	0.6
Merger reserve		**0.5**	0.5
Other reserves		**11.5**	11.5
Retained earnings		**47.0**	44.3
		59.6	56.9
Non-controlling interests		**0.6**	0.4
Total equity		**60.2**	57.3

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2021

	Notes	2021 £'m	2020 £'m
Operating activities			
Profit/(loss) for the year		**0.3**	(7.8)
Adjustments for:			
Financial expense	4	**1.4**	1.3
Income tax expense/(credit)	5	**0.4**	(2.3)
Share-based payments		**0.6**	0.4
Depreciation of property, plant and equipment		**3.1**	3.1
Depreciation of right of use assets		**2.2**	2.0
Amortisation of intangible assets		**3.5**	3.0
Impairment losses on intangible assets		**-**	0.3
Loss on disposal of business	3	**-**	1.1
Operating cash flow before movements in working capital		**11.5**	1.1
(Increase)/decrease in inventories		**(9.6)**	12.6
(Increase)/decrease in trade and other receivables		**(5.8)**	2.7
Increase/(decrease) in trade and other payables		**11.1**	(6.3)
(Decrease)/increase in provisions	7	**(0.8)**	0.5
Pension contributions in excess of the income statement charge		**(0.4)**	(0.1)
Cash generated by operations		**6.0**	10.5
Income taxes (paid)/received		**(0.6)**	2.9
Interest paid[2]	4	**(1.4)**	(1.3)
Net cash generated by operations		**4.0**	12.1
Investing activities			
Capital expenditure		**(2.1)**	(0.8)
Capitalised expenditure on development costs		**(3.2)**	(3.4)
Purchase of software and licenses		**(0.3)**	(0.3)
Net cash used in investing activities		**(5.6)**	(4.5)
Financing activities			
Drawdown of bank facility	11	**4.2**	10.0
Repayment of bank facility	11	**(4.2)**	(10.3)
Re-purchase of own shares		**(0.7)**	-
Repayment of lease liabilities[1]		**(1.7)**	(1.7)
Net cash outflow from financing activities		**(2.2)**	(2.0)
Net (decrease)/increase in cash and cash equivalents		**(3.8)**	5.6
Cash and cash equivalents at beginning of year	10	**5.3**	0.5
Effect of exchange rates		**(0.3)**	(0.8)
Cash and cash equivalents at end of year	10	**1.2**	5.3

The Group has classified:

1. cash payments for the principal portion of lease payments as financing activities.
2. cash payments for the interest portion of lease payments as operating activities consistent with the presentation of interest payments chosen by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2021 (Audited)

1. Basis of preparation and principal accounting policies

(a) Statement of compliance

"The consolidated financial statements have been prepared in accordance with UK-adopted International Accounting Standards in conformity with the requirements of the Companies Act 2006. The Company has elected to present its parent company financial statements in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

The financial information for the year ended 31 December 2020 and 2021 is derived from the statutory accounts for 2020 (which has been delivered to the Registrar of Companies) and 2021 (which will be delivered to the Registrar of Companies following the AGM in May 2022). The auditors have reported on the 2020 and 2021 accounts; their report was unqualified and did not contain a statement under Sections 498(2) or 498(3) of the Companies Act 2006. For both statutory accounts of 2020 and 2021, the auditor's report does not include any audit emphasis of matter.

Whilst the financial information included in this statement has been compiled in accordance with the recognition and measurement principles of applicable IFRS, this statement does not itself contain sufficient information to comply with IFRS. Full Financial Statements that comply with IFRS are included in the 2021 Annual Report; these will be available to shareholders via the Group website in March 2022.

(b) Consolidated basis of preparation

The uncertainty as to the future impact on the financial performance and cash flows of the Group from the ongoing COVID-19 pandemic and worldwide supply chain issues have been considered as part of the Group's adoption of the going concern basis in the preparation of the consolidated financial statements. The consolidated financial statements are prepared on a going concern basis which the Directors believe to be appropriate for the reasons stated below.

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

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

Further details, including the relevant covenant tests, are included in note 11.

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

1.Basis of preparation and principal accounting policies (continued)

mitigations, expected inventory unwind not materialising and a negative outcome from ongoing litigation as per note 15.

Base case

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

The key assumptions in the base case include:

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

Downside case

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

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

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

In this severe but plausible downside scenario, the Group continues to retain sufficient committed headroom on liquidity and is able to meet its financial covenant obligations within the going concern assessment period. It has also been assumed that no additional debt is raised during the assessment period.

Consequently, the Directors are confident that the Group and Company will have sufficient funds to continue to meet their liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

(c) Use of estimates, judgements and assumptions

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These estimates, judgements and assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The areas which require the most use of management estimation and judgement are set out below.

Significant judgements

Development and patent costs

The Group capitalises development costs and patent costs provided they meet all criteria in the respective accounting policy. Costs are only capitalised when management applies judgement that they are satisfied as to the ultimate commercial viability of the projects based on review of the relevant business case. The capitalised

1.Basis of preparation and principal accounting policies (continued)

costs are amortised over the expected useful economic life, which is determined based on the reasonable commercial prospects of the product and a comparison to similar products being sold by the Group.

The Group has £12.0m (2020: £11.9m) of development and patent costs that relate to the current product portfolio and new products expected to launch over the next one to two years. Within this cost, there is £1.1m relating to development projects which have been paused during COVID-19 where the Engineering team were redeployed to focus on inventory projects to consume raw materials on hand to help the business mitigate the global supply chain challenges. This project will recommence in the current financial year with the objective of concluding it in 2023 with product launch. All of the development projects are within the Lighting CGU and are tested for impairment at the CGU level as part of the goodwill testing. However, management also performs a review of each individual project to see if there are any indications of specific impairment by comparing the carrying amount of the asset with the net present value derived from the Board approved three-year strategic plan.

Significant estimates

Inventory reserve - Raw Materials and Sub-Assemblies

Consistent with last year, the Group adopts a usage-based approach in calculating its inventory provision. COVID-19 and global commodity shortages have significantly impacted our operations, logistics and supply chains over the past year and therefore the approach to identify inventory at risk has been flexed to consider the impact from these factors. Management's focus has been on inventory that is over 365 days old.

Raw materials and sub-assemblies are reserved if the quantity on hand, that is greater than 365 days old, exceeds three year's historical usage and, following review by engineering and supply chain personnel, there is no reasonable prospect of the components being used or their shelf life not being exceeded. Three years is felt to be appropriate at this time as: recent usage has been depressed following the economic impacts from COVID-19; the majority of components have a long shelf life; product demand mix between project and MRO business has been skewed; and new products or upgrades have been delayed.

Raw material and sub-assembly inventory consists of a large number of Stock Keeping Units ("SKUs") of varying value. Assessment of every at-risk SKU would be impractical, and the reserve has therefore been determined by assessing the nature, usability and condition for a range of at-risk SKUs that represent a significant population of the inventory at risk. The result from this assessment was then used to determine a reserve percentage that was applied to the remaining population, with the combination of these calculations determining the total reserve required.

The provision element that relates to raw material and sub-assembly items greater than 365 days old is £2.2m and represents 43% of that specific aged category of Inventory.

Inventory reserve - Finished goods

The review of finished goods inventory was based on all inventory over 365 days old. Inventory on hand was compared to historical sales, current orders, sales pipeline and whether the product had been recently launched. Management judgement was then applied to determine whether there was a reasonable probability that the inventory would be sold, with a provision being required for any inventory that failed this assessment.

The value of provision for all categories of inventory over which judgement has been exercised was £3.0m (2020: £2.4m) and this represents 7% (2020: 7%) of the gross inventory value.

1.Basis of preparation and principal accounting policies (continued)

Details of the inventory reserve are set out in note 8.

Inventory–absorbed overhead costs

The valuation of inventory, detailed in note 8, requires the use of estimates in the amount of costs to be absorbed into inventory valuation. There are two elements of cost over which estimates are applied.

Firstly, in relation to the amount of production overheads that are included in the inventory valuation. The pools of cost related to production comprise labour and direct overheads attributable to the production process. They are assessed to ensure that costs not related to production are excluded. Consistent with last year, the Group uses the weighted average inventory turns calculated by comparing the level of inventory on hand with the amount of production by month. This gives the number of days of overhead that should be absorbed in inventory. The value of directly attributable costs over which judgement was exercised was £5.0m (2020: £4.3m) and this represents 12% (2020: 13%) of the inventory value. For every day that the estimate of the days used for the overheads absorbed changes, it changes the calculation by £14k.

Secondly, in relation to the amount of freight costs that are included in the inventory valuation. The costs represent transportation costs for raw materials and the labour cost of the buyers placing the orders. The cost is absorbed into inventory by comparing the level of inventory on hand with the amount of material costs in the cost of sales. This gives the number of days of freight costs that are capitalised. Costs of transporting finished.

goods to distribution centres on a global basis are included in the inventory valuation until the associated finished goods have been sold outside the Group.

The value of freight costs over which judgement was exercised was £3.1m (2020: £2.2m) and this represents 7% (2020: 7%) of the inventory value. For every day that the estimate of the days used for the overhead absorbed changes, it changes the calculation by £62k.

Goodwill and other intangible assets

The Group tests at least annually whether goodwill has suffered any impairment in accordance with the accounting policy. The recoverable amounts of the Group's cash-generating units (CGU) have been determined based on value in use calculations, which involve a high level of estimation due to the uncertainty caused by COVID-19 and potential material shortages due to delays in the supply chain. These calculations require the use of estimates and assumptions consistent with the Board approved 2022 budget and the strategic plan for the following two years.

In undertaking the assessment, the potential net impact of climate change on the forecasts has been considered. Considering the Group's business model, strategy and exposure, the opportunities overcome the risk and the majority of the risk relates to ability to cope with accelerated product demand and has been reflected in our forecast.

(d) Adoption of new and revised standard/ interpretations and amendments

The following accounting standards, interpretations, improvements and amendments have become applicable for the current period and although the Group have adopted them, they have had no material impact on the Group. These comprise:

Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16).

The following amendments to standards and interpretations have also been issued, but are not yet effective and have not been early adopted for the financial year ended 31 December 2021:

1.Basis of preparation and principal accounting policies (continued)

- IFRS 17 Insurance Contracts. (Effective day 1 January 2023);
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendment to IAS 12). (Effective from 1 January 2023);
- Onerous Contracts – Cost of Fulfilling a Contract (Amendment to IAS 37). The current effective day is 1 January 2021. This is not expected to be applicable to the Group. (Effective from 1 January 2023);
- Annual Improvements to IFRS Standards 2018-2020. (Effective from 1 January 2023);
- Property, Plant and Equipment: Proceeds Before Intended Use (Amendments to IAS 16). (Effective from 1 January 2023);
- Reference to the Conceptual Framework (Amendments to IFRS 3). (Effective from 1 January 2023);
- Classification of Liabilities as Current and Non-current (Amendment to IAS 1). (Deferred until not earlier than 1 January 2024);
- Accounting Policies, Changes in Accounting Estimates and Errors: definition (Amendments to AIS 8). (Effective from 1 January 2023);
- Amendments to IAS1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgments. (Effective from 1 January 2023);
- Sale or Contribution of Assets between an Investor and its Associate or Joint venture (Amendments to IFRS 10 and IAS 28).

The adoption of these amendments is not expected to have a material impact on the Group.

2. Operating segments

The Group has two reportable operating segments. These segments have been identified based on the internal information that is supplied regularly to the Group's chief operating decision maker for the purposes of assessing performance and allocating resources. The chief operating decision maker is considered to be the Group Chief Executive Officer.

The two reportable operating segments are:

- Lighting, which develops, manufactures and supplies highly efficient LED lighting solutions for hazardous and industrial applications in which lighting performance is critical and includes anti–collision obstruction lighting; and
- Signals & Components, which develops, manufactures and supplies status indication components for electronics OEMs, together with niche industrial and automotive electronic components and highly efficient LED signaling 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 includes share-based payments.

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

2. Operating segments (continued)

Reportable segments

2021	Lighting	Signals and Components	Unallocated	Total
	£'m	£'m	£'m	£'m
Revenue	**90.5**	**41.1**	**–**	**131.6**
Gross profit	**33.7**	**13.3**	**–**	**47**
Overhead costs	**(28.4)**	**(7.8)**	**(6.3)**	**(42.5)**
Underlying profit/(loss) from operating activities	**5.3**	**5.5**	**(6.3)**	**4.5**
Non-underlying items	**(2.4)**	**–**	**–**	**(2.4)**
Profit/(loss) from operating activities	**2.9**	**5.5**	**(6.3)**	**2.1**
Financial expense				**(1.4)**
Profit before tax				**0.7**
Taxation				**(0.4)**
Profit after tax				**0.3**

2020	Lighting	Signals and Components	Unallocated	Total
	£'m	£'m	£'m	£'m
Revenue	81.7	37.3	–	119.0
Gross profit	23.7	10.3	–	34.0
Overhead costs	(26.8)	(7.7)	(5.9)	(40.4)
Underlying (loss)/profit from operating activities	(3.1)	2.6	(5.9)	(6.4)
Non-underlying items	(2.4)	–	–	(2.4)
(Loss)/profit from operating activities	(5.5)	2.6	(5.9)	(8.8)
Financial expense				(1.3)
Loss before tax				(10.1)
Taxation				2.3
Loss after tax				(7.8)

Other segmental data

	2021			2020		
	Lighting	**Signal & components**	**Total**	Lighting	Signals & components	Total
	£'m	**£'m**	**£'m**	£'m	£'m	£'m
Depreciation of property, plant and equipment	**2.1**	**1.0**	**3.1**	2.1	1.0	3.1
Depreciation of right of use assets	**1.5**	**0.7**	**2.2**	1.4	0.6	2.0
Amortisation	**2.4**	**1.1**	**3.5**	2.1	0.9	3.0
Impairment of intangible assets	**–**	**–**	**–**	0.3	–	0.3

Geographical segments

The Lighting and Signals & Components segments are managed on a worldwide basis, but operate in three principal geographic areas, North America, EMEA and Rest of World. The following table provides an analysis of

2. Operating segments (continued)

the Group's sales by geographical market, irrespective of the origin of the goods. All revenue relates to the sale of goods.

Sales revenue by geographical market

	2021 £'m	2020 £'m
North America	**101.0**	89.8
EMEA	**10.2**	9.9
Rest of World	**20.4**	19.3
Total sales revenue	**131.6**	119.0

3. Non–underlying items

Statutory operating profit includes the following non-underlying costs which are separately disclosed to allow the reader to obtain a full understanding of the financial information and the best indication of the underlying performance of the Group. The table below presents the components of non-underlying profit or loss recorded within cost of sales and administrative expenses.

	2021 £'m	2020 £'m
Non-underlying items:		
Redundancy costs	**-**	0.9
Loss on disposal of subsidiary	**-**	0.8
Costs related to manufacturing partner	**2.9**	0.3
Release of warranty provision	**(0.3)**	–
Release of litigation provision	**(0.2)**	0.4
Non-underlying items recorded in administrative expenses	**2.4**	2.4

The Group has continued to progress its legal claim against its former manufacturing partner, Sanmina Corporation, following the termination in September 2018 of the manufacturing services agreement. During the year, costs of £2.9m have been expensed, comprising £2.4m of legal costs in preparing for litigation and a £0.5m provision against slow-moving inventory. This inventory was acquired at transition and was expected to be used within two years. This has not proved to be the case and with the cost having been added to the legal counterclaim against Sanmina during 2021, the Directors have determined that provision is now appropriate. Further details on the litigation and contingent liability are provided in note 15.

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

Other litigation credit related to employment litigation cases, a provision of £0.4m (see note 7) were released as it was not probable that Group would have to pay for the claims which was netted off with £0.2m legal cost incurred in the year relating to the cases.

Prior year redundancy costs of £0.9m related to severance payments for the various initiatives during the year to right-size the cost base. Costs of £0.7m relate to legal fees for defending against employment litigation (£0.4m) and legal costs relating to the legal claim with the former manufacturing partner (£0.3m).

The loss on disposal of subsidiary related to the sale of the Group's Brazil business in November 2020.

3. Non–underlying items (continued)

In 2020, the net assets and the net loss on disposal of Dialight Do Brasil Technologia Led Ltda were as follows:

	2020 £'m
Current assets	1.4
Current liabilities	(0.6)
Net assets of the business disposed of	0.8
Loss on disposal of the business	(1.1)
Total consideration paid	(0.3)
Satisfied by:	
Foreign translation	(0.2)
Other disposal costs	(0.1)
Total	(0.3)

4. Financial expense

	2021 £'m	2020 £'m
Net interest on defined benefit liability	**0.1**	0.1
Interest expense on financial liabilities, except lease liabilities	**0.8**	0.6
Interest expense on lease liabilities	**0.5**	0.6
Net financing expense recognised in the consolidated income statement	**1.4**	1.3

5. Taxation

	2021 £'m	2020 £'m
Current tax expense		
Current year	**1.3**	0.3
Adjustment for prior years	**(0.6)**	(2.9)
Total current tax	**0.7**	(2.6)
Deferred tax expense		
Origination and reversal of temporary differences	**0.1**	(0.9)
Adjustment for prior years	**(0.4)**	1.2
Total deferred tax	**(0.3)**	0.3
Total tax expense/(credit)	**0.4**	(2.3)

5. Taxation (continued)

Reconciliation of effective tax rate

	2021 %	**2021 £'m**	2020 %	2020 £'m
Profit/(loss) for the year		**0.3**		(7.8)
Total tax charge/(credit)		**0.4**		(2.3)
Profit/(loss) before tax		**0.7**		(10.1)
Income tax using the UK corporation tax rate	**(19.0)**	**0.1**	(19.0)	(1.9)
Non–deductible loss on disposal of a business	**-**	**-**	1.0	0.1
Effect of higher taxes on overseas earnings	**43.0**	**0.3**	-	-
Reduction in tax rate	**-**	**-**	(1.0)	(0.1)
Non-deductible expenses	**28.6**	**0.2**	1.9	0.2
Current year losses for which no deferred tax is recognised	**57.1**	**0.4**	9.9	1.0
US carry back claim	**(43.0)**	**(0.3)**	(12.5)	(1.3)
Adjustment for prior years	**(88.3)**	**(0.6)**	(4.0)	(0.4)
Research and development credits	**(28.6)**	**(0.2)**	(1.0)	(0.1)
Foreign taxes incurred	**69.3**	**0.5**	1.9	0.2
	57.1	**0.4**	(22.8)	(2.3)

The effective tax rate for the year is 57.1% compared with 22.8% in the prior year and the standard rate of 19% (2020: 19.0%) in the UK.

The normalised tax rate for the Group in the year is 28.6% (tax rate before adjustments) and based on a pre-tax profit of £0.7m this would generate a tax charge of £0.2m. However, in the year there is a tax charge of £0.4m (57.1%). The difference of 28.5% is due to the following major factors:

- The current losses in the European Lighting business not recognised as a deferred tax asset, resulting in £0.4m of tax credit not being recognised in the year. We do not anticipate this business making sufficient taxable profits in the short-term to utilise the losses;
- The Group has benefited from the stimulus package under the CARES Act in the US which allows us to get tax relief by carrying back losses made in 2020 for 5 years. This allows the Group to benefit from tax recovery at 35% rather than the current rate of 21% that was used to calculate the recoverable amount in 2020 and this gives rise to a one-off tax credit of £0.3m
- A prior year adjustment of £0.6m relating to additional research and development credit in the US
- A non-deductible expense of £0.2m on non-underlying expenses relating to the Sanmina litigation which is not allowed as a taxable expense
- The foreign tax incurred of £0.5m relates to taxes payable in Mexico on profits by a Mexican subsidiary of Dialight Corporation

Tax charge/(credit) recognised directly in equity

	2021 £'m	2020 £'m
Employee benefits	**0.5**	(0.3)
Other	**(0.1)**	0.3

5. Taxation (continued)

Current tax

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

UK

The UK companies are subject to a corporate tax rate of 19% (2020: 19.0%). There are no UK timing differences recognised at 31 December 2021. In the March 2021 Budget, the UK Government announced that legislation will be introduced in the Finance Bill 2021 to increase the main rate of UK corporation tax from 19% to 25%, effective 1 April 2023.

US

The majority of the Group's profits arise in the US where the corporation tax rate is 24%, including 21% federal tax and 3 % state tax (2020: 24%. including 21% federal tax and 3% state tax).

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Group

The majority of the Group's profits are driven by the US entity where the tax rate is 24% underpinning the Group's tax rate, which has increased as a result of the higher mix of profits coming from high tax jurisdictions.

6. Earnings/(loss) per share

Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share ("EPS") at 31 December 2021 was based on a profit for the year of £0.3m (2020: £7.8m loss) and the weighted average number of ordinary shares outstanding during the year of 32,393,109 (2020: 32,555,137).

Weighted average number of ordinary shares

	2021 '000	2020 '000
Weighted average number of ordinary shares	32,393	32,555

	2021	2020
Basic earnings/(loss) per share	**0.9p**	(24.0)p

Diluted earnings/(loss) per share

The calculation of diluted EPS at 31 December 2021 was based on a profit for the year of £0.3m and the weighted average number of dilluted ordinary shares during the year of 32,803,606 (2020: 32,555,137), excluding the purchase of 205,026 own shares by the Group during the year.

Weighted average number of ordinary shares

	2021 '000	2020 '000
Weighted average number of ordinary shares	32,804	32,555

	2021	2020
Diluted earnings/(loss) per share	**0.9p**	(24.0)p

7. Provisions

	Warranty and claims £'m	Lease-restoration £'m	Total £'m
Balance at 1 January 2021	**2.5**	0.2	2.7
Provisions made during the year	**1.1**	–	**1.1**
Provisions used during the year	**(1.2)**	–	**(1.2)**
Provisions released during the year	**(0.7)**	–	**(0.7)**
Effects of foreign exchange movement	–	–	–
Balance at 31 December 2021	**1.7**	**0.2**	**1.9**

The warranty provision relates to sales made over the past eight years. In the previous year, the provision also included other claims across the Group, which were either utilised or released (see note 3). The warranty provision has been estimated based on historical warranty data with similar products. The Group expects to settle the majority of the liability over the next two to three years.

The table below provides a breakdown of the provisions into their short-term and long-term portions:

	2021 £'m	2020 £'m
Due within one year	**0.6**	1.5
Due within one and five years	**1.1**	1.1
Due after five years	**0.2**	0.1
	1.9	2.7

8. Inventories

	2021 £'m	2020 £'m
Raw materials and consumables	**22.2**	13.5
Work in progress	**8.7**	6.1
Finished goods	**11.2**	12.6
	42.1	32.2
Spare parts	**0.3**	0.3
	42.4	32.5

Inventories to the value of £55.8m (2020: £56.3m) were recognised as expenses in the year. The inventory reserve at the balance sheet date was £3.0m, which represents 7.0% of inventory (2020: £2.4m representing 7.0% of inventory). The reserve was increased by £1.5m in the year with utilisation of £0.9m, resulting in the net increase of the reserve of £0.6m.

As at 31 December 2021, management's best estimate of the amount of inventory that will not be used within the next 12 months is circa £3.8m (2020: £4.0m).

Last year, the Group changed from an age-based reserve calculation to a usage-based calculation. A similar approach has been followed this year, that considers the significant impact that global commodity shortages have had on our operations and the logistics and supply chain. The approach revised the basis of calculation for the inventory reserve to focus on usage (historical) for raw materials and sub-assemblies plus any finished goods over 365 days.

8. Inventories (continued)

The level of inventory was increased by £9.9m in 2021 driven by management decisions to increase raw material holdings. The Group has been impacted by the well-publicised global commodity shortages as well as increased shipping times for inbound raw materials and outbound finished goods to its subsidiaries in EMEA and Australia.

Supplier lead times have increased, and market availability reduced for a number of key components, including semiconductors, LEDs, and metals. Availability and lead time uncertainty, compounded by supplier de-commits, led to the decision to increase the level of raw material holdings in order to safeguard future production and fulfil the high levels of customer orders being placed.

9. Dividends

There were no dividends declared or paid in the 12 months ended 31 December 2021 or 31 December 2020.

10. Cash and cash equivalents

	2021 £'m	2020 £'m
Cash and cash equivalents	**1.2**	5.3

11. Borrowings

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

The Group increased its banking facility with HSBC on 15 June 2020 by adding a further £10m facility on a three-year basis, utilising a combination of £8m under the COVID-19 Large Business Interruption Scheme (CLBILS) and a £2m commercial loan. The £10m additional facilities are repayable over 30 months, in equal instalments, from

January 2021. £4m was repaid in the year, with a further £4m payable in 2022 and the facilities fully repaid by June 2023 at the latest. At 31 December the Group had £31m of available funds across both facilities and £1.2m of cash on hand.

	Loans £'m
At 1 January 2020	17.0
Facility drawdown (CLBILS)	10.0
Facility repayment (RCF)	(10.3)
At 31 December 2020	16.7
Facility drawdown (RCF)	**4.2**
Facility repayment (CLBILS)	**(4.0)**
At 31 December 2021	**16.9**

11. Borrowings (continued)

Details of the facilities	Tenure	Interest rate per annum*	Maturity date	Amount drawn 31 December 2020	Amount drawn 31 December 2019
	Years	%		£'m	£'m
£25m revolving credit facility	3	2.37	March 2025	**10.9**	6.7
£8m CLBILS	3	2.13	June 2023⁺	**4.8**	8.0
£2m commercial loan	3	2.30	June 2023⁺	**1.2**	2.0

⁺ This loan will be repaid in equal installments over 3 years, repayment started on the 15th January 2021

* This is an indicative rate as at December 2021.

As part of the facility, the original banking covenants of net debt to EBITDA ratio and interest cover were replaced by a new test based on exceeding a 12-month rolling EBITDA level that was derived from a COVID impacted business plan as agreed with HSBC, for the testing periods of June 2020 to June 2021.

Covenant test		For Q1-21	For Q2-21	For Q3-21 onwards
Ratio	**Calculation**	**Threshold**	**Threshold**	**Threshold**
Leverage ratio	Net debt/Adjusted EBITDA	n/a	n/a	<3.0x
EBITDA level	Rolling 12-month EBITDA	(1.1)	(3.8)	n/a
Interest cover	Adjusted EBIDTA/Interest expense	n/a	n/a	>4.0x
Debt service ratio*	Net operating income/Total debt service	n/a	n/a	>1.2

* The debt service ratio does not apply to the revolving credit facility and the Group was fully compliant with its banking covenants at 31 December and throughout 2021.

12. Principal exchange rates

	2021 Average rate	2021 At balance sheet date	2020 Average rate	2020 At balance sheet date
US Dollar	**1.38**	**1.35**	1.28	1.36
Euro	**1.16**	**1.19**	1.12	1.11
Canadian Dollar	**1.72**	**1.72**	1.72	1.74
Mexican Peso	**27.88**	**27.64**	27.51	27.14

13. Related party transactions

The ultimate controlling party of the Group is Dialight plc. Transactions between the Company and its subsidiaries have been eliminated on consolidation.

14. Reconciliation to non-GAAP performance measures

	2021 £'m	2020 £'m
Profit/(loss) from operating activities	**2.1**	(8.8)
Non-underlying items (see note 3)	**2.4**	2.4
Underlying profit/(loss) from operating activities	**4.5**	(6.4)
Profit/(loss) from operating activities	**2.1**	(8.8)
Non–underlying items (see note 3)	**2.4**	2.4
Depreciation of property, plant and equipment	**3.1**	3.1
Amortisation of intangible assets	**3.5**	3.0
Underlying EBITDA	**11.1**	(0.3)
Profit/(loss) from operating activities	**2.1**	(8.8)
Non-underlying items (see note 3)	**2.4**	2.4
Depreciation of property, plant and equipment	**3.1**	3.1
Amortisation of intangible assets	**3.5**	3.0
Share based payments	**0.6**	0.4
Net movement on working capital (Inventories, trade and other receivables, trade and other payables) as per Consolidated statement of cash flows	**(4.3)**	9.0
Underlying operating cash flow	**7.4**	9.1

Underlying profit from operating activities and underlying EBIT are the same measures. Underlying operating cash flow and adjusted operating cash flow are the same measures.

Constant Currency

The Group's revenues are mainly earned in the US, and it presents certain key metrics on a constant currency basis to remove any impact of currency fluctuations. The Group uses GBP based constant currency models to measure performance. These are calculated by restating the results of the Group for the comparable year at the same average exchange rates as those used in reported results for the current year.

This gives a GBP denominated income statement, which excludes any variances attributable to foreign exchange rate movements. The most important foreign currencies for the Group are: Pounds Sterling, Euro, Canadian Dollar and Mexican Peso. The exchange rates used are in note 12.

14. Reconciliation to non-GAAP performance measures (continued)

Net debt

Net debt is defined as total Group borrowings less cash. Net debt of £15.7m at the year-end (2020: £11.4m) consisted of borrowings of £16.9m (2020: £16.7m) less cash of £1.2m (2020: £5.3m).

15. Contingencies

Sanmina litigation

As previously reported, we have sought to reach a negotiated conclusion of various outstanding matters following the termination of the manufacturing services agreement with our former manufacturing partner, Sanmina Corporation. On 20th December 2019, both parties issued legal proceedings against the other. The parties are therefore in formal litigation, with no conclusion expected before the end of 2022 at the earliest. The basis of the claim filed by Sanmina Corporation relates to outstanding invoices and to residual inventory, which they allege that they purchased for Dialight. The claim filed by Dialight is more complex in nature and relates to significant costs and losses suffered as a direct consequence of Sanmina Corporation not performing in accordance with the terms of the manufacturing services agreement. The Group has sought external legal advice and is paying for the legal costs as incurred. As at 31 December 2021, the Group has not made any provision for future legal costs.

The claim filed by Dialight alleges that Dialight suffered significant costs and losses with total damages exceeding £190m suffered as a result of: (a) Sanmina's fraudulent inducement of Dialight to enter into a manufacturing services agreement (MSA); (b) Sanmina breaching the terms of the MSA in a 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. In the event that Sanmina's claim is successful, the range of outcomes could be £0 – £8.9m, excluding legal costs.

Defined benefit pension schemes

During 2011, the Roxboro UK Pension Fund (the "Scheme") was closed to future accrual. This Scheme is included within pension assets. As part of the negotiations regarding closure, the Company agreed to grant a parent company guarantee in respect of all present and future obligations and liabilities (whether actual or contingent and whether owed jointly or severally and in any capacity whatsoever) of Dialight Europe Limited, the principal employer, to make payments in the Scheme up to a maximum amount equal to the entire aggregate liability, on the date on which any liability under the guarantee arises, of every employer (within the meaning set out in Section 318 of the Pensions Act 2004 and regulations made thereunder) in relation to the Scheme, were a debt under Section 75(2) of the Pensions Act 1995 to have become due on that date. No provision has been made in relation to this contingency.

Uncertainties under income tax treatment

The Group operates in certain jurisdictions that are unstable or have changing political conditions, giving rise to occasional uncertainty over the tax treatment of items of income and expense. In addition, from time to time certain tax positions taken by the Group are challenged by the relevant tax authorities, which carry a financial risk as to the final outcome. The Directors have considered the potential impact arising from these uncertainties and risks on the Group's tax assets and liabilities, both recognised and unrecognised, and believe that they are not material to the Financial Statements.

15. Contingencies (continued)

Employee claims

The Group has received two claims from former employees in France and, whilst recognising the inherent risks of employee-related litigation in France, the Directors believe that these two claims are without merit and will be robustly defended and are not considered likely to result in any material outflow of funds from the Group.

16. Principal and emerging risks and uncertainties

The Board is responsible for identifying the nature and extent of the risks the Group has to manage in order to successfully pursue its growth strategy and generate shareholder value over the long term.

The Board uses a risk framework, which is designed to support the process for identifying, evaluating and managing both financial and non-financial risk. The Group has identified the following key risks. This is not an exhaustive list but rather a list of the most material risks facing the Group. The impact of these risks, individually or collectively, could potentially affect the ability of the Group to operate profitably and generate positive cash flows in the medium to long term. As a result, these risks are actively monitored and managed, as detailed below.

- **Organic growth** - The risk of stagnation of growth where the product portfolio is not renewed, where there is any failure to identify customer requirements (including pricing sensitivity and economic models), and the risk of concentration of certain verticals and/or geographical markets.

- **Environmental and geological** - The Group's main manufacturing centre is in Mexico and its main market is North America. Any impediment to raw materials getting into Mexico or restrictions on finished goods entering North America related to natural disasters could have a large impact on profitability. Disruption to global markets and transport systems arising from geological, biological, or environmental events may impact the Group's ability to operate and the demand for its products.

- **Funding** - The Group has a net debt position and there is a risk related to liquidity. The Group has not paid a dividend since 2015. The Group reports in Sterling; however, the majority of its revenues and its cost base are in US Dollars. Fluctuations in exchange rates between Sterling and US Dollar could cause profit and balance sheet volatility.

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

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

- **Product development strategy** –-Inability to translate market requirements into profitable products.
  Failure to deliver technologically advanced products and to react to disruptive technologies.

- **Product risk** – The Group gives a 10-year warranty on Lighting products which are installed in a variety of high-risk environments. Risks could arise in relation to product failure and harm to individuals and damage to property.

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

- **Intellectual property** – Theft or violation of intellectual property ("IPR") by third parties or third parties taking legal action for IPR infringement.

- **Geo-political / macro-economic impacts -** The Group faces a range of external geo-political, socio-political and macro-economic risks which, after a period of relative calm in global markets, have recently emerged as significant potential disruptors.